US jobless total leaps by half a million to highest in four years

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In a report which startled economists and sent shock waves through official Washington and Wall Street, the US Bureau of Labor Statistics reported Friday that the unemployment rate soared to 4.9 percent in August, the highest rate since September 1997. The jobless total rose by half a million in the course of one month, and employment fell by nearly one million jobs—more than 30,000 jobs disappearing every single day.

The decline in payroll jobs in August was more than three times the consensus among economists in a survey conducted last week by Reuters news agency, indicating that the slowdown is much more serious than either the media or corporate America has yet acknowledged.

The increase in unemployment was large-scale and across the board, with sizeable jumps in the number of long-term unemployed (those jobless 15 weeks and longer) and the number of newly unemployed (those jobless less than 5 weeks). The number of workers who have given up looking for work also rose, to 335,000 in August. There was a disproportionate rise in unemployment among young workers, those aged 16 to 24.

While the overall jobless total is still lower than during the most recent recessions, an examination of the details and trends, particularly in manufacturing, gives a picture of an economic slide that is gathering force and has no end in sight.

Manufacturing employment fell 141,000 in August, bringing the total number of industrial jobs eliminated since July 2000 to more than one million. It is as though a couple of large industrial states—Michigan and Indiana combined, for instance—had been wiped off the map. The unemployment rate for industrial workers has nearly doubled over the past year, rising from 3.5 to 5.7 percent.

The most basic manufacturing industries were the most severely affected in August, with industrial machinery makers cutting 25,000 jobs and electrical equipment makers slashing 19,000. This reflects the particular character of the current slowdown, which is driven by the collapse of business investment, rather than a decline in consumer spending. Telecommunications and computer makers were the first to suffer, but now heavy equipment manufacturing is feeling the impact. Another 24,000 jobs were cut in transportation and utilities.

Widespread layoffs and the turmoil in the financial markets have now begun to hit consumer spending, and this was reflected in declines in two other manufacturing sectors: clothing, down 20,000 jobs, and furniture, down 10,000. Even the construction industry—which boomed in 2000, adding 221,000 jobs—is stagnating, with employment essentially unchanged since March.

Service employment rose by 72,000 in August, due to unusually strong increases in health care (32,000) and social services (33,000). Computer services employment decline by 5,000, the first monthly decline in more than 13 years. Since March, service employment overall has risen by an average of only 10,000 per month, compared to 93,000 a month in 2000 and 131,000 a month in 1999.

The jobless figures sent the US stock market tumbling as soon as it opened. The Dow Jones Industrial Average fell more than 130 points in the first 15 minutes of trading, and ended up down more than 230 points for the day. The two-day loss was over 400 points, and the Dow is now significantly below the 10,000 mark, which had been the floor under blue chip stocks for most of this year.

David Wyss, chief economist at Standard and Poor's, told the BBC World Business Report, "We thought it was going to be bad, it was worse." He added, "The continued weakness in manufacturing is our basic problem ... the manufacturing sector is in a dreadful slump, it shows no sign of coming out of it."

For a number of years Wall Street has greeted reports of rising unemployment and mass layoffs as good news, foreshadowing lower labor costs for corporate America and an easy money policy at the Federal Reserve Board. But there are fears that the current job slashing will lead to a collapse in consumer spending, the only positive factor in the current economic picture.

The stress on consumers is reflected in the record-breaking increase in the number of personal bankruptcies, up 24.5 percent this year over the same period in 2000. Bankruptcy filings in 2001 are expected to surpass the previous record year of 1998. Business bankruptcies are also up sharply, 8.76 percent higher in the first six months of the year, while defaults on corporate bonds are at their highest level in a decade.

It was the instability on Wall Street, rather than the plight of the newly jobless, which finally prodded the Bush administration into commenting on the unemployment figures. The usual official bromides were issued to reassure the market. Glenn Hubbard, chairman of the Council of Economic Advisers, declared, "It was certainly not a good news report, but it doesn't really alter the view that the economy is near a turning point. We're still looking for improvement in the economy by the end of this year, by the fourth quarter of this year into 2002."

