

# Business Briefs

## Monetary System

### Brazil/IMF Talks On New Loan Package

Finance Minister Antonio Palocci reported Oct. 28 that Brazil and the IMF are discussing a new loan package. No dollar figure has yet been mentioned publicly. Brazilian officials insist that Brazil doesn't really need a new accord, but that it would help strengthen market confidence. Reasons not to believe that:

- The public debt hit its highest level since 1999 in September, at R\$707.74 billion (over \$235 billion), with 32% of that debt being short-term (less than a year). The debt keeps rising, despite the government paying off higher amounts, through the "savings" gouged out by reducing spending drastically on everything but debt payments. So far in 2003, the public debt has risen by almost R\$71 billion, an amount equal to 35% of the total revenue collected by the government in taxes and payments in the first nine months of the year.

- Foreign Direct Investment in Brazil in 2003 so far, is half of what it was in 2002, falling to a mere \$6.5 billion.

- On Oct. 22, the Central Bank lowered its SELIC benchmark interest rate to 19%, but industry immediately protested that this would not be sufficient to revive the economy. Banks then lowered interest rates on loans to consumers and industry, but the lowered rates for one popular loan category are still 8.38% *per month* for consumers, and 7.5% per month for companies. *O Globo* reported Oct. 28, that while consumer indebtedness continues to grow, most of the new debt is not taken on for new purchases, but to get out of arrears on old debts. Consumer debt arrearages were 5.9% more in January-September 2003, over the same period the year before; corporate debt arrearages rose by 4.7% in the same period.

- Unemployment in urban centers remained essentially unchanged nationwide in September, at 12.9%. In the Sao Paulo metropolitan region, Brazil's industrial heartland, unemployment rose back to 20.6% of the economically active population in September, the same as it was last April and May, which is its highest level since 1985.

- Average income was 14.6% less in

September 2003, than in September 2002, as an increasing number of the labor force lose stable salaried jobs, and are forced to take temporary jobs, become self-employed, etc. The drop in average income for self-employed workers was a whopping 19.8%, this year over last.

## Germany

### A Doubtful 'Upswing' In Wage Cuts

Whereas Germany, like other western governments these days, tries to sell the broader public on the idea that 2004 will be a "year of economic upswing," reports on Oct. 29 showed the hard facts of economic depression hitting the German workforce in several sectors. On that day alone, wage cuts for about 150,000 workers and employees were announced. These cuts are coming via reductions of working hours per week, in the following companies:

- Opel, Rüsselsheim plant: 19,600 workers will have work for only 30 hours until the end of 2004, instead of the 35 hours which their working week has been to date. As Opel will compensate some of the lost income, workers will lose "only" 7%-8% of their income;

- Telekom will reduce the working week from 38 to 34 hours, which affects 120,000 workers and implies a cut of 10% in income;

- EnBW, the biggest energy producer in Germany's southwest, will introduce a 4-day working week, which will affect close to 30,000 workers and even with compensation, implies a 10% cut in income, as well.

## Manufacturing

### Congressmen Lament Lost Productive Jobs

On Oct. 29, Rep. Don Manzullo (R-Ill.), the chairman of the House Small Business Committee, chaired a roundtable discussion on the collapse of manufacturing in the United

States. After noting that 2.8 million manufacturing jobs have disappeared in the last 38 months, he reported that things are so bad in his district in northern Illinois, that two factories shut down in one week recently, laying off 1,200 people. He said that the official unemployment was 11.7% before the lay-offs, but is probably over 12% now; however, Manzullo estimated the *effective* unemployment rate 15%-17%, because there are so many people who have been unemployed so long that they've exhausted their unemployment benefits. Rep. John Peterson (R-Pa.) reported that in his district, he counted 17,376 manufacturing jobs lost in 2001 and 2002, with the rate continuing in 2003. He said his district, which encompasses 17 counties in northern Pennsylvania, is losing a company almost every week.

While there was a great deal of discussion on the difficulties that manufacturers are facing in doing business, such as skyrocketing energy and health care costs, unfair foreign competition, and lack of government support in procurement and in research and development, there were no substantial ideas put forward at the Committee, as to what to do about the problem.

## Labor

### California Grocery Strike May Spread

The grocery employees' strike in southern California ended its third week on Oct. 29, and may soon spread to central part of state. No progress is reported in the United California Food Workers' (UCFW) strike against three major grocery chains. The issue, from the beginning, has been the attempt by management to renegotiate the employer contribution to health care benefits of employees. Spokesmen for the grocery chains have taken a hard line, saying that the level of benefits demanded by the union is impossible in "today's competitive environment."

