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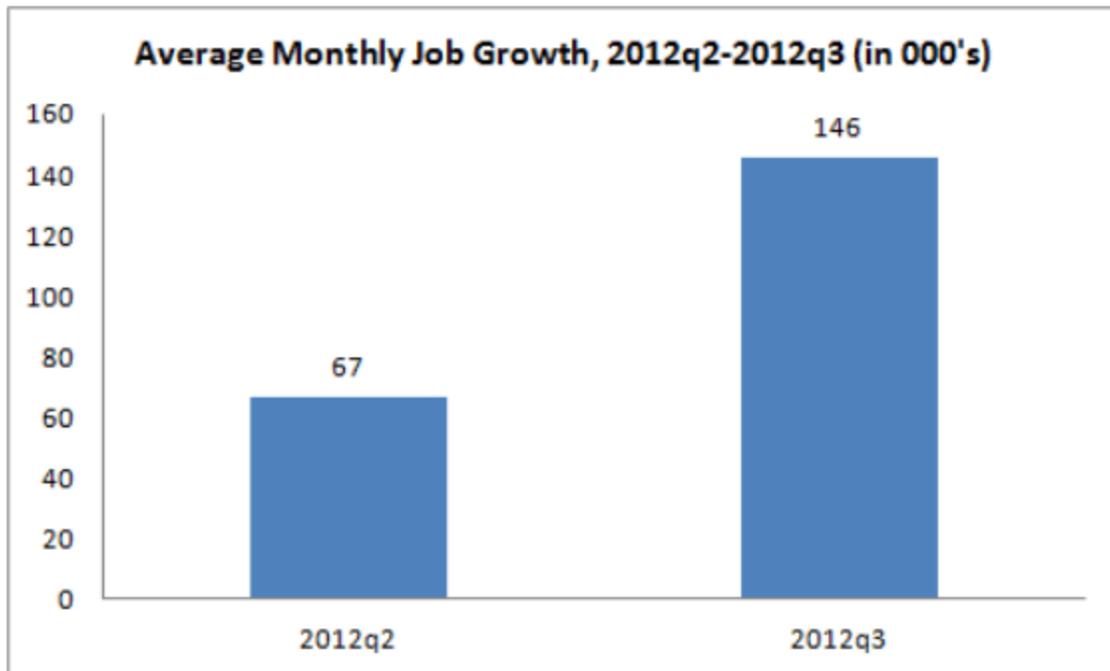
September Jobs Report: First Impressions

Jared Bernstein - Posted: 10/05/2012

Payrolls grew by 114,000 last month and the unemployment rate ticked down significantly to 7.8 percent, according to today's jobs report from the Bureau of Labor Statistics. That's the lowest unemployment rate since January of 2009. Moreover, unlike last month's report, September's decline in the unemployment rate was due to more job seekers finding work, not giving up and leaving the labor market.

Both July and August's jobs numbers were revised up significantly such that in the third quarter of the year, payrolls grew by 146,000 per month on average, a notable acceleration over the second quarter's growth pace of only 67,000 jobs per month.*

All told, this report and the revisions paint a considerably better labor market picture than the last few reports. We're not yet out of the labor market woods, and I'd like to see us moving more quickly, but we're on the right path.



BLS Payroll Survey

Labor force participation continues to be an important linchpin in the current job market. It's been depressed by weak demand in recent years, as well as natural demographic pressures (retirees leaving the job market -- though this is the lesser factor in its recent decline). In August, the unemployment rate

fell from 8.3 percent to 8.1 percent based not on unemployed persons landing jobs, but on workers leaving the job market.

