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THE EMPLOYMENT SITUATION: JULY 1999

HEARING

before the

JOINT ECONOMIC COMMITTEE CONGRESS OF THE UNITED STATES

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THE EMPLOYMENT SITUATION: JULY 1999

Friday, August 6, 1999

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

The Committee met, pursuant to notice, at 9:30 a.m., in Room 2212, Rayburn House Office Building, the Honorable Jim Saxton, Vice Chairman of the Committee, presiding.

Present: Representatives Saxton, Minge, Watt, and Ryan.

Staff Present: Chris Frenze, Robert Keleher, Darryl Evans, Colleen J. Healy, Howard Rosen, and Daphne Clones.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Representative Saxton. Commissioner Abraham, it is again a pleasure to welcome you and your colleagues before the Joint Economic Committee (JEC).

The data released today show solid gains for American workers. The closely watched payroll survey posted a strong employment gain of 310,000 in July. The unemployment rate was 4.3 percent, and of late has been near its lowest level since the Nixon Administration.

The data released today reflect the continuation of the business cycle expansion that began in 1991. This expansion has created 20 million jobs since 1991, even as inflation has trended downward. The upswing has also flooded the Treasury with revenue, erasing the deficit and pushing the budget into surplus. The credit belongs to the American people for their hard work and creativity as workers, farmers and entrepreneurs, not to politicians here in Washington.

As I have pointed out many times before, to the extent this expansion has been fostered by policy, the noninflationary policy of the Federal Reserve deserves most of the credit. Federal Reserve policy reduced inflation and interest rates, laying a strong foundation for growth and lower unemployment. This policy of price stability created the strong economic environment characterized by declines in inflation, interest rates and unemployment all at the same time. This successful monetary policy over the course of this expansion demonstrates that the notion of a Phillips curve trade-off between inflation and unemployment is mistaken.

Recently the Federal Reserve raised interest rates while Chairman Greenspan acknowledged that no clear evidence of inflation has yet emerged. In the absence of any significant evidence of inflation, it is my hope that the Federal Reserve will refrain from further interest rate increases. The forward-looking price indicators used by the JEC—bond yields, commodity prices, and the dollar—are somewhat mixed but still do not show clear and significant signs of higher inflation. While labor markets are fairly tight, we do not adhere to the notion that low unemployment causes higher inflation.

In sum, there is little evidence of inflation that would justify a Federal Reserve interest rate hike at this time. Until the forward-looking inflation indicators clearly indicate that higher inflation is definitely in the pipeline, an interest rate hike would be unjustified. Current Federal Reserve policy is sound. Until additional information suggests otherwise, this policy should be maintained on its current prudent course.

I would just like to emphasize what I just said. I brought my favorite chart with me which you have undoubtedly seen many times before. This chart shows that the rate of inflation and the unemployment rate have fallen steadily together throughout this expansion, and I just point this out to emphasize that a good labor market, meaning low unemployment, does not necessarily mean that we are beginning to see any signs of inflation. Quite the contrary is true. Commodity prices remain low. The value of the dollar remains sound and other indicators show that inflation remains in check, and so as the Federal Reserve considers its course of action over the next few weeks, I hope that they will continue to observe these fundamentals as they have in the past.

At this time, Commissioner Abraham, I would like to turn to you for your report on this month's employment data. We again welcome you here before the JEC.

[The prepared statement of Representative Saxton together with the chart entitled, “Inflation and the Unemployment Rate Fall Together Since 1992,” appear in the Submissions for the Record.]

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 always a pleasure to be here to talk about the employment and unemployment data that we are responsible for releasing.

The unemployment rate as measured by our household survey was unchanged at 4.3 percent in July and has been either 4.2 or 4.3 each month since March. Nonfarm payroll employment, as measured by our establishment survey, rose by 310,000 in July. This strong over-the-month increase followed a gain of 273,000 in June and was above the average monthly increase of 208,000 for the first half of 1999. Manufacturing and construction employment increased over the month, and several service producing industries posted sizable gains.

In July, employment and manufacturing rose by 31,000 after seasonal adjustment. This increase follows declines that totaled 490,000 since March 1998. In several durable goods industries, the employment declines that typically occur in July were smaller than usual this year. As a result, these industries posted over-the-month increases in employment after seasonal adjustment. Employment gains occurred in fabricated metals, industrial machinery, electrical equipment and motor vehicles and equipment. In addition, employment in furniture and fixtures increased and stone, clay, and glass products gained jobs. Employments in instruments and related products rose by 5,000, the first increase since its last peak in March of 1998.

Over the month, factory overtime rose to 4.8 hours, after seasonal adjustment. The factory work week at 41.9 hours also rose in July.

Elsewhere in the goods producing sector job growth continued in construction. The industry added 22,000 workers over the month, about in line with the monthly average of 25,000 over the prior 12 months. In July, employment continued to decline in mining. Job losses over the past two months, however, have moderated compared to losses incurred earlier in the year.

Within the service producing sector, a July gain of 91,000 in retail employment reflected continued strong growth in eating and drinking places, which added 61,000 jobs.

