US economy contracts as tens of thousands are laid off

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In recent days, several reports have surfaced that paint a grim picture of the United States economy. They provide details on how US gross domestic product (GDP), wage growth and consumer spending either stagnated or declined during the first quarter of 2014. This economic downturn corresponds with an increasing number of layoffs, which exceeded 14,000 in May alone.

The 1 percent decline in GDP during the first quarter of 2014 marks the first contraction of the US economy in three years. Wall Street had initially estimated growth of 0.1 percent during this period and blames an "unusually harsh winter" for the recent decline. The contraction came as a surprise to Federal Reserve policymakers.

Similarly, wage and salary income growth also stagnated during the first few months of 2014, growing a mere 2 percent over the previous year after adjusting for inflation. The lack of significant income growth also led to a decline in consumption. During the month of April, consumer spending fell for the first time in a year even as inflation continued to rise.

These indices have begun to manifest themselves in mass layoffs in recent weeks. During April and May, approximately 17,000 US workers were laid off, with several thousands losing their jobs during the last week alone. Many large corporations have begun laying off hundreds and in some cases thousands of workers at a time in order to keep their investments profitable.

On May 23, customer support agency Stream, in Sergeant Bluff, Iowa, announced that it would be cutting 150 jobs by the end of July. Stream's parent company Convergys employs 125,000 worldwide. This decision came after a client decided to move a program away from Sergeant Bluff, which had a population of 4,269 in 2012. Employees have the option of relocating to other regions to compete for jobs at other Stream facilities.

Marshfield Clinic, which operates 50 medical centers in Wisconsin, announced May 24 that it would be cutting 80 to 120 management positions, roughly 1 or 2 percent of its workforce. Marshfield laid off 100 workers in 2012 and earlier this year announced massive budget cuts, resulting in pay cuts for several of its doctors and other employees.

On May 27, the Royal Bank of Scotland (RBS) announced that it plans on cutting as many as 400 jobs in the US. The London-based bank is looking to shrink its US mortgage trading business by two thirds due to the impending implementation of stricter regulations being imposed by the Federal Reserve in 2014. Foreign operated banks will now be held to the same regulations already imposed on domestic banks. The RBS employs about 2,400 workers in the US.

On May 28, Queen of the Valley Medical Center in Napa Valley, California announced it would be shedding about 10 percent of its workforce in the coming months. The announcement came just a month after the organization began creating a "comprehensive improvement plan" to create greater financial stability, mainly through service reductions and employee layoffs.

The most devastating announcement came May 29, when Source Interlink Distribution, a Florida-based magazine distribution company, announced it was immediately and permanently shutting its doors, effectively laying off its entire national workforce of over 6,000.

Source Interlink Companies had moved its world headquarters to Bonita Springs, Lee County, in southwest Florida in 2002 to take advantage of tax incentives totaling $1 million. Lee County had already made $250,000 in incentive payments to the company after Source demonstrated that it had invested $600,000 in buildings and equipment in this Florida community of approximately 40,000. The payments came with the stipulation that Source maintain the existing 238 employees on staff locally for 48 months, while creating an additional 50 local jobs during the same period.

On April 22, Source notified county officials that its local employee roster had dropped to 222 people, after which a meeting was scheduled for June 4 between the county and the company to discuss the default on the agreement. Lee County officials have stated that they still expect to hold this meeting, although it seems the local operation is finished.

County Commissioner Cecil Pendergrass told reporters that the county would continue to pursue the incentives already paid. "We have to make sure we have checks and balances for these companies that are using Lee County tax dollars," he explained. "They have to be held accountable."

In addition to announcing the closing of the company prior to the June 4 meeting with county officials, it has also been discovered that Source Interlink Distribution did not file a state notification of mass layoffs on Friday. Such a notification would make resources available to dislocated workers who need help finding new jobs. A spokesman for CareerSource Southwest Florida told reporters that such assistance can only be provided once the employer has taken such an initiative.

Despite the sustained decline of the largest economy in the world, US financial leaders continue to spout predictions that the situation will improve as the year continues. Charles Plosser, president of the Federal Reserve Bank of Philadelphia, believes that the remainder of 2014 will bring a 3 percent growth in economic output in the US, with the GDP growing nearly 3.5 percent during the second quarter alone. He, like other officials, blames the "terrible winter" that included a polar vortex and frequent delays of product deliveries.

Such optimistic declarations have been inadequately buttressed by dubious employment reports that show the number of jobs increasing and unemployment falling. However, the jobs actually being created have proved inadequate to increase wages and thus consumer spending.

In a recent statement, Sterne Agee's chief economist Lindsey Piegza reported, "We are not seeing job gains translate into wage pressures. It's a question not just of quantity but also of quality." She explained that the majority of new jobs being created in the United States are either temporary or part-time jobs coming in low-paying industries.

Although the 6.3 percent unemployment rate recorded in April is the lowest number in six years, this decline in jobless statistics has largely resulted from the exit of enormous numbers of workers from the workforce. A report released in April showed that the labor force participation rate had plunged to 62.8 percent, a percentage not seen since the 1970s.