Economic-Financial Breakdown Accelerates

by Richard Freeman

The shutdown of U.S. industrial production, across the spectrum of the economy, intensified during the second quarter, and continued into July. In addition to the production fall, the breakdown has concentrated in manufacturing, and erupted on the profit sheets of the biggest corporations. In parallel, the rate of default of junk bonds—high-risk, high-yield bonds—in the United States climbed to an all-time high.

As this breakdown intensified, 2004 Presidential pre-candidate Lyndon H. LaRouche, Jr., speaking via teleconference on Aug. 1 to an audience in Mexico, stated, "The world today is not on the edge of a depression. We are already *in* it!"

The wild money-printing by Federal Reserve Chairman Alan Greenspan, including six interest rate cuts since Jan. 3, has utterly failed to revive the physical economy, nor can it save the bankrupt financial markets. However, it has generated the emergence of Weimar-style global hyperinflation.

On July 19, the Federal Reserve Board of Governors released the U.S. industrial production index, including subindices for various industries, which shows a steep industrial decline. The gigantic surge in unemployment of manufacturing production workers by 727,000 workers since July 2000, had already accurately reflected the breakdown of U.S. core manufacturing. The Federal Reserve figures add new stunning confirmation of this process, although the Fed employed some fraud in constructing the industrial production indices. The indices *overstate* production. Conversely, when production falls, the indices *understate* the level of fall. That is, the level of production fall is even greater than is stated.

Table 1 reports production for the second quarter, showing the collapse across the board. For the second quarter, compared to the first quarter, U.S. total industrial production fell by 5.6%. The fall spread from machinery to intermediate goods and consumer goods. Electrical machinery production fell 21.3%, and industrial machinery and equipment fell by 12.2%. Fabricated metals fell by 10.1%.

It should be noted that production of Defense and Space Equipment fell by 3% (and in reality, probably by more), and that while the press tries to say that there is a defense buildup in the United States, for the last decade, inclusive of the first six months of 2001, the opposite has been the case.

Further confirming this process in a partial way, on Aug. 1, the National Association of Purchasing Managers (NAPM) announced that its its factory index for July fell unexpectedly to 43.6, from 44.7 for June; economists surveyed by the Bloomberg financial news service had predicted that the July level would be 44.5. An NAPM index figure of less than 50, signals sinking manufacturing activity; the index has been below 50 for 12 consecutive months.

Companies are experiencing this as a plunge in profits, or outright losses. In an Aug. 2 survey, the *Wall Street Journal* announced that in its preliminary tabulation of 1,138 corporations, net income for the second quarter plummeted to $32.4 billion, from $98.6 billion in same quarter a year earlier, a fall of 67%. For the second quarter of this year, compared to the second quarter of last year, the net income of commodity chemicals fell 94%; that of electronic parts by 77%; that of auto parts and equipment by 66%, and so forth.

TABLE 1
Plunge in U.S. Industrial Production Indices
(Change in Second Quarter 2001 from First Quarter 2001, on an Annualized Basis)

Industrial Production Index	–5.6%
Electrical Machinery	–21.3
Communications Equipment	–20.0
Semiconductors and Related Electronic Components	–27.3
Industrial Machinery and Equipment	–12.2
Fabricated Metals	–10.1
Defense and Space Equipment	–3.0
Stone, Clay, and Glass	–7.2
Chemicals and Products	–9.3
Printing and Publishing	–9.9
Rubber and Plastic Products	–6.4
Textile Mill Products	–15.9
Utilities	–11.3
Electric utilities	–6.0
Gas utilities	–25.3

Junk Bond Meltdown

In the financial realm, there is now the growing meltdown of junk bonds, often called "below investment grade bonds." Over the last five years, these bonds were issued in large quantities by the telecom industry to finance a wave of corporate takeovers. They can also be the bonds of companies that were once functioning and solvent, but now that these companies are teetering on the edge of insolvency, their bonds have fallen to junk bond status.

According to Moody's rating service, during the first quarter of this year, 93 U.S. companies defaulted on $34 billion worth of junk bonds, which is a record dollar volume. The July 23 *Wall Street Journal* reported that the recovery rate for all junk bonds is now just 12¢ on the dollar versus 25¢ on the dollar in 1999-2000. The market for U.S. junk bonds is valued at $690 billion, and it is part of a larger $10 trillion market of all U.S. corporate and Treasury bonds. The junk bond market failure could bring down this larger bond market, and thus the U.S. financial system.