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THE EMPLOYMENT SITUATION: FEBRUARY 2002

HEARING

before the

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED SEVENTH CONGRESS

SECOND SESSION

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THE EMPLOYMENT SITUATION: FEBRUARY 2002

Friday, March 8, 2002

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.

The Committee met, pursuant to notice, at 9:30 a.m., in Room 311, Cannon House Office Building, the Honorable Jim Saxton, Chairman of the Committee, presiding.

Present: Representatives Saxton and English; Senator Reed.

Staff Present: Christopher Frenze, Robert Keleher, Colleen J. Healy, Brian Higginbotham, Patricia Ruggles, and Matthew Salomon.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. I am pleased to welcome Acting Commissioner Orr once again before the Joint Economic Committee (JEC) to testify on the February employment situation.

The employment data reported today appear to reflect the end of the recession also shown in other recent economic data. Payroll employment stopped its long decline, actually rising 66,000 in February, although partially under the influence of some special factors. The decline of the unemployment rate in January was sustained in February, leaving its level at 5-1/2 percent.

Last month, I noted the preliminary signs that indicated the economy may have bottomed out. Since this time, additional data have been released suggesting that the economic rebound appears to be underway. A resumption of economic growth would be very welcome news for all Americans, although it remains to be seen how strong and sustained the rebound will be.

Nonetheless, the recent data have been generally quite positive. GDP growth in the fourth quarter of 2001 was sharply revised upward, with consumption growth reaching six percent for the period. The Institute for Supply Management data suggest that manufacturing as well as service industry output is now increasing. Personal income and consumption have both increased, according to the most recent monthly data. The leading economic indicators have risen for the fourth month in a row.

The bottoming out in manufacturing output is encouraging since its problems signaled the outset of the slowdown in 2000. Housing and auto sales remain strong, and other official statistics also register improvement.

Over the last month, the evidence has continued to mount that the recession has ended. However, the fragility of the economy, particularly investment, remains a concern that justifies enactment of the economic stimulus package in Congress. Moreover, the economy remains vulnerable to the risks of adverse international economic developments, high debt levels, security costs and other factors.

Given the recession and the events of September 11, the prospect of economic recovery in the near future is especially impressive and reflects the remarkable resilience of the American economy and the American people.

In conclusion, what had been preliminary signs of economic recovery last month have now been confirmed in other more recent data. However, we must be on guard against complacency. Congressional enactment of an economic stimulus package would be a prudent insurance policy against the potential for another slowdown in economic activity.

And I will turn to Senator Reed for his opening statement.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 13.]

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. Thank you very much, Mr. Chairman. I want to thank Commissioner Orr and her colleagues once again for joining us. And as you indicate, there are encouraging signs that the recession is over. Chairman Greenspan last week indicated as much in his testimony. But there is a concern that this might be a jobless recovery. And so these employment numbers today – and those in the future – are particularly critical to measuring the full effect of our returning and reviving the American economy.

Today there are nearly eight million unemployed Americans and more than four million additional workers who want a job but are not counted among those who are unemployed. And more than two million Americans have exhausted their benefits since the start of this recession. In fact, we are approaching a record number of people who have exhausted their benefits and are not eligible for additional benefits.

So it is particularly pleasing to me that this week the House moved to extend unemployment benefits after considering a series of proposals. I think we finally arrived at a proposal which recognizes the need to assist the unemployed while also providing some prudent and effective, limited steps to further stimulate the economy. Hopefully, this provision will be adopted very quickly by my colleagues in the Senate.

And our task today is to ensure that we put this country on a strong and sustainable growth path; that we do, in fact, follow through and extend unemployment benefits to workers; that we continue to boost the economy, and we do so in a way that will not only revive our GDP, but give back meaningful employment to millions of Americans.

Thank you, Mr. Chairman.

[The prepared statement of Senator Reed appears in the Submissions for the Record on page 15.]

Representative Saxton. I thank the gentleman. Commissioner, welcome, we are pleased to have you here today, and we are prepared for your statement.

OPENING STATEMENT OF LOIS ORR, ACTING COMMISSIONER, BUREAU OF LABOR STATISTICS:

ACCOMPANIED BY KENNETH V. DALTON, ASSOCIATE COMMISSIONER, OFFICE OF PRICES AND LIVING CONDITIONS; AND PHILIP L. RONES, ASSISTANT COMMISSIONER OF CURRENT EMPLOYMENT ANALYSIS

Ms. Orr. Thank you. Mr. Chairman and Members of the Committee, as always I appreciate the opportunity to comment on the labor market data, and I think especially today. We are reporting today that nonfarm payroll employment was up by 66,000 in February, following losses that averaged 146,000 a month between the beginning of the recession in March 2001 and this past January. The largest increase over the month occurred in retail trade, but we suggest caution in interpreting that figure as a sign of strength for that industry, as I will explain in more detail later in the statement.

