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Heritage Employment Report: March Job Market Goes Out Like a Lamb

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The Bureau of Labor Statistics (BLS) jobs report for March had some silver linings, but overall the report was disappointing. Employers added a net of only 88,000 new jobs, and labor force participation dropped sharply. The labor force drop caused the unemployment rate to fall by 0.1 percentage point to 7.6 percent despite the low job gains. However, revisions to the January and February reports found better job creation than previously estimated.

Labor force participation dropped to 63.3 percent, the lowest rate since 1979. BLS estimates that the U.S. civilian population has increased by 2.4 million during the past year, but only 300,000 have entered the labor force.

One of the most significant features of the report was what it did not find. Government employment barely changed despite the implementation of sequestration. Government jobs declined in March due to job losses in the Postal Service, a long-term trend driven by electronic communications. Thus far, sequestration has had little noticeable effect on government payrolls. To the extent the slowdown can be attributed to government policy, the January tax increase is a more likely culprit.

March Employment Report. Both the payroll and household surveys found the labor market softening in March.[1] The payroll survey found that the economy added only 88,000 net new jobs, a sharp drop from the 268,000 added in February. Job growth was modest across the board, with moderate expansions in professional and business services (+51,000) and health care (+28,000) representing the largest gains. There was more tepid growth in construction (+18,000) and in leisure and hospitality (+17,000). Retailers posted significant job losses (–24,000), and government employment also fell slightly (–7,000).

Average weekly hours edged up slightly (+0.1) to 34.6 hours, while average wages increased by just one cent an hour. One bright spot in the payroll survey was the revisions to previous months. Newer data show that 61,000 more jobs were created in January and February than previously reported. Revisions to the March numbers could show a similar increase over the disappointing initial figures.

The household survey found unemployment falling 0.1 percentage point to 7.6 percent—its lowest level since 2008. However, this drop occurred entirely because people left the labor market. The labor force decreased by almost half a million (–496,000) despite considerable population growth. As a result, the household survey found both the number of Americans with jobs (–206,000) and the number of those unemployed and looking for jobs (–290,000) falling. The household survey reported lower unemployment only because people stopped looking for work. It did not find lower unemployment because of more people working.

This has been a consistent pattern throughout the recovery, as Chart 1 shows. While unemployment has fallen, the overall proportion of the population

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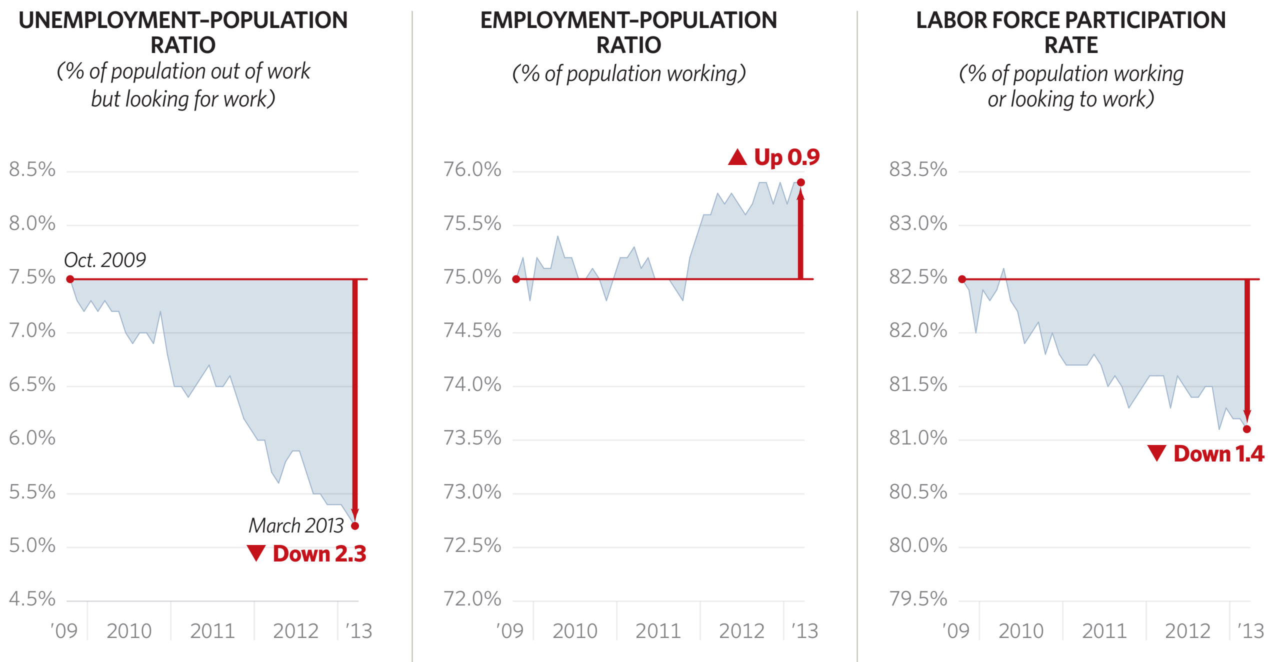
CHART 1

