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THE EMPLOYMENT SITUATION: JULY 2001

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THE EMPLOYMENT SITUATION: JULY 2001

Friday, August 3, 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, English and Watt; Senators Reed and Sarbanes.

Staff Present: Christopher Frenze, Robert Keleher, Darryl Evans, Colleen J. Healy, Brian Higginbotham, Patricia Ruggles, Matthew Salomon, Daphne Clones-Federing, and Reed Garfield.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

Representative Saxton. It is a pleasure to welcome Commissioner Abraham here before the Joint Economic Committee (JEC) once again to report on the release of new employment and unemployment data for July.

Let me just say at the outset that the Senate apparently is going to have a vote immediately after their opening at 9:30, so I suspect that we will have some Senators here very shortly. In the meantime, we will get started with the Commissioner's opening statement.

Let me just say, as I have noted since last year, U.S. economic conditions have remained quite weak. A survey of economic data shows that the U.S. economy has been in a serious slowdown for the last year or so. The rate of real GDP (gross domestic product) growth has slowed dramatically over the last four quarters and investment has plunged.

We have a chart that shows that for the last four quarters we have seen quite a decline in gross domestic product. Of course, four quarters takes us back to the middle of 2000 when this decline obviously started.

[The chart entitled "Gross Domestic Product" appears in the Submissions for the Record on page 27.]

In addition to the evidence that we see in GDP decline, the next chart shows the manufacturing employment has trended downward over the last year as well.

[The chart entitled "All Employees: Manufacturing," appears in the Submissions for the Record on page 28.]

Again, going back to the third quarter of 2000, the red trend line on the chart and the accompanying arrow show that the manufacturing sector has been in serious decline over the last year as well, again starting in the middle of last year. These and other data demonstrate that the effects of the economic slowdown have been widespread.

However, on the other hand, consumer spending and the housing industry have held up surprisingly well. This year, the Fed has aggressively cut interest rates, Congress has reduced the tax drag on the economy, and energy prices are retreating. This is all good news, of course. Although I am in agreement with many of the economists that these factors should work to foster an economic rebound in early next year, I am still concerned about the vulnerability of the economy to shocks and various disruptions.

The employment data released today reflect the economic slow down. Payroll employment has declined by 42,000 jobs in July, a poor performance relative to the 225,000 to 250,000 increases typical during a healthy economic expansion. Manufacturing employment has been in decline and has lost 837,000 jobs since July 2000, and of course that is reflected again in the chart that we see with the red trend line showing those 837,000 lost jobs since July of 2000. The unemployment rate has remained unchanged this month at 4.5 percent.

The domestic economic situation is cause for concern, but the international economic situation is also problematic. A worldwide economic slowdown coming all at the same time magnifies the potential for cascading contradictory forces to undermine the U.S. economy. There is also weaknesses in the international financial situation that bear close examination. I continue to believe that an easing by major central banks in the U.S., Europe and Japan should be considered to alleviate the potentially deflationary pressures.

In the event others do not act, it would certainly be appropriate for the Federal Reserve to act on its own to reduce interest rates. I have made these statements in the past and continue to believe that a downward trend in interest rates fostered by the Federal Reserve would be a positive force. Chairman Greenspan's policy actions in 1998 did much to stabilize the international economic situation. Although the circumstances are different today, actions by the Fed could have very positive effects not only on the U.S. economy but for the international economy as well.

All Americans look forward to the resumption of healthy economic and job growth. The economic slowdown has caused job losses in several sectors, but manufacturing has been especially hard hit over the past 12 months. Fortunately, the economy seems to have avoided slipping into a recession, and there are indications that the slowdown may have bottomed out. However, policymakers must remain alert to any signs of economic deterioration and be ready to take further actions if needed.

Commissioner, again, thank you for being with us today, and we look forward to your remarks at this time.

[The prepared statement of Representative Saxton appears in the Submissions for the Record on page 26.]

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 for me and my colleagues to be here.

Let me just go ahead and make a few remarks concerning the data we have to report today.

As you have already noted, total nonfarm payroll employment continued to erode in July, with a net loss over the month of 42,000. Manufacturing employment continued its year-long slide, which you also have alluded to; and most other industry divisions have little or no job growth over the month. The unemployment rate remained at 4.5 percent in July and has been essentially unchanged since April.

Manufacturing employment fell by 49,000 in July. During the first six months of the year, job losses in manufacturing had averaged nearly 100,000 a month. The largest declines in July continued to be in electrical equipment and industrial machinery. These two industries, which produce high-tech products such as computers and communications equipment, account for about 40 percent of the 632,000 manufacturing jobs lost thus far this year. Elsewhere in manufacturing, autos, chemicals and apparel showed gains in July, following job losses over the April through June period, although this month's gains may merely reflect vagaries in the timing of summer plant shutdowns, something I would be happy to talk a bit more about if you would like.

Construction employment was little changed in July, as growth in non-residential and heavy construction was offset by a decline in special trades. Although many parameters of construction activity remain at relatively high levels, we have seen some recent softening in construction employment.

The services industry, which has been a steady source of employment growth for decades, has shown no net job gain since March. A major factor in this weakening has been the large job losses in the help supply industry, which is principally temporary help firms. In July, employment in help supply service declined for the 10th month in a row, for a total job loss of 429,000 over the period. This industry provides workers to other businesses. Thus, the decline in its employment reflects the weakening in manufacturing and other industries.

The services industry also provided some of the very few bright spots in this month's report, as substantial job gains continued in health services and in engineering and management services.

Average hourly earnings for production and non-supervisory workers in the private sector at $14.35 in July rose by 4 cents over the month. Over the year, average hourly earnings were up 4.4 percent.

Looking at some of the data obtained from the survey of households, the unemployment rate at 4.5 percent in July was unchanged from June and has remained essentially the same since April. The jobless rates for major worker groups saw little or no change over the month. Rates for all of these groups were somewhat higher than their recent lows reached last year.

In summary, total non-farm employment declined further in July, manufacturing continued to shed workers, and few industries throughout the rest of the economy showed significant job growth. The unemployment rate remained at 4.5 percent.

As always, we would be very happy to address any questions you might wish to raise about the data.

[The prepared statement of Commissioner Abraham appears in the Submissions for the Record on page 29.]

Representative Saxton. Commissioner, thank you very much for being here with us today and bringing this information to us to share with the Committee and with members of the American public. It is always good that we understand as much as we can about the current economic conditions and what has led us here as well as what we might expect to happen in the future, recognizing that your job is not to look through a crystal ball but to tell us where we are and where we have come from.

