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Post-Halloween Jobs Report Is a Treat

James Sherk and Rea S. Hederman, Jr.

Some economic commentators fear that the U.S. economy has skidded off the tracks.¹ They point to the falling dollar, the weak housing market, and the rising price of oil and predict a recession in the near future. Some also contend that what economic growth *has* occurred has not benefited most Americans. While the U.S. economy faces real challenges, the October employment summary and the preliminary estimates of third quarter GDP growth show an economy that is expanding. The economy continues to grow and provide jobs and higher wages for American workers. Congress should restrain spending and reject proposals to increase taxes on working Americans.

Employment Report. In October, the Bureau of Labor Statistics estimated that employers created 166,000 new jobs. This is the strongest month for job creation since May and marks 50 months of consecutive job growth. The unemployment rate was at 4.7 percent for the second month in a row, a very low level by historical standards. The unemployment rate has climbed from an extremely low rate of 4.4 percent in October 2006 due to the weakening housing sector. An alternative measure of unemployment that includes discouraged workers also remained low, at 4.9 percent.²

While the construction and manufacturing industries continued to shed jobs (5,000 and 21,000 jobs lost for the month, respectively), other areas of the economy posted strong job gains, such as professional and business services (65,000 gained), education and health (43,000 gained), and leisure and

hospitality (56,000 gained). The construction industry is in its second year of job contraction as housing market problems continue to plague the industry. The health care industry, meanwhile, has added over 400,000 jobs for the year, and business services has added only slightly less at 368,000.

Wages have increased at 3.8 percent over the past year, with inflation-adjusted earnings up 1.2 percent. This is slightly below the average growth in real earnings over the past year but higher than the growth of real earnings for 2006.

The rising costs of energy and commodities, credit worries, and the slowing housing market are problems facing the economy. Nonetheless, entrepreneurs and businesses continue to create new jobs, and the labor market remains strong. While analysts predict slower growth in the future, economic growth in the third quarter surpassed expectations.

Strong Economic Growth. The employment report comes just a few days after the latest report on the growth of the gross domestic product (GDP). To the surprise of many forecasters, the Bureau of Economic Analysis reported that the economy grew at a 3.9 percent rate in the third quarter, slightly faster than in the second quarter.³ Over the past 12

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(202) 546-4400 • heritage.org

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months, the economy has grown 2.6 percent—slightly below average historical rates but not near recessionary levels.

This growth occurred despite the weakness in the housing sector. Fixed residential investment—that is, housing construction—fell at a 20.1 percent annual rate. However, the damage was largely confined to the housing sector. Fixed non-residential construction increased at a 7.9 percent annual rate.⁴ American exports rose in the third quarter, which could lead to job growth in the manufacturing sector as manufacturers continue to sell their products abroad. Consumers' incomes also rose substantially. Disposable personal income, the income that consumers have left to spend after paying taxes, rose at a 4.1 percent rate, after adjusting for inflation.⁵ For all the worry, the economy continues to grow steadily.

Shared Prosperity. Many commentators argue that what economic growth *does* occur does not benefit most Americans.⁶ They contend that virtually all of America's economic gains are going to the very wealthiest Americans while the typical American family's standard of living has hardly improved since the 1970s.

If true, this would be a serious concern. However, as a new report from the Minneapolis Federal Reserve makes clear, it is not the case. The studies that come to this conclusion use the wrong measure of inflation when calculating changes in living standards. Additionally, they ignore benefits when com-

paring incomes over time. However, an increasingly large portion of workers' pay comes in the form of benefits, such as health care, paid time off, and retirement plans. Such benefits contribute to workers' well-being and should be included in any measure of standards of living.

When these factors are taken into account, the wage of the median worker has risen by 28 percent since 1979.⁷ Contrary to the critiques of the critics, most Americans are substantially better off today than a generation ago.

Conclusion. The October jobs report shows that the economy remains solid despite some problems in housing and energy. Job growth in the third quarter was the strongest since the early spring of 2007, and economic growth was also solid. These numbers have surpassed expectations, indicating that the economy is more resilient than some anticipated. While some dangers to the economy exist at the international level and are out of the control of Congress, other dangers are brewing internally. Congress needs to extend the patch to the Alternative Minimum Tax to prevent millions of Americans from paying higher tax bills. Furthermore, Congress should not raise taxes on working Americans to pay for the AMT patch extension.⁸ Instead, Congress should look to restrict spending instead of offsetting tax cuts with additional tax hikes.

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

1. David Leonhardt and Jeremy W. Peters, "Recession Fears Heightened as 4-Year Growth in Jobs Ends," *New York Times*, September 7, 2007, at www.nytimes.com/2007/09/07/business/07cnd-econ.html, and Andrea Hopkins, "Americans Worry About Economy, Despite Rate Cut," Reuters, September 19, 2007, at www.reuters.com/article/domesticNews/idUSN1926691420070919.
2. Discouraged workers are workers who no longer look for work due to job-market reasons, such as the fact that they feel pessimistic about finding a job.
3. Bureau of Economic Analysis, Gross Domestic Product, Third Quarter 2007 (Advance), News Release, October 31, 2007, at www.bea.gov/newsreleases/national/gdp/2007/pdf/gdp307a.pdf.
4. *Ibid.*
5. *Ibid.*
6. See, e.g., "Agenda for Shared Prosperity," The Economic Policy Institute, at www.sharedprosperity.org/overview.html.
7. Terry J. Fitzgerald, "Has Middle America Stagnated? A Closer Look at Hourly Wages," *The Region*, Federal Reserve Bank of Minneapolis, September 2007, at www.minneapolisfed.org/pubs/region/07-09/wages.cfm.
8. See J. D. Foster, Ph.D., "The Rangel Bill: Roses Among the Thorns," Heritage Foundation WebMemo No. 1679, October 26, 2007, www.heritage.org/Research/Taxes/wm1679.cfm.