Aside from retail trade, nonfarm payroll employment on net was little changed in February. Employment did rise in health services, and a mild winter helped boost the number of jobs in construction. There were employment declines in manufacturing, mining, wholesale trade, and finance. The unemployment rate was essentially unchanged at 5-1/2 percent.

Looking in more detail at the data from our survey of employers for February, job losses continued in manufacturing, a decline of 50,000 workers, although that was about half the average pace of the prior 12 months. Employment in motor vehicle manufacturing increased by 26,000 over the month, reversing a decline of similar magnitude in January. Most of the February increase stemmed from the reopening of automotive plants that had shut down for inventory control in January. Nonetheless, compared to a year ago, employment in auto manufacturing is down 63,000. Elsewhere in transportation equipment, job losses in aircraft manufacturing have totaled 31,000 in the last four months, 8,000 of which came in February. Sizable employment declines continued in printing and publishing, which was down 13,000, and electrical equipment where the decline was 22,000. The February decline of 14,000 jobs in industrial machinery employment was below the 21,000 average of the prior 12 months. Primary metals and fabricated metals also had smaller employment declines in February than in recent months. The factory workweek edged up a tenth of an hour to 40.7 hours, and factory overtime was steady at 3.9 hours.

Mining employment in February declined sharply by 6,000, with most of the losses in oil and gas extraction. Since last September, the oil and gas industry has lost 9,000 jobs.

Job losses in wholesale trade, which numbered 15,000, accelerated in February after two months of smaller declines. Most of that loss was concentrated in durable goods distribution.

Employment in finance dropped by 11,000 in February, the first loss in this industry since last July. Within finance, job losses continued at security brokerages, where employment has fallen by 45,000 since the industry's peak last March. On the other hand, employment in mortgage brokerages was up in February, but only slightly. In contrast to the decline in finance, real estate added 5,000 jobs in February, its first substantial increase since last September.

With unusually mild and dry weather in February, we found that construction employment increased by 25,000 after seasonal adjustment. This unusually mild and dry weather may have contributed to the employment growth in heavy construction where the increase was 12,000 and in special trade contractors, 14,000, particularly in the weather-sensitive concrete component of special trade. Within general building contractors, continued gains in residential contractors offset nonresidential losses.

In February, retail trade employment rose by 58,000, seasonally adjusted. And, of course, this is the point I was referring to at the beginning of my remarks, that it is important to understand this employment change we are showing in retail trade. Large seasonal layoffs, as we know, always occur in retail trade in January and February, following the holiday season buildup in the preceding months. If you will recall, holiday hiring in late 2001 was well below normal. And then as a result, there were fewer workers to lay off in January and February. These relatively small layoffs in January and February appear in our data as seasonally adjusted increases, and over the two months they have totaled 99,000. A clearer perspective on the industry's trend requires a longer-term view, which shows that retail employment is down by 142,000 workers since last July.

Employment in services edged up by 40,000 in February. Gains in December, January, and February totaled 132,000, which followed losses in October and November that were almost twice that amount, 245,000. In February, help supply services did not lose jobs for the first time in nearly a year and a half, and we have seen consistent job losses every month in help supplies since September, 2000. This month, there is a very modest increase. Losses during that period of September 2000 through January 2002 in help supply had totaled 669,000, and that is an industry that in September 2000 had employment of approximately 3-1/2 million. Modest gains also were posted in education, engineering, and management services and hotels.

Employment in health services continued its strong growth trend, with an above-average gain of 34,000 jobs in February, with 13,000 of those jobs being in doctors' offices and clinics.

Within transportation, job losses in the passenger component of air transportation have slowed dramatically in the past two months, following a decline of 87,000 in the fourth quarter of 2001.

Average hourly earnings of production or nonsupervisory workers in the private sector rose two cents, to $14.63 in February. This followed a gain of three cents in January, and that is a revision to the January number. Hourly earnings over the year increased by 3.7 percent.

Turning to some of the measures obtained from our Current Population Survey, that is, our survey of households, the unemployment rate was essentially unchanged at 5.5 percent in February, as was the number of unemployed persons, which totaled 7.9 million. The jobless rate for Hispanics declined in February, while the rates for adult men, adult women, teenagers, whites, and blacks were little changed. Looking at another measure of labor underutilization, the number of part-time workers who would have preferred full-time work rose by 255,000 to 4.2 million, following a decline in January.

