As Bush comes to Washington, US economy heads towards recession

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There are increasing signs that the US economy is heading towards a recession as major corporations—from the auto industry, to banking, to technology, to consumer goods—have announced far weaker than expected sales and earnings and a new round of mass layoffs and plant closings.

On Tuesday, the Federal Reserve Board's policy-making committee met and warned that present conditions “may generate economic weakness in the foreseeable future.” The Federal Open Market Committee stated, “the drag on demand and profits from rising energy prices, as well as eroding consumer confidence, reports of substantial shortfalls in sales and earnings and stress in some segments of the financial markets, suggest that economic activity may be slowing further.”

The central bankers did not, however, lower interest rates at their meeting. Instead they maintained present rates despite urgings from, among others, the president of the National Association of Manufacturers, who said a rate cut was needed to prevent “an economic contraction and significant employee layoffs.” Since June 1999 the Federal Reserve has raised rates six times in an effort to slow the economy. Fed Chairman Alan Greenspan has pursued a deliberate policy to drive up unemployment, largely in an effort to undermine workers' demands for substantial wage and benefit improvements.

Greenspan, who was the first official figure to meet President-elect George W. Bush in Washington Monday morning, has often spoken of his desire to engineer a “soft-landing” of the economy. But even if the Fed reverses policy and lowers interest rates as expected at the beginning of the new year, there is no guarantee that the economy will not slide into a full-scale recession or even depression.

The economic slowdown underscores the deceptive character of the campaigns of Bush and Democratic candidate Al Gore, who both concealed from the American people the extent of the looming economic crisis. Instead they based their promises on false projections of an expanding economy and continued budget surpluses. Whatever meager spending proposals were made for education, health care and Social Security will now be scrapped.

At the same time President-elect Bush has reiterated his determination to push for his $1.3 trillion tax cut, a measure he and his supporters cynically claim is needed more than ever because of signs of a recession. Such a measure would guarantee greater riches for the wealthy elite while the majority of American people suffer the consequences of a serious economic downturn without the benefit of a social safety net.

The slowdown was highlighted in a series of economic reports issued over the last two weeks.

* The Federal Reserve said Friday that US industrial production fell in November for the second month in a row, pulled down by the manufacturing sector. The report found that the nation's factories, utilities and mines were operating at 81.6 percent of capacity last month, the lowest level this year, and down from 82.1 percent in October. The slumping auto sector played a major role in this decline, with the output of vehicles falling 2.3 percent after dropping 8 percent in October.

* US Commerce Department figures showed that profits for US manufacturing companies averaged a seasonally adjusted 6.4 cents profit per dollar of sales after taxes in the third quarter—down from 6.6 cents per dollar of sales in the second quarter. The decline in third-quarter profits occurred as overall economic growth, measured by the Gross Domestic Product (GDP), slowed sharply to an annual rate of 2.7 percent from 5.6 percent in the second quarter.

* In a sign of falling consumer spending, the Commerce Department said retail sales fell 0.4 percent in November, spurred on by the sharpest decline in auto sales in more than two years. Even excluding autos, sales increased by only 0.2 percent, an ominous sign for retailers dependent on the holiday shopping season.

Despite a record sales year by the American auto industry, companies have been plagued by falling profits, caused in large measure by the cost of incentives they have been forced to offer to customers because of the glutted market of unsold vehicles. On Tuesday, DaimlerChrysler AG's faltering Chrysler Group in the US told shareholders that it is on pace to lose a staggering $1.4 billion in the fourth quarter and next year could be even worse. Analysts say the company, which has already temporarily idled a number of plants in the US and Canada, will have to eliminate between 20,000 and 40,000 jobs to return to profitability.

General Motors, which last week announced the phase-out of its 103-year-old Oldsmobile division, the elimination of 15,000 jobs and the reduction of 15 percent of its factory capacity in Europe, is planning even further reductions in its worldwide operations, according to the *Wall Street Journal*. By 2004, the world's largest automaker wants to slash its current lineup of 80 models by as much as 20 percent, which would result in the slashing of another 5,000 white-collar jobs in North America. GM also plans to shift more engineering work to Mexico to take advantage of wages one-third of US levels.

