

**THE EMPLOYMENT SITUATION:
FEBRUARY 2001**

HEARING

before the

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

ONE HUNDRED SEVENTH CONGRESS

FIRST SESSION

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March 9, 2001
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THE EMPLOYMENT SITUATION: FEBRUARY 2001 Friday, March 9, 2001

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

The Committee met, pursuant to notice, at 9:33 a.m., in Room 1334, Longworth House Office Building, the Honorable Jim Saxton, Chairman of the Committee, presiding.

Present: Representatives Saxton and English. Senator Corzine.

Staff Present: Chris Frenze, Bob Keleher, Darryl Evans, Colleen J. Healy, Daphne Clones-Federing, Corine Bradshaw, Amber Williams and Russell Comeau.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. Good morning. It is a pleasure to welcome Commissioner Abraham before the Committee once again to report on the release of new employment and unemployment data for February.

Recent current economic conditions indicate that the economy has slowed from the remarkable pace present through the middle of last year. The array of economic data shows that the economy has been in a slowdown for the last two quarters. For example, the rate of GDP growth has fallen two quarters in a row. The consumer spending and investment growth have also slipped. However, there are some signs of a residual economic strength in certain sectors, such as construction and the service-producing industries. In addition, overall employment growth has slowed but has generally been positive.

The employment-population ratio remains high, and labor market conditions for the most part remain fairly tight as reflected by the relatively low unemployment rate. The slowdown does make the economy more vulnerable to shocks and disruptions, but the economy remains in positive territory.

The Federal Reserve is aware of the softness of the economy, and its recent survey indicates that that is a continuing problem.

The employment data released today seemed to be influenced by the slowing pace of the economy. Payroll job growth for February was 135,000, considerably lower than the 225 to 250,000 range typical during the healthy economic expansion. The unemployment rate remained unchanged at 4.2 percent. Given the weakening of the economy since the middle of last year, the case for change in economic policy is quite strong.

The tightness of Federal Reserve monetary policy should be relaxed, and the Fed has taken steps in this direction earlier this year, although more remains to be done. Further rate cuts by the Fed are needed. As a matter of fact, for quite some time I have been questioning Fed policy.

As far back as November, 1999, I began to question Fed tightening policy and did so again in March of 2000 and finally again earlier this year.

Congress can also do its part by reducing the fiscal drag on the economy from the excessive tax burden imposed on our tax system. The House took a step in that direction yesterday, and the Senate will work its will later as time goes by. The tax system is counterproductive, and now is a good time to reduce its negative effects. This will not make the economy turn on a dime, but it will improve the prospects for continual economic growth now and in the future. The current economic outlook poses challenges that should not be taken lightly. Changes in macroeconomic policy are needed to get the economy back on track.

Commissioner Abraham, let me again welcome you to today's hearing. We are certainly anxious to hear your report in the very articulate way that you have been accustomed to delivering it to us. Before I do that, I would like to welcome my colleague from New Jersey for the first time, Senator Jon Corzine, who is no stranger, to say the least, to the world of economics and economic growth and investment, having been extremely successful in his real life adventure; and now he is here with us in Congress. As he just walked into the room for his first time, I don't know whether he may have an opening statement, but we certainly want you to feel welcome here and to make an opening statement if you would like to.

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

Senator Corzine. Mr. Chairman, thank you for the welcome. I have a formal statement I will submit for the record, but it is a great pleasure to be here with you and working on issues that I think will make a difference with regard to our economic picture in the long run.

I am anxious to hear about unemployment statistics, which I used to watch very closely on a day-to-day and a second-to-second minute; and I think we all have grave concerns about the state of the economy. So I very much look forward to this morning's discussion.

But mostly, I want to say thank you for your welcoming remarks and I look forward to working very closely with you over the years.

[The prepared statement of Senator Corzine appears in the Submissions for the Record on page 19.]

Representative Saxton. I thank my colleague. Commissioner Abraham, you may begin. The floor is yours.

**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, Mr. Chairman. It is a pleasure to be seeing you again in this new year; and, good morning, Senator Corzine.

