US industrial output falls for the eighth consecutive month

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Industrial output from US factories, mines and utilities fell for the eighth straight month in May and has reached the lowest level since 1983, the Federal Reserve reported last Friday. The continued falloff in industrial production, coupled with a new series of mass layoff announcements and warnings of lower corporate earnings, has undermined suggestions that the US economy had begun to rebound from its months-long decline.

Last month's 0.8 percent drop in industrial production—after a 0.6 percent slide in April—was twice as high as economists had expected. Factory production, the largest component of industrial output, fell 0.7 percent in May, after falling 0.6 percent in April. "It was a disaster," said David Orr, chief economist at First Union in Charlotte, North Carolina.

The decline in output since late 2000 has now exceeded the six-month drop in 1990-91, the last time the US experienced a full-blown recession. In May, industrial firms operated at 77.4 percent of full capacity, down from 78.2 percent in April. This was the lowest rate since August 1983, when the US was recovering from the devastating recession of the early 1980s.

Factory utilization in the high-technology sector, which includes computers, semiconductors and communications equipment, was even lower. It fell another 1.2 percent in May, to 70.3 percent of capacity, the lowest rate in 25 years, the Federal Reserve said.

One of the only sectors that did not experience falling output was the auto industry, which increased production by 2.4 percent in May. However, the auto companies only sustained demand by offering large rebates and other incentives for vehicles, a short-term strategy because of its impact on profits.

Pointing to the continuous drop-off in industrial production, Anirvan Banerji, the research director at the Economic Cycle Research Institute, said, "When is the last time that happened without a recession in progress? Never. Never at all." Based on a definition of a recession as a "pronounced, pervasive and persistent decline in output, income, employment and sales," Banerji added, "We are not talking about where the economy will be in the future, but in the determinants of where we actually are in a business cycle."

It is widely acknowledged that the manufacturing sector, as well as heavily industrialized states such as Michigan and Ohio, are already in a recession.

US companies laid off 80,140 workers in May, down from 165,564 in April, the highest month since 1993, according Challenger, Gray and Christmas, which tracks corporate downsizing announcements. In the last five months, however, there were more job cuts—652,510—than in all of 2000 (613,960) and eight of the ten years in the 1990s.

The job cuts announced last month were 196 percent higher than the 27,031 recorded in May 2000. On average US companies have eliminated 130,502 jobs per month in 2001. The industries with the highest number of layoffs in May were: computers (11,999), telecommunications (11,197) and e-commerce/Internet (8,243).

"Last summer job cuts were accelerating in the nation's manufacturing sector, but in December, the high-tech bubble began to burst and, since then, the number of cuts in this sector have substantially outpaced those in any other industry, said John A. Challenger, chief executive of the job outplacement company. Telecommunications, computer, electronics and e-commerce make up four of the top five job-cutting industries this year, or 41 percent of all cuts announced in 2001.

"Traditionally, in a recession in the United States, almost all of the pain was felt by blue-collar workers," said Lawrence Katz, an economist at Harvard University. "The recent slowdown is more egalitarian."

Last week the world's largest maker of telecommunications equipment, **Nortel Networks** of Canada, announced plans to cut 10,000 jobs around the world, in addition to the 20,000 positions already eliminated this year. (*See* "Nortel losses rock Canadian capital") The job cuts will affect thousands of workers in the US, where 30 percent of the company's workforce is located, with concentrations in Texas, North Carolina, Georgia and California.

Earlier this month **Lucent Technologies**, which announced a $1.02 billion first quarter loss, said it would cut 5,000 mid-level manager jobs, on top of the 10,000 job cuts announced in January. **Avaya Inc.**, the communications equipment maker spun off from Lucent, reduced its fiscal 2001 revenue outlook due to lower than expected sales, especially in Europe, and said it would cut at least 3,000 jobs, or 11 percent of its workforce.

The telecommunications industry has been hard hit by a decline in investment from businesses that spent billions to upgrade equipment and are now reducing expenditures. In addition, these companies are falling victim to the bursting of the speculative dot.com bubble. Last year Nortel acquired 11 technology companies in an effort to show increased revenues from Internet-related activities and to attract investors. In line with the get-rich-quick mores of the so-called New Economy, however, Nortel executives paid little attention to these companies' actual earnings—or lack of thereof—and spent $19.7 billion, mostly in shares, to buy companies with tangible assets of just $167 million.

Nortel announced it expects losses of $19.2 billion this quarter, the biggest corporate loss in years and an amount larger than the annual gross domestic product of some small nations. This includes a $12.3 billion write-down for its acquisitions. In the last year, Nortel's stock has collapsed from a peak of $89 per share last July to $9.86.

