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Domestic Markets Newsletter

Commerce Department Figures Reveal

U.S. "Upswing" Going Down for the Count

June 19 (NSIPS) — Statistics on production, inventories and personal income released this week by the U.S. Commerce Department indicate that in spite of the latest outburst of "upswing" clap trap they have generated, the U.S. economy is running up against the limits defined by the general deterioration in the wages and salaries of the working class.

According to the Commerce Department, industrial production in May rose by .7 per cent. Although the Wall Street Journal and the New York Times, among other financier outlets, cite this rise in the nation's factory, mine and utility output as "further evidence of the economy's underlying strength" (Wall Street Journal, June 17), retail sales inventory, and orders figures suggest quite the opposite; that the rise in industrial production was fueled largely by the transfer of inventories from manufacturers to wholesalers and retailers, where they are involuntarily accumulating in the face of a collapse of retail sales. As reported last week retail sales in April and May fell by .1 per cent and 1.2 per cent respectively, and in real terms, that is after inflation, they fell much more.

What Gives?

Under these circumstances, how does one then explain the decision by manufacturers to increase production in May? The explanation lies in an analysis of April's business sales and inventory figures. Business sales (the combined sales of manufacturers, wholesalers and retailers) rose by .7 per cent. Although, sales figures for manufacturers and wholesalers were not separately reported, in view of the sharp drop in retail sales reported elsewhere, manufacturing and wholesale sales had to have risen.

But the April inventory figures tend to confirm that this rise in manufacturing sales represented not actual sales but mere transfer of stock from manufacturers and wholesalers to retailers! According to the Commerce Department report, while manufacturers inventories rose by less than .1 per cent ($69 million), an actual decline in volume terms, wholesalers inventories rose by .6 per cent ($262 million), and retail inventories rose by .7 per cent ($563 million dollars).

Even though overall inventory accumulation in April was half that of the previous quarter it is clear that even this small amount of buildup was made possible by this sheer transfer of stock down the line where it has since bottled up. More significant, the bottleneck at the retail level centered in the non-durable sector — precisely the sector which the so-called consumer spending spree and credit extension has previously fueled. According to the Commerce Department, stocks of non-durable goods rose by an abnormally high 1.2 per cent, while durable goods inventories rose by only .2 per cent.

Half-digesting these figures, while regurgitating the rest, the Commerce Department's acting chief economist admitted in his euphemistic and metaphorical style: "It's possible we're going into a sawtooth growth pattern where you have a big increase in the economy one quarter, then a modest increase the next, then big, then modest. This one is beginning to look like a modest quarter.

Worst Yet To Come

The New York Times, confirmed the likelihood of an inventory bubble feeding back into a production bust, in a June 18 article on Business Trends entitled "Inventory Buildup Is Stirring Fears." The article notes that "Despite economic recovery, erratic sales patterns in various businesses are contributing to mounting inventories throughout a broad range of American industry giving rise to fears of clogged pipelines and adverse effects on the national economy."

The reporter, Isadore Barmash, was able to learn the following rather astonishing facts: first, that while steel mill inventories were 7 per cent above one year ago and capacity utilization has risen anywhere from 80-90 per cent, shipments rose by only 1.9 per cent in the first four months of this year. Although Barmash fails to mention it, even this small rise was made possible only by a boomlet in the auto industry which has been made possible only by record extensions of consumer credit; domestic car sales in May dropped to an annual rate of 8.7 million units from April and March rates of 9 million and 9.3 million respectively.

This no doubt will further reduce shipments of steel to auto companies who remain the biggest purchasers of steel products; April inventories in the furniture industry rose to the level they were at in the first quarter of 1974 when sales in that industry were at peak 1970's level. Industry analysts report that factory orders in this industry are leveling off. This should not be surprising, as the housing industry remains in a state of collapse. Although the Commerce Department reports that housing starts in May rose by 2 per cent, they are still 50 per cent below their 1972 levels. In a related trend, the lumber industry is beginning to experience an undesired buildup in inventories.