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The January Employment Report: Private Employment Increased

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Following the release of the December unemployment report, which showed a spike in the unemployment rate, many analysts concluded that the economy was headed toward a recession. Congress is now moving quickly to pass a stimulus bill. The January employment report, released today, shows that the unemployment rate decreased by 0.1 percent to 4.9 percent in January and that employment was stronger in December than previously reported.

Though the economy has slowed, the case for an approaching recession is weak. Extending unemployment insurance eligibility to nine months makes no sense in the current economic environment. Also, Members of Congress should resist the urge to pad the stimulus bill with extra spending that would increase the national debt.

Cause for Concern. There is a widespread concern that the economy is on the verge of a recession. Many signs point to weakness in the economy, such the high cost of energy, the strain on financial and credit institutions, and the slumping housing market. Preliminary estimates show economic growth slowing to 0.6 percent in the last quarter of 2007. The clearest sign of a recession has been the jump in the unemployment rate, from 4.7 to 5 percent in December 2007. However, other economic indicators, such as changes in income and exports, point to continued economic growth.

Employment Numbers Mixed. The employment situation was mixed in January. Overall employment was down by 17,000 jobs, but the unemployment rate dropped to 4.9 percent. Private employment actually increased by 1,000 jobs, but government employment contracted by 18,000 jobs. The report's more significant findings are the revisions for November and December. While November employment was revised downward by 55,000 jobs, December job growth was revised upward by 64,000 jobs. More important, December had previously shown private job contraction, but the revised estimates have private employment increasing by 54,000 jobs in December.

Industries affected by the housing slump, such as construction and the financial industry, continue to shed jobs. Construction employment declined by 27,000 while the credit industry lost 4,300 jobs. Employment in the manufacturing industry was down by 28,000 even as orders for durable goods increased. In December, durable goods orders were up by more than 5 percent, sparked by demands for large items such as new airplanes and other transportation vehicles.

The labor market has softened slightly as economic growth has cooled. Over the past year, the unemployment rate has increased from 4.6 percent to 4.9 percent. Alternative measures of unemployment, such as discouraged workers and those who are marginally attached to the labor force, increased

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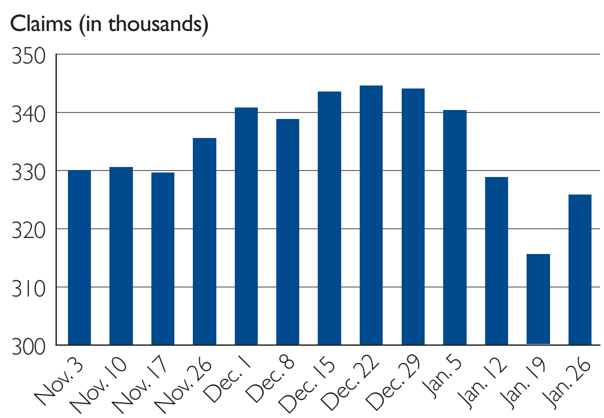
slightly from 5.5 percent to 6 percent. Looking at the big picture, the labor market is still fairly strong for an economy that has slowed significantly.

New Unemployment Benefits Claims Fall. The January employment report adds to other data indicating that the economy is not headed toward a recession. An average of 326,000 workers a week filed new unemployment insurance benefits claims in January—fewer than filed in November or December.[1] This is well below the 400,000 or more new filings that usually occur when the economy enters a recession.

Chart 1 WM 1792

Four-Week Moving Average of Initial Unemployment Benefits Claims



Source: U.S. Department of Labor, Bureau of Labor Statistics Employment and Training Administration, Office of Workforce Security, UI Weekly Claims, at *http://ows.doleta.gov/unemploy/claims_arch.asp.*

Models Do Not Forecast a Recession. Many professional forecasters also project that the economy will not enter a recession. The Congressional Budget Office projects that economic growth will slow to below 2 percent in 2008, but that the economy will not go into a recession.[2] Models developed by the Joint Economic Committee show only a 6 percent chance of the economy entering a recession.[3] The economy is slowing, but a recession does not appear to be on the horizon.

