



WEEKLY ECONOMIC DIGEST

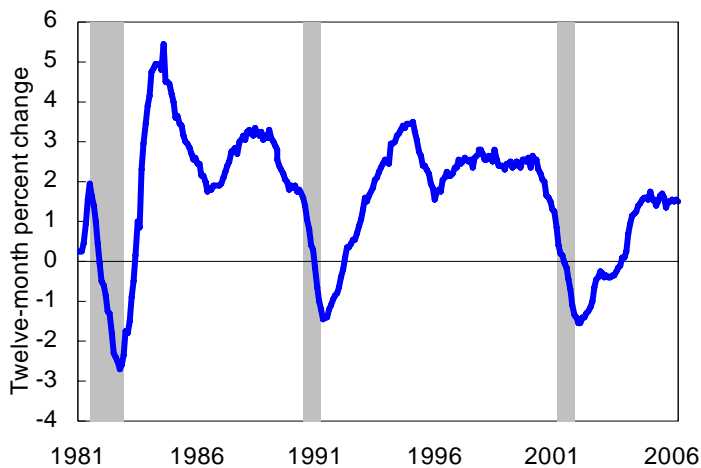


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI) – RANKING DEMOCRAT

May 9, 2006

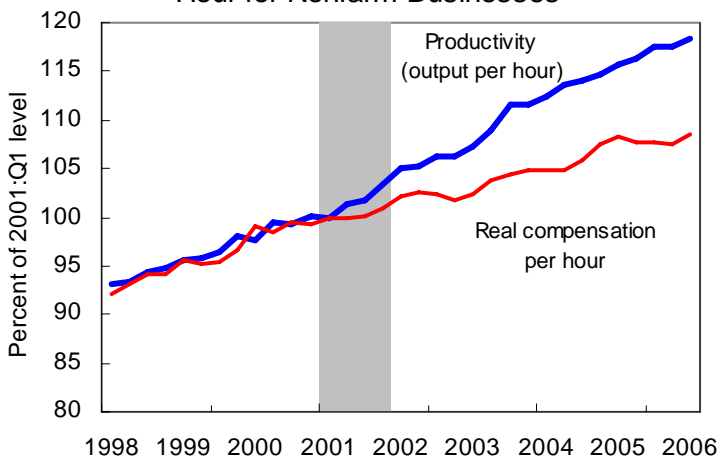
Job Growth Slows; Wages Still Lagging Behind Productivity after Recent Gains

Nonfarm Payroll Employment



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

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

- **Job growth slowed unexpectedly last month.** Payroll employment at nonfarm establishments rose by 138,000 jobs in April, well below the gain of 200,000 jobs that financial markets had expected. Estimates of payroll growth in February and March were revised down to 200,000 in each month. Over the past year, payroll employment has grown by 1.5 percent (an average of about 164,000 jobs per month), a slower pace than in previous recoveries (see top chart).

- **The unemployment rate was unchanged last month.** The civilian unemployment rate remained at 4.7 percent in April. The percentage of the population either working or actively seeking work was also unchanged at 66.1 percent—1.1 percentage points below the labor force participation rate at the start of the recession in March 2001. The percentage of the population with a job—63.0 percent in April—is 1.3 percentage points lower than it was in March 2001.

- **Productivity and hourly compensation rebounded in the first quarter.** Output per hour in nonfarm businesses grew at a 3.2 percent annual rate in the first quarter, and real (inflation-adjusted) hourly compensation (wages plus benefits) for workers in nonfarm businesses rose at a 3.6 percent annual rate. Productivity had fallen at a 0.3 percent annual rate in the fourth quarter, and real compensation had declined at an average annual rate of 1 percent over the preceding three quarters.

- **Growth in compensation since 2001 remains far behind growth in productivity.** Productivity in the first quarter was 2.4 percent higher than a year earlier, while real hourly compensation was a mere 0.1 percent higher. That has been the pattern since early 2001. Over the past five years productivity has increased by a cumulative 18.4 percent, while real compensation has grown by just 8.5 percent (see bottom chart).

The Economy at a Glance	Apr	Mar	Feb	Jan	2006 Qtr 1	2005 Qtr 4	2005 Qtr 3	2005 Qtr 2	2005	2004
Economic Activity										
Real GDP (% growth)	—	—	—	—	4.8	1.7	4.1	3.3	3.5	4.2
Industrial Production (% growth)	n.a.	7.4	6.2	-4.7	4.5	5.3	1.4	1.6	3.3	4.1
Capacity Utilization (level, %)	n.a.	81.3	81.0	80.7	81.0	80.5	79.8	79.9	80.0	78.6
Civilian Unemployment Rate (level, %)	4.7	4.7	4.8	4.7	4.7	5.0	5.0	5.1	5.1	5.5
Housing Starts (thousands)	n.a.	1960	2126	2307	2131	2059	2101	2044	2072	1950
Real Disposable Personal Income (% growth)	n.a.	1.2	2.4	0	3.2	6.7	-1.4	0.2	1.4	3.4
Retail Sales (% growth)*	n.a.	7.8	-9.3	43.2	13.4	1.9	8.5	9.5	7.2	6.2
Personal Saving Rate (level, %)	n.a.	-0.8	-0.6	-0.6	-0.7	-0.2	-1.6	-0.2	-0.4	1.8
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	4.9	1.2	8.7	2.2	3.2	5.5	3.7	3.4	2.7
Core CPI-U Inflation (% growth)	n.a.	3.7	1.2	2.4	2.4	2.4	1.6	2.0	2.2	1.8
Employment Cost Index (% growth)	—	—	—	—	2.4	3.2	3.2	2.8	3.3	3.7
Output per Hour (% growth)	—	—	—	—	3.2	-0.3	4.2	2.4	2.7	3.4
Financial Markets										
T-bill Rate, 3-month (level, %)	4.60	4.51	4.43	4.24	4.39	3.83	3.36	2.86	3.15	1.37
T-note Rate, 10-years (level, %)	4.99	4.72	4.57	4.42	4.57	4.49	4.21	4.16	4.29	4.27
Federal Funds Rate (level, %)	4.79	4.59	4.49	4.29	4.46	3.98	3.46	2.94	3.22	1.35
Dow Jones Industrial Avg (index level)	11235	11144	10971	10872	10996	10616	10544	10382	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.

* Subject to revision over the next week.

Upcoming Economic Releases:

- **Federal Open Market Committee Statement on Monetary Policy** [Wednesday, May 10]
- **Manufacturing and Trade Inventories and Sales: March 2006** [Release: Thursday, May 11]
- **Advance Monthly Sales for Retail and Food Services: April 2006** [Release: Thursday, May 11]
- **U.S. Import and Export Price Indexes: April 2006** [Release: Friday, May 12]
- **U.S. International Trade in Goods and Services: March 2006** [Release: Friday, May 12]
- **New Residential Construction: April 2006** [Release: Tuesday, May 16]
- **Industrial Production and Capacity Utilization: April 2006** [Release: Tuesday, May 16]