The services industry added 110,000 jobs in July, slightly below the monthly average for the prior 12 months. Strong over-the-month job growth of 66,000 in business services was buoyed by the largest increase in help supply, which is temporary help, in over a year and a half, and by continued robust growth in computer and data processing services. Following two months of relatively sluggish growth, employment in health services rose by 19,000 in July, with doctors' offices contributing nearly half of the increase. Strong job growth continued in engineering and management services.

Employment in finance, insurance and real estate rose by 13,000 in July, slightly below the monthly average of the prior 12 months.

Transportation employment edged up over the month, and public utilities resumed its long-term employment decline, following a small increase in June. Wholesale trade employment expanded by 16,000 in July, and government employment was about unchanged over the month after seasonal adjustment.

Average hourly earnings of private production or nonsupervisory workers grew by six cents in July to $13.29, following a rise of five cents in June. Over the year, average hourly earnings have risen by 3.8 percent for the 12 months ending in July.

Turning now to our survey of households, the jobless rate held at 4.3 percent in July, and has been below 4.5 percent since November of 1998. Unemployment rates were little changed over the month for the major demographic groups with the exception of blacks. Following several months of steady improvement, the jobless rate for blacks rose sharply from 7.3 percent in June to 8.8 percent in July. The jump in the black unemployment rate was not confined to any one particular subgroup but was split among adult men, adult women and teenagers. I would caution, as always, against reading too much into any one month's movement in the data. This is a volatile series.

Civilian employment was essentially unchanged in July, and the proportion of the population that is employed, at 64.1 percent, also was little changed. About 5.7 percent of employed persons held more than one job in July, not seasonally adjusted basis, little difference from a year earlier.

In summary, the labor market continued to show strength in July. Payment employment expanded by 310,000 over the month and the jobless rate held at 4.3 percent. We of course would be happy to address questions about these data that you might want to raise.

[The prepared statement of Commissioner Abraham and accompanying Press Release appear in the Submissions for the Record.]

Representative Saxton. Commissioner, thank you very much for bringing us good information, positive information obviously on job growth and we appreciate that very much.

Commissioner, the Bureau of Labor Statistics (BLS) has historically and continues to compile a number of price indices and a great deal of price information. Within the context of what you have said, I would just like to ask you about what some of these indices are showing. For example, is there any indication from the Consumer Price Index (CPI) that inflation is moving upward in any meaningful or significant way?

Ms. Abraham. My colleague, Mr. Dalton, has more complete information on what has been happening in some of these price series. Maybe I could ask him to address the question.

Representative Saxton. Mr. Dalton.

Mr. Dalton. Through the first six months, through June, the CPI for all items rose at a seasonally adjusted annual rate of 2.2 percent. That compares with an increase of 1.6 percent for all the previous year, 1998.

If you look at the so-called core rate, in the same time comparison, through June of 1999, that index is rising at a seasonally adjusted rate of 1.6 percent compared with an increase of 2.4 percent in 1998.

Representative Saxton. The core rate is the rate of increase without energy and food; is that right?

Mr. Dalton. That's right.

Representative Saxton. Go ahead. Say that again, please.

Mr. Dalton. The Consumer Price Index for all items less food and energy rose 1.6 percent at a seasonally adjusted annual rate through the first six months of this year. That compares with an increase of 2.4 percent in 1998, the entire year of 1998.

Representative Saxton. One might be able to conclude then that energy prices had a significant effect on the broad CPI; is that correct?

Mr. Dalton. Yes, that is quite right.

Representative Saxton. As Americans watched the price jump at the gas pump in April following into May, that obviously had a very significant impact. So one segment of our economy was, as we look back now, primarily responsible for the increase in prices generally; is that correct?

Mr. Dalton. That is correct.

Representative Saxton. Has the increase in the price of energy dampened some in more recent months?

Mr. Dalton. Yes, it has. Unfortunately, I don't have the monthly data sitting in front of me.

Representative Saxton. That is all right. The general fact is that the price of energy spiked for a month or two months and has kind of leveled off?

Mr. Dalton. Right. It went up 1.6 percent in March and 6.1 percent in April. It fell 1.3 percent in May and 1.2 percent in June.

Representative Saxton. So we seem to be back to—

Mr. Dalton. The only comment I would make is that the accounts in the press indicate that since we priced in June the gasoline prices have risen again.

Representative Saxton. Thank you. In May, the June CPI increases were relatively benign. Is it fair to say now that the large April increase in the CPI was an aberration?

Mr. Dalton. I don't think that I could characterize it as an aberration, more as sort of one time circumstances.

Representative Saxton. Say that again. It would be fairer to say that it was—

Mr. Dalton. Well, in my way of thinking if we call it an aberration, that is almost as if it didn't happen. I think we did report what happened, it is just that we had two unusual circumstances in March and April.

Representative Saxton. But a very brief period of what appeared to be a rapid increase in inflation, and again primarily due to the increase in energy prices?

Mr. Dalton. Right. It clearly has come down from that 0.7 that we saw in April.

Representative Saxton. Hasn't the core CPI continued to moderate on a year-over-year basis?

Mr. Dalton. Yes. As I indicated before, it rose 1.6 percent through the first six months data seasonally adjusted annual rate compared with 2.4 percent in 1998.

Representative Saxton. What has been the change in the core CPI over the last 12 months?

