W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

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

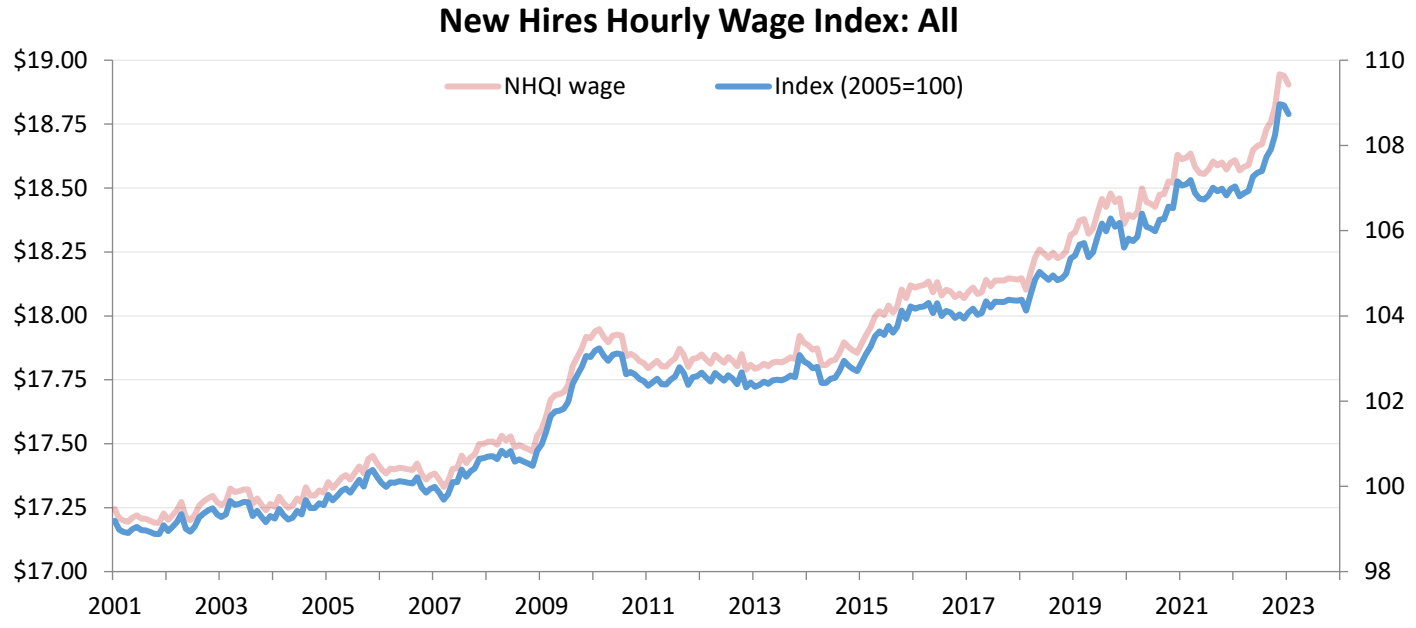
NEWS RELEASE: MARCH 8, 2023

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

Upjohn Institute New Hires Quality Index slips 0.2 percent in January 2023, with goods sector beginning to fall faster than service sector

KALAMAZOO, Mich.— The Upjohn Institute New Hires Quality Index shows inflation-adjusted hourly earnings power of individuals starting a new job essentially dipped 0.2 percent between December 2022 and January 2023, to $18.90. This is 4 cents lower than the record high reached in November. Over the past 12 months the index is up 1.6 percent; since 2005, it is up 8.7 percent. Hiring volume slowed for the 7th consecutive month, down 0.5 percent from December and 2.0 percent from January 2022; it nonetheless remains 1.8 percent above its pre-pandemic (February 2020) level. (Adjusting for population growth, hiring *rates* are precisely at the pre-COVID baseline.) These indicators suggest the labor market is easing gradually, maintaining the possibility of a softish landing as the Federal Reserve raises interest rates to bring down inflation.

