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300 South Westnedge Avenue • Kalamazoo, Michigan 49007 • 269-343-5541 • www.upjohn.org

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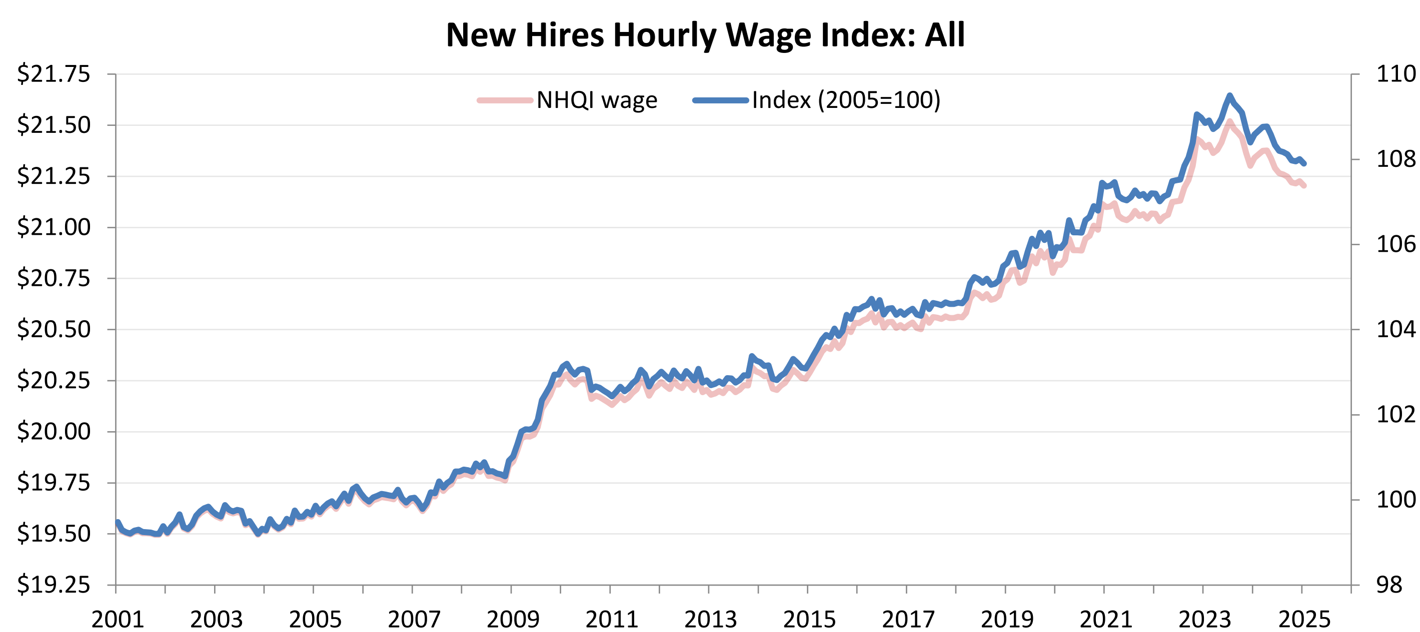
CONTACT: JUSTIN CARINCI carinci@upjohn.org
BRAD HERSHBEIN hershbein@upjohn.org

Upjohn Institute New Hires Quality Index slips 0.1 percent in January as the service sector shows more signs of weakness

KALAMAZOO, Mich.— The Upjohn Institute New Hires Quality Index shows inflation-adjusted hourly earnings power of individuals starting a new job slipped 0.1 percent between December 2024 and January 2025, after essentially holding steady the previous two months. The index currently stands at $21.20. This marks a 0.6 percent drop from its level of one year ago, although it remains 1.9 percent above its pre-COVID mark. Hiring volume continued its retreat after a small uptick the previous month; it edged down 0.6 percent between December and January, sliding 4.2 percent over the past 12 months, 5.9 percent since before the pandemic, and has reached its lowest level since 2011. Adjusting for population growth, hiring *rates* are down 4.9 percent over the year, 9.3 percent since the pandemic began, and also mark a new record low. The annual benchmark revisions showed slower job growth in early 2024 but slightly faster growth in November and December, and the annual population adjustment increased the employment count by 2 million but minimally affected hiring trends, which remain tepid.

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.