Mr. Dalton. Over the past 12 months, that is 2.1 percent.

Representative Saxton. Does it show signs of any strong upward movement at this time?

Mr. Dalton. Clearly from the perspective of the first six months of this year it is rising at a slower rate than it did last year. That is due in part to price declines in new and used cars, a much smaller rate of increase in tobacco prices, and a decline in apparel prices.

Representative Saxton. So there has been quite a moderating effect over the past year in the Consumer Price Index and that would bolster the notion that we don't see evidence, at least in the CPI, of emerging inflation; is that correct?

Mr. Dalton. I guess my comments are with respect to what we have seen in the CPI as opposed to what might be emerging from what we see.

Representative Saxton. But from what we have seen, there is no evidence of—

Mr. Dalton. There is moderation. Exclusive of the energy component, relative to last year there is moderation.

Representative Saxton. Thank you. Commissioner, we have talked about the Consumer Price Index. If we can turn for a few minutes to discussion about the Producer Price Index (PPI). Is there any indication in the Producer Price Index that inflation is moving upward in any meaningful way?

Ms. Abraham. Again, I think the way that we can answer that question is relative to what the data are showing this year compared to what they were showing last year. Ken may have more complete figures than I do.

The annualized rate of change in the Producer Price Index for finished goods over the first six months of the year is 1.5 percent. That compares to last year when over the year as a whole finished goods prices were unchanged and the year before when they fell 1.2 percent. So there the picture is a bit different. The rate of growth in the PPI is positive this year as opposed to negative over the last couple of years, although still only 1.5 percent.

Representative Saxton. I am glad that you said, " although still only 1.5 percent." In your lifetime and in my lifetime, we have seen rates of inflation in double digits and we have seen what we considered at the time to be good news or normal rates of inflation when inflation got to 4 or 5 percent. So we see evidence now in the PPI that price increases may be in the neighborhood of about 1.5 percent; is that correct?

Ms. Abraham. That was for finished goods. You had expressed an interest also in looking at things at an earlier stage of production. The rate of increase in prices for intermediate materials is a bit higher at 2.5 percent. The rate of increase for crude materials is still higher, 15.1 percent at an annualized rate over the first six months of the year. That is undoubtedly substantially attributable to what is going on with energy. That is the biggest component of that.

Representative Saxton. We explored the effect of the increase in energy prices in the CPI. In this case did any special factors play a role in the recent PPI movements?

Ms. Abraham. At the crude level, energy was certainly a major factor. If you take energy out, I am not sure how much else there is left in there.

Mr. Dalton. If you take crude/nonfarm materials less energy, so that is exclusive of food and energy, it rose at a rate of 4.1 percent, again at a seasonally adjusted annual rate. That compares with a decline of 16 percent for all of 1998. So in that particular case there appears to be a clear turnaround in the direction of those goods.

I can give you numbers for finished goods excluding food and energy as well. Through June they declined at a rate of .4 of 1 percent. That compares with an increase of 2.5 percent for all of last year.

Representative Saxton. Thank you. Now let me turn to the Gross Domestic Product (GDP) deflator. Is there any indication from the GDP deflator that inflation is moving up in any meaningful way?

Ms. Abraham. I don't have the data on that here and I suspect that Ken doesn't either. That is a product of the Bureau of Economic Analysis and we didn't bring those materials with us.

Representative Saxton. Thank you. Do you have information with you on import and export price indices?

Ms. Abraham. Ken has those.

Mr. Dalton. Overall import prices, June 1998 to June 1999, declined .2 of 1 percent. That compares with a decline of 5.7 percent for the 12 months ending in June of 1998 and a decline of 1.9 percent in June of 1997. Again these are year-over-year comparisons because these data are not seasonally adjusted.

Essentially what it is showing is that the very substantial declines that we have experienced over the last several years are slowing.

Representative Saxton. The declines are slowing.

Mr. Dalton. Right.

Representative Saxton. But we still don't see increases, is that right?

Mr. Dalton. It is still below year-earlier levels.

Representative Saxton. So no signs of inflation here either. Slowing declines, but no increases?

Ms. Abraham. Correct.

Representative Saxton. Is there any particular statistical anomalies affecting this month's household or payroll numbers?

Ms. Abraham. Not that we are aware of.

Representative Saxton. When Dr. Norwood was the Bureau of Labor Statistics Commissioner, she consistently warned against reading too much into one month's data. Do you believe that the same message is appropriate here?

Ms. Abraham. Absolutely.

Representative Saxton. Are the data reported today any exception to that rule whatsoever?

Ms. Abraham. No. I guess there are a couple of things in this month's numbers to which I would particularly apply that caution. On the payroll survey side, I think this one month increase in employment in manufacturing is welcomed news. I think we want to look at more months' data before we conclude that we are seeing a real turnaround in manufacturing. I would say the same thing on the household survey side with respect to the big jump up that we saw in the black unemployment rate. That is a very volatile series and drawing any conclusion from this one month's movement I think would be a mistake.

Representative Saxton. Thank you. We have been joined by two of our colleagues, so let me wrap up by first thanking you for being so responsive this morning. We appreciate that as always.