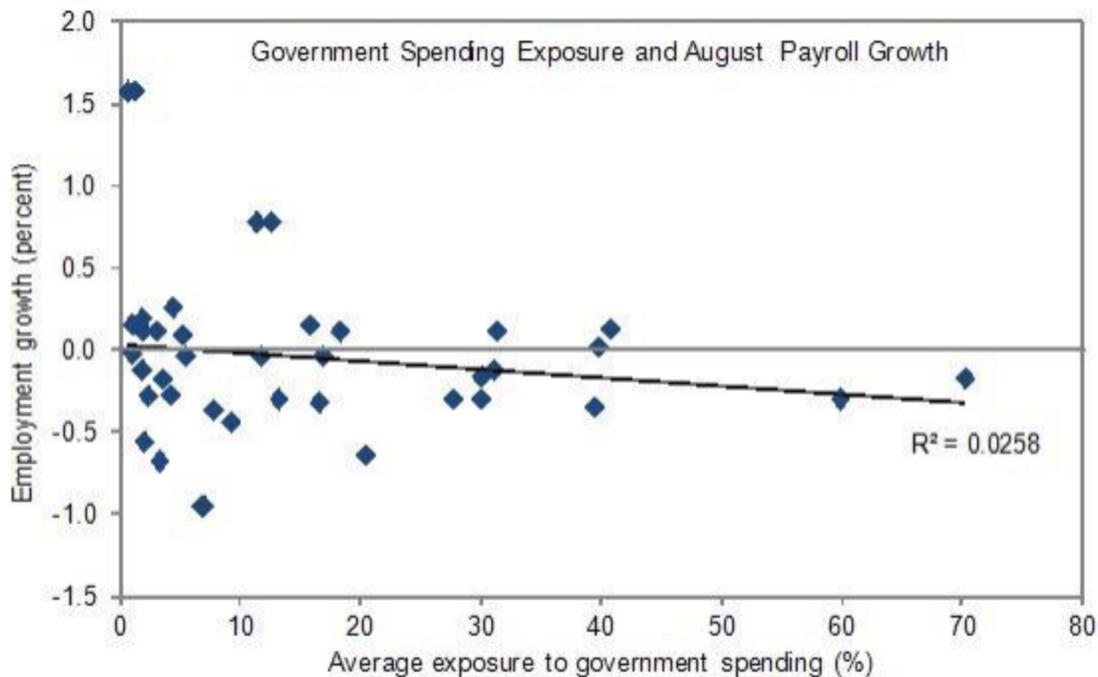
Last month, the reverse occurred as large employment gains in the household survey helped push the unemployment rate below 8 percent, even as the labor force grew and the participation rate edged up slightly. However, the monthly numbers from the household survey are highly volatile and the large employment jump should be somewhat discounted. It's mostly catch-up from previous months of stagnant job growth in the HH survey.

Is the threat of the fiscal cliff at work in these numbers?

An interesting and timely question is whether the large fiscal contraction otherwise known as the fiscal cliff is depressing hiring.

Here we have some helpful analysis by Goldman Sachs researchers to help sort this out. They've divided industries into those that are more and less exposed to movements in government spending. For example, aerospace and defense contractors (70 percent of their sales are to the federal government) and health care (60 percent) are two obvious sectors where this matters (though since the large health care entitlements are largely spared from the automatic cuts, this sector is less vulnerable).

They then make a scatter chart of recent employment growth (not including today's numbers) against these government sales shares. As you see, there's a slight negative slope, but it's far from significant (the low value of R-sq shows these two variables are not correlated). If those industries more dependent on government spending were hiring less in expectation of the cliff, that slope would be a lot more negative. So not much evidence, at least by this metric, that the fiscal cliff is depressing hiring.



Source: GS Global ECS Research.

Which doesn't exonerate fiscal policy -- i.e., temporary jobs measures to offset the prolonged weakness in private sector demand. GDP slogged along at 1.3 percent last quarter and the underlying trend of about 150K jobs per month over the last quarter is OK -- and better than the previous quarter -- but still not enough to reliably move the jobless rate down quickly. Two presidents -- one of the country and the other of the Federal Reserve -- have called for such jobs measures to give the Fed's low interest rates more traction, but Congress couldn't be less interested in helping out.

Oh, right... the election.

Oh yeah... that. This is the second-to-last report before the election, and while analysts, myself included I'm sure, will be turning up the chin music on what these numbers mean for the outcome -- e.g., whether they might change the post-debate conversation -- I did want to remind folks of my own electoral calculus, both here and here.

Obviously, a lot goes into the formation of people's views about the intersection of their economic conditions and politics, but when it comes to jobs numbers, I think it's momentum that matters most -- whether we're moving in the right direction. That we are, and a bit faster than we were even one quarter ago, though still not fast enough to reliably leave the Great Recession in the dust.
