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THE EMPLOYMENT SITUATION: NOVEMBER 2001

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before the

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CONGRESS OF THE UNITED STATES

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THE EMPLOYMENT SITUATION: NOVEMBER 2001

Friday, December 7, 2001

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

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

Present: Representatives Saxton and Dunn; Senators Reed, Corzine, and Sarbanes.

Staff Present: Chris Frenze, Robert Keleher, Colleen J. Healy, Darryl Evans, Brian Higginbotham, Matthew Salomon, and Daphne Clones-Federing.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

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

The employment data reported today are consistent with the findings recently made by the National Bureau of Economic Research (NBER) that the U.S. economy is in recession. Payroll employment declined by 331,000 and the unemployment rate rose to 5.7 percent. Overall the report today indicates that labor market conditions remain weak.

According to the NBER, the October payroll employment and industrial production data following the terrorist attacks indicated that the slowing economy had slipped into a recession earlier this year. The NBER report also noted that the declines of two of three major contracting indicators it considered began in 2000.

Even before the events of September 11th, the available economic data indicated that the economic slowdown that began in the middle of 2000 remained underway. The downward trends in investment led the recession, with the rate of real GDP growth slowing quite sharply since the second quarter of 2000, actually falling in the third quarter of this year. The staggering manufacturing sector was another leading signal of recession, with losses of over one million factory jobs since July of 2000.

On the other hand, real personal income continues to grow. Housing and consumer spending also have held up fairly well. In addition, since last January the Fed has reduced interest rates 10 times, Congress has lowered the tax drag on the economy, and energy prices are declining. Many economists had expected these factors to lead to an economic rebound by the last half of 2001, but the attacks on the World Trade Center have led them to forecast a delay in the recovery. Although in recent weeks there have been some signs that the economy may have bottomed out, economic stimulus legislation is still needed as an insurance policy to bolster the economy and ensure that a rebound does not falter.

Financial markets and the economy have been disrupted by the terrorist attacks. The attacks have increased uncertainty and caused a widespread reevaluation of risk and security. Delays and higher shipping costs in air and ground transport, additional inventory and insurance costs, higher expenses for security personnel and equipment, fortification of buildings and facilities and other measures will have the effect of imposing something like a “security tax” on an already vulnerable economy.

This burden will undermine the economy in the short run and could tend to adversely affect both the productivity growth and the economy's potential growth rate. A logical policy response would be to offset these costs by relieving some of the tax burden on the private sector. Measures to reduce the cost of capital and address the sharp declines in business investment are particularly needed.

Monetary policy has addressed the economic situation with an easing that began last January. The Fed's policy moves so far this year have certainly provided economic stimulus, but the lags in monetary policy are long and variable. Given the lack of inflationary pressures, prudent action by the Federal Reserve this Tuesday to reduce interest rates further could also contribute to improving the economic outlook.

At this point I will turn to Senator Reed for any statement he may have.

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

OPENING STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Senator Reed. Thank you, Mr. Chairman. Thank you for convening this hearing but also for maintaining the practice of reviewing these unemployment statistics as they are released. It is a very important opportunity to talk about economic policy.

As the Chairman pointed out, the National Bureau of Economic Research declared that the country entered a recession last March. We understood even before that there were difficult economic circumstances facing the country. Those circumstances were aggravated significantly by the terrorist attacks on September 11th.

The U.S. economy has lost more than a million jobs since the beginning of the recession in March. Despite some hopeful signs, the number of Americans losing their jobs continues to climb, and the number of people who are still unemployed after more than six months is rising. Those are disturbing statistics.

Some 290,000 unemployed workers exhausted benefits in the month of October alone. The last time we saw numbers this high was 10 years ago in the wake of the last recession. At that time, in November 1991, legislation was enacted providing 13 to 20 additional weeks of benefits to workers who exhausted their regular benefits. Passing a 13-week extension of unemployment benefits now could help more than three-quarters of a million people, almost one in 10 unemployed workers.

There should be no doubt about the importance of extending benefits as part of the stimulus package. Getting money into the hands of lower-income households, either through expanded unemployment benefits or tax rebates, would boost consumption spending. People who have lost their jobs and have trouble making ends meet are the targets to get the most bang for the buck out of our stimulus policies. There must be a demand for a company's products or services before a firm will invest in new equipment or hire additional workers.

