(What's Left of) Our Economy: For Now, Private Sector Job Creation is Over in Real Terms

Yesterday we got news that raised big questions about the economy in the form of Labor Department statistics showing a major and puzzling surge in manufacturing job openings that clashes violently with just about everything else we know about the sector's performance. But we shouldn't forget that last Friday's choking dog of a jobs report contained a stunner of its own. It showed that, when properly counted, private sector employment actually fell, and that jobs that benefit from immense government subsidies but aren't placed in the public sector propped up the labor market to the greatest extent in recent years.

As always, the key is recognizing that, although the Labor Department (and most students of the economy) view industries like healthcare services as private sector industries whose performance is determined mainly by market forces, they're nothing of the kind. They'd be much smaller, and generate many fewer jobs, without gargantuan levels of public spending that enable their customers (practically all Americans) to avoid the lion's share of their real costs.

And however tempting it may be to view the May employment figures (which are of course preliminary) as outliers that are as misleading as yesterday's April JOLTS manufacturing results, in fact, they continue a longstanding trend.

Classify the private sector properly by removing those government-subsidized jobs, and you see that, as opposed to rising by (a measly) 25,000 sequentially in May, its employment fell by 42,000 on net. That's the first such drop since at least the beginning of 2013. (I haven't had the chance to examine the monthly figures going back further.) Moreover, the revisions to March and April data magnified the subsidized private sector's role as well.

But the main evidence that the May results aren't as aberrational as they seem comes from examining the latest year-to-date figures. For the first five months of 2016, they show that the subsidized private sector accounted for just over 35 percent of all net rise in non-farm jobs (the Labor Department's American employment universe) and 37.48 percent of all the job creation conventionally defined as private sector.

Both such figures are more than ten percentage points higher than they were just one year ago (25.94 percent and 26.25 percent, respectively). Even more striking, the percentages this year are more than double their levels in the first five months of 2013, when the subsidized private sector was creating only 15.87 percent of all net new non-farm jobs, and only 15.35 percent of all conventionally classified private sector jobs.

The burgeoning employment role of the subsidized private sector is just as clear when you look at the economy on a stand-still basis. Here's the employment picture at the start of the last recession, in December, 2007, which includes statistics for the conventionally defined private sector minus the subsidized private sector (which I call the "real" private sector):

Private sector as share of total non-farm jobs: 83.83%

Subsidized private sector as share of total non-farm jobs: 13.63%

Subsidized private sector as share of conventional private sector jobs: 16.26%

Real private sector as share of total non-farm jobs: 70.19%

Here's how the labor market looked from this perspective when the current recovery began, in June, 2009:

Private sector as share of total non-farm jobs: 82.77%

Subsidized private sector as share of total non-farm jobs: 14.97%

Subsidized private sector as share of conventional private sector jobs: 18.09%

Real private sector as share of total non-farm jobs: 67.88%

The big takeaway here – the real private sector took it on the chin during the recession while the subsidized private sector flourished, at least in relative terms. And where is the labor

market from this standpoint today?
Conventional private sector as share of total jobs: 84.65%
Subsidized private sector as share of total jobs: 15.73%
Subsidized private sector as share of conventional private sector: 18.59%
Real private sector as share of total jobs: 68.91%

These new figures are telling us that, although the conventionally defined private sector has recovered its share of total American employment (and then some), all of these gains have come from a combination of the subsidized private sector's continued growth plus the continued weakness of hiring in the government sector proper.

So when politicians and pundits claim that, as of the May figures, the U.S. economy has enjoyed 75 straight months of private sector jobs growth, you now know that, by common sense measures, the string has been broken – and that there was much less to the private sector's previous 74 months than met the eye.