

# Trade Deficit Belies 'Pause for Recovery'

## BUSINESS OUTLOOK

The U.S. ran its largest trade deficit on record in November, \$1.66 billion, up from \$1.44 billion in October, the Commerce Department reported Dec. 28. The cumulative deficit for 1976 totals \$13 billion. The huge November deficit resulted from a 20 per cent one month drop in agricultural exports, caused by a recent collapse of world agricultural trade and prices, and the continued stagnation at June 1975 levels of machinery and transportation equipment exports. The reported trade deficit reinforced the dollar's weakness on the international currency markets, where it has been falling for the past week despite a spate of statistics on the domestic economy purporting to show that the U.S. economic "pause is over."

The pretext for the last three weeks' flood of New York-based reports on a recovery was a sharp upward revision of the October retail sales figures, followed by "encouraging" reports on November industrial production, income, and retail sales, and finally a rise in the leading economic indicators for October and November. The stock market has taken the opportunity to run the Dow Jones industrial average over 1000, lining the pockets of a few speculators.

The reported "upturn," however, is actually nothing but a very brief bubble based on the most flimsy props, which will quickly produce problems similar to but more exacerbated than those of the 1976 downturn.

Indicative of what is to come is the auto companies' projections of adding about 350,000 cars to dealer inventories in the first quarter, to a total of 1.8 million cars. This would be a "normal" 60-day supply only if the yearly selling rate reaches about 9.75 million domestic autos, a far cry from the 1976 average. Although auto companies presently plan to have 39,000 workers temporarily out of work due to small car inventory problems in January, such optimistic production schedules would seem to guarantee even more layoffs in the first quarter.

The brief pickup in sales — on which a first quarter 1977 resumption in inventory accumulation by industry is being predicted — after the recent declines in production as an attempt to stem inventory growth is the result of the following little swindles.

First, rapid money growth from the spring onward undoubtedly has been one of the most important boosts to the economy in recent months. Federal Reserve Chairman Arthur Burns' further easing of the credit

markets from late September on, reflected in a fairly sharp drop from the Federal funds rate and a lowering of the discount rate and reserve requirements, raises serious questions about the return of higher rates of inflation in 1977. Housing, in particular, has greatly benefitted by the lowering of interest rates through 1976 — with the savings and loan associations being inundated with funds, mortgage money has become much more readily available.

Second, the collapse of world agricultural prices has resulted in about a 12 per cent drop in prices received by farmers since the summer. As a result, grocery store prices of food have declined somewhat since August. This "windfall" for consumers clearly seems to have boosted especially "nondurable" retail sales, which have been financed through a large increase in personal and retail loans, and consequently production of consumer "nondurables" has picked up in recent months. Ultimately, farmers' resulting lost income from lower prices will tend to call into question a large part of the financial system based on agricultural credit, at which point the debt will have to be repudiated or refinanced with government guarantees, further weakening the dollar.

Third, there undoubtedly has been a substantial stepup in factory speedup in recent months. Auto sales have been greatly boosted by rebates, showroom sales gimmicks, etc., and the lower resulting markups have demanded maximum "productivity" in the factories. Ford Motor Co., for example, announced that it had broken its single-day North American auto and truck production record four times last week, with a workforce about 20 per cent lower than when the record was initially set.

Lastly, all the recent talk of tax rebates has undoubtedly convinced many people to buy a little more on credit during the Christmas season than they would have. Unfortunately, the oil multinationals' manipulations of the wildly escalating price of fuel oil means that any tax cut money that might be forthcoming will go up in smoke and the Christmas bills will have to be paid for by going without heat.

More generally, the recent international development particularly around the price of oil have definitely been the single most important factor giving the U.S. economy one last chance. The decision by the Saudis has had the effect of keeping afloat for a brief additional period of time the entire monetary mess, with the clear option, being slowly taken by the West Europeans, of replacing it with a rational trade-based system.