The task before us as policy makers is to get the economy out of this recession quickly and put it back on the path of strong and sustainable growth.

A fiscal stimulus package is only a good idea to the extent that it has a maximum impact on the short run without undermining long-term fiscal discipline. A poorly designed fiscal policy could be a waste of valuable resources or could even be counterproductive.

I am looking forward to the testimony of the Acting Commissioner on the state of our labor markets. I welcome the Acting Commissioner. Thank you, Mr. Chairman.

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

Representative Saxton. Thank you, Senator.

Commissioner, thank you for being with us this morning. We have had a sneak preview of the numbers that you are going to talk about this morning. As I mentioned to you on the way in the room, it is Christmas so we were hoping you would bring good news, but we understand the reality of the situation, and so we are here and the floor is yours.

OPENING STATEMENT OF LOIS ORR, ACTING COMMISSIONER, BUREAU OF LABOR STATISTICS: ACCOMPANIED BY KENNETH V. DALTON, ASSOCIATE COMMISSIONER, OFFICE OF PRICES AND LIVING CONDITIONS; AND PHILIP L. RONES, ASSISTANT COMMISSIONER OF CURRENT EMPLOYMENT ANALYSIS

Ms. Orr. Thank you. Mr. Chairman and Members of the Committee, I appreciate the opportunity to comment on the labor market data that we have released this morning.

As noted earlier by the Chairman, the job market continued to deteriorate in November. The unemployment rate rose three-tenths of a percentage point to 5.7 percent, following a jump of half a percentage point in October. Payroll employment fell by 331,000, as noted earlier, in November in the wake of deep job cuts totalling 468,000 in October. Job losses were widespread again in November, although the largest decline continued to be concentrated in manufacturing and help supply services. Since its recent peak in March, total nonfarm employment has fallen by 1.2 million. I would note, as has been noted earlier this morning, that the March peak in payroll employment coincides with the onset of the recession, as recently announced by the National Bureau of Economic Research.

In terms of the sheer number of jobs lost, manufacturing continued to bear the brunt of the downturn in the economy. In November the industry shed yet another 163,000 jobs. Employment in the Nation's factories has fallen by almost one million since March and a total of 1.4 million since July of 2000. Although nearly all manufacturing industries lost jobs over the month, decline continued to be pronounced among durable goods manufacturers. Particularly large declines occurred in electrical equipment, which was down 29,000 in November, industrial machinery, down 26,000, and fabricated metals, down 19,000. The factory workweek and factory overtime also continued to trend down over the month, to 40.3 and 3.7 hours, respectively. Manufacturing hours have been drifting down since the spring of 2000.

Reflecting the declining demand for factory workers as well as the softening demand for labor throughout much of the rest of the economy, employment in the help supply industry fell by 87,000 in November, on the heels of an even steeper decline in October. I think that was the 14th straight month with employment declines in the help supply industry. Employment in this industry actually has declined by 629,000 since its most recent peak in September 2000. That is a drop of nearly 18 percent. Elsewhere in the services industry, employment in amusement and recreation services declined by 25,000. In addition, hotels lost 7,000 jobs, following a much larger decrease in October. One services industry that is growing in the aftermath of the terrorist attacks is guard services, which I think we noted also last month. It added 15,000 jobs in November after adding 14,000 jobs in the prior month. Health services continued to record steady job growth, adding 32,000 jobs in November and nearly 300,000 jobs over the past year.

The wholesale trade industry continued to be adversely affected by the slump in manufacturing. In November wholesale trade employment fell by 25,000 with almost all of the job cuts in durable goods distribution. In retail trade, overall employment was down slightly in November after seasonal adjustment, following large losses in the prior two months. Employment in department stores and apparel stores fell for the second month in a row, as hiring has fallen short of the normal seasonal buildup for the holiday period. Elsewhere in retail trade, there were small job gains in November among car dealers and in eating and drinking establishments.

In the transportation industry, employment in air transportation and transportation services, largely travel agencies, fell sharply for the second month in a row, with November declines at 45,000 and 12,000, respectively. As in October, these declines were likely related to reductions in air travel since September 11.

