Job cutting continues in the slumping US market

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American workers are feeling jittery about the job market these days for good reason: more than half a million have lost their jobs since the beginning of the year. The job slashing appears to be picking up steam as corporations destroy jobs, both as a result of the economic downturn and in anticipation of continued economic decline.

A study released by the Labor Department's Bureau of Labor Statistics (BLS) on April 26 indicates layoffs have increased 25 percent during the first three months of 2001 as compared to a year ago.

The BLS report states corporations carried out 4,550 major layoffs (involving 50 or more workers) during the first three months of the year, resulting in 544,717 workers filing for first-time unemployment benefits.

The bureau reported that jobless claims increased by 18,000, to 408,000 for the week ending April 21 from an upwardly revised 390,000 claims reported one week earlier. The rate is the highest level since March 23, 1996, when 428,000 people filed for unemployment benefits.

Economists writing for *BusinessWeek* place the official rate for a recession at the 400,000 mark, however no one so far has officially stated the US is in a recession. The Labor Department itself has downplayed the layoffs, stating they were attributable to the elimination of temporary jobs and layoffs in New York following the spring break. However, even by taking the weekly moving average—considered a more reliable gauge—unemployment rose to 394,500 from 383,750 the week before. The 86,000 layoffs in March were the largest monthly cut to take place since 1991.

A report released by the outplacement firm Challenger, Gray & Christmas states US dot.com companies cut 51,564 jobs during the first four months of 2001, including 17,554 jobs so far in April. The April job cuts are an 84 percent increase over the 9,533 jobs cut in March of this year and 53 times greater than the 327 jobs slashed in April 2000.

As one example of the economic decline, zero job growth is expected in Oakland County, Michigan—the location of DaimlerChrysler headquarters and numerous auto suppliers—after 10 years of continued expansion.

The US is on a course of matching or surpassing the cuts carried out last week. Cuts were announced in the manufacturing, technology and securities/banking industries. The companies include: **3M** —5,000, **Siemens** —3,500, **Agere** —2,000, **Compaq Computers** —2,000, **JDS Uniphase** —5,000 and **SGI** —1,000.

“The unemployment rate is headed to 5 percent,” said Ed Hyman of International Strategy and Investment. The present rate is 4.3 percent, steadily rising from 3.9 percent in October 2000. “Already, claims are high enough to point to a 5 percent unemployment rate by the end of the summer,” said Ian Shepherdson, chief US economist at High Frequency Economics in Valhalla, New York.

Reflecting concern about the job market and the overall state of the economy, the Conference Board's consumer confidence index fell to 109.2 this month, the same as the February reading but the sixth decline within the last seven months, from the high of 116.9 in March 2000.

The University of Michigan's widely watched consumer confidence index also dropped more sharply than expected, to 88.4 in April compared to 91.5 in March.

The Federal Reserve Board, recognizing that consumer spending accounts for two-thirds of all economic activity, and fearful that a continued decline could pull the economy into a recession, cited the public's growing concern about the rise in unemployment and the decline in business orders as factors in its decision to cut the interest rate to 4.5 percent between sessions on April 18.

Unlike previous months of when laid-off workers were able to find work fairly quickly as new jobs continued to develop in the growing economy (a practice known as “churning”), the recent growth in unemployment reflects real job cuts affecting all sectors of the economy.

Economists now speculate that the Fed may cut the rate again in May if it senses continued weakness in either the labor market or the stock market.

In the auto industry—again reflecting the drop in consumer confidence—industry experts expect US automakers to report a sales decline of 8-12 percent in April, falling back to levels reached in the downturn in December 2000.

DaimlerChrysler, which reported its US Chrysler division lost $1.2 billion during the first quarter, is also expected to report a sales decline of 15-20 percent in April. An additional $100 million was lost at its US-Freightliner truck-making division. Freightliner is in the process of eliminating 9,000 jobs. DaimlerChrysler has already announced plans to cut 26,000 jobs worldwide, but reports now point to the possibility of new cuts. In a letter to the mayor of Toledo, Ohio, Chrysler Vice President Frank Fountain announced plans to cut 2,035 jobs beginning around June 22. The layoffs were announced one day after the company publicly demonstrated its new Jeep-Liberty plant in Toledo.