But let me just also say that before I came here this morning I was watching the television and the markets were getting ready to open in this country. We looked at the Asian markets, and based upon all of this good data that you have brought to us this morning, there was speculation that our markets were going to open down. In fact, the Asian markets had already reacted negatively to this good information anticipating an increase in interest rates by the Fed and the subsequent ripple effect of perhaps slowing the economy. And yet if we look at the history of this expansion as depicted on this chart, which we have carefully examined this morning, inflation has continued to fall throughout the entire expansion. This debunks the idea that good job growth and good GDP growth has not led to a re-emergence of inflation. You have helped me make the point this morning with regard to the CPI and the PPI and other indicators, there is still no evidence of reemerging inflation. And so it is kind of an anomaly to me that somehow, I guess because of the historic notion that when we have good economic growth inflation is sure to follow, has not happened. And yet the markets continue to respond in a negative way to this positive information. It is kind of interesting to be here to experience these kinds of situations.

In any event I am glad that we have been joined by two colleagues, and I would just like to turn to Mr. Minge at this point to see if he has any questions or thoughts that he would like to offer.

OPENING STATEMENT OF REPRESENTATIVE DAVID MINGE

Representative Minge. Yes. I appreciate your bringing this information to the Committee and discussing it with us. I would like to ask a couple of questions. First, I am interested in knowing if we maintain statistics that show the strata, the wage strata in our economy. This comes up sometimes in the context of discussing minimum wage and the distribution of income so that what percent of the workforce is employed at essentially minimum wage level or under five dollars an hour? Is that information available?

Ms. Abraham. It is. Let me describe for you what it is that we have available. Every month in the household survey that we do, we ask part of the sample questions about their earnings. And so we have information for people who are paid by the hour, which is a little over 60 percent of the total workforce, what their hourly wage rate is, and we regularly produce estimates annually of the number of workers earning below the minimum wage and there are some. Whether that reflects exemptions in the law or noncompliance, we have no way of knowing. I would be very happy to supply those numbers. We have not brought data with us.

Representative Minge. I am very interested in that information because of the concerns about any impact of any change to minimum wage on certain industries or sections of the country. Is it broken out by industry or by region?

Ms. Abraham. It is broken out by demographic characteristics. I don't know what industry or regional breaks we have.

Mr. Rones. We do have some information on that and we will pass that on to you.

[The response of Commissioner Abraham to Representative Minge appears in the Submissions for the Record.]

Representative Minge. When you say demographics, there is some concern whether these are entry level positions and we are talking about high school students, we are talking about people who have impediments to full employment in the workplace and have difficulty being competitive, and finally people who you might classify as principal source of income.

Ms. Abraham. We have some information on family composition, whether we are talking about a family with one earner or multiple earners, that kind of thing. There are limits to the different ways that we can break this out just based on what we ask in the survey and what the sample size is. But it might be possible if there was something that you were particularly interested in that we could produce a tabulation.

Representative Minge. Thank you very much. I am interested in that kind of demographic breakout as well as the industry breakout.

The second thing that I would like to ask about returns to the inflation factor and I have been in several meetings with you, Commissioner Abraham, where the Consumer Price Index has been dissected and dissed and almost everything else. And I note with some interest that there have been modest adjustments in the studies that are done to calculate the Consumer Price Index. Do we have any problem with the Consumer Price Index methodology having changed and then difficulty in comparing CPI today with five years ago?

Ms. Abraham. That is somewhat of an issue. We have, as you correctly note, made a number of changes to the way that we construct the CPI. The biggest single change that we have made is that we have moved to using a geometric mean formula in averaging up the prices in a large number of the subcomponents, the consequence of which is that the CPI grows a bit more slowly than it would have had we stayed with our previous methods. But there are other changes that we have made as well.

Because we were concerned about the fact that the CPI today is really not comparable to what it was going back through time, we have put together for analytic purposes what we are calling a research series that represents our best effort to say what the CPI would have been in the past had we been using current methods.

Again, this is inherently imperfect because we weren't doing it then and we don't have the information put together that way, so it is rather the back of the envelope but it is our best effort to put that together. I will send you a little paper that we have that describes that as well if you are interested.

And you can see in recent years the official CPI grew a bit faster than it would have grown had we been using current methods. Or putting it a little bit differently, the growth in the CPI may look more moderate today as compared to the recent past because in part of these changes in methods.

Representative Minge. Do you still have any breakdown for seniors in the CPI because there is some concern whether the cost of living adjustment and Social Security accurately reflects the cost of living for the seniors in our society and I think it has perhaps come up nowhere more dramatically than the cost of prescription drugs. So if there is anything that you have that indicates that, I certainly would like to see it and I suspect that would be useful to the Committee.

Ms. Abraham. We produce something that we call an experimental CPI for the elderly which really had to do with our trying to caution the user that the index is not up to our usual statistical standards. The way that this experimental series is put together, we take the data that we collect for the regular CPI and reweight it based on the shares, the expenditures of the elderly that go to different categories of things.

What we don't do, and it would be a more difficult and expensive undertaking, is try to figure out what stores the elderly shop in and what things that they buy in those stores and price those items. Prescription drugs is a good example. We have an index for prescription drugs, but it is based upon the prescription drugs bought by the whole population. We don't track specifically prescription drugs being purchased by the elderly. So there are some inherent limitations in this experimental measure.

