Domestic Credit by Anthony K. Wikrent

Durable goods orders collapse

This drop in a critical indicator of production reveals the state of the physical economy.

The year 1990, the second year of George Bush's stewardship of the U.S. economy, yielded two record monthly collapses in new orders for durable goods. In January 1990, orders for durable goods, which include industrial machinery, household appliances, transport equipment, military equipment, and other items expected to last three years or more, fell 10.5% compared with December 1989, to $118.6 billion. It was the single largest drop in durable goods orders posted since the Commerce Department first began keeping records in 1958.

In November, another 10.5% collapse in durable goods orders was recorded, to $116 billion, from $130 billion in October, led by a 27.4% decline in orders for transportation equipment, and a 24.5% drop in orders for military equipment.

Especially troubling was the third hardest hit category, capital goods, which dropped 17.6% to $40.24 billion, from $48.83 billion in October. Capital goods, which alone account for just over one-third of all durable goods ordered, are regarded by economists as a key indicator of business investment plans.

Other Commerce Department data indicate that the U.S. economy is in for many more such shocks. In a separate announcement on Dec. 20, the Commerce Department said that its most recent survey of expected capital expenditures showed that U.S. companies were planning to increase spending for new plant and equipment in 1991 by only 2.4% over 1990. That compares with the results of the same survey taken in October and November, when U.S. companies were expecting to increase their 1991 expenditures on new plant and equipment by 5.2%. In January through March, spending for new plant and equipment was expected to increase by 8.1%.

Other data similarly indicate a rapidly accelerating contraction of the U.S. physical economy. The most important is the spectacular free fall in the number of manufacturing jobs, which dropped by a staggering 200,000 in November, after losing 95,000 jobs in October, and 28,000 in September. That leaves less than 19 million workers in America's plants and factories—780,000 less than in January 1980, an almost 4% collapse.

Construction employment fell by 62,000 in November, after dropping by 80,000 in October, when unemployment in the sector hit 13.2%. Contracting for new construction sank to the lowest level since 1985, even though it was bolstered by the initiation of an $800 million program of pipeline repair and replacement in Alaska. Housing starts rose an unexpected 9.3% in November, to a seasonally adjusted annual rate of 1.129 million units. However, that rate is 16% below the rate of last year. Construction starts of single-family homes fell 9.8% from October.

Measured on a per capita basis, U.S. new housing starts are at the lowest level since the end of World War II, and the Great Depression of the 1930s. New housing starts in September were at a seasonally adjusted annual rate of 1.135 million units, the lowest since 1946, when 1.026 million units were built. On a per capita basis, in September 1990 there were 4.506 new housing units started for every 1,000 Americans, the lowest since 1939, if the war years are not included, when housing starts were sacrificed in favor of the war effort. The per capita figure for November will be worse, since the annual rate is 6,000 lower, and the population has increased slightly.

Things have gotten so bad that the Bushmen have stepped up their earlier attempts to blame the "recession" on Saddam Hussein, while some still attempt to deny that a recession is even here. According to a *New York Times* story of Dec. 30, the Economic Cycle Dating Committee of the National Bureau of Economic Research, which is charged with declaring the exact date of economic peaks and troughs, held a phone conference earlier in the month, and decided to make an "early" announcement that a recession had "probably begun."

The *Times* wrote that the committee's early announcement was tantamount to a baseball umpire calling a strike before the ball crosses the plate, because new data, and later revisions of already-released data, may show that the economy suffered only a temporary stall, not a sustained downturn.

Unfortunately, the Economic Cycle Dating Committee did not make its early call in response to the pressing reality of economic disaster, using solid criteria of their dismal science, but because committee members feared adverse publicity. "We did not want to be viewed as laggards," University of Chicago professor and Economic Cycle Dating Committee member Victor Zarnowitz, told the *New York Times*. "If we had waited a few months to say something, when most people are convinced that we are in recession now, then we might have been laughed at."