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February Job Growth Was Not Chilly

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Today the Bureau of Labor Statistics (BLS) reported that the economy employed 97,000 more workers in February and that the unemployment rate has declined to 4.5 percent. The BLS also revised upwards December and January job growth by 55,000 additional jobs. February's job growth is in line with the consensus forecast of 100,000 additional jobs. It is also in line with an economy that continues to grow and expand, although at a slightly cooler pace than in 2006.

February Job Numbers and the Current Economy. The February employment gains mark the 42nd consecutive month of job growth. The unemployment rate fell to 4.5 percent, which is lower than the average unemployment rate for 2006. Since President Bush's tax cuts in June of 2003, the economy has added 7.6 million jobs.

While growth has cooled from 2006, the economy remains in a solid expansion. The construction industry employed 62,000 fewer workers in February, due to the slowing housing market and unseasonably cold weather. However, solid growth in the service sector, especially in the business sector, more than offset job losses in construction and manufacturing.

The GDP grew by 3.3 percent in 2006, above the average rate since World War II. Economists expect that economic growth will drop below 3 percent in 2007, which is still above the average growth rate of Europe or Japan. High energy prices, labor costs, and a dip in the housing market have served as a brake on the economic engine.

Labor Compensation. Rapid economic growth over the last two years has tightened labor markets and raised wages. While wages rise in a tight labor market, the rate of increase has been exceedingly high in the last year. Wages have increased by 4.1 percent in the past 12 months, and real weekly earnings (earnings after adjusting for inflation) have increased by 1.8 percent during the same time period. Hourly wages have not risen faster in almost 10 years. Real weekly earnings have increased 2.6 percent since President Bush was inaugurated.

Wages, however, are just part of the total compensation that a worker receives. When health coverage, pensions, Social Security and Medicare payroll taxes, and other benefits are included, real non-farm worker compensation increased 3 percent in the last year.[1]

While some have complained that laborers have not shared in the robust economy,[2] this economic recovery is much like the one overseen by President Bill Clinton. Wages and productivity move together over the long term but do not move together at every point of the business cycle. For example, productivity grew faster than compensation for several years following the 1991 recession. At one point in

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that recovery, productivity had risen 9.7 percent while compensation had only risen 6.1 percent.[3] The economy today is behaving as expected: After productivity increases, the labor market tightens and compensation rises.

Congress's Threat to the Economy. While the economy remains in good shape, some storm clouds are on the horizon. The new majority in Congress will harm growth if it restrains free trade or tries to micromanage it. An increase in the minimum wage is unneeded meddling in the marketplace and will hurt some teenage and low-skilled workers.[4]

Some Members of Congress have threatened to repeal the Bush tax cuts, which lowered the cost of capital and encouraged additional work. Congress should extend the pro-growth elements of the Bush tax cuts, such as the reduction of the tax rates on capital gains and dividends. Businesses plan expansions years in advance and will begin adjusting for higher capital costs if Congress does not signal a plan to make permanent the pro-growth tax cuts.

Conclusion. The February jobs report provides further evidence that the economy is not growing as strong as it did in 2005 and 2006. But economic growth remains solid, and hiring should remain steady and positive throughout 2007. This economy continues to bring workers higher wages and increased job opportunities.

Congress should remember the adage "First, do no harm" when it considers policies that regulate the economy. This economic expansion has overcome spikes in energy prices and major natural disasters like Hurricane Katrina. It should not have to surmount barriers to growth, such as tax hikes, imposed by Congress.

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1. Bureau of Labor Statistics, "Productivity and Its Costs," March 6, 2007, at *www.bls.gov/news.release/pdf/prod2.pdf*.
2. Jared Bernstein, "Wage Growth Slows for Most Workers Between 2000 and 2005," *EPI Snapshot*, 2006, at *www.epi.org/content.cfm/webfeatures_snapshots_20060111*.
3. Heritage Foundation calculations based on Bureau of Labor Statistics, "Productivity and Costs: Nonfarm business sector." Compensation deflated using the implicit price deflator. These figures are measured 20 quarters out from the end of the 1991 recession, from Q1 1991 to Q1 1996.
4. James Sherk, "Minimum Wage Hurts Unskilled and Disadvantaged Workers' Job Prospects" Heritage Foundation *WebMemo* No. 1294, January 2, 2007, at *www.heritage.org/Research/Labor/wm1294.cfm*.