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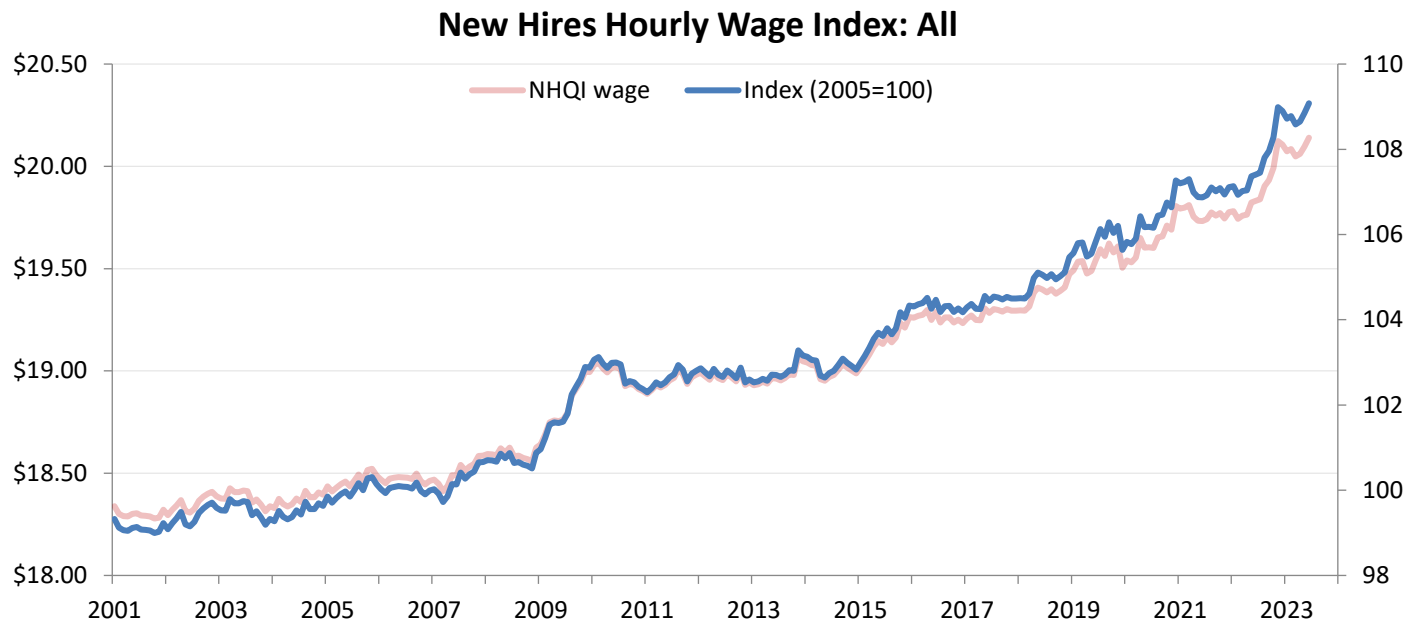
Upjohn Institute New Hires Quality Index jumps 0.2 percent in June 2023, to a new record, but hiring volume continues to ebb, falling 0.3 percent from May

KALAMAZOO, Mich.— The Upjohn Institute New Hires Quality Index shows inflation-adjusted hourly earnings power of individuals starting a new job increased 0.2 percent between May and June of 2023, to $20.14, besting the record from last November by 2 cents. Over the past 12 months the index is up 1.6 percent; since 2005, it is up 9.1 percent. Hiring volume, however, dropped for the third month, falling 0.3 percent over the month and 4.3 percent over the year. Volume is now only 0.4 percent above its pre-pandemic (February 2020) level; adjusting for population growth, however, hiring *rates* are now 1.9 percent *below* the pre-COVID baseline. Unlike the planet, the labor market is definitely cooling.

