Alcoa lays off 15,000, US economy moves toward depression

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Less than one week into 2009, new economic data indicate the US will not quickly rebound from the crash of 2008. Economists now openly discuss the possibility of another Great Depression, portending the permanent impoverishment of broad sections of the population.

Layoffs continue to mount. On Wednesday, the leading US aluminum maker, Alcoa, announced that it will dismiss 15,000 workers by year's end, or about 14.5 percent of its workforce. It will also cut capital expenditures by 50 percent, freeze salaries, suspend new hiring, and prepare further plant shutdowns and production cuts.

The Alcoa layoffs are an ominous sign. Like many companies, Alcoa took a series of cost-saving measures during the fall, as its markets shrank and commodity prices fell. These trends, however, have only continued, and Alcoa clearly determined more drastic measures were needed. This may well initiate a new round of layoffs throughout the economy.

Most mass layoffs now go virtually unnoticed. To cite only a few other examples from Monday and Tuesday: Philadelphia-based health insurance corporation Cigna announced this week that it would cut 1,100 jobs; Los Angeles United School District intends to soon lay off as many as 3,000 teachers; in South Carolina the Robert Bosch Corp. will fire one tenth of the workforce at its North Charleston plant, about 200 workers; and IBM will soon lay off 1,600 workers, according to anonymous sources inside the company.

The layoffs come in advance of the Department of Labor's report on unemployment, which is to be released Friday. According to a Reuters poll, economists anticipate that 500,000 jobs will have been lost in December, bringing the economy's overall purge of workers for 2008 to nearly 2.5 million.

In one particularly graphic example of spiraling unemployment, in North Carolina the number of fired workers trying to sign up online for either new or continuing unemployment benefits was so great in recent days as to crash the system, the state's Employment Security Commission said.

A downward spiral has clearly emerged in the US and global economy, with layoffs and pay cuts growing in response to contraction in economic activity, and then in turn fueling the latter.

According to data released by the Commerce Department on Tuesday, orders for manufactured goods fell by 4.6 percent in December, far exceeding the 2.2 percent anticipated by economists. Commerce also revised downward October's drop from 5.1 percent to 6 percent. Excluding transportation products, which saw an especially steep drop in demand, factory orders fell by 4.2 percent in November.

Overall demand for durable goods—large and expensive goods designed to last three years—fell by 1.5 percent in November. Demand for capital goods—equipment intended to last a decade or longer—also fell by 1.5 percent, after plunging 6.5 percent in October. Orders for durable and capital goods are taken as indicators of future economic activity, as they reflect business intentions to either maintain or expand production.

Factory shipments decreased 5.3 percent, while inventories fell by only 0.3 percent, according to the Commerce Department. Meanwhile, factory orders for nondurable goods continued a protracted decline, falling 7.4 percent in November after falling 3.8 percent and 5.8 percent in October and September, respectively. Orders for consumer goods declined by 6.5 percent.

Separately, the Institute for Supply Management on Tuesday released its survey of manufacturing activity for December. The index registered a sharp decline, falling to 32.4, its worst showing since 1980. The Institute also released its index of non-manufacturing activity in November, which stood at 40.6, slightly higher than economists had forecast. Readings below 50 suggest "contracting activity."

Also on Tuesday, the National Association of Realtors (NAR) made public its Pending Home Sales Index. November sales of existing US homes fell to their lowest level in seven years, and by 5.3 percent from November 2007. Decline registered across the country, but was sharpest in the Midwest and Northeast. The NAR revised downward data for sales during the previous month, October.

On Monday, new figures showed that auto sales plummeted in December, finishing off arguably the worst year in the history of the industry. Sales fell for a fourth consecutive month in comparison to 2007 figures, this time by 36 percent to just under 900,000 vehicles. For the year as a whole, sales dropped by 18 percent to 13.24 million units, the lowest number since 1992.

Both domestic and international automakers were punished with sharp declines: General Motors Corp. saw a decline of 31 percent; Ford, 32 percent; Toyota, 37 percent; Honda, 34.7 percent; Nissan, 30.7 percent; Volkswagen, 13.5 percent; BMW AG, 36 percent; Mercedes, 32.2 percent; Hyundai, 48.3 percent. Chrysler LLC, which will either be liquidated or absorbed by a competitor in 2009, faced the most precipitous decline, with sales plunging by 53 percent.

Auto industry experts now expect that the sharply reduced market for cars in the US will become the new status quo.

The eroding economic position of US consumers is reflected, paradoxically, in an increase in the savings rate, according to recent data. In the third quarter of 2008, household indebtedness decreased for the first time since the Federal Reserve began to compile statistics on household savings in 1952, while total consumer spending declined for the first time in 17 years.

After 2000, the average personal savings rate in the US hovered near or below zero—historic lows—as workers attempted to maintain their living standards through cheap credit. Economists expect the savings rate to climb sharply in 2009, as high as 10 percent according to predictions by Goldman Sachs. If so, this would mark the sharpest reversal in personal savings since World War II.

However, the rising savings rate does not mean that US workers are now accumulating wealth. On the contrary. In a speech January 4, Janet L. Yellen, president of the Federal Reserve Bank of San Francisco, explained that one of the features of the current economic crisis was the substantial decline in the wealth of broad sections of the US population, due in large part to the decline in home prices.

"[H]ouseholds and businesses face an ongoing credit crunch, and housing and financial wealth has plunged," Yellen said. This, she indicated, is a central problem of the current crisis, as households respond to their own impoverishment, unsurprisingly, by cutting back on spending. "The likely impact on consumer spending of the decline in wealth thus far—one of a number of factors weighing on this sector—is, on its own, quite substantial. And house prices are continuing to slide," she said.

The new revelations on the decline in the US economy come on the heels of record-breaking data released on December 30, when consumer confidence, as measured by the Conference Board, reached unprecedented depths in the survey's 42-year history. The same day, S&P/Case-Shiller released its index of home prices, showing a record 18 percent decline in home prices compared to the same period last year.

With signs of social and economic crisis mounting, commentators are more often comparing the current situation to the Great Depression, which devastated the US from 1929 until 1941.

In her San Francisco address, Yellen said that "many forecasters expect this to be one of the longest and deepest recessions since the Great Depression."

On Tuesday, the minutes of the Federal Open Market Committee for December 15 and 16 were published by Federal Reserve Board of Governors. The minutes read like nothing so much as an encyclopedic description of the first months of the Great Depression, with descriptions of across-the-board economic decline in the US and internationally. In the meeting, the Fed determined to lower interests rates effectively to zero, thereby virtually exhausting monetary policy as a tool to counter the crisis, while promising to make the federal currency printing press available to the major financial interests.

To date the efforts of the Federal Reserve and the Treasury Department have done nothing to stem the crisis.