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# January Jobs Report: No Unemployment Thaw in Sight

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Unemployment increased to 7.9 percent in January. While the number of Americans looking for work remains above 12 million, the rate remains at its October level. The long-awaited labor market recovery remained as distant as ever in January.

Factors are holding back employment growth that economic forecasters have not incorporated into their models. One such factor is the growth of government regulation, which has added to business costs. Congress and the Administration should carefully think through the burdens they have put on private-sector employers.

**The January Report.** The January employment report showed no signs of improvement in the labor market. The unemployment rate edged up to 7.9 percent as employers added only 157,000 net new jobs.

Employment changed little in many sectors of the economy. The payroll survey, which canvasses employers, found that manufacturing, financial activities, professional and business services, leisure and hospitality, and government employment remained almost unchanged. Modest growth came in retail trade (+33,000), construction (+28,000), and health care (+23,000). The transportation and warehousing sector shed jobs (–14,000).

The report showed few signs that employers plan to increase the pace of hiring. Employers often hire temporary workers and increase the hours of their existing workers before committing to new full-time employees. However, temporary help service employers shed 8,000 net jobs. Various measures of hours at work either remained flat or declined slightly.

The separate survey of households also showed little improvement. The employment-to-population ratio and the labor force participation rate did not change, while the unemployment rate increased by 0.1 percentage points. Of note in the household survey was the drop in the average duration of unemployment—down 2.8 weeks to 35.3 weeks. However, this apparent improvement came almost entirely from an increase in those newly unemployed, lowering the average; the number of long-term unemployed workers fell only slightly.

The only good news in the January employment report came from revisions of earlier months' figures. The Bureau of Labor Statistics annually updates its payroll survey estimates with data from unemployment insurance tax records. These administrative records provide more accurate data than the usual monthly survey. These revisions showed that employers had 348,000 more workers on their payrolls in January 2012 than previously believed. They also showed that employers added 299,000 more jobs between February 2012 and December 2012 than earlier estimates found.

The revisions are good news, but the recovery remains painfully slow. At 7.9 percent, the unemployment rate remains higher than at any point following the 1990–1991 or 2001 recessions. Employment remains 3.2 million jobs below its December 2007 peak five years ago. The January report shows no signs that the labor market will improve any time soon.

**Perpetually Postponed Recovery.** The Congressional Budget Office (CBO) has a different

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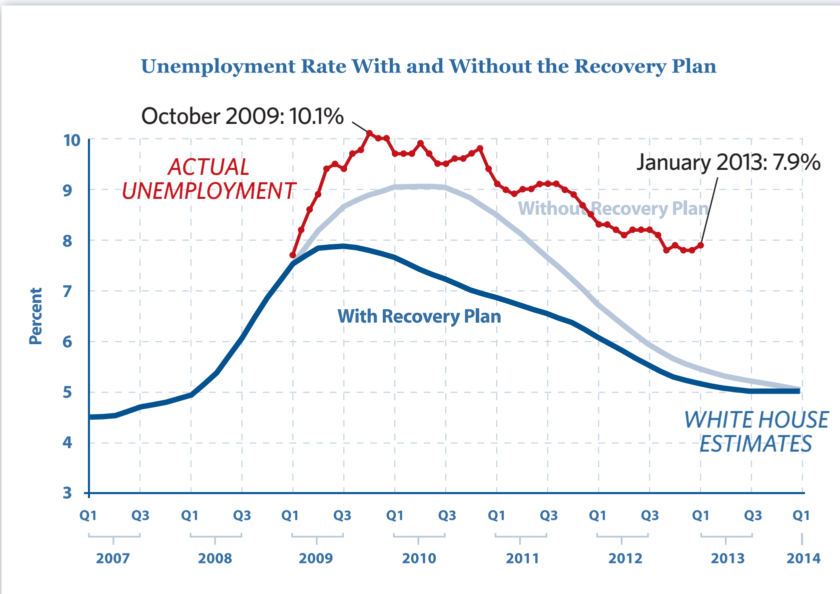
CHART 1

## Unemployment Rate: January 2013

*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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perspective—and has for the past four years. The CBO plans to release its annual *Budget and Economic Outlook* on Tuesday, presenting (among other figures) its forecast for economic growth and unemployment through 2023.

The CBO has published five such *Outlooks* since the Great Recession began in late 2008. The newest edition will likely follow the same pattern as the last four: It will predict modest economic growth for the next year but promise a sustained economic boom, with 4 percent gross domestic product (GDP) growth for years starting in two years (2015).

In last year's *Outlook*, the CBO estimated that a boom would start in 2014. The year before that, the CBO projected a boom in 2013. Back in 2010, the *Outlook* predicted a boom beginning in 2012. And in 2009, the boom was expected in 2011. Chart 2 captures this pattern: The boom is always two years away.

