

# THE EMPLOYMENT SITUATION: AUGUST 2001

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**HEARING**

**before the**

**JOINT ECONOMIC COMMITTEE  
CONGRESS OF THE UNITED STATES**

**ONE HUNDRED SEVENTH CONGRESS**

**FIRST SESSION**

—————  
**September 7, 2001**  
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# THE EMPLOYMENT SITUATION: AUGUST 2001

Friday, September 7, 2001

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

The Committee met, pursuant to notice, at 9:30 a.m., in Room 1334, Longworth House Office Building, the Honorable Jim Saxton, Chairman of the Committee, presiding.

**Present:** Representatives Saxton and Dunn; Senators Bennett and Corzine.

**Staff Present:** Christopher Frenze, Robert Keleher, Colleen J. Healy, Brian Higginbotham, Matthew Salomon, Daphne Clones-Federer, Jason Fichtner, Reed Garfield and Stephen Thompson.

## OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

**Representative Saxton.** We will get started relatively on time.

We are expecting some other Members to join us as we go along here, but let me just begin by welcoming Commissioner Abraham to report on the release of new economic employment and unemployment data for August.

Recent economic data continue to suggest that the economic slowdown that began in the middle of 2000 continues. The rate of real GDP growth has slowed quite sharply since the second quarter of 2000, barely remaining positive in the second quarter of 2001. Manufacturing employment has fallen sharply since July of 2000, posting cumulative job losses of slightly over 1 million in the last 13 months. Investment has plunged over the last several quarters, and corporate profits are weak.

Fortunately, however, consumer spending and housing have held up quite well. In addition, since last January the Fed has reduced interest rates, Congress has lowered the tax drag on the economy, and energy prices are falling from their recent highs. These factors could reasonably be expected to lead to a recovery in economic activity by the first quarter of next year, but the report this morning only reinforces my concerns about the current weakness of the domestic and international economy, and I know the administration is likewise concerned as recent data has prompted the President to suggest a further economic stimulus package.

The employment data released today reflect the seriousness of the economic slowdown. Payroll employment plunged by 113,000. The payroll declines were focused on the manufacturing sector and only add to the previous severe job losses in manufacturing under way since the middle of 2000, bringing the total to 1 million jobs lost. The diffusion index, a measure of the breadth of employment growth, declined again, with the manufacturing component falling to especially low levels. The

diffusion index has tended downward since June of 2000. The unemployment rate has climbed to 4.9 percent.

As I have noted previously, one way to address the weakness of the domestic and international economy is through the international easing of monetary policy. The steps taken by the U.S., European, and Japanese central banks over the last month show movement in the right direction, but more action along these lines will likely be needed. Further changes in fiscal policy may also be needed, as was recently noted by the President.

In sum, the 13 months of economic stagnation have been costly to the American economy. The manufacturing sector has been especially hard hit and has suffered the brunt of the significant economic losses now totaling over a million. However, the economy has not fallen into recession. Over the next several months policymakers must remain focused on the condition of the economy and the policy alternatives available in the event further action is needed.

Now I would like to turn to my colleague from New Jersey, Senator Corzine.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 16.]

**Senator Corzine.** Thank you, Mr. Chairman. I appreciate your holding this hearing.

I think it is particularly apt that we do this on current set of statistics and current environment because certainly it appears to me I think many of us see accumulating weakness occurring, and I know we have serious concern particularly with regard to our current budgetary situation.

I am anxious to hear Ms. Abraham's comments on the underlying context of these statistics and what they mean for personal income and therefore consumer spending and that two-thirds of the economy that has been sort of the lifeline to at least marginal growth in our economy in the first six months of this year. I think the statistics and those implications have real impact on future monetary policy which I certainly hope will continue to be supportive of economic growth but I think raise the question of whether revisiting the nature and structure of our tax program in the country is appropriate with more fiscal stimulus now being in order.

So I look forward to having a good dialogue on what I think are very important indicators of where we are and where we are going and look forward to a good session.

**Representative Saxton.** Thank you very much.

Commissioner, the floor is yours. We are anxious to hear your perspective this morning, so you may begin.