As I mentioned in my opening statement and as I believe you have verified in your opening statement, you noted that the manufacturing employment continued its year-long slide—

Ms. Abraham. Right.

Representative Saxton. And I mentioned that there were some 837,000 jobs lost during the last year. Can you tell us when that happened and whether there were any economic conditions that you might be able to identify that occurred that may have brought this about or – I know that you hesitate to speculate on cause and effect, but if you can share your thoughts with us relative to that subject it would be appreciated.

Ms. Abraham. Just to start with the numbers, I also would peg the recent declines in manufacturing employment as having occurred since last July; and, as you noted, over the period from this July as compared to last July, manufacturing has shed 837,000 jobs.

I might also note that the rate of decline in manufacturing employment has seemed to accelerate beginning about in January. The rate at which we were shedding jobs picked up a bit. I don't know that there are specific things that I would point to as responsible for this other than what I would perceive to be an overall weakening in economic conditions.

A lot of this manufacturing job loss has been concentrated, as I noted in my statement, in the manufacture of high-tech products. The electrical equipment and industrial machinery industries account for 40 percent of the reduction in manufacturing employment that we have seen. So it seems to be tied into the hard times that high tech has faced in particular.

Representative Saxton. Commissioner, just by way of observation, I recall in 1999 that because of worry about inflation or because of worry about the economy, some folks used the term "overheating" because they were worried about the Phillips curve, meaning that the economy couldn't continue to grow at the rate that it was. There were actions taken by the Fed to, in effect, raise interest rates beginning in 1999 and through the first half of 2000. I am wondering if you have any thoughts relative to the effect of those interest rate increases.

Ms. Abraham. As a very general matter, purchases of capital equipment and so on may be sensitive to interest rates, but I have not ever looked into trying to draw those specific linkages.

Representative Saxton. I appreciate that. That is, as I said a few minutes ago, I know that your job is not to try to forecast into the future but to tell us where we are. But in looking back it seems to me that the Fed policy of increasing interest rates, which began in 1999 with a recognized historic lag time of nine to 18 months and then in the middle of 2000, we begin to see a decline in manufacturing jobs. It seems to me fairly obvious that, based on historic trends and based on activities carried out in terms of raising interest rates by the Fed in the preceding nine months or so, that there could be an effect there as well.

And let me just ask this, also: obviously, there are economic conditions that occur or that are not related to government or at least not directly related to government activities that also from time to time have an effect on the economy and in this case perhaps the manufacturing sector. It occurs to me that, thinking back, that energy prices started to go up rather dramatically in 1999 as well; and certainly by the middle of last year I remember, as a matter of fact, the worrisome statements stated by the Clinton administration officials back in 2000 that energy prices could have a negative effect on the economy. I am wondering if you see any relationship between energy prices that went up in 1999 and the first half of 2000 and the loss of manufacturing jobs.

Ms. Abraham. Energy prices clearly also could have played a role. Again, we have not carried out analyses or entered towards identifying the causal factors lying behind these figures.

You have mentioned interest rates. You have mentioned energy prices. I guess a third thing that I might mention that you did allude to in your opening statement is also conditions abroad. As you know, we do export a lot of the output of our manufacturing sector, and one thing that we have seen in our data is declines in employment in what we categorize as export-sensitive manufacturing industries, those that are heavily dependent on exports for sales of their products. So I might add that to the list as a possible factor as what has been happening in the rest of the world.

We certainly know that back a little bit earlier, 1998, 1999, when we started to see problems in the Asian economies, there was an indication in terms of a pattern of employment impacts in manufacturing that we were seeing that was having an impact here in the United States.

Representative Saxton. Commissioner, let me move on to another specific. In your statement you note that there has been a decline in electrical equipment employment during July. How does the current level of employment in this sector compare to that level in July of 2000 and how many jobs have been gained or lost in the electrical equipment employment sector?

Ms. Abraham. If you look at the two-digit industry, electronic and other electrical equipment, employment in that industry actually reached a peak last August of a little over 1.7 million jobs. Employment in that industry has now fallen to 1.6 million jobs. So it has shed 140,000 jobs over that 11-month period.

Representative Saxton. Commissioner, in your statement you also note the July employment decline in the industrial machinery and equipment sector. Has there also been a continuation of a longer term trend and how does the employment level in this industry compare with the level of July, 2000?

Ms. Abraham. Let me just add one comment on electronic and other electrical equipment. That decline in employment was about 8 percent of the starting level as of last August. Industrial machinery and equipment is down 127,000 over the last year. On a percentage basis, that is a drop of about six percent.

Representative Saxton. Thank you. And let me just follow up with one additional question, which takes us into a slightly different area of the economy – construction employment. Construction employment was flat in July after being down in June. Might this reflect some weakness in the construction sector and do you have any data that would support this notion?

Ms. Abraham. The data for construction, by way of preface I might say, as I think we have discussed on previous occasions, is a little hard to interpret month to month because construction is so weather sensitive.

This winter, we had a very mild January. Construction employment through the first quarter was really strong, reflecting in part I think the fact that it was possible for people to be out there working on projects that under more normal conditions might have had to have been shut down.

In recent months, we saw a big decline in April, and a decline in construction employment in June. It is hard to know the extent to which that is sort of a payback for the first quarter having been so strong.

Having said that, if you look at the growth in construction employment over the year to date, comparing July to December of last year, the growth over that period as a whole has been 11,000 a month, which is running behind the pace that we saw in 2000 either over the whole year or for the comparable period. So when I look at that I am seeing some softening in the employment data for construction.

Representative Saxton. Thank you. Commissioner, since manufacturing firms often contract out to the help supply industry couldn't some weakness in this industry also reflect in the weakness in the manufacturing sector? And, also, how does the level of employment in this industry compare to the level of 2000?

Ms. Abraham. I think that the weakness in help supply probably does, at least in part, reflect weakness in manufacturing. Anecdotally, we do know that these help supply firms supply substantial numbers of people to manufacturing, and there is sort of anecdotal information based on press accounts and so on that some of the manufacturers are cutting back on their use of these temporary folks.

We don't have any way to quantify that. What we get from the help supply firms is just how many people they have got on their payroll. We don't know where they are sending them. That is not something we are able to collect. But I think it likely is almost certainly tied to what is going on in manufacturing.

Over the past year, from July of last year through July of this year, employment in help supply is down by 387,000 on an initial base of about 3.5 million. So that is a decline in excess of 10 percent of the employment in the industry.

Representative Saxton. Let me ask one final question and try to make an observation. We have covered most – we have covered many sectors of the economy. Let me ask a question about the high-tech sector: What has the trend been in the high-tech manufacturing employment over the last year and how many jobs have been gained or lost since July, 2000?