As always, we are happy to have the opportunity to comment on the labor market data that we released. The unemployment rate, as you noticed, was unchanged in February at 4.2 percent, and payroll employment rose by 135,000. Since early last fall, the growth in payroll employment has slackened. In the five months since September, the average monthly increase in payroll employment has been 103,000. In contrast, during the first nine months of last year, payroll employment had grown by 187,000 a month, on average.

You should have in front of you a small package with some charts.

The first chart relates to what has been happening with payroll employment. The data shown there are only for the private sector, for the reason that the buildup and drawdown in Federal employment related to the census otherwise would have distorted the figures. I think you can see looking at those data the slowdown in the rate of growth of payroll employment in recent months.

[The chart package appears in the Submissions for the Record on page 45.]

Focusing on what happened in February, the key features of the February data in my view are, first, the continued reduction in manufacturing employment and hours; second, the more than offsetting job gains in services and some other industries; and, thirdly, the over-the-month rise in average hourly earnings.

Let me talk first about manufacturing employment. Manufacturing employment fell by 94,000 in February following a decline of about the same magnitude in January. Those declines bring total factory job losses since last June to 371,000.

The second chart in the small package that I gave you shows what has been happening to manufacturing employment. There has been a period of time you will recall back in the spring of 1998 when, around the Asian economic crisis, we started to see declines in manufacturing employment; and then for a period of time things seemed to have leveled out. Since last summer, however, we have again been seeing rather substantial declines in manufacturing employment. I think the thing that is noteworthy about what we are seeing in February is how widespread those declines in manufacturing employment are. That is shown in the next little chart. Even the electronic components industry has a small job loss over the month. That was an industry within manufacturing that had been on an upward trend for a couple years. The only manufacturing industry with a sizable over-the-month increase was motor vehicles, but

that gain of 13,000 was just a fraction of the loss that had occurred in January. So even that has to be put in some context. On net, auto industry employment has fallen by nearly 80,000 since June.

Manufacturing hours and overtime hours also continued on their downward trend in February. That is shown in the fourth chart in this package. Since June, the average factory workweek has declined by a full hour, and overtime has fallen by 8/10ths of an hour. The factory workweek is now at its lowest level since the spring of 1991, outside of two months when winter storms caused sharp temporary reductions in hours back in December; and then in January of 1996 you can see sharp declines related to weather. Weakness in manufacturing may have affected some other industries. For example, wholesale trade, which serves as an intermediary between manufacturers and customers, has lost 22,000 jobs since November. This is the largest such decline in that industry since early 1993.

Employment in help supply services, which is mainly temporary help firms that provide workers to manufacturing as well as to other industries, was little changed in February but has fallen by 200,000 since April of 2000. Help supply had been a big job gainer during most of the economic expansion that began in the spring of 1991. So these recent losses do represent a real change.

Employment in the services industry as a whole rose by 95,000 in February. Health services had the largest job increase among the services industries, as employment in hospitals continued to benefit from recent exchanges in Medicare payment schedules. Employment also rose in social services, computer services, and private education. Public education accounted for a large share of the rise in government jobs over the month.

Maybe I could digress for just a moment from my prepared statement at this point. I commented at the beginning of my remarks about the slowdown in overall employment growth that we have seen over the last five months or so. Manufacturing has been hard hit. We have seen a real turnaround in help supply. If you look at the rest of the economy, you don't see any evidence of that slowdown. The slowdown in employment growth has really been very concentrated in just a couple of areas. In the services sector in particular, things have held up pretty well; and in a number of services industries we have actually seen somewhat faster growth over the last five months than previously.

Following a very large gain in January, construction employment added 16,000 jobs in February. That is another industry where we have not seen any slowdown. Since October, employment in construction has been increased by 37,000 a month on average. In the 12 months prior to October, the average monthly increase had been only 23,000.

From our survey of employers, average hourly earnings were up seven cents in February. The over-the-year increase was 4.1 percent. This was the fourth month in a row that the over-the-year increase in average hourly earnings was 4 percent or higher. Throughout most of

1999 and 2000 those over-the-year gains had remained in the 3.5 to 3.8 percent range.