**OPENING STATEMENT OF KATHARINE G. ABRAHAM,  
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. Abraham.** Thank you. As always, I appreciate the opportunity to appear before this Committee to discuss the data that we have to release.

As you have both noted in your opening remarks, the labor market continued to weaken in August. The jobless total swelled by more than a half million over the month, and the unemployment rate rose to 4.9 percent, its highest level in nearly four years. Nonfarm payroll employment fell by 113,000 in August, bringing net job losses since March to 323,000. Manufacturers continued to slash jobs in August, and there was also a large employment decline in transportation and public utilities. Most other major industries showed little or no change in employment over the month.

Manufacturing employment fell by 141,000 in August. Since July of 2000 the industry has lost slightly more than a million jobs. The unemployment rate for manufacturing workers rose in August to 5.7 percent, up from 3.5 percent a year earlier.

Employment reductions occurred throughout manufacturing in August, with almost every component industry losing jobs. Industrial machinery and electrical equipment, however, continued to account for a disproportionate share of the overall decline in manufacturing employment.

Manufacturing woes continued to affect transportation employment, which fell substantially in August, most notably in trucking and warehousing.

Construction employment was little changed over the month. This industry, which had added 221,000 jobs last year in calendar year 2000 and continued to expand into the first part of this year, has shown no net job growth since March.

Services employment rose by 72,000 in August. Even with that gain, however, employment growth in services has averaged only 10,000 per month over the past five months, compared with 93,000 per month in 2000 and 131,000 per month in 1999.

In August the overall gain reflected continued strength in health services. There was also an unusually large gain in social services employment. Combined with a weak July, the August increase put the industry back on its trend growth path.

Computer services employment declined by 5,000 in August. This was the first monthly decline for that industry since February of 1988, although growth in the industry had slowed in recent months.

Employment growth also has slowed in engineering and management services, another industry that had been expanding rapidly. Help supply

employment – that is mainly temporary help employment – was about unchanged in August, following sharp declines totaling more than 400,000 since last September.

Turning now to the data from our survey of households, the number of unemployed and the unemployment rate rose sharply in August, and employment fell by nearly a million. Both the increase in the number of unemployed persons and the decrease in employment occurred disproportionately among young workers, by which I mean those age 16 to 24. Overall, the unemployment rate jumped four-tenths of a percentage point to 4.9 percent over the month, after having remained in the 4.4 to 4.5 percent range since April. While still low by historical standards, the August rate is the highest posted since September of 1997.

It is interesting that over the month both the number of newly unemployed persons – those who have been unemployed less than five weeks – and the number of long-term unemployed – those unemployed 15 weeks or more – rose substantially. Long-term unemployment in August total 1.8 million, up from about 1.3 million in at the end of last year.

In summary then, the unemployment rate rose in August to 4.9 percent, its highest level in nearly four years. Job losses continued to mount in manufacturing, and the employment situation in most other industries remained weak.

[The prepared statement of Commissioner Abraham appears in the Submissions for the Record on page 17.]

**Representative Saxton.** Commissioner, thank you very much. We are obviously always interested in the information that you bring to us, and certainly today is no exception. We wish the news were better. However, as you have pointed out, we continue to see weakness in the economy.

As you also have pointed out many times in the past, the monthly numbers and data that you bring to us are a snapshot in time, and so I would like to explore with you some trends over a longer period of time as well as to ask you about this month's data.

Let me just begin by looking back over where we have been over the last several quarters – over the last year, actually. Let me just ask you this. What were the average monthly gains in payroll employment in the 12 months prior to July of 2000 so that we can put this in some perspective?

**Ms. Abraham.** Let me just take a July-to-July number. The average monthly gains from July of 1999 through July of 2000 were running at 240,000 per month.

**Representative Saxton.** \$240,000 on the plus side—

**Ms. Abraham.** 240,000 people per month.

**Representative Saxton.** 240,000 people.

**Ms. Abraham.** 240,000 jobs added per month.

**Representative Saxton.** Right. So that would be considered healthy growth from July of 1999 until July of 2000.

**Ms. Abraham.** That pace of growth is very much in line with the annual average growth that we were seeing throughout the 1990s, a little higher sometimes and a little lower sometimes, but beginning in 1993 up through the end of 1999, one year that was higher and one year that was below 200,000 but numbers in more or less that range through that whole period.