Senate Stimulus Bill Excessive. An aggressive stimulus package containing tax cuts and rebates with substantial new spending would be an excessive response to the current economic situation. In the past two weeks, the Federal Reserve Board has cut the target federal funds rate by 125 basis points, including a rare out-of-session rate cut. The principal effect of a stimulus bill would be to add hundreds of billions of dollars to the national debt and give politicians a vehicle for funding their latest pet projects.

For example, the Senate stimulus bill includes $5.5 billion in tax credits for wind and solar power, payments to coal companies, and tax breaks for fossil fuel exploration and energy-efficient appliance makers.[4] These provisions have nothing to do with promoting economic growth.

Don't Extend Unemployment Benefits. The Senate stimulus package also extends unemployment benefits from the current 26 weeks to 39 weeks. The economic conditions revealed in today's report do not justify this measure.

At 4.9 percent in January, the unemployment rate is well below average levels. Unemployment has been above this rate 68 percent of the time over the past 20 years—a period that includes the tech bubble.

Extended UI benefits are intended to help the long-term unemployed—those out of work for

1. Heritage Foundation calculations based on data from the U.S. Department of Labor, Employment and Training Administration, Office of Workforce Security, UI Weekly Claims, at *http://ows.doleta.gov/unemploy/claims_arch.asp.*
2. Testimony of Peter Orszag, Director of the Congressional Budget Office, before the Committee on the Budget, U.S. House of Representatives, January 23, 2008, at www.cbo.gov/ftpdocs/89xx/doc8933/01-23-House_Testimony.shtml#wwfootnote_inline_44.
3. Kane, Tim, "Employment Numbers as Recession Indicators," The Joint Economic Committee, U.S. Congress, January 2008. *www.house.gov/jec/studies/2008/Employment%20Numbers%20as%20Recession%20Indicators.pdf.*
4. Joint Committee on Taxation, "Description of the Chairman's Modification to the Provisions of the Economic Stimulus Act of 2008," (JCX-11-08), January 30, 2008 at *www.senate.gov/~finance/sitepages/leg/LEG%202008/013008%20Chairman's%20Modificat%20Stimulus%20.pdf.*

Chart 2 WM 1792

Workers Unemployed for 27+ Weeks As a Percentage of the Labor Force

*The ratio is the number of workers unemployed for 27 weeks or longer divided by the total civilian labor force 16 years of age or older.

Source: Heritage Foundation calculations based on data from Haver Analytics / Department of Labor, Bureau of Labor Statistics, "The Employment Situation," Press release, Table A-9.

longer than the six-month limit for collecting UI benefits. However, the long-term unemployment rate is not historically high and is well below its levels in 2004, when Congress ended the previous UI benefits extension.

Chart 2 shows the number of workers who have been unemployed for more than six months as a percentage of the total labor force over the past 20 years. The long-term unemployment rate has been fairly stable over the past two and a half years, dropping modestly in 2006 and rising slightly since then. However, the increase has been modest. A smaller proportion of workers experience long-term unemployment now than did in December 2005.

Furthermore, few unemployed workers stay unemployed for the 26 weeks necessary to begin collecting extended UI benefits. The typical unemployment spell now lasts 17.5 weeks, more than eight weeks less than the maximum length of time workers can collect benefits.[5] Most workers do not need or use more than the six months of unemployment benefits the law currently provides.

Conclusion. The economy is undergoing significant challenges, but the January employment report does not indicate an approaching recession. Other data and professional forecasts support the notion that the economy has slowed but will continue to grow. Congress should not rush to pass a stimulus bill that would add billions of dollars to the deficit while doing little to boost long-term economic growth. Also, Congress should ignore calls to extend unemployment benefits eligibility beyond six months. Most workers do not need extended unemployment benefits within the current labor market, especially with the unemployment rate below 5 percent.

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5. Haver Analytics / Department of Labor, Bureau of Labor Statistics, "The Employment Situation," Press release, Table A-9.