Slumping US economy spurs new round of international job-cutting

Jerry White
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Corporations in the US, Europe and Asia announced a wave of mass layoffs this week affecting tens of thousands of workers in telecommunications, computers, chemicals and other industries. The layoffs coincided with the release of several second quarter reports showing staggering corporate losses and a US government report showing that the American economy slowed to a meager 0.7 percent growth rate in the spring, the weakest performance in eight years.

The growth in US Gross Domestic Product in the April through June quarter followed an 1.3 percent increase in the first quarter and was the poorest showing in the US's yearlong economic slowdown, the Commerce Department reported. The slow growth was produced in large part from a 13.6 percent decline in capital spending by businesses, the sharpest reduction since the spring of 1982, when the country was mired in the worst recession since World War II.

These and other indicators confirm warnings that the US Federal Reserve Board's repeated interest rate cuts—the most rapid rate reduction on record—have failed to reverse the economic slowdown.

Average profits for large US companies listed on the Standard & Poor 500 are expected to drop by more than 17 percent in the second quarter, which would be the worst decline since the 1990-91 recession. Economists say that the current quarter, which ends September 30, does not look any brighter, suggesting that there will be further deep job cuts throughout the economy.

The Fed's rate cuts have also failed to this point to reduce the value of the dollar overseas, a measure which is crucial to boost exports by American manufacturers. With European and Asian markets slowing and investors fearful of the economic instability in Argentina, Turkey and other developing countries, the dollar has remained a safe haven even as the US economic growth has slowed to nearly a halt. The dollar has appreciated against other currencies, especially the euro, making it harder for American manufacturers to compete in export markets. It has also reducing profits earned abroad by US companies when they are converted back into dollars.

At the same time, any significant decline in the dollar—combined with the slumping US economy, falling stock prices and lower interest rates—may threaten to create a massive pullout by foreign creditors, with devastating consequences for the US and world economy.

The US slowdown has affected Europe and Asia far more quickly than expected. Allen Yurko, the head of UK-based **Invensys** computer consulting firm—which announced 2,500 job cuts Tuesday—said in previous recessions Europe would have followed the US downturn about a year later. This time, he said, "we are seeing Europe repeat the experience in the US in only three or four months." Yurko added that the world faced a "recession of relatively significant magnitude" in coming months.

According to *Forbes Magazine*, more than 50,000 job cuts were announced on July 26 alone, on what the magazine described as "Black Thursday." Among the biggest jobs cuts were those announced by the French telecommunications group **Alcatel**, which said it was laying off 14,000 workers—for a total of 20,000 for the year. **ABB**, a Swiss-Swedish engineering combine, and **Ericsson,** Swedish maker of mobile phones, both announced 12,000 job losses. **Fujitsu**, the Japanese chipmaker, said it was offering "early retirement" to 9,000 workers.

In North America, **Lucent Technologies**, the troubled telecom-equipment maker, announced it was shedding another 20,000 off its staff, and **JDS Uniphase**, the world's largest supplier of fiber-optic components, said it was cutting 16,000 jobs. Computer maker **Hewlett-Packard** warned of lower revenue and said it would let 6,000 workers go.

Lucent, the once highly profitable spin-off from AT&T, had already announced 24,500 job cuts. The company's $3.25 billion second quarter loss was part of a series of massive losses announced by telecom companies worldwide, which are in a slump due to declining business investment and a glut of the technology internationally. Equipment maker **Avaya**, which was spun off from Lucent last year, announced it would lay off 2,000 workers, in addition to the 3,000 job cuts previously reported.

On Thursday JDS Uniphase announced a $44.8 billion loss—the largest in business history—in large part because of a write-off on the overinflated value of companies it acquired during two years in which its stocks were booming. Other losses included: fiber optic maker Corning ($4.76 billion), Germany's Siemens ($1.4 billion), France's Alcatel ($2.75

billion) and Canada's Nortel Networks, which lived up to warnings and announced it lost $19.4 billion in the second quarter. In addition, three big US telecommunications companies—AT&T, BellSouth and WorldCom—all announced losses.

