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Housing, auto, consumer sales: statistics reveal no U.S. recovery

by Leif Johnson

As the depressing economic news for March begins to filter out, Americans will learn that there was no recovery even during January, February, and March, when the financial and daily press were so loudly proclaiming it.

They will learn that there was no recovery in consumer sales, no recovery in auto sales, no recovery in housing sales, or in housing starts. They will find persistently high, if not rising, unemployment, continued chronically depressed steel production, and a near disaster in the machine tool industry.

Americans will start to realize that the heralded "recovery" was nothing but a short-term inventory buildup that leaves the economy in a worse state than when the buildup began in January.

This report analyzes the real consumer purchasing figures for the first two months in 1983, showing what made the bubbling headlines that were designed to prove the "recovery." Then, examining the real unemployment and personal income figures, we demonstrate why a "consumer-led recovery" could not have, and will not, occur.

We also recall who fostered the "recovery" during September and October of last year, and look at the state of the basic industrial sectors of the domestic economy to assess their potential course over the remainder of 1983.

The seasonally adjusted housing boom

On March 16, the Associated Press wires hummed with a story that began, "Surprising even their own trade group, American builders began work on new houses and apartments in February at an annual rate of 1.76 million units, the highest level since 1979, the Commerce Department reported today."

The story continued, "The February figure, which was 2.9 percent above January's rate of housing starts, was the latest indication of the growing strength in the housing sector that is a major reason for the economic recovery now getting under way." Michael Sumicrast, chief economist of the National Association of Home Builders (NAHB) is quoted exulting, "I didn't think we could continue to produce at these levels but it seems I was wrong."

A week later, Lyn Michaelis, manager of economic analysis for Weyerhaeuser Company, the lumber products giant, told the *New York Times* that Sumicrast was being much too cautious. Instead of Sumicrast's 1.44 million new housing starts forecast for 1983 (just upped from 1.36 million) Michaelis forecast 1.6 to 1.7 million new units. Not to be left out, Wharton Econometrics added their 1.7 million forecast to the chorus of bulls.

Both the quoted statistics and the enthusiastic industry spokesmen's statements could not have been more misleading. The actual total of building permits for new housing in February was 95,300, which would, if maintained for the rest of the year, produce 1.14 million units, only the slimmest fraction above the 1.06 million units built in 1982, which was the worst year since 1946, and less than half the number of units produced in 1972.

February's building permits for new housing were 3,000 higher than January's 92,300 permits and 12,400 over December's 82,900. But February was considerably lower than November, which registered 108,500 permits and October, which posted 110,500 permits (see **Figure 1**). The tendency shown in these figures—the time span is *too short to define a trend*—is a temporary stabilization of the homebuilding industry, albeit at a very low level.

These figures measure, not housing production as such, but the intent to build housing, as collected from the county or city officials who issued building permits. They are called housing starts; it is assumed that the structure will be completed. In normal economic conditions, this is generally the case.

What has produced the euphoric outbursts in the press is the statistical manipulation known as "seasonal adjustment," a device used to even out seasonal fluctuations in monthly figures caused by weather, Christmas season buying, and so forth. Asked his opinion of the seasonal adjustment process, one Washington statistician with a decade of experience in housing statistics exclaimed: "I don't trust season adjustment as far as I can throw it . . . and I wish I could throw it."

The statistician pointed to the case of the 63 percent increase in housing starts in the New England region reported for February over January, which resulted from the "seasonal adjustment." The raw figures showed an increase of from 5,400 units started in January to 7,200 units started in February, a 33 percent increase, which multiplied by the seasonal adjustment, became 63 percent.

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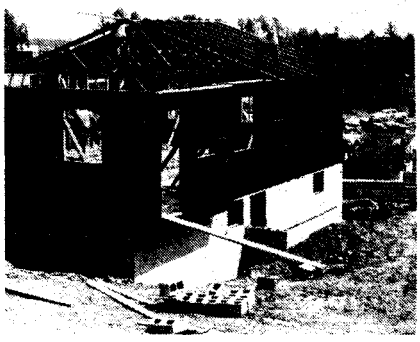
Figure 1

Housing building permits (actual, non-adjusted numbers)

(in thousands)

	October 1982	November 1982	December 1982	January 1983	February 1983
U.S. total	110.5	108.5	82.9	92.3	95.3
Regional totals					
Northeast	11.0	14.0	7.7	5.4	7.2
North Central	19.4	15.7	7.3	6.1	7.4
South	57.4	62.1	47.0	62.5	57.7
West	22.9	17.2	20.9	18.3	23.0

Source: Bureau of the Census, U.S. Department of Commerce.



