More signs of recession in US economy

Jerry White
17 September 1998

There are increasing signs that the US economy is heading towards recession as corporate profits and factory output stagnate, companies announce thousands of new layoffs and investors acknowledge that the long bull market on Wall Street has come to an end. The US economy is expected to slow in the second half of 1998 due to the widening global financial crisis which has reduced demand for American manufactured goods and made exports from competing nations cheaper.

On Wednesday, Federal Reserve Chairman Alan Greenspan indicated that the central bank would not immediately lower interest rates. Many Wall Street investors and top corporate executives were urging Greenspan to lower rates in order to spur economic growth in the US and make credit cheaper for overseas buyers of American exports.

General Motors Corporation Chairman Jack Smith had called for the Federal Reserve to cut interest rates by half a percentage point, saying, 'The question is whether the Fed will wait until a recession is imported and then act, or act now. General Motors believes it should act now.... We know that the global economy is in the tank in many parts of the world. That can translate to slower growth in the US as exporters lose their markets.'

The auto industry has been hit hard by the global crisis. As the Asian economies have hemorrhaged capital has been pulled out of Latin America where GM has invested heavily in new plants. Moreover, South Korea and Japan--whose cars are cheaper to buy because of the falling value of their currencies--have increased their exports of autos and parts to the US, undermining the position of the domestic auto companies.

The Federal Reserve's figures on factory output underscored Smith's dire warnings. Excluding the growth from the resumption of auto production after the end of the GM strike, output at American factories rose by only 0.1 percent in August. This follows back-to-back declines of 1.1 percent in June and 0.4 percent in July, the biggest setbacks in nearly eight years. Output in the mining sector, which includes coal production and oil and gas drilling, dropped 0.6 percent in August.

In a separate report, the Commerce Department said the level of business inventories were frozen in July for the third consecutive month. The last time business stockpiles remained the same for such a length of time was in mid-1991, a period that included the end of the nation's last recession. Retail sales rose only 0.2 percent in August, indicating that consumer demand, which accounts for two-thirds of total economic activity, has dropped off sharply since the beginning of the year.

The downturn has already led to a series of layoffs affecting virtually every sector of the economy. Some of the companies that announced major cutbacks this week include:

Case Corporation, a manufacturer of agricultural and construction equipment, will eliminate 1,000 jobs, or about 5.6 percent of its work force, by the end of the year. Case cited the looming downturn in the market for agricultural equipment caused by low farm commodity prices and adverse weather conditions in the US, and the financial crisis in Russia and Eastern Europe.

In the semiconductor industry **Applied Materials**, the number one supplier of equipment to computer chip makers, will cut 2,000 jobs, reducing its work force by 15 percent. **Rockwell International**, the world's largest maker of chips used in telephone modems, will eliminate nearly 900 jobs and close a Colorado plant as part of its plans to spin off its ailing semiconductor business. **Semitool**, a Montana-based supplier to the semiconductor industry, announced 165 more layoffs, bringing its total to 350 or 25 percent of its work force in the last few months. Cambridge, Massachusettsbased **Learning Co**., a software manufacturer, announced 500 job cuts, mostly at the newly acquired Broderbund Software, Inc.

Numerous semiconductor companies, including National Semiconductor, Novellus Systems, Intel and Lam Research, announced layoffs earlier this year, citing the Asian economic crisis, production overcapacity and slowing demand for PCs as the cause.

Canadian-based **Nortel** (Northern Telecom), the world's sixth largest telecommunications equipment maker, announced it would cut about 3,500 jobs, or about 4 percent of its global work force. The company, which recently acquired Santa Clara, California-based Bay Networks for $9 billion, said the cuts would be made in every division.

In retail, Paramus, New Jersey-based **Toy 'R Us** will close 59 stores and eliminate 3,000 jobs in the US, Germany and France because of falling toy prices and stiffening competition from discount stores. **Venator**, formerly known as Woolworth Corporation, will close its 570 Kinney and Footquarters shoe stores, threatening the jobs of 1,400 full-time and 3,200 part-time workers.

Allergan, a specialty drug company and the world's second-largest maker of contact lens care products, announced that it would cut 550 jobs, or about 9 percent of its work force, over three years and close five of its ten plants. The Irvine, California-based company will close plants in Brazil, Puerto Rico, California, North Carolina and Massachusetts. Meanwhile, the American pharmaceutical industry has predicted slumping profits because of falling demand for drugs in Asia and other 'emerging markets.'

The glut in oil production and plummeting prices, which has devastated Mexico, Venezuela, Nigeria and other oil producing countries, has also hit the US. In the Houston and Texas area, the world's largest land driller, **Nabors Industries**, laid off 3,000 workers, **EVI Weatherford**, 1,300, and **Schlumberger**, 700, in the last several months.

The loss of a job threatens many working class and middle class families with the threat of bankruptcy, because of the increasing accumulation of consumer debt. In the April-June quarter the number of Americans behind on their credit card payments increased, according to the American Bankers Association. The credit card delinquency rate--the percentage of accounts 30 or more days past due--increased to 3.28 percent from 3.11 percent in the first three months of this year.

See Also:

Japan enters deepest post-war recession
[17 September 1998]

Market crash portends major political shifts in the United States
[1 September 1998]