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July Job Losses Lighter than Expected

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On Friday, August 1, 2008, the Bureau of Labor Statistics announced that the nation's factories and offices shed 51,000 jobs and the unemployment rate climbed to a four-year high of 5.7 percent. This is the seventh straight month of a contracting labor market, and the unemployment rate has climbed by a full percentage point since July 2007. There was good news in that job revisions to May and June were upward by 26,000 jobs, meaning that—in this report—the total payroll employment in the economy is virtually flat. Job losses for July were also lower than the average monthly job loss for 2008, indicating that the pace of job losses might be slowing.

However, job losses remain very light by historical standards in a near-recession. The recession of 2001 produced an average of 147,000 job losses a month. Most have been contained in sectors affected by the housing sector crash, such as construction and financial. The automobile industry has also been hard hit this year, but many other sectors of the economy have not experienced the same number of job losses.

July Report. The unemployment rate increased by 0.2 percent to 5.7 percent. Surprisingly, the unemployment rate for adult women declined by 0.1 percent to 4.6 percent, while the unemployment rate for males climbed by 0.2 percent to 5.3 percent. Teenage unemployment jumped by two percentage points, so now one out of every five teens in the labor market is unemployed. The labor force increased by 213,000, as many people re-entered the workforce.

The construction industry continued to shed jobs (–22,000) but at slower pace than job losses in the first two quarters, which averaged over 40,000 a month. Non-residential construction increased employment for the first time since September 2007. Manufacturing (–35,000), retail trade (–17,000) and temporary help (–29,000) had the largest contractions last month. Most of the job losses in retail trade came from the downturn in automobile manufacturing (–10,600) to auto dealers and auto parts store) and the housing crash (–5,500 to building material stores). Other retail trade stores such as general merchandise stores increased employment (3,900).

Mining (10,300), computer systems design (7,100), health care and social assistance (32,900) continued to add jobs. Mining and national resources is the only sector with job gains in 2008 as companies attempt to increase production in response to higher energy demand and prices.

While the economy has shed 651,000 private sector jobs in 2008, the construction industry has lost 340,000 jobs, almost half of the total. The manufacturing sector lost 271,000 jobs in 2008. Jobs in the private service sector have declined by 119,000 over the past seven months but have

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been more than offset by government hiring of 185,000 jobs.

Alternative measures of unemployment—such as discouraged workers—have increased over the past year. The unemployment rate including discouraged workers is 6.0 percent, with a 0.1 percent increase the number of discouraged workers since July 2007.

Higher Minimum Wage Raises Teen Unemployment. Teenagers bore the brunt of the increase in unemployment in July, as teen unemployment rose 2.2 percentage points. This continues the recent trend of rising teen unemployment; unemployment has risen much more rapidly for teenagers than any other demographic group. Since January 2007, the teenage unemployment rate has risen 5.3 percent, while the unemployment rate for workers at least 20 years old has risen only 0.9 percent.[1]

Why has the economic slowdown hurt teenage workers particularly hard? Economic theory predicts that the recent increases in the minimum wage disproportionately affect teen employment.

Minimum wage jobs are entry level positions for workers with little experience in the labor market, such as teenagers. Most minimum wage workers are between the ages of 16 and 24.[2] Relatively, minimum wage workers are secondary earners in their families—the average family income of a minimum wage worker is over $50,000 a year.[3] As they gain experience, such workers become more productive and earn a raise. Two-thirds of minimum wage workers earn a raise within a year.[4]

Raising the minimum wage makes it more expensive to hire these unskilled workers. Employers will not pay a worker more than the value they add to the company; they will never pay $6.55 an hour to an employee whose skills add only $6.00 an hour to its revenues. Studies show that each 10 percent increase in the minimum wage reduces employment of affected workers—such as teenagers—by approximately 2 percent.[5]

Congress raised the minimum wage from $5.15 an hour in 2007 to $7.25 an hour in 2009 in three annual $0.70 increments. The second of these increases took effect in July, raising the federal minimum wage from $5.85 to $6.55 an hour. The minimum wage has risen 19 percent since January 2007, after adjusting for inflation.[6]

All else equal, economic theory predicts the minimum wage increase will raise the teenage unemployment rate by 3.8 percent, which is similar to the 4.4 percentage point increase in teenage unemployment relative to adult unemployment that the economy has experienced over the last year.[7]

Raising the minimum wage has cost many teenage workers their jobs. Congress cannot repeal the law of supply and demand, and it is unlikely that teenage unemployment will fall significantly when the economy picks up. Thus, Congress has priced many teenage workers out of the labor market.

1. Heritage Foundation calculations based on data from the Department of Labor, Bureau of Labor Statistics/Haver Analytics.
2. James Sherk and Rea S. Hederman, Jr. "Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents," Heritage Foundation *WebMemo* No. 1320, January 27, 2007, at *http://www.heritage.org/Research/Economy/wm1320.cfm*.
3. *Ibid.*
4. David Macpherson and William Even, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004, p. 3, at *http://www.epionline.org/studies/macpherson_06-2004.pdf* (August 1, 2008).
5. See David Neumark, Mark Schweitzer, and William Wascher, "Minimum Wages Effects throughout the Wage Distribution," *Journal of Human Resources*, Vol. 39, No. 2 (Spring 2004), pp. 425–450 and Stephen Bazen and Velayoudom Marimoutou, "Looking for a Needle in a Haystack? A Re-examination of the Time Series Relationship between Teenage Employment and Minimum Wages in the United States," *Oxford Bulletin of Economics and Statistics*, Vol. 64 (Supplement 2002), pp. 699–725.
6. Using the CPI-U-RS to adjust for inflation the minimum wage in January 2007 was $5.50 in June 2008 dollars.
7. Adult unemployment has risen from 4.1 percent to 5 percent while teenage unemployment has risen to 20.3 percent from 15 percent. Thus teenage unemployment rose 5.3 percent and adult unemployment by 0.9 percent, and the difference between the two is 4.4 percent.

Subsequently, many teens will not get the chance to develop job skills that will make them more productive workers and enable them to earn raises in the future. Studies show that—due to this lost job experience—higher minimum wages adversely impact teenagers' earnings up to a decade after the increase takes effect.[8]

Not Indicative of a Recession. This is not a jobs report that would be expected if the economy is in a recession. Job losses are relatively light and contained in a few sectors of the economy or to teenagers. While job losses are always painful, the labor market has not declined to the extent that would be expected if the economy really were in a recession. Congress can prevent future losses of entry level jobs by not implementing the next scheduled increase in the minimum wage.

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8. David Neumark and Olena Nizalova, "Minimum Wage Effects in the Longer Run," National Bureau of Economic Research *Working Paper* No. W10656, June 2004, at *http://www.nber.org/papers/w10656* (August 1, 2008).