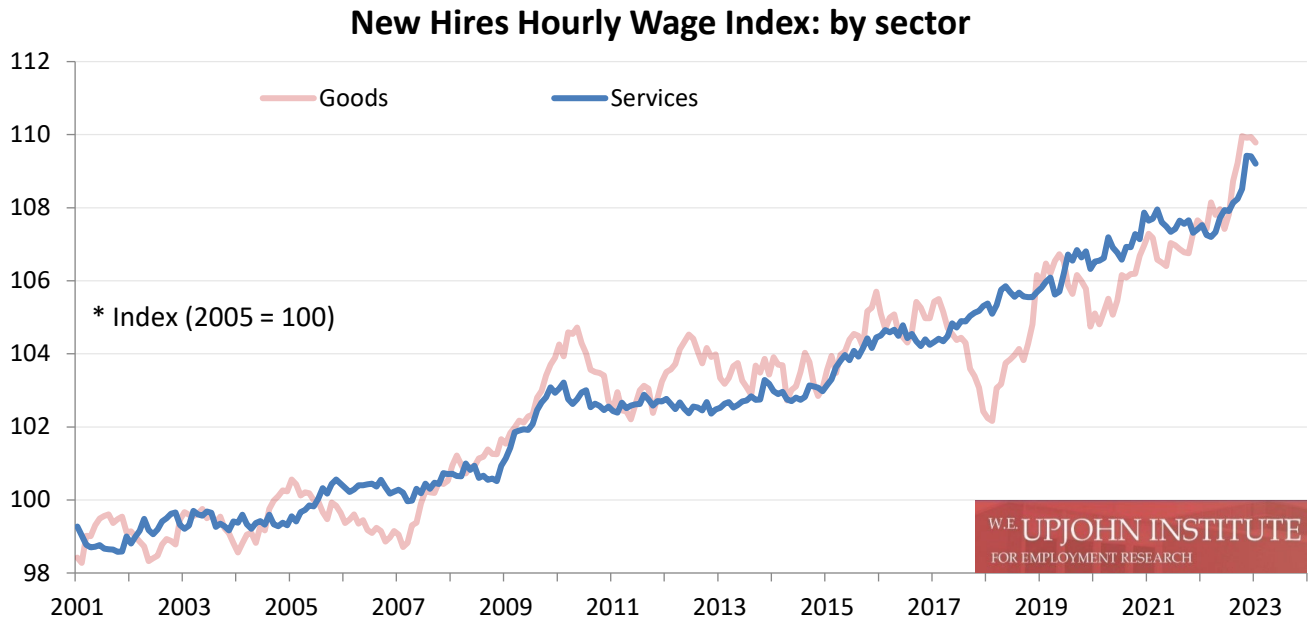
The index and accompanying interactive database and report, developed by Upjohn Institute economist Brad Hershbein, fill a key gap in the measurement of hiring activity. The NHQI provides monthly updates on the volume and occupation-based wages of newly hired workers, and is available for different groups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

