Microsoft to cut 18,000 jobs

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Software giant Microsoft announced plans to eliminate 18,000 jobs over the next year, becoming the fourth major US technology company to announce mass layoffs since January. The layoffs constitute about fourteen percent of the company's workforce, and are the largest in its history.

The layoffs come at the insistence of Wall Street, which has been demanding that Microsoft carry out mass layoffs in the aftermath of the company's $5 billion acquisition of the cell phone manufacturing business of Finland's largest IT company, Nokia.

"We view this as another step in the right direction from the Street's perspective," wrote FBR Capital Markets analyst Daniel Ives in a research note. He added, "while the cuts will be painful for employees, they were necessary."

The mass layoffs at Microsoft upend any illusion that highly profitable technology companies are immune from the type of predatory Wall Street cost-cutting demands that have ravaged more traditional companies in the United States over decades.

The mass layoffs of workers by Microsoft will have a major impact on the entire technology industry, throwing thousands of workers onto the job market and lowering pay and benefits throughout the industry.

The company's stock shot up to $44.53 per share, closing the day up despite a two percent overall fall in the NASDAQ.

Wall Street had responded with glee to rumors of the layoffs, and Microsoft's stock price rose by more than five percent over the past week. Shares shot up a further 2.9 percent early Thursday in anticipation of the layoff announcement.

The layoffs announced Thursday are far broader than initial estimates, which had ranged between 6,000 and 12,000. According to one analyst, the layoffs will raise Microsoft's profitability for the 2016 fiscal year by thirty cents per share.

The layoffs come despite the fact that Microsoft has been consistently profitable, having posted increases in both sales and profits in four of the past five years. The company made $21 billion in profit in 2013, up from $15 billion in 2009.

Microsoft joins Hewlett-Packard, Intel and IBM in announcing layoffs this year. In May, Hewlett-Packard said it plans to lay off 50,000 workers, or 16 percent of its total workforce. Intel announced 5,000 layoffs this year, or 5 percent of its workforce, while IBM announced 12,000 layoffs, or 3 percent.

Of the 18,000 layoffs at Microsoft, about 12,500 will come from former Nokia groups or from Microsoft groups made redundant by the merger. According to Microsoft, 1,100 of the layoffs will be in Finland, where Nokia was headquartered, and a further 1,800 will come from a Nokia factory in Hungary. Other layoffs will take place in San Diego.

Microsoft CEO Satya Nadella informed employees of the layoffs in an email that "drips with that familiar mixture of faux sympathy and non-information," as one commentator put it.

Nadella proclaimed that "the first step to building the right organization for our ambitions is to realign our workforce." Nadella concluded, after announcing that 18,000 people would be unceremoniously booted out of their offices, "everyone can expect to be treated with the respect they deserve."

Former Nokia CEO Stephen Elop, Microsoft's executive vice president of devices, sent a memo of his own to Nokia employees. The 1,100-word email began with, "hello there" and referenced the layoffs two thirds of the way through, in a single sentence.

Microsoft has previously implemented large-scale job cuts, but never of this size. In 2012, it laid off several hundred workers and cut 5,800 jobs, or 5 percent of its workforce, in 2009.

The Microsoft layoffs come amid broader rumblings in the US economy. New home construction fell by 9.3 percent in June, driven by a record decline of nearly 30 percent in the US South, the Commerce Department said Thursday.

Even as the stock market remains at record highs, the Commerce Department reported this month that the country's economy contracted by 2.9 percent in the first three months of 2014. Just last month, the Fed scaled back its projection for economic growth in 2014 and beyond, estimating longer-term growth at the tepid pace of about two percent.

A *Wall Street Journal* survey of economists estimated that the US economy would grow at a rate of just 1.6 percent this year, down from an estimate of 2.2 percent a month ago and estimates of 2.8 percent earlier this month. "Forget about escape velocity," concluded the *Journal*, referring to the rate of growth that would be necessary to get the US economy out of the nearly seven-year-long economic slump.

The report added details that paint an even gloomier picture of the economy. "When asked about an upside or downside risk to their forecasts, the respondents were evenly split. That's a sea change from the results of the six previous months. In each of those surveys, about 3 out of 4 economists thought the risk was that the economy would grow faster than their forecasts expected."