



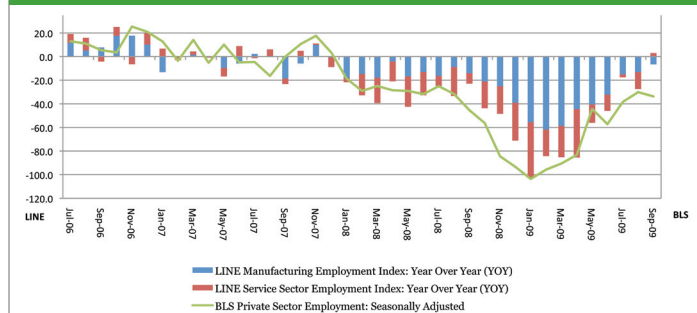
The SHRM Leading Indicators of National Employment (LINE) Quarterly Review

The U.S. private sector lost 638,000 jobs during the third quarter of 2009 (July 1 to September 30). Although that level of job loss is devastating, it was only half the number of jobs that were lost in the second quarter (1,275,000) and less than a third of the number lost in the first quarter of the year (2,085,000). The numbers suggest that although the labor market is still in decline, the job loss may be starting to slow.

Nevertheless, the last three quarters have been very difficult for anyone who lost their job and also for recent graduates who are trying to begin their careers. During this past year, the SHRM Leading Indicators of National Employment (LINE) Report has provided an early indication of the labor market response to the continuing recessionary pressures.

- **The LINE employment expectations index remained negative in the second and third quarters but suggested that the biggest job losses were behind us.** This slower pace of job losses was then reflected in the BLS numbers, which revealed that the U.S. private sector lost 638,000 jobs in the third quarter, down from 2,085,000 in the first quarter.
- **The LINE index of new-hire compensation in the service sector moved into positive territory for the first time in eight months.** 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. If the September 2009 positive reading is repeated in future months, it could be one of the earliest signs of strengthening in the job market.
- **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 has not been positive since November of 2007.** This 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

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 June 2009 is the June 2009 expectation (from the May 2009 survey) minus the index from the June 2008 survey. That formulation appears to provide the best forecast.

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

the National Bureau of Economic Research (NBER), which concluded that the current recession began in December of 2007. The LINE index reached its record low in January 2009. Four weeks after the release of LINE employment expectations index for January 2009, the BLS reported that January job losses in U.S. private sector totaled 749,000—the largest one-month loss in more than 50 years.

The LINE Employment 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-sector human resource professionals at more than 500 manufacturing and 500 service-sector companies. Together, these two sectors employ more than 90 percent of the nation's private-sector workers. The LINE employment expectations index is released one month earlier than the U.S. Bureau of Labor Statistics (BLS) employment estimates for the same period. For example, the BLS released its estimate of employment levels for Septem-

ber 2009 on October 2, 2009. On that same day, SHRM released the LINE employment expectations index for October 2009.

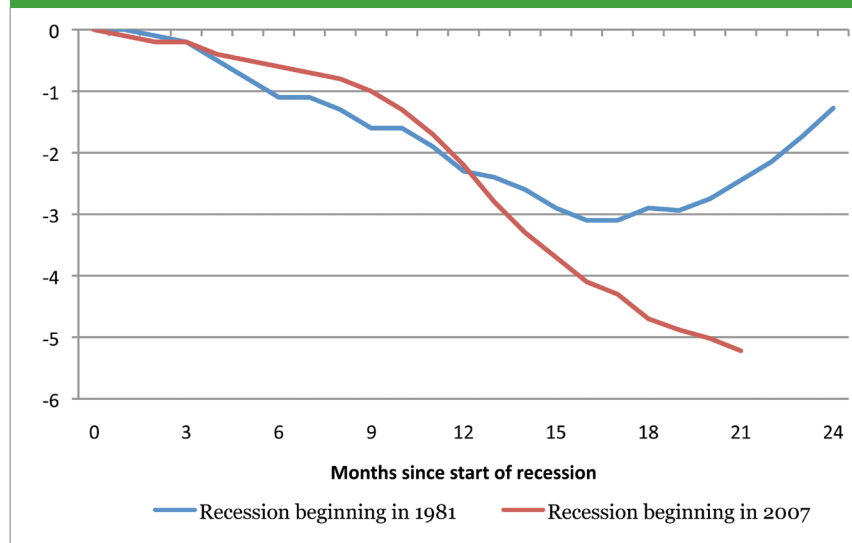
A substantially longer recession with more job loss

The NBER has determined that the U.S. economy experienced 10 recessions from 1946 through 2006. These ranged in length from six to 16 months, averaging about 10 1/2 months. We are now 21 months into the current recession. This recession is already substantially longer than the average post-war recession, and no one can be sure how much longer it will persist. 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 to the 1981 experience may help put the current recession into perspective. Figure 2 reveals that after 12 months, employment had declined by approximately the same percentage in both the 1981 recession and in the current recession. The striking difference is what happened after that. In the 1981 recession, after a 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 and, in fact, is still declining after 21 months. The most recent LINE survey suggests that the private sector will continue to shed jobs in October 2009, but at a much slower pace than at the start of the year.

