



WEEKLY ECONOMIC DIGEST

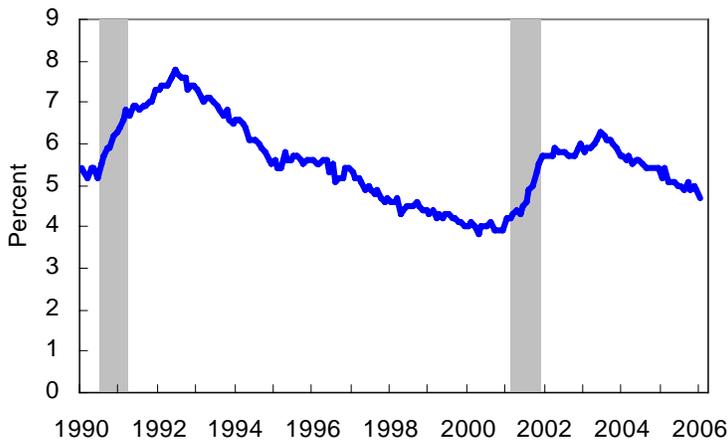


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

February 8, 2006

Payrolls Expand, but Labor Force Participation and Earnings Continue to Lag

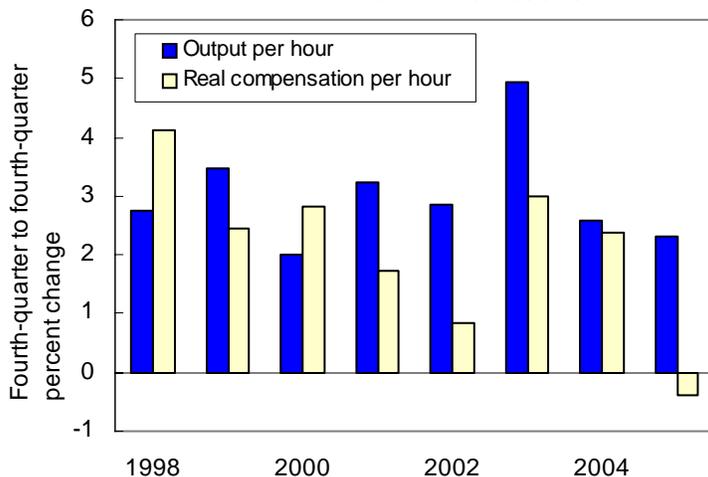
Unemployment Rate



Source: Bureau of Labor Statistics, U.S. Department of Labor and National Bureau of Economic Research.

Note: Gray areas indicate periods of recession as defined by the National Bureau of Economic Research.

Productivity and Real Compensation per Hour for Nonfarm Businesses



Source: JEC calculations based on data from the Bureau of Labor Statistics, U.S. Department of Labor.

- **Payrolls grew last month.** Total payroll employment at nonfarm establishments rose by 193,000 jobs in January, a solid gain but below the 250,000 jobs that financial markets had expected. Revisions to November and December raised the average gain in those months to 247,000 jobs. The average hourly earnings of production and nonsupervisory workers rose by 0.4 percent in January, to a level 3.3 percent higher than a year earlier. Data released later this month are likely to show a similar 12-month increase in consumer prices.

- **Unemployment fell but labor force participation was unchanged.** The civilian unemployment rate fell by 0.2 percentage point to 4.7 percent in January, the lowest level since July 2001 (see upper chart). However, the percentage of the population either working or actively looking for work remained at 66.0 percent—1.2 percentage points lower than it was at the start of the recession in March 2001. The proportion of the population with a job rose by 0.1 percentage point to 62.9 percent, 1.4 percentage points below its level in March 2001.

- **Productivity dipped at the end of the year.** Output per hour in nonfarm businesses fell at a 0.6 percent annual rate in the fourth quarter. That decline reflected a sharp slowing in output growth (from 4.7 percent in the third quarter to 0.9 percent in the fourth) along with a pickup in the growth of total hours. Over all of 2005, productivity rose 2.3 percent.

- **Real compensation fell last year.** During 2005, real (inflation-adjusted) compensation per hour in nonfarm businesses fell by 0.4 percent. Real compensation (which includes both wages and nonwage benefits) has lagged behind productivity every year since 2000 (see bottom chart). The employment cost index for private-industry workers, a separate measure of compensation, also declined by 0.4 percent after inflation in 2005, with the wage component falling by 0.9 percent.

The Economy at a Glance	Jan	Dec	Nov	Oct	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005 Qtr 1	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	1.1	4.1	3.3	3.8	3.5	4.2
Industrial Production (% growth)	n.a.	7.4	10.0	12.7	3.8	1.4	1.6	3.8	3.2	4.1
Capacity Utilization (level, %)	n.a.	80.7	80.3	79.8	80.2	79.8	79.9	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.9	5.0	4.9	5.0	5.0	5.1	5.2	5.1	5.5
Housing Starts (thousands)	n.a.	1933	2121	2051	2035	2101	2044	2083	2066	1950
Real Disposable Personal Income (% growth)	n.a.	5.0	10.0	4.9	7.0	-2.0	0.2	-3.4	1.4	3.4
Retail Sales (% growth)	n.a.	8.6	10.1	2.6	2.3	6.9	10.8	5.6	7.6	7.3
Personal Saving Rate (level, %)	n.a.	-0.7	-0.2	-0.1	-0.4	-1.8	-0.2	0.5	-0.5	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	-1.2	-7.0	2.4	3.2	5.1	4.2	2.4	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.3	1.5	2.0	2.6	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	3.2	3.2	2.8	2.8	3.2	3.9
Output per Hour (% growth)	—	—	—	—	-0.6	4.5	2.1	3.2	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.24	3.89	3.88	3.71	3.83	3.36	2.86	2.54	3.15	1.37
T-note Rate, 10-years (level, %)	4.42	4.47	4.54	4.46	4.49	4.21	4.16	4.30	4.29	4.27
Federal Funds Rate (level, %)	4.29	4.16	4.00	3.78	3.98	3.46	2.94	2.47	3.22	1.35
Dow Jones Industrial Avg (index level)	10872	10828	10695	10324	10616	10544	10382	10648	10548	10317

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for civilian workers. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

Upcoming Economic Releases:

- **Monthly Wholesale Trade: December 2005** [Release: Thursday, February 9]
- **U.S. International Trade in Goods and Service: December 2005** [Release: Friday, December 10]
- **Monthly Treasury Statement of Receipts and Outlays of the U.S. Government: January 2006** [Release: Friday, February 10]
- **Manufacturing and Trade Inventories and Sales: December 2005** [Release: Tuesday, February 14]