

Signs of Slowdown Abound

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The seeds of mutual destruction are being sewn in an ever increasing fashion. What do we mean by that? The ghost of Herbert Hoover can be seen in the not-too-distant future as more and more politicians are blaming everyone else for our economic problems. A conservative Republican and a liberal Democrat have teamed up to introduce a bill calling for a huge import tax on China. “We must not let these people deliver to us high quality goods at a cheap price. Rather, we should obtain lesser quality goods at a higher price.” That, my friends, is the mindset of those within the beltway and a *sure* recipe for a rerun of the 1930’s.

If one had been watching the business news lately, you might have noticed a few other straws in the wind that are examples of things to come. Chrysler is exploring the possibility of closing U.S. plants and moving to China to produce cars for the American market. General Motors is in an asset-selling mood in order to keep their bonds from being classified as junk. Ford is considering dropping the Taurus line to help shore up their financial condition. Unless, and until, the automobile industry sheds the labor unions, they will remain in a slow, painful liquidation mode. The manufacturing portion of our economy is as dead as a doornail, except for those industries that are small and niche-oriented with some form of built-in protection (regulations, etc.). Now, of course, this is not the end of the world, as a service economy can grow, but not at our historical growth rate. That rate, 3%+ real, is certain to slow until that point way in the future when labor rates, on a worldwide basis, converge when adjusted for productivity factors. One other interesting straw, on a local basis, is that Boeing’s plan for Wichita is a shutdown unless their proposed sale to a Canadian firm is approved. It was only some 10 years ago that Boeing had 22,000 workers employed at the Wichita facilities. But, oh, that’s okay as we are going to get a large U.S. postal facility, employing some 2,000 people. And, by the way, the post office continues to lose money, and 1st class mail is going to 40¢ from 37¢ in a year or so. How many growth industries have you seen that lose money and raise prices year after year?

Please note the chart below, which traces the plight of manufacturing profits, as compared to financial profits since 1948. We have become a nation of financial traders, just as have all “empires” that have come before.