The *Los Angeles Times* reports that the underlying concern of management is the entrance of Walmart's cut-rate grocery operations into the region. Walmart, which pays the lowest wages in the business, and offers virtually no benefits to employees (using

**HALLIBURTON** profits fell by 38% in the third quarter compared to last year, despite big (39%) revenue gains from its KBR subdivision's no-bid Iraq oil contracts, which have been effectively extended by the Army Corps of Engineers. Further, the Corps has boosted the maximum value of the contract in the South to \$1.2 billion, well above the \$500 million limit set in July; and to \$800 million in the North.

**CHINA, THAILAND** are planning to build a trans-national highway linking Kunming city with Bangkok. Construction will start soon, Chinese state press reported on Oct. 28. The road will begin in Kunming, the capital of southwestern Yunnan province in China, and run for 1,890 kilometers through Laos to the Thai capital, China's Minister of Communications Zhang Chunxian was quoted as saying, by the Xinhua news agency.

**SONY** announced plans on Oct. 27 to eliminate 20,000 jobs, or 13% of its workforce, over the next three years, and to shut down all cathode-ray television manufacturing plants in Japan by March 2004, as well as slashing the number of its suppliers. The measures are designed to cut costs by \$3 billion over the next three years. The world's second-largest consumer-electronics maker, has reported its second-quarter net income fell 25%, while operating profit dropped by 34%. China is slated to become Sony's main manufacturing center in Asia. Japan would lose 7,000 jobs, mainly in manufacturing.

**MEGASPECULATOR** Warren Buffett warned on Oct. 25 of a dollar collapse due to the soaring U.S. trade deficit. Buffett, says that since Spring 2002, his Berkshire Hathaway firm "has made significant investments in—and today holds—several currencies," a shift from having "lived 72 years without purchasing a foreign currency. To hold other currencies, is to believe that the dollar will decline," he cautioned, quoted in an article to appear in the November 10 issue of *Forbes*.

"part-time" employment to avoid minimum payments), has announced plans to saturate southern California with stores in 2004.

The UCFW has escalated, announcing they may walk off the job in central California (Sacramento, Fresno, etc.) next week. The Teamsters have begun honoring the picket lines, and the stores have reported a significant drop in business, despite offering huge discounts.

Another strike, against the Los Angeles Metropolitan Transit Authority, continues, and there is a report that Los Angeles County workers may begin a work stoppage in the next days. In all of these sectors, health benefits and pension cuts are the major issues.

## Defense

### Key Cruise Missile Producer Closes

According to news reports on Oct. 27, the Pentagon may soon need to send orders for crucial military components, which have been supplied by plants in Indiana, to China. On Sept. 15, the precision manufacturing company Magnequench shuttered its last plant in Indiana, fired its 450 workers, and began shipping its machine tools to a new plant it is opening in China.

The neodymium-iron-boron magnets made by Magnequench are a crucial component in the guidance systems of cruise missiles, and of the Joint Direct Attack Munition or JDAM bomb, which is made by Boeing and had a starring role in this Spring's bombing of Baghdad.

Indeed, Magnequench enjoys a near monopoly on this market niche, supplying 85% of the rare-earth magnets that are used in the servo motors of these guided missiles and bombs.

## Space

### Congressional Ctte. Says No on Space Plane

In an expression of Congressional bankruptcy, the same Committee leaders who had

criticized NASA after the Columbia disaster for "doing too much" with the aging Shuttle fleet, on Oct. 27 moved to cut off funds for the more advanced Orbital Space Plane (OSP) NASA is developing. In particular, Rep. Sherwood Boehlert (R.-N.Y.), Chairman of the House Science Committee, called on NASA to stop further work on the OSP, citing "budget concerns." Ranking Democrat Ralph Hall (Tex.) joined Boehlert in a letter released Oct. 27, which said that because national space goals have not been set—not the responsibility of NASA, but of the President and Congress—"neither the mission nor the benefits of the OSP are knowable at this point."

## Energy

### Foreign Utilities Treat Argentina Like California

More in a recent wave of electricity blackouts occurred in Buenos Aires on Oct. 25, affecting 400 people, and on Oct. 27, affecting 3,000—further enraging both the population and the Kirchner government. According to the power company Edenor, owned by Electricité de France, the blackouts were caused by a medium-tension wire going out of service, in the first case, and a faulty transformer in the second.

According to *Clarín*, the government and allied congressmen are planning "a surprise" for the privatized utility companies. They are preparing a bill which would allow the government to rescind privatization contracts, in the event that utilities interrupt service without adequate technical justification. According to the privatization contracts signed with the Menem government in the 1990s, had the government even considered such a move, it could have been sued by foreign utilities for violating "juridical security." But the legislation under discussion now, would allow President Néstor Kirchner to rescind the contracts, particularly if foreign companies haven't invested what they had originally promised—which is clearly the case.