



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON May Employment Situation

WASHINGTON, D.C. – It is a pleasure to welcome Acting Commissioner Orr before the Committee once again.

The employment report released today indicates that the job market is slow. Payroll employment increased by only 41,000 in May, while manufacturing employment declined. The diffusion index -- an important measure of the proportion of industries with expanding employment -- increased in May to 50.6. Meanwhile, the unemployment rate slipped two tenths of a percentage point to a level of 5.8 percent.

The payroll employment figures released today reflect the timing and unevenness of the economic recovery now underway. Although the economic recovery appears to have begun in the fourth quarter of last year, many employers have held off new hiring until the sustainability of the recovery becomes clearer. As a result, the output of goods and services is rising, but at a much faster pace than is employment. Consequently, labor productivity in the first quarter surged.

The weakness of current and expected business profits makes employers reluctant to incur higher costs, including labor costs related to expansion of employment. In addition, certain sectors such as the telecommunications industry are still in financial distress and continue to lay off workers. So long as the profit outlook is unfavorable, firms will be hesitant to expand investment or employment. Thus, until the weakness in business profits and investment ends, the sustainability of economic recovery and employment growth will be in doubt.

The fragility of the expansion is reinforced by concerns about international tensions, terrorism and corporate accounting practices. As a result, the level of risk and uncertainty is significant, and this imposes additional costs on the economy and also is reflected in the weak stock market.

However, despite these problems, the remarkable resilience of the American people and economy continues to be evident. As Chairman Greenspan testified before us several weeks ago, it appears likely that business profits and investment will recover in due course, consolidating and extending the U.S. economic expansion. The Federal Reserve's actions to reduce interest rates, and Congressional actions to reduce the tax burden, have improved the prospect of sustained economic expansion.

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