Asian crisis hits US economy

Signs of recession in high tech, agriculture

Martin McLaughlin 14 August 1998

The financial meltdown in Asia is having an increasing impact in two key sectors of the US economy, computer products and agriculture, according to figures published this week.

US Department of Agriculture cut its predictions for wheat, cattle and hog prices and lowered its estimate for farmers' 1998 net cash income from \$56.2 billion to \$53.4 billion. The latter figure would represent a staggering 12 percent decline over 1997, meaning that US farmers were suffering income declines proportional to those experienced by the people of Thailand, Indonesia and South Korea.

Half of all American corn and soybean exports go to Asia, and Japan is the biggest single purchaser of US crops. The economic crisis which began with the devaluation of the Thai currency 13 months ago has slashed the purchasing power of Asian consumers and hence the market for US farmers.

Largely as a result of the Asian events US wheat prices are 36 percent below the level of two years ago. Corn and soybean prices are below the break-even level for farmers in the midwest states.

In the southern states, meanwhile, the severe drought and heat wave has destroyed much of the cotton crop. In Texas farmers have abandoned 37 percent of the cotton fields. The USDA now predicts an overall reduction of 24 percent in US cotton production, but even the farmers whose crops survive will not benefit: higher overseas production has kept cotton prices virtually unchanged despite the US shortfall.

Because of the passage of legislation in 1996 phasing out the system of price supports--the so-called Freedom to Farm Act--US farmers have a much weaker government safety net. As a stopgap measure, Congress rushed through legislation permitting the Department of Agriculture to pay farmers in advance on the subsidies

which they are expected to receive in 1999.

Clinton signed the spending bill into law on August 12, but the \$5.5 billion advanced will be quickly exhausted--the sum is slightly less than the USDA's projection of the decline in farm income for this year alone. The main purpose of the bill is to stave off any widespread bankruptcies or foreclosures until after the November elections.

In the computer industry layoffs, plant closures and other cutbacks related to lost markets in Asia are continuing.

- SyQuest cut 950 jobs at its Fremont, California plant, while announcing other cuts at its plant in Penang, Malaysia. The company, which makes removable disk drives, is seeking to cut overall costs by 50 percents to stem huge losses.
- Adobe Systems, the largest maker of desktop graphics software (Photoshop and Pagemaker), said it might report a third-quarter loss and would cut its work force by up to 300, or 10 percent, because of the slump in Asia and slower sales of Apple's Macintosh computers.
- SGI announced 1,000 layoffs in the wake of its acquisition of Cray Research. The company said it had tried to limit cost-cutting measures to attrition, but 'the attrition plan wasn't going to get the costs down fast enough."
- A Fort Collins, Colorado-based semiconductor company, Advanced Energy Industries, said it was cutting 128 jobs, 14 percent of its work force, because of 'tough economic times in Asia compounded by DRAM overcapacity and weak PC sales.'

The executive placement firm Challenger, Gray & Christmas, which tabulates layoff announces by major American corporations, said that US companies announced 50,774 job cuts in July, the largest total for

that month since 1993, with the electronics industry leading the way with 10,349 cuts.

'Those who doubt the impact of the Asian financial crisis on the economy need look no further than the semiconductor, computer and electronics industries,' said a company official. 'Nearly one out of every three jobs this year has come from the computer and electronics sectors.'

So far this year, 321,217 job cuts have been announced, 37 percent ahead of the same period in 1997, and more than the whole of 1990, the first year of the last recession. Other layoffs announced in the last few days include:

- W.H. Brady, a Milwaukee manufacturer of industrial products, said it would cut 200 full-time jobs, about 7.4 percent of its work force.
- H. B. Fuller, the biggest US manufacturer of industrial adhesives, said it would cut 10 percent of its North American work force, about 600 jobs, and close a quarter of its factories, in an effort to save \$30 million a year.
- Nabisco Holdings said it would close its Pittsburgh cracker factory by November 20, eliminating 350 jobs.
- International Paper said it would cut 1,000 jobs and close 25 facilities as part of the completion of its acquisition of the Zellerbach distribution unit of Mead Corporation, mainly through the elimination of its own xpedx distribution system which competes with Zellerbach.
- St. Laurent Paperboard is cutting 221 jobs at its mill in West Point, Virginia, about a quarter of the work force, while the women's apparel maker Halmode is cutting 75 jobs at a textile factory in Covington, Virginia.

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