As I mentioned at the beginning of my statement, the unemployment rate was unchanged in February at 4.2 percent. There is a chart that shows the average hourly earnings figures. The unemployment rate was unchanged in February at 4.2 percent. In February, the number of newly unemployed, those unemployed less than 5 weeks, and also the number of unemployed job losers who were not on temporary layoff, both rose for the second month in a row.

Other cyclical indicators from our survey of households, such as the number of people working part-time for economic reasons, that is, working part time despite the preference for full-time work, and also the number of people outside the labor force who have stopped looking for work, have shown no clear signs of an upward trend.

In summary, the sharp downturn in manufacturing employment and hours continued in February. Still, overall payroll employment continued to rise, and the unemployment rate remained relatively low. Finally, earnings gains appear to have picked up in recent months.

So that is the basic picture as we see it, looking at these data. We would, of course, be happy to answer any questions that you might have. [The prepared statement of Commissioner Abraham and the accompanying Press Release No. 01-57 appear in the Submissions for the Record on page 20.]

Representative Saxton. Commissioner, thank you. It would appear that the initial reaction among the members of the economic community was somewhat of a surprise earlier this morning when these employment numbers were released. There was an expectation that, among those who were awaiting these numbers, that they would be somewhat weaker than they were. Do you have any explanation for, while these are not strong numbers, they are stronger than the expectations would have indicated? Do you have any explanation that we might consider as to why this happened?

Ms. Abraham. I am almost thinking this might be a better question to address to your colleague. You are quite correct that the expectations were for somewhat lower payroll employment growth than we in fact reported, though the expectations for unemployment were about in line with what we reported.

It may be that people were expecting construction to be weaker this month than it actually turned out to be. In January, we had an enormous increase in construction employment. Part of that was probably an anomaly related to very bad weather in November and December, so people having been let go earlier in the year than they usually are and not getting layoffs in January that we would have expected. But it was stronger than you could have explained just on that basis.

And people may have expected, as often occurs, that, given that very strong January number, that we would see declines in February. We didn't get that. Construction employment actually rose.

I don't know, with respect to other things, exactly where the discrepancy may have come.

Representative Saxton. Commissioner, you indicated that the weakness in job growth was particularly evident in manufacturing.

Ms. Abraham. Correct.

Representative Saxton. Matter of fact, what was the number, 94,000 job loss in February and about the same in January?

Ms. Abraham. Correct.

Representative Saxton. This tracks in terms of manufacturing jobs with a long-term trend, does it not?

Ms. Abraham. Well, the long-term trend in manufacturing for many years has been downward. The declines in recent months have really accelerated. I think they are sharper than you can explain just on the basis of a long-run trend.

Representative Saxton. When I say many years, actually the declines in manufacturing began in the 1997-1998 time-frame, did they not?

Ms. Abraham. There were declines through the early '90s and then some pickup and then some declines, interrupted by increases and then further declines.

If you take a much longer time perspective, the tendency clearly has been towards declines in manufacturing. It is really not just the last few years.

Phil has got numbers here that go back further. If you go back to the mid '70s, for example, when our overall economy was much smaller, manufacturing employment for the late '70s was in excess of 20 million. And despite growth in the economy since then, manufacturing has fallen to 18.5 million, that kind of range.

Representative Saxton. I only have limited data before me – I can see where we are at 18.9, 18.8, 18.9 in 1998.

Ms. Abraham. Right. I mean, we have come down about three quarters of a million since then. That is true.

Representative Saxton. So there has been a trend downward over the long-term, and there has been a specific trend down over the shorter-term since 1998, and it became an especially steep decline beginning about January 2000, is that—

Ms. Abraham. I might date it in the summer, rather than in January, but, yes, declines have accelerated.

Representative Saxton. And, at the same time, the civilian unemployment rate during those years – in spite of the fact that manufacturing employment has declined – the unemployment rate has declined along with it, meaning that other sectors of the economy have picked up jobs.

Ms. Abraham. Right. That is right.

Representative Saxton. But then we see, in terms of the unemployment rate, beginning in the second quarter of 2000 unemployment started to increase again, did it not?

