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Domestic Credit by David Goldman

'Consensus forecast' on the Titanic

The nation's business economists predict growth, but they themselves face unemployment.

UPI, Dec. 8: "The consensus forecast among 4,000 of the nation's leading business economists is for slightly faster economic growth in 1987, followed in the next year or two by recession, according to a survey released Monday. A quarterly poll of members of the National Association of Business Economists produced a consensus forecast of 2.5% growth in the gross national product this year and 2.8% expansion next year."

The following day, the *Washington Post* reported that business economists were usually the first victims of "staff reductions" among firms facing urgent "restructuring." Not until the majority of the members of the National Association of Business Economists are unemployed, it appears, will the association project anything else.

Manufactured goods orders in October were down 3.6%, the worst fall since May 1980, i.e., the worst of the 1980-81 ratchet-collapse. Much of the decline was in defense capital goods, which were down 42%. Otherwise, orders fell 1.8%, the biggest drop since last March. Durable manufactured goods were down 5.1%. In heavy manufacturing, transport equipment was down 9.8%, mostly due to a decline in defense aircraft and parts orders.

The list of firms undertaking major restructuring, i.e., shutdowns, has meanwhile expanded, with a special vengeance in basic-industry sectors.

On Dec. 4, GM announced another 4,500 layoffs to cut inventories. This includes knocking out one work shift at the 16-month-old Detroit-Hamtramck luxury-car plant, starting Feb. 2, cutting output by 50%. Starting Jan. 5, hourly production will be down almost 12% at two other plants at Orion Township, Michigan, and Wentzville, Missouri. Sales of some of the cars at these three plants are down as much as 60% from 1985. The models affected are among GM's most profitable cars. The news follows the announcement of 1,900 layoffs last week. Overall, GM has a 100-day supply of cars; a 60-day supply is considered normal. GM said its policy is to cut production rather than resort to incentives. The pared-down Detroit-Hamtramck facility is one of GM's newest and most expensive.

On Dec. 4, MCI announced layoffs of 2,500 workers, or about 15% of its total workforce of 16,000. MCI, hailed as the rising star of the high-tech service sector, is suffering badly in the long-distance marketplace, where rates have dropped 20% since the 1984 breakup of AT&T.

In the long-suffering steel sector, the projected resolution of the USX strike, the longest in U.S. history, will apparently bring no relief to the industry. On the contrary, the USX strike managed to take sufficient steel off the market to postpone a collapse of steel prices, which had otherwise begun last June.

LTV Steel's bankruptcy will, according to analysts, reduce the firm's pre-tax cost by $85 per ton of crude steel, bringing its pre-tax costs to more than $50 per ton below those of its next-most-efficient competitor. That sets the stage for an escalation in the industry price war, and a contest among steel firms to achieve bankruptcy-reorganization or other forms of restructuring, on relatively more favorable terms.

Major steelmakers' incoming orders for the week ended Oct. 25 were equivalent to 60% of capacity, near the 62% average order rate during the preceding five weeks. Analysts attribute the continued weak order level to the slow liquidation of large inventories.

That translates into an output level corresponding, again, to the worst of the 1980 downturn.

In summary, the most basic of basic industries, namely steel, has ratcheted down to a level 25% below last year's. That is explained by the fact that commercial construction, particularly following the passage of the tax reform bill, is down by roughly 30% over the previous year's level, and by the auto industry's miserable situation. GM's current wave of layoffs, which amount to 36,000 announced during the past four weeks, occurs at a time when American carmakers' output is already down by 8% below the 1985 level. However, the elimination of incentives for auto sales is likely to turn this into a margin of decline by at least as much between 1986 and 1987.

The one positive factor for the economy, perversely, is the continued expansion of the trade deficit. Despite the administration's predictions of improvement, the deficit (on a balance-of-payments basis) rose to $37.67 billion during the third quarter, up from $35.67 billion. Net imports provide a subsidy for U.S. output; when the weak dollar finally forces their decline, because they will rise steeply in price, matters will turn much worse very quickly.

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