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March Jobs Report Confirms a Poor First Quarter For the American Economy in 2008

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On April 4, the Bureau of Labor Statistics released the March employment report. American businesses shed 80,000 jobs in March and 232,000 jobs in the first quarter of 2008. The unemployment rate climbed above 5 percent for the first time since 2005. This is further evidence that the American economy ground to a halt in the first quarter of 2008.

March Employment Report. In March, private businesses reduced employment by 98,000 jobs, but the government added 18,000 workers for a net job loss of 80,000. This is the fourth consecutive month that private employers have reduced employment. As a result, the unemployment rate climbed from 4.8 percent in February to 5.1 percent for March. This is the highest unemployment rate since September 2005, after Hurricane Katrina.

The sector-specific numbers for March yield greater detail:

- Despite a growing export sector, manufacturing continues to shed jobs at a high rate—48,000 in one month—but a large portion of this job loss is due to an automobile-industry strike.
- The construction sector lost 58,000 jobs and has now reduced employment by 394,000 jobs since the peak of the housing market in the fall of 2006.
- The downturn in the housing market spread to the financial sector, which lost 5,000 jobs.
- Professional and business services reduced employment by 35,000, mostly because of a steep decline in employment and temporary help services, which themselves lost 41,800 jobs.
- The only sectors to increase employment in March were leisure and hospitality (18,000); government (18,000); and education and health services (42,000), with most of the added jobs in health care (22,800).

There was an increase in the total private hours of work, the first such increase in this calendar year. Manufacturing hours have been increasing over the past several months, and overtime work increased for the first time in the year as well. An increase in hours worked may indicate that work is increasing for some areas of the economy and that employment could increase in the future.

Long-Term Unemployed and Discouraged Workers. The data show that long-term unemployment is not a major problem. The number of workers unemployed for longer than 27 weeks increased by only 75,000 from March 2007 through March 2008 and has fallen over the past four months. The number of workers unemployed for over 15 weeks is up 217,000 workers since March 2007. Though the median duration of the length of unemployment has declined over the past two months, this is due

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primarily to the increase in the number of workers who have only recently become unemployed.

Workers who have given up looking for work are classified as discouraged workers and are considered marginally attached to the labor force. This month's report shows the number of discouraged workers to be 401,000—only 5,000 higher than the previous month and much lower than the number of discouraged workers in January. This indicates that the number of long-term unemployed workers has not fallen because these workers have given up looking for a job and are too discouraged about job prospects.

Housing Stimulus Misguided. Congress should not react to the softening economy and the pressure to "do something" by passing expensive but ineffective stimulus measures that will do little to help the economy. Because the government does not create wealth, but only transfers it, Congress has limited power to stimulate the economy.

Senators from both parties recently announced a bipartisan housing stimulus bill, the Foreclosure Prevention Act (S. 2626). Whatever the merits of this legislation as housing policy, it will do little to stimulate the economy. Any money the government spends on one program comes from elsewhere in the economy. Legislation directing money toward homeowners means less money in the hands of those who bought the government bonds that financed that deficit spending. Overall, the economy is no better off.

Further, this legislation, despite aiding some clearly identifiable groups, will do little to solve the housing market's fundamental problem. The housing market went through an asset bubble, with prices rising far faster than fundamentals justified. The Federal Reserve kept interest rates low for an extended period of time, thus encouraging borrowers to take out larger loans. Banks also relaxed their lending standards, issuing billions of dollars of subprime mortgages to borrowers with checkered credit histories. These factors caused the demand for housing—and thus the price of homes—to soar 33 percent between the first quarter of 2003 and the first quarter of 2006.[1] With home prices rising sharply, many borrowers also took out speculative loans in the hope of reselling in a few years at a profit.

Now the housing market is readjusting to the fact that home prices are not going to appreciate 10 percent a year indefinitely. Home prices have fallen 14 percent in the past two years.[2] The housing market will not return to normal until after prices fully readjust. In the interim, the market has temporarily seized up.[3] Many buyers are holding out for a better deal and fearful of purchasing an asset that will decline still further in value, and many sellers have not yet come to grips with the fact their homes are worth less than they thought and do not want to sell at a loss. Once prices have adjusted, the market will return to normal.

This correction will be painful for many homeowners, though it will also make housing more affordable for many first-time home buyers. Congress should not try to stop home prices from readjusting downwards. Housing markets will not return to normal operations until after this correction. Congress should not react to this employment report by rushing to pass a housing stimulus bill. Instead, Congress should pass housing legislation on the basis of appropriate long-term policies, recognizing that any legislation passed now will do little to stimulate the economy in the short term.

Conclusion. Though this is not a good employment report, with an increase in unemployment, by historical standards the current job market remains strong. An unemployment rate of 5.1 percent is still lower than the average unemployment rate for the 1970s, 1980s, and 1990s. The unemployment rate for previous recessions peaked at much higher level,

1. Heritage Foundation calculations based on data from Haver Analytics / U.S. National S&P Case-Shiller Home Price Index. Adjusted for inflation using the CPI-U-RS.
2. *Ibid.* Adjusted for inflation, the Case-Shiller Home Price Index fell 14.4 percent between the first quarter of 2006 and the fourth quarter of 2007.
3. See also J. D. Foster, "The Housing and Financial Markets: Congressional Action Could Disrupt Market Correction," Heritage Foundation *WebMemo* No. 1874, March 31, 2008, at *http://www.heritage.org/Research/Economy/wm1874.cfm.*

even reaching double digits for severe economic downturns.

Congress and the President should not panic during this downturn. Enacting policies that attempt to prop up a bubble can only make things worse. Economic downturns are a call for action, but that action must be based on economic principles that lead to strong long-term economic growth. Policymakers should not dramatically increase regulation that could limit future growth, and they should not meddle in the housing market. Either action will only prolong the downturn.

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