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Heritage Employment Report: March Report Mixed, on Balance Disappointing

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The labor market made some gains in March, although the 120,000 new jobs were well below expectations of 200,000-plus. The Bureau of Labor Statistics also announced that the unemployment rate ticked down another tenth to 8.2 from 8.3 percent, largely due to rounding. Even this modest improvement in the unemployment rate reflected ill fortune, because it was due entirely to a marked shift of workers leaving the labor force instead of finding new jobs.

On balance, the March report is clearly disappointing and indicates that the labor market recovery is still struggling even years after the recession's end. This report is cause for concern for those hoping that the economy would tick up and the unemployment rate down quickly over the next 12 months.

The March Report. In March, the labor force fell by 164,000 potential workers, which lowered the labor force participation rate to 63.8 percent from 63.9 percent. At this stage of the recovery, workers should be returning to the labor market and boosting the participation rate. Instead, the participation rate is only one-tenth higher than at the lowest point of the recession.

Most of the workers who left were adult women over 20, whose participation rate fell back to the lowest level of the recession at 59.3 percent. Adult men's participation rate remained flat for the third straight month at 73.3 percent, which is the lowest level ever recorded.

With more workers leaving the labor force, the unemployment rate fell to 8.2 percent despite the household survey showing 31,000 fewer jobs. The unemployment rate would have increased if the labor force participation rate had remained the same in March as it was in February.

Alternative measures of unemployment showed modest improvement. The unemployment rate with discouraged workers fell to 8.7 percent, which is the lowest level in three years, though again this was heavily influenced by the number of workers leaving the workforce. The broadest measure of unemployment—which includes discouraged workers as well as part-time workers who want full-time jobs—fell from 14.9 percent to 14.5 percent.

The duration of unemployment continued to fall, with the average rate of unemployment falling below 40 weeks to 39.4 weeks. The median duration of unemployment fell below 20 weeks for the first time since February 2010.

The payroll survey also contained disappointing news. Overall, there were 120,000 new jobs created, which is below half the job growth of the previous three months. Furthermore, revisions were mixed, with 9,000 fewer jobs in January but 13,000 more jobs in February.

Manufacturing (37,000), professional business (31,000), and health care (26,100) grew the most. Retail trade (–33,800) and construction (–7,000) saw the largest reduction in job opportunities. Temporary help services (–7,500) saw a decline, which indicates that future job growth could continue to be slow. Government workers were essentially unchanged (–1,000), with 3,000 fewer local workers but 2,000 more state workers.

Other measures of the payroll survey are mixed as well. The

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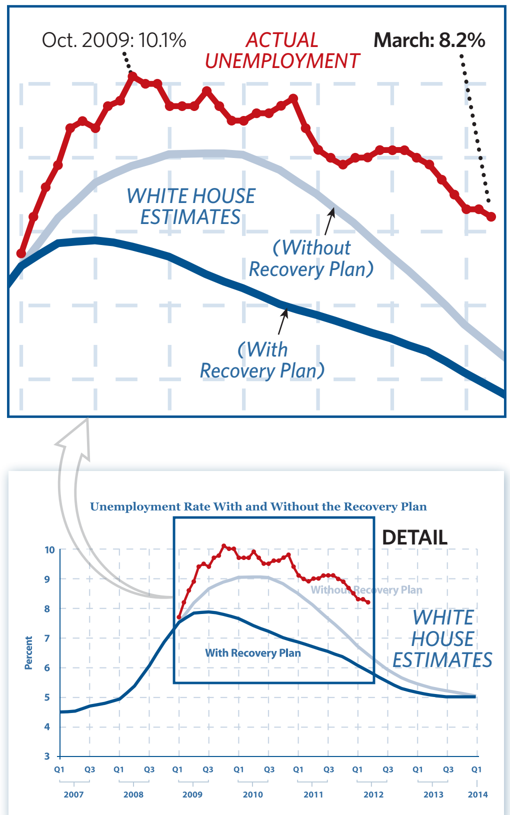
CHART 1

Unemployment Rate: March 2012

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 right) visualizing the positive results of his recovery plan. But actual unemployment (top right, detail from box below) 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.

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average number of weekly hours fell for all employees from 34.6 to 34.5 but remained flat for production and non-supervisory employees at 33.8. Wages did increase by $0.03 per hour for production workers and $0.05 per hour for all employees.

Taxmageddon Looms. While news headlines focus on European economic woes, one potential economic catastrophe, which many are calling "Taxmageddon," is closer to home, but it can be entirely prevented by Congress. At the end of 2012, many important pro-growth tax policies as well as other tax reductions will expire. Many tax hikes from Obamacare will also take effect and begin to afflict the economy. The result will be a massive tax increase of $494 billion in one year alone.[1]

Economists, regardless of ideology, know that tax hikes of this magnitude will have a substantial negative impact on the economy. Economic forecasters that include these tax hikes predict much slower economic growth and higher unemployment in 2013. For example, the Congressional Budget Office cuts the economic growth in 2013 in half from 2012 on the assumption that these tax hikes occur.[2]

Financial markets, taxpayers, and many policymakers do not expect these tax hikes to take place precisely because they would be so harmful. There is no excuse for delay, and the sooner Congress acts, the stronger the economic recovery will be. Otherwise, businesses and individuals will continue to be uncertain about which tax hikes will be enacted. This uncertainty will delay investment and hiring this year.

Recovery Still Weak. While the labor market has continued to improve, the state of the recovery is troubling and disappointing. Many workers simply have not re-entered the labor market, and as a result, the unemployment rate's decline conceals the overall weakness. While jobs were added in March, job growth was much slower than earlier in the year, which indicates that a truly robust recovery has not yet taken hold.

Policymakers in Washington could help boost the labor market with swift action in preventing Taxmageddon. Letting businesses and individuals know that the economy will not fall off the $494 billion fiscal cliff in 2013 would help establish confidence in the recovery and lead to greater investment and hiring. The longer Congress waits to act and allows uncertainty to fester, the slower job growth will be this year.

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1. See Curtis S. Dubay, "Taxmageddon: Massive Tax Increase Coming in 2013," Heritage Foundation *Issue Brief* No. 3558, April 4, 2012, at http://www.heritage.org/research/reports/2012/04/taxmageddon-massive-tax-increase-coming-in-2013.
2. Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2012 to 2022," January 31, 2012, at http://cbo.gov/publication/42905 (accessed April 6, 2012).