The recent history of this experimental measure shows that it continues through 1998, as it has over most recent years, to grow just a bit more rapidly than the overall CPI. In 1998, this experimental index rose 1.9 percent versus 1.6 percent for both the CPI-U (Consumer Price Index - Urban) and the CPI-W (Consumer Price Index - Wage).

Representative Minge. Thank you very much.

Representative Saxton. Thank you very much, Representative Minge. Mr. Watt.

OPENING STATEMENT OF REPRESENTATIVE MELVIN L. WATT

Representative Watt. Thank you, Mr. Chairman. Let me go into two or three different areas if I can. First, Commissioner Abraham, I want to ask a couple of questions about the unemployment rates among black employees—I guess they are not employees, they are unemployed.

The rate for July of 1999 was 8.8 percent.

Ms. Abraham. Correct.

Representative Watt. Not seasonally adjusted, 9.6 percent. Can you tell me what that would translate to in terms of numbers?

Ms. Abraham. Yes. The number of unemployed black persons in July of 1999, on a seasonally adjusted basis was about 1.4 million persons. The number was 1.6 million on a not seasonally adjusted basis.

Representative Watt. So that is 1.4 or 1.6, depending on whether you seasonally adjust it, black people who are out there actively looking for jobs that are not going to be able to find them?

Ms. Abraham. Who have not found something as of our survey reference date.

Representative Watt. What is the process by which you determine that? I am wondering—I notice you say at the top of page five of your testimony that we shouldn't read too much into one month's movement in the data. I will come back to that aspect of it, but I am just wondering what process you used to determine that and whether part of the problem may be just the assessment method, much like part of the problem in taking the census is the assessment method?

Ms. Abraham. Let me describe our process. These numbers come out of a household survey that is done for us by the Census Bureau. There are about 50,000 households who are contacted and interviewed each month for the survey.

Representative Watt. 50,000 gross or is that the minority population?

Ms. Abraham. That is gross, so the number of minority households would be substantially smaller.

Representative Watt. 12 percent of that, maybe?

Ms. Abraham. Right. Roughly in proportion to the population share, not precisely because of details that I don't need to go into, but roughly that would be right. It is typical for one person in the household to answer questions for the household as a whole. The questions that are used to determine how somebody gets categorized as employed, unemployed, or out of the labor force, pertains to whether they did any work for pay or profit.

Representative Watt. I think I am more concerned about your ability to get somebody to tell you that information than I am about the questions. You can't get a response—the census data—racially the questions that get asked don't yield any disparity, but the process for getting to those people typically yields a substantial disparity. I am more worried about that part of it than I am the content of the questions.

Ms. Abraham. The questions are probably a matter, too, because you might not quite like where we draw the line. We ask whether people are available for work and whether they have actively searched for work at any time in the last four weeks. And if they say yes, they are counted as unemployed. The response rate for this survey is very high. It is 93 to 94 percent month in and month out. When the Census Bureau interviewers go out, they try to find people to ask them what they were doing the week before, so they only have about 10 days to get their answers in. So getting a 93 to 94 percent response rate in that time frame is very good.

Representative Watt. How does that response rate compare to the white response rate?

Ms. Abraham. That is the overall response rate. Do you know how that breaks out by demographic groups, Phil?

Mr. Rones. We don't have that because until you get into the household to conduct an interview, you don't really have that information. So we are not really able to break out the response rates by race. There is—

Representative Watt. So what you are saying is if the response rate among minorities was substantially lower than the response rate among white people, in much the same way that the census undercounts minorities—

Ms. Abraham. It is a little different.

Representative Watt. —unemployment would be underestimated?

Ms. Abraham. It is a little different. It is a little more subtle than that. Although this again ties back to the census, we are using census counts adjusted for the undercount from 1990 projected forward. So we know what the size of the total black population is according to those estimates.

Based on the information that we get from the black respondents that we interview, we blow the numbers up to the total. So if the people that we find and get to talk to us are representative of the population overall, then these reported numbers should be fine. That 1.4, that 1.6 million should be fine.

Where we could run into a problem conceivably is if the people that we find at home who talked to us within the black population systematically are different than the ones that we don't find, there could be an issue. That is the nature of the potential problem if there is one.

Representative Watt. Mr. Chairman, I don't know what your process is. Are you going around again? What is your plan?

Representative Saxton. Why don't you take whatever time you need at this point.

Representative Watt. Okay. Let me just ask a quick question about your comment at the top of page five of your testimony that we should not read too much into one month's movement, which I actually agree with on a long-term basis. I am wondering what we should read into it on a short-term basis, and let me tell you where I am going on that.

I am wondering whether you see a pattern when there is even a short-term weakening of any aspects of the economy that the minority unemployment is probably the most responsive to that short-term trend?

It just seems to me that you couldn't go from 8.1 percent in March, 7.7 percent in April, 7.5 percent in May, 7.3 percent—you have a constant decline and the economy is booming, it is going great, and I am wondering whether that spike up might be an early indication of the early signs of a slowing down of the economy? Would you comment on that. I am not trying to take you in that direction. I am just thinking theoretically that that might be the case.

