SHRM
LINE®
Leading Indicators of
National Employment®

Quarterly Review: Q4 2009 (October–December)

The SHRM Leading Indicators of National Employment (LINE) Quarterly Review

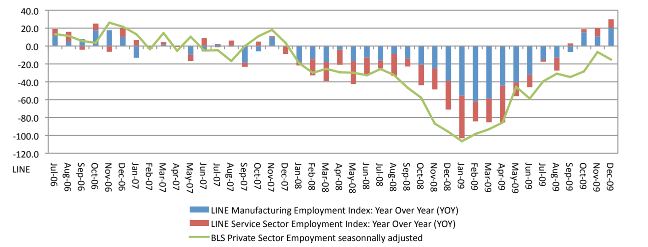
Though the U.S. economy continued to shed jobs in the fourth quarter of 2009, the pace of losses has begun to slow dramatically. Between October 1 and December 31, 2009, the U.S. private sector lost an average of 76,000 jobs per month. During the first quarter of 2009, job loss was at almost 10 times that rate, averaging 695,000 jobs per month. That's strong evidence that the economy is moving toward recovery. However, the fact that job losses are continuing means there has so far been little relief for those employees who were displaced during this recession. Over the four quarters of 2009, more than three million private-sector jobs were lost. The **SHRM Leading Indicators of National Employment (LINE) Report** should provide one of the earliest indications of when the economy will return to positive job growth. Over the last two years, LINE has proved to be a good barometer of how the labor market is responding to the recessionary pressures.

- **The LINE index of new-hire compensation remained negative during the fourth quarter.** Wages offered to new hires respond more quickly to changing economic conditions than do measures of the average wage for all employees in an organization. Wage change is one of the earliest signs of a tightening job market. As the recovery proceeds, it will be important to watch this indicator for any early signs of wage-driven inflation.

- **The LINE employment expectations index became increasingly positive during 2009.** As can be seen in Figure 1, these improvements in the LINE index have preceded the improvements in the BLS employment estimates. The positive year-over-year changes in LINE during the fourth quarter suggest that the U.S. economy will soon return to positive job growth.

- **In November 2009, the LINE index was positive for the first time in two years.** The LINE employment expectations index began a dramatic and consistent decline in December 2007 (see Figure 1). That decline corresponds exactly with the findings of the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER), which concluded that the current recession began in December of 2007.

Figure 1 | Monthly Change in BLS Private-Sector Employment Compared With LINE Employment Index Released One Month Earlier



Note: The YOY indices used in Figure 1 were calculated as the (LINE employment expectations index for month t from the survey conducted in month t-1) minus (LINE employment expectations from the survey conducted in month t-12). For example, the YOY index for December 2009 is the December 2009 expectation (from the November 2009 survey) minus the index from the December 2008 survey. That formulation appears to provide the best forecast.

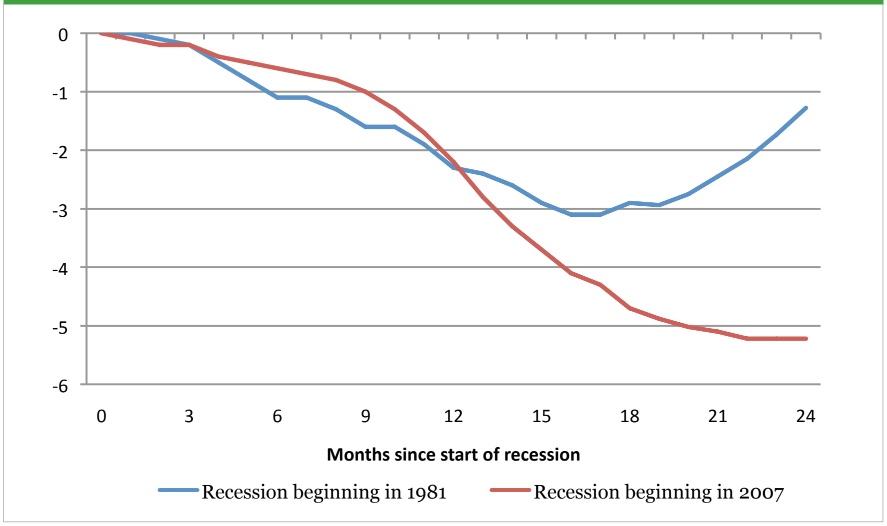
Source: Bureau of Labor Statistics, SHRM LINE Report historical data