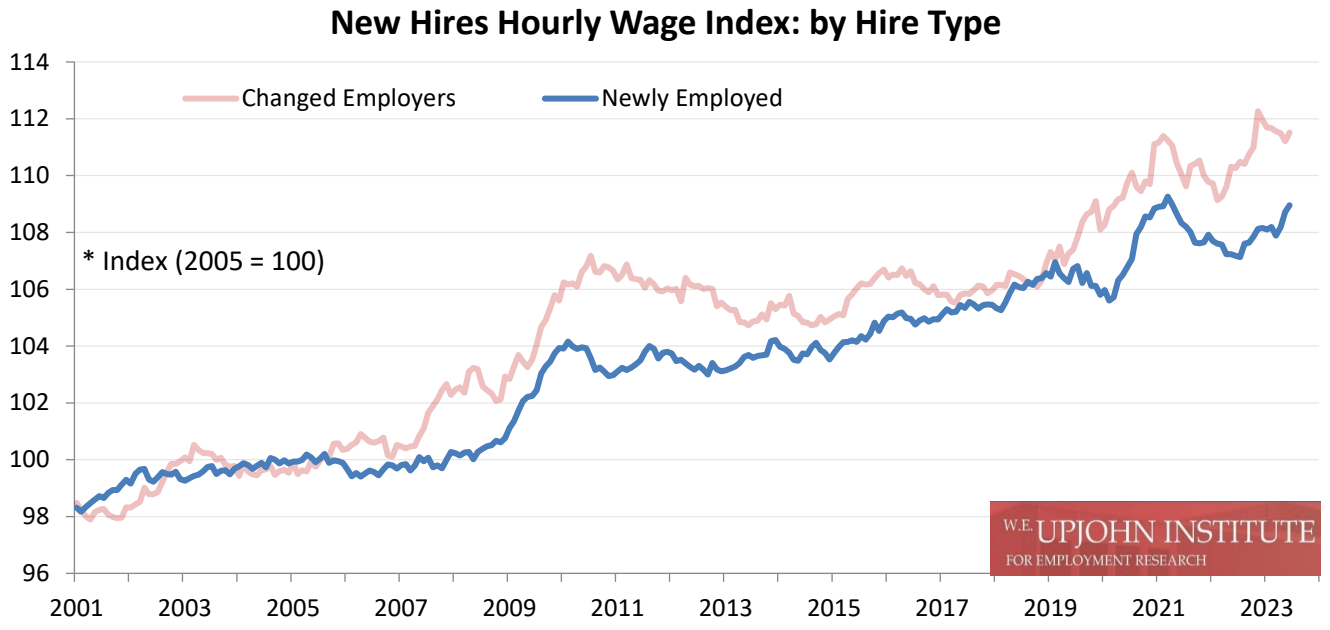
The index and accompanying interactive database and report, developed by Upjohn Institute economist Brad Hershbein, fill a key gap in the measurement of hiring activity. The NHQI provides monthly updates on the volume and occupation-based wages of newly hired workers, and is available for different groups based on sex, age, education, and other characteristics.



SOURCE: Upjohn Institute New Hires Quality Index
NOTE: The lighter line uses the left axis and shows the inflation-adjusted hourly wage of new hires. The darker line uses the right axis and shows the relative change since the base year of 2005.

