



The Bottom Line

THE LATEST VIEW ON THE ECONOMY



Deflationary Forces Accelerate

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Layoffs and reductions in hours worked have been accelerating in recent months and cover firms in virtually every sector of the U.S. economy (see *table*). The same has been true in Canada, but to a much lesser degree as our jobless rate is below the U.S. This, in itself, is contractionary, but now it has taken on an even more troubling aspect. **For the first time since the Depression, workers have been willing to take pay cuts in the hopes of keeping their jobs.**

Real wages are falling in the U.S. as the jobless rate rises and increasing numbers of people are under-employed or have just given up seeking work (see *chart*). The quit rate has fallen to its lowest level since the series began—a mere 1.4% of the workforce voluntarily quit a job last month.

Wage freeze announcements are mounting as firms look for alternatives to layoffs in this troubled period. President Barack Obama ordered a pay freeze for White House employees

earning over \$100,000 a year. The move on his first full day in office sent a message to a nervous country: We're in this together.

"During this period of economic emergency," Obama said, *"families are tightening their belts, and so should Washington."* While this might be comforting to some, it is exactly the opposite of what the fiscal stimulus package is intended to do—boost household disposable income. It gives employers free rein to do the same and opens the door to further spending reduction.

Squeezed employers are turning to pay freezes, pay reductions and other cost-cutting options, such as ending their matching contributions to 401(k) accounts and cutting back benefits.

The most shocking development is that unions have become willing to agree to outright pay cuts, which shows just how weak the labour market is. Members of the International Brotherhood of Teamsters voted to accept a 10% cut in pay to help save U.S. shipping

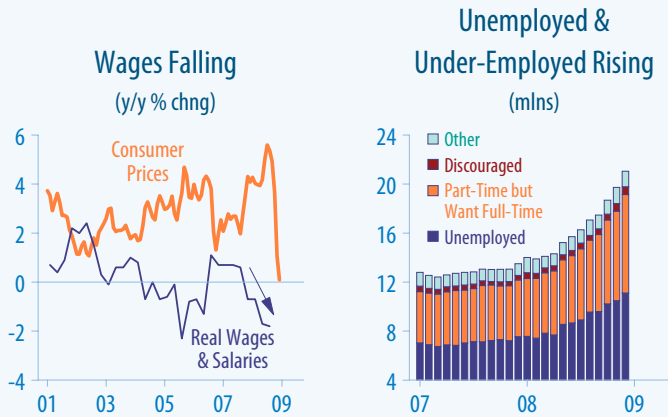
JOB CUT ANNOUNCEMENTS

Global Layoff Announcements (2008:Q4 to 2009:Q1)

| Company | Jobs Cut | % of Company Workforce |
|-----------------------|----------|------------------------|
| Citigroup | 50,000 | 14% |
| Bank of America (ML) | 35,000 | 11% |
| Circuit City | 30,000 | 100% |
| Alcoa | 15,000 | 15% |
| AT&T | 12,000 | 4% |
| DHL | 9,500 | 73% |
| Dell | 8,900 | 10% |
| Sony | 8,000 | 5% |
| Merck | 7,200 | 12% |
| Motorola | 7,000 | 11% |
| DuPont | 6,500 | 4% |
| UBS | 6,100 | 26% |
| Sun Microsystems | 6,000 | 18% |
| Intel | 6,000 | 7% |
| Credit Suisse | 5,300 | 10% |
| Eaton | 5,200 | 6% |
| Chrysler | 5,000 | 25% |
| Dow Chemical | 5,000 | 11% |
| Microsoft | 5,000 | 5% |
| Boeing | 4,500 | 7% |
| Hertz Global Holdings | 4,000 | 13% |
| JPM (WaMu) | 4,000 | 21% |
| National City | 4,000 | 14% |
| US Steel | 3,500 | 13% |
| Goldman Sachs | 3,260 | 10% |
| Pfizer | 3,200 | 3% |
| Fidelity Investments | 3,000 | 7% |
| Xerox | 3,000 | 5% |

Source: blogs.wsj.com Circuit City [in liquidation] Intel [jobs affected, not necessarily lost]

ROUGH TIME FOR WORKERS United States



firm YRC Worldwide. *“We are facing the worst economy in our lifetime, so we needed to act now to protect our members and their families,”* said Teamster general president James Hoffa in a statement. The UAW has and will continue to make concessions to save the automakers and airline unions have done the same. Now rank and file workers, along with management, are facing substantial cuts in hourly wages and salaries as well as reduced hours.

Bottom Line: Not since the 1930s have we seen this phenomenon. The last time salary freezes were

popular was when we attempted to reduce government budgetary red ink. Lower personal income means lower personal consumption, which in turn leads to reduced production, sales, and revenue for business. In consequence, capital spending plans are shelved and prices fall. This wage-price deflationary spiral is very difficult to stop and it points to continued weak economic activity.

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