- **The LINE employment expectations index revealed the jobs downturn before it was reported by the BLS.** Few, if any, long-term forecasting models were able to anticipate the precipitous loss of jobs as a result of the sudden onset of the credit crunch. However, the sudden move to payroll cuts as one of the fastest ways to reduce cash outflows was revealed in the sharp downturn of the monthly LINE employment expectations index.

- **The LINE employment expectations index reached a record low in January 2009.** In that month, HR professionals reported the lowest year-over-year hiring levels since the LINE survey began fielding four years ago. Four weeks after the release of the LINE employment expectations index for January 2009, the U.S. Bureau of Labor Statistics (BLS) reported that January job losses in U.S. private sector were 749,000–the largest one-month loss in more than 50 years.

The LINE report examines four key areas: **employers' hiring expectations, new-hire compensation, difficulty in recruiting top-level talent** and **job vacancies.** It is based on a monthly survey of private-

Figure 2 | Percentage Change in Employment Since Start of Recession



Source: Federal Reserve Bank of Minneapolis

sector human resource professionals at more than 500 manufacturing and 500 service-sector companies. Together, these two sectors employ more than 90% of the nation's private-sector workers. The LINE employment expectations index is released one month earlier than the BLS employment estimates for the same period. For example, the BLS released its estimate of employment levels for December 2009 on January 8, 2010. On that same day, SHRM released the LINE Employment Expectations index for January 2010.

A long period of job loss

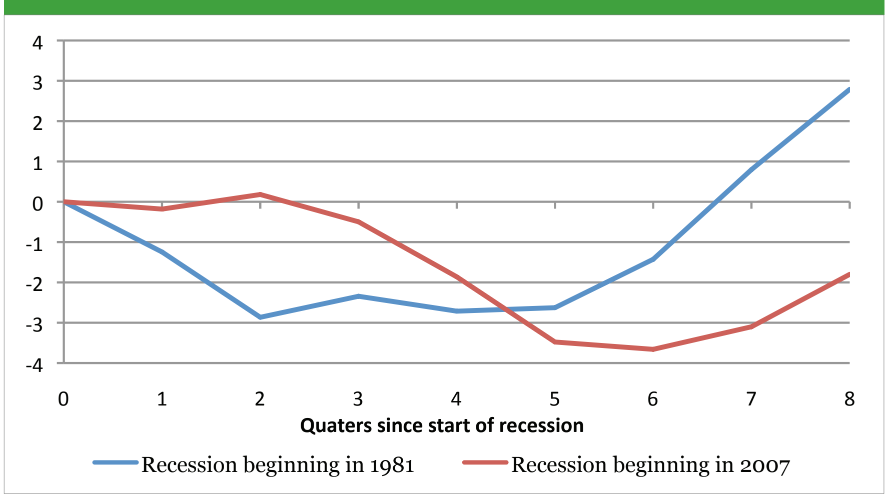
Of the five most recent recessions (1973, 1980, 1981, 1990 and 2001), four were relatively mild. The recession that began in July of 1981 was the most severe, and a comparison with the 1981 experience may help put the current recession into perspective. Figure 2 reveals after 12 months, employment had declined by approximately the same percentage in both the 1981 recession and the current recession. The striking difference is what happened after that. In the 1981 recession, after one year, employment losses began to taper off and employment was actually growing by the 18-month point. Unfortunately, in the current recession, employment did not turn up after 18 months but instead has continued to decline. The most recent LINE surveys conducted during the fourth quarter of 2009 suggest that the private sector is beginning to strengthen. Hopefully, this will soon be reflected in the BLS numbers.