**Representative Saxton.** So that was obviously part of the healthy economic climate that we saw, and things were continuing up through July of 2000 to be considered fairly healthy. While you have got your calculator out, then, can you tell us what the average monthly gains were after July of 2000 until perhaps July of 2001 or August of 2001?

**Ms. Abraham.** Up through the present time, that 13-month period, we have on net added 33,000 jobs per month.

**Representative Saxton.** So we have seen during the last – was that 12 or 13 months that you did?

**Ms. Abraham.** I did 13 months, and Phil is going to check my calculation – 33,000.

**Representative Saxton.** So the average over the past 13 months has been an increase of just 33,000?

**Ms. Abraham.** I might characterize the data slightly differently in that I think there are two different subperiods within that longer period. If you take December, 1999, through December of 2000, we were still running at a pace of 187,000 jobs per month, dropping down to 101,000 jobs per month between September and March of this year, and then it has really been since March that things have taken another step downwards. From March through August we have in fact lost an average of 65,000 jobs a month. But whichever way you—

**Representative Saxton.** The slower growth began in July of 2000, though, isn't that correct, particularly in manufacturing jobs?

**Ms. Abraham.** If you want to focus on manufacturing, that would be correct. Regardless of where exactly you break the numbers and which period you look at, clearly things have weakened substantially.

**Representative Saxton.** Let us talk about manufacturing for a moment. What has been the trend in the manufacturing employment since July of 2000?

**Ms. Abraham.** Looking at manufacturing as a whole, since July of 2000 we have lost nearly a million jobs, actually just over a million jobs. So you could figure out the average monthly decline implied it is 78,000 a month from July of 2000 through August of this year.

**Representative Saxton.** And the chart that we brought with us again this month shows that we had relatively significant – at least a steady manufacturing base up until July of 2000 and that beginning in 2000 we began to see a significant downturn in manufacturing.

**Ms. Abraham.** Right. We have seen some declines earlier related to the Asian crisis and the impact that had on the manufacturing sector, and then you can see a plateau in employment, some declines beginning, as you said, along about July of last year and then a significant acceleration in the rate of decline beginning around the start of this year.

**Representative Saxton.** Let me focus on employment trends in some of the major industries within the manufacturing sector. What has been the trend in employment in the fabricated metals since July of 2000?

**Ms. Abraham.** Fabricated metals had an employment peak in July of 2000 and since that has dropped off by nearly 80,000.

**Representative Saxton.** How about the primary metals sector?

**Ms. Abraham.** Primary metals has also dropped significantly. If you want to stick with the July of 2000 reference point, primary metals has shed 55,000 jobs since July of 2000.

**Representative Saxton.** What has happened to the level of payroll employment in the electronic and electrical equipment industry over the same period of time?

**Ms. Abraham.** As I noted, that is one of the industries that has been a heavy job loser. Employment in that industry actually peaked in August rather than July. So if we take the year over year change, it has lost 168,000 jobs.

**Representative Saxton.** And, finally, the industrial machinery and equipment over the same period?

**Ms. Abraham.** Which again I might note is another significant job loser. Over the 13 month period from July of 2000 to August of this year, it has lost 156,000 jobs.

**Representative Saxton.** Transportation equipment?

**Ms. Abraham.** Transportation equipment has lost since July of 2000 just over a hundred thousand jobs, 108,000 jobs.

**Representative Saxton.** Well, Commissioner, in each of these sectors – and we continue to see a slide which, of course, is negative, but in each of these sectors this trend began 12 or 13 months ago; is that correct?

**Ms. Abraham.** Some of the industries within manufacturing, not particularly those that you just identified, have been in long-term decline, but I think almost without exception we have seen a worsening of conditions across the board in manufacturing.

**Representative Saxton.** Thank you very much.

Senator Corzine.