After repeated press inquiries Bush himself addressed the issue

of rising unemployment, attempting to cast the blame on his predecessor Clinton: “The unemployment numbers today are evidence that I’ve seen first-hand as I travel the country, and that is too many people are losing their jobs as a result of a slowdown that began when Dick [Cheney] and I were campaigning across our country last summer.”

But White House officials emphasized that there were no special measures to be taken to combat unemployment or to alleviate the plight of those laid off. The administration is vigorously supporting bankruptcy legislation that will make it much harder for debt-strapped consumers to escape the crushing burden of credit card payments and other financial obligations. Bush merely reiterated, as he has throughout his eight months in office, that the latest gyration in the markets was another argument for more and bigger tax cuts for the wealthy, in the name of encouraging economic growth.

Further and bigger job cuts are on the way. The *Wall Street Journal* reported Thursday that Ford Motor Company would merge its North American car and truck engineering groups in a move to cut costs, as well as intensify a review of assembly plants in the US and Canada, with a view to closing as many as three of them. Ford CEO Jacques Nasser said in a press interview last week that plant closings were under consideration because of overcapacity and increased competition with Asian and European carmakers.

United Auto Workers union officials told the *Journal* that the plants being considered for the ax include the minivan plant in Avon Lake, Ohio; a van plant in Lorain, Ohio; two plants making small pickup trucks, in St. Paul, Minnesota and Edison, New Jersey; and a truck assembly plant in Oakville, Ontario.

The proposed merger of computer makers Hewlett-Packard and Compaq, announced Tuesday, is expected to lead to the elimination of at least 15,000 jobs at the combined companies, which have extensive operations in Europe and Asia as well as North America. The two companies said the merger would result in annual savings of $2.5 billion, and would involve cutting up to 10 percent of their combined workforces. A London-based industry analyst said, “If you’re talking about $2.5 billion in cost-saving synergies, how do you do it? You do it by sacking people.”

There were other major job cut announcements over the past week:

Motorola Inc. said its third-quarter sales will be weaker and its losses bigger than expected. The Schaumburg, Illinois-based telecommunications company said it will eliminate an additional 2,000 jobs in its wireless telecommunications business. Including those cuts, Motorola has announced the elimination of 32,000 jobs by the end of the year, out of an original workforce of 147,000. The company cited slumping demand for its telecommunications equipment.

Aerospace and auto products maker **TRW Inc**. said September 6 it plans to trim operations to cut costs and will reduce its headquarters staff by 20 percent, or 180 jobs. It will also consolidate its three automotive businesses into two entities, to save $10 million annually.

Internet consultant **Zefer Corp**. has shut down its Boston operations, firing about 300 remaining employees and selling some of its assets to Japanese computer giant NEC Corp. About 180 of the employees have been offered positions with NEC.

The Wilmington, Delaware-based chemical company **Hercules Inc**. announced September 5 it will eliminate about 300 jobs, or 3 percent of its non-European workforce, as part of plans to cut costs.

Mead Corp. announced September 4 it will close its school and office products plant in Atlanta, resulting in the loss of 215 jobs. The company will close the plant November 5 and transfer its production and distribution equipment to plants in Pennsylvania, Missouri and California.

American International Group Inc. said September 5 it would cut 1,500 jobs, or about 2 percent of its 85,000 global workforce, over the next 12 to 18 months. The cuts come as AIG integrates life insurer American General Corp. The firm said most of the layoffs will come from several AIG and American General locations, as well as some jobs shed by attrition.

Two months after telling investors there would be no top-level management changes, British telephone equipment maker **Marconi** announced last week it would eliminate 2,000 more jobs, half of them in the United States. It also reported an operating loss of $329 million in the quarter ended June 30. Two other British firms announced major cutbacks: 1,800 jobs are to go at British Airways, a total of 5,000 over three years; and 1,000 jobs are being cut at Celestica

DaimlerChrysler AG said on Tuesday it was closing a 190-worker plant in the southern Brazilian state of Parana. The plant was constructed under a government subsidy program. The decision to suspend production at the Campo Largo plant was made in January as part of DaimlerChrysler’s global restructuring plan, including 26,000 job cuts worldwide.

Daewoo Motor, the US division of the bankrupt South Korean carmaker, has laid off 70 to 75 workers, or about a third of the US workforce. General Motors is negotiating the possible purchase of Daewoo.