Employment in finance expanded by 14,000 in November, aided by low interest rates that continue to spur activity in banking and mortgage brokerages. Construction employment was unchanged in November at

6.9 million, and the job total in the construction industry has held at this level since February. I should note that construction employment is normally quite cyclical, falling sharply during recessions. This year, however, the industry has been buoyed by high levels of residential building activity, due in part to the favorable lending rates and by growth in heavy construction, such as road work.

Finally from the payroll data, average hourly earnings rose five cents in November; over the year hourly earnings have risen by 3.9 percent.

As I mentioned at the beginning of my remarks, the jobless rate in November was 5.7 percent, up three-tenths of a percentage point over the month. The rate increased from 3.9 to 4.3 percent between October of a year ago and the start of the recession in March. Since March the rate has risen by an additional 1.4 percentage points. The number of jobless persons currently is at 8.2 million, and that is an increase of 2.6 million since October of last year.

Unemployment rates were up in November for adult men and whites. These two groups and the other major worker groups, adult women, teenagers, blacks and Hispanics, have experienced increases since October of last year as well. The November increase in unemployment occurred principally among those persons who had lost their jobs and did not expect to be recalled.

The deteriorating job market is making it increasingly difficult for job seekers to find work. Indeed, the number of unemployed who have been searching for work for six months or longer has nearly doubled since July, to 1.2 million in November.

Finally, from the household data, total civilian employment fell by nearly 500,000, that is, half a million, in November, and the proportion of the population with a job declined three-tenths of a percentage point to 63 percent. That is what we call the employment-population ratio.

In summary, nonfarm payroll employment fell by 331,000 in November, the second extremely large drop in a row. Losses were widespread, with the largest employment declines occurring in manufacturing and help supply service industries, and the unemployment rate rose three-tenths of a percentage point to 5.7 percent.

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

[The prepared statement of Acting Commissioner Orr appears in the Submissions for the Record on page 18.]

Representative Saxton. Commissioner, thank you very much. The Senate is going to have a vote very shortly, so we are going to pass on my initial questions and go to Senator Reed and Senator Corzine. Then we will come back.

Senator Reed.

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

Commissioner, the last U.S. recession ended in March of 1991. At that time the unemployment rate was approximately 6.8 percent. And even though the economy began to recover in March of 1991, the unemployment rate continued to lag for another 15 months, peaking at 7.8

percent in June of 1992. My concern is that even if the economy begins to recover in the first quarter of 2002, or any time in 2002, the unemployment rate may continue to rise for another year or more. How long might the unemployment rate lag a recovery?

Ms. Orr. You know, we are not in the business of projecting. As you state, the last recession there was a substantial lag. I think it has varied over time. But it is not uncommon that unemployment continues to increase or stays at a high level for a number of months after the trough is reached in a recession.

Phil, do you want to comment?

Mr. Rones. I think I will just add that in the last recession the delay before the employment and unemployment measures started improving was unusually long. But I think the point is correct, that those things can deteriorate even after general economic activity starts picking up.

Senator Reed. Thank you.

Ms. Orr. It is not uncommon for us to see some increase in the hours at work for those that are employed before we see much of a pickup in employment.

Senator Reed. In the same spirit with which the Chairman was so gracious, let me yield to my colleague. We have 13 minutes left before we have to respond to a vote. So I will now yield to Senator Corzine.

Senator Corzine. Thank you. I appreciate the Chairman for allowing me to ask a question. The help supply services I take it are temporary workers, people that are assigned out. Many of these I would suspect, the way our unemployment compensation system worked, would not be eligible for unemployment compensation?

Ms. Orr. I think it varies that some would be eligible for unemployment compensation through their employer, the temporary help supply agency. But I can't say definitively. Phil?

Mr. Rones. Yeah. It wouldn't be a legal restriction to their being compensated.

Senator Corzine. They have to work consistently at one job?

Mr. Rones. That is the issue. There are many people in the industry who are what would look like fairly permanent employees of that company. They work regular hours for extended periods of time. But it is clearly the case that the average duration of employment in a temporary help setting would be shorter than it would in a regular full-time wage and salary kind of setting.

Senator Corzine. I ask that question because again our unemployment compensation system isn't geared to people who do work in these transient, temporary employment roles.

