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Heritage Employment Report: May Jobs Struggle to Appear

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The Bureau of Labor Statistics (BLS) announced that net employment increased by 431,000 in May, and that the unemployment rate fell to 9.7 percent from 9.9 percent. While this appears to be good news, 411,000 of those new jobs are temporary government jobs associated with hiring for the decennial census. The private sector created only 41,000 jobs. More Americans exiting the labor force also had an effect on the drop in the unemployment rate. The private sector labor market remains far from a recovery.

The May Report. The payroll survey reported 431,000 new jobs for May. However, almost all of that job creation occurred in the government. May is the peak month for temporary jobs associated with the decennial census, and the federal government hired 411,000 more temporary census workers in May alone. Government hiring increased by 390,000, as these temporary jobs offset job losses in state (–15,000) and local government (–7,000). Educational hiring has not been affected, as local governments increased the number of educational jobs (1,300), while state government education slightly reduced hiring (–2,500).

The private sector struggled create jobs (1,000), though almost every industry but construction (–35,000) and retail trade (–6,600) added jobs. Manufacturing (29,000) continues to add workers and has averaged slightly over 25,000 new jobs per month for the last five months.

In the service sector, financial trade (–12,000) continued to struggle with the housing market as the majority of the lost jobs were in the real estate industry (–7,300). The transportation and warehousing industry (11,100) grew in the last month with steady growth throughout the sector. Professional and business services was up (22,000) despite the drop off in accounting (–10,200). The majority of these professional jobs resulted from the continued growth in temporary help services (31,000). The health care industry had its smallest growth of the decade (8,000) as hospitals reduced employment (–3,300).

Reduced Unemployment and Labor Force. The unemployment rate declined from 9.9 to 9.7 percent, but this was because 322,000 individuals left the labor force; reducing the labor force participation rate from 65.2 to 65.0 percent. The employment–population ratio actually fell by 0.1 percentage points over the month.

The drop in the labor force likely represents a correction of the large surge in the labor force the previous month. Over the last three months, the labor force has increased by almost 900,000 workers, and the participation rate has increased from 64.8 to 65.0. More Americans are returning to the labor force in an effort to find work—but not as quickly as was hoped after the April jobs report.

This paper, in its entirety, can be found at:
http://report.heritage.org/wm2926

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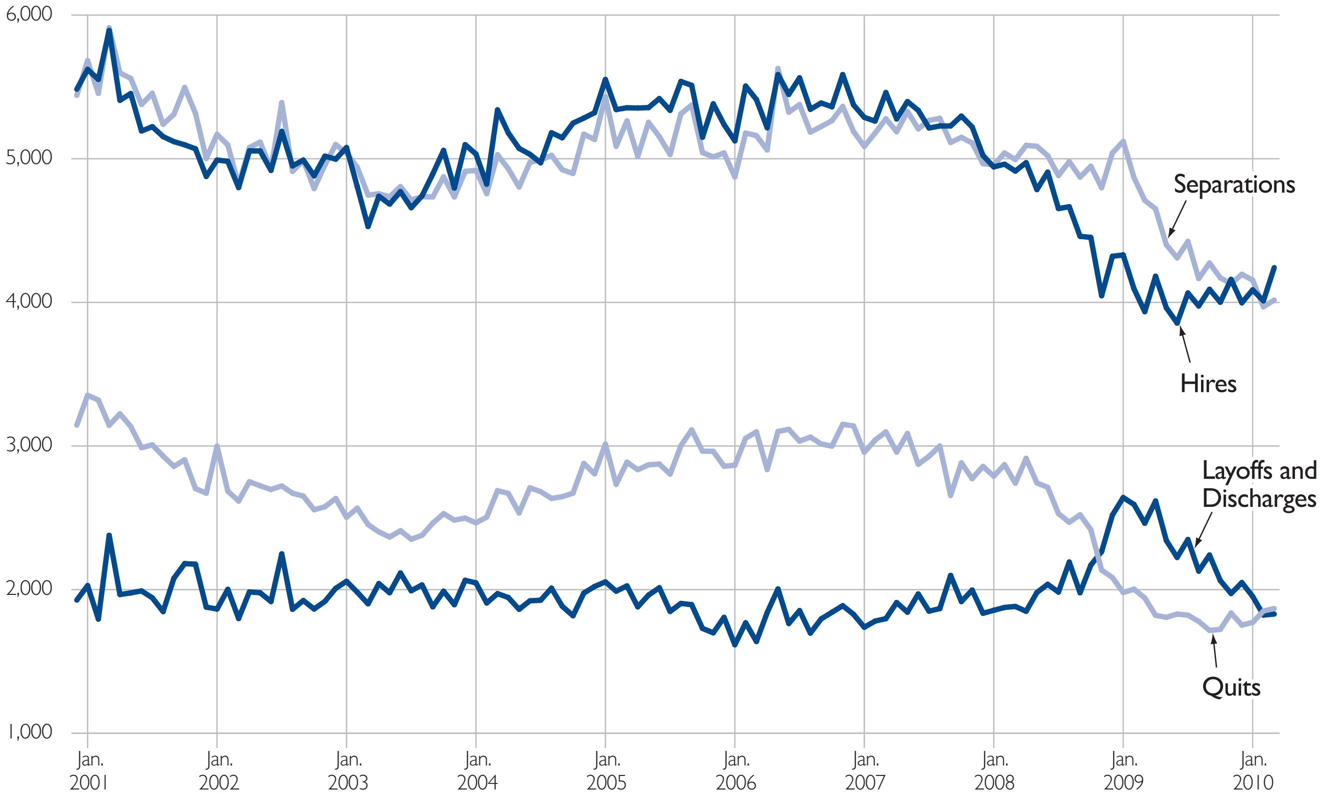
Layoffs Have Returned to Pre-Recession Levels—Hiring Has Not

From December 2000 Through March 2010



Source: U.S. Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, at *http://www.bls.gov/jlt* (June 3, 2010).

Chart 1 • WM 2926 heritage.org

Americans are working longer as weekly production and non-supervisory hours climbed from 33.4 to 33.5. This is up almost a half hour from May 2009. Hours of work for all private employees also increased by a tenth to 34.2 hours. Wages for non-supervisory workers climbed by 0.2 percent in the last month.

Overall, the May employment report shows that the labor market remains far from a robust recovery. Private sector employers barely added to their payrolls, while April's large increase in labor force participation proved illusory.

Low Hiring. Why has private sector job creation stalled? The U.S. economy creates and sheds millions of jobs each month. Net private sector job creation is the sum of these jobs created and jobs lost. Either an increase in job losses or a decrease in hiring will reduce net job creation.

A separate government survey, the Job Openings and Labor Turnover Survey (JOLTS), measures hiring and layoffs directly. In the last three months of 2007—the last quarter before the recession—private sector employers laid off an average of 1.9 million workers per month. That figure rose to 2.6 million in January 2009 and has since fallen to 1.8 million in March 2010 (the most recent data available). Layoffs have now returned to their pre-recessionary levels.

Hiring, however, has not returned to pre-recession levels. Between the last quarter of 2007 and March 2010, the number of monthly new hires fell from 5.2 million to 4.2 million—a drop of 938,000 workers (without rounding).[1] Hiring remains well below pre-recessionary rates even as layoffs have returned to normal levels.

Current Policies Discourage Job Creation. Layoffs have returned to normal levels. To reduce unemployment the economy needs more private sector hiring and job creation. Unfortunately, the policies pursued by Congress and the Administration actively discourage this solution.

The health care legislation raised taxes on investing and capital gains and raised the cost of hiring by making health care more expensive to provide for employees. The planned increase in marginal income tax rates and capital gains taxes at the end of this year will further reduce the incentive for investors to risk their capital on new ventures. The large increases in government spending over the past year and a half further crowd out private sector investment.

Congress should stop pursuing new measures to "spread the wealth around" and instead enact policies that facilitate investment and wealth creation. This would spark job creation and a robust recovery that benefits all Americans. Specific measures Congress should consider include:

- Freezing spending and rescinding unspent stimulus funds;
- Reforming business regulations, such as repealing Section 404 of the Sarbanes–Oxley Act in order to reduce excessive auditing costs;
- Reforming the tort system to lower costs and uncertainty facing businesses;
- Removing barriers to domestic energy production in Alaska and the Colorado oil shale;
- Repealing the job-killing Davis–Bacon Act;
- Passing the pending free-trade agreements with South Korea, Colombia, and Panama; and
- Reducing taxes on companies' foreign earnings if they repatriate those earnings to the United States.

No Springtime for Job Creation. The May employment report shows that the labor market remains weak: Private sector employers added just 41,000 net new jobs. Total job creation was higher only because the Census Bureau hired 431,000 new temporary workers. Unemployment fell because 322,000 workers left the labor force and the BLS no longer counts them as unemployed, not because more Americans found new work.

The labor force is weak because—unlike layoffs—hiring has not returned to its pre-recession levels. Current congressional policies actively discourage wealth creation and thus new hiring. Congress should abandon this course and enact legislation to facilitate private sector investment and entrepreneurship.

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1. Heritage Foundation calculations based on data from the Department of Labor, Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, 2007–2010.