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CBPP STATEMENT

Special Series: **Economic Recovery Watch**

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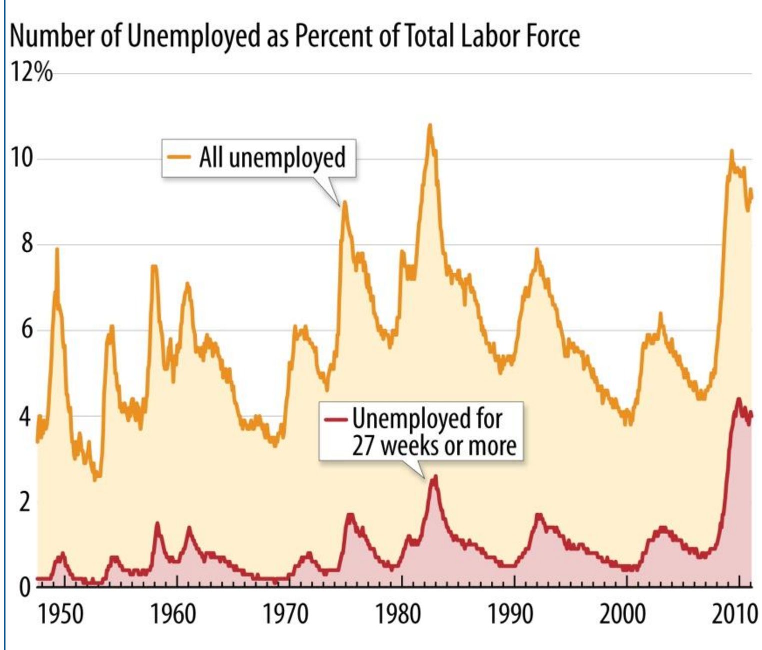
STATEMENT BY CHAD STONE, CHIEF ECONOMIST, ON THE JULY EMPLOYMENT REPORT

Today's jobs report shows that the labor market continues to limp along rather than put people back to work. The share of the population with a job remains severely depressed and unemployment remains alarmingly high — with more than 40 percent of the unemployment rate attributable to people who have been looking for work for six months or more (see chart). This situation screams out for Congress to extend the federal emergency unemployment insurance (UI) programs scheduled to expire at the end of this year, and for Congress and the Federal Reserve to consider further measures to boost the flagging recovery.

Last week's report on gross domestic product (GDP) showed the recession was much deeper than previously estimated and growth in the first half of this year was very weak. That helps explain why, despite two full years of economic growth and 17 straight months of private-sector job creation, we still have 6.8 million fewer jobs than at the start of the recession and the unemployment rate remains 4.1 percentage points higher. The economy fell into a very deep hole and has been climbing out very slowly.

Long-Term Unemployment Rate Is Unprecedented



Source: Bureau of Labor Statistics

The hole would have been even deeper without the Recovery Act measures that President Obama and Congress enacted in early 2009. The Congressional Budget Office (CBO) estimates that those measures boosted GDP by between 1.5 and 4.2 percent in 2010 and lowered the unemployment rate by between 0.7 and 1.8 percentage points. The phaseout of those measures, however, is now exerting a drag on the recovery, and the scheduled expiration at the end of this year of last December's payroll tax cut and extension of federal emergency UI benefits will add to that drag.

This week's debt limit deal did nothing to give the recovery a needed short-run boost before longer-term deficit reduction kicks in. Lawmakers can start to remedy that and provide needed support to workers who exhaust their 26 weeks of regular UI benefits before finding work by extending federal UI benefits for another year. CBO and other analysts rank unemployment insurance payments as among the most effective forms of job-creating stimulus in a weak economy. Additional temporary measures, such as extending the payroll tax cut, would provide a further boost to the recovery without jeopardizing longer-term deficit reduction.

About the July Jobs Report

Job growth increased modestly in July, but the labor market remains in a deep slump.

- Private and government payrolls rose by just 117,000 jobs in July. Private employers on net added 154,000 jobs, while state government employment fell by 23,000 jobs (almost entirely due to the shutdown of the Minnesota state government) and local government employment fell by 16,000 jobs (federal government employment rose by 2,000).

- This is the 17th straight month of private-sector job creation, with payrolls growing by 2.4 million jobs (a pace of 140,000 jobs a month) since February 2010; total nonfarm employment (private plus government jobs) has grown by 1.9 million jobs over the same period, or 114,000 a month. Growth of 200,000 to 300,000 jobs a month or more is typical in strong economic recoveries, so the modest pace of just 72,000 jobs per month over the last three months is very disappointing.

- In July, despite 17 months of private-sector job growth, there were still 6.8 million fewer jobs on nonfarm payrolls than when the recession began in December 2007, and 6.5 million fewer jobs on private payrolls.

- The unemployment rate edged down from 9.2 percent to 9.1 percent in July, and the number of unemployed edged down to 13.9 million. The unemployment rate was 8.1 percent for whites (3.7 percentage points higher than at the start of the recession), 15.9 percent for African Americans (6.9 percentage points higher than at the start of the recession), and 11.3 percent for Hispanics or Latinos (5.0 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 we have yet to see the return to labor force participation (people working or actively looking for work) that marks a strong jobs recovery. In July, the labor force declined by 193,000 people, contributing to the drop in the unemployment rate. The labor force participation rate (the share of the population aged 16 and over working or looking for work) is the lowest it has been since 1984. It dropped to 63.9 percent in July, the first time it has been below 64 percent since May 1983. So far this year, labor force growth has hardly even kept up with population growth and many potential workers remain on the sidelines while job prospects remain weak.

- 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, fell to 58.1 percent in July, a low not seen since July 1983, and has not been above 58.5 percent in 14 months.

- It remains very difficult to find a job. 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 — was 16.1 percent in July, not much below its all-time high of 17.4 percent in October 2009 in data that go back to 1994. By that measure, more than 25 million people are unemployed or underemployed.

- Long-term unemployment remains a significant concern. Over two-fifths (44.4 percent) of the 13.9 million people who are unemployed — 6.2 million people — have been looking for work for 27 weeks or longer. These long-term unemployed represent 4.0 percent of the labor force. Prior to 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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