CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

CHAIRMAN JIM SAXTON

PRESS RELEASE

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STATEMENT OF CHAIRMAN JIM SAXTON

November Employment Situation

WASHINGTON, D.C. – I am pleased to welcome Acting Commissioner Orr before the Joint Economic Committee (JEC) once again to testify on the November employment situation.

The employment data reported today are consistent with the finding recently made by National Bureau of Economic Research (NBER) that the U.S. economy is in recession. Payroll employment declined by 331,000 and the unemployment rate rose to 5.7 percent. Overall, the report today indicates that labor market conditions remain weak.

According to the NBER, the October payroll employment and industrial production data following the terrorist attacks indicated that the slowing economy had slipped into a recession earlier this year. The NBER report also noted that the declines of two of three major contracting indicators it considered began in 2000.

Even before the events of September 11, the available economic data indicated that the economic slowdown that began in the middle of 2000 remained underway. The downward trend in investment led the recession, with the rate of real GDP growth slowing quite sharply since the second quarter of 2000, actually falling in the third quarter of this year. The staggering manufacturing sector was another leading signal of recession, with losses of over one million factory jobs since July of 2000.

On the other hand, real personal income continues to grow. Housing and consumer spending also have held up fairly well. In addition, since last January the Fed has reduced interest rates ten times, Congress has lowered the tax drag on the economy, and energy prices are declining. Many economists had expected these factors to lead to an economic rebound in the last half of 2001, but the attacks have led them to forecast a delay in the recovery. Although in recent weeks there have been some signs that the economy may have bottomed out, economic stimulus legislation is still needed as an insurance policy to bolster the economy and ensure that a rebound does not falter.

Financial markets and the economy have been disrupted by the terrorist attacks. The attacks have increased uncertainty, and caused a widespread reevaluation of risk and security. Delays and higher shipping costs in air and ground transport, additional inventory and insurance costs, higher expenses for security personnel and equipment, fortification of buildings and facilities, and other measures will have the effect of imposing something like a "security tax" on an already vulnerable economy.

This burden will undermine the economy in the short run, and could tend to adversely affect both productivity growth and the economy's potential growth rate. A logical policy response would be to offset these costs by relieving some of the tax burden on the private sector. Measures to reduce the cost of capital and address the sharp declines in business investment are particularly needed.

Monetary policy has addressed the economic situation with an easing that began last January. The Fed's policy moves so far this year have certainly provided economic stimulus, but the lags in monetary policy are long and variable. Given the lack of inflationary pressures, prudent action by the Federal Reserve this Tuesday to reduce interest rates could also contribute to improving the economic outlook.

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