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Economics Group

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JOLTS: Add a Tally to the Firming Labor Market Column

Job openings rose to a fresh post-recession high in December and suggest the pace of hiring should remain strong entering 2015. Churn in the labor market continues to rise, with both hiring and separations up.

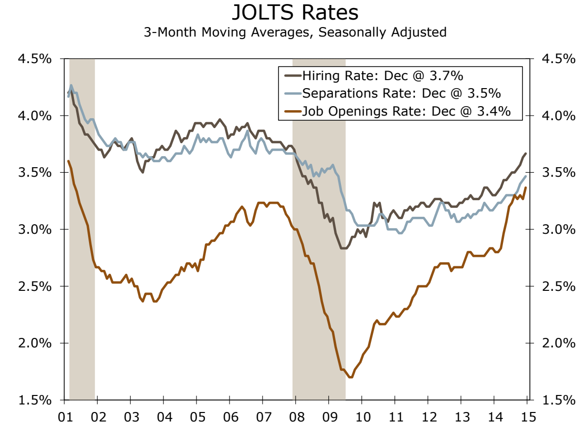
And the Beat Goes On

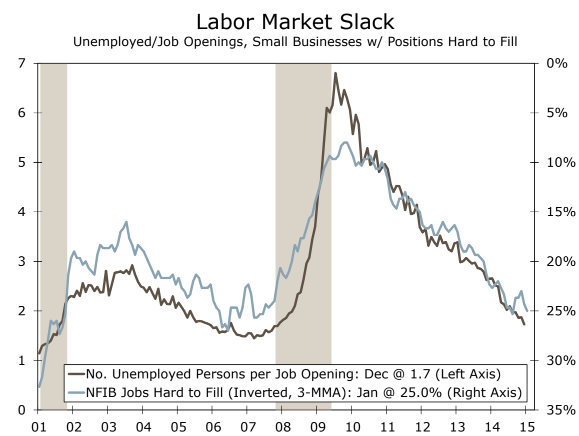
In another sign of a strengthening labor market, job openings rose to 5.0 million in December, the highest reading in nearly 14 years. The rate of openings relative to number of workers employed ticked up to 3.5 percent compared to 2.8 percent a year ago (top chart). Job openings are improving across most industries. Over the past year, the professional & business services industry has seen the largest increase in openings, with the rate increasing 1.5 percentage points, followed by education & health, up 1.2 percentage points. In contrast, the opening rate for the construction and manufacturing industries are up just 0.2 percentage point and 0.1 percentage point, respectively.

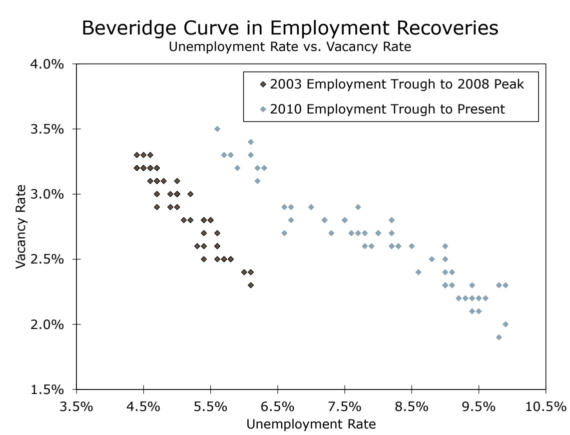
Turnover increased in December, with both the hiring and separation rates ticking up. Layoffs have drifted marginally higher in recent months, but remain relatively low. Meanwhile, the number of workers quitting their job resumed its forward march. Quits rose to 2.7 million in December and were up 10.8 percent in 2014 from the prior year. The rising quit rate is a sign that workers feel there are more opportunities available in the labor market or are more confident in their retirement savings. The improvement in voluntary separations should also provide a small boost to productivity, as workers find jobs that better suit their skills and interests. Perhaps of greatest interest at this stage of the expansion is the lift that the rising quit rate may provide to average hourly earnings; workers who move directly from one job into another typically experience a bump in their wages and rising quits may lead some companies to boost compensation in order to reduce turnover.

In addition to the low level of jobless claims, the rising number of businesses reporting a job that is hard to fill and the downward trend in the unemployment rate, the JOLTS report provides additional evidence that the labor market is tightening. The number of unemployed workers per job opening has fallen to 1.7 from a peak of 6.8 in 2009 and is lower than the previous expansion's average of 1.9 unemployed workers per job openings (middle chart).

However, the unemployment rate still remains high relative to the rate of job openings (bottom graph). This continues to suggest that structural unemployment remains higher in today's economy than in previous periods, where some workers do not have the right skills or are not in the right places to take advantage of the growing number of job opportunities. It also suggests that employers may have become more cautious in their hiring decisions, extending the time it takes to fill a vacancy. Although it is difficult for the Fed to pinpoint full employment in light of the ongoing changes in hiring needs and preferences, the data continue to point to a labor market where slack is quickly diminishing.







Source: U.S. Department of Labor, NFIB and Wells Fargo Securities, LLC

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