On eve of US elections: auto plants idled and layoffs swell

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On the eve of the US elections a series of indicators have provided more evidence that the next administration will preside over an economic slowdown and rising unemployment.

Data released at the end of October shows the auto industry is plagued by over-capacity and suffered an estimated 0.8 percent fall in sales over the past 12 months. The five major auto producers—Ford, DaimlerChrylser, Toyota, Nissan and Honda—announced declines in sales ranging from 3.6 to 7.4 percent. General Motors achieved a 6.5 percent growth in sales by offering customers unsustainable five-year zero-interest loans, in a desperate bid to clear stocks of unsold minivans, utilities and some midsize car models.

Last Monday, General Motors idled until after election day three Michigan assembly plants that produce cars not covered by the discount offers, while DaimlerChrysler closed seven plants, five in the US and two in Canada. Industry analysts expect intensified price wars and discounting, as well as more temporary plant closures, as the auto giants seek to reduce inventory.

Since July, US automakers have shed 46,000 jobs as they reduce production in attempts to clear inventories, particularly of heavy trucks. On Wednesday, International Truck and Engine, a division of Navistar, announced that it expects to eliminate 1,851 jobs or 40 percent of employees from its plant in Springfield, Ohio. The layoffs, to take place over the next three years, are in part motivated by forward projections that demand for their product will fall.

Across manufacturing there is a contraction. October was the third consecutive month for which the National Association of Purchasing Management (NAPM) index recorded a decline in manufacturing activity in the US. New orders fell for the fourth month in a row.

USX-US Steel, the largest US steel producer, announced Thursday that is idling part of its Minntac iron ore processing operation near Mountain Iron, Minnesota, and shedding at least 140 jobs. The company declared the action to be the due to the “staggering volumes” of imported steel competing in the US market.

Cosmetics transnational Revlon announced on Thursday its eighth consecutive quarterly loss, which it blamed on increased competition, falling sales internationally and cutbacks in orders by overstocked retailers. To cut costs the company plans to eliminate 1,115 jobs or 14 percent of its workforce. A plant in Phoenix, Arizona, employing 900, will be closed next year, as well as an operation in Canada employing 170.

In the high tech dot.com sector there are signs that November will match the record number of job cuts in October. The impact of the April slump on the share market is continuing to play out in bankruptcies, restructuring and a general decline in investment in Internet-related industries. In the first few days of this month a series of companies have announced sweeping layoffs.

Internet airline ticket sales company Priceline.com is laying off 87 workers or 16 percent its workforce. Urban Box Office Network, which sells hip-hop and Latino music, faces bankruptcy and will lay off from 70 percent to all of its 300 staff. Online mortgage banker Mortgage.com is also facing collapse and is laying off 518 of its 618 employees. Beauty products online retailer beautyjungle.com is shedding 40 jobs. Buildnet.com, which sells building supplies through the web, is eliminating the jobs of 170 employees, most of whom are software developers.

A report issued last week by the National Venture

Capital Association showed a 6 percent fall in venture capital investment during the July to September quarter. Investment in start-up companies slumped one-third from $7.1 billion in the previous quarter down to $5.2 billion. Investment in Internet-related companies fell from 80 percent of total venture capital down to 70 percent. Jim Breyer, from venture capital firm Accel Partners, told the *New York Times*: “We expect to see a dramatic increase in the number of bankruptcies and mergers. A lot of private companies are actively targeting the holiday season as a do-or-die time.”

The decline of the dot.coms is impacting upon major financial firms as well. Morgan Stanley Dean Witter & Co., the largest underwriter of initial public offerings on world stock markets, saw its revenues in the July-September quarter miss market estimates by as much as $130 million. The world's second largest insurance brokerage and risk services provider Aon Corporation announced last week it is eliminating 6 percent of its global workforce, or 3,000 jobs, after its profits came in below market expectations.

In other signs of slowing economic activity US retail sales grew by only 2.9 percent in October, compared with 4.9 percent last year. Leading retailers like K-Mart, the Gap and J.C. Penny have reported falling sales. The three leading long distance phone companies, AT & T, WorldCom and Sprint, have all declared lower than expected profits in recent weeks due to decreasing demand and sharpening competition.

Overall, US non-farm employment growth rose by only 135,000 in the previous month, far short of an expected rise of 184,000. While the official unemployment rate remained static at 3.9 percent, the pool of available workers—the unemployed plus people who desire work but are deemed not to be actively seeking employment—rose by 0.5 percent to 9.88 million. The average working week fell to 34.3 hours from 34.4 in September as companies cut back on overtime.