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May Employment Report Reveals that School Is Out Early

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Today, the Bureau of Labor Statistics released the May employment report, which showed that the labor market has continued to weaken. The unemployment rate spiked from 5.0 percent to 5.5 percent, the largest jump in over 20 years, and employment declined by 49,000 jobs. This is the fifth straight month of a reduction in employment, and private employment has been negative for half a year.

May Employment Report. The large jump in the unemployment rate has grabbed media headlines.[1] A 5.5 percent unemployment rate is the highest since July 2004. The unemployment rate has increased a full percentage point since the start of 2007, an indication of a sluggish economy.

There are, however, two reasons why this large jump in the unemployment rate should not be extremely worrying. First, the unemployment rate increased because a large number of individuals entered the labor force. Actual labor force participation increased to its highest level in over a year. An increase in the participation rate is a good thing for the economy as it increases the number of workers who can contribute to economic growth. Many of these new entrants to the job market could not find work, however, and this increased the unemployment rate.

The other, very unusual aspect is that this monthly report has a large jump in the number of teenagers in the labor market. Teenagers, those ages 16 to 19, make up a very small percentage of the labor force, less than 5 percent. In this month, almost half of the new entrants to the job market were teenagers. Furthermore, the numbers of unemployed teenagers, who have a much higher unemployment rate than workers 20 and older, accounted for about a third of the total increase in unemployment. It appears that the increase in the labor force participation rate and the unemployment rate was affected by the disproportionate number of teenagers in this month's survey.

The other side of the employment report, the payroll survey, reported that the private sector shed 66,000 jobs and government hiring increased by 17,000. Construction and manufacturing continued to be hard-hit, losing 34,000 and 26,000 jobs, respectively. Retail trade (–39,000) was down with large jobs losses in department stores (–14,900) and the transportation sector (–10,500). Professional and business services (–39,000) was sharply down, mostly due to the downturn in accounting (–10,200) and temporary employment (–29,600).

On the positive side, the downturn in the financial services sector appears to be mostly over with only a small decline of 1,000 jobs in May. Education and health services (+54,000) increased hiring the most. Leisure and hospitality (+12,000) also had job growth.

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A positive note to this report is that it does not show a great deal of job loss due to layoffs and firings. The increase in unemployment came from new entrants and re-entrants to the labor force, many of whom were the teenagers. A slightly worrying aspect is the reduction in the number of hours worked and the decline of temporary help, both of which can be leading indicators for future employment reports.

Dangers to the Economy Posed by Congress. Although the details of the employment report show the economic situation is not as dire as the initial numbers imply, the economy clearly faces challenges. Chief among them is the rising cost of energy. The average price of gasoline is $3.98 a gallon, up sharply from a year ago.[2] Because reducing energy consumption is difficult for many consumers—commuters cannot change how long it takes them to drive to work without changing where they live—higher energy prices act like a tax on consumers that reduces the amount consumers can spend on other goods and services. The high cost of energy hinders the entire economy.

This is exactly the wrong time for Congress to consider legislation making energy even more expensive. The Lieberman–Warner Climate Security Act would do exactly that. Lieberman–Warner sets up a cap-and-trade system that requires companies to buy a capped number of permits to emit carbon dioxide. The government would cut the number of permits by 70 percent by 2050. As the permits became scarcer, companies would have to pay progressively more in permit auctions to be able to emit carbon dioxide, and they would pass these higher energy costs on to consumers. Lieberman–Warner is an energy tax under a different name.

Lieberman–Warner would make energy substantially more expensive for consumers. Heritage Foundation simulations show that it would increase the cost of gasoline by $1.10 a gallon. The average household cost of heating oil would rise 29 percent, while the average household's electricity bill would jump 53 percent.[3]

These higher costs would significantly hurt American workers and consumers. The higher energy prices mean that American families would have less money to spend on everything else. Lieberman–Warner would reduce GDP by $207 billion a year by 2018. The legislation would reduce a family of four's disposable personal income by $1,169 over that same time period.[4] It would increase the annual inflation rate by 0.7 percentage point a year. This is exactly the wrong time for Congress to place these burdens on the economy.

Advocates of Lieberman–Warner claim that the legislation will create "green collar" jobs in the renewable energy sector. The legislation creates "green collar" jobs only because it requires investment in expensive and inefficient energy technologies, the costs of which are passed on to consumers as higher energy prices. This leaves less money for consumers to spend in other industries. Throughout the whole economy Lieberman–Warner costs 766,000 jobs by 2018. Calling for Congress to pass Lieberman–Warner to create "green collar" jobs is like claiming that recessions are beneficial because they create high paying jobs for bankruptcy lawyers.

Conclusion. This is not a good employment report since 49,000 workers lost their jobs. However, this report is still not indicative of an economy in a recession. There is no large spike in the number of workers laid off by their employers. Instead, the unemployment rate's increase was mostly driven by a large number of teenagers entering the labor market and the overall increase in the labor force. More

1. Jeannine Aversa "Unemployment Rates Jumps to 5.5 Percent in May," June 6, 2008, AP Wire at *http://news.yahoo.com/s/ap/20080606/ap_on_bi_go_ec_fi/economy;_ylt=AlhzZR.Ubp6pMqyLD61SKpas0NUE* (June 6, 2008).
2. Department of Energy, Energy Information Administration, "Weekly U.S. Retail Gasoline Prices, Regular Grade," at *http://www.eia.doe.gov/oil_gas/petroleum/data_publications/wrgp/mogas_home_page.html* (June 8, 2008).
3. Ben Lieberman, "The Lieberman–Warner Climate Change Act: A Solution Worse Than the Problem," Heritage Foundation *Backgrounder* No. 2140, June 2, 2008, at *http://www.heritage.org/Research/energyandenvironment/bg2140.cfm#_ftn1*.
4. William W. Beach, David W. Kreutzer, Ben Lieberman, and Nicolas D. Loris, "The Economic Costs of the Lieberman–Warner Climate Change Legislation," Heritage Foundation *Center for Data Analysis Report* No. 08-02, May 12, 2008, Appendix Table 1C, at *http://www.heritage.org/Research/EnergyandEnvironment/cda08-02.cfm*.

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worrying than this month's report is the current congressional debate over the Lieberman–Warner bill. This bill would impose a large cost to the economy and greatly decrease employment in the United States.

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