Ms. Abraham. Well, I guess I would characterize the unemployment rate slightly differently. I would say that for a long period of time, I think it was 15 months, the unemployment rate hovered in a very narrow range. From October of 1999 through December of 2000, it never got outside of the range from 3.9 to 4.1 percent. So I would characterize it as having been quite stable at a very low level over that period. It has been a little higher over the last two months.

Representative Saxton. 4.2 percent.

Ms. Abraham. Right.

Representative Saxton. Okay. So there is obvious reason for concern about the loss of manufacturing jobs, and there is reason for us to examine why the unemployment rate has continued to go down. Obviously, that is because of increases in job growth in other sectors. But now we see that while we continue to lose jobs in the manufacturing sector, job growth in the other sectors is not as robust, and that started during the last half of 2000, is that right?

Ms. Abraham. Let me try to state what my sense of this is: we have seen slowdowns in overall payroll employment growth, but those have been very concentrated. They have been concentrated in the last few months, as compared to earlier in 2000. They have been concentrated in manufacturing and in temporary help. Employment in the rest of the economy really has not slowed at least over that time frame. These recent declines have been quite concentrated. The recent slowdown has been quite concentrated.

Representative Saxton. When you say recent slowdown, you are talking about the last half of 2000?

Ms. Abraham. Yes.

Representative Saxton. There have also been widespread reports of layoffs in the private sector, but they are hard to evaluate in the context because some job growth has been going on, as we have been saying. What do your figures show about the layoff situation and its impact on employment and unemployment?

Ms. Abraham. Let me just describe the information that we have on layoffs. We have information on mass layoffs that show up through people registering for unemployment insurance. If there is a company that lays people off and 50 or more of their people register for unemployment insurance, we pick that up and are able to track that.

At the end of last year, November, December, we saw a substantial pickup in the volume of layoff activity. January's number wasn't out of line with what we had seen a year earlier. I guess it remains to be seen what the numbers for February, March and so on are going to show.

The November and December numbers certainly do show a higher incident of layoff activity than we had seen in this data series before. These data only go back five years, six years, so we don't have a long

time series. But the numbers for the end of 2000 were certainly quite high by historical standards, standards of the recent past.

Representative Saxton. Let me just go to general impression. I know that some of the information I have here is not data that you developed. It is obviously very closely related. Slowdown in employment growth over the last seven or eight months tracks with the slowdown in GDP as well, is that correct?

Ms. Abraham. Generally speaking, I think all of that economic data that we have seen recently are telling a fairly consistent story.

Representative Saxton. And the slowdown started—

Ms. Abraham. At the end of last year.

Representative Saxton. Third quarter of last year.

Ms. Abraham. Unfortunately, I don't have the GDP figures in front of me. I take your word for it on that one.

Representative Saxton. The GDP growth in the second quarter of last year was 5.6 percent. According to the figures I have in front of me, the third quarter was 2.2 percent; and in the fourth quarter it was 1.1 percent. That sounds about right.

Ms. Abraham. That sounds like a slowdown.

Representative Saxton. And personal consumption follows the same downward trend, or appears to. In the third quarter of '99, it was very robust; and during 2000 consumption began to decrease fairly rapidly. And that tracks with the figures that you are seeing, I assume.

And retail sales, the same thing occurred in January of 2000. Actually, in May of 1999 consumption started to fall. Retail sales started to fall and have continued to fall.

I am not sure whether you have evaluated those numbers or not, but is it your general agreement that that has occurred?

Ms. Abraham. General agreement that the picture seems to be pretty consistent.

Representative Saxton. I am not going to go through all these figures, but my staff has provided measure after measure that shows the decline in the economy started six months ago, according to some figures, a year ago according to other measures. Would you generally agree with that, that is the case?

Ms. Abraham. The figures that we focus on, of course, are the employment figures. Employment growth in 2000 was below employment growth in '99, but sort of within that, as we look at those data, the last several months, five months, is where the slowdown has been particularly pronounced.

Representative Saxton. It is consistent with the slowdown, correct?

Ms. Abraham. [Witness nodded.]

Representative Saxton. Thank you very much.

