



10-Year Treasury Yield

8:15—4.38%

8:45—4.36%

Economics Group Domestic

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Employment: Positive Gains for A Positive Economy

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Employment growth of 262,000 with widespread gains in many sectors suggests the real side of the economy continues to move ahead. This result supports the outlook for rising but not accelerating inflation, continued solid profit growth and measured Fed moves of 25 basis points in March and May.

Employment Gains Widespread: Positive for Growth

Widespread employment gains support the case for trend plus growth with good consumer spending growth. Employment rose in the manufacturing, construction and service sectors. Manufacturing jobs rose 20,000 while the disparity between durable and nondurable sectors persists. Durable manufacturing employment was up 23,000, led by gains in motor vehicles. Nondurable manufacturing employment fell by 3,000 jobs. Construction jobs rebounded from the weather-depressed prior month.

Service sector job gains included the key professional fields of finance (12,000), business services (81,000), education and health (18,000), and leisure & hospitality (23,000). These sectors have recorded fairly steady and significant gains over the past year.

Unemployment Rate and Wages: Signals Suggest Fed Policy Remains Measured

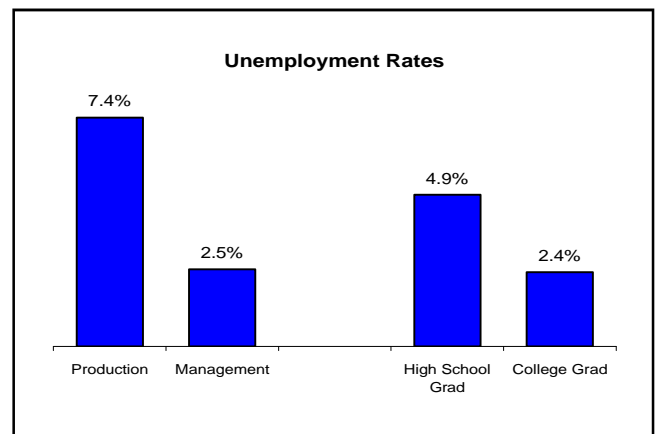
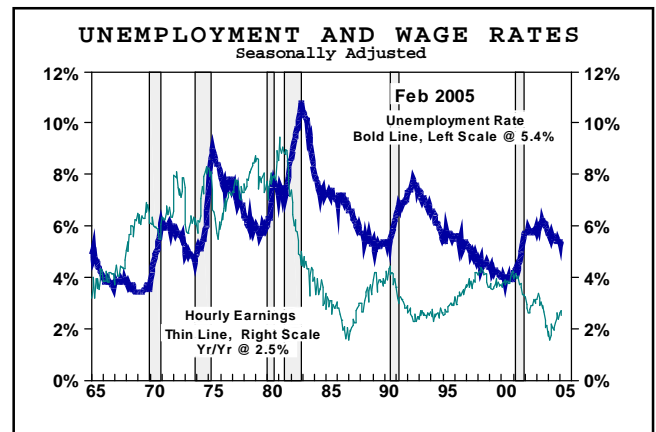
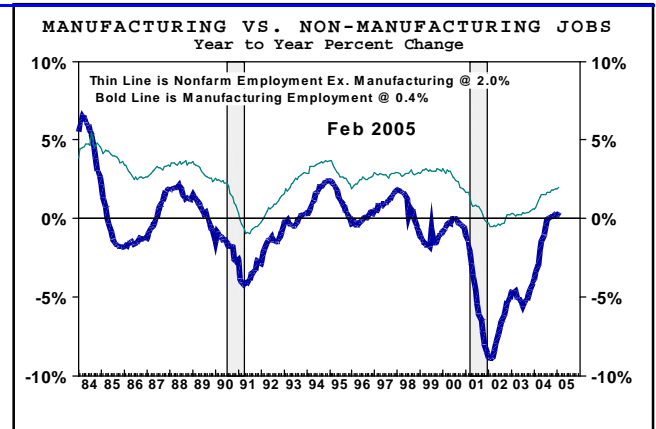
Good news for the financial markets came from the small rise in the unemployment rate while wages decelerated. This combination (middle graph) suggests that wages/cost pressures are not accelerating and thereby the outlook for inflation suggests rising but not accelerating inflation.

Therefore, Fed policy appears on a path toward 25 basis point increases at both March and May meetings. Trend plus growth and modestly rising inflation does not suggest the Fed needs to accelerate the pace of moving toward a neutral funds rate.

Structural Unemployment Remains as Issue

Job gains continue to reflect the need for the workers in the service sector. However, the workers are often computer-literate with a college education and a strong service orientation. The disparity in the unemployment experience is stark by education and profession (bottom graph).

The evidence suggests that the unemployment issue continues to incorporate a significant structural, not just cyclical, component. The unemployed are increasingly non-college graduates and often formerly production workers. Trend-plus economic growth is only part of the solution to the jobs issue. Education and retraining appear to be part of the complete policy answer to reemployment.



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