W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

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

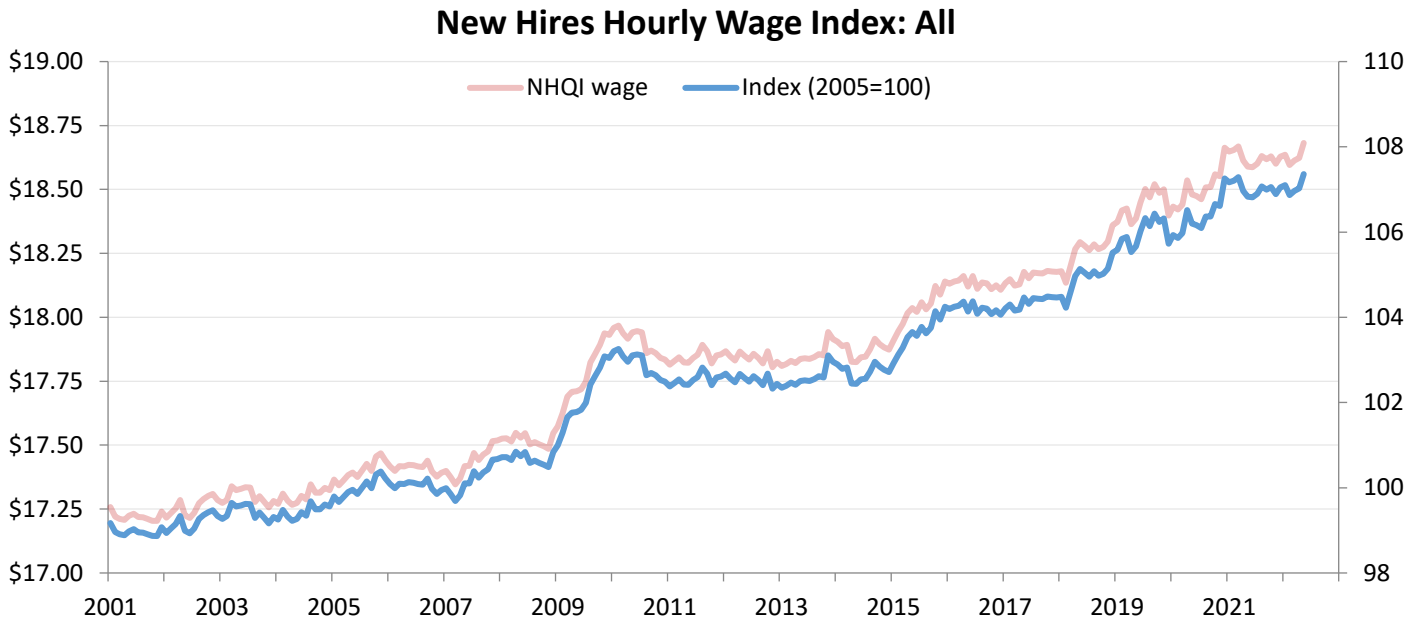
NEWS RELEASE: JULY 6, 2022

CONTACT: JUSTIN CARINCI carinci@upjohn.org or
BRAD HERSHBEIN hershbein@upjohn.org 269-385-0437

Upjohn Institute New Hires Quality Index for May 2022 reaches new high, and volume remains robust, but public-sector lags well behind

KALAMAZOO, Mich.— The Upjohn Institute New Hires Quality Index shows inflation-adjusted hourly earnings power of individuals starting a new job edged up 0.3 percent between April and May, reaching $18.68 and a new all-time high. Still, this represents just a hair above its previous high reached in the early months of 2021. Since 2005, the index is up 7.4 percent. Hiring volume eased 0.1 percent over the month but remains 3.9 percent above its pre-pandemic (February 2022) level. High inflation, the Federal Reserve's (larger) interest rate hikes, and ongoing supply chain disruptions still do not appear to have substantively affected U.S. hiring—at least not yet—although hiring is a lagging indicator of macroeconomic health. The current jobs deficit, relative to before COVID-19, stands at 0.8 million—3.2 million if prepandemic job growth had continued.

