WebMemo
Published by The Heritage Foundation

No. 1726
December 7, 2007

Employment Fattens Up During November

Rea S. Hederman, Jr., and James Sherk

In its employment report for November, the Bureau of Labor Statistics (BLS) offers a bit of holiday cheer and stems worries that the economy is rapidly heading for a recession. The economy created 94,000 jobs in November, and the unemployment rate remained unchanged from October at 4.7 percent. Wages grew at their sharpest rate since the middle of the summer, which will fatten the wallets of workers during the Christmas shopping season. The economy faces real challenges, but the evidence so far refutes the notion that it is sliding into a recession.

That said, the 94,000 new jobs were distributed unevenly across the economy.[1] The high-wage professional and business services sector saw the most job growth, adding 30,000 new jobs; the high-wage education and health sector was close behind at 28,000 new jobs. Conversely, the meltdown in the subprime mortgage market has cost jobs related to housing. The construction industry lost 24,000 jobs. Credit intermediation firms also shed 13,000 jobs, and the real estate industry lost 8,000 jobs.

Nonetheless, the economy performed above expectations. Economists had predicted that employers would create only 70,000 new jobs in November. They also expected the unemployment rate to rise to 4.8 percent, while in fact unemployment was steady at 4.7 percent.[2] Average hourly earnings rose $0.08 and have risen 3.8 percent over the past year. Also, the BLS revised upward by 4,000 its estimate for job growth in October.

Today's jobs report reinforces other recent economic signals that show surprising strength in the economy. The Bureau of Economic Analysis revised its third quarter estimate of GDP growth upward by a full percentage point to 4.9 percent—well above average economic growth rates.[3] Productivity also grew at a stunning 6.3 percent rate in the third quarter, the fastest growth seen since 2003.[4]

Concerns Remain. The fading housing market and the troubles in the credit industry remain problems and will continue to hamper economic growth. Already, forecasts for the 2008 economy have been lowered to show little, if any, growth.

Given these economic conditions, the House of Representatives makes little sense in wanting to increase taxes to offset the impact of extending the patch for the Alternative Minimum Tax (AMT). The House wants to pass a $50 billion tax increase to offset the value of the one-year patch. Currently, House Ways and Means Committee Chairman Charlie Rangel (D–NY) is focused on collecting an additional $21 billion from the deferred compensation of hedge fund managers with earnings from offshore businesses. For its part, the Senate has passed a one-year AMT patch without a tax increase. Observers should also be concerned about the tax provisions in the House energy bill (H.R. 6) that will increase the price of energy.

This paper, in its entirety, can be found at:
www.heritage.org/Research/Economy/wm1726.cfm

Produced by the Center for Data Analysis

Published by The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002–4999
(202) 546-4400 • heritage.org

The Heritage Foundation
LEADERSHIP FOR AMERICA

Tax increases in a period of economic sluggishness go against the tenets of every school of economics, from Keynesian to Austrian. The AMT patch is not really a tax cut, because the tax has never been paid by most of the people who would be affected by the patch. Many of the beneficiaries are unaware they would be affected if the AMT patch expired. The patch has been extended for so many years that its extension appears to be a foregone conclusion. Raising taxes to pay for a tax that has not affected people is poor policy even when there is not a heightened fear of a recession.

Conclusion. While the economy grew at a red-hot pace in the third quarter of 2007, estimates indicate much slower growth in the last quarter of 2007. Today's job numbers offer hope that the economy might again surpass estimates. Even as the housing market and financial institutions continue to struggle, other economic sectors continue to expand. Solid wage growth has shown that the job market is stronger than expected. Congress should not burden a slowing economy with a tax hike to offset a tax that has never been allowed to take effect. Instead, the House of Representatives should follow the Senate's lead and pass the AMT extension without any tax increases.

—Rea S. Hederman, Jr., is Senior Policy Analyst, and James Sherk is Bradley Fellow in Labor Policy, in the Center for Data Analysis at The Heritage Foundation.

1. Bureau of Labor Statistics, "Employment Situation News Release," Table A-1, December 7, 2007, at *www.bls.gov/news.release/empsit.t01.htm.*
2. "Solid Job Gains, Wage Growth in Nov.," The Associated Press, December 7, 2007, at *http://finance.myway.com/jsp/nw/nwdt_rt.jsp?section=news&feed=ap&src=601&news_id=ap-d8tcl98o0&date=20071207.*
3. Bureau of Economic Analysis, "Gross Domestic Product: Third Quarter 2007 (Preliminary)," November 29, 2007, at *http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.*
4. Department of Labor, Bureau of Labor Statistics, "Productivity and Costs, Third Quarter 2007, Revised," December 5, 2007, at *http://www.bls.gov/news.release/prod2.nr0.htm.*