

WebMemo



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Heritage Employment Report: December's Cheer for the Labor Market

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In December, the labor market continued its improvement by adding 200,000 jobs, and the unemployment rate fell again to 8.5 percent, the lowest level since February 2009. The annual year-end revisions to the unemployment rate confirm the gradual but significant improvement in the labor market since the end of summer. The December report indicates that the labor market has strengthened along with the rest of the U.S. economy. Unfortunately, the growth is still very slow and tenuous as the economic headwinds from the Atlantic and Washington, D.C., impede the recovery.

December Report. The household survey report indicates that the unemployment rate fell by 0.2 percentage points from 8.7 percent to 8.5 percent. The year-end revisions indicate that the November unemployment rate was a bit higher than originally announced. However, the revisions confirm that the unemployment rate has declined by more than half a percentage point since August.

The labor force participation rate remained flat at 64 percent with a small, statistically insignificant decline in the civilian labor force from a drop in teenage participation. The decline in the unemployment rate was driven primarily by an increase in employed workers and a decline in the number of unemployed workers.

This month's report continues the story of rapid improvement for adult men but little improvement for adult women. The adult male unemployment

rate has fallen from 8.7 percent to 8.0 percent since October. The unemployment rate for adult women remains flat at 7.9 percent.

The payroll survey also showed solid growth with 212,000 private-sector jobs and a decline of 12,000 government jobs. Job growth was widespread throughout the private sector, with even construction (17,000) showing slight growth. Transportation and Warehousing (50,200) led the sharp growth in the service sector. Most of this growth was from couriers and deliverymen, which was sparked by strong online retail sales. Two concerns: Temporary help turned negative (-7,500) and job growth in November was revised downward.

Average weekly hours ticked back up to 33.7, the same level as October. Average hourly earnings remained flat for production and non-supervisory employees.

Good, But Not Good Enough. While the jobs report was encouraging, it will still take years for unemployment to recover at this pace. Economists estimate that the "natural rate of unemployment" in the U.S. economy is 5.2 percent.¹

This paper, in its entirety, can be found at:
<http://report.heritage.org/wm3442>

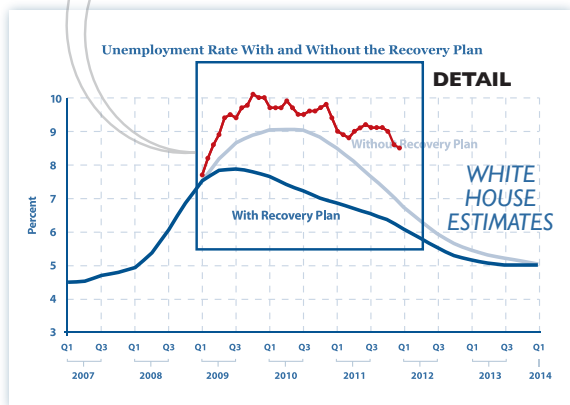
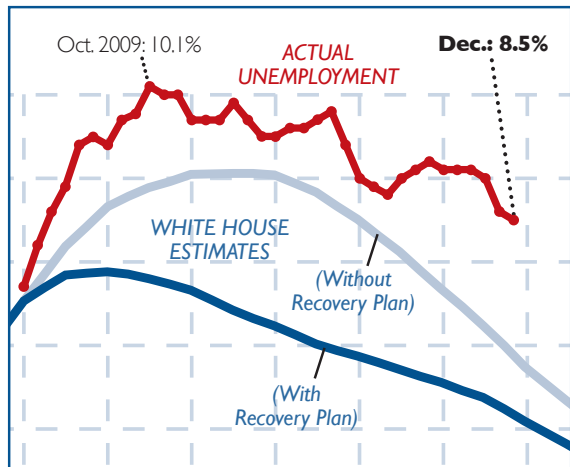
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Unemployment Rate: December 2011