Sudden cuts, lasting job losses

Figure 3 reveals that output, as measured by Real Gross Domestic Product, actually rose in the first three quarters following the start of this recession. Most firms didn't see a dramatic reduction in the demand for the goods and services they were producing. Then, in the last quarter of 2008 and particularly in the first quarter of 2009, the crisis in the financial sector erupted. Unable to obtain credit, many firms responded by trying to reduce their cash outflows. Often they saw payroll cuts as one of the fastest ways to do that. Few, if any, long-term forecasting models were able to anticipate this precipitous loss of jobs. However, as shown in Figure 1, the LINE employment expectations index, which asks firms about their hiring and layoff plans for the upcoming month, was able to reveal these employment declines before they were reported by the BLS.

The U.S. Department of Commerce has just released its initial estimate of GDP for the fourth quarter of 2009. The U.S. economy grew by 2.2% in the third quarter and by an unexpectedly large 5.7% in the fourth quarter. This growth during the third and fourth quarters is consistent with the improvements in the LINE employment index during the same period. However, as illustrated in Figure 3, output is still approximately 2% below the pre-recession level. Eight quarters after the 1981 recession, output was already well above its pre-recession level. In this recession, the job losses preceded the declines in GDP. If, as in most recessions, the return

Figure 3 | Change in Real GDP Since Start of Recession
(Seasonally adjusted data from U.S. Bureau of Economic Analysis)

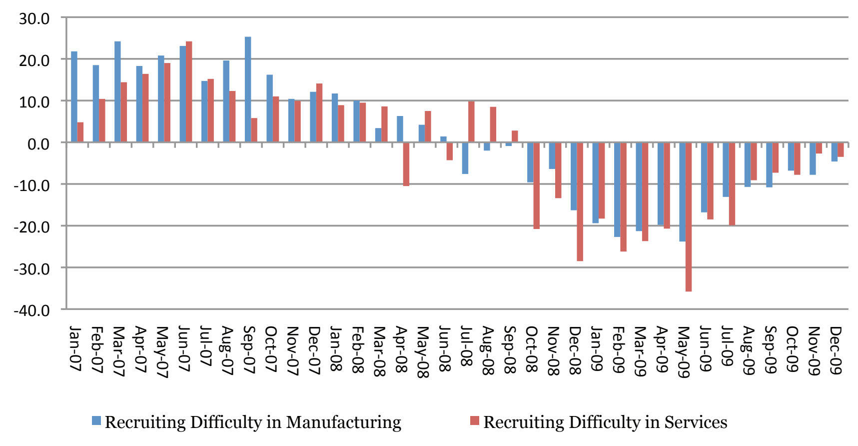


Source: U.S. Bureau of Economic Analysis to job growth lags behind the return to GDP growth, the combined effect will be an unusually long period of high unemployment and underemployment.

Continuing problems for job seekers, opportunities for hiring managers

The LINE recruiting difficulty index measures how difficult it is for firms to recruit highly qualified individuals to fill positions that are of greatest strategic importance to their firms. Recruiting this kind of talent often remains difficult even when labor markets are soft and even in sectors such as manufacturing, where employment has been declining for decades. The indices in Figure 4 reflected this difficulty throughout all of 2007. It was not until the fourth quarter of 2008 and the first quarter of 2009 that these indices became consistently negative. In the fourth quarter of 2009, both manufacturers and service-sector firms reported that the availability of highly qualified job applicants was continuing to increase. The fact that the month-to-month changes are smaller may just be a reflection of the fact that this is already such a buyer's market that a firm does not have to struggle to recruit new employees. The hesitancy of even healthy firms to take on these exceptionally qualified individuals demonstrates the extreme nervousness in the current labor market. Just as many financial institutions with cash are unwilling to make loans, many employers with talent needs are unwilling to make new hires. For those firms that do have the ability and willingness to mine for talent in this job market, the potential gains are large. Even firms that are forced to reduce overall employment levels may be able to enhance their long-term competitiveness by selectively recruiting "A players" for their "A positions."

