

# Mounting layoffs fuel drop in US consumer confidence

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The US Commerce Department reported Friday that consumer spending remained virtually flat in July, rising by only 0.1 percent. Consumer spending accounts for two-thirds of Gross Domestic Product (GDP)—the nation's output of growth and services—and relatively stable spending by consumers until recently has been held up by economists as evidence that the economy is not tumbling into a full-blown recession.

But in a particularly telling sign that economic downturn is deepening, the government reported on Wednesday that GDP grew at the minute annual rate of 0.2 percent in the second quarter of 2001, the slowest rate of growth since 1993. While economists breathed a nervous sigh of relief that the report hadn't shown an actual decline in output, other indicators show the economy continuing to slide.

A major index of US consumer confidence fell in July to its lowest level in four months, influenced by steady announcements of corporate jobs cuts. The Conference Board's consumer confidence index dropped to 114.3 from 116.3 in July, its lowest level since April, when it stood at 109.9. The research firm also reported that those saying jobs were hard to get rose to 15.9 percent from 14.1 percent in the July index, the highest since January 1998.

Lynn Franco, the Conference Board's director of consumer research, commented, "The deteriorating US job market dampened consumer spirits this month. This suggests rising unemployment ahead. The nation's employment and unemployment numbers now bear watching, since continued weakness in the job market could translate into slower consumer spending."

In another sign of lagging consumer confidence, the University of Michigan's August consumer sentiment index dipped to 91.5 from 92.4 in July. Stephen Stanley, senior economist at Greenwich Capital

Markets, said, "These results suggest that despite Fed rate cuts, tax rebate checks, and lower gasoline prices, consumer moods are eroding rather than improving."

Retailers are also expecting lower consumer spending in the upcoming holiday period. Fourth-quarter consumer spending is critical for retailers, many of whom count on it for more than 50 percent of annual earnings. Mark Larson, partner-in-charge of the retail consulting firm KPMG, commented on holiday spending projections, "I think things are looking more grim. The biggest factor has been the layoffs. We have a lot of people out of work, which has depressed consumer confidence and clearly tends to depress discretionary spending."

The nation's unemployment rate, often slower to reflect trends in the economy, remained at 4.5 percent in July, but some economists speculate the jobless rate could rise to as high as 5.4 percent by the first quarter of 2002. Job cuts continue to hit all sectors of the economy—from high-tech companies, to the financial sector, to manufacturing. In the industrial state of Michigan, unemployment rates have increase in 11 of 12 of the state's labor markets since July 2000. The jobless rate in the Flint area, once a booming auto manufacturing center, stood at 8 percent in July, the highest in the state.

Wednesday's Commerce Department report showed that corporate profits fell \$28.5 billion in the second quarter. This follows a first quarter drop in profits of \$57.8 billion. Corporate investment was also down sharply, falling 14.6 percent, the biggest decline since 1980. Factory orders for July also rose at the anemic rate of 0.1 percent, following a 2.9 percent drop in June. Orders for computers and electronic products continued to fall, down 4.5 percent.

More than 400,000 corporate jobs cuts have been

announced this spring and summer in the US, and more companies reported plans this week to downsize operations and trim their workforces. Computer manufacturer **Gateway** said Tuesday it would eliminate about 5,000 jobs, or 25 percent of its workers, and eliminate most of its foreign operations. The company said it will close its Salt Lake City factory and four of its nine domestic telephone support centers.

South Dakota-based Gateway has been hit by weak consumer demand for personal computers. The computer-maker cut 3,000 jobs last January, but has been unable to halt a sharp decline in profits. The company lost \$20.8 million in the second quarter, compared to a profit of \$118 million in the second quarter of 2000.

**Honeywell International Inc.** will lay off about 690 workers by October 31, on top of 850 layoffs already announced in April. The company cited a significant downturn in the circuit board industry. Minnesota-based Honeywell says it plans to close Advanced Circuit plants in Hopkins and Minnetonka and conduct a "mass layoff" at its Roseville operations.

Military contractor **Northrop-Grumman** said August 27 it will eliminate 500 jobs in Southern California, closing three plants and consolidating most of its Navigation Systems division operations in Woodland Hills, California. The division makes components for airborne radar, navigation and air traffic control systems, and includes most of the advanced electronics businesses Northrop acquired when it bought Litton Industries in April.

The Japan-based **Kyocera Corp.** group announced Thursday it will cut about 10,000 jobs from its global workforce of 51,000, mainly affecting workers at the company's US subsidiaries. Kyocera Wireless took over the business of mobile terminals from US firm Qualcomm, Inc. The Kyoto-based company cited the US economic slowdown, waning production in the electronics industry and a slow demand for cell phones and optical communications equipment.

Telecommunications equipment manufacturer **Spirent PLC** said Thursday it plans to eliminate 500 jobs, or 6.4 percent of its workforce, most of them in North America. The job cuts are part of cost-cutting measures to counteract the downturn in the global telecommunications industry. Spirent's customers include Cisco Systems, Lucent Technologies and

Nortel Networks.

In the financial sector, **Charles Schwab Corp.**, the leading online brokerage firm, announced August 30 it was cutting up to 2,400 jobs in an effort to reverse a frenzied expansion of its operations implemented a year ago. The latest jobs cuts follow a recent elimination of 3,400 workers' positions. When the latest job reductions are finished, Schwab will have approximately 20,000 employees, about 25 percent less than at the beginning of the year. Schwab also plans to unplug many of the computer servers purchased last year to handle a boom in online trading, which has fallen off by about 50 percent since January.

In manufacturing, **Georgia-Pacific Corp.** will lay off about 250 workers at its Camas, Washington paper mill, closing down four white-paper machines at the facility. The Atlanta-based paper manufacturer said it wants to focus on the office-paper market.

The **Otis Elevator** unit of United Technologies Corporation will cut up to 580 jobs at plants in Indiana and Mexico, as it consolidates production of high-rise elevators and trims costs. **Delta and Pine Land Co.**, the leading US cottonseed producer, will close a plant in Arizona and lay off 50 workers.

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