US economy shows weakest growth in five years

Layoffs mount, consumer confidence plummets

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The US economy grew at an annual rate of just 1.4 percent during the last three months of 2000, the weakest growth rate in more than five years. Analysts had predicted a growth in the Gross Domestic Product (GDP)—the total output of goods and services produced within the US—of around 2.2 percent. The weak showing in the GDP was down sharply from the dramatic growth in the second quarter of last year, when it grew by 5.6 percent.

At the same time, confidence of US consumers dropped sharply in the first month of 2001. The Conference Board, a business research group, announced Tuesday that the consumer confidence index dropped more than 14 points in January to 114.4, the largest drop since the recession of the early 1990s. The index, which tracks Americans' attitudes towards job security, income and investments, has dropped more than 20 percent over the past year. The index is considered an important measure of the strength of the economy because consumer spending accounts for two-thirds of the nation's economic activity.

The plummeting of the consumer confidence index has been undoubtedly fueled by the wave of layoff announcements in January, which culminated in the January 29 announcement by DaimlerChrysler to eliminate 26,000 jobs in its US-based Chrysler Group. Other factors contributing to the pessimism about the economy include higher electric and home heating bills and poor performance of mutual funds, reflected in quarterly statements. A Conference Board official said the January index of consumer confidence showed a trend "we normally see just prior to a recession."

Federal Reserve Board Chairman Alan Greenspan on Wednesday announced a half-percent point cut in the federal funds rate, the interest banks charge each other on overnight loans, to 5.5 percent from 6 percent. This was the second drop this month, following a surprise decision on January 3 to cut interest rates by half a point, the largest cut in eight years. Openly pointing to fears of recession, the Fed commented, "Consumer and business confidence has eroded further, exacerbated by rising energy costs that continue to drain consumer purchasing power and press on business profit margins."

Greenspan told a congressional committee last week that US growth was now "probably very close to zero," but that the "critical issue ... is whether the degree of contraction [in growth] is enough to breach the fabric of consumer confidence." The unprecedented plunge in consumer confidence in January, combined with the severely weak growth of the GDP and the rash of layoffs, provide more evidence that the US economy is moving in the direction of a recession.

In the last week of January alone, more than 100,000 layoffs were announced in a wide array of industries. In addition to the 26,000 layoffs at the US-Chrysler division, the DaimlerChrysler company **Freightliner** said it would lay off 1,085 workers and slash output at its Portland, Oregon facility, citing high fuel prices and falling demand for big rigs. The job cuts add to the 3,745 jobs Freightliner eliminated last year at its plants in Oregon, Ohio, North Carolina and Ontario, Canada.

Layoffs were announced throughout the auto and truck industry. **General Motors** announced plans to temporarily idle 14 North American plants in stages throughout February to trim vehicle inventories, affecting 14,400 workers. GM plans to cut first-quarter production by 21 percent. **Ford Motor Company** is also laying off 4,150 workers. **Caterpillar**, the world's largest maker of heavy construction machinery, announced 2,500 temporary layoffs at its truck and tractor facilities.

Norfolk Southern railroad will eliminate 1,000 to 2,000 jobs over the next year as part of a restructuring program in response to the slowing economy and changes in the transportation market. The company said it will also dispose of 12,000 surplus freight cars in an effort to reduce costs.

Textron, Inc. announced January 23 that it plans to cut more than 3,600 jobs, or 5 percent of its global workforce, as it restructures its automotive, fastening and industrial divisions. Textron products include Cessna airplanes, Bell helicopters, automotive dashboards and golf carts. The $13 billion company has 70,000 employees in 30 countries.

J.C. Penney Co. announced January 25 that it will close 47 of its department stores and eliminate 5,500 jobs in an effort to return to profitability. Most of the stores will be closed by the end of June. The company said it will also close most catalog desks in its Eckerd drugstores. The layoffs amount to about 2 percent of the company's 290,000 workforce.

In one of the largest layoff announcements, telecommunications manufacturer **Lucent Technologies** announced it would eliminate 10,000 jobs. **WorldCom**, the nation's No. 2 long-distance phone company, also announced 10,000 employees will lose their jobs.

AOL Time Warner, the media and Internet group formed in a $106 billion merger that was finalized earlier this year, announced 2,000 jobs would be eliminated in the integration of the merged companies. AOL Time Warner Chief Executive Gerald Levin said more job cuts were possible, commenting, “On an ongoing basis we are always organizing to make the company as efficient and integrated as possible.'”

Xerox Corporation, the copier company, lost $119 million in the three months ending December 31, and announced it was eliminating 4,000 jobs. The company cited increased competition, a flawed sales force reorganization and sluggish sales for its poor revenues. Company officials said they would continue to make deep cuts throughout the year as part of a previously announced turnaround plan. “Every area except sales is on the table,” said Xerox spokesman Bill McKee.

Other layoffs announced at the end of January:

* Consumer products and foods group **Sara Lee** revealed plans to eliminate 7,000 jobs by the end of the year, mostly in its intimates and underwear division.

* Toolmaker **Black & Decker** announced that it plans to cut about 400 jobs, or 1.8 percent of its global workforce.

* The business forms and document management company **Standard Register** said that it would eliminate 2,400 jobs, or almost one-third of its workforce, as part of a restructuring plan aimed at slashing production capacity by 30 percent.

*** Brunswick Corp.,** the world's largest manufacturer of pleasure boats, announced it will close four plants by the end of March, eliminating 650 jobs.

Dot.com firms set a new record in January, announcing 12,828 layoffs, a 23 percent increase over December's record total of 10,459. Challenger, Gray & Christmas, a firm that tracks layoffs, reports that since it began following dot.com job cuts in December 1999, 108—or 18 percent—of these companies have closed.

One of the dot.com companies most severely hit was Internet retailer **Amazon.com,** which said it is eliminating 15 percent of its workforce, or 1,300 jobs. Amazon said it will close its McDonough, Georgia distribution center and its Seattle customer service center, and that it would operate its Seattle distribution center on a seasonal basis only. Amazon stocks lost $90.4 million in the last quarter of 2000, due in large part to poor holiday season sales.