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No Celebration for June Jobs Report

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With employment contracting in June, the American economy continues to stall.

According to the Bureau of Labor Statistics, last month businesses reduced employment opportunities by 62,000 while the unemployment rate remained constant at 5.5 percent. The construction and manufacturing industries continued to be hard hit by job losses in this business cycle.

June Jobs Report. June was the sixth straight month of job losses for the economy, for a total of 438,000 jobs lost in 2008. The unemployment rate has increased from 4.9 percent in January to 5.5 percent in June. Private-sector employment declined by 91,000 jobs, but increased government hiring of 29,000 jobs offset some of the job losses. The labor force participation rate declined slightly, from 66.2 percent to 66.1 percent in the last month, due to the survey reports of a large number of teenagers exiting the labor force.

The housing market crash continues to cause job losses in the construction sector. Construction accounted for two-thirds of total job losses (43,000). The construction industry has shed 450,000 jobs in the past year. The manufacturing sector also lost 33,000 jobs in June and slightly over 200,000 jobs since the start of 2008.

The service sector increased employment by 7,000 jobs, with the bulk in education, health, leisure, and government. Retail trade lost 8,000 jobs, most being associated with the slumping automotive industry. More worrying is that professional and business services reduced employment by

51,000. While professional services such as accounting and engineering added a small number of jobs, business support services lost 70,200. Employment services, such as temporary help agencies, accounted for almost the entire decline. This indicates that companies are not using temporary help but are instead cutting back activities and are not looking to increase employment opportunities in the short term.

The number of hours worked shrank even as the number of workers declined. The index of aggregate weekly hours shrank to 107.0, the lowest level in over a year. Earnings per hour did increase slightly by 6 cents an hour or 0.3 percent.

The May jobs report noted an unusual increase of teens in the labor market. This month saw a sharp decline in teen labor force participation as the survey corrected for last month's overrepresentation of teenagers. As a result, teen unemployment fell to 18.1 percent, still far higher than the adult unemployment rate of 5.5 percent. Teenagers in the May jobs report continues to explain why there was such a sharp jump in the unemployment rate but no change this month despite additional job losses.

The number of long-term unemployed workers (workers unemployed for longer than 15 weeks)

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increased by five percent in the last month. Long-term unemployed workers now account for over one-third of all unemployed workers, with almost a third unemployed for less than five weeks. The average duration of unemployment jumped to 17.5 weeks, the longest duration in over two and half years.

No Time for Tax Hikes. Most economists agree that the government should not raise taxes during times of economic weakness. Yet that is what many in Congress are proposing. Some suggest that the 2001 and 2003 tax relief should be allowed to expire in a year and a half. Other members of Congress want to impose an over \$60 billion tax hike to “offset” the decision not to increase the Alternative Minimum Tax. Presumptive Democratic nominee Barack Obama has proposed lifting the cap on the payroll tax, raising the top tax rate above 50 percent.

Raising taxes reduces the incentive to work, save, and invest. It discourages the wealth-creating activ-

ities needed to bring the economy out of the doldrums. Tax increases are rarely good policy, but they are especially inappropriate given the current state of the economy. Congress should restrain its eagerness to tax and spend.

A Bad Economic Climate. This jobs report indicates that the United States’ economy continues to struggle. Employment is a lagging indicator, so the job market will continue to worsen even as the overall economy strengthens. This is why the labor market was robust even as the economy weakened. Now it appears that weaknesses in the labor market are echoing the overall weakness of the general economy. Congress should not raise taxes in this economic climate.

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