Ms. Abraham. To answer that question, I would need to start with a definition of high-technology employment or high-technology manufacturing employment. We define a group of industries that we call high tech based on employment in the industry of people working on research and development and people in technology-oriented occupations. We identify industries with lots more of those people than the average as being high tech. So that is what I am talking about when I say that.

If you look at what has happened in the industries that we identify as high-technology manufacturing industries over the last year – let me just do the math here – it is down by about 227,000, which is about 3.8 percent over the year.

Representative Saxton. Well, Commissioner, thank you very much.

We have been joined by Senator Reed and by Congressman Watt and Congressman English.

I would just like to make an observation, which this information gives us an opportunity to understand. The losses in manufacturing jobs, as demonstrated by trends in GDP over the past 12 months, pointed out – and let me just point this out for the other Members because I think this is very important – growth in gross domestic product over the last four quarters has dropped at a significant rate. Our second chart also shows this trend in manufacturing employment. The trend lines show this decline started in the second quarter of last year.

This is something that we all have to be concerned about. And in conversation with the Commissioner, together we identified at least three reasons why this may have happened.

The first had to do with increases in interest rates during 1999 and the first half of 2000 brought about by the Fed, which perhaps for good reasons worried about the overheating economy at the time, and about inflation in the future and tried to avoid the bad effects of the Phillips curve, which essentially means that an economy that grows too fast for too long causes inflation.

I don't happen to believe that that is a valid theory, but there are some who do, and this could have been something that brought about the change in policy.

Second, energy prices began to go up dramatically in 1999, and it is obviously going up in the first two quarters of 2000. And, as a matter of fact, they continue to go up even beyond that. They have begun to decline now, which, of course, is good news. And the Commissioner pointed out that the international situation as it relates to U.S. international trade also became somewhat of a concern during this period of time and may have contributed to this year-long decline as well.

The good news is that the Fed has reversed its policy on interest rates; and we are hoping that sometime soon, maybe in the last half of this year or the first quarter or so of next year, that that will begin to take effect. We have had a reversal in tax policy during 2001, which we hope will have some positive effect on the economy. And, of course, as was mentioned a minute ago, energy prices have begun to drop significantly.

So if the theory is correct that these factors worked together to cause the slowdown which occurred last year, then perhaps the new policies of the Fed, coupled with some change in tax policy, coupled with some decrease in energy prices costs will have the opposite effect in the months upcoming. We hope so.

In any event, I have enjoyed the interchange that we have been able to have, Commissioner.

Senator Reed, the Vice Chairman, has joined us, so let me turn to Senator Reed for any statement or questions he may have at this time.

Senator Reed. Thank you very much, Mr. Chairman.

First, let me welcome Commissioner Abraham and also thank you for holding this hearing. This is an important tradition of the Committee, to review these statistics, particularly on certain times as we are experiencing uncertain times.

My colleagues are delayed now by a vote in the Senate, so I assume they will be arriving shortly to join us.

But I would note that this is my first hearing as Vice Chairman of the Joint Economic Committee, and I look forward to working with you, Mr. Chairman, and all of our colleagues.

I can recall that we first met in this room as Members – and we are that old – of the Merchant Marine and Fisheries Committee, which no longer exists. That historical moment aside, I look forward to working with you.

Over the last several years, we have had some extraordinary economic prosperity and consistent economic growth. So this period of slowing GDP growth demands some judgment and insight to understand what is going on. That is why I think it is particularly important we are here today.

It is also important at this time, as employment softens, as GDP growth declines, to be particularly sensitive to those people who are the most vulnerable to these types of changes, the low-income workers in many different sectors of the economy. So I hope we can spend some time focusing on those concerns. But let me turn to some questions.

First, Commissioner, in many parts of the country initial unemployment claims are declining, yet the unemployment rate seems to be steady, and that suggests either inconsistency in the surveys or something perhaps even counterintuitive. Can you help explain those apparently conflicting points?

Ms. Abraham. Let me just make a couple of comments in that regard.

I guess the first comment that I would make is that unemployment as measured by our monthly household survey is a very different thing than unemployment that is measured by people who are collecting unemployment insurance benefits. Our effort is to count everyone who is looking for work and available for work, and there is a much broader pool than the set of people collecting unemployment benefits. So the two often don't move together.

I guess the other comment that I would make is that the unemployment claims numbers are extremely volatile from one week to the next, depending on things that may be going on. They can jump around quite a lot. That, in turn, causes some difficulty in seasonally adjusting those numbers, and so you can get erratic movements.

If I am really looking for a statistic that gives me a picture as to what is happening with people who want work and can't find it, I would look at the monthly household survey data, rather than focusing too heavily on the claims data.

Having said that, in a number of recent weeks, initial claims are running at a faster pace than we had seen at earlier points in time, so I don't think you are truly inconsistent.

Senator Reed. This raises perhaps a larger question. That is, that looking at the various surveys, both initial claims and the unemployment rate, some are suggesting that we are bottoming out, that we have reached the end of the decline and that there will be an upturn. Can you give us any insights as to your perception?

Ms. Abraham. No. Really, what I can comment on is what we have seen to date, and I prefer to leave it to others to try to project the future.

Senator Reed. Fair response. We have a tendency to look at those industries which are shedding jobs – manufacturing, as the Chairman points out is a classic example – but there are still some industrial sectors and service sectors that are desperately looking for workers – health care is one that I think of particularly – and managers, professionals, et cetera. Can you comment on situations where the existing labor markets are tight, and what does that suggest overall to you?

Ms. Abraham. Sure. I think you make a very good point when you say that, relative to historical standards, that the labor market today is still fairly tight. There are times in the not-too-distant past when the thought that we could ever get unemployment as low as 4.5 percent wouldn't have been believed by people. So, by historical standards, unemployment in particular does remain fairly low.

You are also correct that, in terms of where we have seen substantial job losses in recent months, they have been very concentrated in manufacturing and also in the help supply industry, which is the temporary help firms. They have also taken a bit of a beating.

But the other thing that has changed is that, even outside of manufacturing and help supply, we have seen a slowing in the rate of growth of employment. Industries that for long periods of time added jobs regularly, month after month after month, at this point in time many of them are not adding jobs. There are some that continue to add jobs. Health services is one. We continue to see growth in engineering and management services.

Over the longer haul, the year to date, we are seeing growth in construction continue, which is in some sense a little bit surprising. So there are pockets where in recent months or at least over the year to date we continue to see growth.

Senator Reed. Are there any regional pockets also in terms of areas where unemployment remains robust and other areas where it is of concern – or I should say employment remains robust?