Figure 4 | LINE Recruiting Difficulty Index

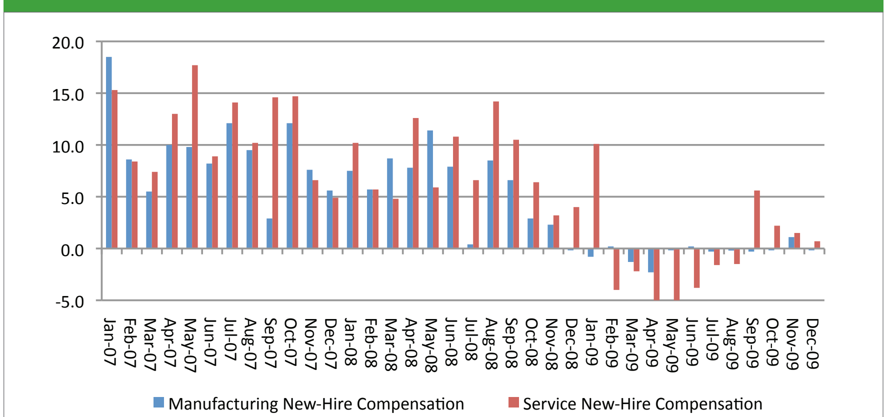


Source: SHRM LINE Report historical data

Wages have stabilized but not yet begun to climb

Compensation (wages plus benefits) tends to rise during periods of economic expansion and slow in recessions. These cyclical changes often appear first in the compensation offered to new hires. The hiring process forces firms to more rapidly adjust these compensation levels to the current labor market conditions. Compared with measures of the compensation level for all workers, an index of new-hire compensation should provide an earlier indication of changing economic conditions. LINE provides the only published index of new-hire compensation. Figure 5 reveals how unusual the first and second quarters of 2009 were. Compensation growth often slows during recessions, but actual declines in compensation levels are much less common. During the first two quarters of 2009, the LINE compensation index recorded the first negative readings since the series was initiated. Even if firms were not cutting the wages of current employees, it appears that many were adopting either a formal or informal two-tiered wage system. Individuals who were able to find new jobs during the first half of 2009 were frequently offered lower wages than those hired into comparable positions in previous quarters. During September 2009, the LINE index of new-hire compensation in the service sector moved into positive territory for the first time in eight months. During the fourth quarter of 2009, the index showed very little change over a year earlier. Wage levels appear to have stabilized, but they show no signs of rising at a rate that would tempt the Federal Reserve to consider increasing interest rates in

Figure 5 | LINE New-Hire Compensation Index



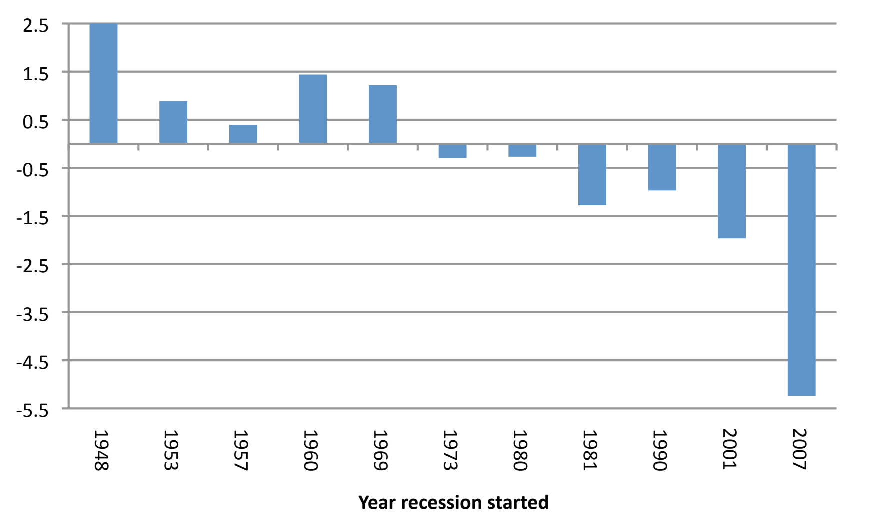
Source: SHRM LINE Report historical data order to forestall the return of inflationary pressures. If wages do begin to climb as the recovery proceeds, that should show up in the index of new-hire compensation before it is evident in the BLS measures of wages received by all workers.

