Amid growing signs of new recession

US job cuts continue to mount

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The official US unemployment rate increased slightly to 5.7 percent in October (from 5.6 percent the month before) as businesses continued to carry out substantial layoffs, resulting in a net loss of 5,000 jobs. More than 8 million people are currently registered as unemployed, while another 4.3 million work part-time although they would prefer full-time employment.

The manufacturing sector continued to decline, for the twenty-seventh month in a row, shedding 49,000 jobs in September. Sal Guateri, a Chicago-based economist at the Bank of Montreal told the *Agence France-Presse*, “The manufacturing sector is back in the dumps.” A second indicator, the Institute for Supply Management purchasing index also fell in October, revealing that manufacturers cut back activity last month. Joel Naroff of Naroff Economic Advisers commented, “This is a relatively slow and jobless recovery.”

According to the October 16 *Wall Street Journal*, 41.7 percent of US manufacturing companies were operating at less than 75 percent capacity in September, “many more than were three months earlier.” Production is already down 30 percent from “pre-recession peaks” in aerospace and gas and oil drilling. Production is down 20 to 29 percent in communications equipment, metalworking machinery and general industrial machinery. Construction of industrial buildings is down more than 40 percent this year from 2001, “which was itself depressed.”

While gross domestic product (GDP) grew by 3.1 percent in the third quarter (a smaller increase than predicted), the character of the growth and the generally gloomy economic picture led analysts to predict the GDP gain might slow to 1 or 2 percent in the fourth quarter. Much of the increase was based on consumer spending, particularly for automobiles, with the car manufacturers offering a variety of incentives, and occurred primarily in the first two months of the quarter. Despite “fire-sale discounts” and free loans, auto sales weakened in October for the second straight month.

“Consumer spending hit a brick wall in September,” Ethan S. Harris, a chief economist at Lehman Brothers, told the *New York Times*. “If you took the first two months of the quarter, they’re probably consistent with something like 4.5 percent growth. If you take the last month of the quarter, it’s more like zero.”

Consumer confidence plunged to a nine-year low in October, driven down by fears of war, general economic insecurity and the state of the stock market. The Conference Board index fell for the fifth consecutive month, by an unexpected 18 percent from September. Consumers cut back on spending by 0.4 percent in September, the largest decline in 10 months. Retailers are now worried about poor holiday season sales. All this is taking place despite interest rates at a 40-year-low.

Along with auto sales, house purchases and refinancing (due to the low interest rates) have accounted for a considerable portion of economic growth in the US in recent months. The *Financial Times* reported October 23, “In recent weeks mortgage applications have dropped off sharply, suggesting that the boost from refinancing has run its course for the moment.” The newspaper continued: “The worrying macroeconomic implication is that because homeowners need values to keep rising to extract equity, a slowdown in house prices could trigger a drop in consumer spending.”

The announcements of layoffs and job eliminations continue to pour out of firms, large and small. These are only a portion of the most recent job losses:

Lucent Technologies announced plans October 14 to eliminate another 10,000 jobs by September 2003, a 22 percent cut from the job total it expects to have by January 1, 2003. This will leave the company with only 35,000 workers, down from 153,000 three years ago. The company also announced it was taking a $4 billion restructuring charge. Lucent has “very, very little margin for error,” an analyst for Standard & Poor’s, which lowered the telecommunications firm’s rating, told the *Wall Street Journal*. “The market is outracing everybody’s ability to cut costs. We are at this point doubtful about the prospects of their ability to meet their plans.”

EDS, the computer services provider founded by Ross Perot, announced October 30 that it would cut its work force by as much as 4 percent, or about 5,500 jobs. It is a sign of the times that investors were apparently relieved when the company reported that 2002 earnings would fall no more than the previously indicated 25 percent. EDS stock has lost nearly two-thirds of its value in the past two months. EDS Chief Executive Richard Brown told the press, "There's no sugar-coating these results. They are the byproduct of a very difficult market and our own decisions."

