

US manufacturing continues to decline: thousands more layoffs

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Manufacturing in the US declined for the third straight month in November, as major corporations continue to shed thousands of jobs. Contrary to predictions by financial analysts, the Institute for Supply Management (ISM) reported that its index of manufacturing activity stood at 49.2 last month; any figure below 50 represents a contraction.

New manufacturing orders fell for the first time since August, causing particular concern. The employment component of the index fell to its lowest level since January. The ISM index indicated that the manufacturing sector had expanded in the first seven months of 2002, but has experienced a sharp decline in the past three.

Overall automobile sales dropped by 12.8 percent in November, with US automakers faring considerably worse. Combined sales for General Motors, Ford and Chrysler fell 18 percent compared to November 2001. The domestic auto manufacturers' share of the US market fell to an all-time low last month, 58.8 percent.

The chief executive officer of Hewlett Packard, Carly Fiorina, reported December 3 that information technology spending remained weak, triggering a slump in the company's shares. Two days later, the world's largest manufacturer of fiber-optic cable, Corning, indicated that it did not foresee significant growth in the telecommunications business until late 2004. Credit Lyonnais analyst Gabe Lowy told *Reuters*, "That is grim. To come out with a statement like that is pretty much a pin in the balloon of the hoped-for bottom."

A recent article in the *San Jose Mercury News* pointed to the bleak state of the semiconductor industry. "Analysts," it commented, "keep reducing their economic forecasts as each new data point proves to be more grim than the last." The article cited the comments of Bill McClean, president of IC Insights, a market research firm: "The 2001-2002 time period can legitimately be labeled an industrial depression. After the first-ever recorded decline in electronic systems sales in 2001, worldwide electronic system sales are forecast to decline another 6 percent in 2002. The current electronic systems industry is unequivocally in uncharted waters. There is no period in the history of electronic system sales with which to compare such declines." Added Morgan Stanley's Steve Pelayo, "No one has seen any signs of stabilization."

Job cuts extend throughout the information technology sector, as chipmaker Advanced Micro Devices (AMD), supply-chain management specialist i2 Technologies and wireless carrier Sprint all announced layoffs. Both AMD and i2 will cut their workforces by some 15 percent (2,000 and 500 jobs, respectively), while Sprint will slash 1,600 jobs, or 6 percent of its staff. Sun Microsystems reported last month that it would lay off 4,400 workers, 11 percent of its workforce.

The US airline industry continues to suffer major blows. United

Airlines faced the prospect of declaring bankruptcy after the Air Transportation Stabilization Board this week rejected providing a \$1.8 billion US federal loan guarantee. Trading in United Airlines' stock was halted December 5, after it plunged 59 percent. A bankruptcy filing by United would be the largest ever in the US airline industry. The air carrier has 83,000 employees.

Even before the announcement of the failure to obtain the government loan guarantee, United announced that it would lay off 352 pilots in February. American Airlines, the world's largest carrier, revealed plans to eliminate 1,100 flight attendant jobs. If an insufficient number of attendants rejects the company's voluntary redundancy package, the airline will start laying off workers on February 1, beginning with its most recently hired employees.

Retail giants reported lackluster sales in November despite markdowns on apparel, toys and electronics. A Thanksgiving weekend (November 29-December 1) sales rush came too late to save the day. According to Kurt Barnard, president of Barnard's Retail Consulting Group, "The holiday sales season so far has been a bust for most retailers.... The days leading up to Thanksgiving weekend were just a plain bust, and now we have to watch very carefully if the days following the weekend are any better."

While the economy grew at a rate of 3.1 percent in the third quarter, largely on the continued strength of consumer spending, capital investment remains flat, increasing in the quarter by a mere 0.6 percent. The weakness is largely attributable to the "little-noticed but almost unprecedented free fall in spending" on business construction (Michael Arndt, *BusinessWeek Online*). Investment in new factories, warehouses, offices and other commercial buildings fell 16 percent in the third quarter of 2002, after a double-digit drop in the first six months of the year. Annual business investment in fixed assets has dropped one-third from its peak in 2000. Vacancy rates in the leading office markets in the US have doubled, to 16.1 percent, over the past two years, and vacancy rates for industrial properties in particular are "soaring."

Reflecting the generally stagnant state of the economy, the number of Americans suffering long-term unemployment is growing for the first time since the early 1990s. The Bureau of Labor Statistics reports that the percentage of workers jobless for more than half a year rose to 20.3 in October, the largest proportion since the same month in 1994. The average length of unemployment stood at 17.5 weeks in October, the second-highest level since December 1994. This is one of the measures of real economic hardship.

The list of recent layoffs is extensive. Among the most prominent:

* **Boeing** announced plans to eliminate 5,000 jobs in 2002 as the global aviation slump continues to take its toll (this was before the

dire news about United Airlines, one of Boeing's largest customers). When those cuts take effect, the company will have eliminated 35,000 jobs since September 11, 2001. Boeing expects half the reduction to take place through attrition and half through layoffs.

