

## Domestic Credit by Richard Freeman

### When the economy goes

*How much worse the economy looks than it did last March, and who will be shaken out first.*

**S**eatrain, the shipping and rail company, will begin dismembering its operations by selling its Pacific Ocean freighter services to Hong Kong interests for \$54 million Dec. 10. Seatrain was forced to make this arrangement when, on Dec. 5, Chase Manhattan Bank called in \$50 million on a loan for immediate payment. Within hours of Chase's move, Seatrain fired 50 employees in its New Jersey operations, and it is expected to file a Chapter 11 bankruptcy soon.

The potential Seatrain bankruptcy, while reflecting special circumstances, is a weathervane for the shipping industry and the U.S. economy as a whole. With the prime lending rate hitting 20 percent Dec. 10, the economy will begin shaking out, and only the very strong will survive.

The signs of industrial collapse began showing up in mid- to late-November. Small and medium-sized companies find themselves holding each other's accounts receivables (IOUs for goods sold) but in a game of musical chairs, no firm can get another to pay up. At the same time, orders are dropping and involuntary shipments are building up. "The story we're getting," reports Judith Mackey of Townsend-Greenspan, "is that orders have dropped sharply since mid-November, often significantly below shipments. Some firms are comparing the situation to last March," during the credit crunch. Now, most firms

are operating at a lower production level.

The emerging pattern is that, as *EIR* predicted months ago, interest rates have not eased toward the end of the year, jarring the earlier predictions of every other major investment and econometric consulting house. The prime, as many are now saying in the investment community, could bounce right up against the upper limits of the U.S. usury ceiling of 25 percent. And it won't come down, unless there is a very severe immediate crash, until some time around February.

The shake-out will be of immense proportions. *U.S. Automotive News* reported that car output in November fell 13.3 percent from its dismal levels of the previous November to 543,627 units. This is the lowest November level since 1970, when General Motors was closed down by a strike.

Car production for this year through Dec. 6 will be 5,924,321, a 26.9 percent decline from last year. Truck production for the first 11 months will be 49.7 percent lower than last year. Unemployment in the industry, which reached 367,000 in May 1980, is now 200,000 according to government figures.

Chrysler has drawn down \$800 million of a \$1.5 billion federally guaranteed credit loan that it can draw on under the emergency conditions set up by Congress last December. Chrysler head Lee Iacocca has announced that Chrysler needs

another \$350 million draw down in the next 30 days to keep operating. But the approval for this loan must come from the Chrysler Loan Guarantee Board, the three-member board established by Congress to oversee Chrysler's finances and loan guarantees. One member of that board is Volcker and another is Treasury Secretary Miller. Both look unfavorably on Chrysler's continued existence, and in general at the auto industry.

Ford has borrowed \$725 million in the past two weeks to repay bridging loans it took out through its European subsidiaries this summer. At a contracted 18 percent interest rate, Ford will pay \$650,000 per day in interest on its new loans.

There are many indications why the approaching shake-out of the economy will be worse than March to May 1980. For one thing, U.S. export levels for manufactured goods will be down next year compared to the levels for the first three quarters of this year. The dollar is no longer cheap, thus neither are U.S. exports; and the world is currently in a recession, and thus not offering the U.S. a market. But manufactured goods exports account for 15 percent of U.S. manufacturing. This safety valve for production, which existed in the summer of 1980, will be shut tight.

Furthermore, the recession will be more widespread, hitting manufacturing, city and state governments, as well as housing. Income levels will be lower and consumer credit, when corrected for inflation, still has not grown above the levels of July of this year. One economist, Gert von der Linde, of Donaldson, Lufkin, Jenrett is predicting a 10 percent *real* GNP drop for the first half of 1981.