Mounting layoffs in US point to onset of recession

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The wave of job cuts in the US, reminiscent of the deep recession of the 1980s, has continued in the new year with layoffs hitting a wide range of industries, including the auto, retail, technology and media sectors.

On January 17 the Federal Reserve Board issued a report further indicating that the economy has entered a recession. The nation's industrial output fell 0.6 percent in December, the third consecutive month of decline. According to the Fed, the industrial production index fell at a 1.1 percent annual rate, the first quarterly drop since 1991, when the economy was in its last recession.

"The severity of these data hint of the early stages of a recession," said Ray Stone, partner in Stone & McCarthy Research Associates, a financial markets research firm. Stone predicted the indices of economic decline would cause the Federal Reserve to cut interest rates again by half a percentage point in an effort to stave off a recession. "The Fed will want to buy more insurance," stated Stone.

In an unusual mid-session decision that both surprised and concerned economists, on January 3 the Federal Reserve cut interest rates by .5 percent, from 6.5 to 6 percent. This reversed the Fed's previous policy of raising interest rates to fight inflation and cool the overheating economy. At its December session, while acknowledging that the economy faced the danger of a recession, Fed chief Alan Greenspan took no action to lower the rate. But by the beginning of 2001, following several reports of a rapid economic decline—including a drop in economic growth to 2.2 percent, down from 5.6 percent in the second quarter—fear began to develop that the decline could spiral.

A report released by Challenger, Gray & Christmas, a firm that tracks job cuts, said the 133,714 layoffs in December were the largest number recorded in the eight years they have been tracking them. According to their report, job cuts during the first six months of 2000 averaged 37,237 per month, totaling 223,421 layoffs.

During the last six months of 2000, however, job cuts jumped 75 percent higher, to 309,539 or 65,090 jobs per month. Challenger's report cites that in the auto industry alone job cuts tripled in 2000, from 27,779 cuts in 1999 to 85,231 in 2000.

Layoffs have affected a broad range of industries, impacting almost every area of the country.

Manufacturing:

General Motors announced slower sales pushed profits down 92 percent in the fourth quarter of 2000, compared to the fourth quarter one year ago. The losses were caused by falling sales in Europe, North America and at its Japanese affiliate, Isuzu Motors.

ArvinMeritor, the largest maker of heavy-duty truck axles, announced it had cut 1,500 jobs in November and lost $10 million in the fourth quarter.

Most automotive suppliers are posting falling profits in the fourth quarter as a result of the substantial job cuts carried out in the auto industry during the past three months.

Retail:

Service Merchandise, a catalog retailer based in Nashville, Tennessee, plans to cut 23 percent of its workforce, or 1,750 jobs. The company is presently reorganizing after filing for Chapter 11 bankruptcy protection.

Sears, Roebuck and Company announced the closing of 89 stores around the country, slashing 2,400 jobs following a dismal Christmas sales period.

Office Depot announced plans to close 70 stores, cutting 1,600 jobs.

Bradlees Inc. announced plans to close the business, throwing 10,000 people out of work at the department store chain.

Ann & Hope announced plans to close all four of its Massachusetts stores by May and eliminate 1,400 of its 1,900-member workforce

Lids, a hats chain with 388 stores and 2,700 workers, announced that it was also filing for Chapter 11 protection.

Technology:

Nortel Networks Corporation, the world's leader in fiber-optic network equipment based in Toronto, Canada, announced plans to cut 4,000 jobs over the next six months in the US and Canada.

Computer maker **Gateway Inc.** announced plans to lay off more than 2,400 workers, 10 percent of its staff, due to a slowdown in computer sales.

ICG Communications, based in Denver, Colorado, plans 500 layoffs by the end of January. The company filed for Chapter 11 bankruptcy in November after eliminating 300 jobs in October.

eToys, the number two on-line e-business toy retailer, eliminated 700 jobs or 70 percent of the company's workforce after experiencing weak sales during the critical Christmas season. eToys also announced it was shutting down its European operations.

Motorola, a producer of mobile phones, plans to close its Harvard, Illinois plant and eliminate 2,500 jobs.

Media:

CNN announced plans to eliminate 400 jobs, 10 percent of its staff, as part of its reorganization following the merger of its parent company, Time Warner, and America Online.

NBC announced it was eliminating 600 jobs. NBC is owned by General Electric, which also owns the Montgomery Ward department stores. GE is involved in the computer, automotive, finance, aircraft engine, power generator, retail and media sectors. While GE's earnings have gone up, its share values have fallen, and financial analysts expect the company to carry out as many as 80,000 layoffs in the coming months.