US job cuts approach 1 million in 2001

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US companies last month announced plans to cut 205,975 jobs, the largest single month total in nearly a decade, according to a survey released last week by the job outplacement firm Challenger, Gray & Christmas. July's job cuts pushed the 2001 total to just 17,000 short of 1 million layoffs. By comparison in 1990-91, the last time the US was hit by a recession, the largest number of jobs lost in a single year was 555,000.

The destruction of jobs hit the manufacturing and technology sector hardest as US businesses—which had expanded rapidly in the 1990s—sharply reduced capital spending, particularly for computers and telecommunications equipment. The latest round of job cutting coincided with a series of reports of huge profit losses by Cisco Systems, Lucent Technologies and other high-tech companies, as well as lower than expected earnings warnings by corporations across virtually every sector of the slowing US economy.

Some analysts had pointed to the fact that the official unemployment rate remained at 4.5 percent in July as a sign that the economy was stabilizing. However, last month's rate reflected several seasonal factors, in addition to the narrow scope of the survey on which the jobless figures are based. According to Challenger, job cuts in July were actually 65 percent higher than the previous month and 222 percent more than in July 2000.

The increase indicates that US companies are not counting on a rebound in the second half of the year despite repeated rate cuts by the Federal Reserve Board, which is expected to reduce interest rates again when it meets later this month. "If companies were anticipating a 2001 turnaround, with an increase in demand for goods and services, we would not be witnessing the extraordinary number of job cuts that are taking place this year," said the firm's CEO, John A. Challenger.

US manufacturing companies—also being hit by the strong dollar, which makes exports more expensive—continue to be mired in a yearlong slump. Since April 1998, the portion of American jobs in manufacturing has fallen to 13 percent from 15 percent, according to Jared Bernstein, an economist at the Economic Policy Institute in Washington. It is "an extraordinary shift over a relatively short time," he said.

Telecommunications, computer and electronics makers have eliminated 358,375 workers since the beginning of the year. The next two industries hardest hit by job cuts are automotive and industrial goods, where 171,685 employees have been axed.

The weakness in the manufacturing sector—which in addition to the layoffs has also led to reduced work hours and lost overtime—is now moving to other areas of the economy, according to the Federal Reserve Board's summary of regional economic conditions released last week. The report, also known as the Beige Book and compiled from anecdotal evidence from the Fed's 12 district banks, said many regions reported a drop in demand for office space and trucking and shipping services. In addition, the report said the slowdown has also spread to retail sales, one important component of demand that had held up during the yearlong economic slowdown.

Rising vacancies of commercial real estate have put a halt to new construction activity in many regions, according to the report, and tourism and the demand for business services, such as advertising, computing and data processing, continue to decline.

The shakeout in the dot.com and telecommunications sector is taking a tremendous human toll, with tens of thousands of workers losing their jobs or being forced to take huge pay cuts. In addition, businesses that rely on these industries are suffering from the ripple effect.

One area hard hit is the northern suburbs of Dallas, Texas, known as the Telecom Corridor. The unemployment rate in the area, which includes the cities of Richardson and Plano, has jumped by 50 percent in the last six months, with more than 10,000 workers losing their jobs at companies like Nortel, Alcatel and Ericsson. Workers have also seen a huge fall in the value of the stocks they were compensated with, including 401(K) retirement plans. Vacancy rates in the two cities have more than doubled in the last year, with tenants vacating about 580,000 feet of office space, the rough equivalent of a 30-story building.

Reports about Silicon Valley refer to the "brutal summer of 2001," with huge layoffs not only at failing dot.com start-ups, but at companies previously considered relatively safe from layoffs, such as Hewlett Packard. Since the NASDAQ hit its all-time high on March 10, 2000, the stock wealth of the 100 biggest technology companies in northern California has dropped by a staggering $2 trillion.

In the Silicon Valley and San Francisco, home to most of the dot.com businesses that have gone bust, the number of unemployed people has gone from 29,400 last December to 85,600 in July. The area's unemployment rate is now higher than the national figure. In the South of the Market neighborhood of San Francisco commercial vacancies have risen to 20 percent from a record low of 0.6 percent only 18 months ago.

Downtown San Jose restaurants that used to serve $34.50 porterhouse steaks and $150 bottles of wine to customers paying with their stock-option bonuses have seen a huge decline in business, as laid-off dot.comers take pay cuts of $30,000 or more to find new employment. A recent article in the *Seattle Times* noted the rise in homelessness and threatened suicides in Santa

Clara County, the center of the Silicon Valley. “Top consultants and contractors once named their salaries in the valley,” the article said. “Now even those who qualify for unemployment benefits soon discover the $40 to $230 weekly check will not cover an apartment here, where rents average about $1,800 a month.”

