



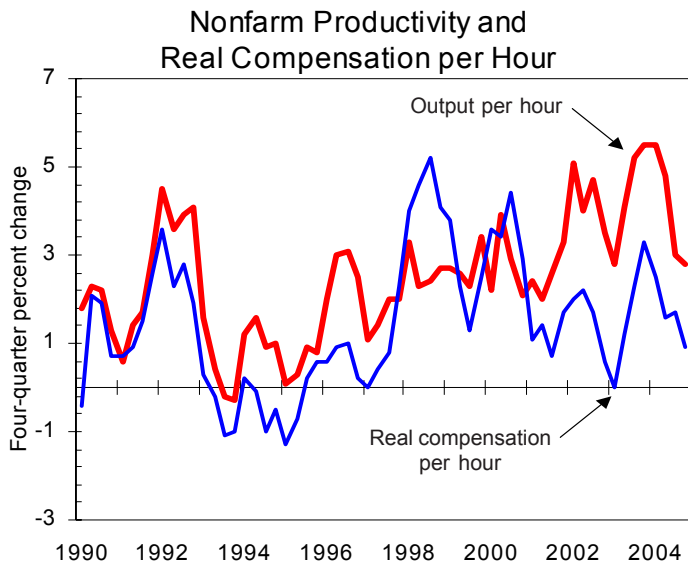
WEEKLY ECONOMIC DIGEST



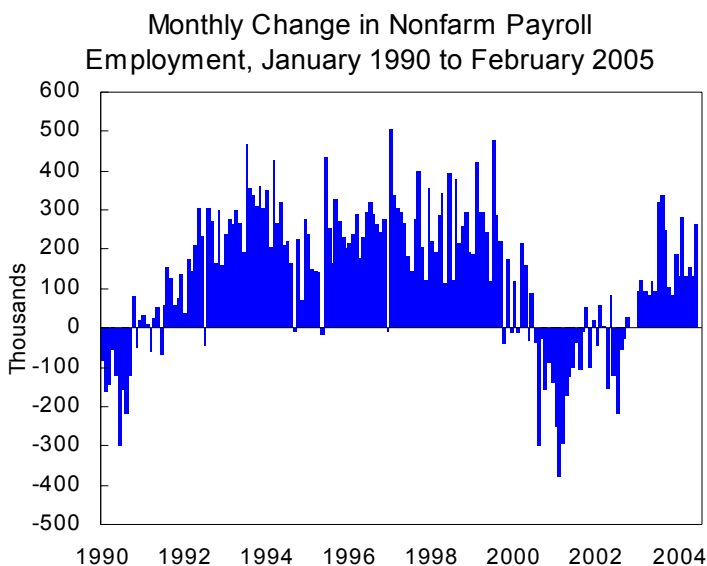
JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
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March 8, 2005

Wages Lag Behind Productivity and Job Growth



Source: Bureau of Labor Statistics, U.S. Department of Labor.



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- **Productivity growth continues to outpace growth in labor compensation.** Output per hour in the nonfarm business sector grew at an annual rate of 2.1 percent in the fourth quarter of 2004, rising to 2.8 percent above its level a year earlier, according to revised estimates by the Department of Labor. However, real (inflation-adjusted) hourly labor compensation fell at a 0.2 percent annual rate and was only 0.9 percent above its level a year earlier. Evidence from other sources suggests that non-wage benefits are rising but real wages are stagnant.
- **Payroll employment grew solidly in February.** Payroll employment at nonfarm establishments grew by 262,000 jobs. However, February was only the fifth month in the last four years in which job gains were 250,000 or more—an amount that was routine in the 1990s expansion. Moreover, the average increase since the jobs recovery began in June 2003 has been just 144,000 jobs per month.
- **The unemployment rate rose last month.** The unemployment rate returned to 5.4 percent in February, after dipping to 5.2 percent in January when the labor force participation rate—the fraction of the population that is in the labor force—fell to 65.8 percent, its lowest level since 1988. The labor force participation rate remained at that level in February. The portion of the population that was employed dropped to 62.3 percent in February, 2 percentage points below its level in March 2001 when the recession began.
- **Hourly earnings were flat in February.** The average earnings of production and other nonsupervisory workers on private nonfarm payrolls remained at \$15.90 per hour for the second consecutive month. Real (inflation-adjusted) average hourly earnings are nearly certain to have fallen over the month (inflation data for February are not yet available). Over the past year, real average hourly earnings have fallen by 0.4 percent.

The Economy at a Glance	Feb	Jan	Dec	Nov	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.8	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)	n.a.	0.0	8.7	1.2	4.0	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)	n.a.	79.0	79.1	78.6	78.7	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.4	5.2	5.4	5.4	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)	n.a.	2159	2063	1805	1978	1969	1920	1943	1952	1853
Real Disposable Personal Income (% growth)	n.a.	5.6 [#]	9.5 [#]	2.4	3.4 [#]	2.9	2.8	2.4	3.7 [#]	2.3
Retail Sales (% growth)	n.a.	-3.7	14.4	-0.5	9.9	5.7	6.4	10.9	7.6	5.3
Personal Saving Rate (level, %)	n.a.	1.0	0.3 [#]	0.5	0.5 [#]	0.7	1.3	1.0	0.9 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	1.2	0.0	3.7	3.6	1.6	4.4	3.9	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.3	1.8	2.6	1.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)	—	—	—	—	2.1	1.3	3.9	3.8	4.0	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.54	2.33	2.19	2.07	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.17	4.22	4.23	4.19	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.50	2.28	2.16	1.93	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10724	10540	10673	10412	10362	10130	10289	10488	10317	8994

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 workers in private industry. 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.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December 2004.

Upcoming Economic Releases:

- **Monthly Wholesale Trade: January 2005** [Release: Thursday, March 10]
- **Monthly Treasury Statement: February 2005** [Release: Thursday, March 10]
- **U. S. International Trade in Goods and Services: January 2005** [Release: Friday, March 11]