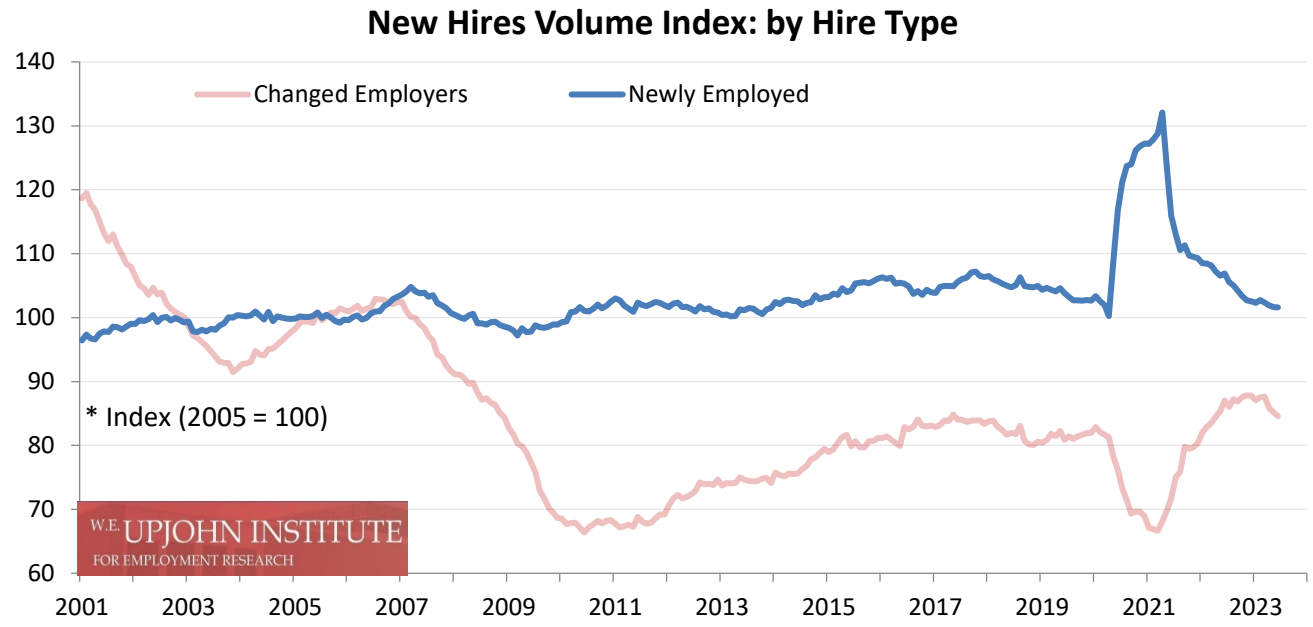
My Upjohn Institute colleague, Aaron Sojourner, has recently emphasized how the Labor Leverage Ratio has been declining over the past year or so. This measure consists of the number of job quits divided by the number of involuntary job separations and captures, Aaron argues, the strength of worker bargaining power. When there are more quits than layoffs, workers are essentially voting with their feet. The ratio stood at 2.6 as of May 2023, down from 3.2 in the spring of 2022, but still above its pre-COVID value of 2.0. Do we see earnings power cooling for workers switching jobs? In this month's NHQI release, we examine how hiring activity has differed between workers changing employers from one month to the next, most of whom had quit their old job, and workers becoming newly employed.

The graph below shows the hourly wage index separately for newly hired workers for these two groups, with workers changing employers in salmon and workers transitioning from nonemployment in blue. Each index is normalized to the respective group's own level in 2005 to better show relative changes. In early 2019, both groups had similar indices, with each having grown about 6.5 percent since 2005 (workers switching employers had grown faster immediately after the Great Recession, but the newly employed had caught up). But even before the pandemic, the wage indices had begun to diverge, with gains for those changing jobs and declines for those coming from the sidelines. This gap persisted during the pandemic and recovery and even widened through the fall of 2022. Over the past several months, however, the wage index has been declining for workers changing employers, and it has been rising for the newly employed. While this trend could accord with worker bargaining power softening, it could also reflect that the gains to be had from workers finding better-matched employers have played out, with employers having raised wages to keep their workers from leaving. Since workers coming from nonemployment have continued to find higher-paying occupations, this possibility needs further consideration.