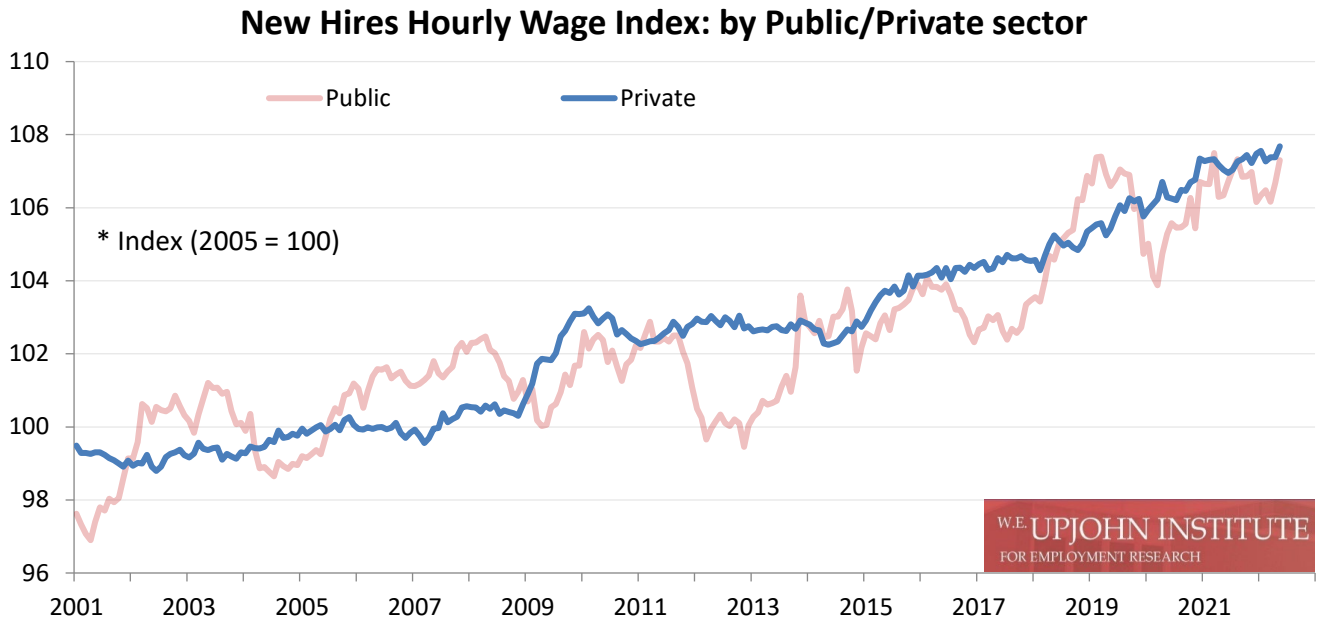
The index and accompanying interactive database and report, developed by Upjohn Institute economist Brad Hershbein, fill a key gap in the measurement of hiring activity. The NHQI provides monthly updates on the volume and occupation-based wages of newly hired workers, and is available for different groups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

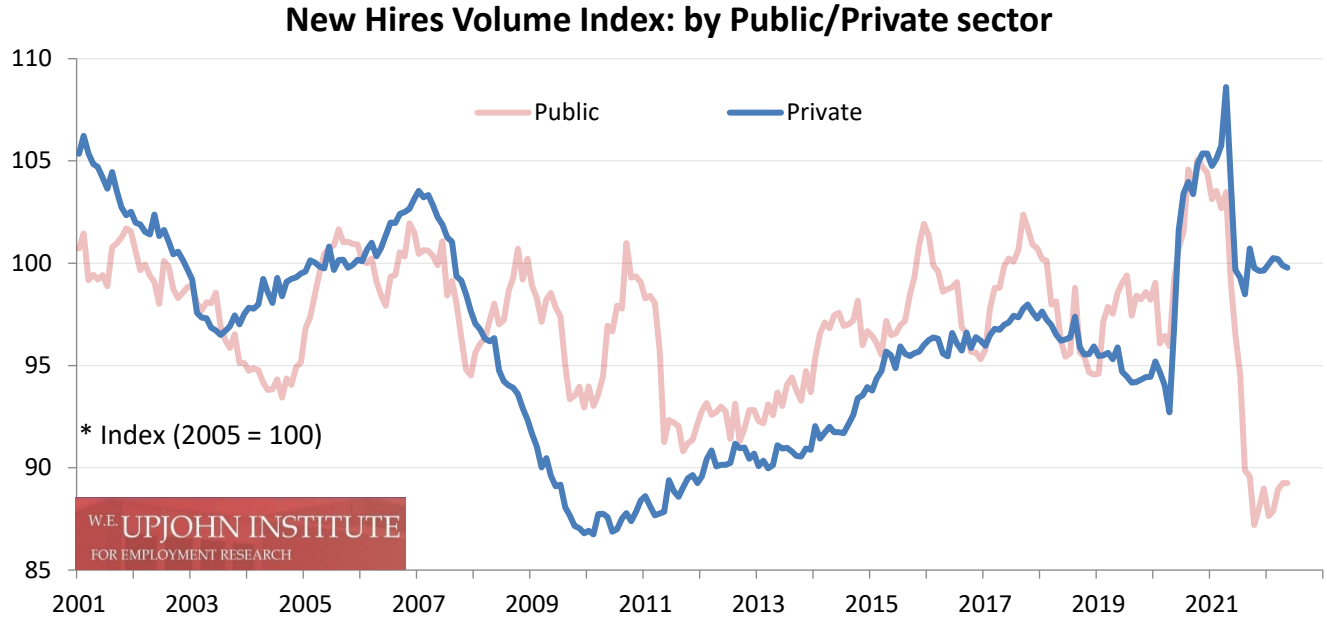
As we head into mid-summer, we return to examining the different recovery profiles of private and public-sector workers. As detailed in a previous release, earnings index growth in new hires had been similar for both groups of workers by late spring of 2021, but public-sector workers—including many involved in local and state education—had seen little jobs recovery. After completing another year of school and robust aggregate job growth, has the public-sector begun to pick up on hiring or has its post-Great Recession anemia continued?