As last week's GDP report made clear, the economy is not in anything resembling a boom. GDP actually shrank in the fourth quarter of 2012, and the economy has grown only 1.5 percent since the fourth quarter of 2011.[1]

Nor is CBO alone: Most economic forecasts, public and private, have had the same optimistic view of the medium-run future. After all, there is good evidence from a long history of recessions that indicates that growth springs back. The deeper the recession, the stronger the bounce. The Great Depression fit this pattern: The recession was brutal, but growth in 1934, 1935, and 1936 ranged from 9 percent to 13 percent per year, and the unemployment rate fell steadily. Similarly, after the 1981–1982 recession, the economy grew strongly in 1983, 1984, and 1985.

So why is the current recovery stubbornly slow? Either the U.S. economy is terribly unlucky or some factors have been holding growth back—factors that the CBO and other forecasters have not so far incorporated.

Anti-employment policies emanating from Washington are a prime candidate, including Obamacare (which makes employees more expensive) and the perpetual extension of unemployment insurance (which stanches the urgency of finding a job[2]). Other contributing factors include uncertainty and Europe's ongoing depression. For

1. U.S. Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts Gross Domestic Product, 4th quarter and annual 2012 (advance estimate)," January 30, 2013, http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm (accessed February 1, 2013).

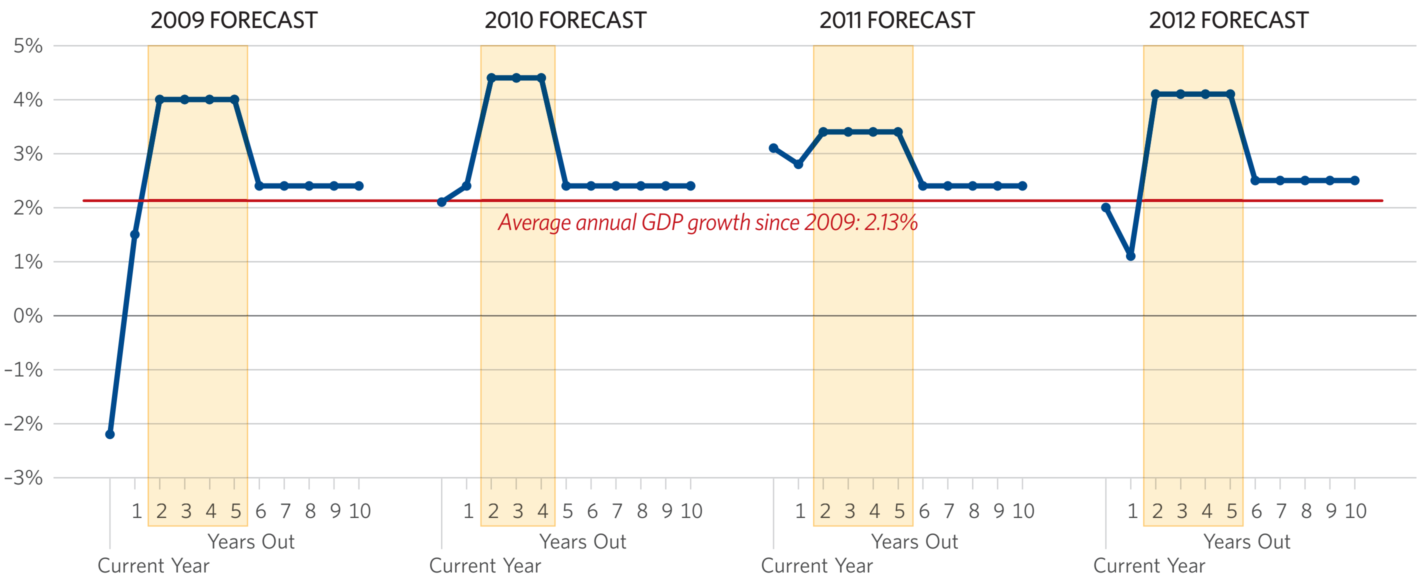
2. See, for example, Casey Mulligan, "Do Jobless Benefits Discourage People from Finding Jobs?," *The New York Times*, March 17, 2010, http://economix.blogs.nytimes.com/2010/03/17/do-jobless-benefits-discourage-people-from-finding-jobs/ (accessed February 1, 2013).

CHART 2

## The Sun'll Come Out ... Tomorrow

*According to the Congressional Budget Office, economic recovery is always two years away. In each of its forecasts since 2009, the CBO projected that the economy would grow by more than 3 percent two years out and maintain that growth for two to three years, as shown in the highlighted areas ( ). In reality, GDP hasn't grown by 2.5 percent in any year since the recession.*

CBO FORECASTS OF GDP GROWTH




**Sources:** Congressional Budget Office, *Budget and Economic Outlook*, 2009–2013, and Center for Data Analysis calculations.

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policymakers in Washington, undoing the anti-employment policies of the past few years is the clearest path toward freeing the economy from its persisting mediocrity.

**On the Wrong Path.** For the sake of the millions of Americans still unemployed, the U.S. needs a strong economic recovery. Such a recovery would involve a rapid increase in the number of jobs and an upward trend in labor force participation. Yet the longer the freeze lasts, the less likely the nation is to experience the benefits of a booming recovery. As people remain unemployed or drift out of the labor force, their job skills and professional networks deteriorate, and they are less likely to be hired.

Instead of leaving the economy on ice, Washington should reverse policies that discourage employment and economic growth.

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