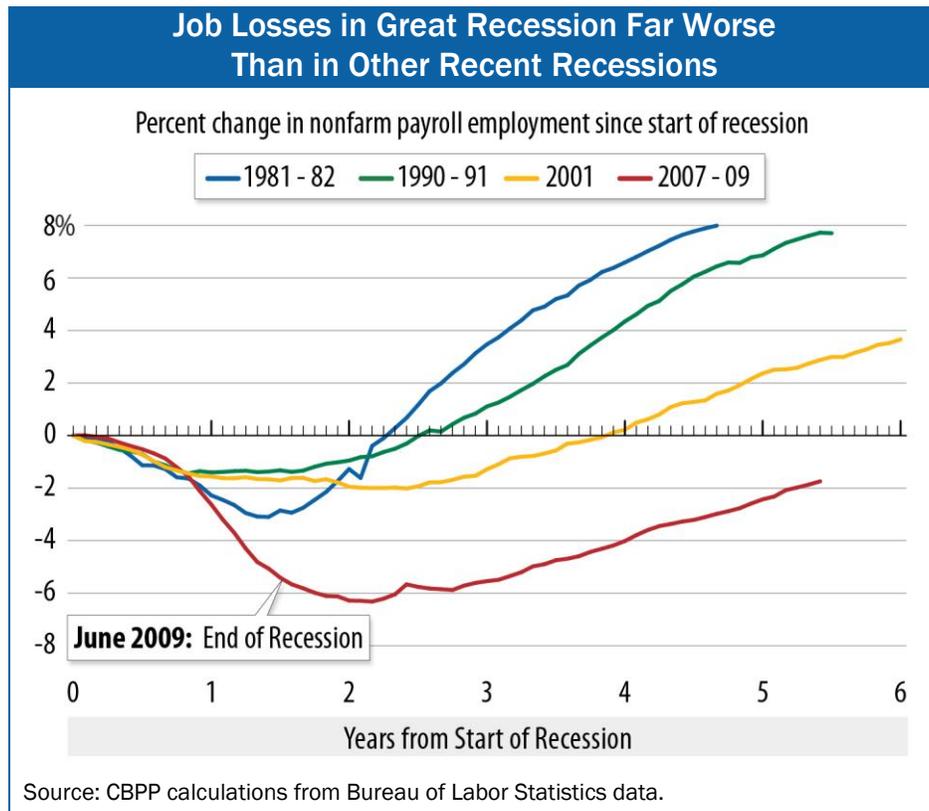


Statement by Chad Stone, Chief Economist, On the May Employment Report

Today’s jobs report shows that employers continued to add jobs in May, but total employment (private and government combined) remains well below its level at the December 2007 start of the Great Recession (see chart). Job losses were far greater than in other recent recessions, and the pace of job recovery has been no faster than it was from the much milder 2001 recession — partly due to federal fiscal actions since 2010.



As Federal Reserve Chairman Ben Bernanke recently told Congress, fiscal policy (changes to taxes and spending) was quite expansionary at the federal level during the recession and early in the recovery, as spending increases and tax cuts helped to stimulate the economy. However, spending cuts and tax increases at the state and local level (where balanced budget requirements generally rule) and subsequent tightening at the federal level (spending cuts and tax increases) substantially offset that expansionary effect. Federal Reserve Bank of San Francisco analysts reached a similar conclusion, finding: “Federal fiscal policy during

the expansion was abnormally expansionary by historical standards” but “over the past 2½ years it has become unusually contractionary as a result of several deficit reduction measures passed by Congress.”

The resulting slowing of the jobs recovery has taken a toll on unemployed workers, especially the long-term unemployed — those looking for work for six months or more — which constitute a historically large share of the unemployed. It has also helped convince more people to stay on the sidelines rather than look for work. Low labor force participation has allowed the unemployment rate to fall (because the rate is based on the number of people actively seeking work), but it has kept the share of the *total* population with a job depressed.

To promote a stronger jobs recovery, policymakers should heed the counsel from experts like Fed Chairman Bernanke and Congressional Budget Office Director Doug Elmendorf that minimizing the fiscal drag on the economic recovery is not incompatible with addressing our longer-term fiscal imbalances. We need to reduce the deficit more gradually over the next few years while the economy remains weak, as well as to put in place substantial deficit reduction that would take effect in later years when the economy is stronger. Replacing the current sequestration budget cuts with a balanced package of phased-in revenue and spending measures is a good place to start.

About the May Jobs Report

Job growth in May was solid, but the unemployment rate remains high. A robust jobs recovery remains elusive, especially since the full effects of sequestration have yet to be felt.

- Private and government payrolls combined rose by 175,000 jobs in May while job growth in March and April was revised down by a total of 12,000 jobs. Private employers added 178,000 jobs in May, while government employment fell by 3,000. Federal government employment fell by 14,000, state government employment fell by 2,000, and local government increased by 13,000.
- This is the 39th straight month of private-sector job creation, with payrolls growing by 6.9 million jobs (a pace of 178,000 jobs a month) since February 2010; total nonfarm employment (private plus government jobs) has grown by 6.3 million jobs over the same period, or 162,000 a month. Total government jobs fell by 622,000 over this period, dominated by a loss of 396,000 local government jobs.
- Despite 39 months of private-sector job growth, there were still 2.4 million fewer jobs on nonfarm payrolls and 1.9 million fewer jobs on private payrolls in May than when the recession began in December 2007. May’s job growth would be considered solid in an economy that had already largely recovered from the recession, but it is well below the sustained job growth of 200,000 to 300,000 a month that would mark a robust jobs recovery. Job growth in the first five months of 2013 has averaged 189,000 a month.
- The unemployment rate was 7.6 percent in May, and 11.8 million people were unemployed. In May, the unemployment rate was 6.7 percent for whites (2.3 percentage points higher than at the start of the recession), 13.5 percent for African Americans (4.5 percentage points higher than at the start of the recession), and 9.1 percent for Hispanics or Latinos (2.8 percentage points higher than at the start of the recession).

- The recession and lack of job opportunities drove many people out of the labor force, and that trend continued earlier this year. Encouragingly, the labor force grew by 420,000 people in May. However, the number of people who found jobs rose by a smaller 319,000 and the unemployment rate ticked up. The labor force participation rate (the share of people aged 16 and over who are working or actively looking for work) was 63.4 percent in May, 0.2 percentage points lower than in January. A growing labor force is better than a shrinking labor force, but in a robust jobs recovery the labor force would be growing *and* unemployment would be coming down.
- The share of the population with a job, which plummeted in the recession from 62.7 percent in December 2007 to levels last seen in the mid-1980s and has remained below 60 percent since early 2009, was unchanged at 58.6 percent in May.
- The Labor Department’s most comprehensive alternative unemployment rate measure — which includes people who want to work but are discouraged from looking (those marginally attached to the labor force) and people working part time because they can’t find full-time jobs — was 13.8 percent in May. That’s down from its all-time high of 17.1 percent in late 2009 (in data that go back to 1994) but still 5.0 percentage points higher than at the start of the recession. By that measure, roughly 22 million people are unemployed or underemployed.
- Long-term unemployment remains a significant concern. Nearly two-fifths (37.3 percent) of the 11.8 million people who are unemployed — 4.4 million people — have been looking for work for 27 weeks or longer. These long-term unemployed represent 2.8 percent of the labor force. Before this recession, the previous highs for these statistics over the past six decades were 26.0 percent and 2.6 percent, respectively, in June 1983.

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