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Jobless Rate Rises to 9-Year High

WASHINGTON — The unemployment rate rose to 6.1 percent in May, its highest level in nine years, the Labor Department reported Friday, as the worst jobs slump since the early 1980's continued to spread across the economy.

Still, the pace of layoffs has slowed over the last two months, suggesting that the economy might have stabilized and could begin adding jobs this summer, forecasters said.

The economy has now lost almost 2.5 million jobs since February 2001, more than the government said previously, according to annual revisions released Friday by the Labor Department. It is the longest sustained period without job growth since the period before World War II.

"Companies are still cutting costs," said Mark Vitner, a senior economist at the Wachovia Corp. in Charlotte, N.C.. "But it looks like the

worst of the layoffs are behind us."

The Federal Reserve still appears likely to cut its benchmark interest rate to encourage new spending when it meets on June 24 and 25, many economists said after the release of the jobs report, a prediction echoed in the price of financial market contracts based on the rate.

The Fed has cut the rate 12 times since the start of 2001, but the lingering effects from the bursting of the 1990's stock bubble and the uncertainty caused by the war in Iraq and terrorism have prolonged the downturn.

Consumers and businesses have increased their spending somewhat in the last month, offering hope that a recovery has begun. But facing higher health care costs for employees and having become more efficient with the help of new technologies, companies have increased production without adding

workers.

In perhaps the most promising sign in the jobs report, companies added a small number of jobs in both April and May after having reduced employment by more than 200,000 during the previous two months, the Labor Department said. Government cuts have caused overall employment to decline since April — including a decline of 17,000 last month — but the private sector is typically a better predictor of the economy's future.

Some of the biggest gains came at construction companies, which are benefiting from the housing boom that is being helped by low interest rates, and financial services companies. Businesses also increased the number of temporary workers on their payrolls, by 58,000, a common sign that they are preparing for better times.

DAVID LEONHARDT

Panel Describes Serious Problems at NASA

SAN ANTONIO — NASA's problems go far beyond falling foam, according to an early outline of the report by the independent panel investigating the accident that doomed the shuttle Columbia and its crew.

The failings include communications breakdowns and an institutional culture that plays down problems, as well as constraints from Washington that may have reduced the ability to reach space safely.

The outline also reviews steps used to avoid such pitfalls at other businesses and organizations that deal with high risks, including nuclear power plants and submarines, offshore oil rigs and aircraft carrier flight decks.

The outline does not lay

out the board's recommendations to the National Aeronautics and Space Administration for returning the shuttle fleet to space, although it has already made two proposals, to set up an agreement for outside agencies to monitor the shuttle during flight and to establish a program for testing aging shuttle materials. NASA says it is starting work on carrying out some of the recommendations.

The document was first described Friday by The Orlando Sentinel, and an official of the investigation board discussed it at length for reporters here in a lull in preparations for shooting foam at a mock shuttle wing.

Harold W. Gehman Jr., the retired admiral who is head

of the board, has said the panel hoped to have its final report ready by the end of July, before Congress goes into its August recess. Gehman has promised a "voluminous" report that will provide a sweeping history of the shuttle program from its inception to its troubled present and beyond.

The detailed 10-page outline is the sixth version of the document, with more versions to come as the board prepares to write the final version of its report.

The official said that the order of chapters and the content was subject to change, because some testing and research into the causes of the accident were continuing.

JOHN SCHWARTZ

HAMAS BREAKS OFF TALKS ON STOPPING ATTACKS ON ISRAEL

GAZA CITY — Leaders of the militant Islamic group Hamas broke off cease-fire talks Friday with Prime Minister Mahmoud Abbas of the Palestinian Authority, saying he had failed the Palestinian people in a speech at a meeting with Israel by demanding an end to the armed uprising and expressing compassion for Jewish suffering.

The rejection from Hamas came a day after Yasir Arafat, the Palestinian leader, implicitly criticized Abbas as having failed to win any concessions from Israel. It was the strongest sign yet that his rivals sensed that the prime minister's limited popular support was collapsing, and that, threatened by his goals, they wanted to give him a shove.

"He does not deserve to be the prime minister of the Palestinian people," said Ismail Abu Shanab, considered by other Palestinian officials to be one of the more tractable political leaders of Hamas. "Palestinians are sacrificing, Palestinians are suffering, and all this was wrapped up and put in the trash. Everybody is angry at the speech."

Nothing has changed for the Palestinians since the meeting; Israeli blockades are in place, two armed members of Hamas were killed in the northern West Bank Friday, and tanks and armored vehicles operated in the northern Gaza Strip.

Abu Shanab and two other top political leaders of Hamas rejected any further discussions unless the prime minister backed away from his speech at the meeting.

JAMES BENNET