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 I • WM 3442 heritage.org

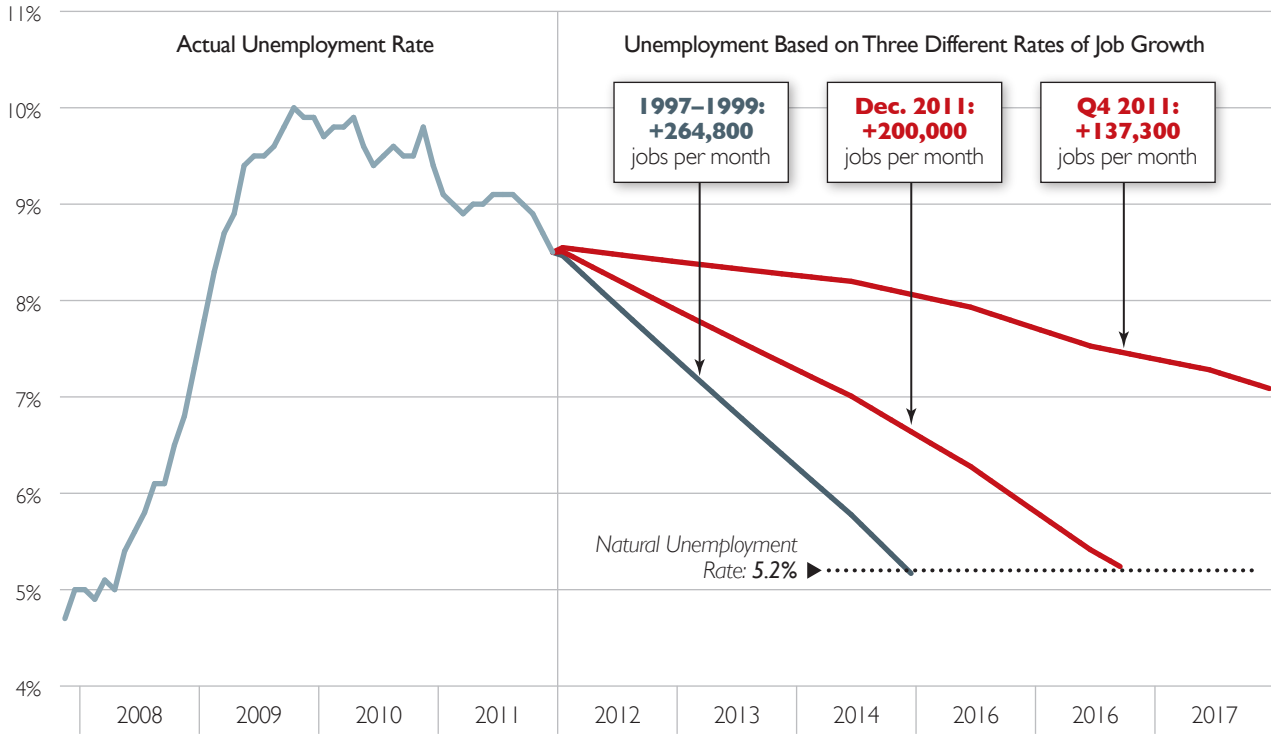
The Heritage Foundation used data from the Bureau of Labor Statistics² to calculate how long, with a given level of job creation, it would take unemployment to return to its natural rate.³ These estimates are not a prediction of how quickly unemployment will fall; instead, they illustrate what different rates of monthly job creation mean for the speed of the labor market recovery.

If employers continue to create 200,000 net jobs per month, then one year from now, the unemploy-

1. Congressional Budget Office, “The Budget and Economic Outlook: Fiscal Years 2011 to 2021,” p. XII, at http://www.cbo.gov/ftpdocs/120xx/doc12039/01-26_FY2011Outlook.pdf (January 6, 2012).
2. The Bureau of Labor Statistics conducts two monthly surveys of the labor market: the household survey and the establishment survey. The household survey is a monthly survey of individuals that includes questions about whether they are working or unemployed, and it is the source for information on the unemployment and labor force participation rates. The establishment survey asks businesses how many employees they have on payroll and is the source for the monthly job creation figures reported in the press. The establishment survey has a considerably lower monthly margin of error in estimating total employment than the household survey, but it omits some categories of workers included in the household survey, such as agricultural employees and the self-employed.
3. The employment, unemployment, labor force, and population sizes reported in the December 2011 household survey were taken as the starting point for the economy. The (16 and over) population was inflated at a 1 percent annual rate to account for population growth, as projected by the Census Bureau. Total employment in January 2012 and subsequent months was estimated by adding to the previous month’s employment the assumed level of monthly job growth. The size of the labor force was estimated by multiplying the labor force participation (LFP) rate by the population projections. Unemployment was calculated as the difference between the size of the labor force and total employment. The unemployment rate was the ratio of the estimated unemployment level to the estimated labor force. LFP rates were derived from the CBO’s March 2011 LFP projections. Current LFP rates are below the CBO projections of the LFP rate for 2011. Consequently, the simulations held LFP at 64 percent until 2014 and used the CBO’s estimated rate of 63.9 percent in 2015. Thereafter, the CBO’s projected LFP rates were used.

Economy Adds Jobs, but Slowly

The U.S. economy added 200,000 jobs in December 2011. If jobs continue to be added at that rate, it will take nearly five more years before the unemployment rate lowers to the natural rate of 5.2 percent.



Source: Heritage Foundation calculations using data from the U.S. Department of Labor, Bureau of Labor Statistics / Haver Analytics.

Chart 2 • WM 3442 heritage.org

ment rate will still stand at 7.9 percent. At that pace, the unemployment rate will not return to normal levels (or 5.2 percent) for four and a half years—not until September 2016.

However, the payroll survey showed stronger growth in December than it did in most of the rest of the year. If employers create jobs at the same pace they did in the 4th Quarter of 2011—137,000 jobs per month—then the unemployment rate will barely change over the next year, standing at 8.4 percent in December 2013. At that pace, unemployment would not return to natural levels at any point in the next decade.

Even with strong economic growth, it will take time for unemployment to return to normal levels.

If employers add an average of 265,000 net jobs per month—the rate the payroll survey showed between 1997 and 1999—then unemployment will not return to its natural rate until December 2014.

Policy Changes Needed to Spark Job Creation.

The December report is a nice belated Christmas present, with both surveys showing signs of labor market growth. However, there have been false signs of a labor market rebound, such as the ill-fated “recovery summer” of 2011. The U.S. economy is resilient, and the labor market should continue to grow throughout the next year. But the growth is too slow to help many workers, due in part to the slow-down in the European economy. Worse, however, are the policies in Washington that have impeded or

hurt job creators. Entrepreneurs are looking down the barrel of tax increases and the failure of politicians to have a credible debt-reduction plan. In the end, it is how these job creators see the future that will determine the pace of recovery in overall employment.

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