"The problem is that you are dealing with very small numbers and you cannot separate out single-family from multi-family starts," he explained. "Only three large projects of 500-600 units [many of which are being started to obtain the disappearing funding in several federal programs] could produce the rise in starts, which then gets multiplied by seasonal adjustment."

Statisticians who watch housing claim that it is multi-family starts that particularly make any claims about monthly figures meaningless since they skew figures if reported in one month or the next. "It takes six months and a change in the magnitude of, let's say, from 300,000 to 500,000 multi-family starts to say you've got a statistically meaningful trend," the Washington statistician claimed. He said that four months of single-family housing figures would give a reliable indication of a trend.

The rationale for seasonal adjustment in housing is based on a past pattern of slack starts in the winter, but this has been largely obviated by the shift of housing to the "Sunbelt." For example, of February's 95,300 starts, 80,700 were in the South and West, *which have no winter problems,* and this winter, according to the head of a New England state home-builders association, the mild winter did not prevent any builder there from laying his foundation or putting in the structure.

By current housing-industry standards, a "boom" is considered to exist when there is a sustained upturn lasting over a year, and it is usually only in the second year that supplies get short and materials prices significantly rise. Building materials prices are currently far from indicating a housing "boom." While the price of lumber rose from $152 per thousand board feet in October, to $247 in late January, the price slacked to $218 on March 1 and rose again to $227 on March 11.

The indexed price (1967 = 100) of cement fell from 341.4 in February 1982 to 327.6 this February; brick was virtually unchanged at 276.5 this February compared to 275.4 last February; ready-mix concrete went from 303.5 last February to 306.4 this February, and gypsum wallboard rose slightly from 255.0 to 263.4 over the year. But for lumber, which is recovering from liquidation price-levels, the materials prices show no indications of a demand that would be created by a

Figure 2

Domestic auto production, sales, and inventories

(units)

	November 1982	December 1982	January 1983	February 1983
Production	404,294	384,605	433,945	489,136
Sales	558,146	448,048	412,893	442,479
Inventory (end of month)	1,164,000	1,126,000	1,180,000	1,227,000

Source: *Ward's Automotive News,* Motor Vehicles Manufacturers Association.

housing "boom."

The housing market is noticeably thin. The unemployed and the former higher-paid industrial worker now employed at temporary or low-level jobs cannot buy. Nor can the worker in jeopardy of lay-off. Since 70 percent of the nation's families now own a home and most of these are loathe to trade in an 8 percent mortgage for a 13 or 14 percent new home loan, demand can only come from young families and those with some savings. But young families are those hardest hit by the depression.

The prevalent belief among builders over the past 8 to 10 weeks has been that interest rates have bottomed out. Therefore it it likely that many builders began houses in February and March that they would normally have started later in the spring. This would produce flat housing start figures for March and April which, seasonally adjusted, would prove very low since in these months the adjustments become a divisor instead of a multiplier as in January and February.

Auto: 'A deliberate overbuild'

Not even the media "recovery" cheerleaders make claims for any recovery in domestic auto sales. The headlines are made with higher auto production and a corresponding drop in auto unemployment. As *Business Week* reported cheerily on March 28, "Current layoffs in the U.S. auto industry are the lowest in 18 weeks—246,000 workers on indefinite layoff and 69,000 temporarily out."

A top manager of a foreign auto company characterized the industry's activity as a "deliberate overbuild." He explained that the domestic producers set first-quarter production levels at 1.5 million units and then shoved as many cars as they could onto the lots of the dealers. In both January and February, officially reported inventories built up at a rate of 50,000 a month, a figure that masks the dealer inventory buildup, since a "sale" in the industry is the sale by the manufacturer to the dealer, not the dealer's sale to the public. Registration of new vehicles, however, is averaging 10 percent below reported sales, which may be the measure of the inventory buildup occurring at the dealer level.