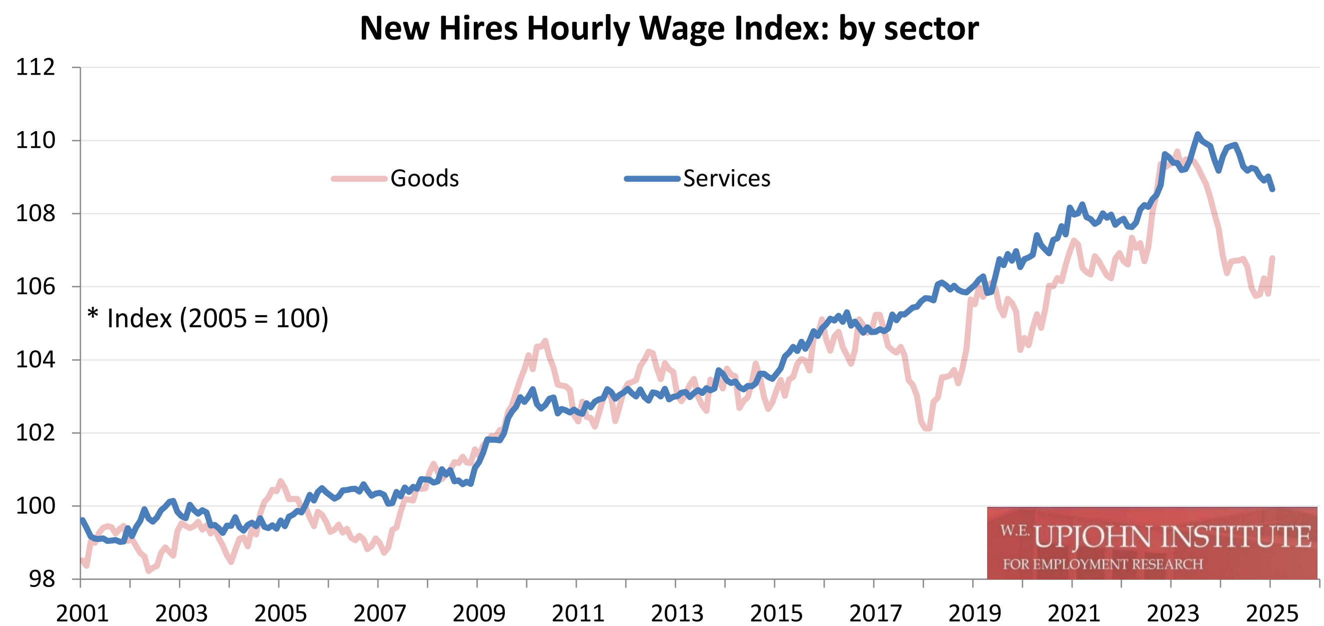


SOURCE: Upjohn Institute New Hires Quality Index

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.

With new tariffs enacted the other day, with more expected to be on the way, it is worth reassessing how hiring trends have fared in the goods and services sectors. Although services accounts for nearly twice the share of GDP as do goods, it is the latter sector that has been growing faster in consumption terms since the pandemic: since Q1 of 2020, inflation-adjusted goods consumption is up 22 percent while consumption of services is up just 15 percent. However, when it comes to *employment*, the service sector is up 4.9 percent since the beginning of COVID, while the goods sector is up only 3.2 percent. The differences have to do with imports and exports, as well as productivity growth, and both may be imperiled by tariffs and other countries' responses. Although hiring in the goods sector is more sensitive to tariffs than hiring in services, spillovers are likely. And this is especially true given the overall slowdown in hiring we've already seen in recent months.