The labor force increased by 821,000 over the month, reflecting a large increase in employment and reversing a very substantial decline that we saw last month; that is, in January. Both the labor force participation rate, which is at 67.7 percent, and the employment population ratio, at 63 percent, rose over the month, offsetting similar declines in January.

In summary, the jobless change rate was essentially unchanged in February at 5.5 percent, and the number of workers on nonfarm payrolls rose slightly in February after six months of losses that totaled 1.3 million.

My colleagues and I now would be glad to answer any questions.

[The prepared statement of Ms. Orr, together with accompanying press release appear in the Submissions for the Record on page 16.]

Representative Saxton. Thank you very much. Your statement is, as usual, very articulate.

I brought some charts with me here that I would just like to run through for just a moment, just to get your reaction to see if your take on these statistics as depicted on these charts is the same as mine.

The first chart shows the trends in GDP over the last several years. And, of course, beginning in mid-2000, we begin to see diminished economic growth as expressed in GDP. And finally in the third quarter of 2001, we actually saw negative growth. And, of course, the revised GDP growth figures for the last quarter of last year are very encouraging, back in the positive territory for the first time. This would be a positive indicator of economic growth, would it not?

[The chart entitled, “Gross Domestic Product” appears in the Submissions for the Record on page 43.]

Ms. Orr. Yes. Of course, we see the reflection in our productivity measures that we released last week for fourth quarter 2001 reflecting that revision in gross domestic product; because if you recall last month we met, the GDP was up two-tenths, and with the revision that is reflected also.

Representative Saxton. We thought maybe the numbers that we saw beginning in January were some kind of an anomaly, since the unemployment rate slipped back to 5.6 percent. But now in February we see, as you put it, the unemployment rate remained the same. And I know you say that for statistical reasons. But the full number is a tenth of a percentage point lower than it was even in January, isn't that right?

Ms. Orr. Right. The difference is not statistically significant.

Representative Saxton. Right. I agree. And of course, we saw positive numbers in employment data for February. That is another good sign. And we look at something called the Diffusion Index, which is an index that measures growth across the economic sectors in 353 industries, and we saw that last November that only 38 percent of those 353 industries were experiencing growth. And in the February numbers, we see that 48 percent, up from 38 percent just four months ago, are now experiencing growth. So that would tend to lend credence to the fact that things have changed some.

Ms. Orr. We haven't seen with the numbers we are releasing today, substantial growth in very many of the industries, but we have seen something – stabilization, if you will, or substantial reduction in the rate of job loss.

Representative Saxton. We would like to certainly see the percentage of the Diffusion Index above 50 percent. But 38 percent as compared to 48 percent, we seem to be doing a little better.

Personal consumption during the last quarter of the year is also an encouraging sign. We saw six percent growth in personal consumption. The last time we saw that was back in the second quarter of 1998. So not to overstate these numbers, or not to overstate these statistics, but we are seeing a trend here in our chart that would indicate at least a bottoming out in some growth as well, true?

[The chart entitled, "Personal Consumption Expenditures" appears in the Submissions for the Record on page 44.]

We still continue to see problems, so we certainly cannot begin to celebrate too strongly yet. As we see in the next chart, fixed private nonresidential investment continues to be a problem. Can you comment?

[The chart entitled, "Fixed Private Nonresidential Investment" appears in the Submissions for the Record on page 45.]

Ms. Orr. Well, certainly we see in our employment numbers in nonresidential construction and in residential construction some continued strength.

Representative Saxton. The next chart also, on its face, looks like we still have a problem with regard to nonfarm payrolls. However, there is a trend that is fair and impartially unmistakable during the last four months. We see that while nonfarm payrolls showed very strong weakness in each month for the last four, things seemed to have gotten a little less bad. And in February, for the first time, we would have a yellow bar that goes above the line. Of course, the February numbers aren't on this chart, but the February numbers would show the trend that began four months ago in terms of nonfarm payroll becoming less bad. And this time, for the first time, we would see a positive yellow bar going up, again indicating that there is a trend underway.

[The chart entitled, "Employees on Nonfarm Payrolls" appears in the Submissions for the Record on page 46.]

Ms. Orr. Actually with this month, it is the first time in seven months that we have had an increase.

Representative Saxton. How long has it been since payroll employment expanded as much as it did in February?

Ms. Orr. It is over a year ago. We had an employment increase of 167,000 last February. That was followed by an increase of 59,000 in March of 2001, and then an April decline of 165,000. In fact, as I said, this month is our first employment increase in seven months.