Senator Corzine, do you have any questions at this point?

Senator Corzine. Thank you, Mr. Chairman.

Commissioner Abraham, I guess my question would be, acknowledging the pattern of other economic measurements that the Chairman cited, have you done any work on the historical perspective of how we enter into a recession and what – if we were, in previous periods, how long the lag is and what kinds of early warning signals within the detail of the employment statistics would red flag that? Are there any signs along those lines? The temporary hiring patterns, corporations have often been cited as one of those places where you might look first.

Ms. Abraham. That is not something that we devote resources to. That really gets away from the production of the data into the analysis of the data.

I know there are things that people do look at. Some people, as I think we were suggesting, look at employment in help supply, mainly the temporary help firms. Some people look at the number of people unemployed for fewer than five years, the newly unemployed, as kind of an indicator. Sometimes people look at the other labor market indicators like people working part-time when they would rather have a full-time job or people giving up on job search. But, no, we have not attempted to analyze past cycles and pull out of the data what we should be looking at to diagnose what is happening now.

Senator Corzine. With regard to your comments on electronic components, does that tie to some of the slowdown that we have seen in the dot-com phenomenon and slowdown or is that really a different picture into the economy?

Ms. Abraham. What the electronic components really are are semiconductors, communications equipment, that sort of thing. So it may be related, I suppose, to what is going on with some of these dot coms. To the extent that the dot-coms are in retail activity, they would be categorized elsewhere.

Senator Corzine. Then, finally, I would ask a question about your comment that health services held strong in this period and tied to recent changes in Medicare payment schedules. I don't know whether you want to comment on whether you think this is a temporary phenomenon or one that you believe might be sustainable in employment growth.

Ms. Abraham. It is very clear in the data that we have seen a pickup in employment growth in health services over the period beginning in about October. For the five months October, November, December, January, February, health services as a whole was growing by about 22,000 a month, compared with just 14,000 over the earlier part of 2000. Health services is an area where our long-term employment projections suggest we can expect continued robust employment growth, just reflecting the demographics of the society, if nothing else. So health services is an area where I would expect strong employment growth over the long term to continue.

How much of any pickup we have gotten as a result of these Medicare changes might be persistent versus temporary, I don't really know.

Senator Corzine. Mr. Chairman, I think that is good for me. Thank you very much.

Representative Saxton. Thank you very much, Senator. Very good questions.

I would like to introduce to you, Commissioner Abraham, Congressman Phil English, who is at this hearing for the first time and appeared yesterday at a JEC hearing for the first time. Phil has been with us since 1994 in Congress. He is a member of the Ways and Means Committee, and we lobbied hard to get him on this Committee because of his interest in economics.

Phil, welcome, and the floor is yours.

Representative English. Thank you, Mr. Chairman.

Commissioner Abraham, it is a privilege to take your testimony.

I was wondering if I could get to you elaborate further on some of the trends you see in the manufacturing sector, manufacturing being obviously a critical sector but being a category that is so broad that it almost conceals more than it reveals. I am wondering if you could give us a sense, for example, of what the job patterns have been within the steel industry within the last month.

Ms. Abraham. Maybe I could put some of this in a bit of a longer-term perspective as well.

Representative English. Certainly.

Ms. Abraham. There are a number of parts of manufacturing that have really been on a long-term, secularly declining employment path. The two that jump to mind are apparel and also other textile products, which have just over long periods of time been shedding jobs at a fairly rapid pace.

You asked specifically about what has been happening in steel. Steel is the biggest part of what we call primary metals. Over the month, primary metals fell by 5,000. It fell by 6,000 in the month before that. It was down by a couple thousand a month over the prior 12 months. So the last couple months have been substantially worse than the average for the recent past.

Parts of manufacturing had actually been doing fairly well up through the middle of 1998. Manufacturing as a whole had been doing well through the middle of 1998. We had seen employment growth in aircraft, we had seen employment growth in industrial machinery, electronic components had been doing well. Then manufacturing got hit by the Asian economic crisis, and in a lot of those industries you started seeing employment declines.

Things had leveled off in many of them for a period of time, but all of these industries have been experiencing employment declines in recent months.