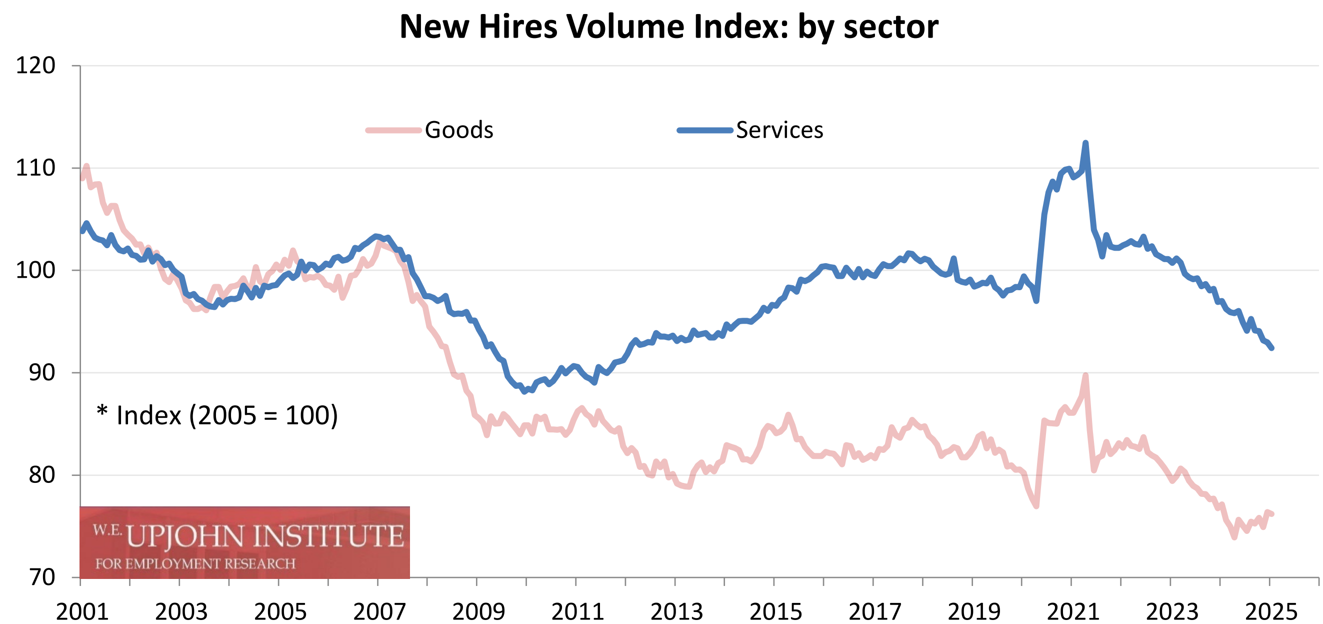
The graph below shows the hourly wage index separately for new hires in the goods-producing sector (most agriculture, mining, construction, and manufacturing; in salmon) and new hires in the services-producing sector (everything else; in blue). Each index is normalized to the respective group's own level in 2005 to better show relative changes. Although the index for the goods sector is more volatile, owing to its smaller size, the series had largely kept pace with growth in the wage index for new hires in services, with a notable exception in 2017–2018. Starting mid-2023, however, the wage index of new hires in the goods sector plummeted 3.3 percent in 18 months, its sharpest fall on record. In contrast the wage index in services has declined only one-third as much, 1.1 percent. This implies that opportunities in high-wage occupations in the goods sector had been drying up fast even before the imposition of any new tariffs.[1]



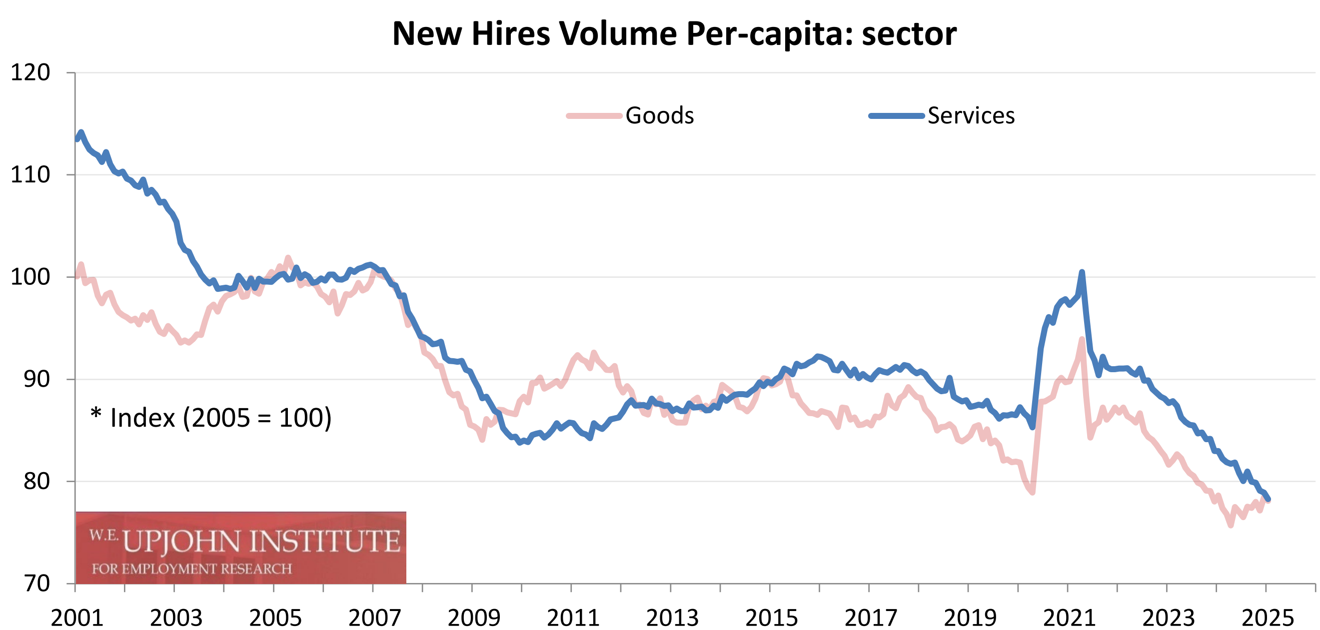
Turning to hiring volume, in the next graph, we see declines in both sectors, although this decline seems to have slowed, if not reversed, in the goods sector. Between June 2022 and June 2024, hiring volume in the goods sector fell 10.3 percent, versus an 8.1 percent decline in services. Over the past seven months, however, hiring volume has edged back up 1.5 percent in the goods sector, even as it has continued to fall another 2.7 percent in the services sector. Taken together with trends in the wage index, these patterns imply that the goods sector has seen disproportionately fewer hires in higher-paying occupations, even as hiring volume has leveled off, while the declines in service hiring have come more from the lower-paying

