Chipmaker Intel to cut workforce by 10,500

By Kate Randall
8 September 2006

Intel, the world's largest computer chipmaker, announced plans Tuesday to reduce its workforce by 10,500, or 10 percent, to trim $5 billion in costs over the next two years. Intel president and chief executive Paul Otellini said the move was "essential to Intel becoming a more agile and efficient company."

The measures come in response to lost market share by Intel to the company's major rival, Advanced Micro Devices (AMD), particularly in the market for microprocessors used in consumer and corporate computing markets. Intel's market share shrank to 11.4 percent in the second quarter, from 13.2 percent in the first, the company's smallest market share in four years.

Profits at both Intel and AMD have fallen due to fierce price competition—or a "chip war"—between the two companies. Earlier this year Dell, the world's largest computer maker, announced it was breaking an exclusive relationship with Intel and would begin buying chips from AMD.

Intel said it expected to save $2 billion in costs and operating expenses in 2007 and $3 billion in 2008 through the cuts. The chipmaker currently has 102,500 employees, and said its payroll would drop to 95,000 by the end of this year and to 92,000 by the middle of 2007. Most of the reductions are planned in management, marketing and information technology, with fewer cuts among engineers.

Wall Street reacted less than enthusiastically to the news, having hoped for deeper cuts at the chipmaker. Rumors circulated prior to Intel's announcement that as many as 20,000 jobs would be slashed. Intel shares declined 60 cents, or 3 percent, to $19.39 on the Nasdaq market Wednesday, sending the Nasdaq Composite Index down 29.52 points, or 1.3 percent, to 2176.30. Tech stocks Cisco Systems, Google, Hewlett-Packard, Oracle, Apple Computer, eBay, Yahoo, Gilead Sciences and Applied Materials all declined along with Intel.

"Investors, who had salivated over the long weekend about the prospects of as many as 20,000 layoffs, reacted like disappointed kids under a Christmas tree," wrote Alexei Oreskovic of TheStreet.com. "For a colossus like Intel, which counted more than 100,000 employees worldwide in July, many investors seemed to think there are many more layers of fat to be trimmed."

Investors were eager for "real" or "new" cuts at Intel. About half of the announced 10,500 job reductions have already been made through management layoffs, the sale of two businesses and attrition. Intel said the remaining cuts will come this year from 2,500 layoffs in management, marketing and IT, with 3,000 more in manufacturing, design and other departments beginning in 2007.

In other job-related news, the Labor Department reported September 1 that the US economy had added a net 128,000 jobs in August, a slight increase over the 121,000 added in July, but down from 134,000 in June. The modest job gains reported for August are far below the gains of the 1990s, which often averaged more than 200,000 a month. Only slightly more than half of industries took on new workers in August, "one of the lowest percentages in the post-Katrina period," according to Steven Wood of Insight Economics.

While schools, health care providers, construction companies, and financial services increased payrolls in August, manufacturing and retail hiring was down significantly. Factories shed 11,000 workers in August—following losses of 23,000 jobs in July—and retailers cut 13,500 positions. Transportation and warehousing firms cut 7,100 jobs.

US employers are more and more adopting "just in time" hiring, relying more heavily on temporary workers and outsourcing. "We see firms handling their workforce much more like inventories," Jared

Bernstein of the Economic Policy Institute commented to the *Los Angeles Times*.

Companies like retail giant Wal-Mart monitor customer demand and utilize continuously updated scheduling software to assign workers and stores to the shifts where they are most needed, with a resultant reduction in staffing.

The Labor Department also reported official unemployment figures of 4.7 percent in August, down from 4.8 percent in July. The four-week moving average for jobless claims was also down slightly last week, to 315,250, compared to 318,250 the previous week. These figures, however, do not take into account the thousands of workers who have either given up looking for work, no longer qualify for jobless benefits or have been forced to accept part-time jobs.

Overall economic growth is slowing, with the Federal Reserve Board noting on Wednesday that 5 of its 12 regions had experienced slower growth in late July and August. This followed a spring quarter in which growth slowed to just 2.9 percent, fueled in large part by a cooling housing market, soaring energy prices, and rising interest rates.

Continually worsening conditions for the vast majority of Americans workers are reflected in national productivity figures—the measure of the quality and quality of what workers produce per hour. The 2006 edition of “The State of Working America” from the Economic Policy Institute (EPI) reports that between 1995 and 2005 productivity grew a whopping 33.4 percent, while hourly wages rose only 11 percent (most of this during the late 1990s).

Comparing present rates to those of 1979 the contrast is even sharper, with productivity rising 67 percent while wages rose only 8.9 percent. “The economic expansion continues to bypass most working families,” said Jared Bernstein, co-author of the EPI report.

Workers’ pensions, health coverage and other benefits have also sharply deteriorated. According to the Congressional Research Service, the percentage of full-time private-sector workers with an employer-sponsored retirement plan fell from 66.3 percent in 2000 to 59.7 percent in 2005.

Health insurance coverage for all private-sector workers fell from 58.9 percent in 2000 to 55.9 percent in 2004, according to the EPI report. By contrast, in 1979 close to 70 percent of workers had employer-sponsored health coverage.