

# WebMemo



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## Heritage Employment Report: April Jobs Report Shows Showers, not Flowers

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In April the economy added 244,000 jobs and the unemployment rate rose to 9.0 percent, the first increase in four months. While the household survey was gloomy, the payroll survey showed decent growth. Revisions to earlier job reports were +41,000 jobs in February and +5,000 in March.

**The April Report.** The household survey reported that while the labor force participation rate remained flat for the fourth straight month, the unemployment rate rose by 0.2 percent, from 8.8 percent to 9.0 percent. The unemployment rate grew because of an increase in those unemployed as well as a decline in the number of workers reporting employment.

The household survey had shown a sharp decline in the unemployment rate from 9.8 percent in November to 8.8 percent in March. The unemployment increase in April is hopefully a convergence of the two labor surveys since the household survey has been extremely optimistic on the state of the labor market. This report is likely a return to a trend of slightly slower growth in the labor market that has been reflected in the payroll survey's job growth over the last quarter.<sup>1</sup>

The payroll survey reported that 268,000 private-sector jobs were created but were slightly offset by a decline of 24,000 in government jobs. Most of the government jobs were lost at the local level (-14,000) and the state level (-8,000) with almost no change at the federal level.

Job gains in the private sector continued to be widespread with decent growth in most sectors.

The sectors hit hardest by the recession, construction and the financial sector, have yet to recover. Construction has gained only 46,000 jobs in 2011 and has lost jobs since January of 2010. In comparison, manufacturing has gained 240,000 jobs since the start of 2010.

Manufacturing (29,000) continued to increase employment sparked by the durable goods sector (19,000). The service sector (229,000) had a good month led by retail trade (57,100), leisure and hospitality (46,000), and professional services (51,000). Temporary help services showed a slight decline (-2,300) for the second time in the past four months. Health care continued its growth (41,800).

Average weekly hours of production and non-supervisory employees were flat at 33.6, still up slightly since the start of the year. Average weekly hours were 33.8 for most of 2007 before the recession began. For all private employees, hours were flat at 34.3 and up for the year. The hours are well above the nadir of the recession, 33.7, set in June 2009.

For all private employees, earnings were up 3 cents in April compared with a 4-cent increase in March. For production and non-supervisory

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employees, earnings were up 5 cents after being flat in March.

The payroll survey shows that the demand for labor remained constant throughout the month. There has been a weakening in a demand for temporary employ-

ees, indicating that companies may not be planning any hiring sprees. The payroll survey's report shows a stable, slowly growing demand for labor, which is better news than the household survey.

**Less Firing but Little Hiring.** The April report also covered who remained unemployed. It found sharply fewer (-145,000) workers permanently laid off from their jobs. Overall, the unemployment rate rose because unemployment increased for new entrants and re-entrants to the labor force, as well as for those who completed temporary jobs and are now looking for new work.

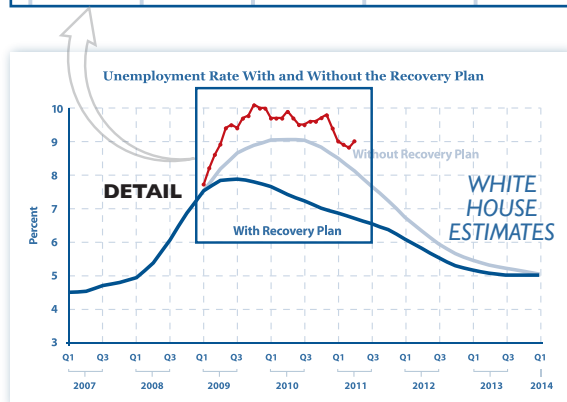
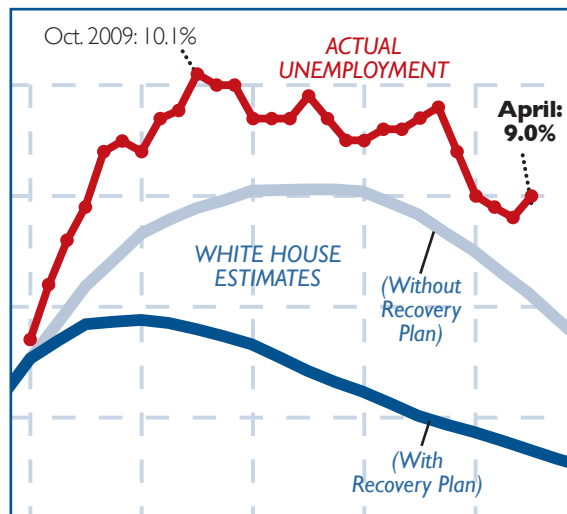
This pattern confirms the finding of a recent study by the Chicago Federal Reserve. Net employment can increase for one of two reasons: companies hire more workers or fire fewer workers. The Chicago Fed found that recent improvements in the job market are primarily due to companies laying off fewer workers, not because they increased hiring.<sup>2</sup>

Workers who have jobs are more likely to keep them, and as a result fewer workers report being unemployed. However, the job prospects for the millions of currently unemployed have improved little.