Representative English. Do you have the data broken out to help us identify some other sectors? What I am trolling for here is there are certain sectors that are obviously import sensitive. There are others that

are very sensitive to changes in export conditions. And I wonder, for example, do you have a break-out for machine tooling or do you go down to that far in – do you identify sectors that narrowly?

Ms. Abraham. In the data that we put out for the current month, we don't have data that go down to that level of detail. When we put out data later on, we do have data that are more detailed and would include things like that.

Representative English. What was the trend—

Ms. Abraham. We do have a data series that we put together – maybe we could ask Phil Rones to talk about this – that is designed to track employment in industries that are export sensitive. We don't have a corresponding one for industries that are import sensitive. But maybe you could—

Representative English. Mr. Rones, would you comment?

Mr. Rones. We have several series that track industry employment related to defense, exports, construction. So we try to look beyond just the specific employment growth in those industries. In what we call the export sensitive industries, overall the over-the-month change was minus 24,000. So we lost 24,000 jobs in what we call the export sensitive industries. And what we are looking at there are industries that have at least 20 percent of their gross revenues in exports. Over the year, we have lost 66,000 jobs in those industries.

Representative English. May I ask, under the category of fabricated metal products of which we have a significant component in Western Pennsylvania, I see there is a significant projected fall-off for this month. I realize month-to-month it is very difficult to predict what is going on, but there has been, since November and December, looks from these statistics seasonally adjusted to be a fairly significant drop. Can you comment on that?

Ms. Abraham. We need to verify that, in fact, that is what we are seeing. It was both this month and last month that industry lost 13,000 jobs, and it lost jobs as well in December. Up through November it had actually been holding its own and even adding a bit. So it is really the last several months where we have seen declines, in the last two months rather sharp declines have occurred in employment in that industry.

Representative English. And under industrial machinery and equipment I see there is also a significant drop-off just over the last couple of months seasonally-adjusted.

Ms. Abraham. Correct. We had seen some declines earlier for industrial machinery, but it was down and up, down and up. Last three months have all been declines, with a rather sharp decline this month.

Representative English. Thank you. That is extremely helpful; and, Mr. Chairman, I appreciate the opportunity to participate.

Representative Saxton. Thank you very much, Mr. English.

Commissioner Abraham, if I may just ask you about New Jersey for a minute, the New Jersey economic situation. And understanding that

these figures are from January, what do the recent trends in employment and unemployment suggest about the State's economy and in what industries does employment growth seem strongest and in New Jersey which sectors seem to be the weakest?

Ms. Abraham. Let's see, Phil Rones I know has brought a package with some information for the State of New Jersey. I have also got here, if I could pull this out, some information on the employment.

[The chart package concerning the state of New Jersey appears in the Submissions for the Record on page 51.]

Maybe you could comment on the unemployment picture, Phil; and I will comment on the employment.

Mr. Rones. What we prepared for you is a map that has unemployment rates in New Jersey by county, and we will give this to you. What we see here is that the New Jersey unemployment rate is 3.8 percent, and that was an average for the year 2000 which is just slightly below the unemployment rate for the Nation as a whole, which averaged 4 percent.

One thing you will see from this, there is a very dramatic range in unemployment. There are parts of New Jersey where the unemployment rate is between 1 and 2 percent and has been for a sustained period of time, and there are counties in southern New Jersey where the unemployment rate is higher than 10 percent. So there is a substantial spread in the economic conditions in different parts of New Jersey.

Ms. Abraham. You also asked about what was happening with employment in New Jersey. Employment in the State of New Jersey was up by 1.7 percent over the year ending in January of 2001. In terms of the pattern of that employment growth, it looks not unlike that of the Nation as a whole. Construction employment growth has been very strong in New Jersey over the year, up 3.8 percent. Manufacturing employment was down over the year by 1.7 percent. We saw strong growth in services.

So I would provide for you as well the figures that break out the mix of employment growth, which sectors have been growing and which have not. But the broad picture is certainly consistent with what we are seeing for the Nation as a whole.

Representative Saxton. Senator.

