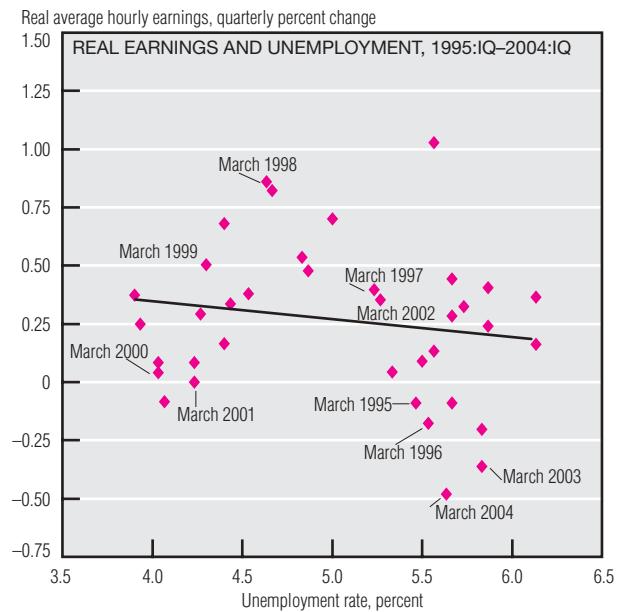
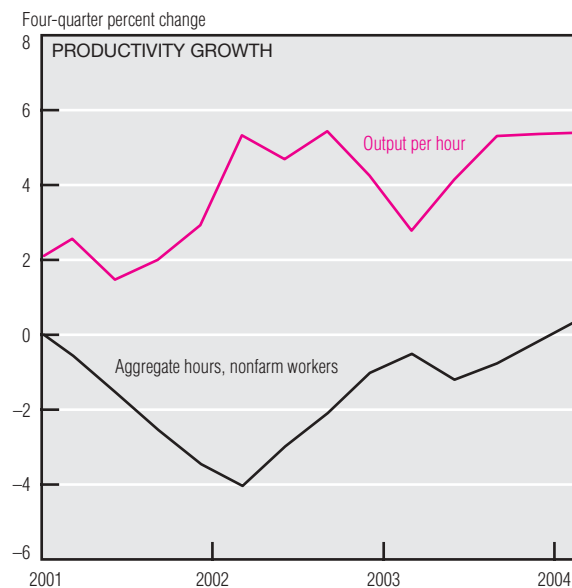
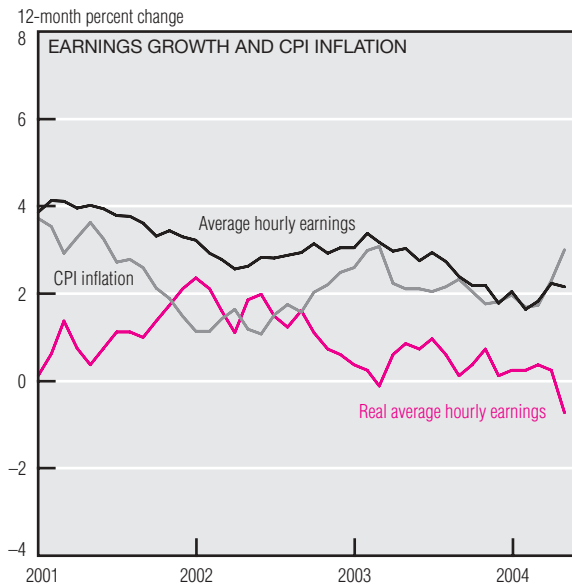


Earnings and Employment



NOTE: All data are seasonally adjusted.
SOURCE: U.S. Department of Labor, Bureau of Labor Statistics.

Between May 2001 and May 2004, real average hourly earnings rose a total of 2.0% (0.6% per year on average). Earnings growth was brisker from mid-2001 to mid-2002 after the inflation rate dropped sharply (3.6% in May 2001 versus 1.1% in June 2002). Average hourly earnings in current dollars increased 2.2% between May 2003 and May 2004 but declined 0.7% in real terms because of the recent surge in the Consumer Price Index.

Since 2001, the cost of employing a worker, as measured by the Employment Cost Index, has risen at an average annual rate of about 4.0%.

The change in wages and salaries has been fairly stable at about 3.0%. Benefits, however, including paid leave and health and retirement benefits fluctuate widely and have driven up employment costs. For instance, the health insurance component (7.2% of employment costs) has been increasing at an average annual rate of nearly 10% since 2002.

Between March 2001 and March 2004, these changes were accompanied by a total reduction of 4.1% (1.3% per year on average) in aggregate hours' growth rate. At the beginning of 2002, the number of hours was shrinking at an average annual rate of

about 4%. This trend recently stopped, and the number of hours increased a total of 1.0% (1.4% per year on average) between June 2003 and March 2004. Productivity, as measured by output per hour, has continued to grow at an annual rate exceeding 4%.

A slightly negative relationship exists between the quarterly growth rate of real earnings and unemployment, suggesting that on average, wage pressures intensify when the labor market is tight and unemployment is low. Real earnings growth has moderated since 2003, but the unemployment rate has been relatively high.