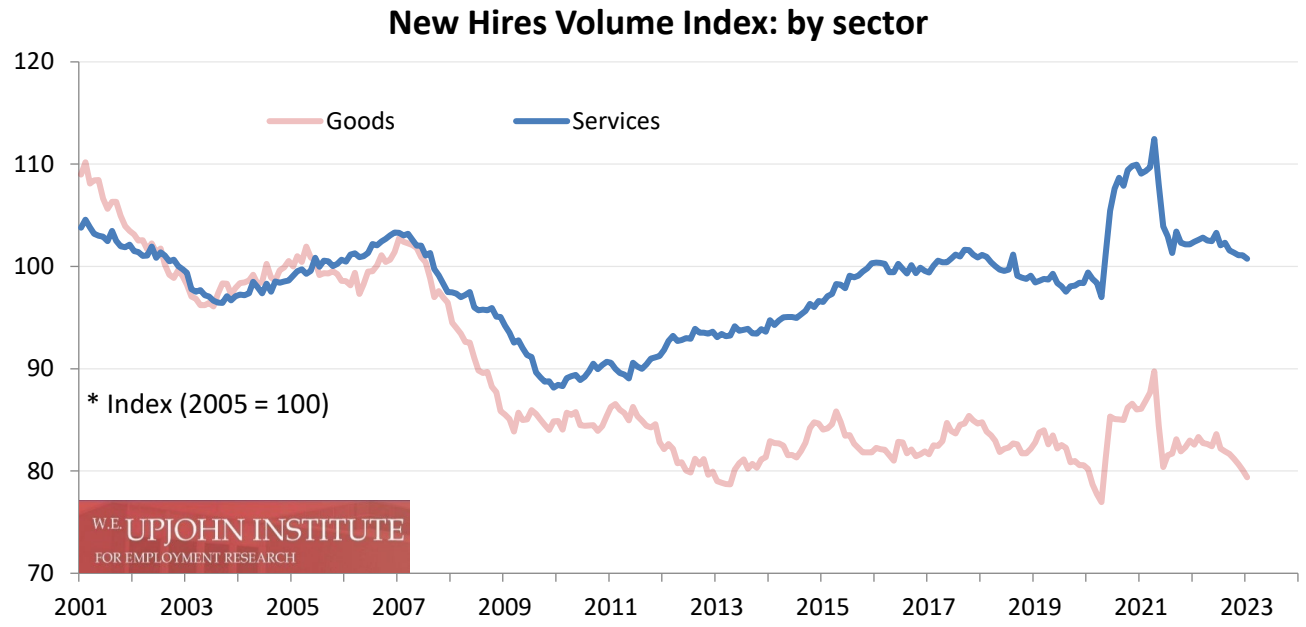
Both the U.S. aggregate economy and the labor market are slowing gradually—perhaps more gradually than the Federal Reserve would like. GDP growth in the fourth quarter of 2022 was recently revised down by 0.2 percentage points to an annualized 2.7 percent, and real-time estimates of GDP growth in the first quarter of 2023 are of a similar magnitude. Median annual wage growth over the year stayed at 6.1 percent in January. Although both numbers represent declines from last year, the recent plateauing—rather than continued decline—suggests greater economic resilience than many analysts had expected. With measures of inflation corroborating economic fortitude, particularly in the services sector, we turn in this month's NHQI to the labor market dynamics of new hires in both the goods and services industries. Continuing strength of hires in services—and any accompanying increase in earnings power—could lead to prolonged upward pressure on inflation due to the sector's size, and so examining these hiring dynamics can be illustrative in understanding likely trends over the coming months.

The graph below shows the hourly wage index separately for newly hired workers in the goods-producing sector (salmon) and services-producing sector (blue). Each index is normalized to the respective group's own level in 2005 in order to better show relative changes. New hires in both sectors have seen similar long-term growth in earnings power: since 2005, the wage index is up 9.8 percent in the goods sector and 9.2 percent in the services sector. More recently, growth has been stronger for new hires in the goods-sector industries of mining, construction, and manufacturing, with the wage index having risen by 4.7 percent since the pandemic began (and 2.1 percent over the past 12 months). For services, growth has been slower, but still robust by historical standards—up 2.5 percent since COVID and 1.6 percent from January 2022. Yet, the wage index may have peaked for now in both sectors; a few more months of data will be needed to determine whether the trend is persistent or only a brief pause.