**Senator Corzine.** Yes. Commissioner Abraham, do you have any historic perspective on income growth tied to the kind of decline in employment data that we have seen that might give us an indication of strength that we might or might not see in consumer spending as a function of this decline in the last 13 months of manufacturing but six months in other categories?

**Ms. Abraham.** As you are well aware, labor income is a very big share of total income in our economy. We are at this point seeing declines in employment which are going to translate into general declines in – or at least slowing in the growth of aggregate earnings, which is going to have an impact on the personal income, for example, in the GDP. I don't have figures here on what the numbers we have reported today might if you just, you know, push them through and assumed other things weren't changing would imply, though that is a back-of-the-envelope calculation that we could try to do. Clearly, the impact is going to be negative.

**Senator Corzine.** Right. My premise underlying that is the consumer sector, as said in the opening remarks, has been the sustaining strength of our economy, and this is the most dramatic indicator that this might move away from being that underlying pillar. Do you have any review of consumer sentiment, particularly with regard to job availability? Have you seen some of those surveys and do they parallel what we are seeing here going on in the job market?

**Ms. Abraham.** We don't do those surveys. There are other private survey organizations that do.

Have you by chance looked at those, Phil?

**Senator Corzine.** And do you look at and have you over any period of time looked at any of the correlations or at least the relationships between retail spending and these numbers?

**Ms. Abraham.** No. I am sorry. We have not.

**Senator Corzine.** Again, I am pressing only because I think these are indicative of real trouble ahead with regard to consumer spending. I think those relationships are one certainly markets and economists are evaluating.

Let me ask – Senator Sarbanes last month asked a question about discouraged workers. What would be the unemployment rate if you included discouraged workers and do we have a read on how much that is increased this year, how much it is growing? Do we have a sense of it?

**Ms. Abraham.** We do calculate a range of alternative unemployment measures that are either more or less comprehensive than the official unemployment rate. The most comprehensive measure that we produce is one that includes the unemployed, everyone who says that they would like a job who did any looking for work within the last year, even if they didn't look within the last four weeks, which includes the discouraged workers, plus those people who are working part time even though they would have preferred full-time work. So it is a considerably more comprehensive measure.

In fact, the unemployment rate on a not seasonally adjusted basis year over year went up from 4.1 percent a year ago to 4.9 percent this month. That more comprehensive measure was seven percent in August of 2000, and it has gone up to 8.1 percent in August of 2001. So we are also seeing increases in some of those other things.

**Senator Corzine.** Right. Do you have numbers with regard to women in the workplace?

**Ms. Abraham.** Yes.

**Senator Corzine.** And what has gone on with those rates, the changes?

**Ms. Abraham.** In August of 2001, this past month, the unemployment rate for women age 20 and over was 4.2 percent, slightly below the men's rate of 4.4 percent. The male unemployment rate has actually gone up more than the female rate. The unemployment rate for adult men in the past year has gone up from 3.3 to 4.4 percent. The rate for adult women has only gone up half a point, from 3.7 to 4.2 percent. That may be related to the different employment mix that we see for men as compared to women. It is not—

**Senator Corzine.** You also keep a statistic, though, on primary support, those who are the primary—

**Ms. Abraham.** People who are heads of households or people who maintain families?

**Senator Corzine.** Yes.

**Ms. Abraham.** We do have an unemployment rate for women who maintain families. Is that the one you are thinking of?

**Senator Corzine.** Yes.

**Ms. Abraham.** Over the last year that rate is higher than it is for women overall. The unemployment rate for women who maintain families in August was 6.7 percent, and it has gone up by seven-tenths— from six percent to 6.7 percent.

**Senator Corzine.** All right. I have other questions, but I will cede for the moment at least.

**Representative Saxton.** Senator Bennett. Thank you.

**Senator Bennett.** Thank you, Mr. Chairman. I have got to turn on the machinery so that you can hear me.

First, just an observation about the economy as a whole. While it is not scientific the way your analysis tries to be, I have learned over the years that there is a fairly good barometer of when we are going into a recession and when we are coming out. And the current slowdown, which I consider a recession even though statistically we are just barely above zero GDP growth, and so statistically the economists say we are not in a recession, the best indicator that we are going to go into a recession is absolute unanimity among forecasters that there is no trouble whatsoever ahead and we are in very, very good shape; and the best indication that we are coming out of one is when there is absolute unanimity that there is no bottom and we have nothing but disaster ahead of us.