Representative Saxton. And you are saying that since we have had a nonfarm payroll employment increase of this level has been since last February?

Ms. Orr. Yes.

Representative Saxton. I spoke about the Diffusion Index a few minutes ago. Do you use the Diffusion Index for purposes in your evaluations?

Ms. Orr. We do look at it. We look at a number of different measures.

Representative Saxton. Do you have other indices that show the trend that appears to be underway?

Ms. Orr. I would note that our measure of hours appears to have stabilized. But were you asking me about internal Bureau-produced data that we use, or are there other outside or external data that we look at? We look at the full range of economic data that is issued.

Representative Saxton. I am trying to determine whether the trend that we have seen from the charts, from your numbers, from the unemployment rate, is evident in other economic data? Do you have other indicators that we haven't talked about here?

Ms. Orr. I don't know that we in the Bureau do, but certainly from a variety of other sources there are measures that seem to be consistent with the data that you have in your charts and the data that we are issuing today. I would say, for example, orders for goods and services, for instance, or evidence that there is decline in inventories.

Representative Saxton. House sales, existing house sales, are almost at a peak in January. Is that a high for January or a high overall in terms of existing housing sales? There was a decline in employment in heavy construction; is that correct?

Ms. Orr. Yes.

Representative Saxton. Is that consistent with the problems in the commercial real estate sector?

Ms. Orr. There was an increase in employment in heavy construction in selected special trades such as concrete, as I mentioned. But among general contractors, there is a decline in employment among general contractors that are engaged in nonresidential construction.

Representative Saxton. Is there a reason that you can point to as to why that has occurred?

Ms. Orr. Because folks aren't building buildings.

Representative Saxton. Obviously. You mentioned weather. How important do you think weather was in this month's—

Ms. Orr. It was our assessment that the mild and dry weather actually for December, January, first half of February period, was significant in helping to account for the increase in employment in February.

Representative Saxton. So, while we have seen a trend here – first of all, these numbers are nowhere near as strong as they could have been. So, while we see a trend, and there are other factors that may be at play, like weather, maybe it is not time quite to pop the cork in the champagne bottle and celebrate that robust growth is here again.

Ms. Orr. We were talking about champagne on the way over, and we weren't ready to pop the cork either.

Representative Saxton. Mr. English?

Representative English. Thank you, Mr. Chairman. I appreciate the opportunity to participate in today's hearing. And I guess while I am appreciative of the fact that some of these trends are very encouraging for the long hall, I am constrained to note that in my part of western Pennsylvania, we are still very much in a recession. And it is based particularly with what is going on in the manufacturing sector, to which point I want to direct all of my questions. Commissioner Orr, what has been the trend in manufacturing employment since July of 2000 and specifically how many jobs in this sector have been lost in this time frame and in what industries do these declines seem to be concentrated?

Representative Saxton. If I may just ask the gentleman to yield for a minute, we have a chart that speaks to this issue. I think it is the next-to-the-last chart.

[The chart entitled, "All Employees: Manufacturing" appears in the Submissions for the Record on page 47.]

Representative English. I am grateful to the gentleman for the visuals.

Ms. Orr. You asked the number of manufacturing jobs that have been lost?

Representative English. General trends in manufacturing employment since July 2000, how many jobs have been lost in this sector in this time frame, and in what industries do these declines seem to be concentrated?

Ms. Orr. Between July and this February, manufacturing employment declined by approximately 1.7 million. I would also note there are many who would say that a number of jobs also in manufacturing, to be found in the help supply industry, you know, declined very substantially between – as I noted earlier, between September 2000 and currently.

With respect to the industries in which we had declines, the manufacturing industries in which there were declines looking at this period, they have really spread across almost all manufacturing industries with, in many instances, the larger industries incurring larger losses. Let me just note a few of those industries in manufacturing that accounted for a large share of the loss: electronic equipment, industrial machinery, printing and publishing, air transportation, primary metals, fabricated metals, textiles.

So the losses were to be found certainly in durable goods manufacturing, but also to a somewhat lesser extent in nondurable goods. Industries such as textiles, for example, have been in a state of declining employment for I think decades , a generation.

Representative English. I can understand that in the case of textiles, we are looking at more of a long-term trend. But I am also concerned that some of the manufacturing sectors which we have managed to retain on shore and in which we are competitive seem to be suffering significant job losses. Do you have any evidence to suggest whether these job losses in manufacturing are temporary or permanent?

Ms. Orr. Well, looking at the long haul as far as manufacturing is concerned, you know, we have continued to see manufacturing as a smaller proportion of total employment in the nation. For example, in our every two years' employment projections, we are projecting 10 years from now employment manufacturing will be similar in size to what it is now. So overall, you know, we have seen declines in manufacturing, and based on our projections, would not expect to see vast kinds of increases in employment.

