Business Briefs

State Budgets

Fiscal Year 2003 Hole Rapidly Growing

The blow-out of state and local budgets in the United States is continuing to worsen, in what for most is only the third month of their fiscal year. In the fiscal year ending June 30, 2002, the combined budget shortfall of the 50 American states already reached $50 billion.

- New York City is now projecting a $5 billion deficit for fiscal year 2003, which began on July 1. City Councilman Gifford Miller (D-Manhattan) compared the current crisis to the 1970s city bankruptcy, and concluded that now it's worse: "I believe the city is going through perhaps the most severe fiscal crisis in its history." Mayor Michael Bloomberg (R) agreed and is preparing for drastic cuts and maybe even commuter tax increases.
- New York State, meanwhile, is currently projecting a $6-10 billion deficit, with the conservative Manhattan Institute calling for 20,000 state job cuts, cuts in Medicaid spending, and privatizing some services.
- Arizona is facing a projected $500 million revenue shortfall after tax collections came in tens of millions short in the first three months of the new fiscal year.
- Connecticut's comptroller's office reports that as of Sept. 30, revenues are already $315 million behind projections. For now, the governor and legislators will work to close what is currently expected to be a $390 million deficit.
- Delaware faces a $95 million deficit. Its governor will make 3% cuts in all discretionary spending, and is considering a hiring freeze. Republicans in the state are suggesting privatizing some state services and cutting programs.

Japan

Top Companies Close 187 Factories

Of hundreds of top Japanese companies surveyed by *Nihon Keizai News,* 105 have decided to close a total of 187 domestic plants so far this year, a 50% increase from the same period last year, it reported Oct 13.

Of companies surveyed by the Japan Development Bank, 64.3% said they will reduce the number of domestic production lines. "A further hollowing-out of the domestic manufacturing industry will boost unemployment, as companies are shifting manufacturing to China and other Asian countries," due to competitive wage devaluation under globalization, they note.

The largest plants to be closed are in the materials industry—39 so far this year, up from 18 last year—and the industry plans to shutter 73 plants by year's end, including Mitsui Chemicals, Sumitomo Chemical, and Mitsubishi Chemical. "A decrease in public works projects is also affecting many manufacturers. Taiheiyo Cement is suspending two production facilities, and Sumitomo Osaka Cement will end production at its Shiga Prefecture plant."

In the electronics and information technology sectors, 17 companies have decided to end operations of 41 plants, while 19 companies did so for a total of 46 facilities last year.

Indonesia

Bali Bombing Also Direct Economic hit

Indonesia's economy will take severe damages from the Oct. 12 terror bombing in Bali, when Indonesia can least afford it. The tourism sector, with Bali as a jewel in the archipelago, brings in $5.4 billion annually, employs 8-12 million people, and accounts for 5% of economic output.

Coordinating Minister for Economics Dorodjatun Kuntjoro-Jakti held urgent meetings with foreign and domestic investors on Oct. 14. In the context of the collapsing global markets, the Jakarta Composite Index had risen to the sixth-best performing market in the world up until Oct. 11, and Indonesia's rupiah was the third-strongest currency against the dollar, according to Bloomberg. However, the rupiah fell 3.8% in morning trading Oct. 14, and was down 10% at the close of the market, its biggest one-day drop since the catastrophic collapse in "the Asian Crisis" of 1998.

Bali was scheduled to open its first international airline, Air Paradise International, this month, with flights to Australia. The opening, set for Oct. 27 with flights to Perth and Melbourne from Denpasar, Bali's capital, has been cancelled, and the 10,000 tickets sold will be refunded.

United States

2002 Sees New Drop In Machine Production

Machine tool production in the United States is in a new phase of collapse in late 2002, far behind 2001's very depressed level. In August 2002, machine tool consumption by U.S. industry totalled $139.17 million, up 4.0% from $133.78 million in July—the lowest monthly level since records began in January 1996—according to a report issued Oct. 14 by the American Machine Tool Distributors Association and the Association for Manufacturing Technology. But the August 2002 total is down 33.6% compared to August 2001. For the first eight months of 2002, U.S. machine tool consumption, at $1.429 billion, compared to the same period in 2001, represents a steep fall of 24.7%.

Machine tool production closely parallels machine tool consumption.

Viewing the disaster over a longer term, we see that American industry's machine tool consumption levels over the five-year period 1997-2001 had gone through a precipitous drop by more than half: from $5.56 billion in 1997, to $4.91 billion in 1998; $3.90 billion in 1999; $3.99 billion in 2000; and down to $2.67 billion in 2001.

Thus, machine tool consumption in 2001 was already in a depression, having dropped by a third in the year since the 2000 elections alone; and now the first eight months of 2002 represent a further contraction of one-fourth of that depression-level consumption. Machine tools incorporate into their design the most advanced scientific discoveries, and by transmitting them, increase the productivity of the economy as a whole.