Ms. Abraham. Particularly when we get this first report our focus tends to be on the national picture, because that is really what at this point we have the data for. We at this point don't have state-by-state numbers. Those come along a little bit later. So we do have figures through June on employment growth regionally and State by State; and, as I guess has been true for a very long period of time, the more rapid growth in employment has tended to be in the western part of the country rather than the eastern part of the country. But I don't have any particular insights beyond that to offer.

If I could ask my colleague, Phil Rones, to comment on the unemployment figures.

Mr. Rones. Just looking at the data that we produce for the states and the regions, the unemployment rates, which as you know have gone up maybe half a point or a little bit more at the national level, the biggest increases have been in the Midwest; and that goes along with what you have seen in the problems with manufacturing. So, just as an example, in the Midwest overall the unemployment rate has gone up from 3.7 in

June a year ago to 4.2 percent. That is a little bit bigger increase than in other regions of the country.

Senator Reed. Thank you very much.

Let me ask one additional question and then withhold so other Members can ask questions, and perhaps we can do a second round if that is appropriate.

It also appears that businesses are experiencing a slowing in productivity. Last year nonfarm labor productivity went up by less than half the rate it had maintained over the previous 4.5 years, and that raises several questions. Do you believe the productivity slowdown is a cyclical phenomenon? And then, also, given the importance of productivity in supporting economic growth and also in terms of – and I know we don't get into projections here – but in underlying many of the projections that we rely upon for making our decisions, can you just comment generally about productivity?

Ms. Abraham. With respect to the productivity experience of the recent past, as you know, productivity growth in the past few years had been quite strong. We had really seen a pickup in productivity growth, which is, of course, unambiguously a positive thing.

Recently, productivity has dropped off a bit. It could be that that is a cyclical thing. If you see slowing in output growth or in some cases even slowing in output, and employers are slower to cut back on employment than they are to cut back on production, that is the kind of pattern that you would expect. So I will have a better sense as we get more data.

You also were curious about what we might see going forward, and I guess I would only say I am as curious as you to see what the data will show.

Senator Reed. Well, we will all wait on the arrival of the data then; and I thank the Chairman.

[The letter and accompanying data from Commissioner Abraham to Senator Reed appear in the Submissions for the Record on page 53.]

Representative Saxton. Before I move to my friend from Pennsylvania, Congressman Phil English, let me just say that my friend from Maryland, Senator Paul Sarbanes, has arrived. We thank you for being here with us. We know you had a vote in the Senate, which held you up, and we are pleased that you are here.

Let me just, if I may for one moment, follow up on something that Senator Reed just brought up which I think is an extremely important point and that is the effect of productivity on economic growth.

One of the things that we watched very carefully up until the beginning of the decline in the middle of the last year was that productivity seemed to be having a marked positive effect on economic growth, which started during the very early 1980s and then continued on through the 1980s until we had a very brief interruption in the last quarter of 1990 and early 1991. Then the economic growth started again, and one of the factors we thought was playing in that positive growth was the use of – or the increase in – productivity because of technological developments. Do you have any data that you can tell us about that speaks to that seeming cause and effect of technological improvement and its effect on the economy?

Ms. Abraham. I do not have anything that speaks very directly to the issue that I think that you are getting at, but I would be happy to go back and take a look as to whether there is any research that we are aware of that would help shed light on that.

Representative Saxton. Now we, as a matter of fact, released a study recently that developed the theory that the development of technology and its effect on the economy was very positive. I think it is something that we haven't looked at in great depth outside of the study that the Committee has done, and perhaps that would be an area that we could look into in a future hearing. Thank you very much.

[The July 2001 study, *Information Technology and the New Economy,* can be found online at http://www.house.gov/jec/growth/it.htm]

The gentleman from Pennsylvania: Mr. English.

Representative English. Thank you, Mr. Chairman, Commissioner Abraham.

Commissioner Abraham, I must say I find your presentation very interesting and also in some respects very disquieting. I would like to maybe focus on a couple of details for starters.

One, within the manufacturing slump that you have identified, what are the current trends with regard to the steel industry?

Ms. Abraham. Let me see whether I have here the detailed data for steel. The most detailed information that I have with me is the data for primary metals ,which steel would be the largest single component; and if we look at employment in primary metals, it has been going down, as has manufacturing overall, since the middle of last year.

Representative English. Well, in fact, steel has been declining fairly steadily over a period of several years.

Ms. Abraham. If we go back to the most recent peak in employment in primary metals, which was in June of 1998, we have seen a drop in employment of more than 70,000, which is about 10 percent of employment in the primary metals industry over that several year period.

Representative English. You have identified some of the sectors that are involved in the slump as being within manufacturing, export sensitive; and you have indicated that clearly because of the export situation we have seen a significant loss of U.S. jobs. Now I realize some of those are long-term trends, but you seem to attribute in your testimony some part of that decline to a slump in foreign consumption because of international economic conditions. May I ask, how much of this slump in export of manufactured goods can be attributable to the strength of the U.S. dollar?

Ms. Abraham. I am afraid that is just not a question I can answer. Looking at the data, I can see that there have been substantial declines in, as I said, earlier employment in export-sensitive industries, but linking the causalities is not something that the data let us do.

Representative English. I represent a district, within Pennsylvania, which represents almost a unique concentration of manufacturing, and much of it is very export oriented. So we are particularly interested in that question.

Also, it seems to me most of the industries you have identified – and going back to Senator Reed's question, he had asked you how long you might anticipate it before there is a turnaround. I guess I would rephrase that question. Are not many of the areas where you have identified a slowdown typically lag indicators within the economy, reflective of situations that were occurring last year and even before that? Aren't these some of the areas of the economy where orders are made longer term and, as a result, it is only after the economy has rebounded that you start to see a rebound in some of these particular sectors of manufacturing?

Commissioner, can you comment on that?

Ms. Abraham. You certainly will collect that in terms of the effects of economic development on employment as well as on the level of economic activity overall, that there are often significant lags. I had been looking at employment, total employment and how movements in total employment, which is itself often considered a lagging indicator, relate to turning points in the economy as identified by the National Bureau of Economic Research's Business Cycle Dating Group; and employment overall lags what they identify as turning points in the economy by a couple of months on average.

It would be interesting to do as you have suggested and to look at some of these specific industries that have been hard hit in recent months. We have not done that. I would be happy to take a look at that.

[The letter from Commissioner Abraham to Representative English, including information on business cycles in export-sensitive manufacturing industries, appears in the Submissions for the Record on page 61.]

Representative English. I would welcome your input on that.

