GM, Ford idle 1,365 workers—auto industry layoffs signal coming downturn in US economy

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27 May 2000

In the most significant cutbacks in the industry in nearly a decade, the number one and two US automakers announced Thursday that they plan to lay off 1,365 workers. In July, Ford Motor Co. and Mazda Motor Corp. will lay off 945 workers at their joint venture plant in the Detroit suburb of Flat Rock, Michigan, and reduce operations from two shifts to one. On June 12, General Motors' Saturn division plans to idle 490 of 2,413 workers at its assembly plant outside of Newport, Delaware and permanently switch to a single day shift.

The moves come as US auto companies are reducing overtime in many assembly plants and closely monitoring levels of unsold cars in dealer showrooms. The layoffs and production cutbacks follow last week's half-point interest rates by the Federal Reserve Board and indicate that the industry anticipates lower sales in this year's second half.

“We are seeking the early signs of retrenchment and that includes some layoffs,” said David Littman, chief economist for Comerica Bank in Detroit. “This is a result of high oil prices along with a stock market that goes sideways and down because of higher interest rates.” Like home buying, auto sales are highly sensitive to increases in the cost of loans.

The midsize models at the affected plants—the Mercury Cougar, Mazda 626, and Saturn LS sedan—all suffer from lackluster sales, although US car sales in general are continuing to run at record levels. These vehicles face intense competition and a glutted midsize market, that includes better-selling models such as the Honda Accord, Toyota Camry and Ford Taurus.

But inventories are growing for many vehicles—despite the record US sales—as manufacturers continue to introduce new models in an effort to gain market share from their competitors. This has led to bloated stockpiles of vehicles and eroding profit margins, even among sports utility vehicles and light trucks that have been a major source of cash for US car companies over the last decade.

Earlier this month, Ford said it was cutting back production by 25 percent of its huge Excursion SUV (which had netted the company $18,000 in profit per vehicle) because of weaker than expected demand. Meanwhile, DaimlerChrysler AG is cutting overtime at its US factories that build the Dodge Durango and Jeep Grand Cherokee SUVs.

The move at Saturn comes less than a year after the new midsize L Series line was launched and ends five months of speculation among workers who have been through a series of production cuts. General Motors' decision in the mid-1990s to build the midsize Saturn in Wilmington kept alive a 50-year-old plant that had been targeted for closure.

The laid-off Ford and GM workers qualify for up to 42 weeks of nearly full pay, as required under the United Auto Workers union contract, and company spokesmen said some workers might be reassigned to other plants. However, the production cutbacks are expected to reverberate throughout the industry and the US economy as a whole, leading to layoffs at auto parts plants and the reduction of overtime for other workers.

There are other signs that the US economy is headed for a downturn. Durable goods orders in the US—widely viewed as a good indicator for the state of the manufacturing industry—fell by 6.4 percent in April, the biggest fall since the recession year of 1991. In March, durable goods orders were up 4.5 percent.

A drop in durable goods—which include big ticket items such as cars, aircraft and washing machines, which are expected to last more than three years—often precedes a general slowdown in the economy. The drop was led by a fall of 20 percent in electronic goods like video recorders and semi-conductors, the largest drop on record.

Sales of existing homes also fell by 6.2 percent in April and overall consumer spending grew at only half the rate of increase over the past six months. Many experts believe that consumer spending will slow further when people realize the extent of their stock market losses in the past month.

As for the growth of the US economy as a whole, a report released earlier in the week showed that the Gross Domestic Product (GDP) has slowed from more than 7 percent in the last three months of 1999, to 5.4 percent in the first three months of this year. Consumer spending, which makes up two-thirds of the entire economy, has been the engine of GDP growth.

These figures indicate that the six interest rate hikes by the Federal Reserve board are beginning to slow down the economy. Fed chairman Alan Greenspan has repeatedly made clear his willingness to raise interest rates—even at the risk of driving the economy into a recession—in order to increase joblessness and prevent a push by workers for improved wages and benefits.

On Thursday, the US Labor Department said first-time claims for state unemployment benefits rose 6,000 to 284,000 in the week ending May 20. That followed a 20,000 drop the week earlier and left the average for claims this year at 278,000, down from last year's average of 298,000.

In addition to the auto layoffs, a number of companies, across a wide array of industries, announced new job cuts this week.

LTV Corp.'s steel subsidiary plans to close LTV Steel Mining Co., a Minnesota operation that employs 1,400 people and produced 7 million tons of taconite iron ore pellets used in making steel last year. LTV Steel Mining is the oldest continuously operating taconite mining operation on the Minnesota Iron Range, beginning production in 1957.

Maytag Corp. plans to lay off 120 workers in its Newton Laundry Products division to limit production in response to slumping appliance sales. Workers said the layoff notice—effective June 2—was posted in the plant early Wednesday. “We had no clue until we came into work this morning,” said Anita Bayles, who builds water valves and puts them on Maytag Dependable Care washers.

Seagate Technology Inc. will close its Anaheim, California computer hard disk-manufacturing plant in a move that will eliminate 600 jobs and shift production to a factory in Northern Ireland where labor costs are cheaper. Seagate also plans to close a sister plant in Mexicali, Mexico, where 590 workers will be idled. Since last September, Seagate, which lost $136 million in the first quarter, has closed plants in Singapore, Thailand and Northern California and laid off nearly 18,000 employees.

Business-to-business software maker, J.D. Edwards, announced 800 job cuts. A series of Internet companies announced cuts of between one-third and one-half of their staffs as investment dries up and a wave of mergers and consolidations that is expected to come over the next several months. Over the past few weeks dot.com companies Kbkids, Quepasa, PetPlace, carOrder and Total Sports have announced hundreds of layoffs.

Alta Vista, the Palo Alto, California-based Internet search engine, announced plans to eliminate 6 percent of its workforce and said it will postpone its Initial Public Offering until the fall.