Are there statistics on how long folks are in the help supply services, the duration of their employment? Do we have numbers on that or do we track that?

Mr. Rones. We can get those for you. We should be able to produce those.

[The information on temporary workers appears in the Submissions for the Record on page 45.]

Senator Corzine. I would appreciate actually getting a feel for that. Do you get the general observation that about 50 percent of the unemployed are not eligible for unemployment compensation? I wonder how much of this particular category which is rising rapidly might fit that category.

Thank you.

Senator Reed. Mr. Chairman, might we include one or two questions in the record for a response since we have to depart?

Representative Saxton. Sure. Without objection.

Senator Reed. I thank you very much. Thank you, Commissioner.

[The letter from Senator Reed to Acting Commissioner Orr, with response, appears in the Submissions for the Record on page 137.]

Representative Saxton. Thank you. Commissioner, as I noted in my opening statement and I believe as you alluded to as well, the downturn in the economy actually began quite some time ago in the middle of 2000. And if I just may by way of use of some charts that we have brought along, demonstrate actually what has happened in the economy over the last year or so.

This is a chart that shows GDP growth over the past several years, and it is fairly obvious from this chart that GDP growth began to diminish actually significantly in the third quarter of 2000. Actually the second quarter of 2000 was fairly robust growth, something around six percent, and in the third quarter of 2000 it looks like the rate of GDP growth was well under two percent. And of course it has been diminished since until the second quarter of this year, when we actually saw negative growth.

[The chart entitled “Gross Domestic Product” appears in the Submissions for the Record on page 187.]

The next chart shows a similar pattern with fixed private nonresidential investment, where we again saw robust growth in nonresidential investment through the first and second quarter of 2000 but by the third quarter of 2000 we saw diminished growth of about half what it was in the first quarter of 2000. And of course we see the continuing pattern in 2000 of diminished nonresidential investment growth.

[The chart entitled “Fixed Private Nonresidential Investment” appears in the Submissions for the Record on page 188.]

Another chart, which I think is telling, is the chart detailing personal consumption over the same period of time. And again, we see that personal consumption growth, the rate of growth has continued to diminish, beginning, again, in the second and third quarter of 2000.

[The chart entitled “ Personal Consumption Expenditures” appears in the Submissions for the Record on page 189.]

The unemployment rate, which was going down quite steadily through the late 1990s and into the first half of 2000, also began to show increases in early 2001 and I suspect that that is a very direct result of the economic factors that we have demonstrated on the previous charts.

[The chart entitled "Civilian Unemployment Rate" appears in the Submissions for the Record on page 190.]

So we have seen the economy continue to show signs of weakness in 2001, and of course the increases in unemployment are obviously a result of the same thing.

Now, last December the Committee released an analysis of the economy that warned of the serious economic slowdown then, which we have demonstrated here, was well underway. This slowdown has recently been designated as a recession by the National Bureau of Economic Research, which noted a decline in industrial production well before the recession officially began.

The recession seems to have started in the manufacturing sector, which lost over a million factory jobs since July of 2000. With the data released today, how large is the decline in factory jobs since July of 2000? Do you have those – I think Mr. Rones probably has charts which he can tell us just how large that loss in factory jobs is during the second and third quarter of 2000 as well as the first and second quarter of this year.

Ms. Orr. Well, the decline in factory jobs since July of 2000 has been 1.4 million.

Representative Saxton. 1.4 million jobs. Do your charts show how many of those losses were during 2000?

Ms. Orr. We can quickly look at it. Do you want to check on that? 955,000 of those jobs were lost since March.

Representative Saxton. Since March of this year?

Ms. Orr. Um-hmm.

Representative Saxton. The official figures released by the Commerce Department show that this is an investment-led slowdown. Private investment has been trending downward since the start of the slowdown in the third quarter of 2000 and has actually declined at double digit rates during the last three quarters. Real fixed nonresidential investment has declined sharply in the last two quarters of the designated recession. This decline in investment may have been reflected in employment in industries such as industrial machinery and equipment.

How does the level of employment in the industrial sector compare with the level of July of 2000 and how many jobs have been gained or lost since July of 2000 in that sector?

Ms. Orr. Which sector is that again, sir?

Representative Saxton. Real fixed nonresidential investment in industrial machinery and equipment.

