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Heritage Employment Report: August Jobs Report Shows It's Too Soon to Announce "Mission Accomplished"

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On September 4, 2009, the Bureau of Labor Statistics released its monthly employment report, which showed that, in August, the unemployment rate increased from 9.4 percent to 9.7 percent. The establishment survey reported that 216,000 fewer workers were employed in the last month, exceeding the consensus expectations of 200,000. Job losses are now predicted to continue for the rest of the year with the unemployment rate topping 10 percent. The further deterioration of the labor market flatly contradicts the promises of the Obama Administration that the stimulus bill would halt unemployment and lead to a labor market recovery by the third quarter.

The August Jobs Report. Jobs continued to disappear in August with the unemployment rate increasing to 9.7 percent, the highest level since the summer of 1983. The August report showed that the unemployment rate for men was 10.1 percent, far exceeding the 7.6 percent unemployment rate for women. While 216,000 people lost jobs, this was the lowest number of lost jobs this year, an indication that the rate of job losses has greatly slowed.

The recent increase in the unemployment rate from 9.4 percent to 9.7 percent was caused by job losses, as the labor force participation rate was unchanged over the month of August. Unemployment for teens jumped to 25.5 percent, the highest level ever recorded. This is not surprising since this is the first jobs report that measures the effect of the minimum wage. Teenagers are one of the largest groups earning minimum wage and this report reflects their abysmal employment situation.

Job losses continued to be broad with manufacturing (–63,000), construction (–65,000), and the service sector (–80,000) all cutting employment. While automobile dealers increased employment as a response to "Cash for Clunkers" (5,000), the automotive manufacturing industry continued to shed jobs (–14,800). Employment in the financial industry also continued to decrease (–28,000), led by the insurance market (–12,800) and real estate (–8,000). As in previous months, health care and educational services (52,000) were again the bright spots in the labor market.

There were few signs of an impending recovery as total private hours remained flat and there was only a slight increase in wages.

Stimulus Promises Unfulfilled. While touting the potential benefits of a stimulus package earlier this year, the Administration claimed that the unemployment rate would no longer be climbing by the summer of 2009 and that it would peak at 8 percent. Now, after the passage of the stimulus bill,

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the Administration expects unemployment to continue to increase this year and exceed 10 percent.

In a speech at the Brookings Institution, Vice President Joseph Biden claimed credit for saving between 500,000 and 1 million jobs. There is no way to measure the number of jobs saved by the stimulus bill. A better way to judge these figures is by the Administration's own predictions of what the stimulus bill would do to job growth and the unemployment rate. Chart 1 shows the Administration's projections for unemployment if Congress passed the stimulus and the actual unemployment rate since then.

The unemployment rate is already one-fifth higher than the Administration predicted. It is now expected that the peak unemployment will be one-fourth higher than its predictions. Even worse, the promised job creation that was expected to lower the unemployment rate in the upcoming months has not materialized.

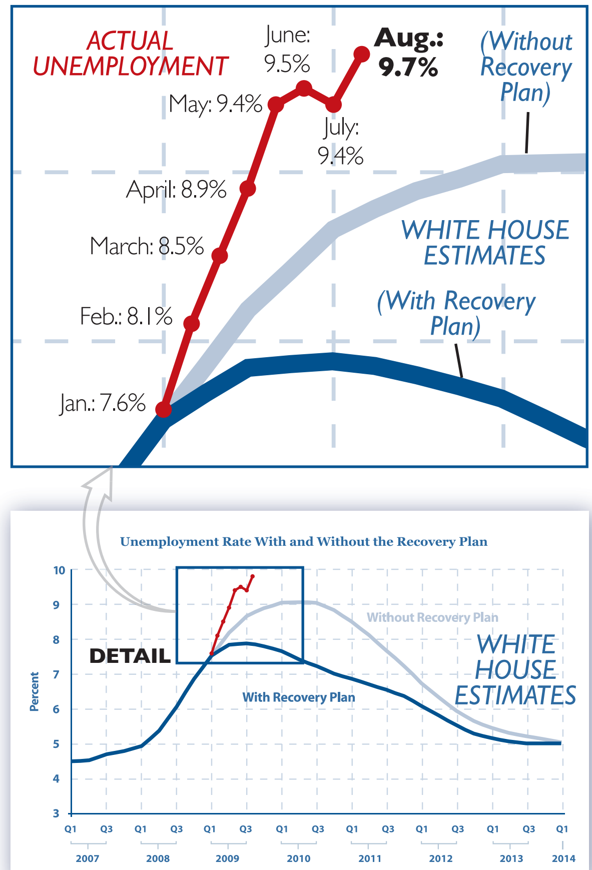
Job Creation Falling. The Vice President claimed that the stimulus bill created or saved between 500,000 and 1 million jobs. This is demonstrably false. Job creation has *fallen* since the stimulus became law—which is precisely why unemployment has increased so sharply during this recession. The stimulus has done nothing to reverse this dangerous effect.