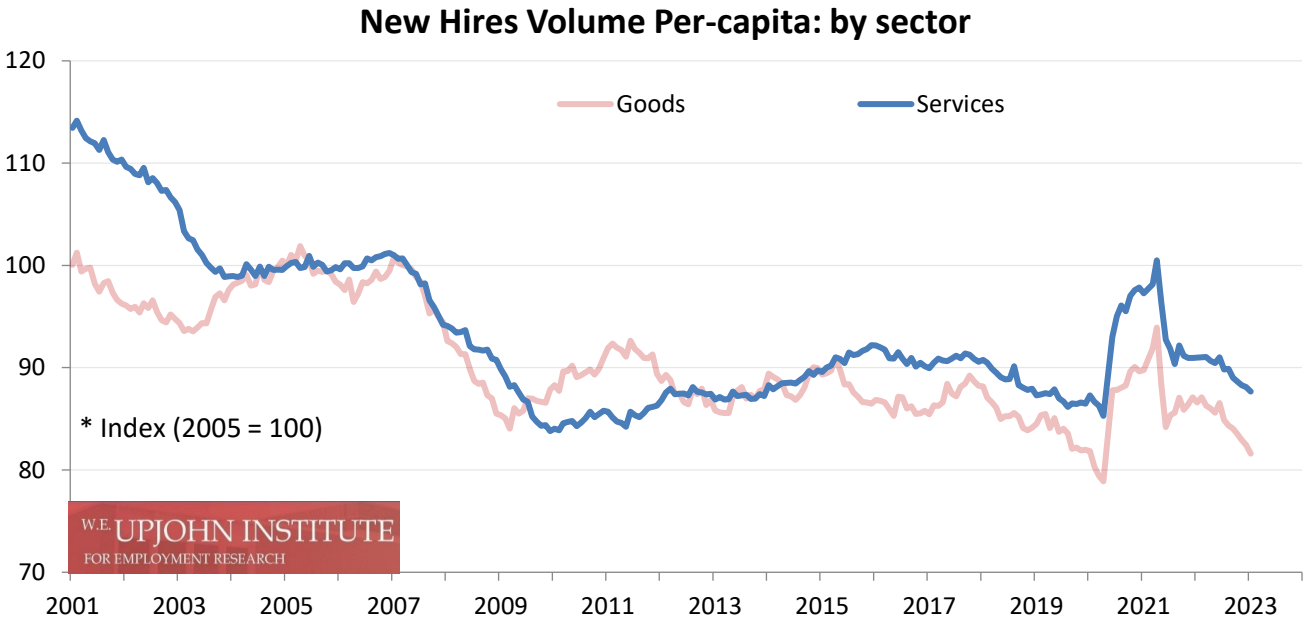


It is worth remembering that the wage index captures earnings power through the types of occupations workers are hired into, not higher pay, per se. Thus, another way to examine the strength of hiring is through the volume of hires. The next graph presents hiring volume indices (again normalized to 2005) for both sectors. Since the hiring surge to recover laid-off workers ended in spring 2021, both sectors have seen dips in hiring volume. For workers in the goods-producing sector, hiring is down 3.9 percent in the past 12 months, a steeper decline than the 1.6 percent for workers in the services-producing sector. More telling is that the majority of this decline in the goods sector has come in the past three months alone,

while the decline in services is more gradual. This suggests that slowing the strength in hiring in services may take longer, from the Fed's perspective, than doing the same in the good sector. Indeed, hiring volume is still 2.0 percent above its prepandemic average in services, but only 0.9 percent above this threshold—which was an all-time low—in the goods sector.