Ms. Abraham. What I was trying to get at is the fact that this series is relatively volatile, given the underlying sample size. A change in the unemployment rate—

Representative Watt. Theoretically it should not be any more volatile for the minority population than it is for the majority population.

Ms. Abraham. Actually it is going to be a lot more volatile.

Representative Watt. Tell me about that then.

Ms. Abraham. The reason is that the sample is a lot smaller. The sample is roughly proportional to the minority share in the population, so only about 10-12 percent of the population is minority. So out of our 50,000 households, roughly 5,000 or so of them are black, and that means that the information is that much less robust for constructing these monthly estimates.

To give you an idea, a change in the overall unemployment rate of as little as 0.2 percentage point is a statistically significant change. When you are talking about the black unemployment rate, the change has to be 0.84 percentage point from one month to the next in order for it to mean anything statistically. Any change less than that is not even statistically significant.

So if you look back at the series for black unemployment, you can see that it jumps around a whole lot from month to month. Last year in July it did exactly what it did this July.

Representative Watt. That would not be inconsistent with the theory that I am advancing.

Ms. Abraham. No, but it just means that it is hard to interpret the number. Last year in July the black employment rate jumped up by 1.5 percentage points, and then it came down over the successive months. In that case it was not an advance indication of anything. It was just noise in the data. The problem with any one month's numbers is that we can't tell from this vantage point what this jump means.

Representative Watt. Mr. Chairman, I wanted to get into the record, if I can find it, the information about the Job Quality Index and ask one question about that. The Job Quality Index normally tracks changes in wages as well as health care and pension coverage, and the Job Quality Index for the second quarter of 1999 indicates that wages are continuing to improve without any significant improvement in health care and pension coverage. Do you all do anything on that index or is that—

Ms. Abraham. No. It is people taking data that we produce and trying to put it together into some sort of an aggregate that based upon their assessment of the relative importance of these different pieces gives a good overall indication, but it is not an official statistic that we produce.

Representative Watt. Have you found that people who have better health care benefits and pension benefits tend to stay on jobs longer?

Ms. Abraham. I don't know that that is something that we have looked at explicitly.

Representative Watt. Mr. Chairman, I ask unanimous consent to submit for the record the Job Quality Index study for the first quarter. Actually I guess it must be the second quarter, the most recent quarter, whatever it is.

Representative Saxton. Without objection.

[The Job Quality Index appears in the Submissions for the Record.]

Representative Watt. Whatever it is, I want to put it in the record.

Representative Saxton. Thank you. We will move to Mr. Ryan at this point.

OPENING STATEMENT OF REPRESENTATIVE PAUL RYAN

Representative Ryan. Thank you, Mr. Chairman. I would like to ask unanimous consent to have my full opening statement included in the record.

Representative Saxton. Without objection.

[The prepared statement of Representative Ryan appears in the Submissions for the Record.]

Representative Ryan. Thank you. I would like to ask you a few questions about yesterday's productivity numbers. I notice that nonfarm business sector productivity growth was 1.3 percent.

Could you tell me your thoughts on the reliability of this data given the changing nature of productivity gains with respect to new technological advances? How confident are you in this data? Given the fact that we have so much of a changing productivity atmosphere where we have technological changes that are moving on an exponential basis, how confident are you that this data is capturing that growth?

Ms. Abraham. Let me answer a slightly different question first. I thought when you started speaking about the confidence in the data, my thoughts were running towards something that we have already talked about, which is the danger of drawing too much of a conclusion from any one month's data. And we saw in the second quarter a drop off in productivity.

If you look at those numbers quarter to quarter they do jump around, so a one time decline in any short term sense, I think it is hard to draw too much of a conclusion from that. You always see those series jumping up and down.

Your question had to do in essence with how good a job we are doing with the productivity numbers of picking up improvements in quality of technologically advanced products and changes in productivity in the service sector and that kind of thing.

Representative Ryan. The nature.

Ms. Abraham. The productivity numbers are put together based on measures of output that come out of the Bureau of Economic Analysis and dollars that are spent on different things, and then there are price statistics that are used to deflate those. So it really gets back to a question of what all that underlying data looks like.

There are certainly things that it is very difficult to track in today's economy in terms of coming up with a price series and therefore a productivity series that is right. I think that we do about as good a job as we can be doing at this point. There are undoubtedly issues. I think those issues may cut both ways, so I am very much an agnostic in terms of whether the productivity numbers are showing growth that is too slow or growth that is conceivably too fast.

Representative Ryan. It sounds like you think that it is more complicated getting this data now that—it sounds like given the fact of the nature of productivity changes in this economy, especially with respect to technological sector, is your data collection much more difficult to grasp? Is it much more difficult to capture the true changes in productivity given the fact that productivity growth is of so many different natures, and are you confident that you are able to really harness all of that data and is in fact this data collection becoming much more challenging than it was 10 years ago?

Ms. Abraham. I think it is a fair statement to say that the economic output is increasingly concentrated in difficult to measure sectors, if that is what the sense of your comment is. I think that is a fair statement.

Representative Ryan. I want to switch over to some of the wage data that was recently released and in particular the Employment Cost Index, the unit labor cost data and today's hourly earnings were recently released. Commissioner, can you tell me what you think these data tell us about wage movements and how and if these data can be reconciled with one another.