Chart 2 shows the new hire-rate as reported by the Bureau of Labor Statistics. In the last quarter of 2007—the last quarter before the recession—newly hired employees made up 3.8 percent of the workforce each month. When Congress passed the stimulus in February, the new-hire rate had fallen to 3.2 percent. The most recent data, from June 2009, shows that after the stimulus bill was passed, job creation fell further, hitting 2.9 percent. Employers are creating fewer jobs than they did when the stimulus was passed.

Other data also show that job creation has fallen sharply. Gallup surveys show that far fewer Americans report that the companies for which they work are hiring new employees than a year ago. In August 2008, 37 percent of Americans reported their companies were hiring. That figure has now fallen to 24 percent.[1] Lower job creation accounts for roughly

Unemployment Rate, August 2009

President Obama promised that government spending would "stimulate" the economy and quell rising unemployment by "creating or saving" millions of jobs. In January, Obama's advisers produced a chart (bottom) visualizing the positive results of his recovery plan. But actual unemployment (below, detail from box at bottom) has far exceeded the White House estimates.



Sources: Unemployment data from the Bureau of Labor Statistics; original chart from Christina Romer and Jared Bernstein, "The Job Impact of the American Recovery and Reinvestment Plan," January 10, 2009.

Chart 1 • WM 2604 heritage.org

1. Gallup Economic Monthly, "Job Creation Not Happening," September 3, 2009, at *http://www.gallup.com/poll/122696/Gallup-Economic-Monthly-Job-Creation-Not-Happening.aspx* (September 4, 2009).

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two-thirds of the increase in unemployment since the recession began.[2]

Reduced Investment. Why has private-sector job creation fallen so sharply? The recession is the most obvious answer. But a more precise answer is that businesses are retrenching wherever they can. While taking measures to survive the immediate downturn, such as laying off workers, and conserving cash by tightening budgets, businesses have also grown wary about future economic growth. In addition, the credit crunch has made credit less available to entrepreneurs who want to start new businesses.

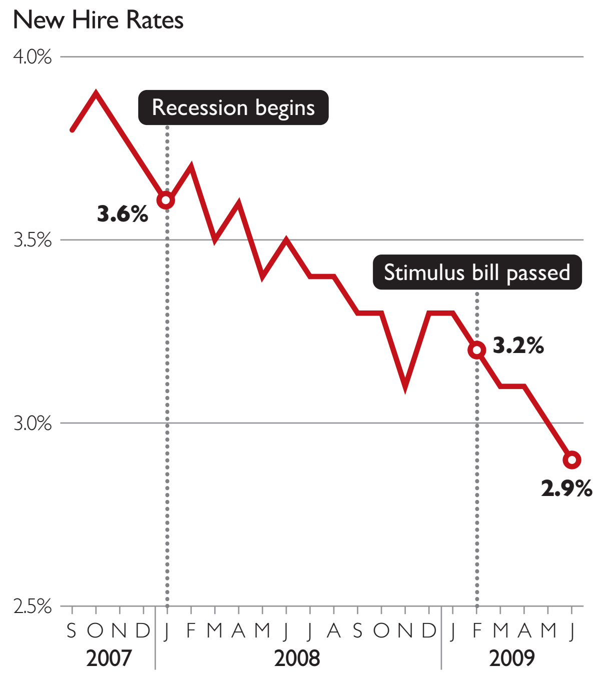
Consequently, business investment has fallen sharply since the recession began. Gross private investment in equipment and software—a good measure of business investment spending—has fallen by a full 20 percent since the start of the recession. As businesses cut investments in new projects, they have less need to hire new workers, and job creation falls.