Citing weakness in the industry, glass and paint maker PPG Industries said last week it would spend $50 million to $100 million in next year's first quarter on cuts including “facility and job consolidations.” Earlier in the month Delphi Automotive Systems announced the layoff of 1,700 workers in the US and another 5,000 in Mexico.

The first ever profit warnings by Microsoft on December 14 highlighted a series of scaled-back projections by computer and computer-related companies over the last two weeks. In addition to the software maker, Apple, Dell, Compaq, Gateway, Intel, Hewlett-Packard and Advanced Micro Devices all announced lower than expected earnings. Chuck Hill, director of research for First Call/Thompson Financial, which tracks corporate earnings forecasts, said after two quarters of 42 percent growth earnings in the technology sector, analysts had expected growth to slow to 29 percent. Analysts, he said, had not foreseen the coming plunge of the growth rate into single digits.

As the holidays approach, tens of thousands of workers are getting pink slips or face the loss of their jobs early in the new year. As is customary a large number of companies are announcing layoffs before the December 31 close of the fourth quarter so that downsizing costs will not show up in next year's earnings reports.

On Monday, Aetna, the nation's largest health insurance company, announced that it would eliminate 5,000 jobs, about 13 percent of its workforce. Half of the cuts will come from attrition while another 2,400 workers will be dismissed over the next year. The bulk of the cuts will take place in states like Florida, Texas and California where Aetna plans to shed thousands of customers formerly insured by Prudential Health Care, which it took over in 1998.

Gillette announced Monday that it would shut down eight factories and 13 distribution centers and lay off 2,700 employees, or 8 percent of its workforce. While the location of the plant closings and layoffs will not be announced until January, it is known that they will affect the company's worldwide operations and all of its divisions, which include Gillette razors, Duracell batteries, Oral-B toothbrushes and Braun appliances. Gillette, which does a third of its business in Europe, has been hit hard because of the weak euro. In addition, sales of Duracell batteries have fallen by 5 percent this year because competitors have cut prices.

This is the second round of downsizing for Gillette in little more than two years. In September 1998, the company eliminated 4,700 jobs. Two months ago, after Gillette's shares had fallen to half their value since March 1999, billionaire Warren Buffett, a board member and investor, forced the company's chief executive to resign. Wall Street analysts applauded the new layoff announcement and its stock price rose.

Last week the biggest US home appliance maker, Whirlpool, announced that it planned to cut up to 6,300 jobs, or about 10 percent of its workforce, because of weakening demand for its products. The company issued its second profit warning in three months, saying that higher interest rates, a weaker housing market and a drop in consumer confidence, caused in part by the falling stock market, had helped weaken demand for its washers, dryers, ovens, microwaves and other appliances. Whirlpool's major competitors, Maytag, Electrolux and GE Appliances, have also reported softening demand, particularly in the US and Europe.

New York banks Chase Manhattan Corp. and J.P. Morgan & Co. said their expected merger would result in 5,000 job cuts, increasing the total from a previous estimate of 3,200. The banks also said their earnings would fall substantially below Wall Street estimates. While spokesmen said the two companies' credit portfolios were performing “relatively well,” the banking industry is now facing a widespread problem of bad credit. Last month, Bank of America Corp blamed high credit costs and non-performing domestic corporate loans for its own disappointing earnings forecast.

Among other companies announcing job cuts in the past month, Unisys Corp. said it will eliminate 2,000 jobs, Dun & Bradstreet Corp. will slash 1,000 jobs and Guilford Mills will cut 550. Among computer-related companies, Ask Jeeves, an Internet search engine, cut 25 percent of its workforce, or 180 positions, Merisel announced the layoff of 200 workers and Digital Broadband Communications announced it was eliminating 450 of its 526 employees and seeking a buyer.