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Heritage Employment Report: September's Step Back

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The Bureau of Labor Statistics released the employment report for September, and the report was frightening: 263,000 jobs lost, well exceeding expectations. The unemployment rate climbed to 9.8 percent even as the labor force shrank. The continued weakness in the labor market illustrates how flawed the stimulus package was.

The September Report. Every aspect of the labor market in September was negative. The labor force participation rate fell to 65.2 percent, the lowest point of this recession and the lowest rate in 25 years. The unemployment rate increased by only 0.1 to 9.8 percent, but the unemployment rate would have been higher had 571,000 not left the labor force. The male unemployment rate reached 10.3 percent, the highest level since the Great Depression.

The labor market for teenagers reached an all-time low. Their unemployment rate is now 25.9 percent, the highest recorded level. Their participation in the labor market reached an all time low of 36.9. This means that fewer teenagers than ever before are trying to work, and those teens are less likely to be employed than during the Great Depression.

The weekly hours of work ticked down by 0.1 to 33.0 hours per week. Hourly wages grew by only 1 cent, so average weekly wages fell, as the drop in hours more than offset the wage growth of one penny.

Job losses were widespread, with every sector losing jobs. Construction (–64,000) continued to be hard hit. Heavy construction (–11,900) has lost 5 percent of total jobs since May of this year. This indicates that the intended stimulus of "shovel-ready" construction jobs has not been effective.

Manufacturing (–51,000) continued to lose jobs as the small boost in automotive construction ended after the "cash for clunkers" program. The job losses were widespread through the industry, but they were concentrated in the durable goods sector (–43,000).

The service sector (–147,000) had a rough month, as all its components except health (+19,200) were negative. Retail trade (–39,000) was the worst. The financial industry (–10,000) continued downsizing, but jobs in real estate increased (+5,000) as the private housing market industry continued to recover.

Few Sectors Will Create Jobs. The unemployment rate will probably remain high for the foreseeable future. Looking forward, few sectors of the economy seem close to creating jobs. The construction industry has shed 1.5 million jobs since December 2007, and the manufacturing sector has lost over 2 million jobs. Neither of these sectors is likely to add jobs in the near future.

The collapse of the housing bubble will depress residential construction employment for years to come. Nonresidential construction employment

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will not increase until businesses' investment spending returns to normal levels. Most of the lost manufacturing jobs have permanently disappeared because computers and technological innovations have automated much of that work.

Declining industries are not new. The manufacturing sector has steadily declined over the past generation, while agriculture has shed tens of millions of jobs over the past century. Declining manufacturing and construction employment is not a disturbing economic signal on its own. In normal economic times, however, other sectors of the economy expand and workers shift to sectors that value their labor more highly. The serious problem in this recession is that other economic sectors are not expanding and creating jobs.

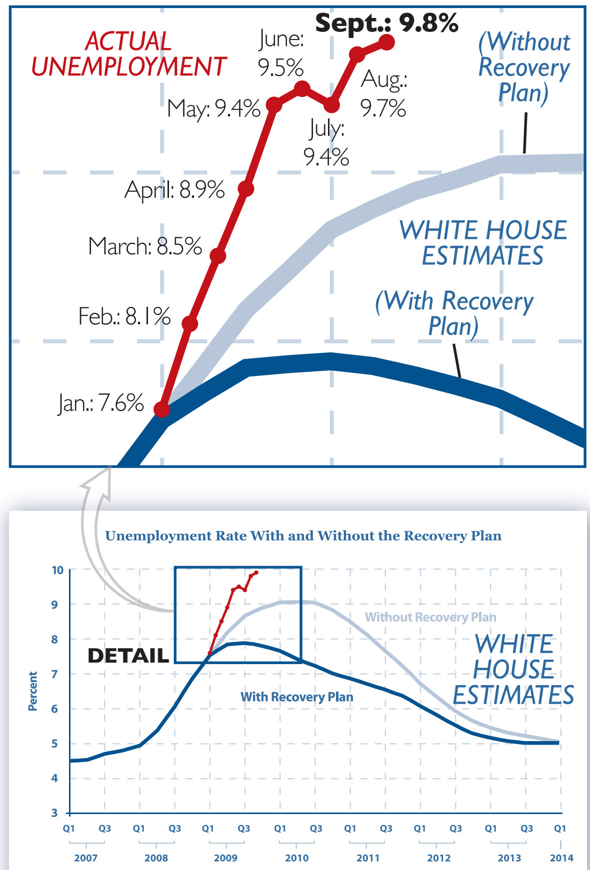
Every other sector of the economy besides health care and government has also shed jobs. This is because businesses are retrenching and holding back on investment. Business equipment and software investment fell by 20 percent between the last quarter of 2007 and the second quarter of 2009.[1] The political agenda of higher business taxes, higher energy costs, and widespread unionization in Washington also encourages companies to wait and see what Washington will do before investing money in risky long-term projects. As companies wait to invest, however, job creation stalls.

