Tech-sector job cuts up 20 percent

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Despite increased revenues and profits for the high-tech industry, the technology sector has been cutting jobs at a faster clip than last year while creating few new jobs to replace eliminated positions.

Among the culprits: merger activity and continued outsourcing.

According to global outplacement firm Challenger, Gray & Christmas Inc., the technology sector -- which includes computers, telecommunications, electronics and e-commerce -- is "one of the few areas of the economy that has failed to add jobs consistently over the last 12 months." The firm said in a report released Tuesday that the pace of tech-sector job cutting through the third quarter is nearly 20 percent ahead of 2004 employment cuts for this same period.

For this year's third economic quarter, ended Sept. 30, technology firms announced 41,439 job cuts, up 4.3 percent from 39,720 in the second quarter. The Challenger report added that for the year, tech-job cuts totaling 140,696 are 18.8 percent higher than the three-quarter total of 118,427 in 2004.

Also according to the firm, however, job cuts in the technology sector may finally be slowing. The Challenger report noted that the 41,439 job cuts announced between July and September of this year were 24 percent lower than the 54,701 job cuts during the same period in 2004.

And, the firm added, while year-to-date tech-sector job cuts are 18.8 percent ahead of 2004, that gap has been shrinking. In the first quarter of 2005, 59,537 job cuts were more than double the 29,513 cuts announced in the first quarter of 2004.

"The gradual slowdown in job cuts would be more encouraging if it were complemented by a rise in hiring, but job creation simply has not materialized. The industry may indeed be recovering when it comes to revenue, profits and earnings, but certainly not when it comes to employment," noted John A. Challenger, chief executive officer of Challenger, Gray & Christmas.

While the pace of cuts in the tech sector may be slowing down, the employment pace of the sector looks comparatively anemic compared to the overall pace of jobs creation in the United States. During the last 12 months the U.S. economy has created nearly 2.2 million jobs, while computer and communications-equipment manufacturers have each added just 3,000 workers since last September. The Challenger report added that meanwhile, employment among manufacturers of semiconductors and electronic components and makers of electrical equipment and appliances has fallen by 11,300 and 11,800, respectively, according to government data.

In terms of employment, the telecommunications industry has slowed the most dramatically with cuts, which have decreased 82 percent from 35,079 cuts in the first quarter to 6,428 cuts in the third quarter. Job creation, however, remains flat, with only 1,400 workers hired in the last year.

According to the Challenger report, the only significant tech-sector job growth has occurred in the professional-services area, where employment in computer-systems design and related services grew by about 30,000 since September of last year. Management and technical consulting service firms also added about 29,000 positions during this period.

"Things finally appear to be on track for the tech sector. Spending on new software, IT services and computer equipment is up this year and expected to increase again in 2006. New Internet ventures are being formed and online advertising is up 34 percent over last year. However, one significant question remains: Where are the new jobs?" said Challenger. "Consolidation appears to be driving employment trends in the tech sector. Companies may be adding workers through the purchase of other firms. Heavy merger activity would also help explain why 2005 tech job cuts are still outpacing 2004, even though the tech sector is in a much stronger position."

He added, "And even though outsourcing appears to have fallen off the front of the business pages as the hot issue of the day, the practice is still widely used as a cost savings device and a way that tech companies can enjoy larger profits and earnings without expanding their payrolls."

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