Senator Corzine. We have a little interest in this chart here on this side of the table, regardless of our political affiliations. I appreciate the information. I think the dispersion is really quite striking. I suppose that is the case if we looked at almost every state in the country.

Ms. Abraham. That is true. There tend to be pockets, often in more rural or more isolated parts of the geography, where the unemployment is higher.

Senator Corzine. I hope that we will be able to take advantage of this New Jersey connection on a consistent basis, the Joint Economic Committee. Thank you very much, Commissioner.

Representative Saxton. Has your analysis of the unemployment or employment situation in New Jersey taken into account industry by region or job opportunities by region, or are you able to offer any explanation generally why it appears that perhaps our most rural New Jersey counties – and we do have rural New Jersey counties – are doing significantly less well than counties that might be considered suburban growing counties or urban New Jersey counties?

Ms. Abraham. We would be happy to take a closer look at the data to see whether there is any light beyond what you see in the figures that we can shed on that.

Representative Saxton. Well, thank you very much.

Let me ask one final question and then see if either of my colleagues have a final question.

Commissioner, you have indicated to us in the past on a consistent basis, as has your predecessor, that in effect you warned against reading too much into one month's data; and I have delivered the same message to us fairly consistently. Are the data reported today any exception to that rule?

Ms. Abraham. Oh, no. I think there are some things in the data for this month that seem at this point to represent a trend that has continued over several months. But we are by no means willing to make predictions about what might happen next month.

Representative Saxton. And can you just articulate what that or those trends may be?

Ms. Abraham. Well, it is the things that we have already discussed. I think clearly there has been slowing employment growth overall that seems to be concentrated in manufacturing and help supply. In terms of changes, there seems to have been a pickup in recent months in the rate of growth of average hourly earnings. Having said that, unemployment has remained low and we have not seen any slowdown in employment growth outside of, broadly speaking, the sectors that I already identified.

Representative Saxton. But back to the thrust of my original question, I guess – and I don't mean that you didn't answer my original question because I asked you about trends and you told me what they were – but back to – let me just backtrack to my original question, and that is that the data reported today are no exception to the rule in terms of reading too much into whether or not we are seeing any kind of a change in job growth or job loss.

Ms. Abraham. The more data you accumulate, the clearer the picture.

Representative Saxton. Thank you very much.

Senator or Congressman, do you have – Senator Corzine.

Senator Corzine. Commissioner Abraham, the unemployment rate for African-Americans jumped up from 7.6 to 8.4 December to January, and then I think it fell back to 7.5 percent. These numbers, these are pretty volatile changes. I presume that has something to do with sampling size.

Ms. Abraham. That is a good example of the point Congressman Saxton was making.

Senator Corzine. I wonder what we could do, given a desire to have greater tracking? What do we have to do to make sure that we get a more steady read statistically over time?

Ms. Abraham. If we were to get a more steady read month-to-month, the only real option would be to substantially increase the size of our monthly household survey. The monthly household survey is roughly 50,000 households that are interviewed every month. Different groups are represented, roughly in proportion to their share of the population. So African-Americans represent, very roughly, 10 percent of that sample. So naturally any statistics for that group are going to have, as you said, much higher sampling variability. The only real way to address that would be to substantially increase the size of the sample for that group, which would add to the expense of doing the survey.

Senator Corzine. Do you have any sense of taking the 50,000 and making it 75,000, or is there – and then with obviously commensurate pickup in the various distributional aspects, how much that runs, just a gauge?

Ms. Abraham. The current budget for the monthly household survey – you would know that, Phil. That is your responsibility.

Mr. Ronces. The BLS share, which covers most of these monthly data that we are talking about, is around \$38 million a year for the monthly survey. If we increase the sample by 50 percent to 75,000, you are probably talking about close to a \$15 to \$20 million increase in the budget.

I wouldn't try to talk you out of increasing the size of the CPS, but you would still end up with fairly volatile estimates for these small groups, even at an increase of 50 or even a 100 percent. The overall national unemployment rate is accurate to within about 2/10ths of a percentage point each month. For some of these smaller groups we are talking about month-to-month variability that could be a full percentage point or even more. That would be reduced, but it would not provide estimates that would be comparable to the large groups we are talking about.

