Insight

Jobs and Debt: Economic Update

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The Labor Department announced that the economy generated 231,000 private sector jobs in April, but the unemployment rate rose to 9.9 percent.

- This is a strong report. Payroll employment gains were widespread in manufacturing as well as services. The household survey – often a better indicator at turning points – showed job gains of 550,000.
- Despite the job gains, the unemployment rate rose because workers flooded back into the job market – the labor force grew by 805,000 in April. Similarly the "underemployment rate" – workers unemployed, working part-time, or discouraged – rose from 16.9 to 17.1 percent.

This is the pattern one can expect over the remainder of the year. The economy is recovering but it remains at a low level of activity and employment. Jobs will continue to grow, but not fast enough to quickly compensate for the loss of over 8 million jobs during the recession. Unemployment will likely exceed 10 percent and remain high.

The problems in Greece are unlikely to hamper the U.S. recovery.

- Substantively, the real concern is that European banks will be damaged, and that this damage can spread to U.S. banks. This is a real concern, but does not appear to be large enough to be a real threat.
- The second concern is that financial volatility will hurt the stock market, thus cutting back on consumer spending and business confidence. This is likely to be outweighed by the benefits of a flight to safety that will benefit the U.S.

The bottom line: The most important issues are jobs and debt. On the former, there are *not enough*, and it's not *fast enough*. Policies of higher taxes, huge deficits, protectionism, and heavy regulation are slowing the recovery. On the latter, the huge debt is threatening a Greece-style crisis in our future.