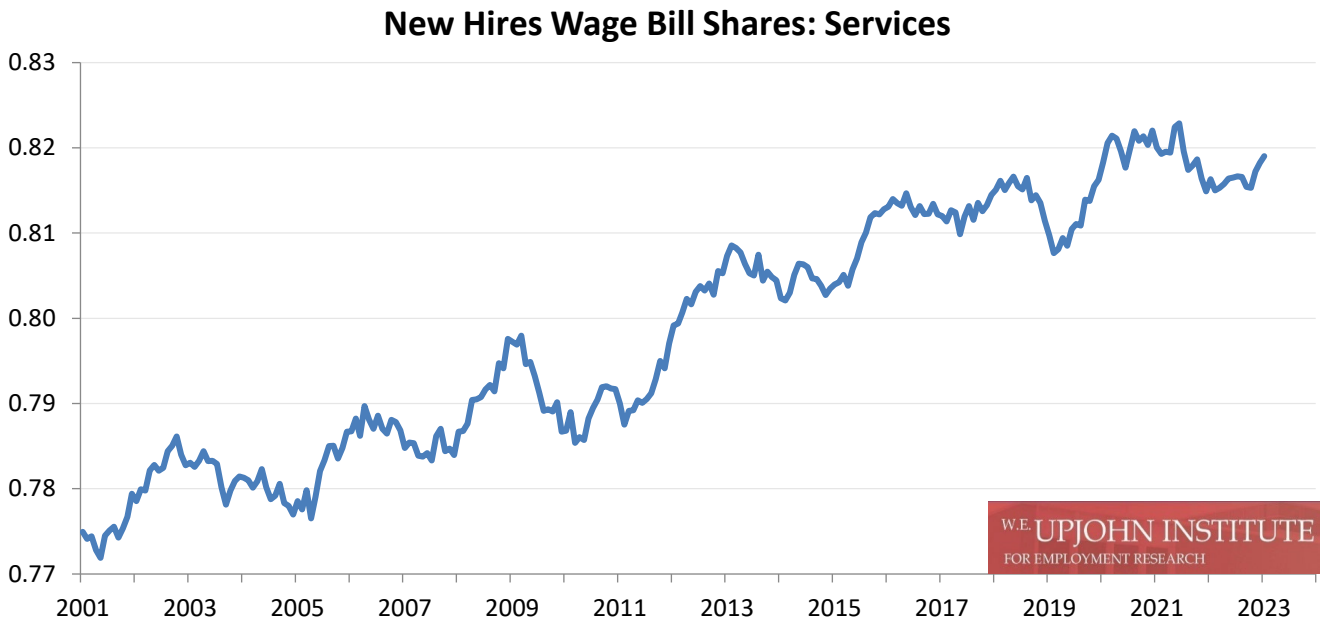


Since the evolution of the economy toward services has been going on for decades, recasting hiring volume to a per-capita basis, capturing *hiring rates*, can make contrasts in trends more visible. The figure below shows that indexed hiring rates close some—but not all—of the gap between the two sectors. However, the hiring *rates* also show even more dramatic declines than the total hiring *volumes*. Over the past 12 months, hiring rates have fallen 5.8 percent in the goods sector and 3.7 percent in the services sector, with the drops intensifying within the past three months. So, although hiring rates are easing more gradually in the services sector than in the goods sector, they are still coming down steadily and are currently around 2019 levels.



The declines in hires volume over the past year—even while the wage indices rose over this time frame—indicate that the hiring slowdowns are occurring disproportionately in lower-paying occupations within each sector. While this trend is somewhat inequitable, it is also a hallmark of slowing labor demand.

Balancing this story of inequitable slowing *within* sector is the relative equality of recovery *across* sectors. In previous recessions, job losses—and the hiring pattern in subsequent recoveries—led to stair-step increases in the service sector's share of employment. This can be seen in the graph below, which captures the service sector's wage bill share of new hires—the share of the combined earnings power of service sector hires compared to all new hires. Over the past two decades, this share has increased from about 77 percent to about 82 percent.[1] But most of the increases have occurred during or immediately after recessions. Since COVID, the service sector's share of the wage bill has changed little, down just 0.1 percentage point.



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 2023 will be released during the first week of April 2023. To sign up to regularly receive monthly press releases for the Upjohn Institute New Hires Quality Index, visit: www.upjohn.org/nhqi/signup.

[1] Among incumbent workers, the employment share has increased from about 81 percent to 86 percent over this period.

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 January 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.