[1] It remains to be seen whether the uptick in January 2025 is just a short-lived blip, but the headwinds don't bode well.

occupations. Higher tariffs may cause the plateau in goods-sector hiring to resume its decline, and could well exacerbate the steady decline in services hiring.

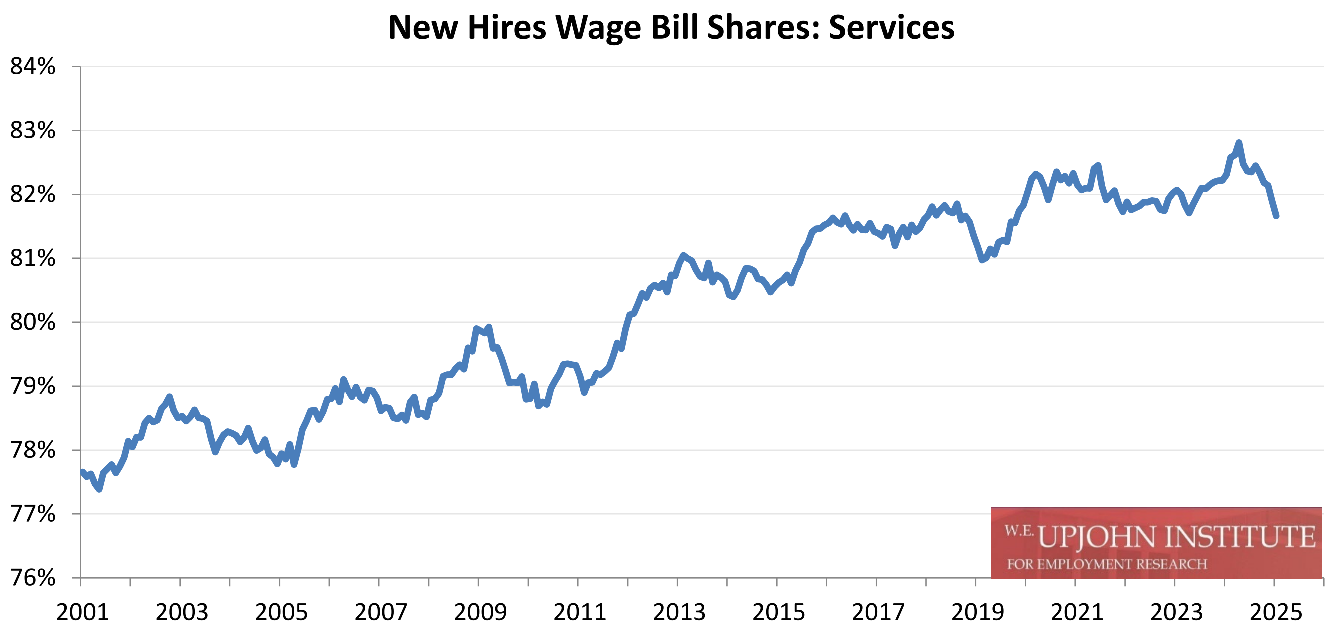


These trends are little changed if we instead examine hiring *rates*, hiring volume scaled by total employment in each sector. Because employment in the goods sector has grown more slowly overall, it requires a lower hiring volume to maintain the same hiring rate. Combined with the faster fall in service-sector hiring, the relative hiring rates for the two sectors are now equally proportionately below their hiring rates from 2005—the first time this has happened since 2015. But, again, higher tariffs may accelerate the hiring decline in the goods sector in the months to come.



Despite the service sector's stronger performance in the wage index, its weakening hiring volume has arrested what had been a steady march upward in its wage bill share—the percentage of earnings power among all new hires going to those in the service sector. Right before the pandemic, this share had reached 82.3 percent, then dropped about half a percentage point during the goods-driven recovery in

2021 and 2022, before rising in 2023 as the service sector caught up. Over the last nine months, the service sector's new hires wage bill share has given up all the gains since 2023, and even since before the pandemic. With tariffs on the horizon, though, hiring is likely to fall in both sectors—but faster in the goods sector—and this may end up pushing the service sector's wage bill share to new heights, if for economically unfortunate reasons.



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 February 2025 will be released during the first week of April 2025. 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 changes 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, July 2022, July 2023, and July 2024.

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 January 2025. 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 at 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.