US manufacturing slump continues: 49,000 factory jobs slashed in July

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US corporations slashed payrolls by 42,000 workers in July, according a report released Friday by the Bureau of Labor Statistics. Although the official unemployment rate remained at 4.5 percent, manufacturing employment continued its year-long decline, while most other industrial sectors had little or no job growth. The employment report is the latest indication that the economic downturn in the US is continuing unabated despite repeated interest rate cuts by the Federal Reserve Board.

Manufacturing employment fell by 49,000 in July, led by declines in electrical equipment (24,000) and industrial machinery (21,000). These two industries, which produce high-tech products such as computers and communications equipment, have been hard hit by the sharp reduction in capital spending by US businesses and account for 40 percent of the 632,000 manufacturing jobs lost thus far this year, according to the labor statistics report.

The service industry cut 23,000 positions last month, but saw a slight overall increase because of a nominal growth in government and retail jobs. The job market in the service sector—which has long outstripped manufacturing in job growth—has been stagnant over the last five months. In July, employment in temporary agencies and other “help supply” services declined for the tenth month in a row—for a total job loss of 429,000 over the period—reflecting falling demand for workers by manufacturers and other employers.

This week saw the continued destruction of thousands of jobs by US employers, including telecommunications and other high-tech companies, accounting firms and manufacturers. Economists fear the almost daily announcements of mass layoffs will lead to a further weakening of consumer spending, which could throw the economy into a full-scale recession. The closely watched Conference Board’s consumer confidence index fell to 116.5 in July from 118.9 in June, dropping far more sharply than economists predicted. Auto sales in the US, which had remained strong in the first half of the year, fell 6 percent in July.

Several other economic indices are dashing economists’ hopes that a turnaround would occur in the second half of the year. The National Association of Purchasing Management reported that its index of manufacturing activity fell to 43.6 last month, from 44.7 in June. The figure, a composite of production, orders, jobs and prices from NAPM’s monthly survey of purchasing managers, substantiates that the US manufacturing sector remains mired in a nearly yearlong recession. A reading below 50 indicates contraction and the 12-month stretch below that level is the longest since the last recession of 1990-91.

New orders for goods produced at US factories fell in June, according to another report issued Thursday by the US Commerce Department. The larger than expected decline of 2.4 percent reflected falling orders for virtually all industries. Transportation goods—motor vehicles, parts and trailers—led the way with a 3.8 percent falloff, but orders also declined for computers, electronic products and machinery.

Both reports suggests that US manufacturers, which account for 15 percent of the broader economy, continue to be crippled by the strong dollar—which makes US exports more expensive—and the simultaneous slowdown in Europe and Asia.

The impact of the US economic slowdown on Asia is expected to deepen in the second half of the year, due to weaker demand for Asian exports, particularly electronics. Singapore officially slipped into a recession in the second quarter and other regional economies,

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such as Taiwan, have reported a collapse in export volumes. This week the Japanese electronics giant NEC announced 4,000 layoffs at its computer chip division and Daiwa bank slashed 3,000 jobs, or one fourth of its workforce.

The US downturn has also hit European manufacturers, where a report by eurozone purchasing agents earlier this week showed factory activity shrinking in July for the fourth consecutive month.

The last several weeks have also seen announcements of catastrophic second quarter losses for US companies and predictions of further losses in the third quarter, which ended July 31. Net income at the nation's largest companies, listed on the Dow Jones Global Market Index, fell by 67 percent in the second quarter in the worst showing in more than a decade. Telecommunications companies posted the largest losses—$41.6 billion—in a sharp turnaround from the industry's $9.4 billion in profit recorded in the second quarter of 2000. Verizon Communications joined the list of $1 billion-plus losers this week. Other industries saw sharp declines as well, including the commodity-chemical sector, where profits fell by 94 percent, and advertising, which saw earnings plummet 79 percent.

An August 2 article in the *Wall Street Journal* noted that the US slowdown was being driven by falling profits, revealing deep problems in the economy that would prohibit a quick recovery. "This time, corporate profits are leading, not following the economy down. Economists attribute this to the investment-spending boom of the late 1990s, which created massive overcapacity, and the tight labor markets that preceded the slowdown. Capacity utilization in the technology sector has fallen to 67.5% in June, compared with 90% a year earlier," the paper said, in the steepest drop since 1982.

The *Journal* concluded that an "investment rebound is several quarters away, even if demand for the products picks up sooner, because large amounts of capacity remain to be absorbed. Companies will lack pricing power when demand returns, because of excess capacity."

The list of major layoffs announced this week include:

* **ADC Telecommunications,** which lowered its sales forecast for the third quarter and announced plans to cut an additional 2,500 jobs and close a number of facilities. The job cuts are in addition to the 7,000 positions eliminated since last November by the company, which is based in Minnetonka, Minnesota.

* Industrial products and technical systems maker **SPX Corporation** announced plans to eliminate 2,000 jobs, or 7 percent of its workforce, and close 49 manufacturing, sales and administrative facilities within the next year.

* **PricewaterhouseCoopers**, one of the world's largest accounting and consulting firms, announced that it would lay off 800 workers, mostly in the US, in addition to the 1,000 employees it said it would cut earlier this year.

* **Chicken of the Sea International** will shut its 45-year-old fish cannery on Terminal Island in Los Angeles Harbor and cut 250 jobs. The cannery is the last on the island, once a world fishery center with 16 canneries that processed tuna, salmon, herring and other fish. Four months ago, Heinz Pet Food closed its 52-year-old Terminal Island cannery and laid off 325 employees.

* The **Timken Co.,** a bearings maker with operations in 24 countries, plans to cut another 300 jobs, about 15 percent of its workforce, in addition to 1,500 layoffs announced earlier. Timken said Wednesday it would cut the jobs in North America and western Europe, most of them by December, because of the slowing economy.

In addition, Montreal-based **Air Canada** announced 4,000 layoffs due to slack business and stiff fare competition.

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