Mr. Chairman, my time is up, but I want to thank the Commissioner for making this presentation. It seems to me it would be very helpful for us to get a picture through some of these statistics of some of the subgroups of the economy and specifically some of the sectors that can give us an indication of – I think what you are presenting today is bad news, but some of it is dated news, and some of it I think we might be able to put in a better context if we had a sense of how some of these areas might actually be the areas we would anticipate would be slowest to recover from a slowdown.

I thank you, Mr. Chairman.

Representative Saxton. The gentleman's time has expired.

Senator Sarbanes. I wanted to just make an observation, if I could, very quickly.

Representative Saxton. Let me go to Mr. Watt, and then we will get to the Senator.

Representative Watt. Mr. Chairman, as much as I have always aspired to be senior to Senator Sarbanes, either in knowledge, service, looks or otherwise, I am happy to have him go next in line.

Senator Sarbanes. I will just take 10 seconds.

There is an article in this morning's *New York Times*, on the dollar valuation point which you made, which I think is extremely important, about Treasury Secretary O'Neill who is now talking a strong dollar. They make the point that when he was the head of International Paper Company – because the article is about the loss of jobs at International Paper – he had an entirely different refrain.

Representative English. I would simply point out that Secretary O'Neill was the President of Alcoa, which is another one of our local companies. But that perhaps may highlight the problems of using the *New York Times* as a primary source.

I thank the Senator.

Representative Saxton. Mr. Watt.

Representative Watt. Thank you, Mr. Chairman. Thank you, Senator Sarbanes.

Madam Commissioner, in addition to my service on this Committee I have the pleasure of serving on the Financial Services Committee, and we had the opportunity to have Chairman Greenspan come periodically to deliver his exposes. And it started out being the Humphrey-Hawkins hearings. I guess there is no such thing as Humphrey-Hawkins, but the whole theory of Humphrey-Hawkins was that full employment was a desirable thing. That is certainly the philosophy that I came to Congress with and that I started my service with.

I was somewhat appalled to go to the first hearing and find Chairman Greenspan saying that there was something desirable about unemployment because his theory, the first time I heard him testify, was that you needed at least 5.5 to six percent unemployment to keep the economy from overheating. It seems to me that the entire paradigm has shifted in a much more desirable direction over the nine years or so that I have been in Congress.

Fortunately, even his perspective on that has changed. He came a couple of times to our hearing and said, this can't possibly be sustained because unemployment can't go down any further without the economy overheating. And then he came and said, well, the decline in unemployment is being compensated for by the increase in productivity, all of which I understood and agreed with to some extent.

I am just wondering whether it is in your province to tell us what you perceive to be the structural unemployment level that this economy is going to have when all is said and done. What is the best-case scenario we could have on unemployment without dramatic increases in cost of living?

Ms. Abraham. That I am afraid really goes beyond the data and the interpretation of the data.

Representative Watt. I won't put you on that spot then.

Let me ask some more factual questions. Minimum wage is $5.15 per hour, which means that somebody working 40 hours, 50 weeks a year, makes $10,300. That is below the poverty line. Can you tell me how many people in this country are working below the poverty line and what percentage of the workforce that is?

Ms. Abraham. Boy, we certainly have those data. I don't have them here.

Representative Watt. Okay, so you could provide that to me.

Ms. Abraham. So it was the number of people below the poverty—

Representative Watt. And what percentage of the workforce that is.

Nobody that is with you has that information either?

Ms. Abraham. No. We bring these large binders with lots of stuff, but I am afraid we don't have that in it.

Representative Watt. Okay. That is fine.

[The report, *A Profile of the Working Poor, 1999*, appears in the Submissions for the Record on page 99.]

Representative Watt. Let me go on to another question.

In a number of local communities, communities have gone on beyond the concept of a minimum wage to something called a livable wage. In fact, in my local community of Charlotte, North Carolina, where I live, there was a big stadium referendum on the ballot that got defeated because the city council would not agree to pay a hundred or so employees a livable wage or commit to that; and a significant portion of the community believed that that was important as part of approving a sports facility, so they just voted down the referendum.

The question I would like to ask is, there are about 41 localities around the country that have living wage ordinances or standards in local communities. Does your agency track any of those local communities and do you have any statistics about what impact those livable wage agreements have on local or regional labor markets?

Ms. Abraham. We do not track those ordinances. I suspect that the Wage and Hour Administration in another part of the Department of Labor may do so. We likely also would have data on what has happened to employment in those communities, though, again, it is not something that we have looked at.

Representative Watt. You think that is something you could provide to us?

Ms. Abraham. Certainly.

Representative Watt. I just – the argument is always made that a livable wage requirement reduces demand for jobs and has some adverse impact on the economy; and if there is some reliable information out there that would either prove that or disprove it or at least provide more intelligent information about it, it would be very helpful to have.

Ms. Abraham. What we may be able to provide is information on employment in at least some of these communities. It would require considerably more in-depth study than we have done.

[Data on living wage ordinances appears in the Submissions for the Record on page 110.]

Representative Saxton. Gentleman's time has expired. If you have one more question in this segment.

Representative Watt. Thank you. Just one other thing that you probably don't have with you that I think would be interesting to have is information about people receiving TANF (Temporary Assistance to Needy Families). That number apparently has fallen significantly since 1996 in the context of welfare reform; and it would be helpful I think to know how many of these people are employed, if they are employed, what kind of wages or income they are earning and whether you might have any recommendations about how better to deal with people who are leaving welfare and going into the workforce.

Ms. Abraham. We do have a research paper that was prepared by one of our staff members looking from our household survey data at people who were TANF recipients and then looking at those who stopped receiving benefits, whether they were moving into employment or other things. I am sure there is a great deal else to be done in analyzing this, but I would be happy to share that work with you.

Representative Watt. That would be wonderful. I won't burden the Committee with it, but it would be wonderful if we could just get some written responses to those questions.

[The study, *Note on the Possible Effects of Welfare Reform on Labor Market Activities: What Can be Gleaned from the March CPS*, appears in the Submissions for the Record on page 71.]

Representative Saxton. I thank the gentleman. And let me just say that I thought your first question or observation was extremely important, going back to – and it is easy to Monday-morning quarterback, especially a couple of years after some policy which may or may not have been the most productive was carried out, in this case by the Fed.

I don't mean this in any way to criticize the Fed, but the point that Mr. Watt made relative to the perception at that time – or the seeming perception – by the Fed that the labor shortage was about to be a factor in bringing about bad economic times and the resulting Fed policy of increasing interest rates to try to throw a wet blanket over the economy. Looking back, I can't justify that policy.