**Improve the Business Climate.** Unemployment will remain persistently high until business investment and expansion improve. Unfortunately the recent GDP report shows just the opposite—business investment fell from a strong 8.6 percent growth rate in Q4 2010 to a much weaker 2.8 percent in Q1 2011.<sup>3</sup> The economy is moving in the wrong direction. The top priority for Congress and the Administration should be to encour-

## Unemployment Rate: April 2011

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 • WMM 3245 heritage.org

1. Tim Kane, “Diverging Employment Data: A Critical View of the Payroll Survey,” March 4, 2004, at <http://www.heritage.org/Research/Reports/2004/03/Diverging-Employment-Data-A-Critical-View-of-the-Payroll-Survey> (May 6, 2011).
2. Lisa Barrow, “Explaining the Recent Decline in the Unemployment Rate,” Chicago Fed Letter No. 287, Federal Reserve Bank of Chicago, June 2011, at [http://www.chicagofed.org/digital\\_assets/publications/chicago\\_fed\\_letter/2011/cfljune2011\\_287.pdf](http://www.chicagofed.org/digital_assets/publications/chicago_fed_letter/2011/cfljune2011_287.pdf) (May 6, 2011).
3. The Bureau of Economic Analysis, *Gross Domestic Product, 1st quarter 2011 (Advance estimate)*, April 28, 2011. Business investment refers to private nonresidential fixed investment.

age business expansion and hiring to bring down unemployment.

**Attack on Boeing.** However, the Administration is doing the opposite. For example, Boeing has enjoyed strong demand for its 787 Dreamliner aircraft and needs to expand to build more of them. President Obama's National Labor Relations Board (NLRB) just issued a complaint against Boeing Corp. for expanding and creating 1,000 new jobs in South Carolina.

Boeing's Washington State operations are unionized, and the International Association of Machinists (IAM) regularly goes on strike during contract negotiations. These strikes cause Boeing to miss orders and cost it billions in lost business. Boeing considered building its new plant in Washington, but the IAM refused to sign a long-term no-strike agreement. That played a role in Boeing's decision to expand into South Carolina, a right-to-work state with a good business and tax climate.

Obama's NLRB contends the decision to invest in South Carolina was illegal "retaliation" for past strikes—despite the fact that this was new investment and no workers in Washington State lost their jobs. It wants to force Boeing to move its new production line back to Washington. Obama's NLRB wants to force companies to invest in highly unionized states, even when they have hostile business climates.

If the Obama Administration succeeds, it will chill business investment. Unions raise business costs and discourage employers from investing and expanding.<sup>4</sup> Studies consistently show that unionized employers create fewer jobs than non-union employers.<sup>5</sup> Forcing businesses to invest in states with bad business climates will cause them to scale back their investments. It might create a few more jobs for union members, but will mean fewer jobs and higher unemployment in the economy overall.

**Free New Business Investment.** The April jobs report showed that the recovery in the labor market is disappointing in light of the massive job losses due to the recession. The rate of hiring has not dramatically increased, as business is only slowly increasing its payroll.

Congress should act quickly to encourage job creation. Congress should amend the National Labor Relations Act to clarify that new investment decisions do not constitute an unfair labor practice. Employers should be free—and encouraged—to make the best investments without the federal government second-guessing them.

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4. Robert Connolly, Barry T. Hirsch, and Mark Hirschey, "Union Rent Seeking, Intangible Capital, and Market Value of the Firm," *Review of Economics and Statistics*, Vol. 68, No. 4 (November 1986), pp. 567–577; Stephen G. Bronars, Donald R. Deere, and Joseph S. Tracy, "The Effects of Unions on Firm Behavior: An Empirical Analysis Using Firm-Level Data," *Industrial Relations*, Vol. 33, No. 4 (October 1994), pp. 426–451; Bronars and Deere, "Unionization, Incomplete Contracting, and Capital Investment," *Journal of Business*, Vol. 66, No. 1 (January 1993), pp. 117–132; and Barry T. Hirsch, "Firm Investment Behavior and Collective Bargaining Strategy," *Industrial Relations*, Vol. 31, No. 1 (Winter 1992), pp. 95–121.
5. Timothy Dunne and David MacPherson, "Unionism and Gross Employment Flows," *Southern Economic Journal*, Vol. 60, No. 3 (January 1994), pp. 727–738; Robert J. Lalonde, Gerard Marschke, and Kenneth Troske, "Using Longitudinal Data on Establishments to Analyze the Effects of Union Organizing Campaigns in the United States," *Annales d' Economie et de Statistique*, Vol. 41–42 (January–June 1996), pp. 155–185; and Richard B. Freeman and Morris M. Kleiner, "The Impact of New Unionization on Wages and Working Conditions," *Journal of Labor Economics*, Vol. 8, No. 1 (January 1990), pp. S8–25.