Brazil

Huge Interest Rate Hike Does No Good

The "markets" rejected Brazil's Oct. 15 hike in its prime rate by 3%, to a usurious 21%. High enough to sink the Brazilian economy, it was still too low for the country's even-more-bankrupt creditors.

Bank of America official Marcelo Carvalho said: "Call it boldness or despair, it shows how critical the situation is." Only a package with even higher interest rates and further budget adjustments will be enough to have an impact, he pronounced.

"Analysts doubted the move could stem the capital outflows which are crippling the Brazilian econmy," the London *Financial Times* trumpeted. *Estado de São Paulo* wrote that "the market was disappointed" in Central Bank President Arminio Fraga's actions, citing cynical dismissals by Crédit Suisse First Boston and ABN Ambro.

Standish Mellon Asset Management's John Peta agreed that "hiking rates was a sign of desperation. You have the perception that jacking up rates won't help the economy, that it will hike up debt payments, and you become worried."

Crédit Agricole Indosuez's Mitual Kotecha said the rate would have to be increased again when the monetary committee meets on Oct. 23. ING Barings' Marcelo Salomon said he was expecting a "more aggressive" action, urging the rate be jacked up to 25%. He forecast that Brazil's currency, the real, will devalue further.

Gazeta Mercantil's sources complained that the market had expected the benchmark rate would have been increased to 28% a year, or, at the very least, to something higher than the interest rate on the futures market, currently 24%. The hike to "only" 21% is dangerous, these financiers claimed, because it "means the Central Bank does not have control over the market. It appears the great test of Arminio is not over yet."

Likewise, a BBA Bank official suggested the Central Bank had "blinked" in the face of the "standoff" between the government and the financial speculators. He estimated that Brazil's debt service payment load would be increased by the 3% hike by an amount equivalent to 1.8% of Gross Domestic Product, because of the amount of the debt carrying floating exchange rates.

Electric Power

Credit Crunch Has Hit the Industry

Having followed the yellow-brick road to deregulation, most of the American electric power industry now faces a credit crisis. "The U.S. electric power industry is in its worst credit crunch since the Great Depression," and it will get worse, reported the *Wall Street Journal* on Oct. 15. In the next months, electric-energy firms will have to roll over about $50 billion in short-term debt. But a just-released Standard & Poor's report on the state of the industry found that the debt load, most of which was contracted in anticipation of growth in a deregulated market, led to "half the industry" being downgraded to a triple B credit rating—just two notches above "junk" rating.

Of the 320 companies reviewed by Standard & Poors, 11% were rated at junk bond levels. The S&P report says that in the first nine months of 2002, there were 135 credit downgrades of utility holding companies, leaving one-third of the major companies on the watch lists. Debt, the report found, was nearly 60% of the industry's total capital as of June 30. Thus, their ability to get new lines of credit is severely hampered.

One example makes the case clear. Tulsa-based Williams Co. was downgraded in August, just at the time it was trying to raise new monies to roll over debt. Closed out of the markets, the company was forced to borrow at a 34% interest rate from Lehman Brothers and Berkshire Hathaway, Inc., the only takers.

Briefly

GERMANY and France called on the European Union to ease application of the Maastricht Pact rules on budget deficits, in favor of growth-vectored spending. French President Jacques Chirac announced, "We must see stability in terms of growth and pro-growth policies." Their declarations come at a time when the European Commission is threatening to start "excessive deficit procedure" review against Germany.

FANNIE MAE, the giant national mortgage corporation holding up the U.S. housing bubble, suffered a loss of $1.38 billion in the derivatives markets in the third quarter, and its earnings for the quarter fell 19%, although its revenue was fueled by the continuing refinancing frenzy. Fannie Mae profits were also down for the first three quarters as a whole.

DEUTSCHE TELEKOM on Oct. 8 announced a worst-case scenario, in which it will lay off 55,000 employees between 2002 and 2005. This is 22% of Europe's biggest phone company's workforce. These layoffs include the 30,000 terminations announced earlier this year. The cost-cutting measure is supposed to save Deutsche Telekom $978 million annually.

THE WORLD'S longest sea-bed fiber optic cable went into operation on Oct. 11 in Shanghai. The cable, the APCN2, is 17,000 kilometers (more than 10,000 miles) in length, connecting China, Japan, Malaysia, Republic of Korea, Singapore, and others. The cost of the cable was $1.4 billion in the initial phase, with designed transmission capacity of 160 gigabits per second.

LUCENT Technologies, Bell Labs' communications company, will lay off another 10,000 employees by March. Lucent's workforce will then fall to 35,000, when a few years ago it was 155,000. This and more cuts were announced after its expectation of a $2.2 billion loss for the quarter to Sept. 30—Lucent's ninth consecutive losing quarter.