Increasing numbers of dealers are reaching the limit of credit that their local bankers will extend for new car acquisition. In some areas, dealers are reported to have 120 days' inventory of cars, a level considered an absolute—and dangerous—maximum. One manufacturer reports a record number of dealer bankruptcies.

Auto sales display a pattern remarkably similar to that of housing starts. From a moderate sales level in November, sales have crunched downward through January with a minor pickup in February. Early March sales, which usually reflect the onset of the spring buying season, were discouraging. The 17,846 cars sold daily in the first 10 days of March ranked fourth worst for that period, according to the manufacturers (see **Figure 2**).

V. J. Adduci, president of the Motor Vehicle Manufacturers Association (MVMA), reported a fact in a March 3 press release that makes the first quarter auto sales tally doubly disappointing. According to Adduci, auto loan interest rates for the fourth quarter of 1982 averaged 17.7 percent. Rates fell to an average 12.8 percent after the first of the year when all domestic manufacturers offered buyers loans at 11.9 percent. Yet even with a one-third reduction of the interest charge, auto sales drooped below the October-November levels.

One New York dealer is making urgent pleas for buyers to take 280 of his total inventory of 1,250 Cadillacs at the same cost he paid to General Motors. Ironically, this "no profit sale" was the result of the good news reported in early March by the *Wall Street Journal*: "Auto Output Rose 52 Percent in February, 53 Percent in Two Months." At the bottom of the dealer's ads is the reminder that there are only eight days left to take advantage of the 11.9 percent subsidized interest rates.

The consumer didn't buy it

The final claim for a "recovery" was made on the basis of consumer sales. For several months, total retail sales (seasonally adjusted, which in this case is a reasonable revision) had inched upwards. In February, the hitch came: the Commerce Department reported a 0.4 percent decline from January levels.

The sector considered the best barometer of whether the "consumer" is seriously re-entering the markets is "furniture, home furnishings, appliances, radio, and TV." Here the pattern, adjusted for inflation, shows the same flatness exhibited by auto and housing. Sales slipped from December to January and then against from January to February (see **Figure 3**).

Despite poor sales, there is an extraordinary increase in production of consumer durables, which resulted, as in auto, in a stabilization of employment in those manufacturing industries. The Federal Reserve Board index (1967 = 100) of household appliance production jumped in January to 134.2, from the 1982 average of 119.3. Production of cooking stoves leaped to 139.4 from 1982's 102.2; refrigeration appliances registered 105.5 from 97.3 in 1982; and miscellaneous appliances showed a jump to 150.8 from 1982's 142.7.

Comparison between sales and production figures of con-

Figure 3

Consumer sales

Furniture, home furnishings, appliances, radios, televisions

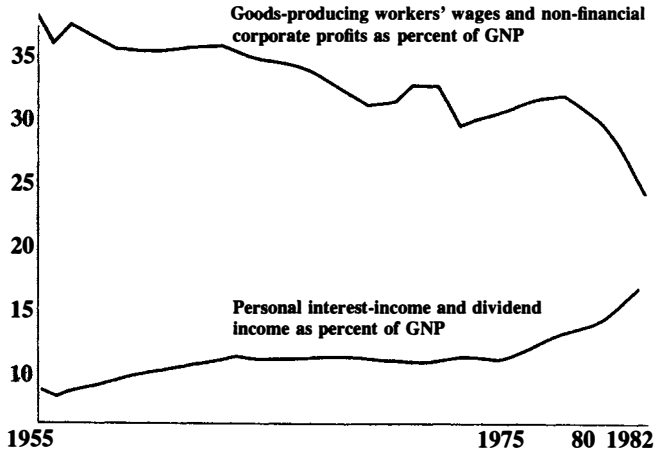
(billions of constant dollars, seasonally adjusted)

October 1982	November 1982	December 1982	January 1983	February 1983
3.63	3.64	3.89	3.82	3.76

Source: Bureau of the Census, U.S. Department of Commerce.

Figure 4

Changing composition of GNP



Source: Bureau of Economic Analysis, U.S. Department of Commerce.

sumer durables yield only one conclusion: a massive inventory buildup.

Record real interest rates

The documented inventory buildup in virtually every sector of consumer goods is occurring while the economy is burdened with the highest real interest rates recorded. In the first two months of 1983, the consumer price index was unchanged, with January's 0.2 percent rise negated by February's 0.2 percent decline.