The graph below shows the hourly wage index separately for public-sector and private-sector workers. Each index is normalized to the respective group's own level in 2005 to better show relative changes. Both groups have seen growth over time, although the wage index for public-sector hiring has been more volatile, both because of the smaller underlying sample size in the data and because wages for public-sector hiring are more sensitive to union negotiation and fiscal budgeting than are wages in the private sector. Nonetheless, wage index growth since 2005 has been quite similar for new hires in both sectors: 7.3 percent for public and 7.7 percent for private. More recently, wage index growth since the start of the pandemic (3.1 percent) has actually outstripped that for the private sector (1.5 percent). This might seem counterintuitive, given large increases in advertised and realized wages for many private-sector service workers over the past year and a half, but remember that the wage index is based on earnings power of occupations rather than wage changes *within* occupations. This means that the faster recent growth for public-sector workers is not because their starting wages are rising so much as that these workers are starting in higher-earning occupations. (Many recent private-sector hires are in relatively low-paying service and food-related jobs, and this brings the average wage index for the private sector down, even though starting wages for these jobs have been rising.)

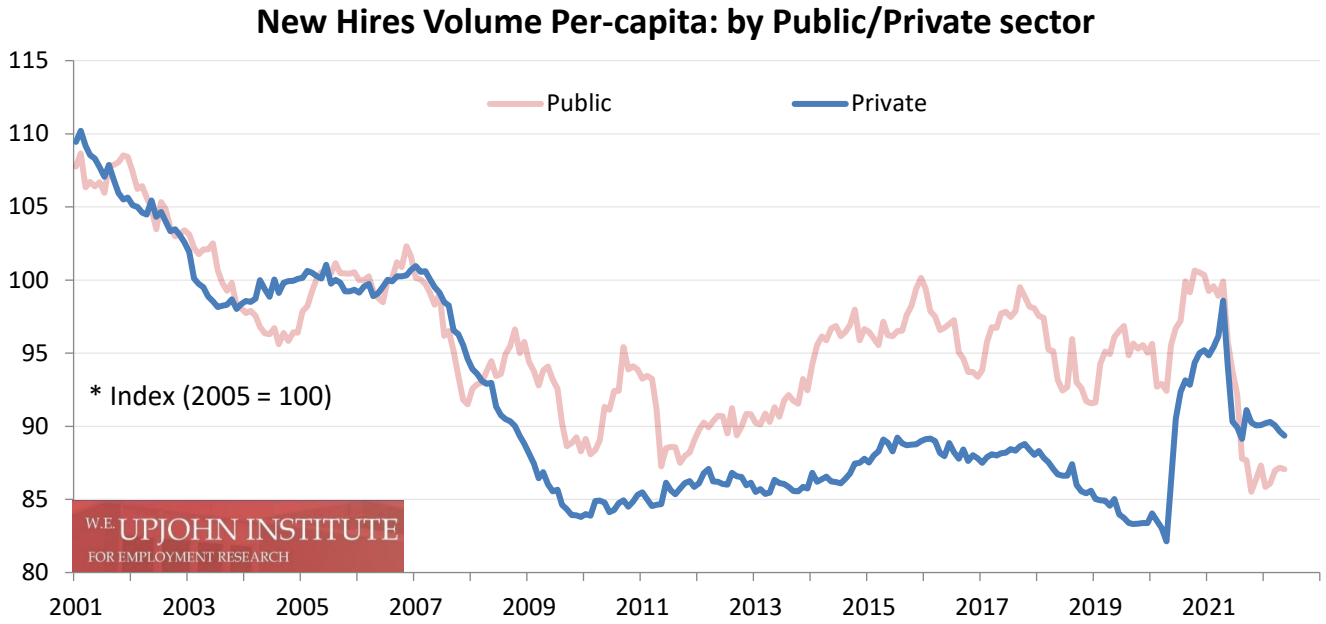


Moreover, it is important to note that many public-sector jobs that were lost in 2020 and 2021 were in relatively low-paying education jobs—not teachers so much as bus drivers, custodians, and aides. If these workers were being hired back in large numbers, we would expect downward pressure on the public-sector wage index rather than faster growth. Indeed, when we turn to the volume index in the graph below, we see a collapse in public-sector hiring over the past 12 months, to an unprecedented low. Public-sector hiring volume is currently 11.7 percent below its level in 2005, about 2 percent below its post-Great Recession nadir, and 7.1 percent below its prepandemic level. In contrast, although private-sector hiring

has slowed from the rapid summer 2020 recovery, it remains 5.4 percent *above* its prepandemic volume. Despite many states and local governments being financially flush due to federal government assistance and strong revenues—at least for now—there seems to be more political momentum to cut taxes rather than increase public-sector hiring.

