

"New wave of pessimism" about US economy, as job cuts deepen

David Walsh
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The economic news has been dominated in recent weeks by slumping stock markets, but even as share prices continue to fall, dozens of US firms have announced layoffs.

American companies cut 101,731 jobs in February, nearly three times the number in February 2000, according to Challenger, Gray & Christmas, the outplacement firm. Jobs cuts from December through February rose to 377,652 from 130,752 a year earlier. This is the first time job cuts exceeded 100,000 for three consecutive months since the firm started tracking monthly data in 1993.

An article in the *Wall Street Journal* on March 22 reported that economists are now more generally pessimistic about the nature of the slump than they were a few months ago. "Fueling this new wave of pessimism is growing concern about rising high-technology inventories, expectations of a prolonged bear market for stocks, weakening foreign economies and questions about the effectiveness of U.S. monetary policy." Personal incomes, which rose 2.84 percent monthly on average in 2000, rose just 1.89 percent in January.

While weekly jobless claims dropped slightly in the week of March 17 to 379,000 (from 380,000 the week before), the closely watched four-week average rose to 377,000, reaching its highest point since April 1996, when unemployment figures were skewed by the effects of a 17-day strike at General Motors.

The Conference Board, the influential New York-based private research group, reported March 22 that its Index of Leading Economic Indicators decreased 0.2 percent in February to 108.8. While the leading index has declined in four of the last five months, it has not fallen far enough to place the US economy in a recession, according to the board. An official commented, "The Leading Economic Index suggests that this period of slower growth will probably continue for the next few months." Five of the ten indicators that make up the index revealed economic weakening in February: average weekly initial claims for unemployment insurance, index of consumer expectations, average weekly manufacturing hours, stock prices and building permits.

Economist and academic Lester Thurow headlined his March 22 column in *USA Today*, "Worst news on layoffs lies ahead." He noted the lag between a slowdown in gross domestic product and a rise in unemployment. "Officially, unemployment numbers are up only slightly; in fact, the latest numbers show that the U.S. unemployment held steady at 4.2% during February. The big increases lie ahead of us." Thurow predicted an unemployment rate "in the neighborhood of 6% by the end of the year," or an increase of nearly 3 million in the number of jobless.

Proctor & Gamble, the consumer products giant, made news Thursday when it announced plans to slash 9,600 jobs, or 9 percent of its worldwide workforce. The latest cuts are in addition to 15,000 reported in 1999. P&G sales dropped 4 percent in the first six months of fiscal 2001. The restructuring plan announced in January 1999 called for the elimination of many jobs through attrition and early retirement. Fewer employees have left than expected because the sharp fall in the company's share price has made retirement packages, many of which include P&G stock, less attractive. Meanwhile job prospects for those being laid off are far less bright than they were a year ago.

With its recent move Proctor & Gamble joined the ranks of corporate giants cutting jobs; in recent weeks this list has included **General Electric**, **DaimlerChrysler**, **Cisco Systems**, **Intel**, **WorldCom** and **Motorola**. On March 15 **Compaq Computer** revealed plans to cut 5,000 jobs and predicted that its first-quarter earnings would be about one-third lower than expectations. The cuts amount to 7 percent of the firm's workforce. On Friday **Motorola**, the world's second largest mobile phone manufacturer, reported plans for an additional 4,000 job cuts, bringing the total announced since December to 22,000.

The layoffs of white-collar workers at **DaimlerChrysler** were carried out in a particularly brutal manner. Workers told reporters that they were only given 15 minutes March 16 to clean out their desks once they were handed pink slips. Extra security guards and police were on hand at the company's US headquarters in Auburn Hills, Michigan.

Bags and vehicles were searched for weapons or stolen property. One laid-off marketing employee told a Reuters reporter, "It's just cruel and unfair, the way they're treating us. They make you feel like a common criminal."

Oracle, the world's second largest software maker, headquartered in Redwood Shores, California, announced March 20 that it would cut up to 866 jobs, or 2 percent of its staff, to trim spending in a slowing economy. **Verizon Wireless**, the country's largest wireless carrier, is laying off 800 employees, mostly at the managerial level. **Teradyne**, the world's leading maker of microchip testing equipment, announced plans to slash 650 jobs in an effort to cut costs. The company is based in Massachusetts. Officials at **Texas Instruments** said March 14 that the semiconductor maker will close its Santa Cruz, California, plant, which employs about 600 workers, by the end of the year.

Xpedior, a high-tech consulting firm in Chicago, announced March 20 it would lay off 300 workers and that it might have to close down altogether. **ReFlex Communications**, a high-speed Internet access provider with 10,000 customers in 14 cities, laid off as many as 250 employees on March 19 as a financing deal fell through. **Home.com**, the online real estate firm, reported that it was laying off 150 employees March 14, or approximately 40 percent of its workforce. **Global One**, a wholly owned subsidiary of France Telecom, is planning to lay off 100 workers in the coming weeks, according to a March 20 press report. The firm provides international telephone and data communications services to businesses. **DoubleClick**, the leading online advertising network, said March 21 that it would cut 10 percent of its workforce, leaving it with 1,850 employees. On March 21 **3Com**, the networking equipment maker, announced lower earnings and plans to carry out "substantive" job cuts.

The Pittsburgh-based food conglomerate **H.J. Heinz** plans to eliminate nearly 2,000 jobs, or 4 percent of its global workforce, the company reported March 15. A tuna processing plant in Mayaguez, Puerto Rico will be closed, eliminating 1,300 jobs, and 325 positions will be lost through the closing of a pet food canning operation in Terminal Island, California. The **Steris Corporation**, which makes infection control products, will eliminate 300 to 350 jobs. The company is closing its plant in Medina, Ohio and will move operations to a facility in Montgomery, Alabama. Steris previously announced the closing of two St. Louis plants. The **Farmers Insurance Group**, a unit of Zurich Financial Services, announced March 15 that it would close service centers in Ohio and California, cutting 310 jobs. **CSFBdirect Inc.**, a unit of investment bank Credit Suisse First Boston, announced March 14 plans to cut 150 jobs, or 10 percent of its US work force, because of weak online

trading volumes. Online encyclopedia company **Britannica.com Inc.** is laying off 68 people, mostly from its corporate headquarters in Chicago.

The stock market slump is having a direct impact on the securities industry. **Charles Schwab**, the country's largest online broker, will cut as many as 3,400 jobs, or 13 percent of its staff, because of conditions in the financial markets. Schwab officials said they would eliminate 2,000 to 2,300 full-time jobs and 150 to 200 contractors in the second quarter. Another 600 to 900 full-time jobs will be cut through attrition by the end of the year.

Meanwhile **Morgan Stanley Dean Witter**, a major investment bank, announced Wednesday that its first-quarter profits dropped 30 percent. Morgan Stanley, the second largest full-service brokerage, reported that the number of announced mergers and acquisitions fell dramatically in the three months ending February 28. During that quarter there were 7,558 deals worth \$482.5 billion; a year ago, in the same period, there were 9,517 deals worth a whopping \$1.07 trillion. Initial public offerings (IPOs) have fallen as well. By March 16, 63 companies had withdrawn or postponed their IPOs for this year, as compared with only 21 withdrawn IPOs from January to March 2000. Also on March 21 **Bear Stearns**, another leading investment bank, reported that its first-quarter profits fell 40 percent, as falling stock markets cut into trading volume and damaged its investment banking business.

See Also:

Layoffs continue to mount in US
[1 March 2001]



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