A rapid rate of job loss

One of the most difficult policy choices firms face during recessionary periods is how quickly and how deeply to cut employment. Figure 2 shows that compared with 1981, during the current recession firms were at first much slower to make substantial employment cuts but then attempted to “catch up” in the first and second quarters of 2009 by abolishing jobs a startlingly rapid rate. Though HR managers are experienced at deriving staffing forecasts from production forecasts, in this recession the credit markets—not the product markets—produced the initial plunge in employment. Figure 3 reveals that Output, as measured by Real Gross Domestic Product, actually rose

Figure 2 | Percent Change in Employment Since Start of Recession



Source: Federal Reserve Bank of Minneapolis

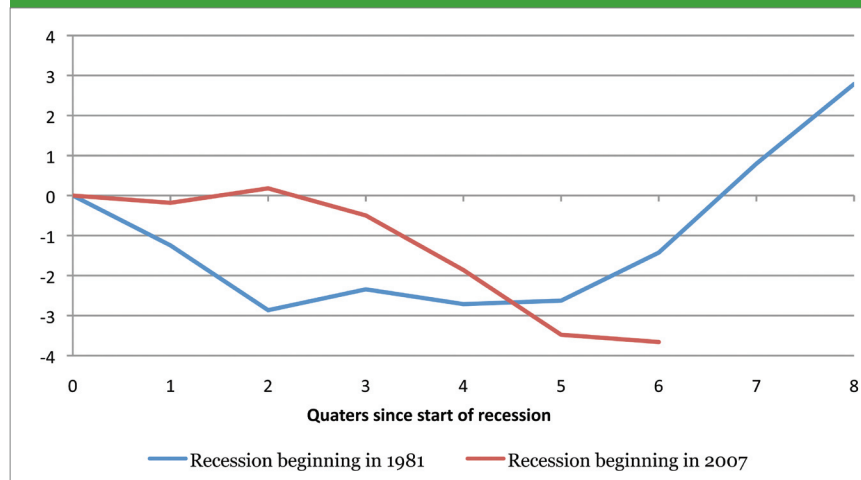
in the first three quarters following the start of this recession. Most firms didn't see a dramatic reduction in the demand for the goods and services they were producing. Then, in the last quarter of 2008 and particularly in the first quarter of 2009, the crisis in the financial sector erupted. Unable 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 lay-off plans for the upcoming month, was able to reveal these employment declines before they were reported by the BLS.

The GDP data are a quarter behind. The advance estimates of GDP for the third quarter of 2009 will not be released by the U.S. Department of Commerce until November 30, 2009. If they reveal positive GDP growth,

Figure 3 | Change in Real GDP Since Start of Recession

(Seasonally adjusted data from U.S. Bureau of Economic Analysis)



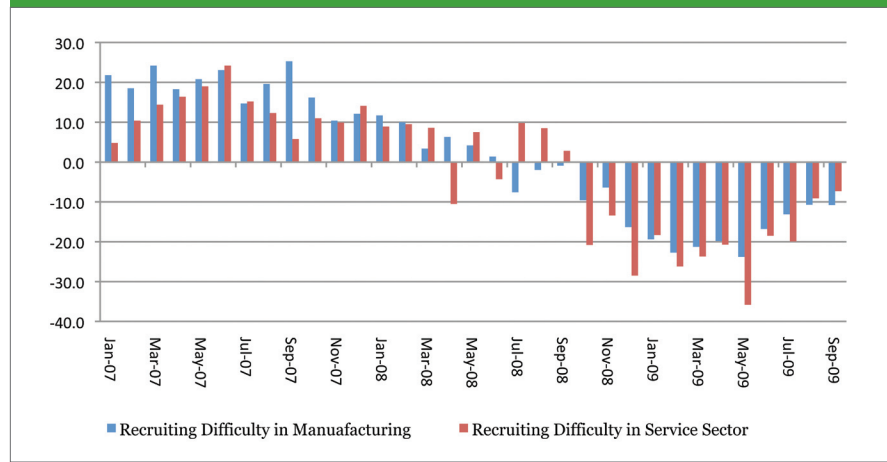
Source: U.S. Bureau of Economic Analysis

this will be encouraging, but it will not have immediate implications for the job market. In this recession, the job losses preceded the declines in GDP. If, as in most recessions, the return to job growth lags behind the return to GDP growth, the combined effect will be an unusually long period of high unemployment and underemployment.

