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September's Jobs Report Is Grim

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The Department of Labor Statistic's September report on employment heightened concerns about an economy tipping into a recession. In September, the economy lost 159,000 jobs while the employment rate held constant at 6.1 percent. September is the 10th straight month of the private labor market contracting.

September Jobs Report. The economy shed 159,000 jobs, the largest total since 2003. The unemployment rate stayed the same at 6.1 percent, but this is a result of 121,000 individuals leaving the labor force. The male unemployment rate increased by half a percent to 6.1 percent, but the female unemployment rate dropped by 0.4 to 4.9 percent due a large drop in the number of women in the labor force.

Job losses in September were widespread across several sectors: construction (–35,000), manufacturing (–51,000) and the service sector (–82,000). While mining (+8,200) increased employment, many economic sectors are under duress and shed jobs. The overall financial sector (–17,000) reduced employment as the financial crisis hit the sector hard, and within the financial sector, security and commodity traders (–7,800) accounted for almost half the overall financial job losses. The sharp decline in automobile sales is echoed in the jobs report with automobile manufacturers accounting for one-third of the total job losses in manufacturing (–18,200) and automobile sales (–10,200) one-fourth of the job losses in the retail sector.

A worrying signal is the downturn in leisure and hospitality jobs (-17,000). This sector of the economy has been adding jobs recently, and the downturn is a sign that there are concerns about the weakening of consumer spending.

Over the last several months, the job market has remained stable with employers trying to avoid laying workers off. Employers were more likely to have a hiring freeze. But in September, the number of unemployed because they lost their job spiked to 54.3 percent. This indicates that over the last two months, employers are increasingly laying off workers.

Alternative measures of unemployment, such as discouraged workers,[1] have increased as well. In 2007, the unemployment rate that included discouraged workers was 0.2 percent higher than the official unemployment rate. In 2008, the unemployment rate with discouraged workers is 0.3 percent higher, which indicates that there is an increase in the number of discouraged workers.

Historical Comparison. Real wages have fallen 1.2 percent since December 2007, a much sharper drop than in most past downturns. In 1981–82, real wages rose 0.5 percent, while in 2001 they rose 1.7 percent. This is better than during 1991–92, when real wages fell rapidly, dropping by 1.7 percent. However, this fall in real wages is entirely due to the rising cost of food and energy. Taking

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out food and energy prices, inflation-adjusted wages have risen 0.8 percent, better than during any of the three previous recessions. The economy is not experiencing weak wage growth so much as more expensive food and energy—which Congress can remedy by repealing the ethanol mandate and not reinstating the ban on offshore oil drilling.

The economy has weakened, and the prospect of a credit crunch may well send the economy into a recession. However, that has not yet happened, and the economy is doing better now than at this point in the past three downturns.

No Surprise. This jobs report is not surprising in light of the overall downturn of the economy. The economy is slipping off the edge and could be headed into another recession. The government should not enact legislation that does little to support the economy, like the elements of the second proposed stimulus bill. The government should also be careful in creating a lot of burdensome regulation that will restrict growth when the economy does turn around.

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1. Discouraged workers are workers who have given a job–market related reason why they are no longer looking for a job. They are considered to be marginally attached to the labor force.