Therefore the average 11 percent prime rate for those two months is the real interest rate for that period. Similarly the 13.3 percent effective mortgage interest rate for purchase of newly built homes, averaged for January and February, is the real rate. The 17.0 percent current rate for general consumer loans reported by New York banks is thus also the real interest rate being charged.

Even with the moderate January and February extension of new consumer credit, no "consumer-led recovery" could have occurred. In the aggregate, the "consumer" did not have the money and those who did would not make the mass purchases needed to produce a consumer-led recovery.

As Richard Freeman demonstrated in the March 22 issue of *EIR*, there has been a radical shift of personal income toward interest and dividend income and away from wages and salaries. Since 1979 there has been a sharp decline in goods-producing wages (taken here together with non-financial corporate profits) as a percentage of Gross National Product (GNP). Simultaneously, there has been marked increase of personal interest and dividend income as a percentage of GNP (see **Figure 4**).

As the distribution of personal income shifts towards those in higher income brackets and away from the much larger group of wage earners, mass-market consumer sales will necessarily be pinched. A Morgan banker will not buy the "bread and butter" refrigerators, dishwashers, autos, and homes that a dozen unemployed steel workers might have bought.

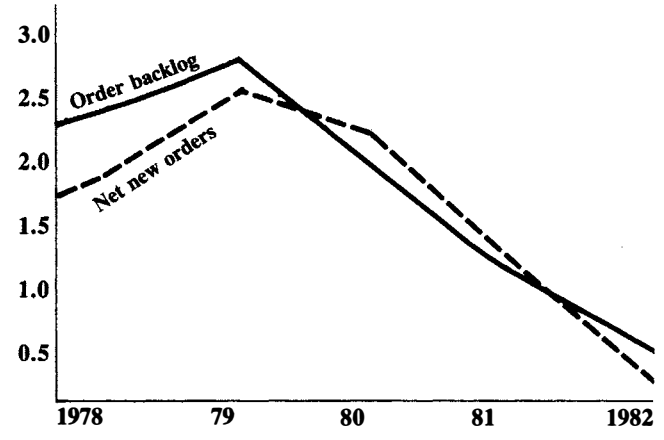
Unemployment effects

The correlate to the shift in income distribution is the

Figure 6

Machine tool orders and backlog

(billions of 1972 dollars)



Source: National Machine Tool Builders.

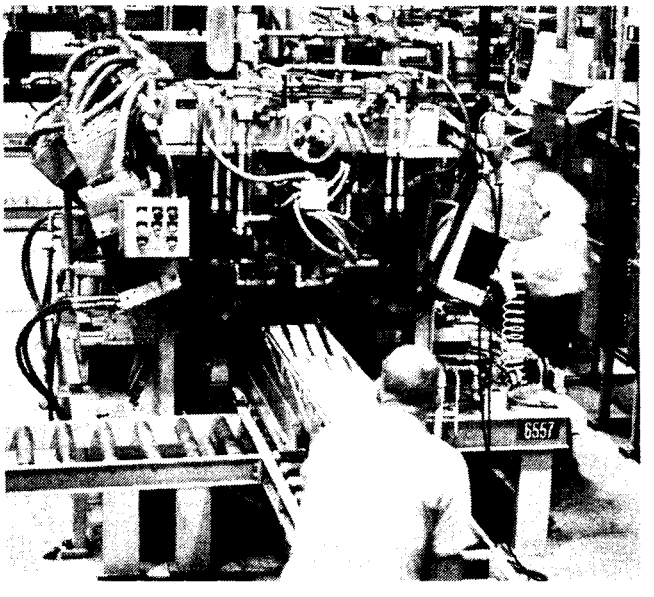
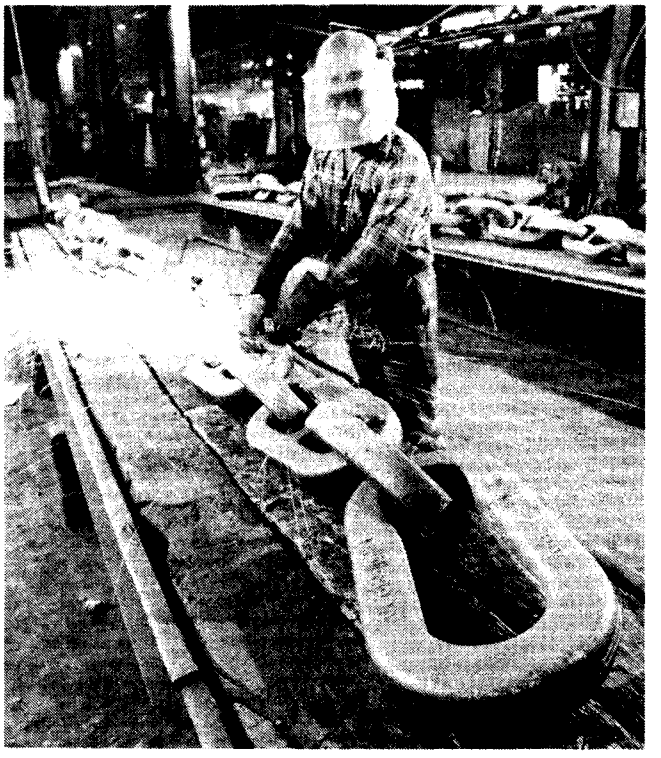


