14,500 jobs to be slashed at Hewlett-Packard

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Computer and printer giant Hewlett-Packard (HP) revealed plans July 19 to eliminate 14,500 jobs, or some 10 percent of its global workforce of 151,000. The company, based in Palo Alto, California, also said it would freeze the pension and retiree medical-program benefits of certain employees, increasing instead its contributions to most of these workers' 401(k) plans.

The job destruction was not unexpected. Severe cuts had been anticipated since Mark Hurd, former chief executive at NCR, took over the job at HP four months ago. As many as 25,000 jobs cuts had been predicted, and the actual number and length of time over which they will be spread—six quarters—disappointed some on Wall Street. HP shares fell in the immediate aftermath of the company's announcement.

HP's action follows similar moves at IBM, which increased its planned job cuts to 14,500 from 13,000, and Oracle, which will slash 5,000 jobs after purchasing PeopleSoft. The cuts at Hewlett-Packard are the largest there since thousands of jobs were eliminated following the company's purchase of Compaq Computer in May 2002. In May of this year, 2,000 workers in HP's imaging and printing unit accepted voluntary severance packages.

Hewlett-Packard faces cutthroat competition in both the printer and computer markets. The firm lost its position as the number-one seller of personal computers (PCs) to Dell last year. The research firm IDC reported Monday that Dell increased its global lead in the personal computer market in the second quarter, with worldwide growth of 23.7 percent, compared to HP's 16.3 percent. Dell generated $891,000 per worker last year, compared to $529,000 at HP.

Director of research at Pacific American Securities, Michael Cohen, quoted by Bloomberg News, noted, "It's obvious to everyone that their cost structure is out of kilter, especially in relation to Dell." HP also faces IBM in consulting services, and its profitable printer and ink business (it is the world's largest maker of printers) has come under increasing pressure.

Associated Press writes, "HP's PC division has long been rumored as a spin-off candidate, especially after the $19 billion acquisition of Compaq Computer Corp. failed to pay off as [former chief executive Carly] Fiorina had promised before her ouster.

" 'HP has been a fairly messed up company over the last few years,' said Mark Stahlman, an analyst at Caris & Co. 'The history of the company got scrambled. A lot of projects got thrown together. Then it only got worse at the end when services and enterprise were coupled and PCs got thrown into printing.' "

Most of the job slashing will take place in HP's support functions—information technology, human resources and finance—and the remainder will come from its business units. By 2007, the cuts are expected to save the company $1.9 billion a year. No announcement was made as to where the cuts will be carried out. The company does business in 178 countries.

Outplacement firm Challenger Gray & Christmas announced recently that planned job cuts in the US rose to 110,996 in June, the highest total in 17 months. Corporate announcements of job reductions increased 35 percent from May and were up 73 percent from June 2004. So far in 2005, reported layoffs are up 14 percent over a year ago.

In June, layoffs were at an all-time high in the retail and automotive industries. Last month alone, 45,378 jobs were cut in the auto industry and 24,065 in retail. Challenger reported that 99,257 technology-related job cuts have been announced this year, a 56 percent increase over the same period in 2004.

CEO John Challenger told the press, "The fact that job cuts are rising in the summer is not even the most surprising trend. The surprise is that we are seeing a growing number of mass job cuts."

Such cuts have recently been reported in a variety of industries. **GST AutoLeather**, a maker of automotive seating leather, will end a century of US production when it closes a plant and lays off some 400 workers in Williamsport, Maryland. GST, with headquarters in Hagerstown, Maryland, and Southfield, Michigan, has moved much of its production to Mexico and China. In November 2003, GST held a 15 percent share of the global automotive seating market.

Chase Bank will lay off 350 workers in Houston starting in August; all the jobs are in loan processing. A division of Chase banking announced another 300 job losses in Rochester, New York. **Tyson Foods** is consolidating operations in Mississippi that will result in a net loss of 300 jobs. In central Florida, **Mosaic Co.** announced that it would close its Kingsford phosphate mine southwest of Mulberry, resulting in the elimination of 275 jobs.

Westinghouse Savannah River Co., the company that runs the Savannah River for the US Energy Department, began notifying 400 employees that they would be laid off as part of a restructuring program. **Sara Lee Branded Apparel** announced that it had eliminated 775 jobs, 400 of them in North Carolina, as part of an "organizational review to more closely align its businesses." Another 285 workers accepted a "voluntary transition program."

Indianapolis-based **ATA**, the bankrupt airline, announced plans to lay off or furlough 350 maintenance and 100 reservations personnel. The airline has reduced its workforce by 40 percent over the past two years. ATA plans to outsource its maintenance and customer reservations, saving $100 million over five years.

One hundred **ExxonMobil Chemical** workers in Stratford, Connecticut, lost their jobs in early July when the company revealed it was pulling out of the state. The Stratford plant makes material for potato chip bags. It will be entirely closed by the middle of 2007. Connecticut was also hit by news in recent months that **Purdue Pharma** will cut 290 jobs in Stamford and that **MetLife** will slash 360 positions in Hartford.

Lear Corp., the automotive interior manufacturer, announced 100 layoffs at its Walker, Michigan, plant (near Grand Rapids). Speculation is rife that the company plans to close the facility completely. The company has issued three layoff notices in the past six months.

How is it possible with all these and other layoff announcements that the government unemployment rate stands at only 5 percent in the US, or some 7.5 million people? Because the figure is a poor indicator of the real employment situation.

According to the Bureau of Labor Statistics itself, the total number of unemployed, plus all marginally attached workers (people who are "neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the recent past"), plus the total of those involuntarily employed part-time, amounts to 9.3 percent of the civilian labor force, or some 13.9 million people.

In fact, millions of people in the US have simply dropped out of the labor force, thus effectively lowering the official jobless rate, since those not actively looking for work are not counted as unemployed.

A report recently authored by Katharine Bradbury, senior economist and policy advisor at the Federal Reserve Bank of Boston, examines the poor improvement in labor force participation (the total of those working or looking for work) during the current "recovery" from the recession of 2001. She notes that this improvement has been weak among the young and people at "prime ages." Only men and women 55 and over have rejoined the labor force at higher than usual rates since the recession officially ended.

According to Bradbury, the current participation shortfall (the discrepancy between the recovery from the most recent recession and earlier business cycles) "ranges from 1.6 million to 5.1 million men and women.... [T]he addition of these hypothetical participants would raise the unemployment rate by 1 to 3-plus percentage points." In other words, between 1.6 and 5 million people would take jobs if they were available.

Bradbury writes: "If the under-55s had rejoined the labor force to the degree they historically have four years after the recession's start, and if those over 54 had stayed in the labor force, the ranks of the unemployed would have increased by 5.1 million persons and the unemployment rate risen by 3.3 percentage points. An 8.7 percent unemployment rate would represent considerable slack in the labor market." This latter figure is closer to the real unemployment rate in the US.

Teenagers and women of all ages have fared most badly. Their below-average recovery of participation in the labor force "leaps out" of the charts, Bradbury comments. Under normal circumstances, some 1.1 million more teenagers should be employed at this point in the business cycle, and 2.9 million women.