Ms. Orr. We will check those numbers. But in the year 2000, to answer your earlier question, Chairman, we lost about 200,000 jobs in manufacturing in the year 2000. The remainder of the 1.4 million, that is 1.2 million, have been lost in this calendar year.

Representative Saxton. So your figures show that the decline in industrial jobs actually began in the second quarter of 2000, is that correct – the third quarter of 2000?

Ms. Orr. Although there had been some modest declines prior to that time, since July of 2000. You want to take that, Phil?

Mr. Rones. Industrial machinery employment has gone down 219,000 on a base of 2.1 million since July of 2000. So a little more than 10 percent.

Representative Saxton. Thank you. And the other question relates to industrial machinery and equipment. How does the level of employment in this sector compare with the level of July of 2000?

Mr. Rones. That is the one I had just given you, the industrial machinery.

Representative Saxton. I am sorry, I thought you were talking about the previous question.

Ms. Orr. Help us.

Representative Saxton. Help us again with this issue of the industrial machinery and equipment. If you gave us this answer, would you please restate it in the context of this question?

Mr. Rones. I am sorry. The employment in industrial machinery has gone down 219,000 since July, and that represents a little more than 10 percent of its employment.

Representative Saxton. Thank you.

Ms. Dunn, do you have questions?

Representative Dunn. Thank you, Mr. Chairman. I think what caught my eye, Commissioner, in your report was the sentence on page three, "Health services continued to record steady job growth, adding 32,000 jobs in November and nearly 300,000 jobs over the past year."

Could you give us the reasoning behind your analysis there, please? Why did that occur?

Ms. Orr. Employment increases in a number of the components of the health services, care for the elderly, hospitals, the full array of the components without major kind of increases in any one of the health care industry components, but sort of generally across the board.

Representative Dunn. I am especially interested in the numbers of nurses out there. We are told we have a shortage in the nursing area. Did you break that out?

Ms. Orr. The information that I am citing here comes from our series of nonfarm payroll employment by industry as opposed to occupational data. We don't really have any specific data that speaks to the matter of nursing shortages, although we do collect data on the number of nurses that are employed in the U.S. but we don't have any vacancy data on nurses.

Representative Dunn. I would be interested in that data that you have on nurses. Maybe we could get that from your office.

[The information on the employment of nurses appears in the Submissions for the Record on page 191.]

. **Representative Dunn.** According to your most recent data, Washington State, the State that I represent, has the highest unemployment rate in the Nation at 6.6 percent right now, almost a full percentage point above the 5.7 percent that you have given us today in your analysis. Obviously the setbacks by the high tech sector coupled with the job losses in aviation, the Boeing Company, that has already sent notices out and will continue to do that through the end of next year for 30,000 jobs, have contributed to this unfortunate situation.

We are working right now in the Congress to put together a stimulus package that will help all of these workers as quickly as we possibly can. Setting aside fiscal policy and the stimulus package that we are working on in the Congress, can you give to me some sense of what the short-and long-term employment prospects are in Washington State?

Ms. Orr. I would like to be able to do so, but as I mentioned before, you know, we are not in the activity of making projections. You know, we do in the Bureau have a cooperative program with each of the individual states in which we jointly collect data and produce it as to employment and unemployment by industry and the likes.

So for example, I know that in the State of Washington that during the past year the unemployment rate, as you noted, has climbed by 1.4 percentage points, largely reflecting declines in employment in manufacturing, trade and marginally offset by increases in health care employment in your state. But I can't help you in terms of making projections about employment in the state.

Representative Dunn. No trend line that gives you a clue? I know that it is very difficult to quantify the impact of September 11th on the labor market. Undoubtedly businesses such as hotels and the airline industry, the restaurant industry, have been devastated by the attacks on the first level. But there are many other industries who have been hit at the second level. I think of – for example, I mentioned Boeing before but the suppliers for the aircraft that Boeing is now not selling because of airlines cutbacks in what they are ordering. They have been hurt in the second order of fashion.

The concern that many of us have is we haven't seen the end of layoffs related to September 11th. In your opinion, is the worst behind us or can we expect a further round of cutbacks?

Ms. Orr. That question has some characteristics that are somewhat similar to your prior question. I am really not in the position to make forecasts.