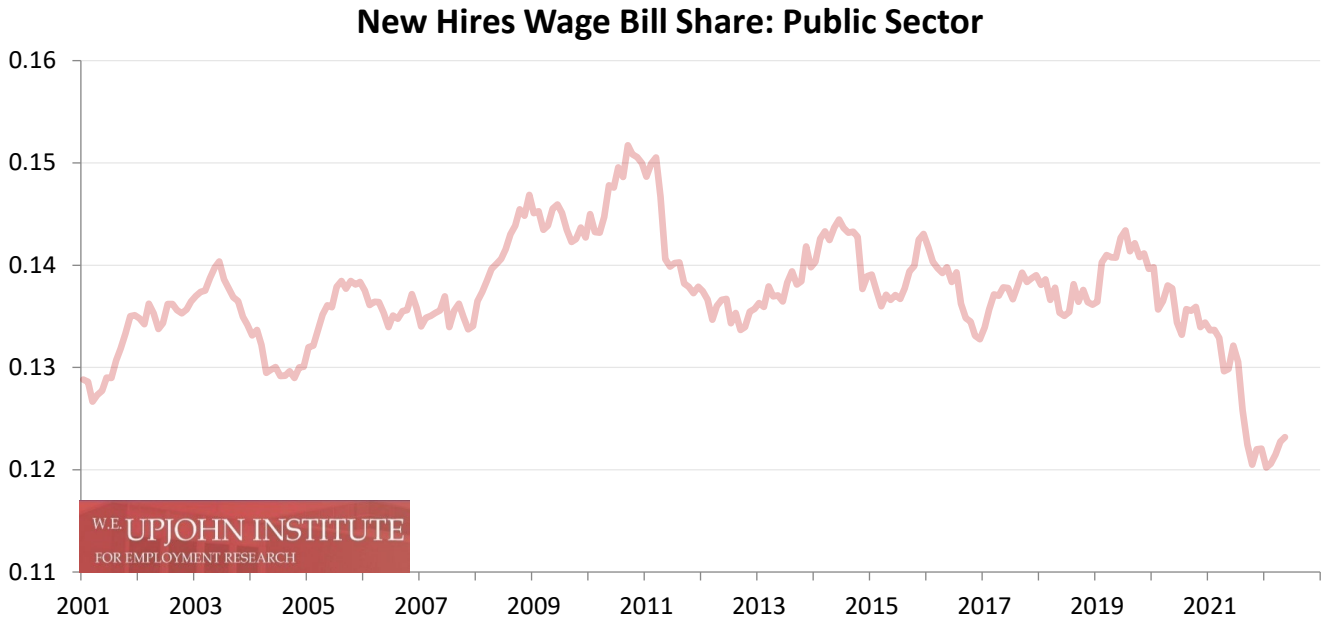


Even on a per-capita basis, public sector hiring rates lag. The figure below shows the number of hires per 1000 workers in each group, again benchmarked to 2005. Because private-sector job growth has been robust, it's reasonable to expect the hiring rate to slow as we approach a new equilibrium, but this does little to close the gap. Relative to prepandemic rates, the public sector hiring index for volume per capita is down 6.1 percent while that for the private sector is up 6.9 percent.



It thus appears uncertain when—if ever—many of the public sector jobs shed during the beginning of the pandemic will return. But with public-sector wage growth (actual wage growth, not the NHQI index) unable to keep up with pay bumps in the private sector—even though some states are now offering

bonuses—the public employment sector may continue to shrink. The last figure, below, shows that the public-sector share of the new hires wage bill—the earnings power of newly hired government workers as a fraction of the earnings power of all newly hired workers—clocked in at 12.3 percent in May, well below the 13–14 percent average of the past 20 years. This share is lower than the 14.7 percent share of all *incumbent* workers and is a leading indicator that this latter share—already at lows not reached since the late 1950s—will likely continue to decline.



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 June 2022 will be released during the first week of August 2022. 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, and July 2021.

4. Does the NHQI count self-employed workers?

No, the NHQI excludes the self-employed (including 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 May 2022. 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.