Chart 3 clearly demonstrates this point. It shows the year-to-year percent change in new hires and business investment.[3] Business hiring has fallen as investment has dried up. As long as business investment remains low and entrepreneurs hold off from starting new enterprises, job creation will remain low—and unemployment, high.

Stimulus Misses the Target. Who creates jobs? Employers with profitable businesses—who invest and create wealth. The stimulus bill was a grab bag of traditional liberal priorities that did nothing to encourage private-sector employers to invest or create jobs: This is why the stimulus has failed to reduce unemployment.

Congress is spending tens of billions of dollars on highway projects that benefit some businesses but do nothing to reassure other businesses that their potential investments will succeed. Spending tens of billions more to bail out state governments does not encourage an entrepreneur to take the risk of starting a new business. Government spending programs do not encourage the risk-taking, innovation, and investment needed to spur lasting job creation.

Stimulus Bill Has Not Led to More Hires



Note: These figures represent the total hire rate and not the private sector hire rate. The total hire rate is lower than the private sector hire rate because it includes government employees who are hired and fired less frequently than private sector employees.

Source: Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey / Haver Analytics.

Chart 2 • WM 2604 heritage.org

If anything, the stimulus *discourages* investment and job creation. The enormous increase in federal spending that President Obama has undertaken raises the prospects of vastly higher taxes or rapidly rising inflation. The federal deficit is expected to approach $2 trillion this year and to remain well above $1 trillion for many years to come, doubling the national debt in just five years. This situation is not sustainable, but businesses can only guess how the federal government will restore order to its fiscal house, knowing full well that successful businesses

2. James Sherk, "Why Job Creation Matters More than Job Losses," Heritage Foundation *Backgrounder* No. 2310, August 31, 2009, at *http://www.heritage.org/Research/Economy/bg2310.cfm.*

3. Business investment here is gross private investment in equipment and software.

make an attractive tax target. In the face of such a threatening environment, it is not surprising that job creation has fallen since President Obama signed the stimulus.

Investment Needed Now. While the deterioration of the labor market has slowed, jobs are still being lost. The predictions that were used to promote the stimulus bill have proven false as unemployment continues to climb. Replacing private ingenuity and innovation with government-directed projects is not a solution for short-term or long-term growth. Policymakers should focus on encouraging private capital investment and formation by extending the 2001 and 2003 tax cuts. Future stimulus expenditures should be curtailed as they are not worth the long-term debt they will incur.

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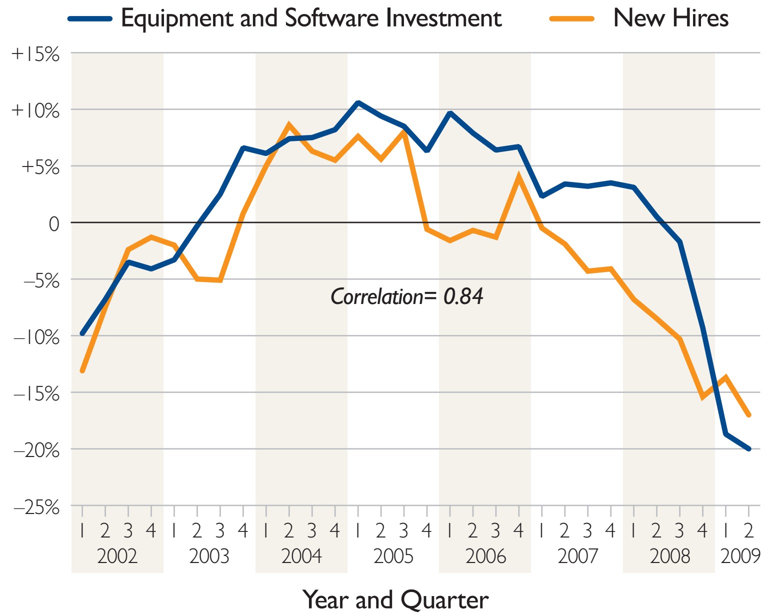
Investment in Equipment vs. New Hires

Year-to-Year Percent Change in Business Investment and Job Creation



Source: Heritage Foundation calculations using data from the Department of Commerce, Bureau of Economic Analysis / Haver Analytics, Gross Domestic Product. Seasonally adjusted and using chained 2000 dollars. Also using data from the Department of Labor, Bureau of Labor Statistics, Job Opportunities and Labor Turnover Survey, seasonally adjusted.

Chart 3 • WM 2604 heritage.org