Domestic Credit by Richard Freeman

A new wave of unemployment

Chrysler's excess inventories can be the trigger. Steel, rubber, and construction are showing danger signs.

According to one report, Ford Motor Company will lay off an additional 16,000 workers by mid-August because of poor sales and overstocked inventories. The layoffs at Ford are just a part of the pattern of growing layoffs expected in the next few months that could swell the unemployment level by 1 million above its current 7.75 million by October. Steel, auto, rubber and construction are the major industrial sectors that will be hardest hit.

If the predicted increase in unemployment materializes by October, it will not only swell the currently huge federal government budget deficit, but also create a large political problem for the Reagan administration.

The stagnation of the economy over the last six months began showing up in the employment pattern in June. The total labor force grew by 1.3 million in June, but this was only half the expected level of growth associated with that month, when there is extra manpower needed and an influx of high school and college kids eager and willing to work. According to the Department of Labor, persons in the age bracket 16 to 24 years old accounted for four-fifths of the drop.

Unemployment will grow because of the dismal state of the auto industry and the dependence other sectors have on auto. The story of auto is best encapsulated in the example of Chrysler Corporation, and the self-destructive lengths Chrysler went to in order to show a fake $10 million profit in the second quarter, their first quarterly profit in more than two years.

Chrysler, as is widely known, has survived over the last two years by drawing down most of a $1.2 billion credit line extended to it by the federal government and by internal austerity, including a $600 million pay cut for its workers. In the second quarter, Chrysler further squeezed costs and simultaneously ran its factories on overtime. It produced 242,000 cars in the second quarter, or 52 percent more than it did during the same quarter last year. Chrysler's dealers were forced to buy the cars; and this gave Chrysler ready cash. Combined with its cost-cutting, the cash endowed Chrysler with its so-called second-quarter profits. But Chrysler dealers were unable to sell 50,000 of the cars they bought during the second quarter. The inventory of 1981 model cars sitting unsold on the dealers' lots mounted to 113 days, a staggering level; a 60-day inventory is about normal.

The problem is compounded when it is considered that in September, or the latest in October, production of the new 1982-model cars must begin. The only way Chrysler can handle this dilemma is by drastically slashing its production and allowing its dealers to sell off their inventories.

Ford Motor has an 82-day inventory and GM a 75-day inventory. Both companies will have to slow down production in the third quarter to allow dealer car inventory liquidation, and that translates into new unemployment.

Steel production has been buoyed this year by increased auto orders for steel, which are up 11.6 percent for the first five months over a comparable period last year, as well as increased orders for steel by the oil and gas extraction industries. On top of this, a number of firms built up steel inventories. Thus, steel production reached an 88.9 percent operating rate in March. But by May, this rate was down to 85 percent, and though this is the last month for which figures are available, the rate has continued to fall since then. A collapse in the auto sector will spur onwards the downward slide in the weakening steel sector, prompting new layoffs.

In rubber, the story is similar.

In construction, employment levels fell 150,000 from April through June. The housing sector, in which home starts have fallen 37 percent since January, is weakening even further, signaling a deluge of construction unemployment.

Already, the National Association of Purchasing Management, which is the organization representing the individuals who make their purchase orders at their companies, stated in its report released Aug. 2 that the unemployment level in July most likely grew because production buckled significantly in that month.

If the Federal Reserve Board chairman keeps interest rates high going into an obvious economic downturn, as he indicates he will do, that can only mean higher unemployment, with all its political and economic consequences.