Figure 5
Steel shipments
(millions of tons)

*Annualized January rate.

Source: American Iron & Steel Institute.



rising rate of unemployment, particularly among industrial workers. Contrary to Labor Department claims, there was no abatement in the crushing rates of unemployment, and thus the decline in spending power, in either January or February. If the 736,000 individuals that the Department of Labor "dropped" from the workforce in Janaury and the 146,000 dropped in February were added to the unemployment figures, as they should be, the rate of officially calculated unemployment would have risen. If the members of the Armed Forces stationed in the United States who were was added to labor force figures in January are subtracted, as they should be, the jobless rise would be even greater.

Department of Labor unemployment statistics are grossly understated. While the AFL-CIO calculates unemployment to be between 17 and 18 million, calculations made by *EIR* in October found that the August 1982 rate of unemployment was 21.5 percent, or a total of 24.2 million who were capable of working full-time jobs but had none.

EIR found that the Department of Labor systematically undercounted unemployment in the 1970s by a factor of over two. The undercount resulted from failing to count part-time workers who wished to find a job but could not, and by ignoring the portion of disguised unemployment among students, welfare recipients, and those who take early retirement. We assume that total unemployment in the United States has now risen to over 25 million, producing a minimum unemployment rate of 23 percent.

Compared to the First Great Depression in the 1930s, the rate of unemployment is approximately 10 percent below that Depression peak, although today there are 10 million more in the jobless camp than in the Great Depression. As has been demonstrated in January and February of 1983, at such rates of unemployment it is impossible to create a "consumer-led recovery."

Steady erosion of the real economy

The three graphs of capital goods (see **Figures 5, 6** and **7**) indicate to what extent the physical economy is contracting. Capital spending and production in the critical steel, machine tool, and producer durables sectors demonstrate a slide beginning at the onset of the usurious interest rates brought by Federal Reserve Board Chairman Paul A. Volcker's Oct. 6, 1979 policy. The critical period begins in 1982 and shows steady deterioration through the year.

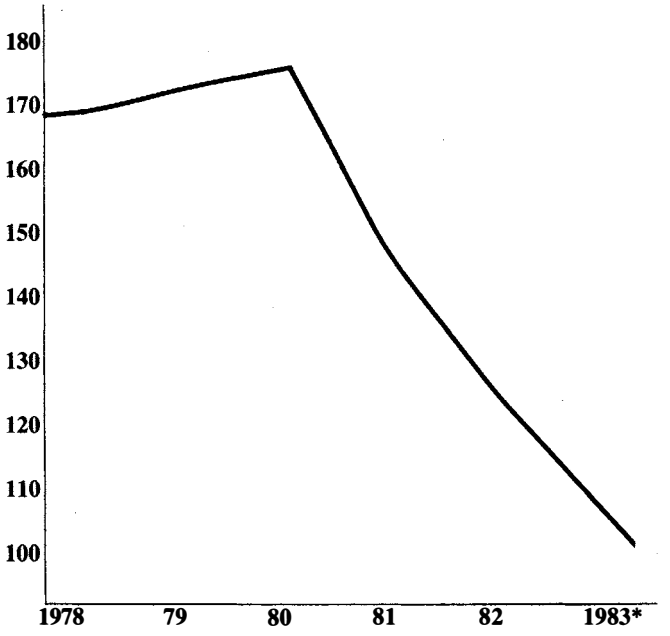
Major portions of these industries—and *the entire industry in the case of machine tools*—are threatened with being shut down in the course of 1983. As early as September 1982, it was clear that if the then-existing order decline continued through the spring of 1983, the core of U.S. industrial capacity would be threatened with widespread stoppage. That order decline continued.

