Caterpillar announces plans to lay off 10,000 workers

George Gallanis
25 September 2015

Caterpillar Inc., the world's largest manufacturer of construction and mining equipment, announced yesterday that it will cut 4,000 to 5,000 jobs by the end of 2016, in addition to more than 10,000 potential job cuts by 2018. The cuts come amidst lowered revenue forecasts for the company for 2015 and 2016.

The Peoria, Illinois-based manufacturer announced its plans Thursday at a press release headlined, "Building for a Stronger Future, Caterpillar Announces Restructuring and Cost Reduction Plans." The report indicates that company sales for 2015 weakened and fell by $1 billion, to about $49 billion. Revenue and sales are expected to fall by 5 percent for 2016.

To make up for the loss in profits, Caterpillar will permanently reduce its workforce by slashing 4,000 to 5,000 jobs from its salaried, management and agency workforce. Most workers are expected to be fired by the end of the year. More than 10,000 workers may be fired by 2018 with the consolidation and closures of manufacturing plants. Caterpillar plans to offer a "voluntary retirement enhancement program" for qualifying employees. The report does not reveal any details regarding what exactly this program will offer.

Further cost reductions are expected to come from reduced manufacturing costs and the consolidation and closure of plants. More than 20 facilities may be affected, amounting to over 10 percent of Caterpillar's manufacturing square footage. Consolidation and closures are expected to begin in 2016 and continue through 2018. Since 2012, Caterpillar has laid off over 31,000 workers.

Amid talk of generating profits, recapturing market shares and reducing cost, there is only a single sentence to be found in the report acknowledging the devastating plight facing the 10,000 Caterpillar workers who may lose their jobs: "We recognize today's news and actions taken in recent years are difficult for our employees, their families and the communities where we're located. We have a talented and dedicated workforce, and we know this will be hard for them," said Doug Oberhelman, Caterpillar chairman and CEO.

Getting back to business, the report further states: "2016 would mark the first time in Caterpillar's 90-year history that sales and revenues have decreased four years in a row." The company's last annual revenue growth occurred in 2012, a year after the acquisition of heavy equipment maker Bucyrus International Inc., Caterpillar's largest acquisition ever. However, the company's 2015 revenue forecast is a 27 percent drop from 2012, with net income expected to be 50 percent lower than Caterpillar's 2012 profit. With shares already plunging by 23 percent this year, Caterpillar shares sank 6.3 percent on the announcement.

Caterpillar's push to slash thousands of jobs is invariably connected to the global economic slump. The report states, "Many of the key industries we serve have a long history of substantial cyclicality and are currently well below prior peak levels. For example, mining equipment sales are far below the prior peak and are substantially below what we would consider a reasonable replacement level. Oil and gas have declined substantially as a result of lower oil prices, and construction equipment sales are well below prior peaks in North America, Latin America, Europe, Africa, the Middle East and Asia Pacific."

There is, however, no sign of recovery in sight. Despite record stock market profits, industrial commodities, primarily those used for coal, oil and iron ore, have collapsed to six-year lows. Moreover, agricultural commodities have seen a recent slump, with US farm income sinking to a nine-year low. Just this past summer, the International Monetary Fund predicted that 2015 would have the lowest global growth rate since 2009 and China saw its economy gasping for air as it teetered on collapse.

In an effort to maintain profits, the slashing of jobs has been the universal method of corporations to deal with the ongoing slump in the real economy. Echoing other CEOs, Caterpillar CEO Oberhelman said, “Our strategy is to deliver superior total shareholder returns through the business cycle, and growth is a key element of that strategy. However, several of the key industries we serve—including mining, oil and gas, construction and rail—have a long history of substantial cyclicality. While they are the right businesses to be in for the long term, we have to manage through what can be considerable and sometimes prolonged downturns.”

This past year, Deere & Co, the world’s largest farm machinery manufacturer, has laid off over 1,000 workers amid tumbling grain prices and demand for equipment. Anglo American, the fifth largest mining company in the world, has revealed plans to cut 53,000 jobs. Meanwhile, oil companies have laid off over 50,000 workers in three months as oil prices have slumped. Worldwide, an estimated 150,000 oil-related jobs have been cut.