Big Firms Deepen Job, Wage Cuts

By CONOR DOUGHERTY

See Corrections & Amplifications below

Strapped U.S. companies, while continuing to slash their work forces, are deploying a once-rare tool to trim labor costs -- pay cuts.

On Friday, microchip maker Advanced Micro Devices Inc. in Sunnyvale, Calif., said it would temporarily cut pay between 5% and 20% for workers and executives. The chip maker also said it would eliminate 1,100 positions.

That news was part of yet another round of large job cuts by big-name businesses.

ConocoPhillips said Friday it would lay off 4% of its work force -- about 1,350 workers -- in the largest hit to the job market to date from plunging oil prices. Pfizer Inc. is planning to lay off a third of its sales force, as many as 2,400 positions, according to a person familiar with the situation. The announcement came days after the pharmaceutical giant cut some 800 research jobs. Car rental firm Hertz Corp., a subsidiary of Hertz Global Holdings Inc., will cut 4,000 positions, and Insurer WellPoint Inc. announced 1,500 layoffs.

Electronics retailer Circuit City confirmed Friday its plans to liquidate, putting more than 30,000 jobs in jeopardy -- potentially one of the largest single blows to the labor force so far in the recession.

In addition to layoffs, companies are increasingly trimming wages, a tactic economic historians said hasn't been wielded broadly since the Great Depression.

Heavy equipment maker Caterpillar Inc. announced in late December it would cut executive pay by half, and many salaried employees would see cuts of as much as 15%. Hutchinson Technology, a Hutchinson, Minn., maker of disk drive components, cut salaries 5% for employees who remained after a round of layoffs concluded this week. In Galveston, Texas, police and firefighters unions agreed to a 3% pay cut as the city grapples with the recession and the aftermath of Hurricane Ike.

Saks Inc. plans to eliminate 1,100 jobs, or 9% of its work force, and slash its capital expenditures. In addition, the luxury retailer will eliminate 2009 merit-based wage increases. Saks will also suspend matching contributions for 401(k) retirement accounts for at least a year and suspend benefit accruals for the few remaining employees in its pension plan.

On Sunday, President-elect Barack Obama's senior economic aide, Lawrence Summers, said he doesn't see the U.S. rate of unemployment topping 10%, according to Reuters.
The Federal Reserve reported this week in its survey of economic activity that companies around the U.S. are considering freezing or cutting pay. The Fed's survey of 12 districts, known as the Beige Book, cited examples in the Boston, Chicago and San Francisco regions.

**Latest Layoffs**

- **AMD**: 1,100 jobs, 9% of work force.
- **ConocoPhillips**: 1,350 (4%).
- **Pfizer**: 2,400 in sales (33% of group).
- **Hertz**: 4,000 (13%).
- **WellPoint**: 1,500 (3.6%).
- **Circuit City**: 30,000 jobs in jeopardy.

In a recent poll by human-resources consulting firm Watson Wyatt, 5% of 117 companies surveyed said they had reduced salaries to cope with the recession; 6% plan to do so in the next year. Meanwhile, 7% of 805 small businesses surveyed recently by the National Federation of Independent Business said they had reduced salaries. The percentage of companies cutting salaries has never been higher than 4% since the survey began in 1973, said William Dunkelberg, chief economist for the NFIB.

Wage pressures are mounting as U.S. consumers are finding some relief in falling prices.

The Labor Department reported Friday that consumer prices inched up 0.1% in 2008, compared to about 4% a year earlier. That represents the slowest pace in a half-century. It also points to especially steep price declines over the past few months since prices, especially of oil and other commodities, soared mid-year before falling. Energy prices dropped 8.3% in December alone, the fifth-straight monthly fall, as crude-oil prices have slumped about 75% since July.

But falling prices bring their own troubles, as employers make up for revenue declines by trimming wages. Employers in recessionary times always feel compelled to squeeze more from less. But with the job market so weak, employees appear more willing to work for less pay than leave behind pensions and health care coverage to brave the worst job market in a generation.

For companies with a unionized labor force, the very real prospect of bankruptcy has eroded much of the remaining power of collective bargaining.