Ms. Abraham. I think the recent reports are very consistent with one another. If you look at the numbers thus far this year, the wage component of the employment cost index, leaving out the benefits because they are not in the other measure, the annualized rate of growth in wages coming out of the employment cost index for the first two quarters of the year was 3.4 percent.

If you look at the average hourly earnings growth over the first 7 months of the year, they are running a little bit higher, about 4.1 percent. Given the differences between the series and the way that they are put together, I think they are roughly in line with each other.

Representative Ryan. One more thing that is of particular concern is manufacturing employment. I come from southern Wisconsin, and that is something that has really been taking a pretty hard hit in southern Wisconsin, the area that I come from. This employment has been particularly weak relative to other employment sectors. Based on your best data, what do you attribute that weakness in employment manufacturing data to?

Ms. Abraham. When you saw manufacturing employment start to turn down, it actually had been growing through March of 1998. This month is the first month since then that we have seen a noteworthy increase in manufacturing employment. And I think that a lot of the turnaround from growth in manufacturing to the declines that we have seen since is related to what has gone on in Asia. Whether this month's increase is a sign that things have turned around or just a one-month thing, we don't know at this point.

In a number of the industries that we knew had been particularly hard hit by weak exports related to economic weakness in Asia, things seemed to look less bad in recent months. The two industries that I am thinking about in particular are industrial machinery and electrical equipment where we had seen a period of big decreases, more modest declines in the last few months, and then this month an increase.

Representative Ryan. Industries sensitive to exports to the Asian markets?

Ms. Abraham. Yes, exactly.

Representative Saxton. Thank you, Commissioner Abraham. I would also like to thank everyone who came here this morning to inquire as to details behind your report. Thank you for being with us.

[Whereupon, at 10:37 a.m., the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Commissioner Abraham, it is again a pleasure to welcome you and your colleagues before the Joint Economic Committee (JEC).

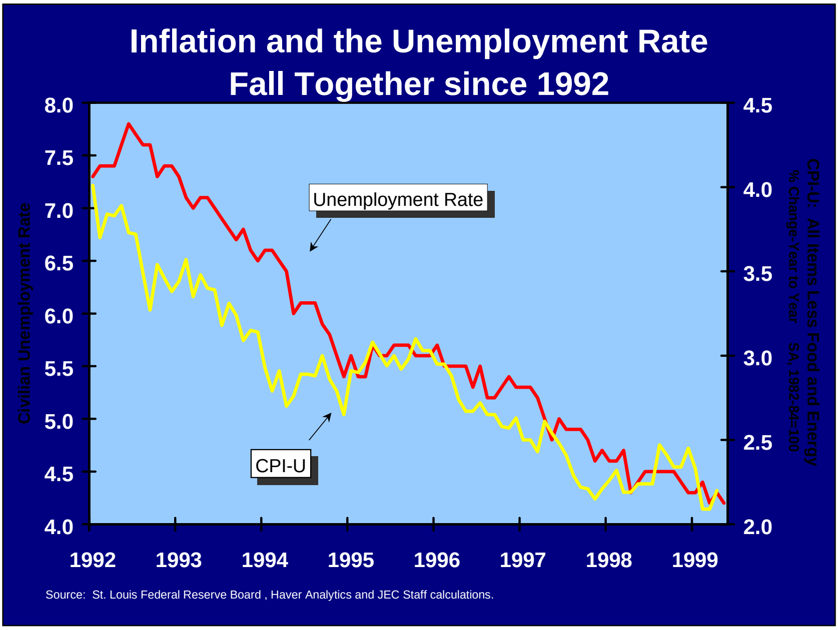
The data released today show solid gains for American workers. The closely watched payroll survey posted a strong employment gain of 310,000 in July. The unemployment rate was 4.3 percent, and of late has been near its lowest level since the Nixon Administration.

The data released today reflect the continuation of the business cycle expansion that began in 1991. This expansion has created 20 million jobs since 1991, even as inflation has trended downward. The upswing has also flooded the Treasury with revenue, erasing the deficit and pushing the budget into surplus. The credit belongs to the American people for their hard work and creativity as workers, farmers and entrepreneurs, not to politicians here in Washington.

As I have pointed out many times before, to the extent this expansion has been fostered by policy, the non-inflationary policy of the Federal Reserve deserves most of the credit. Federal Reserve policy reduced inflation and interest rates, laying a strong foundation for growth and lower unemployment. This policy of price stability created the strong economic environment characterized by declines in inflation, interest rates, and unemployment all at the same time. This successful monetary policy over the course of this expansion demonstrates that the notion of a Phillips curve trade-off between inflation and unemployment is mistaken.

Recently the Federal Reserve raised interest rates while Chairman Greenspan acknowledged that no clear evidence of inflation has yet emerged. In the absence of any significant evidence of inflation, it is my hope that the Federal Reserve will refrain from further interest rate increases. The forward-looking price indicators used by the JEC - bond yields, commodity prices, and the dollar - are somewhat mixed but still do not show clear and significant signs of higher inflation. While labor markets are fairly tight, we do not adhere to the notion that low unemployment causes higher inflation.

