

As economic situation worsens

# Circuit City to close stores, lay off thousands in US

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Citing the credit crunch and plummeting consumer spending, Circuit City, the second-largest retailer of electronics in the United States, will close 155 stores in the US and eliminate the jobs of nearly 7,000 workers.

Circuit City employs 43,000 workers in 721 stores and outlets in the US. Layoffs will amount to 17 percent of its workforce. The affected stores will begin closing today.

The company has indicated in letters to sacked employees that it will not provide severance pay or honor health care plans. As with the mass layoff of 3,400 better-paid Circuit City employees in March of last year, workers are simply being kicked to the curb in the name of “returning to profitability.” (See “US: Circuit City fires 3,400 better-paid store workers”.)

Battered by prospects of the worst Christmas shopping season in 15 years and increasing competition from its larger rival Best Buy, the chain will close outlets in a number of major metropolitan markets, including Atlanta, Dallas, Los Angeles, New York City, and Phoenix.

Reflecting the dire financial situation for the company perceived by corporate management, Circuit City spokespersons told the press that plans for 10 new stores were also being scrapped, and the company would immediately press to renegotiate with local landlords to lower rents or allow early releases from leases at ostensibly more profitable store locations.

In an official press release, the company noted, “Due in part to its deteriorating liquidity position and the continued weak macroeconomic environment, the company has decided to take certain restructuring actions immediately.” Acting president and CEO James

Marcum said in a statement, “We are making a number of difficult, but necessary decisions to address the company’s financial situation as quickly as possible.”

The company has seen its access to credit restricted in recent months, and last month reported a second quarter loss of \$162.7 million and a 13 percent decline in sales. Circuit City has seen its sales decline for 6 straight quarters. The company has said that was also unable to recoup \$80 million in taxes that it claims the government owes it.

The company noted that an independent appraisal of its stock had found that the value of its inventory had to be downgraded because of the ailing economy. This reduced the amount of credit available to the company.

Further, some of the company’s suppliers are reportedly demanding payment for goods in advance because they cannot obtain credit insurance for Circuit City’s purchases. Circuit City said that some suppliers had not expanded their credit lines for holiday season purchasing as they usually did.

The mass layoffs sparked good news for company stock. By Monday morning, Circuit City’s shares jumped 9 cents, or 35 percent, to 35 cents on the New York Stock Exchange composite trading. Company stocks had dropped 96 percent in the past 12 months.

The NYSE warned Circuit City last week that its stock price was not high enough for continued listing. According to the *Wall Street Journal*, “shares of Circuit City had an average closing price of less than \$1 over 30 consecutive trading days as of Oct. 22, falling short of the exchange’s requirement. Its shares have closed under a dollar in trading since Sept. 30, when they closed at 76 cents. Shares have traded between 17 cents and \$8.24 in the last year.

“In order to regain compliance, Circuit City’s common stock share price and the average share price over a consecutive 30-trading-day period must both exceed \$1 within six months after receipt of the notice.”

The company’s stock lost more than 90 percent of its value this year, particularly after Blockbuster Inc. withdrew an offer to buy the company for at least \$6 per share in July, then even more after it removed chief executive Philip J. Schoonover in September.

The desperate situation of the US economy as a whole was underlined on Monday, when the Institute for Supply Management (ISM) announced that its crucial factory index dropped to 38.9. This figure is worse than anticipated by economists surveyed by Bloomberg and other news outlets, and marks the lowest level since September 1982.

The ISM index is widely regarded by economists to be an accurate measure and forecast of manufacturing output. Numbers less than 50 percent indicate that manufacturing is contracting. The immediate result of such a contraction will be further plant closings and layoffs.

In a press release yesterday, General Motors announced a 45 percent decline in last month’s vehicle deliveries to US dealers compared to last year. October figures amounted to only 170,585 vehicles, with truck sales down 51 percent and car sales down 34 percent.

Mark LaNeve, vice president of GM North America Vehicle Sales, Service and Marketing, said, “The market has been shrinking for three years, but in October we saw a dramatic decline for the industry and GM” reflecting “an unprecedented credit crunch that is dramatically impacting the entire US economy—from the housing market to big and small companies to banks to family run businesses. The credit freeze has also had a very negative impact on consumers’ confidence and their purchase behavior across America.”

LaNeve observed, “If you adjust for population growth, this is probably the worst industry sales month in the post-WWII era.”

According to Reuters, Labor Department data showed 479,000 new jobless claims in the week ending October 25, steady from the week before. Economists generally regard a figure above 400,000 as an indicator of recession. Reuters added, “Analysts estimated so-called

continued claims would be 3.74 million. It was the 27th straight week that claims were above 3 million in a sign that the ailing economy is making it harder for US workers to find employment.”



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