As I look at the GDP figures that are available, it comes right at the end of the second quarter of 2000 that everything looks really, really good historically and then third quarter is almost dropping off a cliff by comparison in terms of GDP output. So I guess I am looking for real

gloom and doom in your figures in the hope that that will signal that we are coming out of the current slowdown, and I don't see them. 4.9 is, yes, bad in terms of where we have been, but 4.9 historically is by no means recession-level unemployment. Is that an accurate historical observation?

**Ms. Abraham.** I think you make a good point that we do want to look at these numbers in a longer historical context, and it wasn't all that long ago that people were sure that the natural rate of unemployment, the rate below which we couldn't sustain the unemployment rate, was in the vicinity of six percent, so—

**Senator Bennett.** That is the number that I was always taught, that if you got to six percent unemployment, you had de facto full employment. So now we are more than a point below that six, and unfortunately, if my observation is correct, we are going to have to get to six or even higher before we begin to see a turnaround in this slowdown that we are in.

In your statement you say that the statistical group where the decrease in employment has occurred disproportionately is young workers, those age 16 to 24. As you quoted the statistics to Senator Corzine about unemployment among adult men and unemployment among adult women, neither group approached 4.9, so it must be the young workers who don't qualify as adult men or women who take the average up to 4.9. Do you have a separate statistic for that age group?

**Ms. Abraham.** We do. Let me pull that out. The unemployment rate for 16- to 24-year-olds, I need to look at a different sheet here.

Just while I am looking for this I might comment it is always been true as far back as you go that unemployment for young workers has exceeded that for older workers. They are much more likely to be going in and out of the labor force, and that translates into substantially higher unemployment rates.

The unemployment rate for 16- to 24-year-olds as a group in August was 11.5 percent, up from 10.1 percent in July. So that was a—

**Senator Bennett.** Can you go back a few months as well?

**Ms. Abraham.** If we go back to August of 2000, it was 9.4 percent. So over the year it was up by 2.1 percentage points. The numbers for that group do jump around a lot from month to month, but I think over the year clearly you have seen a meaningful increase in the unemployment rate for that group.

**Senator Bennett.** So what percentage of the total work force falls into that category?

**Ms. Abraham.** The 16- to 24-year-olds accounted in August for about 16 percent of the labor force, about 15 percent of employment. They accounted for 37 percent of the unemployed and for an even bigger share of the over-the-month increase in unemployment, about 47 percent of the over-the-month increase in unemployment.

**Senator Bennett.** Do you have any statistics as to how many of them are working at minimum wage?

**Ms. Abraham.** We do have data on minimum wage employment. I would probably have to spend a little time doing the calculation to say of that group what fraction—

**Senator Bennett.** If it is a problem, you can always furnish that for me. If you have it at your fingertips, I can wait a few more minutes, but I don't want to delay the committee.

**Ms. Abraham.** What I can tell you is that those young workers do account for a disproportionate share of the minimum wage workers. 53 percent of all minimum wage workers are 16- to 24-year-olds, and that compares to their share of employment of about 15 percent. So they are three and a half times as likely as other workers to be working at the minimum wage.

**Senator Bennett.** Okay. Fine. Thank you.

Finally, and I know that Senator Corzine wants to get into this, let us talk about regional unemployment and impact in New Jersey and Utah, to pick two states at random. I wouldn't expect you to have those exact figures, but can you give us any kind of sense about regional unemployment? Is the West better than the East Coast? Is the Sun Belt in better shape than the Rust Belt? Do you have any light that you can shed on that concern?

**Ms. Abraham.** We do have those data. We in fact have some data here, totally at random for Utah and New Jersey, which we could take a look at as well, if you would like. The most recent data that we have on unemployment broken out regionally are for July rather than for August; they lag slightly.

