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Heritage Employment Report: June Jobs Fizzle

Rea S. Hederman Jr. and James Sherk

The June employment report released this morning by the Bureau of Labor Statistics (BLS) shows a labor market treading water. Employment and the labor force grew only in line with population growth at 80,000, and unemployment remained at 8.2 percent. In short, another month passed without a significant reduction in the number of unemployed Americans.

Job growth and losses were modest across sectors. The duration of unemployment also remained essentially unchanged. The labor market shows no signs of improving—a marked slowdown from the steady growth in the first quarter. Labor market improvement will be made more difficult by the onslaught of higher taxes on investment and work due to hit on January 1, 2013—the so-called Taxmageddon.

This paper, in its entirety, can be found at **http://report.heritage.org/ib3655**

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The Heritage Foundation
214 Massachusetts Avenue, NE
Washington, DC 20002
(202) 546-4400 | heritage.org

June Employment Report. The BLS found[1] that the labor market improved little between May and June. The household survey reports that unemployment remained unchanged at 8.2 percent. Employment rose along with the population: Both the labor force participation rate (63.8 percent) and the employment–population ratio (58.6 percent) also remained unchanged.

The BLS also found little change in the time the jobless spend out of work. Even revisions to the previous two months were essentially flat, with losses of 9,000 for April and gains of 8,000 for May. The average duration of unemployment rose 0.2 weeks, while the median duration of unemployment fell by 0.3 weeks.

The establishment survey also reported little growth in the economy. Employers added just 80,000 net new jobs, with modest growth or losses across sectors. Temporary help services posted the largest job gains (+25,000), followed by professional and technical services (+18,000) and accommodation and food services (+14,000). Both manufacturing (+11,000) and health care (+13,000) also posted net employment gains.

Conversely, employment contracted in information services (–8,000), retail trade (–5,000), and government (–4,000). Seasonally adjusted construction employment did not change. Average hourly earnings rose six cents, while average weekly hours rose by 0.1.

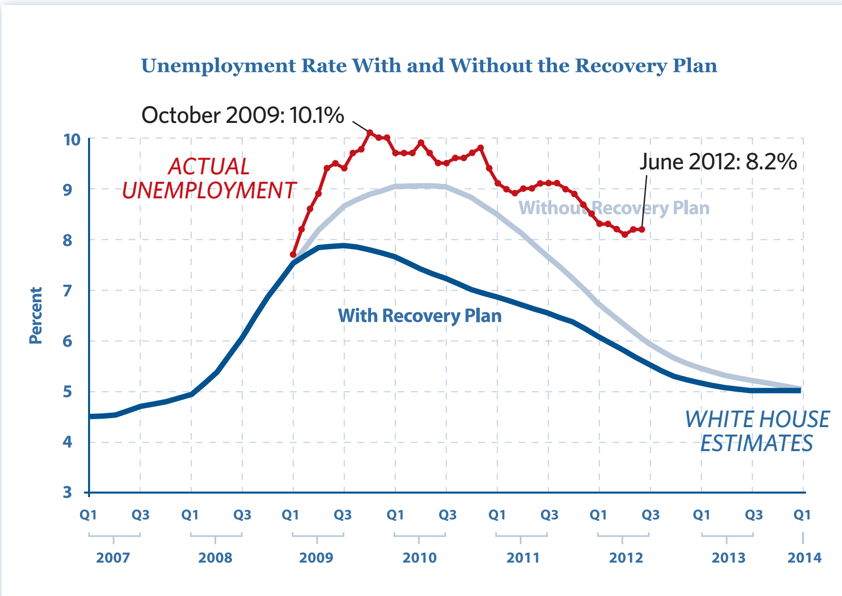
Second Quarter Slowdown: Possible Seasonal Adjustment Factors. In the first quarter, monthly payroll growth averaged 226,000 jobs. Job growth has slowed sharply since then, with net payroll employment increasing just 75,000 jobs per month in the second quarter. This follows the same pattern as 2010 and 2011, where payrolls grew sharply at the beginning of the year only to stall in the spring and summer. This suggests problems with the seasonal adjustment factors.

In the latter parts of 2008 and 2009, the economy contracted rapidly. The BLS's seasonal adjustment factors may be conflating part of that contraction with seasonal variation. If that is the case, the "seasonal adjustment" in the winter would artificially compensate for part of the 2008 collapse—boosting the reported growth in those months. Year-on-year employment growth (which removes seasonal variation) has remained fairly constant for the past year. The first quarter growth may have been a statistical mirage.

CHART 1

Unemployment Rate: June 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 visualizing the positive results of his recovery plan. But actual unemployment (in red) 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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Here Comes the Taxman. Many of the headlines on the Supreme Court Obamacare decision focused on the Court's finding that the individual mandate penalty is a "tax." Overlooked is the fact that Obamacare has billions of real tax increases that are scheduled to take effect in January 2013. The most harmful is a new 3.8 percent tax on capital gains and dividend income.

This is only one of the new taxes on investment scheduled for 2013. With the expiration of the 2001 and 2003 tax laws, the new top capital gains tax rate will be 23.8 percent, over 50 percent higher than the current level. Things are even worse for the rate on dividends, which will almost triple from 15 percent to over 43 percent.

These are taxes on investment, which means that businesses have to take them into account when planning for the future. More and more survey evidence shows that these tax hikes and Taxmageddon are becoming a paramount concern for businesses. The National Federation of Independent Business's June survey of small and independent businesses shows that taxes are the number one concern of small businessmen—even above poor sales.[2] The Federal Reserve Board found real estate, construction, and manufacturing citing uncertainty over the government's fiscal policy (such as tax increases) as their top concern.[3]

President Obama should make clear that he wants to sign into a law a bill that would prevent the 2013 tax hikes. The President has been absent on this issue, other than calling for tax increases on high-income taxpayers. Congress needs to vote to prevent Taxmageddon this summer in order to increase business confidence.

Stave Off Taxmageddon. The labor market is in a holding pattern. It is a bit better off than last summer, but it is simply anemic compared to previous recoveries. Job growth should be much more robust,

1. On the first Friday of each month, the BLS releases an employment report compiling information from two labor market surveys: the household survey and the establishment survey. The household survey interviews individuals and asks respondents about whether they have jobs or are looking for work. It is the source of the official unemployment rate. The establishment survey separately interviews businesses and asks how many employees they have on their payrolls. It is the primary source for net job creation figures.
2. William Dunkelberg and Holly Wade, "NFIB Small Business and Economic Trends: June 2012," July 6, 2012, http://www.nfib.com/Portals/0/PDF/sbet/sbet201206.pdf (accessed July 6, 2012).
3. Federal Reserve Board, "Current Economic Conditions: May 2012," June 6, 2012, at http://www.federalreserve.gov/monetarypolicy/beigebook/files/Beigebook_20120606.pdf (accessed July 6, 2012).

considering the depths of the last recession. One of the reasons for the stall is the looming threat of higher taxes. With economic headwinds from Europe, it makes sense for businesses to put on hold some investments until they see what Congress does with Taxmageddon. Near-term, rapid economic growth hardly is likely given the increasing probability of higher taxes next year coupled with the troubles in Europe.

However, it is rapid economic growth that the millions of unemployed Americans need. Today's jobs report is yet another reason for the President to exercise bold leadership and lead the U.S. economy away from Taxmageddon.

*—**Rea S. Hederman Jr.** is Assistant Director and Research Fellow, and **James Sherk** is Senior Policy Analyst in Labor Economics, in the Center for Data Analysis at The Heritage Foundation.*