Announcing Hewlett Packard's job cuts Thursday, CEO Carly Fiorna said, "Economies around the world continue to weaken," adding, "I do not expect a second-half recovery in 2001." HP's job cuts come on top of 4,700 already announced this year, as well as the company's suggestion that employees take a "voluntary" wage cut of 10 percent or take unpaid vacations to avoid layoffs. The PC market in general has been hit by a sharp reduction in business spending, with **Compaq** Computers and Dell Computer also announcing thousands of layoffs earlier this year.

The nation's fourth-largest air carrier, **Northwest Airlines**, said it will cut 1,500 jobs, reduce its flight schedule and close some facilities to reduce its costs by $135 million this fiscal year. Northwest said the move was precipitated by continued cutbacks in business travel as a result of weakness in the US economy, as well as by persistently high fuel costs. After six consecutive years of profits the airline industry is poised to lose $1.4 billion this year, the largest amount since the Persian Gulf War and the recession of the early 1990s.

DuPont, the number one US chemical company, also announced this week that it would eliminate 1,500 more jobs due to a weak demand for chemicals and plastics used in everything from car manufacturing, to apparel, to construction projects. The increase will bring the number of job cuts announced since April to 5,500 employees and another 1,300 contract workers. The company posted a $213 million loss in the second quarter and warned that third-quarter earnings would be even worse, dropping as much as 70 percent from a year ago. The drop in demand, coupled with rising prices for crude oil and natural gas, has also hit Dupont's competitors, Dow Chemical and Germany's BASF AG and Bayer AG.

In his testimony before the Senate Banking Committee earlier this week Federal Reserve Board Chairman Alan Greenspan argued that interest rate cuts were having their desired effect and would take some time to work their way through the economy. Pointing to continued spending, particularly for housing and cars, Greenspan sought to reassure the Senators, saying, "the fabric of consumer confidence had not been breached."

Greenspan and others have continued to point to consumer spending as a potential engine for economic recovery. In fact, consumer spending rose by only 2 percent in the second quarter, far lower than the 7.6 percent increase during the boom days of early 2000. More importantly, however, many analysts are pointing to the fact that much of the consumer spending is being fueled by levels of debt that cannot possibly be sustained as unemployment rises. Moreover, the wages and benefits of American workers continue to stagnate, rising at a smaller than expected 0.9 percent in the second quarter.

The credit rating agency Standard & Poor said this week it expects consumer bankruptcies and credit card charge-offs—already at record levels—to rise in coming quarters, due mainly to growing joblessness.

"The economic slowdown is pushing highly leveraged consumers into default and bankruptcies," said S&P's chief economist David Wyss. "Although most Americans are in healthy financial shape, thanks in part to the stock market boom of the late 1990s, a significant number borrowed more than they could afford to pay back." Wyss said he expects personal bankruptcies to rise by 20 percent this year, compared to a small decline in 2000.

A short list of other layoffs announced this week gives a glimpse of the economic insecurity faced by millions of workers. These include:

American Express Co. said Wednesday it plans to cut another 4,000 to 5,000 jobs in a bid to cut costs amid a lingering economic slowdown and plans to take a big write-down on the value of its investment portfolio.

Data storage maker **Iomega Corp**., best known for its Zip storage drive, announced a second quarter loss and a restructuring that will eliminate up to 1,100 jobs, or one-third of its workforce.

Tractor-trailer manufacturer **Wabash National Corp**., which sells under the Wabash and Fruehauf brands, plans to close a plant in southeast Iowa, eliminating 250 jobs.

International Paper is closing a plant in Clinton, Iowa and eliminating about 335 jobs at the facility that makes packaging for the food service industry, including such customers as McDonald's and Taco Bell. The plant closing would bring International Paper's job cuts this year to nearly 4,000. Earlier this month the company announced it would cut production at two of its paper mills in Savannah, Georgia and Corinth, New York, resulting in 655 layoffs. That came a month after 3,000 layoffs of salaried employees.