Chicago mayor warns of "huge layoffs" in a "frightening" economy

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Chicago Mayor Richard Daley warned Wednesday of "huge" layoffs during the remainder of this year and into 2009. The chief executive of the third largest city in the US provided a stark indication of the scale of the developing slump not only in the Chicago region, but across the country.

Daley said that corporate leaders had told him, "This is going to be all year, so it's going to be a very frightening economy." He continued, "Each one tells me what they're laying off, and they're going to double that next year. We're talking huge numbers of permanent layoffs for people in the economy. It's going to have a huge effect on all businesses."

Comparing the situation to the Depression years of the 1930s, he said, "We never experienced anything like this except [those] people who came from the Depression. When you have that many layoffs early—and they're telling me this is only the beginning of their layoffs—that is very frightening."

Daley also warned that local governments would face bankruptcy and might not be able to meet their payrolls, although he said he was not worried about paying City of Chicago employees.

The Chicago mayor's remarks coincided with new data and corporate reports that show the US economy is sharply contracting. The Labor Department on Thursday reported that initial claims for unemployment benefits for the week ended November 8 jumped 32,000 to a seasonally adjusted 516,000—a seven-year high and a greater increase than analysts had expected. It was the first time initial jobless claims topped 500,000 during the current slowdown.

The number of individuals continuing to seek unemployment benefits rose to 3.9 million, above analysts' estimates of 3.85 million and the highest total since January 1983, the period of the previous worst recession since the Great Depression. The increase in continuing claims indicates that laid-off workers are taking longer to find a new job.

The number of new jobless claims was the highest since late September 2001, during the last recession and in the aftermath of the 9/11 terrorist attacks. The Labor Department also revised upward its figure for the previous week by 3,000 to 484,000.

Last week the Labor Department reported that the official jobless rate in October had jumped to 6.5 percent. It said the ranks of the unemployed had swollen to 10.1 million.

Scott Brown, chief economists at Raymond James & Associates, said: "This is obviously very, very serious deterioration in the labor market, more than a lot of people had expected even a couple of months ago. We are looking at the biggest financial crisis since the Great Depression and the biggest economic crisis we have had in the United States since the early 1980s."

Confirming that assessment, Challenger, Gray & Christmas, a Chicago-based outplacement consultancy, reported last week that job cuts in the US reached a five-year high in October. It said that downsizing had eliminated 876,000 jobs for the year, 14 percent higher than the total announced job cuts for all of 2007.

In October, job cuts reached 112,884, a 19 percent increase over September and 79 percent higher than October 2007.

Chief Executive Officer John Challenger said, "Job cuts are now rising across the board."

In a separate report, the Bureau of Labor Statistics said Thursday that in the third quarter employers had initiated 1,330 mass layoff events that resulted in the separation of 218,158 workers from their jobs for at least 31 days. The total number of layoff events was 312 times higher in the third quarter of 2008 than the same period a year earlier and the number of associated separations increased by 58,134.

Permanent closure of worksites occurred in 15 percent of all extended mass layoff events and affected 50,025 workers during the third quarter of 2008.

Top executives of US private equity companies gathered for an international conference in Hong Kong issued dire warnings of the depth of the crisis. Co-founder of the private equity firm Carlyle Group, David Rubinstein, said, “The recession this time will be far deeper than what we’ve seen for quite some time.” He predicted the US unemployment rate would rise to 10 percent.

The managing director of Bain Capital, Paul Edgerley, predicted that US home prices would drop another 15 to 20 percent and forecast a “very deep recession, I think the worst we’ve seen in my lifetime.”

The past several days have seen new announcements of major layoffs across a range of economic sectors.

* US Steel said it is laying off 677 workers in the US and Canada because of weakening customer demand. The layoffs are effective immediately for 500 employees in the US and 177 in Canada. They affect the Pittsburgh area; northwest Indiana; Fairfield, Alabama; Ecorse and River Rouge, Michigan and Granite City, Illinois in the US. In Canada, the layoffs affect Hamilton and Erie.

* Applied Materials Inc., the number one chip equipment maker, said on Wednesday it will slash 1,800 jobs, or 12 percent of its workforce. The company warned that profit in the current quarter would fall far short of Wall Street expectations due to the weakening global economy. The Santa Clara, California-based firm forecast a 45 percent drop in fourth quarter profit.

“We view this downturn as deep and extended,” said Michael Splinter, Applied’s chief executive officer.

* Morgan Stanley outlined plans on Wednesday to cut 10 percent of the staff, some 2,000 employees, in its biggest business, the institutional securities group. The layoffs follow a 10 percent cut made earlier this year to the same group. The Wall Street firm also plans to cut 9 percent of the staff in its money management unit.

* Dow Jones & Co., the news and information provider, is cutting jobs and reducing costs in its enterprise media group. Officials of the firm, which was bought last year by Rupert Murdoch’s News Corp. and publishes the *Wall Street Journal*, did not specify the number of job cuts.

Retailers issued quarterly reports reflecting a drastic decline in consumer spending and pointing to a disastrous holiday shopping season. The consumer electronics giant Best Buy said comparable store sales fell 7.6 percent in October, after a smaller decline in September. It said sales at its stores open at least a year could decline 5 to 15 percent during the four months remaining in its fiscal year from the comparable period in 2007.

“Since mid-September, rapid, seismic changes in consumer behavior have created the most difficult climate we’ve ever seen,” Best Buy CEO Brad Anderson said in a statement.

Macy’s, the department store chain, said Wednesday that it had swung to a loss in the third quarter as sales fell more than 7 percent. It lost $44 million in the quarter.

Kohl’s reported that its third quarter profit fell 17 percent, and cut its fourth quarter and full-year profit outlook. Nordstrom Inc. reported even worse results, saying its profit fell more than 57 percent.

Ken Perkins, president of research company RetailMetrics LLC, said that of the 50 retailers he tracks that have reported third quarter earnings, 75 percent have reported lower profits from a year ago, while the remainder have reported a loss.

Wal-Mart, one of the few major retailers to report better-than-expected quarterly results, nevertheless cut its full-year profit forecast.

Reflecting the broad scope of the economic downturn, Intel, the world’s largest producer of computer chips, warned on Wednesday that its sales could fall as much as 19 percent in the fourth quarter. “There was a very rapid decline in business across all segments and geographies,” said Tom Beermann, a spokesman for the company.

In a sign of things to come, Eclipse Aviation, an Albuquerque, New Mexico manufacturer of small airplanes, told its employees on Thursday that they would not receive paychecks for the last two-week pay period because the company had been unable to obtain financing.