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Heritage Employment Report: October Report Sees Unemployment Rate Rise

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In October, the labor market continued its slow recovery by adding 171,000 jobs, but the unemployment rate climbed to 7.9 percent according to the latest jobs report from the Bureau of Labor Statistics (BLS). Job growth continues to be sluggish, given the length of time out of the recession. At the current rate of job growth, a return to full employment is not expected until 2017 at the earliest.

October Report. In October, the unemployment rate rose from 7.8 percent to 7.9 percent, and the labor force participation rate increased to 63.8 percent, the same level as in June. The weakness in labor markets was most apparent in the African–American community, with the unemployment rate soaring from an already high 13.4 percent to 14.3 percent.

This paper, in its entirety, can be found at **http://report.heritage.org/ib3768**

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The duration of unemployment also climbed as many workers became long-term unemployed. The average length of unemployment increased to 40.2 weeks, the first time this measure has been back over 40 weeks since January. This is due to an increase in the number of workers unemployed for over 27 weeks.

The household survey, which is used to estimate the unemployment and labor force participation rate, is a volatile survey, particularly in recent months. For example, while the more reliable payroll survey has shown average job growth over the last three months of about 170,000 jobs, the household survey has shown an average of 390,000 jobs, or twice as rapid a job growth. Some of the recent gains in the labor market reported by the household survey are partially due to the fact that the household survey is correcting an over-reported decline in the labor force participation rate. Even so, the difference in the results of the two surveys is remarkable, and the surveys should converge in the future.

Looking into the details, the payroll survey reported 171,000 new jobs, and revisions raised August and September job growth by 84,000. Retail trade (36,000), administrative and support services (33,500), and health care (30,500) were among the fastest-growing sectors. Manufacturing (13,000) and construction (17,000) grew slightly, while the government (–13,000) fell slightly.

One unpleasant surprise in the payroll survey is that average hourly earnings and hours of work declined. For non-supervisory workers, average wages fell from $19.80 to $19.79, and hours of work fell from 33.7 hours to 33.6 hours per week. Overtime hours for manufacturing also declined slightly.

This indicates that there is still substantial slack in the labor market.

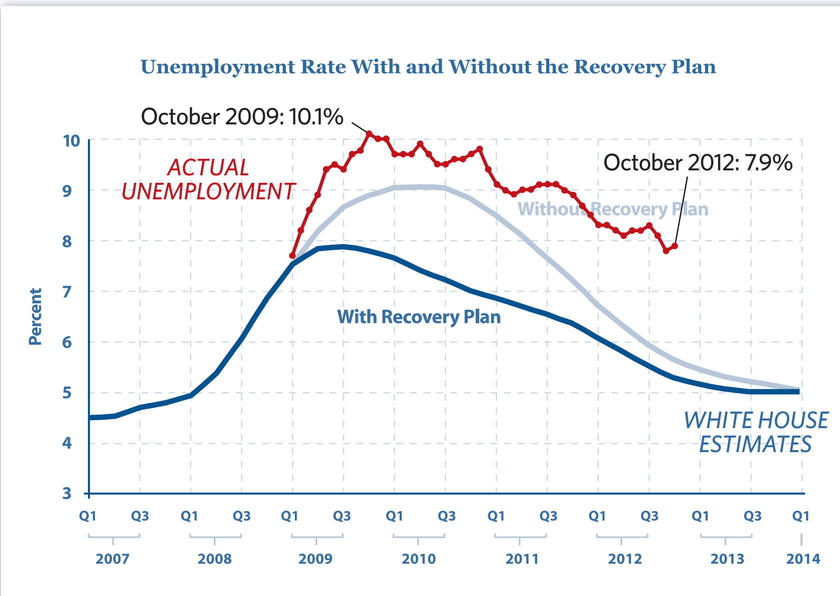
Re-entrants Do Not Explain Higher Unemployment. At first glance, there appears to be a silver lining to the higher unemployment rate. BLS estimates show a sharp increase in labor force participation. If unemployment rose because workers who had formerly given up looking for work started searching for jobs again, then that would be good news. It would show they were more confident about finding jobs.

Sadly, that is not the case. The number of unemployed workers re-entering the job market did not change between September and October. Unemployment rose because the number of workers permanently laid off (+129,000) or

CHART 1

Unemployment Rate: October 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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who quit their jobs (+53,000) rose in October. The higher unemployment rate agrees with other economic data suggesting ongoing economic weakness.

Sluggish Recovery. Overall, the October employment report shows an economy growing at a modest pace. This is consistent with the third-quarter GDP estimates showing the economy expanding by just 2 percent. In a healthy economy, it would be a decent report. However, the economy is far from healthy as it still has not recovered from the 2008–2009 recession.

