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The beginning of the downturn

All the sources of so-called "recovery" are exhausted, and even official economic indicators are reflecting the bad news.

In our mid-year review of the U.S. economy, *EIR* demonstrated that the entire previous year's apparent growth in the physical U.S. economy derived from two, and only two, sources. The first was statistical fraud, which doubled the reported size of the actual growth of physical output. The second was the trade deficit, as mediated into the economy through an enormous expansion of consumer credit.

EIR forecast a falloff of economic activity during the second half, leading to a steep decline in 1985 comparable to the more than 6% reduction in output registered during 1982. Pending our end-of-year survey of manufacturers' and other business associations' output data, it is difficult to read much into the cooked data offered by the Federal Reserve and the Commerce Department; however, the pattern registered thus far indicates strongly that the economy has been headed downward since the mid-year mark, precisely as *EIR* forecast.

In short, the statistical agencies of the Federal government, as well as most private-sector forecasting agencies, are starting to break the news gently that the economy is headed into a post-election tailspin.

There is no need to impute any direct relationship between the reported data and the actual economy. The decision to report such data, rather, shows that the agencies in question are preparing for the worst.

The one source of continued *apparent* economic growth is the trade deficit, reported at $12.65 billion during September, against $9.86 billion in August and $14.06 billion in July. Over this three-month period, in other words, the deficit's annual rate was over $150 billion. With the fall in both volume and price of imported oil, the oil portion of the deficit fell to only $1.1 billion—about one-twelfth of the total. Not only is the deficit rising, but the manufactured-goods and capital-goods components account for all of the rise.

That is to say, the United States is continuing to draw a huge subsidy from other economies. The collapse of the dollar during 1985, which may have already begun over the last two weeks, will shut off our ability to buy such volumes of foreign goods, and push the economy into a tailspin.

September's reported 0.6% drop in industrial production, as reported by the Federal Reserve Board, could mean anything, since the four gnomes who invent this data in a back room on Constitution Avenue in Washington use criteria they describe as "judgmental."

Nonetheless, the 4.3% fall in September durable goods orders puts the total reported volume of orders back down to the level registered at the beginning of 1984 in dollar terms; reckoning that inflation is several percentage points higher than reported, the actual volume of such orders is considerably lower.

Also, shipments of durable goods reportedly fell by 2.5% in September, leading to the first decline in manufacturers' backlog of orders for durable goods since February 1983.

Factory orders also fell a reported 1.8% in August, after falling by 0.8% in July.

The reports of a decline in output and orders are mirrored in the reports of the labor market situation. New unemployment claims rose to 392,000 in the week ended Oct. 13, from 386,000 in the previous week, and 375,000 one week earlier.

The Conference Board's help-wanted index, the business organization reported Oct. 3, suffered its largest drop in the course of the "recovery," from 138 to 128.

The financial crisis which engulfed Financial Corporation of America in August, shaking the entire savings-and-loan industry, has already blown a big hole in the most important conduit of consumer credit, namely mortgage lending.

The savings and loans took in only $1 billion in new deposits during September, down from over $2.8 billion in August, and $4.5 billion in July.

Consequently, the thrifts lent only $11.3 billion in new mortgages during September, against $15.3 billion in August and $15.6 billion in July, the lowest loan volume since February of 1984. Permanent lending was down by almost one-quarter from the previous month, to $8.6 billion, and construction loans fell by 19% to $3.3 billion.

The collapse of lending and deposits during the August-September period was entirely the result of the end of the money-market bubble which had sustained the savings institutions. The big savings and loan's bid for hot money at extraordinary interest rates, and the nearly defunct Financial Corporation of America paid the price, in the form of a run on its deposits.

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