Looking just at the unemployment picture where we have seen the biggest increases in unemployment on a regional basis, we have seen increases in the Midwest, a little less in the South and the Northeast. The increase in unemployment in the West has actually been the smallest of all the four broad regions that we look at though the unemployment—

**Senator Bennett.** The West includes California, obviously.

**Ms. Abraham.** Includes California. Though the unemployment rate there has been relatively high.

**Senator Bennett.** So if you take out California for the West, the rest of us in the West probably are doing better than the rest of the country?

**Ms. Abraham.** Yes, that is correct. What I have here in front of me is the mountain states, as opposed to the states along the Pacific coast; and the mountain states have been doing relatively better.

**Senator Bennett.** That is because we are building all those facilities for the Olympics.

**Ms. Abraham.** I have driven on your roads in the not too distant past and observed that.

**Senator Bennett.** Okay. Thank you, Mr. Chairman.

**Representative Saxton.** Senator Corzine, do you have further questions?

**Senator Corzine.** I think we could both ask for perspective on New Jersey's statistics, mid-Atlantic. If I read our statistics right, we had a huge drop in unemployment in July. We seem to be doing reasonably well by comparison to other areas. Am I reading this right?

**Ms. Abraham.** Phil's staff was responsible for pulling this information together; so, if I may, I will let him comment on it.

**Mr. Ronces.** There was a half percentage point drop in the unemployment rate in July, but I caution you, as we often do when you go down to the state level estimates, in a single month you may get a change in either direction that perhaps seems exaggerated and that is a good warning sign to kind of wait to see some more data to see if that is confirmed.

**Senator Corzine.** What was driving that decline in July? I haven't had a chance to review that. Do you see that?

**Mr. Ronces.** Well, other than the overall unemployment rate itself, we don't know very much about the components of unemployment at a state level. The data for demographics that we get from our survey in any individual State are very, very thin. There is not enough sample. We do know a bit about payroll employment change in each state.

Just for perspective, the over-the-year change for the United States in payroll employment was four-tenths of one percent. We had talked about that earlier. For New Jersey, it was five-tenths of one percent. So really the state is about at the national average. And of course that national average, as we said before, is substantially slower than it had been in the prior several years.

**Senator Corzine.** Right. I am sure my colleague from New Jersey will have some questions that he may have with regard to our rates there, but one macro question is the unemployment rate for blacks and what have we seen happening there? I think, if my staff folks are serving me right, the rise was 1.2 percentage points in August, to 9.1 percent?

**Ms. Abraham.** That is correct. Just to pick up on a point that Phil was just making with respect to the state data, similarly when you look at data for individual groups such as blacks or Hispanics, those numbers are a lot more volatile. You need a change of 1.2 percent to be in the margin of statistical significance as compared to 0.2 for the overall rate. But the figures that you cited are correct. The rate for blacks did jump up—

**Senator Corzine.** If we have done the calculations right, that is the highest in seven years, and I do accept that the sample are smaller and you will get more volatility.

**Ms. Abraham.** It is the highest since July of 1998.

**Senator Corzine.** 1998?

**Ms. Abraham.** It blipped up to 9.5 percent in July of 1998. It was above nine for several of the early months of that year.

It is only in the very recent past, I might note, that we essentially ever saw unemployment rates in the single digits for blacks.

**Senator Corzine.** I was actually talking about the increment from month to month. That is a sizable amount, and I think that is what they are referencing.

**Ms. Abraham.** That may well be right.

**Senator Corzine.** I think the concern – the reason I ask about women head of households as well as blacks is that, as is typical when you see these rising levels of unemployment and decline in employment opportunity, it hurts the most vulnerable. I would presume that you would agree with that assessment?

**Ms. Abraham.** It is certainly the case that you do want to look carefully at the mix of where these increases in unemployment are occurring and think about the groups that are being affected.

**Senator Corzine.** Thank you.

**Representative Saxton.** Ms. Dunn.

**Representative Dunn.** Thank you, Mr. Chairman.

And I must apologize, Commissioner. I am sorry I wasn't here. I was in another meeting, so I wasn't able to hear your opening statement.