Representative Dunn. Thank you very much.

Representative Saxton. The gentlelady's time has expired.

Senator Sarbanes, do you have questions at this time?

Senator Sarbanes. Yes. Commissioner Orr, I think that the monthly unemployment rate you are announcing this morning is 5.7 percent. Am

I correct that a year ago last October, October of 2000, the rate was 3.9 percent?

Ms. Orr. That is correct.

Senator Sarbanes. So it has gone from 3.9 percent just over a year ago to 5.7 this morning, is that correct?

Ms. Orr. That is correct.

Senator Sarbanes. I want to ask about the index you keep that includes in people working part time for economic reasons and discouraged workers as well. What is the rate?

Ms. Orr. The most inclusive rate that we have that includes the marginally attached workers and those who are working part time for economic reasons gives us an unemployment estimate of nine percent.

Senator Sarbanes. Nine percent.

Ms. Orr. Right. What was that figure in October of 2000?

Mr. Rones. I have November, that is a year ago, when it was 6.8 percent.

Senator Sarbanes. I have a figure of 6.3 percent last October, 2000, which I understand was a record low. Is that correct?

Ms. Orr. I don't have those data with me, but that could very well be.

Senator Sarbanes. Was 6.8 percent close to a record low?

Ms. Orr. We don't have the historical data for that series with us, do we?

Mr. Rones. That is a relatively new series that we introduced in the '90s. So when we talk about a record low for that measure, that is very different than a record low for unemployment, which we have been measuring fairly consistently since 1948.

Senator Sarbanes. Yeah. But you don't have the October of last year's figure?

Mr. Rones. I don't have the historical series with me. We can certainly get that for you.

Senator Sarbanes. Could you do that and provide it for the record?

[The information on marginally attached workers appears in the Submissions for the Record on page 244.]

Senator Sarbanes. When was the unemployment rate last as high as 5.7 percent?

Ms. Orr. The unemployment rate was at the same level in August '95.

Senator Sarbanes. It was at 5.7 percent in August of—

Ms. Orr. Yes, that was the last time the labor market measure was 5.7 percent.

Senator Sarbanes. At that time was it on its way down or on its way up?

Ms. Orr. It was overall on its way down. But it was relatively flat for several months. But since that time of course the unemployment rate declined.

Senator Sarbanes. I gather earlier you were asked the questions about whether the unemployment figure lags the bottoming out of the economic downturn? Is that correct?

Ms. Orr. Yes, we were asked that.

Senator Sarbanes. What was your response to that?

Ms. Orr. We said that that has happened of course, and it has varied from one recession to another as to the extent of the lag between the trough and the time that employment starts to pick up substantially.

Senator Sarbanes. I take it, it is uniform that there is a lag and that therefore even if we have hit the trough of this downturn, we can expect the unemployment figure to rise on the basis of previous experience?

Ms. Orr. I think in the main that is correct, but I would like to have an opportunity to look at the data to see if there are some instances where employment rose very shortly after the trough.

Phil?

Senator Sarbanes. But I am correct in stating that as a general proposition, the unemployment figure continues to rise after the trough; it is not until later in the business cycle that the unemployment figure levels off or begins to turn down, is that correct?

Mr. Rones. If you—

Ms. Orr. Typically.

Mr. Rones. It is hard to generalize because there are periods where there is an extended lag. And I point out the last recession where the unemployment rate went up to 7.8 percent in June of 1992 while the recession ended in March of 1991.

Senator Sarbanes. It went up for 15 months, didn't it?

Mr. Rones. That is right. But that would be unusual. There would be periods where the lag would be short. I don't have all the figures in front of me, and of course we will provide them for you.

[The information on the employment lag appears in the Submissions for the Record on page 244.]

Senator Sarbanes. But you don't have any instance in which there was no lag, do you?

Mr. Rones. I am not sure.

Senator Sarbanes. Probably not. I mean, I am just trying to – I am not asking you to predict. I am not asking the sort of – I am asking you—

Ms. Orr. I would say probably.

Senator Sarbanes. – to look through the rear-view mirror and tell me.

Ms. Orr. Probably not. As we have noted earlier, we have had nine recessions since World War II and we need to go back and carefully look at that to say with certainty that there is never such a case.