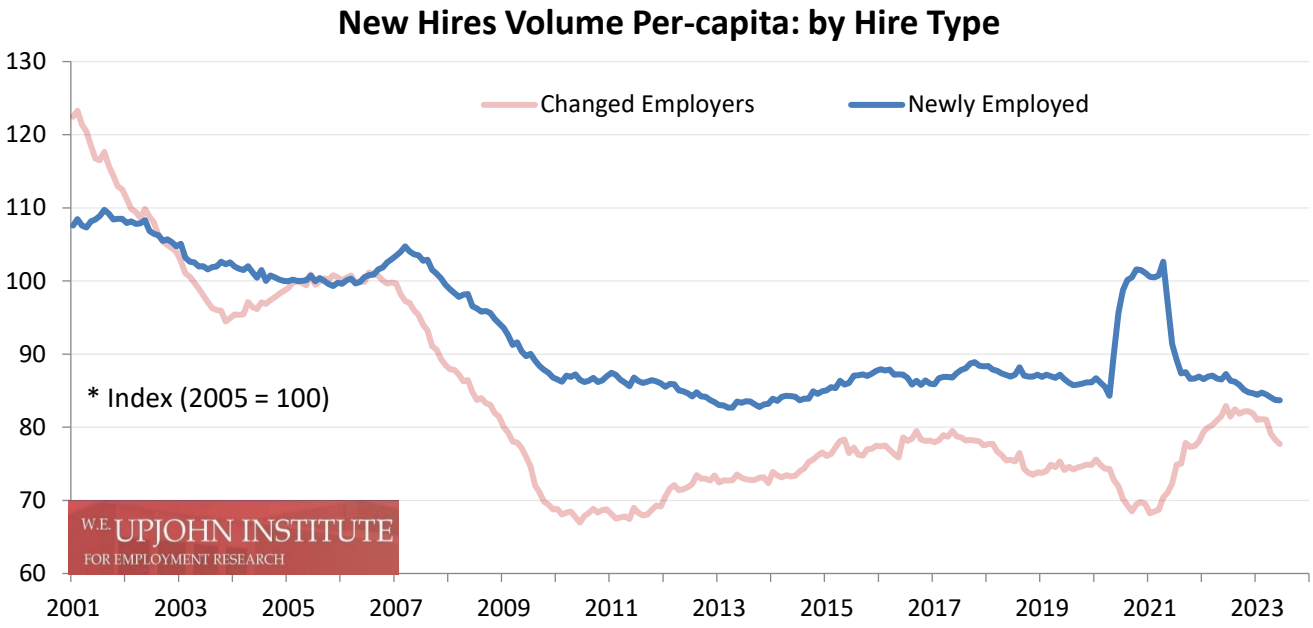


The graph below thus shows trends in hiring volume for both groups of new hires, again in each case indexed to levels from 2005. During the initial recovery in hiring in the second half of 2020, volume skyrocketed for workers hired from nonemployment while plunging for job switchers. Beginning in the spring of 2021, this pattern reversed as accumulated fiscal stimulus drove demand and fierce competition for labor. Hiring volume for workers coming from nonemployment has steadily fallen since April 2021 and is now below its prepandemic level. In contrast, hiring volume for workers changing employers

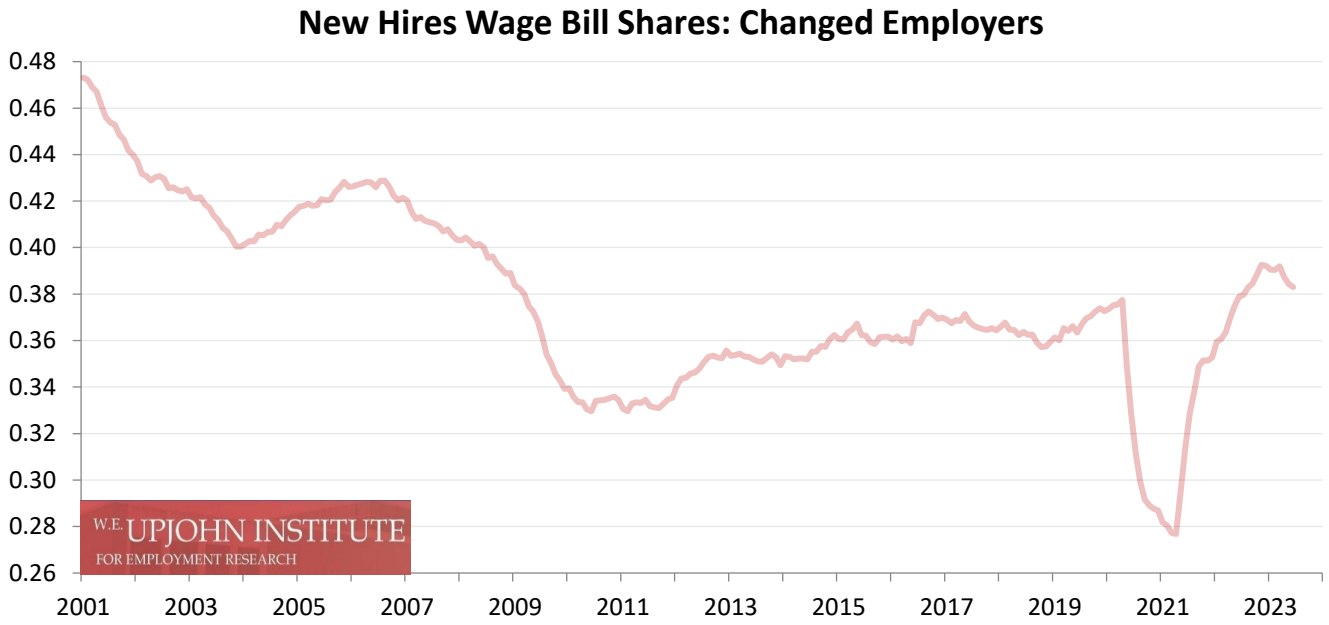
peaked in November 2022—several months after the Fed had begun raising interest rates—and has shown steady decline only over the most recent quarter. Volume for this group remains about 3 percent above its level in February 2020, and higher than at any point during the recovery from the Great Recession.



