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Heritage Employment Report: December Jobs Increases Slow but Steady

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The Bureau of Labor Statistics reported that the number of jobs increased by 103,000 in December and the unemployment rate fell sharply by 0.4 percent to 9.4 percent. While the payroll's reported job growth was disappointing, the decline in the unemployment rate is a pleasant surprise. The sharp drop in the unemployment rate was due to a combination of workers exiting the labor force and strong job growth in the household survey.

Unemployment Rate Down. The headline figures from the December employment report is the large drop in the unemployment rate. In the December household survey, employment rose by 297,000 jobs and unemployment fell by 556,000 jobs. As a result, the household survey reported unemployment falling 0.4 percentage points to 9.4 percent. This is a positive economic sign, although 9.4 percent unemployment is still very high. December marks 20 consecutive months of unemployment above 9 percent—the longest such stretch since the Great Depression.

Unfortunately, real job growth explains only part of the drop in the unemployment rate in December. Roughly half of the drop in unemployment in December occurred because workers left the labor force or never tried to enter it in the first place. Even as the adult population expanded by 174,000, the labor force (those working or looking for work) fell by 260,000. Consequently, the labor force participation rate dropped 0.2 points to 64.3 percent.

Labor force participation has fallen throughout the recession, down 1.7 percentage points since December 2007. It is now at its lowest level since 1984—a time when far fewer women participated in the workforce. The economy is not creating enough new jobs, and millions of Americans have simply stopped trying to find work.

This is evident in the data on how long workers are unemployed. Even as the unemployment rate decreased, the average length of time workers stayed unemployed rose from 33.9 weeks to 34.2 weeks. Despite the drop in overall unemployment, the number of Americans out of work for more than six months increased by 113,000.

Fewer new workers are entering unemployment—employers are not letting as many employees go as before, which is why the number of workers unemployed for less than 10 weeks fell. However, there are not enough jobs being created for those currently out of work. As a result, they continue to remain unemployed, and the average length of time they stay unemployed continues to rise.

Weak Job Creation. The payroll survey reported that 103,000 jobs were created in December, which fell below consensus expectations of 150,000 jobs for the month. However, this figure will probably be

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revised upwards; revisions in the prior two months increased job growth by 70,000 total jobs.

While construction had a slight contraction (–16,000), manufacturing (10,000) increased only slightly compared to the service sector's (115,000) increase. Health care (37,100) retained its spot as the fastest-growing sector of the economy. Retail trade (12,000) and wholesale trade (8,800) increased employment as well. The federal government (10,000) increased employment, but overall government employment fell due to local governments cutting back employees (–20,000).

Average hours per week for production and nonsupervisory employees crept up to 33.6, which matches the highest level in two years. Average hourly earnings also showed a slight increase that is roughly the average increase of the past year of 0.1 percent a month.

While the household survey shows a puzzling picture of strong employment growth and a disillusioned labor force, the payroll survey showed employers adding jobs at a slow pace. Statistical noise explains part of this divergence: The household survey has a much larger margin of error than the payroll survey, and so it is much more volatile. In November the household survey reported large job losses and higher unemployment; the December figures showed the reverse. During both months, the payroll survey showed modest job growth. This is probably the most accurate picture of the economy.

The Impact of Obamacare. The economy is in a clear but slow recovery. GDP is growing, incomes are advancing, and temporary hiring has boomed, but not many permanent workers have been added to companies' payrolls. As a consequence, the unemployment rate is predicted to remain stubbornly high for the next several years.

The policies of the Obama Administration bear a great deal of blame for the anemic recovery in the job market. Even as the economy started to strengthen, the Administration passed its health care reform legislation that has a strong negative effect on hiring for two reasons.

First, companies are very uncertain how the health care rules are going to be interpreted and enforced, or even what the rules are. Federal bureaucrats are granting hundreds of waivers to companies and writing new rules on how to enforce Obamacare. As a consequence, businesses are not sure if their health care plan needs to be improved or will be approved by bureaucrats.

Second, companies cannot determine what the costs of health insurance are going to be. Some of them also realize that hiring too many workers will be too expensive if they do not offer a health care plan that meets with approval. So companies have decided not to add to their payrolls until they absolutely have to hire workers.

Atlanta Federal Reserve Bank President Dennis Lockhardt reported, "We've frequently heard strong comments to the effect of 'my company won't hire a single additional worker until we know what health insurance costs are going to be.'"[1]

Even almost a year after Obamacare became law, companies are unsure of their health care costs, and this uncertainty has ensured that hiring in the recovery will remain weak.

Agonizingly Slow. The December report shows that the economic recovery is ongoing but gradual. It is certain that the unemployment rate will rise again as workers re-enter the labor force. Hiring in the payroll survey is steady but slow, and the extension of the 2001 and 2003 tax cuts will at least ensure that the economy will not backslide in the next few months. However, a repeal of Obamacare would provide a strong boost to job hiring as companies would be able to accurately price their labor costs and hire new workers.

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1. Real Time Economics, "Atlanta Fed's Lockhardt: Companies Remain Cautious on Hiring," November 11, 2010, at *http://blogs.wsj.com/economics/2010/11/11/atlanta-feds-lockhart-companies-remain-cautious-on-hiring* (January 7, 2011).