I just caught the end of Senator Corzine's question, so I may be asking you a question you can't answer. But, according to the BLS statistics, the Washington State's unemployment rate has been fairly steady during 2001 at about six percent, which is above – unfortunately above the national level, and even though we are very happy that these days we have a diverse economy, it is no longer like the 1970s when Boeing was our only large employer. In my district it is the innovative sector that is strongest as employers, and I am wondering if you can tell me what accounts for the discrepancy in the unemployment figures? Is it due to the dot-com layoffs, and do you think that these layoffs have impacted the labor sector nationwide as well in a negative way?

**Ms. Abraham.** We often, as you might imagine, get questions about the dot-coms and the impact that their experience they have been having on the economy overall. We don't keep data for dot-coms specifically. They are spread across a number of industries in the data that we look at.

But what I can say is that as we look at the figures that we have we can identify industries that by virtue of having a lot of research and development workers and other things we might characterize as high tech, and it is clearly the case that we have seen rather sharp declines in employment in the high tech industry as we define it based on those criteria. So that at least is clearly a piece of what is going on.

**Representative Dunn.** So you are not able to say directly what is affecting Washington State to a greater degree than what is affecting the national economy? I think that is what I am searching for, and that could be the answer.

**Ms. Abraham.** One thing that we could do would be to go back and take a look at the mix of employment in Washington State and the degree to which it is concentrated in industries that have been especially hard hit. I would be happy to see what we can do on that and try to provide it for you.

**Representative Dunn.** Would you do that? That would be very helpful.

**Ms. Abraham.** Certainly.

**Representative Dunn.** Thank you.

[The information on the employment situation in Washington state appears in the Submissions for the Record on page...]

**Representative Dunn.** Commissioner, in recent months we have heard or read of massive layoffs in high tech companies like Dell and Motorola, Lucent Technologies, to name a few. Many of these companies rely heavily on exports. In your estimation would increasing or encouraging greater export activity help the manufacturing sector rebound from our economic slowdown that we are seeing now? For example, the engagement in trade agreements that has been very, very slow over the last few years, is that going to be a help in trying to reverse this trend that we have seen in your report of yesterday?

**Ms. Abraham.** Given our role as an agency responsible for providing objective statistics, what I can tell you is that if you look at our data in the same way that we are able to identify industries that are high tech based on observable criteria, we can isolate those industries that are more heavily dependent on exports than others, and again similarly to the high tech industries, we have seen substantial declines in employment in industries that are export sensitive. It would really be going beyond what I feel I can comment on to go from that to recommendations regarding policy.

You are right that there is an issue in the sense that export-sensitive industries have been losing jobs. I don't have a comment on what one should do about it.

**Representative Dunn.** Thank you.

I think, Mr. Chairman, this is an area that we do need to look at. I have requested a study on the impact on our labor force of the slowness in the numbers of trade agreements we have been involved in, and I am hopeful that our staff on this Committee will be able to press forward with our report.

Thank you.

**Representative Saxton.** Thank you.

Commissioner, let me turn to some historic perspective on how we may have gotten where we are. With regard to what causes an economic slowdown, obviously from time to time there are different factors, but I recall during 1999 a great deal of concern about labor shortage and the cost of labor and the pressures that would result as a result of the increased cost of labor on potential inflation, and there was a fair amount of concern with regard to that. You testified earlier – you showed us figures earlier that showed very robust monthly growth in employment during 1999; is that correct?

**Ms. Abraham.** That is correct.

**Representative Saxton.** There was, as I recall, a great deal of concern with regard to this employment growth and the potential labor shortage and inflation. As a matter of fact, in June of 1999, the Fed became so concerned that they instituted the first of six interest rate increases; is that correct?

**Ms. Abraham.** I am sorry? They—

**Representative Saxton.** In June of 1999 the Fed became so concerned that they instituted the first of six rate increases. I know this is not your bailiwick exactly.

**Ms. Abraham.** I am certainly aware that the Fed over a period of time did raise rates, but I would hesitate to go on record as to the dates or the number. I will take your word for it.