Union officials expressed dismay at Boeing's actions. "We've been cut pretty bare bones. We kind of assumed this was leveling out right now," commented Mark Blondin, president of International Association of Machinists District 751 in the Seattle area.

* **The Connecticut state government**, presided over by Republican Governor John G. Rowland, started sending out layoff notices to 3,000 employees on December 3, as part of an effort to force state government unions to grant more concessions. Rowland faces a \$500 million deficit in this year's budget and a projected \$1.1 billion shortfall next year.

* **Agilent Technologies**, based in Palo Alto, California, is planning to cut up to 2,500 jobs, or 7 percent of its employees, due to the continued slump in technology spending. The company is attempting to slash expenses by \$200 million.

* The US copier group, **Xerox**, is speeding up its job-cutting program and will eliminate 2,400 jobs—3.4 percent of its workforce—over the next three months, 950 of them in the US. Anne Mulcahy, company chief executive, commented that "today's difficult economic challenges require difficult decisions."

* The world's largest maker of equipment used by the semiconductor industry, **Applied Materials** of Santa Clara, California, said it would cut 1,750 jobs, including 800 in Silicon Valley. Chairman and Chief Executive Jim Morgan told the press, "This was a painful but necessary decision."

* **Eastman Kodak**, the photographic giant headquartered in Rochester, New York, announced plans to eliminate between 1,300 and 1,700 jobs. The company will close a Rochester plant employing 500 that makes single-use cameras, eliminate 550 jobs in global manufacturing and logistics and 150 in research and development and shut down a production line in Guadalajara, Mexico.

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* Toolmaker **Black & Decker** will close its plant in Easton, Maryland, destroying 1,300 jobs. The company, based in Towson, Maryland, will have little manufacturing presence left in its home state. Most of the jobs will be shifted to Mexico, Brazil and Fayetteville, North Carolina. The mayor of Easton, C. Eugene Butler, commented, "It's devastating to our small town here. I'm not really surprised, but it came upon us very suddenly."

* **Verizons Communications** is planning to lay off at least 1,250 employees in New England, partially as a result of a conflict with the International Brotherhood of Electrical Workers (IBEW). The company is refusing to offer janitorial jobs to laid-off IBEW members, as stipulated in the contract. Verizon informed the union recently that it does not have the supervisory staff and equipment to have laid-off IBEW members take over the jobs. The IBEW's Myles Calvey told the media, "The whole thing is just slimy. They are basically telling us that they don't have the brooms to give to our members." IBEW members facing layoff make \$646 a week, while many of the contract employees currently handling maintenance work make \$28 a day.

* The Swedish automotive safety manufacturer, **Autoliv**, will close two plants in the US, eliminating 850 jobs. Production from the two plants, in Denver and Indianapolis, will be shifted to the company's seatbelt operation in Madisonville, Kentucky and two factories in

Mexico.

* Fast-food giant **McDonald's** announced plans to shut down some 175 restaurants—the second major round of closings in the past two years—and cut up to 600 corporate positions. The Oak Brook, Illinois-based company has been retrenching on store openings. McDonald's, which operates nearly 30,000 restaurants and employs 395,000 people worldwide, will open only 600 outlets in 2003, down from a high of 2,000 in 1996 and 1,300 in 2002.

* Communications chipmaker **Broadcom** will cut more than 500 jobs worldwide, the Irvine, California-based firm recently announced. The job cuts, 16 percent of the workforce, are part of a "commitment to return Broadcom to profitability," which requires "aggressive steps," according to Broadcom's president and CEO, Henry T. Nicholas III.

* **Instinet**, which operates an electronic trade-sharing network, said on December 3 that it plans to eliminate about 300 jobs, or 17 percent of its workforce. The company called the job destruction part of an "ongoing effort to produce a leaner and more efficient cost structure."

* **American Isuzu Motors**, the offspring of Japan's Isuzu Motors, is slashing more than a third of its remaining US staff (150 jobs out of 400) by the end of the year. Isuzu's US sales fell more than 35 percent from their peak in 1986 through the end of 2001 and 38 percent for the first 10 months of 2002 compared with the same period a year ago. One truck industry specialist commented, "I've seen sicker dogs get well, but it is not likely in this case."

* Swedish engineering company **Sandvik AB** revealed recently that it would close a plant in West Virginia, eliminating 150 jobs. The mining equipment plant in Bluefield, West Virginia will shut down sometime in 2002. The decision was made due to the slump in the coal mining market. The price of coal has fallen since 2001 and is expected to remain low.

* **RailAmerica**, the short line and freight railroad operator, based in Boca Raton, Florida, reported December 3 that it has implemented a 5 percent cut in its workforce. The move has been taken in response to the weak US economy. The company is cutting 145 of its 2,800 worldwide positions.



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