According to the National Machine Tool Builders Asso-

Figure 7

Capital investment: producers' durable equipment

(billions of constant 1978 dollars)



*Estimate based on Commerce Department spending forecast.

Source: Bureau of Economic Analysis, U.S. Department of Commerce: Bureau of Labor Statistics, U.S. Department of Labor.

ciation, January 1983 orders for all machine tools were 55.4 percent below those of the same month one year earlier and 32.9 percent below December 1982 orders. Domestic orders were down 51.8 percent January to January, while foreign orders, reflecting the effects of depression on major trading partners, was down 70.7 percent on the year-to-year basis. Adjusted for inflation, the magnitude of the order collapse would be even greater.

The domestic steel industry is also in serious trouble. With last year's average 60 percent capacity utilization (which plunged to 30 percent by December), 1982 corporate losses of the top six producers over $3 billion, and a relatively inefficient capital plant, the industry may permanently shut as much as one-third of its present capacity over 1983.

Steel makers now claim that they are losing between $38 and $108 for each ton of steel shipped. While this develops very handsome short-term tax losses for the steel corporations, whose majority revenue and earnings is non-steel related, they cannot continue to produce at such high loss levels.

The problem is not solved by the small revival of capacity utilization to 54 percent in January. That uptick came almost entirely from the auto and consumer appliance industries, which cannot long continue the current rates of inventory buildup. When capacity utilization declines once again, some steel companies, most notably U.S. Steel, National Steel, Jones & Laughlin, and possibly Armco, could find the most profitable corporate direction to be the abandonment of some or most of their steel-making operations.

U.S. Steel reported that its loss from basic steel making in 1982 was $852 million, but its net corporate loss was only $361 million. Similarly, Jones & Laughlin lost $298 million in basic steel but reported a corporate tax loss of only $154 million. Republic's steel-making loss totalled $474 million (an average of $108 per ton) but a net corporate loss of $239 million.

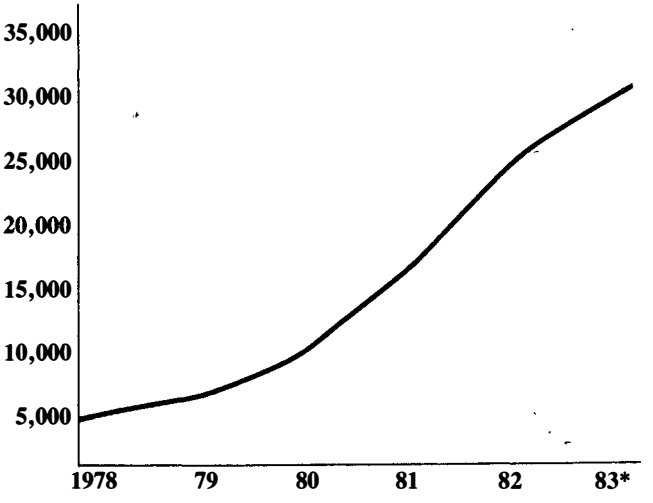
Recovery manufactured at Morgan

Apart from the manipulation of data based on the January-March inventory build-up, the one highly visible recovery has been that of the stock market. Readers will recall that it was Morgan Guaranty that boasted last October that, using its influence in the banking sector, it had moved masses of "institutional funds" to buoy up the stock exchange. The "little man" came into the market behind the "institutions."

The stock price spurt that began last mid-August was primarily the work of Morgan Guaranty Trust. As reported in the Oct. 26, 1982 issue of *EIR*, a senior investment officer of Morgan explained, "We are looking for a new type of recovery, a 'deflationary recovery.' " He continued, "We are advising people to get into stocks because interest-rate returns on Treasury bills, land, commodities, and so forth will

Figure 8

U.S. business failures



*January-February rate annualized.

Source: Dun & Bradstreet, Business Economics Division.

all be down in the deflation. For the same reason, heavy industry will be down, too."