New business startups—a traditional source of job growth—have also slowed. Venture capital investment fell 44 percent between the first half of 2008 and 2009.[2] Unsurprisingly, business hiring at new startups also fell by 100,000 jobs a quarter since the start of the recession.[3] Entrepreneurs are holding back and deciding—given the political and economic risks today—not to risk their capital on starting a new business.

The stimulus bill does nothing to address this problem. Massive government deficit spending on

Unemployment Rate, September 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 2639 heritage.org

1. Press release, "Gross Domestic Product: Second Quarter 2009 (Third Estimate), Corporate Profits: Second Quarter 2009 (Revised Estimate)," U.S. Department of Commerce, Bureau of Economic Analysis, at *http://bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm* (October 2, 2009).
2. Cari Tuna, "Sharp Drop in Start-Ups Bodes Ill for Jobs, Growth Outlook," *The Wall Street Journal*, September 29, 2009, at *http://online.wsj.com/article/SB125409527512844979.html* (October 2, 2009).
3. Department of Labor, Bureau of Labor Statistics, "Business Employment Dynamics," / Haver Analytics. Note that this is the figure from Q4 2007 to Q4 2008, the most recent data available.

traditional liberal priorities does not encourage private sector businesses to resume investing; $800 billion in federal debt spending does not encourage an entrepreneur to take the risk of starting a new business that will hire more workers. It does not incentivize a venture capital investor to risk his money in a new startup. The stimulus bill has wasted vast amounts of money without creating net new jobs.

Even the much-hyped cash-for-clunkers program did little to save jobs. The program caused consumers who were already planning on buying a car to move their purchase forward to take advantage of the subsidy. However, now that the program has ended, vehicle sales have dropped below their previous levels. GM sales have fallen 47 percent, Chrysler 44 percent, Ford 9 percent, and Toyota 16 percent.[4] With fewer sales, automotive manufacturing jobs fell by 4,000 in September—a figure that does not include the 13,000 jobs that will disappear when Saturn goes bankrupt.[5]

There are few job creation bright spots in this jobs report. Americans should brace for a jobless recovery for months and perhaps years to come.

Where Is the Bottom? This is a troubling report, but hopefully it is only a one-month aberration. Job losses in the labor market have eased in the past months, and job losses are not nearly as severe as they were earlier this year. If next month's job report is as bad, that indicates that a labor market bottom is still several months away.

At some point, companies will cease their layoffs and the labor market will reach bottom. Unfortunately, the federal government is taking steps to discourage hiring. Many pieces of legislation—such as cap-and-trade and health care mandates—will impose new costs on employers, which will slow the labor market recovery.

Congress should reassure the business community by making permanent the Bush tax cuts, which lower startup costs for businesses. Congress should also not impose new mandates on businesses that will raise labor costs during a steep economic downturn. Already, the teenage labor market has reached a new low due in part to the minimum wage increase last July. Congress should not enact similarly harmful legislation.

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4. Jeff Green and Katie Merx, "GM, Toyota, Ford U.S. Sales Fell as 'Clunkers' Ended," Bloomberg News, October 1, 2009 at *http://www.bloomberg.com/apps/news?pid=20601087&sid=a0QFjrJ95Kkk* (October 2, 2009).
5. Peter Whoriskey, "Saturn Falls Along with Penske Deal," *The Washington Post*, October 1, 2009, at *http://www.washingtonpost.com/wp-dyn/content/article/2009/09/30/AR2009093004812.html* (October 2, 2009).