I would note that during the 1990s, we saw a sizable increase in manufacturing employment in this country, but with the job losses in manufacturing that have occurred since 1998, I would say employment right now in manufacturing is fairly similar in size to what it was at the beginning of the nineties.

Representative English. So actually there have been ebbs and flows within manufacturing employment. Isn't it true that manufacturing is one of the last sectors to recover during a recession normally, given, at least for some areas of manufacturing, the long lead times in manufacturing orders?

Mr. Rones. Historically, what employers tend to do is they start increasing hours in manufacturing and that allows for the flexibility for that period when you are not really certain whether you are going to see a sustained increase in demand. More recently, employers have been less likely to use hours – that is, hours have been less cyclical and employment has been more cyclical.

I would say we have a flattening or maybe even a little increase in manufacturing hours in the last few months, and that would be a positive sign.

Representative English. You go ahead.

Ms. Orr. And we sometimes do see some of these jobs showing up in other industries. People that are employed in manufacturing, in reality, may be in help supply. And to the extent that manufacturers increase the contracting out of a lot of the services or functions they would have performed by themselves, we can see a decline in manufacturing that, if organizations were structured differently, might not see as a large a decline.

Representative English. What has been the recent trend in the Diffusion Index for manufacturing measuring the breadth of monthly employment gains in that sector, and what was its level a year ago relative to today?

Mr. Rones. In manufacturing – and this is the full range of specific industries – it is 136 that we include in our Diffusion Index. Right now we are at 41 percent. That is better than a year ago when we were at 32 percent. But I note that we haven't been above that 50 percent mark that the Chairman described earlier since the middle of 2000. So that, of course, corresponds with this long period of sustained – actually this predates the period of sustained losses in manufacturing.

Representative English. I thank the panelists for their testimony. It is most helpful. And I thank you for the opportunity to inquire, Mr. Chairman.

Representative Saxton. Thank you.

Commissioner, we appreciate you being here again. I have no further questions at this point. I would just like to take this opportunity to say that. A function of the Joint Economic Committee is to look at a variety of functions of the Federal Government, and try to determine how those functions are affecting the economy, or whether they are affecting the economy in any way. And certainly as we hope that we are seeing the beginning of the end of the recession, we need to recognize the role that the Federal Reserve has played in bringing about monetary policy that has set the stage for economic growth, pointing of course to relatively low interest rates.

The Congress, in addition, on a second front, reduced tax rates not long ago, not to everybody's liking, maybe not to anybody's liking, depending on your point of view, but marginal rates today are lower than they were earlier.

We have also seen some restraint in government spending, until the events of September 11 at least, and we hope we can continue along that path.

We also during the last decade or so have seen some very robust increases in investment, in technological developments that have added to productivity, and of course we continue to promote open markets and international trade, which have again played a part in setting the stage for what we hope we see here; that is, the beginning of another period of economic growth.

So we thank you for bringing this news to us today. We look forward to seeing you again next month. Mr. Rones and Mr. Dalton, thank you. And I thank my friend, Mr. English, for his participation.

[Whereupon, at 10:10 a.m., the Committee was adjourned.]

SUBMISSIONS FOR THE RECORD

THE PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

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However, the fragility of the economy, particularly investment, remains a concern that justifies enactment of economic stimulus legislation by the Congress. Moreover, the economy remains vulnerable to risks from adverse international economic developments, high debt levels, security costs, and other factors.

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Prepared Statement of Senator Jack Reed, Vice Chairman

Thank you very much, Mr. Chairman. I want to thank Commissioner Orr and her colleagues once again for joining us. And as you indicate, there are encouraging signs that the recession is over. Chairman Greenspan last week indicated as much in his testimony. But there is a concern that this might be a jobless recovery. And so these employment numbers today – and those in the future – are particularly critical to measuring the full effect of our returning and reviving American economy.

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So it is particularly pleasing to me that this week the House moved to extend unemployment benefits after considering a series of proposals. I think we finally arrived at a proposal which recognizes the need to assist the unemployed while also providing some prudent and effective, limited steps to further stimulate the economy. Hopefully, this provision will be adopted very quickly by my colleagues in the Senate.

And our task today is to ensure that we put this country on a strong and sustainable growth path; that we do, in fact, follow through and extend unemployment benefits to workers; that we continue to boost the economy, and we do so in a way that will not only revive our GDP, but give back meaningful employment to millions of Americans.

Thank you, Mr. Chairman.