CBPP STATEMENT

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STATEMENT BY CHAD STONE, CHIEF ECONOMIST, ON THE JULY EMPLOYMENT REPORT

Today's disappointing employment report lends greater urgency to lawmakers' efforts to craft a second round of effective economic stimulus legislation that Congress can enact quickly when it returns in September. Consumer spending supported by the stimulus payments that Congress enacted earlier this year has kept the economy from being even weaker than it is. But those effects won't last, and nothing in the latest data suggests the economy is on the verge of a spontaneous rebound.

July was the seventh straight month of job declines, with employers shedding a cumulative 463,000 jobs so far this year. The official unemployment rate rose to 5.7 percent in July, but other indicators show even greater labor market weakness. For example, the Labor Department's most comprehensive alternative unemployment rate measure — which includes people who want to work but are discouraged from looking and people working part time because they can't find full-time jobs — stood at 10.3 percent in July. In addition, roughly 1 in every 5 of the 8.8 million unemployed has not been able to find a job despite looking for 27 weeks or more.

Most forecasters expect the unemployment rate to keep rising toward 6 percent in the second half of the year because they do not see underlying strength in an economy that continues to fight the headwinds of high food and energy prices, ongoing housing market woes, and credit market jitters. The economy expanded at a smaller-than-expected 1.9 percent pace in the second quarter, but most analysts believe that things would have been significantly worse without the boost to consumption from the stimulus payments. Previous growth estimates were also revised down, to 0.9 percent growth in the first quarter and a *contraction* of 0.2 percent in the fourth quarter of 2007.

While the enacted stimulus payments will continue to provide support for the economy in the current quarter, their effect will wear off by the end of the year. The weak growth that is forecast for the rest of 2008 and into 2009 suggests that an economic package providing a well-targeted second round of fiscal stimulus would benefit the economy, as well as state governments and those individuals who are feeling the effects of the weak economy the most. Such a package would be most effective if it focuses on providing assistance to those who are experiencing the greatest hardship and goes where it will be spent most quickly and thus have the largest stimulus impact.

A good place to start would be worthwhile measures that were left out of the first stimulus package. Those include a temporary increase in aid to state governments to help them avoid budget cuts and tax increases and a temporary increase in food stamp benefits. These have a high fiscal stimulus bang-for-the-buck because they would be spent quickly. An increase in low-income home energy assistance (LIHEAP) would be well-timed to keep low-income households from cutting back on other purchases when facing high energy bills. Policymakers did enact an additional 13 weeks of unemployment insurance (UI) benefits recently for workers exhausting their regular benefits, but additional assistance to unemployed workers would be very effective stimulus as well. As with the first stimulus package, the three T's – timely, targeted, and temporary – should be the guiding principles in designing an effective package.

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