Recovering the lost jobs could take three and a half years

During 2008 and 2009, the U.S. private sector lost an astounding 7.2 million jobs. Figure 6 reveals that from a labor market perspective, this recession has been more severe than any other in the post-war period. In seven of those 10 recessions, after 24 months employment had returned to a point close to or actually above the pre-recession level. In the second longest recession of this period, the one that began in 2001, employment after 24 months was about 2.0% below the pre-recession level. Twenty-four months into the current recession, employment is down by more than twice that percentage (5.2%).

During the fourth quarter of 2009, the LINE employment expectations, recruiting difficulty and new-hire compensation indices all suggested that the recovery was underway. Unfortunately, that does not mean the lost jobs will be recovered anytime soon. During the boom period of 2004, 2005 and 2006, the U.S. private sector added an average of 172,000 jobs per month. Even if the economy were to immediately begin growing at that rate, it would take another three and a half years (42 months) to replace the 7.2 million jobs that have been lost.

Figure 6 | Percentage Change in U.S. Employment After 24 Months: Current vs. 10 Postwar Recessions



Source: Federal Reserve Bank of Minneapolis

About the SHRM LINE Report

LINE Monthly Survey Methodology

The SHRM LINE data are collected through a monthly survey of human resource executives at more than 500 manufacturing and 500 service-sector firms. The net increasing index is calculated as the percentage increasing minus the percentage decreasing. For the employment expectations index, annual change is calculated by subtracting from the % increasing, decreasing and net increasing values for the coming month the value of each from the same month one year ago. For all other indices, the annual change is calculated by subtracting from the % increasing, decreasing and net increasing values for the current month the value of each from the same month one year ago.

The SHRM LINE indices are not seasonally adjusted. LINE users are encouraged to take seasonality into consideration by comparing the LINE indices for the current month with the comparable LINE indices for the same month one year earlier. The responses in the LINE survey are weighted using the proportion of total employment represented by the respondent's industry. These weights are calculated using the annual benchmark revisions that the BLS released on February 17, 2010. For more information, visit www.shrm.org/line.

Schedule of Release

The SHRM LINE Report is released at 8:30 a.m. Eastern time on the third Friday after the conclusion of the week including the 12th of the month. The SHRM employment expectations index describes the same time period referenced approximately one month later in the Employment Situation Report issued by the Bureau of Labor Statistics. For example, the LINE employment expectations index released on February 5, 2010, describes the same February time period that the BLS will report on March 5, 2010. LINE has tracked manufacturing-sector hiring trends since 2004 and service-sector trends since 2005.

The LINE Quarterly Review is released the fourth week of the first month of the quarter that follows the quarter being reviewed.

Media Contacts

Julie Malveaux, manager, media affairs, SHRM
Julie.Malveaux@shrm.org

For Other Inquiries

Jennifer Schramm, M. Phil., manager, Workplace Trends and Forecasting, SHRM
Jennifer.Schramm@shrm.org

Steven Director, Ph. D., economic advisor for the SHRM LINE Report, Rutgers University
Steven.Director@Rutgers.edu