HEARD ON THE STREET

FINANCIAL ANALYSIS & COMMENTARY

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Labor Makes a Case for U.S. Growth

The labor market is gaining trength. The big question for he Federal Reserve is when to et in the way.

Friday's employment report vas a lot stronger than ex- ected. U.S. payrolls rose 57,000 last month, above the 37,000 consensus forecast, vhile revisions boosted the iew-jobs count for November ind December by a combined 47,000 jobs. That put the av- rage monthly jobs gain over he past three months at 36,000, the fastest pace since 997.

That seems out of step with iow fast the economy seems o be expanding. A week ago, he Commerce Department re- ported that gross domestic product expanded at a 2.6% annual rate in the fourth quar- er. Recent trade data suggest that figure will be revised down. Meanwhile, available data suggest that GDP will ex- pand 2.4% in the first quarter, according to forecasting firm Macroeconomic Advisers.

The combination of strong hiring and slow economic growth suggests that productivity, as measured by how much the average worker produces in an hour, might not be increasing slowly but may be contracting. The more likely answer, though, is that the economy is expanding quicker than the available data indicate, and that over time the GDP figures will be revised up.

The problem for policy makers is that such revisions can take a while. It won't be until well after the fact that they will have a sense of how far economic growth is from its potential, the level it can safely reach without pushing inflation too high.

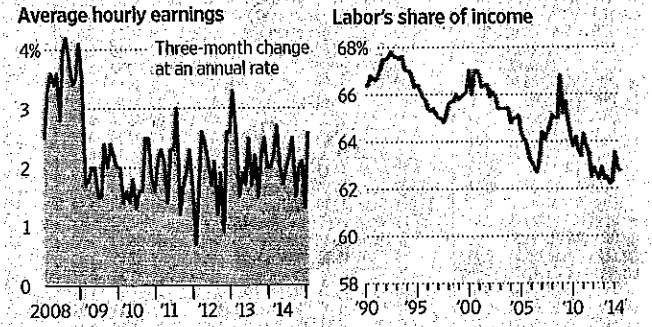
So in practice, policy makers just watch wages, which the January jobs report suggested may be starting to heat up. Average hourly earnings rose 12 cents, to $24.75, more than reversing a five-cent drop in December. That put them 2.6% higher than they were three months earlier, on an annualized basis, which might mean wage growth is finally breaking out of the 2% range it has been stuck in.

The gains will need to continue before anyone is going to be convinced, though. Wages have risen as fast, or faster, at several points in recent years, only to cool back down. Moreover, Friday's report showed that the unemployment rate rose to 5.7% in January from December's 5.6%, a consequence not of falling employment but of more Americans joining the workforce and looking for jobs. If more people are drawn back into the job market, that could keep wages in check.

But say that isn't what happens and wage growth really is accelerating. With inflation likely to cool even further as a result of cheaper gasoline and dollar strength, this might not be a sign that the job market risks getting too hot. Rather, it might indicate a changed environment in which employers will have to hand a greater share of profits to workers. Given that labor's share of income, by one measure of Commerce Department figures, has fallen to 63% from 67% in 2000 and widespread worries about America's middle class, the Fed might not view that as such a bad thing.

—Justin Lahart

Turning the Wage



Sources: Labor Dept. (earnings); WSJ analysis of Commerce Dept. data (share of income)

The Wall Street Journal

OVERHEARD

Dish may not be off the menu for **Verizon Communications**. The latter's deals this week to sell wireline assets and lease towers for $15.5 billion will give it a lot of cash. But Verizon wants to use it to buy back shares and pay debts run up in the government's recent auction of wireless spectrum.

Yet investors hoping Verizon might one day buy **Dish Network** shouldn't despair. Well before the auction, Verizon was paying off debt related to its acquisition of **Vodafone Group**'s stake in Verizon Wireless. As for the buybacks, they will offset the dilution resulting from the asset sale, according to New Street Research.

Moreover, this week's deals were aimed at sharpening Verizon's focus on wireless. Yet the carrier likely still needs to buy more spectrum—and Dish controls one of the largest unused blocks. There are ways Verizon could make its network more efficient and it also could buy spectrum in the next auction. But all such efforts will rely on willing capital markets to help fund them. Verizon's moves don't mean Dish is off the table.