WebMemo
Published by The Heritage Foundation

No. 1914
May 2, 2008

April Jobs Report Provides a Glimmer of Sunlight

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The American economy continued to shed jobs in April due to the housing market crash, but according to the Bureau of Labor Statistics' payroll survey, some sectors of the economy, such as the service sector, increased employment. In April, employers reduced the number of jobs by 20,000, and the unemployment rate fell to 5 percent.

This report is better than expected, as job losses were mostly confined to manufacturing and construction, and the Bureau of the Census household survey actually showed job growth. Job losses in sectors associated with the housing market totaled almost 100,000 jobs, but job growth in other sectors increased enough to make the job losses in April almost nonexistent.

The April Jobs Report. In April 2008, private-sector employment contracted for the fifth month in a row, with 29,000 jobs lost. Job losses for February and March were worse than previously expected in the latest revision. The April job losses were lower than the expected 75,000 jobs and also lower than the 81,000 jobs lost in March. The government increased its workforce by 9,000 workers in April, which is lower than the average increase of 16,000 per month since December.

Manufacturing (–46,000) and construction (–64,000) were hard hit, shedding a total of 110,000 jobs. The Bureau of Labor Statistics reports that construction employment has declined by 457,000 jobs since September 2006. Most of the manufacturing job losses were in the durable goods sector (–43,000) and in transportation equipment such as motor vehicles (–19,000).

The service sector added 90,000 job in April, despite job losses in the retail trade sector (–27,000). Retail trade suffered from the housing market, as almost half of the job losses were in building material and garden supply stores (–12,300). A bright spot is the financial sector, which increased employment last month by 3,000 jobs, despite 1,600 job losses in the credit intermediation sector. This is an indication that the credit crunch's effect on the financial sector may be easing.

Professional and business services (+39,000) increased hiring in the service sector. These jobs are usually skilled services such as accounting or architecture. Education and health services (+52,000) increased employment, with health care (+43,300) accounting for most of the hiring.

Diverging Jobs Reports. The Bureau of the Census uses the household survey to report on unemployment and labor force participation rates. The household survey revealed job growth in April of 362,000 jobs, with 189,000 jobs lost. This is why the unemployment rate declined from 5.2 percent to 5.0 percent in April.

This job growth means that the two surveys are diverging in their reports on the labor market. Though the payroll survey is more historically reli-

This paper, in its entirety, can be found at:
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Produced by the Center for Data Analysis

Published by The Heritage Foundation
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able, there are times when the household survey can be a reliable gauge of that market.[1]

No Stimulus Necessary. Congress passed a $156 billion tax stimulus package in February to boost the economy. The latest economic indicators show that an additional stimulus package would be fiscally irresponsible.

The economy grew slightly in the first quarter of 2008, expanding at a 0.6 percent annual rate.[2] Though 0.6 percent growth is low, it is far better than projected by analysts, many of whom believed that the economy had slipped into a recession in the first quarter. Economists' worst predictions are not coming to pass.

Unemployment Insurance Extension Unjustified. Labor market conditions are not weak enough to justify further stimulus legislation. Many Members of Congress want to extend maximum unemployment insurance (UI) benefits from six months to nine months. However, the unemployment rate of 5 percent is historically low and below what economists used to consider full employment.

Table 1 shows the unemployment rates when Congress passed the most recent three extensions of UI benefits. Unemployment is significantly lower now than when the UI program was extended in the past. It is also lower than when Congress ended those programs after the economy improved and the extended benefits were no longer necessary.

The job market is much stronger now than when Congress first concluded that economic hardship did not justify nine months of UI benefits. Labor market conditions are still strong, and workers are not having unusual difficulty finding work.

The economy grows unevenly. It has lost jobs over the past four months, but this does not mean that additional emergency stimulus legislation is needed. Extended benefits would not help the economy either. Empirical studies show that, contrary to some theoretical projections, extending UI benefits does nothing to stimulate the economy.[3]

Unemployment Rate

At 5%, unemployment is lower now than when previous unemployment extensions passed or expired.

	Benefits Passed	Benefits Expired
September 1982–June 1985	10.1%	7.4%
February 1992–April 1994	7.4%	6.4%
March 2002–April 2004	5.7%	5.6%

Current Rate 5.0%

Source: Department of Labor, Bureau of Labor Statistics, "The Employment Situation," news releases.

Table 1 • WM1914 heritage.org

Housing Stimulus Counterproductive. Other Members of Congress want to pass housing "stimulus" legislation to prop up home prices and prevent foreclosures. Economic conditions do not justify spending tens of billions of dollars on an additional stimulus package, and these measures would be particularly counterproductive.

Housing prices are falling because the housing market entered a bubble much like the dot-com bubble of the late 1990s. Following the collapse of the tech bubble and the September 11, 2001, attacks, the Federal Reserve aggressively lowered interest rates, pouring money into the financial system. At the same time, banks relaxed their borrowing standards, making loans available to borrowers who previously would not have qualified.

With credit easy and interest rates low, millions of Americans were willing to take out large mortgages to buy a house, and demand for housing soared. However, the supply of housing is relatively fixed. These factors caused home prices to soar 33 percent between the first quarter of 2003 and the

1. Tim Kane, "Diverging Employment Data: A Critical View of the Payroll Survey," Heritage Foundation *Center for Data Analysis Report* No. CDA04-03, March 4, 2004, at *www.heritage.org/Research/Labor/CDA04-03.cfm.*
2. U.S. Department of Commerce, Bureau of Economic Analysis, news release, "Gross Domestic Product: First Quarter 2008 (Advance)," April 30, 2008, at *www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm.*
3. Kyung Won Lee, James R. Schmidt, and George E. Rejda, "Unemployment Insurance and State Economic Activity," *International Economic Journal*, Vol. 13, No. 3 (Autumn 1999), pp. 77–95.

first quarter of 2006, well beyond what economic fundamentals justified.[4]

Now the housing bubble has burst, and prices are readjusting downwards. The crisis in the housing market will not end until this process is completed. The housing market is now seized up. Buyers are holding out for a better deal. Sellers are adjusting to the facts that housing prices will not appreciate 10 percent a year indefinitely, and their houses are worth less than they thought. The market cannot return to normal until prices adjust to the new equilibrium.

Spending tens of billions of taxpayer dollars to prop up housing values and prevent foreclosures would only delay the market correction and prolong the crisis. Congress cannot change the fact that homes are not worth what many buyers and investors thought they were worth.

Consider what would have happened if Congress had tried to prevent the tech bubble from bursting. Having taxpayers buy billions of dollars of Pets.com stock would not have made that company more viable. It would have extended the amount of time it took for investors to adjust to the fact that most high-flying Internet companies were worth a lot less than they thought. The downward correction will be painful for many homeowners, but stimulus legislation will only make the problem worse.

Conclusion. The April job report is most striking for what it does not show: large job losses and a climb in the unemployment rate. The sectors that shed the most jobs were those that are associated with the housing market crash, but this downturn has not spread to other sectors of the economy in this report.

This is a job report that shows a sluggish economy, not a recession. Further stimulus packages are unnecessary: They will only increase government debt or, worse, extend a downturn by trying to prop up a fading bubble. The marketplace is slowly recovering. Congress should not pass new legislation that will impede this recovery.

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4. Heritage Foundation calculations based on data from Haver Analytics/U.S. National S&P Case-Shiller Home Price Index. Adjusted for inflation using the CPI-U-RS.