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 third quarter of 2009, both manufacturers and service-sector firms reported that the availability of highly qualified job applicants was continuing to increase. Smaller month-to-month changes 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

Figure 4 | LINE Recruiting Difficulty Index



Source: SHRM LINE Report historical data

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.

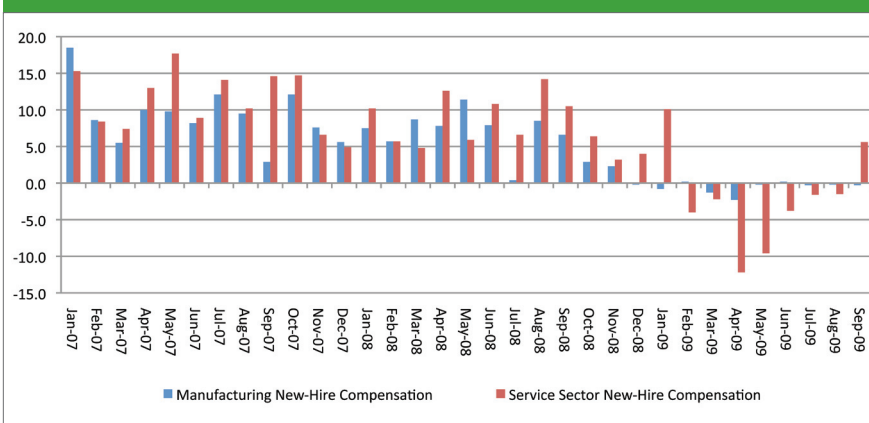
Those who find a job can expect lower wages

Compensation (wages plus benefits) tends to rise during periods of economic expan-

sion 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 are not cutting the wages of current employees, it appears that many are adopting either a formal or informal two-tiered wage system. Individuals who were able to find new jobs during the first quarter 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. It is too early to know whether this change represents a shift in the trend or is just a one-month

Figure 5 | LINE New-Hire Compensation Index



Source: SHRM LINE Report historical data

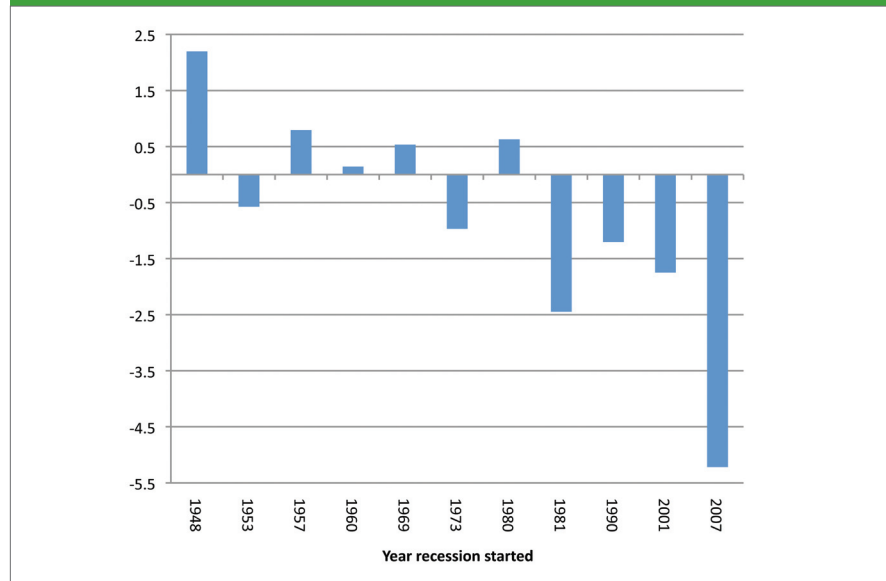
aberration. However, if the September 2009 positive reading is repeated in future months, it could be one of the earliest signs of strengthening in the job market.

Conclusion

Between January 2008 and September 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 postwar period. In four of those recessions, 21 months after the recession's start, employment was already above the pre-recession level. In the second worst recession of this period, the one that that began in 1981, employment after 21 months was about 2.5% below the recession level. However, 21 months into the current recession, employment is down by more than twice that percentage.

The LINE employment expectations index suggests that although the last few months may have shown the economy improving on many fronts, we have not yet seen the bottom for the labor market. Many employers expect to cut their work-

Figure 6 | Percentage Change in U.S. Employment After 21 Months: Current vs. 10 Postwar Recessions



Source: Federal Reserve Bank of Minneapolis

forces again in October. Firms are reluctant to hire even highly qualified applicants. Individuals who do find employment often receive wages lower than those same positions paid in the past. When the job

market does begin to improve, we will see a more substantial rise in the percentage of LINE panel members planning actual payroll expansions and increasing new-hire compensation.

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 2, 2009. For more information, visit www.shrm.org/line.

Schedule of Release

The SHRM LINE Report is released at 9:00 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 August 7, 2009, describes the same April time period that the BLS will report on September 4, 2009. 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.

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