Representative Watt. I think what has happened over a period of time is there was a significant shift in the paradigm. Because technology apparently made it possible for productivity to substantially increase, and that made it possible, according to – I am the last person that should be trying to explain or defend or elucidate anything Chairman Greenspan says, but, as I understand it, his theory is that as productivity rocketed higher and higher you could have unemployment get lower and lower and lower without having a resulting adverse impact on the cost of living; and

I think I understand that. You have got to have productivity, and I guess one way to have productivity is to hire more employees. But if you can make the employees you have more productive and need more employees, which is what happened during this technology boom, apparently, that that offsets in some way.

Representative Saxton. And let me just say for the record that it was Chairman Greenspan who for a long period of time held the position that labor wasn't necessarily the key factor to look at. As a matter of fact, it was Chairman Greenspan who for many years talked about the Phillips curve and the faulty assumptions that were part of the theory that labor shortage would cause inflation. As a matter of fact, it is too many dollars chasing too few goods in Chairman Greenspan's opinion that causes inflation, not a shortage of labor.

So it is one that you have got on the record, because we are Monday-morning quarterbacking the Fed; and it was in fact Chairman Greenspan who held many of the theories that we are now saying were right.

Senator Sarbanes.

Senator Sarbanes. Well, thank you very much, Mr. Chairman.

First of all, Mr. Chairman, I want to commend you for holding this hearing and I understand that – I think you have already done it earlier in the year – it is your intention to do them on a regular basis.

Actually, these hearings began in a struggle between the Congress and the Executive Branch in terms of laying this information out to the public. I think the Congress over the years has made a significant contribution by holding these hearings, although occasionally it is difficult because of the Congressional calendar and so forth, but I think it is very important to hold the hearings. I very much appreciate your doing this, and I generally appreciate your concern to make the JEC a quality, functioning Committee.

In that regard, I also want to say it is a step forward for us that Senator Reed is now the Vice Chairman of the Committee. I know he is going to bring a lot of energy and commitment to the work of this Committee. I am hopeful that you and he, working together, can develop an agenda that all of us are supportive of and makes a real contribution to economic discussion in the country; and I am looking forward to that.

Now, Commissioner Abraham, it is nice to see you again.

Ms. Abraham. Hi.

Senator Sarbanes. I haven't been able to make these hearings the last couple of times. I understand that before I came in you were asked a question about whether the economy was bottoming out, and you said that you declined to forecast. Does nothing ever change?

Ms. Abraham. No, not that.

Senator Sarbanes. Well, that has been a consistent answer by commissioners since I have been here, and obviously it shows a sensitivity on your part to what you can lay out and what you can't lay out.

Now let me ask you a couple of questions which I hope you will be able to answer.

The unemployment rate I understand this month is 4.5 percent, correct?

Ms. Abraham. That is correct.

Senator Sarbanes. I also understand, though, that there has been a – if not a shrinking – a significant deceleration in the growth of the labor force, that people seem not to be coming into the labor force at the same rate as was earlier the case, even though the population demographics would lead one to assume that the numbers would be higher than they are. Is that correct?

Ms. Abraham. Well, comparing July to December, the labor force is up by several hundred thousand, which is a slower rate of growth than we had seen over the prior year.

Senator Sarbanes. But that doesn't reflect some change in population growth or the attaining of a labor force age on the part of young people or anything of that sort, does it?

Ms. Abraham. No, it does not. The labor force participation rate, that is, the share of the working age population that is in the labor force, has come down several tenths of a percentage point since January.

Senator Sarbanes. If the labor force had grown this year at the rate of last year's growth, if you had maintained the trend line, what would the unemployment rate be this month?

Ms. Abraham. Roughly, if the labor force participation rate were what it had been in December and what it had been the December before that, we would have had about 280,000 more employed people. So that would be a couple tenths of a percentage point more on the unemployment rate.

Senator Sarbanes. Now what about the number of people that are working part time who want to work full time? They are working part time – I understand some people want to work part time, but others work part time because that is all that is available to them. I think we call that part time for economic reasons, is that correct?

Ms. Abraham. That is correct.

Senator Sarbanes. Has that number increased?

Ms. Abraham. Let me find the series on that so that I am citing the correct figures for you. That number is up again several hundred thousand over the year. In July of this year as compared to July of last year, there were about 350,000 more people who were what we call part time for economic reasons.

Senator Sarbanes. So those are people that want to work full time. They can't get full time work. So if you factor them into the unemployment rate, where would we be?

Ms. Abraham. I guess I don't have a figure that is exactly that, but if it is about 350,000 people that would be another 3/10ths on the unemployment rate.

Senator Sarbanes. So we get up to about 5 percent or slightly above if we had all these things that we have just been reviewing.

Ms. Abraham. If those people had been counted in the unemployment figures, if we added in the change, that is how much it would be. As I think you know, we do calculate, on a routine basis, alternatives to the unemployment rate that are more inclusive in terms of the groups that they cover. We do have one that includes these people who are part time for economic reasons, as well as that whole set of people who say that they would like to be working and who have actually done something to look for work in the last 12 months, but aren't counted as unemployed because they haven't searched recently.

If we were to add the so-called marginally attached plus these people who are part time for economic reasons in with the unemployed, they account for just over eight percent on a nonseasonally adjusted basis of the labor force plus the marginally attached group as compared to an unemployment rate not seasonally adjusted for the same month of 4.7 percent.

Senator Sarbanes. Well, the point I am trying to get at – and let me see if you concur in this – is we have had arguments from time to time as to exactly what we ought to include in the unemployment rate. And, of course, we leave some things out of it that other countries include, but, generally we work with these figures. On the other hand, when you are trying to evaluate the economic situation and the unemployment rate raises from 3.9 to 4.5 percent, it seems to me if you are trying to gauge where the economy is it is also relevant to look at these other groups as well that are not counted to see if the indices in those areas are worsening in order to get a comprehensive picture of where the economy is.

It is one thing if the unemployment rate goes from 3.9 to 4.5 percent and then all these other related areas more or less stay the same. Then you are going to get the picture of just a 6/10ths of a worsening in the unemployment rate, which is of course significant.

But in this instance we also have to take into consideration that these other indices are worsening as well in terms of giving you some sense of what the economic circumstances are. Am I correct that all these other indices have worsened as I understand. And the situation is actually worse or more serious than what one might deduce solely from the rise in the unemployment rate itself?

Ms. Abraham. I think it depends in part on how you look at the data. If you look over the last year, on a not seasonally adjusted basis, which I am using because that is how we have these other figures, the unemployment rate has gone up from 4.2 to 4.7 percent. Our most inclusive measure, the one that includes these marginally attached people, the people who say they would like to work, but miss being counted as unemployed because they haven't searched recently, and also the people who are part-time for economic reasons, that rate has gone up from 7.3 to 8.1 percent over the last year.