Representative Saxton. I thank the Senator. Thank you very much. We appreciate your thoughtful questions as always.

Commissioner, I have no other questions at this time. Ms. Dunn?

The Senator would like to ask another question or two. So we will yield to him at this point.

Senator Sarbanes. I just wanted to pursue a couple of other points. I understand that the unemployment rate for Hispanics and African Americans is now starting to rise considerably more than the general rise in the unemployment rate, is that correct?

Ms. Orr. Certainly not this past month. But if we looked at the change over time, we would see it rising.

Mr. Rones. If you look at the percent increase in the number of unemployed persons, the increase for whites between October of last year and the data we are releasing today has been – it has gone up 74 percent, that is in the level, whereas the level for blacks and Hispanics has gone up much less, 20 percent and 15 percent – I am sorry.

Senator Sarbanes. Are you sure about those figures?

Mr. Rones. The correct figures are the whites has gone up by 50 percent over that period from about four to about six million. The black unemployment level has gone up 37 percent. The Hispanic has gone up 56 percent. But of course I would point out that the base of unemployment for blacks in particular, but also Hispanics, is higher than that for whites in general, or at least the unemployment rate.

Senator Sarbanes. What is the unemployment rate for whites that you are bringing in this month?

Mr. Rones. That is 5.1 percent.

Senator Sarbanes. And for blacks?

Mr. Rones. For blacks it is 10.1 percent. I would say that that is at the bottom of the historical relationship. Usually the ratio between the two ranges from double to about two and a half times. So this is slightly less than double. The rate for Hispanics is 7.6 percent.

Senator Sarbanes. Okay. I see the number of people unemployed for five to 14 weeks – well, this is on last month's. Let me ask it on this month's data. What is the increase in the number of people unemployed for five to 14 weeks from a year ago?

Mr. Rones. It is a little more than 800,000.

Senator Sarbanes. And the percentage increase?

Mr. Rones. It would be slightly less than a 50 percent increase.

Senator Sarbanes. And the people unemployed for more than 15 weeks?

Mr. Rones. That is an increase of a million and the percent is 82 percent increase.

Senator Sarbanes. 82 percent.

Mr. Rones. That is right.

Senator Sarbanes. From over a year ago.

Mr. Rones. That is right.

Senator Sarbanes. In the number of people unemployed for more than 15 years, do you do anything with the unemployment insurance (UI) coverage, its length and so forth, its duration, its expiration, anything of that sort? Do you maintain any statistics on that?

Mr. Rones. Is your question whether any of the states have extended benefits beyond the 26 weeks?

Senator Sarbanes. I am really trying to find out what the situation is with respect to unemployment insurance coverage. Presumably, if there is a significant upturn in the percent of long-term unemployed, presumably there is an increase in the number of people no longer covered or able to draw unemployment insurance, is that correct?

Ms. Orr. Well, currently approximately 40 percent of the UI folks are in our Current Population Survey (CPS) total unemployed. Does that answer your question?

Senator Sarbanes. I didn't follow that.

Ms. Orr. Currently regular UI recipients are approximately 42 percent of our household survey total unemployment.

Senator Sarbanes. Okay. So the people that you surveyed that you found are unemployed, 42 percent are drawing unemployment insurance, is that correct?

Ms. Orr. Um-hmm.

Senator Sarbanes. To turn it around, 58 percent are not drawing unemployment insurance?

Ms. Orr. Right.

Mr. Rones. That is correct.

Senator Sarbanes. How does that compare with three months ago, six months ago, any sort of comparison that shows a trend line?

Mr. Rones. It is a little bit high. If you look at the averages for recent years, they have ranked around 35 percent of total unemployed are actually drawing unemployment insurance benefits. Now, as the Commissioner suggests, it is 42 percent.

Senator Sarbanes. Okay. Thank you very much.

Representative Saxton. Thank you very much, Senator. Acting Commissioner Orr, thank you very much for being here. Mr. Dalton, Mr. Rones, we appreciate your appearance here again this month very much, and we look forward to seeing you in the months ahead hopefully with more encouraging and positive news.

Thank you very much for being here with us. We appreciate it. Have a great holiday.