In sum, there is little evidence of inflation that would justify a Federal Reserve interest rate hike at this time. Until the forward-looking inflation indicators clearly indicate that higher inflation is definitely in the pipeline, an interest rate hike would be unjustified. Current Federal Reserve policy is sound. Until additional information suggests otherwise, this policy should be maintained on its current prudent course.



Inflation and the Unemployment Rate
Fall Together since 1992
Civilian Unemployment Rate
8.0
7.5
7.0
6.5
6.0
5.5
5.0
4.5
4.0
4.5
4.0
3.5
3.0
2.5
2.0
CPI-U: All Items Less Food and Energy
% Change-Year to Year SA, 1982-84=100
Unemployment Rate
CPI-U
1992
1993
1994
1995
1996
1997
1998
1999
Source: St. Louis Federal Reserve Board , Haver Analytics and JEC Staff calculations.

PREPARED STATEMENT OF REPRESENTATIVE PAUL RYAN

Mr. Chairman,

Today's presentation by the Bureau of Labor Statistics is expected to illustrate that July's general unemployment rate remains low, consistent with the strong employment growth experienced overall in the second-quarter. Also worthy of note are the recently released employment cost index and related productivity numbers. Over the last twelve months, employment costs have increased about 3.2 percent, which would seem to signal the specter of inflation. However, productivity has increased over this same time frame in manufacturing by 5.3 percent, business by 3.2 percent and non-farm business by 2.9 percent, keeping pace with rising employment costs, but keeping the real rate of compensation low.

I find these numbers interesting because they confirm an era of notable technological innovation and advance - not one of increasing inflation. Conducting monetary policy by placing an emphasis on employment statistics is obsolete. The economic theory behind the Humphrey-Hawkins (Full Employment and Balanced Budget) Act - currently the explicit rule under which the Fed is supposed to toil - is no longer relevant in today's economic climate of sustained growth and technological progress.

Full employment is easy to achieve, but full production is not. Recently, the United States has been fortunate to have both, although I would argue that they are not inevitably related. America cannot sustain high levels of production without full employment, but it can certainly have full employment without efficient, full production. I would undoubtedly argue that full production is the fuel behind economic growth and that full employment is the by-product.

Watching employment rates feeds into the notion of a Phillips' Curve, the inverse relationship between inflation and unemployment. Today, in general, even the Federal Reserve doesn't pay much heed to this relationship. Both inflation and employment have fallen together for several years now.

Today, the American labor force is producing more goods and services, in less time and at lower prices in any time in recent history due to technological innovation. The Fed has adjusted accordingly, and has done a remarkable job at maintaining economic growth by throwing out-dated ideas out the window. Congress should codify the Fed's formula for price stability - specifically, inflation targets.

I look forward to the presentation on US labor statistics.

Thank you, Mr. Chairman.

PREPARED STATEMENT OF REPRESENTATIVE PETE STARK, RANKING MINORITY MEMBER

I want to welcome Commissioner Abraham to the Committee once again this morning.

Yesterday, Congress passed an $800 billion tax cut, based on budget surpluses that have not yet materialized. This one action has the potential of reversing a decade of economic prosperity, the likes of which we have not experienced in over 30 years.

The unemployment rate has been low and falling, with no evidence of renewed inflation. Private investment, employment and the economy as a whole have been growing. And most importantly, salaries and incomes have been rising after 20 years of stagnation.

Although there remains much to be done to insure that everyone shares in the benefits of this prosperity, in general, most Americans are better off today than they were a decade ago.

If enacted, I fear the $800 billion tax cut could put an end to the prosperity we have been enjoying and return us to the days of large budget deficits and stagnant wages.

The link between the $800 billion tax cut and all the data we are about to receive from Commissioner Abraham this morning is productivity.

Yesterday the BLS reported that productivity growth during the second quarter was slightly above 1 percent. By contrast, average productivity growth was above 3 percent over the five proceeding quarters. Healthy productivity growth is necessary to sustain high levels of economic growth and improvements in wages and salaries, without igniting inflation. We must do all we can to insure that productivity growth remains high.

Private investment in plant and equipment, education and training and research and development are key to raising productivity growth. Some of my colleagues like to argue that cutting taxes alone promotes more investment. But if we learned anything from the last 20 years, it is that investors are much smarter than that. They know that the real cost of capital—based on interest rates and inflation—is more important than tax cuts. If we want to sustain the prosperity of the last few years, we must be vigilant against the prospect of returning to large budget deficits, which would push up interest rates and stifle private investment once again. I hope the President keeps his pledge and vetoes this massive tax cut bill.

Recent statistical releases have raised some fears over the prospect of renewed inflation. First, it is important to remember not to read too much into one month's or quarter's data. Second, I return to what I just said: Modest increases in wages and prices do not need to be inflationary, as long as productivity growth is strong.

I want to especially welcome Commissioner Abraham before the Committee this morning. I also want to thank Vice Chairman Saxton for holding this hearing. You may be interested in learning that I have recently performed my own statistical analysis, which suggests that there may be an inverse relationship between how often we hold these hearings and the employment situation. It seems that we meet less often during periods of low unemployment, and more often during periods of high unemployment. Regardless of any trend, I want to assure you that whenever you are here, I am glad to hear whatever news you bring and learn from you and your colleagues about what is happening to American workers and their families.