Representative Saxton. Senator, your five minutes is now 10, which is okay. Could you ask one final question?

Senator Sarbanes. I'm sorry, Mr. Chairman, I didn't realize the time had—

Ms. Abraham. We do track these other measures, and I guess from the perspective of trying to think about where the economy is headed, our experience has been, and the recent experience is no exception, that they tend to move up and down together. Their movement patterns aren't always identical, but they very much tend to move up and down together.

Senator Sarbanes. But the most comprehensive measures you have of unemployment put it at 8.1 percent; is that correct?

Ms. Abraham. The share of the unemployed, plus the marginally attached, plus the people working part-time for economic reasons, divided by the labor force, plus the marginally attached, that, the former group is 8.1 percent of the latter.

[The letter from Commissioner Abraham to Senator Sarbanes appears in the Submissions for the Record on page 124.]

Senator Sarbanes. Thank you.

Representative Saxton. Thank you very much.

Senator Sarbanes. Mr. Chairman, I apologize. I didn't realized my time had elapsed.

Representative Saxton. Thank you very much. If I may suggest, we are going to have a second round here, but if we will all limit ourselves to five minutes, that will be fine. Let me just turn for a minute to my home state situation, Commissioner. In New Jersey the economic situation data and the – if we could just look at those for just a minute. Understanding that they are obviously from earlier months, what do the recent trends in employment and unemployment suggest about the State of New Jersey's economy and in what industries does employment growth seem strongest and perhaps in which segments in New Jersey does it seem the weakest?

Ms. Abraham. I know that Phil has a package here with some of the information for the State of New Jersey, and perhaps I could ask you, Phil, to comment on what the data we have at hand show.

Representative Saxton. Thank you, Mr. Rones. Proceed, please.

Mr. Rones. We may have to follow up with you with some additional information. I have some summary information that we provided to the staff for you. If you look at just the overall unemployment rate in New Jersey, last fall we had rates of 3.8 percent, roughly in line with the national rate. The rate for June was 4.5 percent, again identical to the national rate. So overall, I would say that New Jersey has very much mirrored the national economy or at least the trend in New Jersey for the payroll employment. We have seen very little job growth over the year. In fact, so far this year, so far in 2001, we have had no net job growth whatsoever in New Jersey, again not very different from the national picture.

What I don't have is a detailed industry-by-industry look for you, and we can actually provide that quite quickly to the staff as soon as we get back.

[The employment data for New Jersey appears in the Submissions for the Record on page 131.]

Representative Saxton. Thank you. I am anticipating the answer to my next question then and you may need to provide this after you have a chance to review it as well. But we have a map of New Jersey here, which shows a county-by-county breakout of the unemployment rate, and it appears that some of New Jersey counties are doing very well with less than two percent unemployment. Others are between two and three percent, others between three and four percent. And then two counties, which, when you pass through or drive through them, a cursory look would indicate that their economy is doing okay, but they are between seven and 10 percent unemployment, and that is curious to me.

I guess the question is, do you have any information that would explain this? And if not, can you provide some information that might be helpful in helping us to understand that?

Mr. Rones. We will provide more detailed information. But I notice that one of the counties with the high unemployment rate is Cape May.

Representative Saxton. Yes.

Mr. Rones. And one thing that we know, in areas that tend to have big seasonal swings in economic activity, when you look at their annual average unemployment rate, as you have in front of you, it would tend to be high because you are averaging these peaks and valleys of economic activity. So that is just one thing that jumps out at me when I look at that map you referred to.

Representative Saxton. Well, that may be, but Atlantic County, which doesn't find itself in the same category, is also a big tourist industry county, as is Burlington County and Monmouth County, and they don't find themselves in anywhere near the same condition relative to unemployment.

I know this is not the kind of thing that you specifically came this morning prepared to discuss, so if you would just take whatever time that you need to look at this kind of a question and get back to me, I would very much appreciate it.

[The information appears in the Submissions for the Record on page 131.]

Mr. Rones. Certainly.

Representative Saxton. Thank you very much. My time has expired. Senator Reed.

Senator Reed. Thank you very much, Mr. Chairman. Commissioner, it appears that the duration of unemployment has been rising since April, and today you report that the median duration of unemployment has risen again to just under seven weeks.

What does this rise in unemployment duration and related measures tell us about where we are in this current economic cycle?

Ms. Abraham. What you may have in mind in asking that question is the pattern that is typical for unemployment duration. When unemployment rises, the economy softens. We often see going along with that increases in the duration of unemployment as some of those who are unemployed take longer to find jobs. It tends to lag a little bit behind the increase in unemployment, and I think it is not inconsistent with what we are seeing in the rest of the data that we are starting to see that uptick.

Senator Reed. I don't want to once again get into the forecasting mode, but does that suggest anything about two issues: one, where we might be relative to a potential recovery period, and, second, and particularly since so much of the apparent loss of jobs comes from manufacturing, is this spreading from the manufacturing sector to other sectors? Is there any interrelationship that you can discern now on those two issues? You might decline about the recovery. But does it suggest, or indicate, where we are in the cycle? Second, does it suggest that we might be seeing an interrelationship between the sectors?

Ms. Abraham. The part of that, that in principle I would be happy to answer if I had the figures here. As to whether we are seeing this increase in duration concentrated among people who had been employed in particular sectors, I don't have those data here, but that is something that I should be able to take a look at .

Senator Reed. If you could do that, I would appreciate that, Commissioner. And you are gracefully not commenting upon what it tells us about recovery. So thank you so much for being consistent. If not illuminating, you are consistent.

Once again I want to commend you, Commissioner, for your testimony and also the Chairman, because I do think these are valuable forums to get the information out publicly and to raise questions which can be responded to here or later. I thank you, Commissioner, and thank you, Mr. Chairman.

Representative Saxton. Thank you, Senator Reed. Senator Sarbanes.

Senator Sarbanes. Thank you very much, Mr. Chairman. Commissioner, the unemployment rate was at 3.9 percent last September and October, correct? Less than a year ago.

Ms. Abraham. That is correct.

Senator Sarbanes. What was the most comprehensive figure of unemployment at the time comparable to the 8.1 percent figure which you gave me a few minutes ago?

Ms. Abraham. Let me see. We have the figures for the year earlier. I do not believe I have the full series of month-by-month figures here, though it would be easy to obtain that and provide it to you.

Senator Sarbanes. Do you have the figure for the end of 2000?