Senator Corzine. Over time hopefully I can form an opinion about being able to question the cost-benefit element as we watch various groups where you have these high concentrations of unemployment.

Ms. Abraham. I might add, if there were particular interest in particular groups, it could also be possible to target sample increases on those groups, which might make it somewhat less expensive rather than just expanding the whole survey.

Senator Corzine. Sure. That is one of those things that, as we go through this process of reviewing this data, the more precise in my question – I am concerned about you can draw pretty extreme conclusions off of very volatile data if you are not careful – not you but those of us who use the data.

Ms. Abraham. I might note for some of these subgroups within the population, taking data averages over several months, for example, obviously gives you a more precise fix. You just don't have it so precisely for the current month.

Senator Corzine. Thank you, Commissioner.

Representative Saxton. Mr. English.

Representative English. No questions.

Representative Saxton. Commissioner, thank you again for your usual fine presentation. We appreciate it very much, and we look forward to seeing you very soon in the future.

Ms. Abraham. Thank you.

[Whereupon, at 10:23 a.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

It is a pleasure to welcome Commissioner Abraham before the Committee once again to report on the release of new employment and unemployment data for February.

A review of current economic conditions indicates that the economy has slowed from the remarkable pace present through the middle of last year. An array of economic data shows that the economy has been in a slowdown for the last two quarters. For example, the rate of GDP growth has fallen two quarters in a row, and consumer spending and investment growth have also slipped.

However, there are some signs of residual economic strength in certain sectors such as construction and some service-producing industries. In addition, overall employment growth has slowed but has generally been positive.

The employment-population ratio remains high, and labor market conditions, for the most part, remain fairly tight, as reflected in the relatively low unemployment rate. The slowdown does make the economy more vulnerable to shocks and disruptions, but the economy remains in positive territory. The Federal Reserve is aware of the softness in the economy and its recent survey indicates that this is a continuing problem.

The employment data released today seem to be influenced by the slowing pace of the economy. Payroll job growth for February was 135,000, considerably lower than the 225,000-250,000 range typical during the healthy economic expansion. The unemployment rate remained unchanged at 4.2 percent.

Given the weakening of the economy since the middle of last year, the case for change in economic policy is strong. The tightness of Federal Reserve monetary policy should be relaxed, and the Fed has taken steps in this direction earlier this year, although more remains to be done. Further rate cuts by the Fed are needed.

Congress can also do its part by reducing the fiscal drag on the economy from the excessive tax burden imposed by our tax system. The tax system is counterproductive, and now is a good time to reduce its negative effects. This will not make the economy turn on a dime, but it will improve the prospects of continued economic growth now and into the future.

The current economic outlook poses challenges that should not be taken lightly. Changes in macroeconomic policy are needed to get the economy back on track.

**PREPARED STATEMENT OF
SENATOR JON CORZINE**

Thank you, Mr. Chairman. As this is my first hearing of the Joint Economic Committee, let me say that I am very happy to be here, and to be a member of the Committee. Given my background in the private sector, I am hopeful that I will be able to make a contribution. And I am glad to have an opportunity to serve with such a distinguished colleague from my own home State.

Mr. Chairman, I am looking forward to hearing from Commissioner Abraham and learning more about the most recent employment data. I have been following these and other economic indicators closely, as I did in my previous career, and, frankly, I have grown quite concerned. It seems to me that we are in a period of great economic uncertainty, and real down side risk.

For that reason, I have been working on a proposal with my colleague from Florida, Senator Graham, to provide a middle class tax cut that would provide a real boost to the economy. Our proposal would establish a new ten percent rate bracket for couples with combined incomes up to \$19,000, meaning that most families would get a tax cut of \$950. The tax cut would be retroactive, so that it would have an immediate stimulative impact. And, of course, the faster we put money in peoples' pockets, the greater the likelihood that we can avoid a recession and return to a path of strong economic growth.

In any case, Mr. Chairman, while I do have concerns about the state of our economy, I hope we will hear some good news today. And I look forward to hearing from Commissioner Abraham.