Nearly 30 unemployed tech workers are among the 100 men at the Montgomery Street Inn and other homeless shelters in San Jose, run by InnVision. Robbie Reinhart, director of the organization, commented, “They’re not what we used to call hobos on the street. Most have college degrees.”

The slowdown of the US economy is occurring simultaneously with a downturn in Europe, Asia and Latin America. As the global economy slows multinational corporations seeking to slash payrolls are exploiting the fact that US labor laws and the acquiescence of the American trade unions make it easier and cheaper to cut jobs in the US than in Europe and Japan. A recent *Washington Post* article noted that French telecom giant Alcatel, German chemical company BASF AG and US-based Delphi Automotive Systems and Lucent Technologies were firing a disproportionate number of American workers and closing more plants in the US than elsewhere.

One major reason is the use of temporary and contract workers, which make up a large portion of corporate America’s much hailed “flexible labor force.” Companies can dispense with such workers with little or no severance packages or other benefits viewed as obstacles to US competitiveness. A soon to be released survey of 3,000 companies conducted by the US Census Bureau found that on a typical day these companies—which represent a cross-section of the US economy—used temps and contract workers to meet 12 percent of their manpower needs. On peak days, their use reached 20 percent.

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—as manufacturers and other employers face falling demand for their products and shed employees.

Jerry Jasinowski, president of the National Association of Manufacturers, told the *Post*, “Although CEO’s claim to make global reductions even-handedly, in fact they move much more gingerly in those countries where there are tighter restrictions because they know they’re going to end up with a bigger headache. You get all this kickback in Europe. Here, in the US, there’s more acceptance to the idea of economic change.”

At the same time, despite certain impediments, multinational employers are also carrying out mass layoffs in Germany, France and other European countries. Last week US companies announced the elimination of hundreds of jobs in Europe, including at **Gateway Computer**, which is shutting down its Irish and British headquarters, eliminating at least 850 jobs, and **Lucent Technologies**, which is firing 550 workers in France.

Other layoffs announced last week include:

Bayer AG announced it is slashing 1,800 jobs and shuttering 15 plants in the US and Europe in an effort to recover from the recall of a lucrative anti-cholesterol drug linked to deaths in the US. The German-based company said second-quarter profits had fallen by 45 percent and also warned of lower than expected profits for the year.

Exide Technologies, a leading maker of automotive batteries, said it would cut 1,300 jobs and that second-quarter earnings would be lower than expected because of falling orders from telecommunications customers. The Princeton, New Jersey-based company had already cut 1,800 jobs as of March and closed four factories.

United States Automobile Association, a mutual insurance and financial services company, plans to cut 1,370 jobs, mostly at its San Antonio, Texas headquarters.

High-speed Internet access company **Rhythms NetConnections Inc**. said it will end service in a month and fire 700 employees, or 75 percent of its workforce.

Gap Inc., the No. 1 US apparel chain, said it planned to eliminate an additional 790 jobs as part of its efforts cut costs and shore up profits. The announcement follows San Francisco-based Gap’s news release stating that it already eliminated 1,300 corporate jobs in the month of July, cutting its workforce by 10 percent.

Spartanburg, South Carolina-based **Mayfair Mills Inc**. laid off about half of its 825 employees, as the company seeks financing to prevent bankruptcy. Remaining workers will take leaves of absence in the coming weeks. In March, the company closed three other plants in South Carolina and Georgia, eliminating 425 jobs. Mayfair’s layoffs come amid a downturn in the textile industry, with 15 plants announcing layoffs in South Carolina this year alone.

Safety rating company **Underwriters Laboratories Inc.** is cutting 375 jobs in a move the company said would make it more cost-effective. UL said 110 of the job cuts were at its headquarters in Northbrook, while the remainder were outside of Illinois

Chicago-based **Focal Communications Corp**., which provides local telephone and Internet access services to businesses, on Wednesday posted a wider second-quarter loss on a 35 percent increase in revenues, and made plans to cut 175 jobs, or 13 percent of its workforce.

Dallas-based **Wyndham International Inc**. has laid off 850 headquarters staff and hotel managers this year, or about 3 percent of its workforce, to deal with a downturn in business travel caused by the slow economy.

Huntsman Corp. says 700 employees will be offered early retirement in a bid to cut costs at the Salt Lake City, Utah-based chemical company.

DaimlerChrysler’s Freightliner unit is eliminating 123 jobs at its Gastonia, North Carolina truck parts factory because of slow sales. In addition, the US Chrysler unit said it will reduce manufacturing costs by $1 billion this year, double its original estimate, by reducing payments to suppliers and lowering labor costs.