Click here for Full Issue of EIR Volume 3, Number 35, August 31, 1976

NEW SOLIDARITY INTERNATIONAL PRESS SERVICE

Domestic Markets Newsletter

As Burns Walks The Ropes

Trade Defecit Price Increases Depress Markets

NEW YORK, Aug. 28 (NSIPS) — The U.S. merchandise trade deficit for July jumped to $1.63 billion, the largest in 23 months, weakening the dollar on the foreign exchange markets and further exacerbating tensions over the "beggar-thy-neighbor" economic policies of the Atlanticists. The U.S. "recovery" is now significantly being prevented from becoming a total collapse by U.S. Federal Reserve Chairman Arthur Burns dumping worthless dollars into the laps of the U.S. trading partners as fast as he can print them.

The U.S. money supply continued to burgeon during the week ending August 18, pushing the increase since midyear against the top of Burns' announced growth rate. This touched off nervous speculation on Wall Street that Burns might be forced to try reining in the inflationary growth by tightening-up interest rates. As reported in the recently released minutes of the July 19-20 Federal Open Market Committee, Burns is trying to walk an untenable tightrope — pumping reserves into the dying economy without setting off expectations of an inflationary explosion.

A "fortress" mentality is setting in among leading Atlanticist policy circles as Burns desperately maneuvers to hold the show together. Even New York Federal Reserve Bank President Paul Volcker, a former Chase Manhattan officer, took the highly unusual step of dissenting on an insignificant technical point regarding Federal funds (interbank) rate on the grounds that the adopted target would have negative repercussions on the already strained credit markets.

Burns has been injecting reserves into the system to offset the early August Treasury sale, which by building up Treasury balances, has the effect of draining the system's reserves. Evidently Burns has missed his mark, causing some people to ask whether Arthur knows what he is doing. The jump in the money supply this week was much greater than expected. Wall Street is hoping the effects of the Treasury sales will show up in lower money supply figures next week. If this doesn't materialize, then Burns is expected to notch up interest rates — a move which is generally feared for the effects it will have on the already anemic economy.

Steel, Auto Head For Disaster

Also raising inflationary fears this week was the announcement by General Motors that it would raise the price on its average 1977 model car 5.9 per cent, or $344 per car. Steel costs for auto makers have risen 12 per cent in recent months, along with substantial increases in the price of aluminum, copper, lead, glass and other materials, and a 9 per cent increase in labor costs.

After skyrocketing during the first ten days of August due to extensive dealer contests, etc., auto sales fell substantially during the second ten days, bringing the selling rate for the month to date down to 8.8 million. This is in line with the level of the past five months following the topping out of sales in March.

Yet for no particular reason other than faith in the nonexistant U.S. recovery, spokesmen for the auto companies predict record sales next month and next year.

National Steel, the U.S. third largest steelmaker, announced that its shipments for the third quarter would remain unchanged from the second quarter level. National's production is more heavily concentrated in flat-rolled products than the other major producers. Since this was the one type of steel that formerly had been in demand due to its use by the auto and appliance industries, National's announcement doesn't auger well for steel production in the third quarter.

Another indication of continued slackness at steel plants was the $11.50 drop, $21 over the last two months, to $75 per ton for anticipated September tonnage for No. 1 industrial bundles, a key steelmaking grade of scrap, reported by Chicago area automotive plants.

As with the auto industry, a total collapse of the steel industry is being prevented by the dramatic turn-around in the import picture. Changes in currency relationships and rising costs in foreign countries have made U.S. steel marginally cheaper.

Rather than postponement of capital spending projects and underutilization of capacity, an international development policy negotiated with the developing countries would quickly bring the steel industry up to full capacity and shortly lead to massive expansion of steel facilities.

Economy Still Stagnates

Evidence to date indicates that industrial activity and employment has not picked up substantially in August. The July trade deficit figure will further depress real Gross National Product figures for the third quarter, barring an unlikely turnaround, since the second quarter figures benefitted from a large positive swing from the negative first quarter date. New factory orders for durable goods were down 0.5 per cent in July, presaging further production weakness, while real spendable earnings for factory workers in July was reported up a mere 0.1 per cent over a year ago by the Labor Department. Retail sales, while bouncing up earlier in the month primarily on the auto sales pickup, declined when the auto boost petered out.

The negative news throughout the week further depressed the stock market, with the Dow Jones industrial average declining 10.14 points following last weeks 16.12 points loss. Trading was light, as a First Boston Vice President noted, because "no real money," i.e., big institutional investors, was coming into the market.

Commercial and industrial loans at large New York banks fell $168 million in the week ending August and $1.1 billion since June 30. Increasingly, the largest corporations are bypassing the banks and lending funds to each other through the commercial paper markets, where they can get a 90 day loan for 5.378 per cent rather than the extortionist 7 per cent the banks are asking.

Even as a makeshift way of circulating commodities, this patchquilt system is totally inadequate. This is especially evident in the case of the large number of non-triple-A rated corporations who haven't been able to borrow from banks but who can't tap the New York-dominated bond markets like Exxon to restructure their debt. It is among this significant number of perfectly sound companies, in terms of actual productive facilities and skilled labor, that the Labor Party has initially found the greatest amount of support for moving on negotiations with the developing countries around the Colombo resolutions.

© 1976 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.