Post-Recession Employment Status of Prime-Age Workers

Unemployment peaked in October 2009 and has been dropping ever since. Typically, when the unemployment rate goes down, it is because more people find jobs. In this recession, however, employment rates have been flat. While this is partly due to the retirement of baby boomers, even among prime age workers, employment increases account for only about 40 percent of the drop in unemployment. The rest—60 percent— is due to the high number of people who have left the labor force and stopped looking for work. The charts below show changes in employment status since 2009 for 25-to-54-year-olds.



Source: U.S. Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey."

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with jobs has not increased. The unemployment rate has fallen 0.6 percentage point since March 2012 (from 8.2 percent to 7.6 percent). The employment-to-population ratio has remained unchanged at 58.5 percent over that time. Unemployment is falling without employment increasing.

Part of this can be blamed on the aging of the baby boomers, more of whom are reaching retirement age each year, but falling labor force participation is occurring even among prime-age Americans. Over three-fifths of the drop in unemployment among 25-to-54-year-olds is due to decreasing labor force participation. Only two-fifths occurred because of increasing employment. Even workers who are not able to retire are dropping out of the labor force in large numbers. The labor market remains far weaker than the headline unemployment rate suggests.

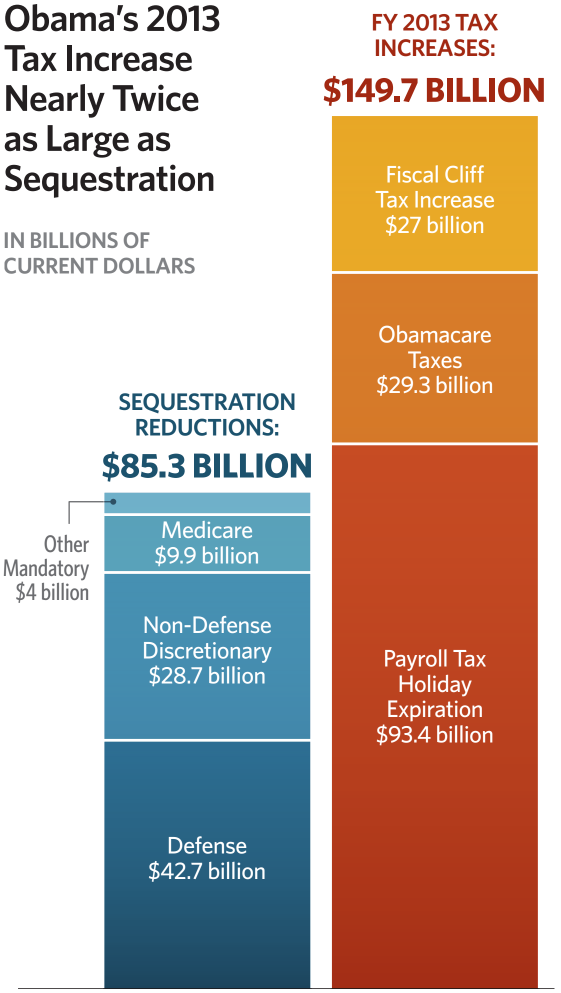
Little Sequester Effect. It is too soon to tell whether March's meager job numbers tell us anything about recent federal policy changes. Some will want to lay the poor jobs report at the feet of federal budget sequestration, which took effect

1. The payroll survey comes from a sample of employers. The household survey is a direct sample of households that are asked questions about their employment status as well as personal characteristics such as age, sex, race, education, and disability. The 90 percent confidence interval for the payroll survey is +/–100,000 jobs, while the confidence interval for the number of unemployed in the household survey is +/–280,000 people.

CHART 2

Obama's 2013 Tax Increase Nearly Twice as Large as Sequestration

IN BILLIONS OF CURRENT DOLLARS



Sources: Congressional Budget Office, Office of Management and Budget, and Joint Committee on Taxation. Extended source on file at The Heritage Foundation.

