Analysts warn of "double dip" recession

Signs of sharp downturn in US economy

Jerry Isaacs
10 August 2002

A series of dismal economic reports and new job-cutting announcements by US corporations have led to warnings that the American economy is heading back into recession. They also provide further evidence that the much- vaunted economic recovery in the US has never materialized.

Last week the Labor Department reported that the economy added just 6,000 jobs in July, far less than the 66,000 new jobs expected by Wall Street economists. While the official unemployment rate held steady at 5.9 percent, thousands of workers last month continued to lose their jobs in manufacturing, construction, telecommunications and the public sector.

The government reported that 8.3 million workers were jobless in the US, with another 4.2 million compelled to work part time because of the lack of full-time jobs. Factory employees worked fewer hours with less overtime last month, according to the Labor Department report, suggesting a further slowdown in manufacturing activity. In addition, hourly earnings rose by only 0.3 percent in July.

Recent reports also showed a 2.4 percent drop in factory orders, a sluggish increase in manufacturing activity and a decline in construction spending for private and public projects.

Outplacement firm Challenger, Gray & Christmas reported that companies announced 80,966 job cuts in July. Though this was 15 percent fewer than the previous month, the “economy seems to be in a no-growth state,” said the company’s CEO John Challenger. “Combined with the fact that wages are at a virtual standstill, the economy is in a dangerous state, one that is ripe for a significant slowdown in consumer spending and at high risk of dipping back into recession,” he said.

Faced with falling earnings, glutted markets and the fallout from the wave of corporate scandals, companies have been reluctant to rehire workers and increase capital spending. Moreover there are signs that consumers—confronted with fear of losing their jobs, mounting indebtedness and the disappearance of savings and retirement benefits tied up in the stock market—are reducing spending, which makes up two-thirds of the US economy. Recent reports, including a lackluster 2 percent increase in retail sales and a fall in consumer confidence, point in that direction.

The efforts by the Federal Reserve to spark consumer spending by keeping short-term interest rates at 40-year lows have proven ineffectual. Discussing the possibility of a rate reduction at next Tuesday’s meeting of the Fed, one analyst commented, “They can do it, and it would have a little psychological impact, but lower rates aren’t the problem. The people who can afford to borrow don’t want to borrow. The people who want to borrow can’t get approved.”

The fall on the stock market—which has wiped out an estimated $7 trillion—has further undermined any economic turnaround. “Despite powerful forces of recovery—easy monetary and fiscal policy and a major inventory upswing—weak financial markets are now damaging the economic recovery,” said Lehman Brothers economist Ethan Harris. “The 20 percent or so drop in the stock market since mid-May,” he said, “stands to slice about 1.5 percentage points off second-half economic growth.”

The Commerce Department’s report on the nation’s gross domestic product (GDP) showed the economy grew at an annual rate of only 1.1 percent in the second quarter, down from 5 percent in the first three months of 2002. In addition, the data included revisions to 2001 that showed the economy contracted last year for three straight quarters, instead of the previously reported one quarter.

The revised data show GDP shrank at annual rates of 0.6 percent in the first three months of last year, 1.6 percent in the second quarter and 0.3 percent in the third quarter. The previously reported figures showed a decline in the third quarter only, and were the basis for Bush administration officials to deny the country was in a recession at all. “It seems quite clear now that our economy maybe never suffered a recession,” Treasury Secretary Paul O’Neill said in March, a view backed by many business spokesmen. “We almost have to look back and call this a recession-ette, rather than a recession,” economist Diane Swonk of Bank One Corp. said earlier this year.

The latest figures indicate that the economic downturn was far deeper, involving contradictions within the economy that could not be papered over with incentives for consumers or the Bush administration’s boom in military spending.

Morgan Stanley chief economist Stephen Roach has put the odds of a double-dip recession at two-thirds. Roach says the business-investment slump is only one aspect of the 1990s speculative boom that has now imploded. “We went through the biggest financial bubble in modern history,” Roach said. “It distorted both business and consumer decision-making.”

The Commerce Department also revised down its estimate of wages and salaries by a staggering $147.6 billion for 2001 and $900 million for 2000. In addition, the government revised down its measure of corporate profits—profits from current production—by $35.5 billion for 2001 and $88.3 billion for 2000. Last week energy giant Exxon Mobil announced a 41 percent drop in second-quarter profits in the latest sign that a rebound in second quarter profits is not being realized.

Meanwhile US corporations continue to shift the burden of the economic crisis to the working class by slashing tens of thousands of jobs. Telecommunications companies continued to eliminate the most positions in July—bringing the total to 186,036 job cuts in 2002 or 23 percent of all job cuts. In addition, 1,750 cuts were announced by Internet companies in July, a 156 percent increase from June.

Lucent Technologies announced plans to cut 7,000 jobs by the end of the year and eliminate another 1,000 jobs through attrition. **Avaya,** the nation’s biggest maker of office telephone equipment, announced it would cut 2,500 jobs. The company, based in New Jersey, has cut 7,200 positions since last June because of reduced capital spending on phone equipment.

Michigan-based mobile home manufacturer **Champion Enterprises** announced plans to eliminate 1,500 workers and close seven plants and 64 dealerships. The company has been plagued by a glutted market of mobile homes, produced by a nearly 50 percent decline in the sale of new homes since 1997 and a tripling of the number of homes repossessed because of nonpayment by their owners.

In an effort to avoid bankruptcy Cablevision Systems, the biggest cable television company in New York City, announced it is eliminating 1,500 jobs. The company, which has seen the value of its stock decline from $55 a share last year to $6.60 now, also said it would close 26 of its 43 Wiz consumer electronic stores and try to sell off its Clearview Cinema chain of movie theaters.

Because of the continuing stock slump **Charles Schwab**, the nation’s largest discount brokerage firm, is reportedly planning to eliminate 1,000 or more jobs. The San Francisco-based company already reduced its workforce by 27 percent, or 7,200 jobs, since it peaked at 26,300 employees at the end of 2000. In addition, investment banker **Morgan Stanley** announced it was cutting 150 jobs.

Credit card issuer **Providian Financial** will close three offices and cut 1,300 jobs. The company, which has been hit by big losses because of consumer defaults, has cut its workforce by nearly half since last October.

Other recent layoff announcements over the last two weeks include: papermaker **MeadWestvaco** (550 jobs); **Weyerhauser** lumber and paper (142 jobs); **Caterpillar** (200 jobs); **Flextronics** (527 jobs); energy trader **Williams** (100 jobs); and **Alcoa** (377).