Trucking firm **YRC Worldwide** recently negotiated a 10% pay cut with drivers represented by the International Brotherhood of Teamsters, as well as pay cuts for non-union employees. After layoffs over the past year that have reduced the work force by 15%, the firm is now looking to cut costs without reducing employees. "It's forced people to look at things differently than they have in the past," said Bill Zollars, chief executive of the trucking firm. "We've kind of cut down to the bone because of the severity of the economy downturn."

Jim Price, a Yellow truck driver from Sewell, N.J., recently saw his pay fall 10% to $20.45 an hour, part of the concessions his union made to YRC. Mr. Price, who voted against the pay cut, said the cut will reduce his check by about $100 a week. He anticipated stripping his household
Pharmaceutical giant Pfizer Inc., announced plans Friday to lay off a third of its sales force, as many as 2,400 positions.

What's making it easier for employers to cut wages -- and for workers to accept them -- is that jobs are getting harder to find. Production at the nation's factories, utilities and mines fell by 2% in December from the previous month, the Federal Reserve said Friday. Manufacturing production fell 2.3% and was down just under 10% from December 2007 -- the worst yearly drop since 1975. Manufacturers are using just 70.2% of their current capacity, as of December, suggesting further plant closings, lay-offs and other cost-cutting measures in the coming months.

Small businesses also are resorting to cutting wages. Sarah McGee, owner of Visual Changes Salon and Spa, in Ellicott City, Md., has seen sales fall 10% from the summer, as their customers stretch out hair appointments and do their nails at home.

Labor represents about half of Ms. McGee's costs, so she recently cut wages for two of her nine employees. A nail technician's wage fell to $9 an hour from $10; another who performs facials and body waxing fell to $14 an hour from $17. Ms. McGee said employees had the choice of working fewer hours at their old rates, but they favored a pay cut, anticipating more tips and a chance to build their client base. "We need to have the employees," she said, "but we also have to be able to pay the bills."

While average wages are still on the rise nationally, wage cuts have become an instant way for companies to save cash at a time of tight credit. The last time the U.S. had widespread wage cuts was during the Great Depression, when benefits were a smaller slice of overall compensation. Manufacturing production workers saw their wages fall 10 cents to 49 cents an hour between
1929 and 1933, according to the Historical Statistics of the United States. "In general, since the Great Depression you haven't seen nominal wage cuts," says Price Fishback, an economic historian at the University of Arizona.

Today, most employees are not in a position to argue. The U.S. shed almost two million jobs in the last four months of 2008, with most sectors losing ground. The rate at which employees quit their jobs has also been falling, indicating that workers are finding fewer opportunities. The quit rate was 1.4% in November, compared with 1.8% a year earlier, according to the Bureau of Labor Statistics.

With the quit rate so low, companies are less worried about losing their best workers. Kulicke & Soffa Industries Inc., a Fort Washington, Pa. designer and manufacturer of semiconductor equipment, laid off about 240 employees last year as demand dropped for its line of wire-bonding equipment. The company has since announced more layoffs, and also instituted a 10% wage cut for salaried employees. Executive salaries were cut between 15% and 20%.

C. Scott Kulicke, the company's chief executive, said some employees told managers they would prefer pay cuts over a deeper round of layoffs. The recession is bad enough that Mr. Kulicke isn't as worried about the company's hard-to-train engineers leaving for another job. "You're balancing cost-cutting against retention issues," said Mr. Kulicke. But when everyone seems to be cutting jobs, he said, he is less worried about losing top employees.

Other companies are resorting to measures just shy of wage cuts and layoffs. On Wednesday, Gannett Co. Inc, the largest U.S. newspaper publisher, said it would force workers to schedule a week off without pay.

—Kelly Evans and Don Clark contributed to this article.

Write to Conor Dougherty at conor.dougherty@wsj.com

Corrections & Amplifications
This article incorrectly stated the inflation adjusted earnings of manufacturing production workers between 1929 and 1933. The article stated that workers saw their hourly wages fall 10 cents to 49 cents per hour between 1929 and 1933, or about $29 an hour to $18 an hour in today's dollars. The dollar figures are in fact weekly wage figures between 1929 and 1933. The article should have said that, because prices fell faster than wages between 1929 and 1933, inflation-adjusted hourly wages in year 2006 dollars rose from $6.94 an hour in 1929 to $7.62 in 1933.