**Representative Saxton.** As a matter of fact, it was in June of 1999 that we had the first of six rate increases when rates were increased from four and three quarters percent in the Federal Open Market Committee. The Fed funds rate was increased from four and three quarters to five percent in June of 1999, and following that increase there were five additional increases which peaked the Fed funds rate at six and a half percent in early 2000. Interestingly enough, the interest rate increases apparently had a marked effect. Because in July, just 13 months after the first increase, we began to see a loss or a slowing in the number of jobs created as a result of something.

I would suggest that these interest rate increases over the months ahead when we saw the six rate increases, which began in June and lasted for most of the following 12 months, and then we began to see a slowdown in the economy – at about the same time, interestingly enough, another major economic event was occurring and that was that we saw major increases in energy prices. They actually began in early 1999, and the increase in energy prices lasted for a full two years.

As energy prices, particularly oil prices, increased until the middle of 2000, we saw another negative economic stimulus that occurred at the same time the interest rate increases were occurring; and by the middle of 2000 again, in July of 2000, we began to see this economic downturn that we continue to experience. I wondered if you had any data that would relate to these two occurrences which seem to coincide perfectly as potential causes of this economic downturn that we have seen.

**Ms. Abraham.** Certainly, the data that we have produced have been used by a variety of analysts who try to look at connections between this sort of external development and what happens with employment. We have not done analyses of those sorts.

**Representative Saxton.** Something must have happened prior to July of 2000. We were steaming along with the longest, most robust period of economic growth in modern history, and in July of 2000 we saw a downturn, and I find it very curious that we had these interest rate increases in parallel with dramatic increases in energy prices just prior to July of 2000. It is quite a coincidence that these things occurred and that the economic slowdown took place immediately thereafter.

**Ms. Abraham.** It would be surprising if developments as major as these didn't have an impact on employment, but, as I said, we have no analysis that would let us quantify it based on our own work.

**Representative Saxton.** Thank you very much.

Further questions? Ms. Dunn?

Commissioner, thank you for being with us again. This is always very helpful to us as Members of Congress, policymakers who have some responsibility with regard to Federal policy that may have an effect on economic growth. So we thank you again for being here with us, and we look forward to seeing you in the months ahead.

**Ms. Abraham.** Thank you for giving us the opportunity to be here. [Whereupon, at 10:27 a.m., the Committee was adjourned.]

## **SUBMISSIONS FOR THE RECORD**

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### **PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN**

I would like to welcome Commissioner Abraham before the Committee once again to report on the release of new employment and unemployment data for August.

Recent economic data continue to suggest that the economic slowdown that began in the middle of 2000 continues. The rate of real GDP growth has slowed quite sharply since the second quarter of 2000, barely remaining positive in the second quarter of 2001. Manufacturing employment has fallen sharply since July of 2000, posting cumulative job losses of slightly over 1 million over the last 13 months. Investment has plunged over the last several quarters, and corporate profits are weak.

Fortunately, however, consumer spending and housing have held up quite well. In addition, since last January the Fed has reduced interest rates, Congress has lowered the tax drag on the economy, and energy prices are falling from their recent highs. These factors could reasonably be expected to lead to a recovery in economic activity by the first quarter of next year, but the report this morning only reinforces my concerns about the current weakness in the domestic and international economy.

The employment data released today reflect the seriousness of the economic slowdown. Payroll employment plunged by 113,000. The payroll declines were focused in the manufacturing sector, and only add to the previous severe job losses in manufacturing underway since the middle of 2000, bringing the total to 1 million jobs. The diffusion index, a measure of the breadth of employment growth, declined again, with the manufacturing component falling to especially low levels. The diffusion index has trended downward since June of 2000. The unemployment rate climbed to 4.9 percent.

As I have noted previously, one way to address the weakness in the domestic and international economy is through an international easing of monetary policy. The steps taken by the U.S., European, and Japanese central banks over the last month show movement in the right direction, but more actions along these lines will likely be needed. Further changes in fiscal policy may also be needed to stimulate a renewal of healthy economic growth.

In sum, the 13 months of economic stagnation have been costly to the American economy. The manufacturing sector has been especially hard hit, and has suffered the brunt of significant job losses now totaling over 1 million. However, the economy has not fallen into recession. Over the next several months policymakers must remain focused on the condition of the economy and the policy alternatives available in the event further actions are needed.