Ms. Abraham. No, I have the figures for the last few months and the figures for a year ago for comparison purposes.

Senator Sarbanes. What is the year ago figure?

Ms. Abraham. That was the figure we were talking about, the 7.3 percent.

Senator Sarbanes. I see. Okay.

Ms. Abraham. Because these series are not seasonally adjusted, and because there may be a seasonal element to it, the year ago figure is probably the most relevant comparison. The standard unemployment rate was about the same then as it was this October. So—

Senator Sarbanes. Is the worsening of the unemployment over this time period, does that sort of track past experience? Is it ahead of it or behind it?

Ms. Abraham. I am not sure I understand the question you are asking.

Senator Sarbanes. Well, the unemployment rate has gone up a half a point in about six months, correct?

Ms. Abraham. Right.

Senator Sarbanes. Now, when you look back over previous softenings of the economy, is that going up rather quickly, rather slowly, or about comparable with previous experience?

Ms. Abraham. I understand the question. I am looking at a graph here that shows what has happened over previous periods as we entered recessions. We of course do not yet know at this point whether we are entering a recession. The upward movement in unemployment in recent months is, if anything, looking at these data, I would be inclined to say that the increases at the start of these recessions was sharper than what we have seen in recent months. Let me find the—

Senator Sarbanes. Now the manufacturing sector, though, I take it is the hardest hit currently?

Ms. Abraham. Right. That is correct. To take the most recent recessionary period at the start of the early 1990s, we had a number of months of decline in manufacturing employment that the recent declines that we have seen in manufacturing employment are at least as large as those we saw during that recessionary period.

Senator Sarbanes. Right. So if you were at least working just off the manufacturing, and you are concerned about not having a recession, there would be real reason for some alarm about the situation based on the past experience?

Ms. Abraham. I have to say that the employment numbers that we are seeing in manufacturing are comparable to the employment numbers that we saw during the recession of the early '90s.

Senator Sarbanes. Yes. Okay. Thank you, Mr. Chairman. Traditionally, this Committee has shown some concern for the adequacy of the resources available to the Commissioner and the Bureau, and I wanted to ask the Commissioner about that. I have talked with Secretary Evans and the Chairman of the Council of Economic Advisors, both of whom seem interested in trying to boost this statistical infrastructure of the Federal Government. I have not yet had a chance to talk to the Secretary of Labor. Alan Greenspan, actually, in one of his testimonies before us said that while he never supported spending programs, one exception was to try to get an adequate statistical infrastructure because he thought the added cost was very small and the added benefits were very large, and he thought it made a good deal of sense.

What is your situation, your budget situation? How able are you to bring your various measurements up to current standards and to develop new series that take account of the changing economy and so forth?

Ms. Abraham. I have been pleased in recent years by both the receptivity of the Executive Branch and the receptivity of the Congress to proposals that we have brought forward to improve our data, particularly our major economic indicators. We do have this year as part of the President's budget a proposal for some further, and I think highly desirable, improvements to the Consumer Price Index that I very much hope we will end up getting the money to make. So that is the thing that I am particularly looking at in terms of funding at this point in time.

Senator Sarbanes. Okay. Well, we will see what we can do to try to help you. I think it is very important.

Ms. Abraham. We appreciate that.

Senator Sarbanes. Mr. Chairman, thank you very much.

Representative Saxton. Thank you, Senator, and thank you, Commissioner. I would like to thank the other Members of the House and Senate who were here today.

As far as I know, this is the last official meeting on the House side before the August break, so it is notable that these Members have been willing to stay to have this discussion with us. And Commissioner—

Senator Sarbanes. It is notable that it was done by the Joint Economic Committee.

Representative Saxton. It is notable that it was done by the Joint Economic Committee, that is true.

Commissioner, thank you, and Mr. Dalton, Mr. Rones, for being here today. I think it was a very good discussion, particularly as it related to the long-term economic trends that we were able to discuss through 1999, 2000 and of course this year.

We are all concerned about the condition of the economy, and we hope that, as was suggested by one or two of the other Members, that it has bottomed out, but we have watched it as it declined through the last half of 2000 and the first half of this year, and we are hoping that we will see some upward movement as a result of some policies that have been changed, policies that have been changed by the Fed, policies that have been changed in tax policy, as well as policies that we had little to do with that have to do with energy costs.

So thank you for being with us. We look forward to seeing you again in the fall, and the Committee stands adjourned.

[Whereupon, at 10:56 a.m., the Committee was adjourned.]

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

It is a pleasure to welcome Commissioner Abraham before the Joint Economic Committee (JEC) once again to report on the release of new employment and unemployment data for July.

As I have noted since last year, U.S. economic conditions have been and remain quite weak. A survey of economic data shows that the U.S. economy has been in a serious slowdown for the last year or so. The rate of real GDP growth has slowed dramatically over the last four quarters, and investment has plunged. Moreover, manufacturing employment has trended downward over the last year. These and other data demonstrate that the effects of the economic slowdown have been widespread.

However, on the other hand, consumer spending and the housing industry have held up surprisingly well. This year the Fed has aggressively cut interest rates, Congress has reduced the tax drag on the economy, and energy prices are retreating. Although I am in agreement with many economists that these factors should work to foster an economic rebound by early next year, I'm still concerned about the vulnerability of the economy to shocks and disruptions.

The employment data released today reflect the economic slowdown. Payroll employment declined 42,000 in July, a poor performance relative to the 225,000-250,000 increases typical during the healthy economic expansion. Manufacturing employment has been in decline, and has lost 837,000 jobs since July 2000. The unemployment rate remained unchanged at 4.5 percent.

The domestic economic situation is cause for concern, but the international economic situation is also problematic. A worldwide economic slowdown coming all at the same time magnifies the potential for cascading contractionary forces to undermine the U.S. economy. There are also weaknesses in the international financial situation that bear close examination. I continue to believe that an easing by major central banks in the U.S., Europe, and Japan should be considered to alleviate potentially deflationary pressures.

In the event others do not act, it would be appropriate for the Federal Reserve to act on its own to reduce interest rates. Chairman Greenspan's policy actions in 1998 did much to stabilize the international economic situation. Although the circumstances are different today, actions by the Fed could have very positive effects not only for the U.S. economy, but for the international economy as well.

All Americans look forward to the resumption of healthy economic and job growth. The economic slowdown has caused job losses in several sectors, but manufacturing has been especially hard hit in the last year. Fortunately, the economy seems to have avoided slipping into a recession, and there are indications that the slowdown may have bottomed out. However, policy makers must remain alert to any signs of economic deterioration and be ready to take further actions if needed.