On October 11 **Honeywell**, whose products include aerospace components, building heating control systems and specialty chemicals, revealed plans to eliminate as many as 5,500 jobs. David Cote, Honeywell chief executive, commented, "Everyone's struggling: it's hard to find someone who isn't, in the commercial and industrial side." In three of out of four of Honeywell's divisions, sales dropped in the third quarter of 2002.

Sun Microsystems, headquartered in San Jose, California, reported October 11 that it would slash 11 percent of its workforce, "to bring its expenses in line with sales," or 4,400 of 39,400 employees. Corporate technology spending, the company reports, has not rebounded as hoped. A year ago Sun cut 10 percent of its staff, or 3,900 jobs.

The aircraft giant **Boeing** revealed plans October 30 to eliminate thousands more jobs. The Seattle media are reporting that 767 jetliner workers were told that the current workforce of 1,400 will be reduced to some 700 by next autumn. At the same time, Boeing's shared-services division, which handles computing, telecommunications and a variety of in-house operations, will slash up to 1,500 jobs. The job cuts come on top of 31,000 layoff notices that have already gone out since last year.

Corning, the world's largest manufacturer of optical fiber used in telecommunications networks, reported October 30 that it was planning to cut 2,200 more jobs. Corning earlier this year announced the elimination of 4,600 jobs; it cut 12,000 positions in 2001. Vice Chairman and Chief Financial Officer James B. Flaws of the upstate-New York-based firm explained, "The challenge confronting the telecommunications industry is the most serious we have faced." The company posted a net loss of $133 million in the third quarter.

The giant utility **Duke Energy** indicated October 24 that it would cut 5.6 percent of its workforce, or 1,500 staff jobs and more than 400 contract jobs, this year and next. The company reported that its third quarter profit dropped by 71 percent, hurt by the weak energy trading market and the generally poor economic conditions. Robert Brace, Duke's chief financial officer, told *Reuters*, "Clearly the market at the moment is very depressed in terms of prices and volatility, so it's difficult for us to earn an adequate return on our investments."

Eastman Kodak, in Rochester, New York, is planning to cut between 1,300 and 1,700 jobs, or 2.3 percent of its workforce. The cuts result from a two-year slowdown in film sales blamed largely on a slowing economy. "These actions are required in a world that is increasingly competitive and economically uncertain," said chief executive Daniel Carp.

Dynergy, which is leaving the energy trading business, reported October 21 that it would lay off about 780 workers, or 14 percent of its workforce, including a reported 600 at its Houston, Texas headquarters. The company will have 4,600 employees after the cuts are implemented.

Other major manufacturers announcing recent job cuts included **Weyerhauser** (750 jobs), **Dupont** (650 jobs), **Rayovac** (630 jobs), **Texas Instruments** (500 jobs), **Kennmetal** (300-340 jobs) and **Caterpillar** (3,270 furloughs in December).

Banking firms and financial houses announced thousands of job losses in recent weeks. **J.P. Morgan** is axing another 2,000 jobs in its unprofitable investment banking operations. Chairman and chief executive William Harrison commented, "Our performance is very disappointing." The bank suffered a 91 percent drop in profits in the third quarter of 2002.

Citigroup announced October 24 that it would eliminate more than 1,000 jobs. **Credit Suisse First Boston** reported in early October plans to slash 1,500 jobs. **Salomon Smith Barney** has cut 1,000 jobs and **Goldman Sachs** 300 in recent weeks, according to press reports. The Bureau of Labor Statistics reports that Wall Street firms have cut 61,000 jobs since employment peaked 18 months ago.

United Airlines announced October 21 that it needed to make $1.4 billion in non-labor cuts and eliminate an additional 1,250 jobs. United is also attempting to squeeze some $5.8 billion in concessions over the next five and a half years out of its already hard-pressed workers. On October 25 **US Airways**, already in the bankruptcy court, reported plans to lay off another 471 pilots. A spokesman for the Air Line Pilots Association commented, "They are cutting pilots to the point where it reaches people who have been here 15 years. That's a tremendous hit when you cut like that."