Normally, the economy grows rapidly after a severe recession. Entrepreneurs and investors typically find new ways to employ idled workers productively. In every recession in the post-war era—including the more severe 1981–1982 recession—employment fully recovered within four years of the recession's onset. That has not happened in this recovery. Employers have 4.2 million fewer workers on their payrolls than they did in December 2007.

Meanwhile, population (and thus the pool of willing workers) continues to grow, generally outpacing job growth. Over 12 million Americans remain unemployed. This is the slowest recovery since the Great Depression in the 1930s.

At the current pace of job creation, it will take years for unemployment to return to normal levels. The economy must create approximately 125,000 jobs a month to keep pace with population growth. Creating 170,000 jobs a month (the pace over the past three months) will only slowly reduce unemployment. The Federal Reserve Bank of Atlanta calculates that at this pace of job creation, unemployment will not return to normal levels until mid-2017.[1] At this pace, unemployment will not recover until after the next presidential election.

The Slowest Recovery in History Continues. The labor market continues to plod along at a slow rate. Job growth is no longer in the summer doldrums, but it is not proceeding at an acceptable clip. Previous recoveries saw much faster job creation, especially given the magnitude of the great recession. In 2012, the labor market has recovered unevenly and fitfully. Regrettably, even fitful growth might be better than what is expected in the first half of 2013 if Taxmageddon is unleashed on the U.S. economy.

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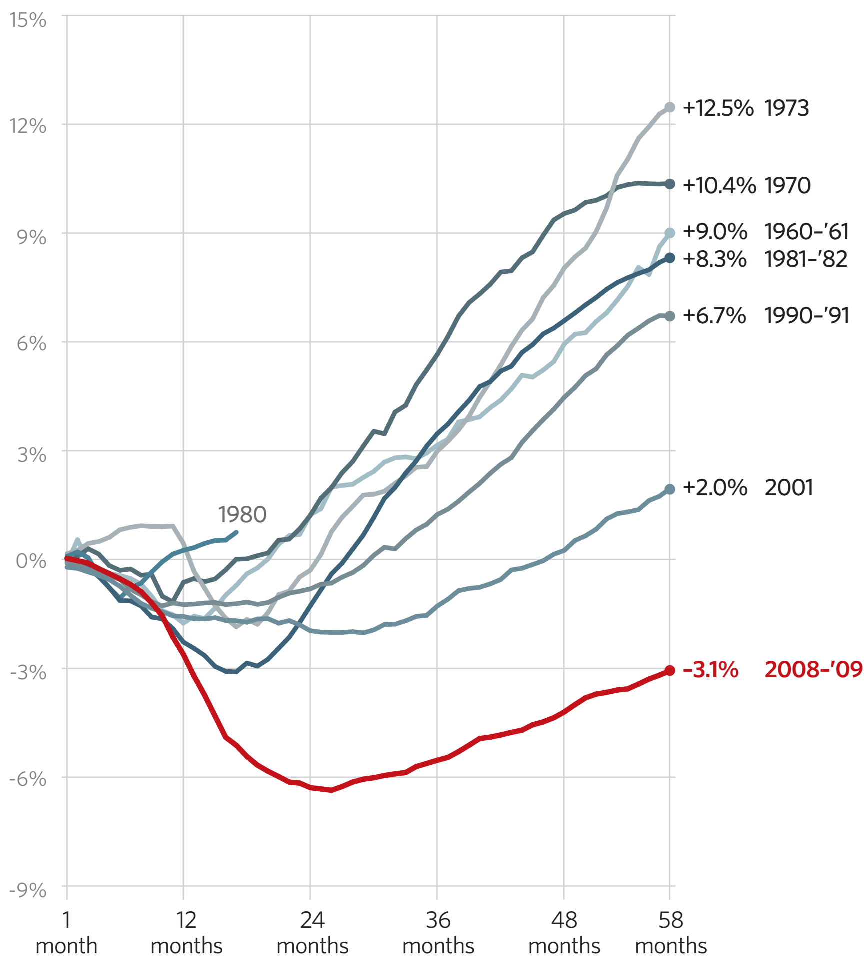
1. The normal level of unemployment is the long-term natural rate of unemployment: approximately 5.5 percent. Center for Human Capital Studies, "Jobs Calculator," Federal Reserve Bank of Atlanta, http://www.frbatlanta.org/chcs/calculator/index.cfm (accessed November 2, 2012).

CHART 2

Slowest Recovery Since the 1960s

Employment today is 3.1 percent lower than it was before the recession began 58 months ago. That places the current economic recovery far below any other recovery since the 1960s. Today there are 4.2 million fewer jobs than in December 2007.

PERCENT CHANGE IN NON FARM PAYROLLS SINCE START OF THE RECESSION



Source: U.S. Department of Labor, Bureau of Labor Statistics/Haver Analytics. Figures exclude temporary Census workers.

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