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on March 1.[2] If the report had shown a large drop in federal employment, that might be justified. However, the only large losses in government were at the troubled U.S. Postal Service (–12,000), which has been in decline since the advent of e-mail. (The Postal Service was unaffected by sequestration.[3])

State and local governments had good news in the new jobs report. The positive revision to February's job growth came mainly from state and local education (+25,000), and March figures show very little change in government employment at any level.

Instead, the sector with the worst news was retail trade (–24,000), particularly stores selling clothing, electronics, and building and garden supplies. Perhaps the expiration of the temporary payroll tax cut, which lowered take-home pay for most families by at least 2 percent, is catching up with consumers. The tax increases that took effect on January 1 were much larger than the spending cuts associated with sequestration, as Chart 2 illustrates.

International evidence indicates that when deficit reduction is needed, as it is in the U.S., spending cuts are much less harmful than tax increases.[4] In fact, large tax increases often lead to larger budget deficits because they hurt the economy, raise less revenue than hoped, and indirectly lead to higher government spending. Instead of drawing conclusions from one month of bad data, policymakers should pay attention to the deeper trends. If job growth continues to lag behind population in April and beyond, this month may be seen as a turning point. Otherwise, it will remain a blip on the larger trends of this bleak recovery.

Keep Cutting Spending. The U.S. needs to end the government spending binge of the past five years and return the economy to the growth of the private sector. Washington can often be shortsighted and tempted to boost short-term jobs numbers at the expense of long-run growth. The huge increase in federal spending and transfers during the recession failed to keep unemployment down as proponents of big government claimed it would. Now, the massive deficits of 2008–2012 have led Washington to adopt harmful tax increases and poorly executed spending cuts.

The sequestration cuts should be replaced—and increased. Sanity in Washington means spending federal revenue on high-priority items and allowing the economy to grow and flourish. Gimmicky

2. Amy Payne, "Obama Fulfills DeMint's Prediction, Blaming Sequester for Future Economic Problems," The Heritage Foundation, The Foundry, March 1, 2013, http://blog.heritage.org/2013/03/01/obama-fulfills-demints-prediction-blaming-sequester-for-future-economic-problems/.

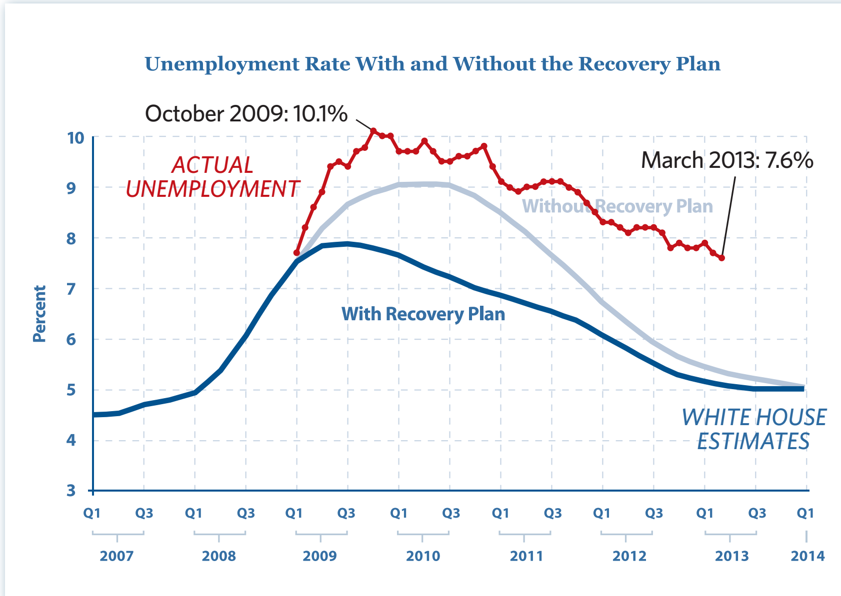
3. Ginger Gibson and Darren Samuelson, "Sequester Survivors," *Politico*, March 3, 2013, http://www.politico.com/story/2013/03/sequester-survivors-88329.html (accessed April 5, 2013).

4. See Salim Furth, "Research Review: Spending Cuts Are Better Than Tax Increases," Heritage Foundation *Issue Brief* No. 3868, March 5, 2013, http://www.heritage.org/research/reports/2013/03/spending-cuts-are-better-than-tax-increases.

CHART 3

Unemployment Rate: March 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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short-term measures (pitched under the Panglossian name "stimulus") will not succeed in bringing Americans back to the labor force. Only sustained growth can reverse the labor force losses of the past five years.

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