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Heritage Employment Report: November Jobs Not Quite a Feast

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The Bureau of Labor Statistics reported that the number of jobs grew in November by 120,000 and that the unemployment rate fell to 8.6 percent, the lowest level since March 2009. The sharp drop in the unemployment rate was a result of solid job growth in the household survey and also, worryingly, a large exodus of people from the workforce. The payroll survey continues the story of a slow recovery. November job gains were a bit lower than the average for the past year, but revisions in previous months were up 72,000 jobs. This is a jobs report that contains some good news, although it is likely that the sharp drop in the unemployment rate is more of a blip than a new low.

November Report. The household survey reported that the unemployment rate fell from 9 percent to 8.6 percent. Some of this decline is attributable to job growth of 278,000 jobs, according to the household survey. However, a large increase (487,000) in the number of potential workers reporting "not in labor force" was the second reason for the drop in the unemployment rate. This causes the labor force participation rate to decline to 64.0 percent, the first decline since July.

The household survey is considered the more volatile survey, with larger standard errors. Quite simply, this means that the survey can be off by hundreds of thousands of workers for any one month. There are indications that the good news in this survey may be slightly overstated.

First, adult women make up 90 percent of those dropping out of the labor force. The household survey also reported that jobs held by adult women fell by 210,000. This is in sharp contrast to adult males, who saw their unemployment rate decline from 8.8 percent to 8.3 percent and added 474,000 new jobs. It is unlikely that there was such a divergence by gender in the previous month, especially since some traditionally male industries continue to show a decline in employment opportunities. So, next month's data may tell a different story.

In fact, the payroll, or establishment, survey tells a far different story. It reports that 120,000 jobs were created with women accounting for 65,000 of them. The private-service sector (146,000) had solid growth, led by retail trade (49,800) and temporary services (22,300). Construction (-12,000) and government (-20,000) declined, while manufacturing (2,000) was essentially flat.

Another point of caution from the household survey is that the large increase in people dropping out of the labor force was not due to discouragement from not finding work. The survey tells the

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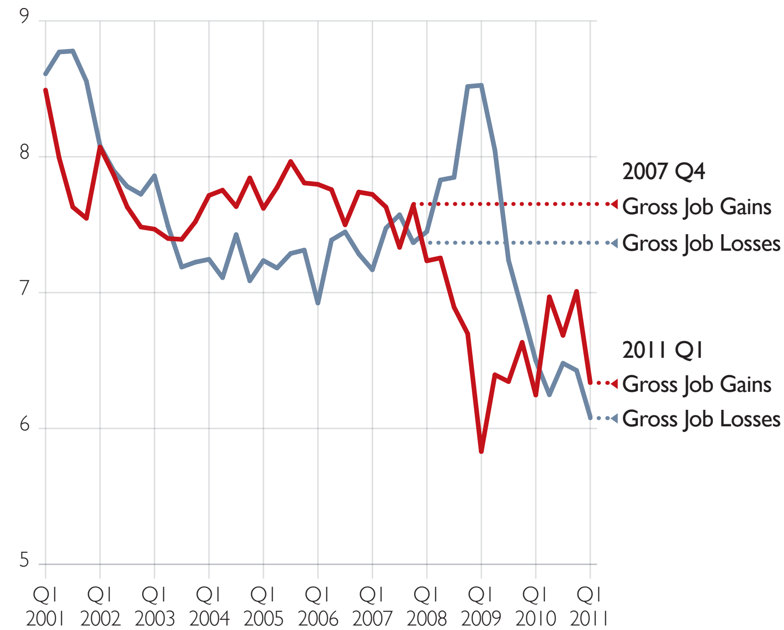
unusual story of many women leaving the labor force even as the economy improves. While people move in and out of the labor force for many reasons, including family and school, large one-month swings can be unusual. Alternative measurements of unemployment, which include discouraged workers, also declined to their lowest level since March of 2009.

Need for More Business Expansion. One thing is conspicuously missing from this November report—signs of a significant increase in business hiring and labor demand. The Bureau of Labor Statistics recently reported that job losses hit a 19-year low in the first quarter of 2011.[1] Businesses are eliminating fewer positions today than at any point in the past two decades. Unemployment remains high not because of layoffs, but because job creation has barely improved since the recession ended in 2009. Fewer businesses are expanding, and fewer entrepreneurs are starting new enterprises. The lack of job creation explains the weak labor market.

New Jobs Remain Scarce

The current unemployment rate remains high due to a lack of new jobs, not due to job losses. In fact, job losses hit their lowest level since the government began keeping track in 1992. Unfortunately, new jobs are also being added at a far lower rate than a decade ago.

Millions of Gross Job Gains and Losses per Quarter



Sources: U.S. Department of Labor, Bureau of Labor Statistics, Business Employment Dynamics / Haver Analytics.

Chart 1 • WM 3425 heritage.org

This report shows few signs that this has changed. Employers usually increase hours at work and hire temporary workers before hiring new permanent employees. If hiring had picked up, the report should show rising hours at work and substantial growth in temporary help services. It does not. The length of the average workweek was unchanged in November at 34.3 hours, and the increase in temporary help services (22,300) was small. Average hourly earnings dropped $0.02 to $23.18.

Further, the huge drop in labor force participation explains almost all of the decrease in the unemployment rate. If the labor force participation rate had remained constant at 64.2 percent, then the unemployment rate would have been 8.9 percent—a statistically insignificant decrease of just 0.1 percent.[2] The average duration of unemployment also

1. Press release, "Business Employment Dynamics—First Quarter 2011," Department of Labor, Bureau of Labor Statistics, November 17, 2011, at *http://bls.gov/news.release/pdf/cewbd.pdf* (December 2, 2011).

2. Heritage Foundation calculations using data from the October and November 2011 household surveys. This figure reflects the unemployment rate assuming that the labor force participation rate did not change between October and November, but the total noninstitutional population and employment levels in the November household survey were accurate.

rose to a new high of 40.9 weeks. The data show few signs that new hiring has significantly increased.

More Economic Storms Ahead. The November jobs report has some positive news from the household survey and good news from the payroll survey: The labor market is continuing to grow, although at a very slow rate compared to previous recoveries. However, the decline in the labor force participation rate is a reason to be cautious. Meanwhile, a massive economic hurricane is blowing in from across the Atlantic, which could harm our recovery.[3] Therefore, it becomes even more important that we safeguard our house. This means that the U.S. needs to take aggressive steps to reform entitlement programs to stop the explosion of national debt. We also need to avoid tax increases, as they would harm an economy that is still facing more headwinds. Already, credit warnings about the U.S. have been issued. Policymakers should take the long-delayed but needed steps to put our fiscal house in order.

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3. J. D. Foster, "The Euro Is Dead, Long Live the Euro," *National Review Online*, December 1, 2011, at *http://www.nationalreview.com/corner/284640/euro-dead-long-live-euro-j-d-foster* (December 2, 2011).