A better gauge of the strength of the hiring market may be hiring *rates*. The next graph presents hiring volume *per worker*, or hiring rates, again benchmarked to levels in 2005. These trends reassuringly confirm the pattern seen for overall hiring volume: relative to prepandemic levels, hiring rates for workers switching jobs are still up 3.8 percent (although have been easing for the past six months), while hiring rates for workers coming out of nonemployment are down 2.8 percent. This pattern basically accords with the trend in the Labor Leverage Ratio: worker bargaining power has begun to decline, but it remains stronger than before COVID.



Another way to visualize this phenomenon is by examining the share of the earnings power among all new hires that is accounted for by workers changing employers. This new hires wage bill is essentially the product of the wage index and volume index, and the graph below shows the trend in the share of this total new hires wage bill accruing to job switchers. As of June 2023, this share is 38.3 percent, down from a peak of 39.3 percent in November 2022, but still up from 37.5 percent in February 2020. This suggests the labor market, although definitely cooling, may still have a little more heat to shed.



These statistics and many more, as well as interactive charts and data downloads, can be found at the website for the Upjohn Institute New Hires Quality Index: www.upjohn.org/nhqi.

The full report, including methodology, can be found here: https://www.upjohn.org/sites/default/files/2021-05/NHQI_report_0.pdf.

All data will be regularly updated during approximately the first week of the second month following the reference of the data release month. For example, data for July 2023 will be released during the first week of September 2023. To sign up to regularly receive monthly press releases for the Upjohn Institute New Hires Quality Index, visit: www.upjohn.org/nhqi/signup.

FAQ

1. What is the New Hires Quality Index?

The New Hires Quality Index (NHQI) is a consistent way of measuring the earnings power of people taking new jobs each month, allowing comparisons over time.

2. How is the Index constructed?

The Index is based on the occupations of newly hired workers as documented in the Current Population Survey, the same source used to produce the national unemployment rate each month. Separate data on the hourly wages for each occupation from another government survey, Occupational Employment Statistics, are connected to the newly hired workers in the Current Population Survey. These hourly wages are then statistically adjusted to account for differences in the demographic composition of new hires (sex, race and ethnicity, education, and age) before being averaged.

3. Does the Index measure actual, reported wages of newly hired workers?

No. Although the data used to create the Index do have some information on self-reported wages (or those reported by another household member), many economists consider these self-reported wages increasingly unreliable, as a growing fraction of workers refuse to answer the wage questions, and the government's attempts to impute (make an "educated guess") for these workers are problematic. Moreover, because relatively few workers are even asked the wage questions, and only a small subset of these are newly hired, use of the self-reported wage data would lead to very small samples.

The Index captures change in the wages of new hires due to both changes in the mix of occupations hired and the demographic characteristics of individuals taking new jobs. It will not capture change in the wages of new hires due to other factors, such as individual aptitude, geography, or employer characteristics.

A comparison of the Index with a series derived from the actual self-reported wages in the Current Population Survey can be found in the technical report. An analysis of self-reported wages can also be found in press releases for July 2018, July 2019, July 2020, July 2021 and July 2022.

4. Does the NHQI count self-employed workers?

No, the NHQI excludes the self-employed (including those who report bring independent contractors).

5. How often is the NHQI updated?

Every month, with the release by the Census Bureau of the Current Population Survey microdata. Updates will be posted on the NHQI website during the first week of the month, covering data from two months ago. Data are currently available from January 2001 through June 2023. To receive updates through email or social media, visit the signup page.

6. What data are available on the NHQI website?

The NHQI website contains monthly data for all components of the NHQI. The four main components are: the hourly wage index, the hiring volume index, the wage bill index (the product of hourly wages and hiring volume), and the hires per capita index. Each component is available in its actual level or normalized to the base year 2005. In addition to providing data for all new workers, the NHQI exists for men, women, different age groups, different education groups, different races/ethnicities, different industry sectors, different regions, native and foreign-born, full- and part-time workers, and different types of new hires (the newly employed and employer changers). All data can be charted interactively or downloaded for separate analysis.