On Friday, April 27, the US Commerce Department reported that the Gross Domestic Product—the total output of goods and services—grew during the first quarter at an annual rate of 2 percent. Many economists expected worse, following a growth rate of 1 percent during the last quarter of 2000. The news was contradictory, with many saying it means the US economy is still growing, even if it does not match the level at the beginning of last year of 4.8 percent.

The modest rise in the GDP was attributable to a rise in consumer spending, which rose 3.1 percent, especially on big ticket items such as autos and homes, while business investment dropped 11.5 percent and spending on technology declined 6.4 percent. “That's a collapse of a huge magnitude,” Allen Sinai, chief economist at Decision Economics, told the *New York Times*. Sinai said the decline in business spending is significant because business spending accounts for 7 percent of the US economy.

Consumer spending was given a boost by large incentives offered by the auto industry, and the refinancing of home loans because of the drop in the interest rates. It was the policy of incentives that created the big profit losses for Chrysler in 2000. That consumer spending is a major factor keeping the economy afloat has its drawbacks. Consumer and business debt is presently at historic highs and would accelerate a decline if the economy should begin to falter.

Thomas Hoening, a voting member of the Federal Reserve's rate-setting Federal Open Market Committee, said at an economic conference last week in upstate New York that the debt level is presently 145 percent of the US Gross Domestic Product and poses a risk if spending should retrench.

Fears exist that consumers may begin to cut back on spending and increase their savings to pay off the debt that accumulated during the 1990s. This may already be taking place. In January spending rose sharply, but moderated in February and remained constant in March.

The following job cuts have been announced:

In the securities/insurance sector, **Morgan Stanley Dean Witter & Co**. said it would eliminate 1,500 jobs, primarily in the US, though some jobs may be cut in Europe and Asia. Similar actions have been carried out by its competitors, including UBS Warburg, Merrill Lynch & Co., Goldman Sachs Inc., Bear Stearns Cos., Charles Schwab Corp. and Credit Suisse First Boston.

TD Waterhouse, the number two discount brokerage firm, announced plans to cut its workforce by 680 by the end of April, from 8,810 to 7,500, and if the downturn persists it plans to reduce its employment level to 6,700.

Conseco Inc, the life insurance and banking company, announced plans to cut 1,000 jobs and move 2,000 jobs to India, where costs are cheaper.

In the technology sector, **Compaq Computers**, which recently lost its top spot in the desktop personal computer industry, announced plans to cut 2,000 jobs, 10 percent of its workforce. The cuts are in addition to the 5,000 cuts announced last month.

JDS Uniphase, the largest maker of fiber-optic systems, plans to cut 5,000 jobs, 20 percent of its employees, because of the decline in the purchase of communications equipment.

SGI, the high-end computer maker, posted a loss of $141 million for the first quarter of 2001 and announced plans to lay off 1,000 employees.

Earthlink stated it plans to cut 900 positions following its announced merger with Internet provider OneMain.com.

Agere Systems, the semiconductor business spun off from Lucent Technologies, announced it was eliminating 2,000 jobs, 11 percent of its workforce, due to the weak communications market.

In the communications sector, **Ericsson** and **Motorola**, manufacturers of mobile telephones, cut 12,000 and 3,000 jobs respectively because of the slowdown in the US market. Industry experts do not expect a recovery until late 2002.

In manufacturing, **Siemens**, the electronics company based in Munich, Germany, announced plans to cut 3,500 jobs in addition to 2,600 cuts already announced for Germany. Included in the new cuts are 2,100 layoffs in the US and an additional 1,400 layoffs in Germany.

Corning, the optical company, announced plans to cut 4,300 full- and part-time positions.

Minnesota Mining and Manufacturing Company, known as **3M**, announced it was eliminating 5,000 jobs, 7 percent of its workforce, as a preemptive measure because of the slowing economy.

Phelps Dodge, the world's second largest copper producer, announced plans to cut its administrative staff by 500 employees in both North and South America in a restructuring plan.

Cooper Industries, maker of Halo lighting fixtures and crescent wrenches, plans to cut its workforce by 2,000 employees after reporting first quarter sales earnings fell 33 percent.