The Monthly Snapshot Is Not the Whole Picture

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Labor markets are more dynamic than revealed in the monthly tallies of changes in employment levels. Two additional sets of indicators – the Business Employment Dynamics (BED)¹ and the Quarterly Workforce Indicators (QWI)² help illuminate the workings of the economy and labor market.

Each month, the Department of Labor reports a snapshot of current employment which can be compared to the level of employment in a previous period, for example the previous year or the previous month. As the table at the top of page 6 shows, in August Connecticut employment fell by 6,000 jobs from July but increased 15,400 from August 2012.

While often described as “job creation”, these net changes are the result of the creation (and destruction) of thousands of jobs. Just as a change in population is the net result of births, deaths, immigration, and outmigration, a change in the number of jobs is the net result of businesses opening, closing, expanding, and contracting. Chart 1 shows these Business Employment Dynamics for Connecticut from 2002 through the 4th quarter of 2012 (latest available data).

Connecticut’s Business Employment Dynamics

The data show that while businesses opening and closing may get a lot of attention, expansions and contractions are more important to the changes of the level of employment. Approximately 10,000 jobs per quarter are created through openings and approximately another 10,000 jobs destroyed through closing each quarter. On average, this rate of creation and destruction hardly budged during the recession.

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¹ Business Employment Dynamics
² Quarterly Workforce Indicators

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Chart 1: Components of Job Gains and Losses

Private Sector -- Seasonally Adjusted

Note: Shaded area represents NBER recession period
and so far during the recovery despite a little volatility in particular quarters.

On the other hand, the pace of creation through expansions and destruction through contractions is usually six to seven times that of openings and closings. During the recent recession, the number of jobs destroyed each quarter due to contractions increased dramatically while the number of jobs created through expansion decreased. The vast majority of the net decline in overall jobs during the recession was the result of contractions outpacing expansions (Chart 2). Indeed, the number of jobs lost due to businesses closing during the recession was just over 10,000 more than those gained through new business openings during the same period that net jobs declined by more than 100,000 as contractions far outpaced expansions.

Since the recession ended, the number of jobs destroyed each quarter due to contractions has fallen below its pre-recession level. Unfortunately, the rate of job creation from expansions, while up from recession lows, remains below the pre-recession pace.

Overall, this means that in the years since the recession ended, the Connecticut labor market has been less dynamic than during the years just before the great recession.
Comparing the most recent 11 quarters (2010 Quarter 2 through the 4th Quarter of 2012) with the 11 quarters that preceded the great recession (2005 Q3 through the 1st quarter of 2008) shows that the number of jobs gained through expansions is down from the pre-recession period in most major sectors with the exception of Education & Health Services and Leisure & Hospitality. Interestingly, Education & Health Services is the ONLY sector that has also seen a gain in the number of jobs lost due to contraction.

While the number of jobs is smaller compared to expansions and contractions, it is a positive sign that the number of jobs created though openings has significantly exceeded those lost to closings in several sectors (Chart 3). The net gain from new openings in the Leisure and Hospitality sector is nearly 1/3 of the total increase in Connecticut jobs since the end of the great recession.

Stable Hirings as Measured by the Quarterly Workforce Indicators

The Quarterly Workforce Indicators (QWI) are issued each quarter as part of the Census Bureau’s Longitudinal Employer-Household Dynamics program. The QWI contain a number of important labor market and demographic details. As an example, this article will discuss the data for Connecticut for Stable New Hires, defined as the number of workers who started a new job that lasted at least a full quarter with a given employer. For the most recent year for which we have data (through 3rd quarter of 2012) there were 90,000 stable new hires each quarter. The hires occurred at new businesses and businesses that were expanding, of course, but also at businesses that were contracting or had stable employment but that needed to replace employees who retired, left for another job, etc. Not surprisingly, the industry breakdown of hires shows the most hiring in Retail Trade and Accommodation and Food Service (industries that have been growing and where workers may tend to change jobs more frequently than in other industries) and in Health Care and Social Assistance (a sector that has been growing steadily for years, even through the recession). However, there has also been significant hiring in sectors that have not posted big net employment gains. Even some with losses in the past year (such as manufacturing and finance) have seen thousands of new hires each quarter. Indeed, there was nearly as much hiring in the manufacturing sector as in educational services (Chart 4).

Examining stable hires by firm size is also revealing. While the smallest companies (those with fewer than 20 employees) hired more than 20,000 workers per quarter over the past year, the largest companies (those with more than 500 employees) hired approximately 30,000 new workers per quarter into stable jobs. Looking at hiring by firm age shows a similar pattern with more than half of all stable new hires at firms that are more than 10 years old.

Policymakers may be correct to focus on newer, smaller firms because they may have the greatest potential to create new jobs and increase overall employment in the state. However, someone looking for work may be better off looking at older, larger firms that may be doing a lot of hiring to meet replacement needs even if their overall employment isn’t growing.

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Manufacturing: A Reason to Look Beyond the Snapshot

The total level of manufacturing employment in Connecticut declined by 3,900 in the past year, even as the overall employment picture improved. However, that’s only part of the story. Due to productivity improvements and capital investments, manufacturing employment can decline even as output grows. And as with any sector, there are underlying dynamics as some businesses expand and others contract. In recent years, job losses from manufacturers closing have been nearly offset by gains from new ones opening (Chart 5). The big decline during the recession was due to the spike in contractions and the decline in expansions. Fortunately, the contractions are now below their rate before the recession started. Unfortunately, expansions, while above their recession lows, have not picked up to the pre-recession pace.

Hiring, however, has picked up, suggesting that many manufacturers are looking for new workers – either in new companies or those that are expanding or to replace retiring workers (Chart 6). While total employment in manufacturing has barely budged since the recession, hiring has picked up significantly suggesting that there are opportunities for workers to find jobs in manufacturing in Connecticut.

Conclusion

Employment changes are reported each month and receive significant attention in the media and the public, and they are the best “real time” indicators of the health of the economy. However, they do not tell the full story. The underlying dynamics are much larger than the net change reported each month. Thousands of jobs are created (and destroyed) each month even if the net change is small or even zero. Hirings (and separations) occur all the time. While there are more opportunities in times of growing employment and in expanding industries, many workers start new jobs in contracting industries every month.

Sources:
3. QWI also has data on separations (and a many other indicators) but this article focuses on stable new hires.