Other technology-related companies announcing layoffs in the last two weeks include: **Ingram Micro**, the world's largest distributor of computer products, (1,000); **Juniper Networks** (100); **Philips Semiconductors** (250); and, chipmaker **Integrated Device Technology** (900).

Last week a whole series of major companies, from Microsoft to McDonald's, announced weaker earning forecasts. Concerns that profits will not rebound later this year sent the Nasdaq down 8.4 percent last week, the biggest loss since December 15. The S&P 500 fell 4 percent for the week, while the Dow lost 3.2 percent. Mark Bronzo, from Groupama Asset Management in New York, said investors "keep expecting a recovery but they aren't seeing it."

Under pressure from big investors to trim workforces and boost revenues, corporations throughout the US economy announced mass layoffs last week. The **Polaroid Corporation**, acknowledging that its instant photography business has been severely undercut by digital technology, announced last week that it would cut 2,000 jobs, at least half in Massachusetts. The cuts are in addition to the 945 jobs Polaroid said it would eliminate in February.

Xerox Corp. said it was exiting the small-office equipment business, which accounts for 3 percent of revenues but is draining profits, and will cut as many as 1,050 jobs in the Rochester, New York region, where it is based, and in Ireland. Xerox has already cut 4,300 jobs in the first quarter, reducing its worldwide payroll to around 88,000.

Several other office-related businesses also announced lower earnings and layoffs, including Holland, Michigan-based **Trendway Furniture**, which said it would cut 450 workers. Grand Rapids, Michigan-based **Steelcase** announced it would have lower than expected earnings, sparking anticipation of future layoffs.

Envelope maker **Mail-Well Inc.** plans to cut 1,200 workers, shutter 9 of the company's 36 plants and sell two of its divisions as part of an effort to recover from an earnings drop. Dayton, Ohio-based **Emery Worldwide** has eliminated 900 jobs nationwide and plans to reduce the number of active planes in its overnight fleet from 54 to 38 as part of a restructuring plan, the company said last week.

Media-related companies eliminated 6,483 jobs in May. Last week, adding to the total, the **Tribune Company** announced plans to cut its workforce by about 1,400 people in response to reduced advertising revenue, and warned that second-quarter results would fall short of analyst expectations. A spokesman for the Chicago-based company, which publishes the *Los Angeles Times*, the *Chicago Tribune* and New York's *Newsday*, declined to speculate on where the bulk of the job cuts would occur.

The **Walt Disney Co.** is expected to cut 478 animation jobs as part of its overall cost-cutting plans, according to a published report.

Other major layoffs included: athletic apparel maker **Russell Corp.**, which said it will cut 800 jobs from four Alabama factories, and **Georgia-Pacific Corp.**, which will cut more than 500 jobs because of a weak market for wallboard, the mineral-based slabs used to cover walls and ceilings.

Although auto sales have been sustained with incentives, the Big Three carmakers continue to announce layoffs and production cutbacks. At the beginning of the month **General Motors Corp.** laid off 600 contract workers at Michigan facilities in Warren, Pontiac and Milford, adding to 2,200 such workers eliminated in the Detroit area this year. Another 2,000 contract workers may also lose their jobs as part of GM's merger of car and truck engineering operations.

GM also said it will idle two vehicle assembly plants in Michigan this month, affecting more than 3,400 workers, as part of its previous plan to reduce production by 14 percent. GM will temporarily shut its Detroit Hamtramck assembly plant, as well as the Lansing Craft Centre in Lansing, Michigan.

Meanwhile, it was announced that the opening of **DaimlerChrysler**'s highly automated Jeep assembly plant in Toledo, Ohio will lead to the loss of about 1,700 workers. The cuts are being made as Jeep ends production of the Cherokee this month and reduces the number of Wranglers it makes. The new plant makes the Jeep Liberty, a sport utility vehicle replacing the Cherokee.

Analysts are concerned that the continuous job cutting will undermine consumer confidence and spending, critical factors in maintaining the long economic expansion in the US. Last week the University of Michigan's closely-watched consumer sentiment index fell to 91.6 in its preliminary June reading from a final May reading of 92.0. While not as weak as the 88.4 recorded in April, May's figure was well below economists' forecasts of 91.9.

One of the results of the slowing economy and job losses has been the increase in the number of Americans who are behind on their mortgage payments. In one popular government-insured program to help people buy moderately priced homes, the percentage of homeowners whose loan payments are more than 30 days late exceeded 10 percent for the first time ever at the end of last year, according to a recent survey by the Mortgage Bankers Association of America. Even during the recessions of the early 1990s and early 1980s the rate did not exceed 8 percent.

Overall, about 400,000 more families were at least 30 days late on their mortgages in the early months of this year than at the beginning of 2000. Housing analysts say these figures suggest that many of the new homeowners, who were part of the surge in house-buying during the last decade, will not be able to afford their current mortgages in an economic downturn.