On the basis of the stock market posting steady gains, the fabric of the "recovery" was built. First came predictions of a first and second quarter 1983 recovery by econometric forecasters like Wharton, Chase, and Data Resources, followed by the trade associations, business economists, and business think tanks, all duly puffed by the press.

In order to produce the series of positive numbers in January and February, however, it was necessary to generate the inventory buildup we have analyzed above. It was then the work of the media to produce the euphoria—even if it could not produce a consumer buying spree.

What next for the economy?

Last December, *EIR* founder Lyndon H. LaRouche, Jr. warned that by April, when the inventory buildup ground to a halt, the economy would be in worse condition than if no inventory buildup had occurred. This is most certainly the case, for two reasons: the economy must now carry an inventory load at record real interest rates (which will continue the deflationary collapse producing those record rates), and the buildup postponed the necessary corrective measures, allowing devastation to continue (see **Figure 8**). Thus, the following economic curtailments could occur:

Consumer goods sector:

1) *A slump in housing sales*—no matter what the mortgage interest rate—that could reduce housing starts to 800,000 in 1983, or 200,000 *below 1982's record post World War II low.*

2) *A sales collapse in consumer durables* of a corresponding magnitude with heavy retailer bankruptcies.

3) A 4.5 million sales year for the auto industry, effectively reducing the industry to *one half its 1979 size* and permanently unemploying 420,000 workers, regardless of interest rates or gasoline prices. This would have widespread repercussions in auto supply industries.

Capital goods and heavy industry sectors:

1) *Steel production reduced to 50 percent of capacity* with one-third of present plant permanently shut and two-thirds of the workforce dismissed.

2) *Major machine-tool company bankruptcies* or mergers with large sections of the tool industry eliminated, or converted to military production. Many civilian domestic industries may find foreign producers their only source of numerous types of machines tools; and *elimination of other capital goods manufacturers,* again leaving industries with only foreign suppliers.

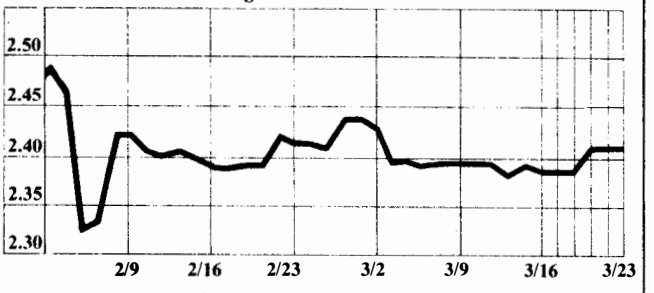
3) *Drastic cancellations in civilian commercial aircraft orders* as the airlines suffer ridership losses. The aircraft industry employs 800,000 workers.

One must contemplate the result of such economic events on employment, tax revenues at all levels of government, international trade, and ultimately the stability of the nation.

Currency Rates

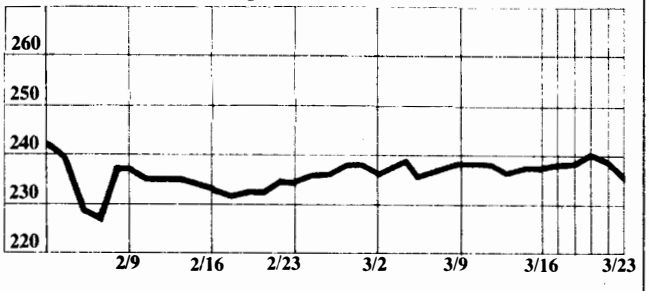
The dollar in deutschemarks

New York late afternoon fixing



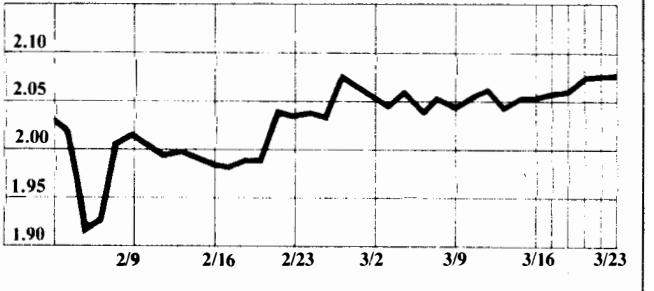
The dollar in yen

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing