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Heritage Employment Report: With January Comes a New Year, New Result

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The January jobs report is notable for its annual revisions and the divergence of the two different unemployment surveys. First, the household survey showed a drop in the unemployment rate from 10.0 percent to 9.7 percent. The payroll survey showed continued job losses of 20,000 for January.

The private sector job losses were only 12,000, since the government shed 8,000 jobs. The household survey also has a measure of job gains, and it reported 784,000 additional jobs gained between January and December. Yearly revisions in the payroll survey resulted in an additional 1.2 million lost jobs since the recession began. A total of 8.4 million net jobs have disappeared in this recession.

The January Report. Due to technical changes, comparisons of January to December are not as straightforward as the other monthly assessments. With the technical changes, the household survey showed that the employment picture was much stronger in January than in the previous month. The official unemployment measure has now fallen almost half a point since its high of 10.1 percent in October.

While the labor force participation rate increased in January, these changes are likely due to the fact that December showed a very steep drop in the participation rate. The labor force is continuing to shrink, and over 500,000 workers have left the job market since last fall.

One exception, however, is female workers over 20, who have increased their share of the workforce. The adult female unemployment rate is 7.9 percent, compared to the 10.0 percent rate for adult men. Adult women account for almost 47.5 percent of employed workers, up from 47.0 percent in January 2009. Teenagers continue to have a steep unemployment rate of 26.4 percent.

The duration of unemployment has unfortunately increased over the past year. Last month, 58.4 percent of workers had been unemployed for longer than 15 weeks, as compared to 39.6 percent of all workers in January 2009. While the rate of job losses has dropped considerably over the last year, the number of long-term unemployed has increased due to poor rates of job creation.

The majority of job losses were in construction (–75,000) as the private and commercial real estate slump continues. A pleasant surprise was that the manufacturing sector (11,000) increased work opportunities due to large job increases in motor vehicle manufacturing (22,700). The private service sector (48,000) also saw gains thanks to large growth in temporary services (52,000), retail trade (42,100), and health care (17,100). Wholesale trade (–8,600) and the financial industry (–16,000) were the big losers in the service sector.

This paper, in its entirety, can be found at:
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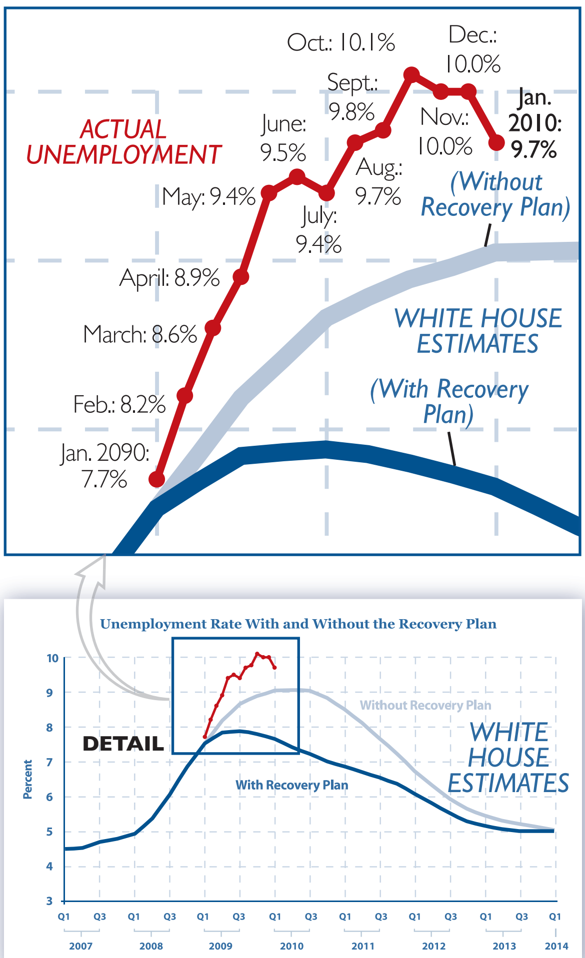
8.4 Million Net Jobs Lost. The changes to the past year's employment figures are the biggest story of today's report. The Bureau of Labor Statistics (BLS) had initially estimated that employers shed 7.2 million jobs since the recession began. The BLS annually updates its estimates to account for new information from unemployment insurance records as well as improvements to its seasonal adjustment methods and other factors. The revised figures, from March 2008 forward, show far greater job losses than previously estimated: Since December 2007, employers have shed a net 8.4 million jobs.

Unemployment Rate: January 2010

President Obama promised that government spending would "stimulate" the economy and quell rising unemployment by "creating or saving" millions of jobs. In January 2009, 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 2797 heritage.org

Restructuring of the Economy. These job losses have not come equally across the economy. Chart 2 shows the percentage of jobs lost in each sector since the recession began, as well as the change in employment for each sector and the proportion of the total job losses represented by specific sectors.

The construction industry has taken the largest hit from the collapse of the housing bubble and leads the way in job losses, having shed a quarter of its employees—a net 1.9 million workers. That represents 22 percent of the net jobs lost in the downturn. Manufacturing has taken the second largest hit: its workforce has shrunk by 16 percent, or 2.2 million workers. That accounts for over a quarter of the net jobs lost in the downturn. An additional 1.5 million net jobs disappeared from professional and business services, with roughly half those jobs coming from employment services, such as temporary help agencies.

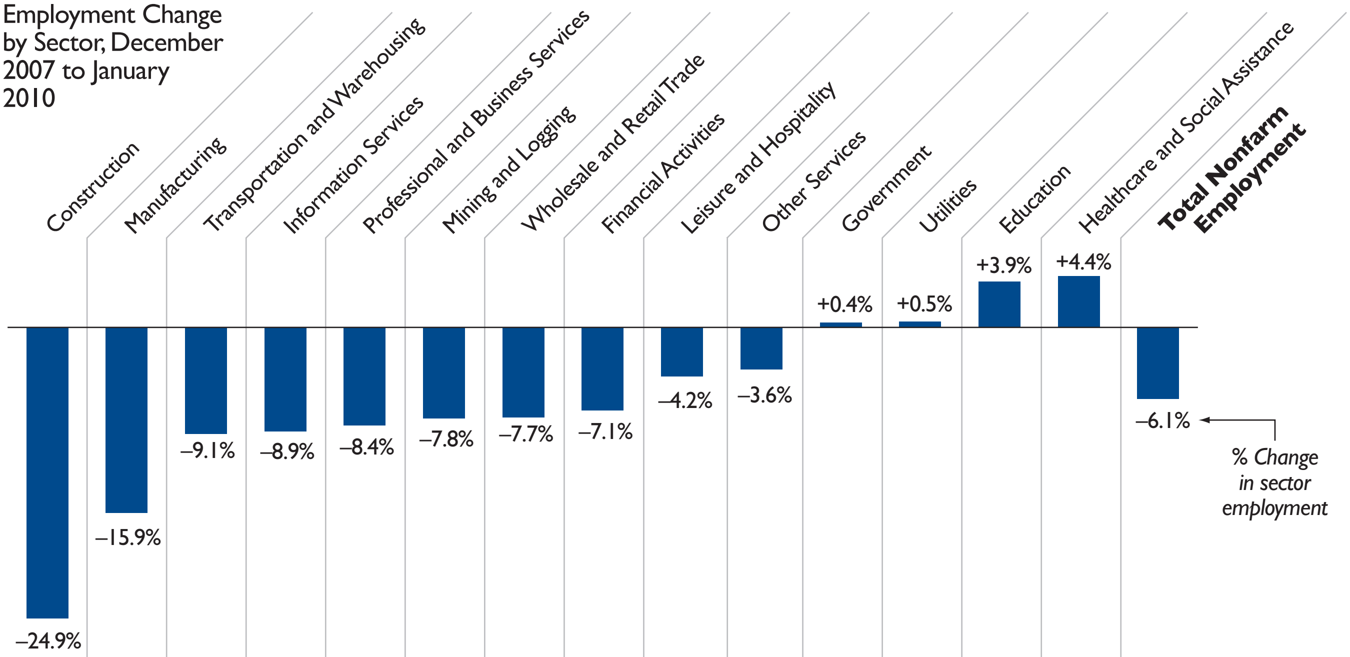
Not all sectors have lost jobs, however. Health care and social services (+679,000), education (+117,000), government (+95,000), and utility (+3,000) payrolls have expanded even as the economy has contracted. All these sectors rely heavily on government spending, and this insulates them from the downturn.[1] Government spending stays high as long as tax revenue comes in and the government can borrow to make up the shortfall. The new Obama budget does exactly this, borrowing $0.42 out of every $1.00 it spends.

However, the money the government borrows comes from elsewhere in the economy. Unemployment has risen primarily because new investment and new job creation has fallen.[2] This is in part because the government has

1. For example, roughly half of health care spending is funded by the government.

Construction, Manufacturing Hardest-Hit Sectors Since Recession Began

Employment Change by Sector, December 2007 to January 2010



	Construction	Manufacturing	Transportation and Warehousing	Information Services	Professional and Business Services	Mining and Logging	Wholesale and Retail Trade	Financial Activities	Leisure and Hospitality	Other Services	Government	Utilities	Education	Healthcare and Social Assistance	Total Nonfarm Employment
Jobs gained or lost (thousands)	–1,866	–2,186	–412	–270	–1,521	–58	–1,657	–584	–566	–197	+95	+3	+117	+679	–8,424
Sector share of all jobs lost	22.2%	25.9%	4.9%	3.2%	18.1%	0.7%	19.7%	6.9%	6.7%	2.3%	–1.1%	0%	–1.4%	–8.1%	

Source: Heritage Foundation calculations based on data from the U.S. Department of Labor, Bureau of Labor Statistics, payroll survey, and Haver Analytics.

Chart 2 • WM 2797 heritage.org

sucked up the resources that could have funded new enterprises.

No-Cost Stimulus. No policies that Congress enacts will take unemployment from 10 percent to 5 percent over the next year. Congress can, however, promote or hinder the recovery. The failure of the stimulus has shown that attempting to boost the economy with unsustainable government spending does not work. Instead, the government should promote entrepreneurship and private-sector wealth creation.

Congress can do this in many ways that add nothing to the deficit. Specifically, Congress should:

- Strongly consider repealing Section 404 of the Sarbanes–Oxley Act, a provision that substantially raises business costs for little economic benefit.
- Relax limitations on domestic energy development.
- Remove prevailing wage restrictions on government construction contractors to immediately create 160,000 new construction jobs.
- Reform the tort system to reduce the unnecessary drag it places on the economy. The direct cost of unnecessary litigation drains $130 billion from the economy each year, with indirect costs being far higher.

2. James Sherk, "Reduced Investment and Job Creation to Blame for High Unemployment," Heritage Foundation *Backgrounder* No. 2349, December 9, 2009, at *http://www.heritage.org/Research/Economy/bg2349.cfm.*

Genuine Economic Recovery: Private-Sector Job Creation Needed. The household survey portion of the January employment report shows hopeful signs, with higher employment and lower unemployment as well as many new workers entering the labor force. The private economy added jobs, except for the construction sector. It is too early to determine whether this is a one-month statistical anomaly or a sign of a genuine turnaround.

The biggest news is the revisions to the employment numbers, which show an additional 1.2 million jobs lost since the recession began, thereby bringing the total to 8.4 million. To turn the economy around, Congress should promote private-sector job creation by removing barriers to entrepreneurship. Better policy solutions such as a no-cost stimulus, tort reform to promote new investment, and the lifting of barriers to domestic energy development are the right way to get there.

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