[Whereupon, at 10:16 a.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, CHAIRMAN

I am pleased to welcome Acting Commissioner Orr before the Joint Economic Committee (JEC) once again to testify on the November employment situation. The employment data reported today are consistent with the finding recently made by National Bureau of Economic Research (NBER) that the U.S. economy is in recession. Payroll employment declined by 331,000 and the unemployment rate rose to 5.7 percent. Overall, the report today indicates that labor market conditions remain weak.

According to the NBER, the October payroll employment and industrial production data following the terrorist attacks indicated that the slowing economy had slipped into a recession earlier this year. The NBER report also noted that the declines of two of three major contracting indicators it considered began in 2000.

Even before the events of September 11, the available economic data indicated that the economic slowdown that began in the middle of 2000 remained underway. The downward trend in investment led the recession, with the rate of real GDP growth slowing quite sharply since the second quarter of 2000, actually falling in the third quarter of this year. The staggering manufacturing sector was another leading signal of recession, with losses of over one million factory jobs since July of 2000.

On the other hand, real personal income continues to grow. Housing and consumer spending also have held up fairly well. In addition, since last January the Fed has reduced interest rates ten times, Congress has lowered the tax drag on the economy, and energy prices are declining. Many economists had expected these factors to lead to an economic rebound in the last half of 2001, but the attacks have led them to forecast a delay in the recovery. Although in recent weeks there have been some signs that the economy may have bottomed out, economic stimulus legislation is still needed as an insurance policy to bolster the economy and ensure that a rebound does not falter.

Financial markets and the economy have been disrupted by the terrorist attacks. The attacks have increased uncertainty, and caused a widespread reevaluation of risk and security. Delays and higher shipping costs in air and ground transport, additional inventory and insurance costs, higher expenses for security personnel and equipment, fortification of buildings and facilities, and other measures will have the effect of imposing something like a “security tax” on an already vulnerable economy.

This burden will undermine the economy in the short run, and could tend to adversely affect both productivity growth and the economy's potential growth rate. A logical policy response would be to offset these costs by relieving some of the tax burden on the private sector. Measures to reduce the cost of capital and address the sharp declines in business investment are particularly needed.

Monetary policy has addressed the economic situation with an easing that began last January. The Fed's policy moves so far this year have certainly provided economic stimulus, but the lags in monetary policy are long and variable. Given the lack of inflationary pressures, prudent action by the Federal Reserve this Tuesday to reduce interest rates could also contribute to improving the economic outlook.

PREPARED STATEMENT OF SENATOR JACK REED, VICE CHAIRMAN

Thank you, Chairman Saxton, for convening this hearing. I also want to thank Acting Commissioner Orr for coming to testify before us today.

Since our last hearing, the National Bureau of Economic Research declared that this country's longest economic expansion on record came to an end back in March, as the nation entered a recession. Of course, it was clear before the announcement that we had entered a period of slow economic growth, which was aggravated by the terrorist attacks on September 11.

The U.S. economy has lost more than a million jobs since the beginning of the recession in March. Despite some hopeful signs, the number of Americans losing their jobs continues to climb. And the number of people who are still unemployed after more than six months is rising.

Some 290,000 unemployed workers exhausted benefits in the month of October alone. The last time we saw numbers this high was 10 years ago, in the wake of the last recession. At that time, in November 1991, legislation was enacted providing 13 to 20 additional weeks of benefits to workers who exhausted their regular benefits. Passing a 13 week extension now could help more than three quarters of a million people – almost one in ten unemployed workers. There should be no doubt about the importance of extending benefits as part of the stimulus package.

Getting money into the hands of *lower*-income households – either through expanded unemployment benefits or tax rebates – would boost consumption spending. People who have lost their jobs and have trouble making ends meet are the ones to target if the goal is to get the most bang for the buck out of stimulus policies. There must be demand for a company's products or services before a firm will invest in new equipment or hire additional workers.

The task before us as policymakers is to get the economy out of this recession quickly and put it back on the path of strong and sustainable growth. A fiscal stimulus package is only a good idea to the extent that it has maximum impact in the short run without undermining long-term fiscal discipline. A poorly designed fiscal policy could be a waste of valuable resources or could even be counterproductive.

Mr. Chairman, I am looking forward to the testimony of Acting Commissioner Orr on the state of labor markets.