WHAT HR PROFESSIONALS KNOW ABOUT THE JOB MARKET

After a Year That Saw the Highest Job Growth in 15 Years, What Lies Ahead?

Society for Human Resource Management
In early 2014, the number of jobs in the U.S. economy returned to the level that had existed prior to the declines caused by the Great Recession, which began in December 2007. By the end of 2014, the number of jobs exceeded the prerecession level by more than 2 million. By this measure, the U.S. economy had finally emerged from the deep labor market hole created by the Great Recession. Some analysts remained concerned, however, that the employment-population ratio (the number of employed persons divided by the number of persons in the U.S. population) at the end of 2014 was still below its prerecession level (59.2% versus 62.7%). Some of the decline in this ratio has been due to demographic shifts (e.g., Baby Boomer retirements), and some of it resulted from individuals dropping out of the labor force because they no longer believed they could find employment. Nevertheless, at the end of 2014 employers reported record numbers of job vacancies that they were unable to fill. Today, several indicators suggest that there is no longer much slack in the labor market and that the long period of tepid wage increases may be coming to an end.

SHRM LINE Reports

SHRM’s monthly Leading Indicators of National Employment (LINE) reports provide one of the earliest indications of upcoming changes in employment levels and contain information about the labor market dynamics underlying these changes. The SHRM employment expectations index (see Figure 1) is released one full month earlier than the U.S. Bureau of Labor Statistics (BLS) employment estimates covering the same period. For example, the BLS released its estimate of employment levels for December 2014 on Jan. 12, 2015. The SHRM LINE report showing the employment expectations for December 2014 was released on Dec. 4, 2014. A key strength of the LINE reports is that the HR professionals responding to SHRM’s monthly surveys are not making economic forecasts, but instead are reporting on hiring or layoff plans that are already “in the works.”

These monthly reports examine four major areas: employers’ hiring expectations, new-hire compensation levels, difficulty in recruiting top-level talent and job vacancies that employers are actively trying to fill. The data are derived from monthly surveys of private-sector human resource professionals at more than 500 manufacturing and 500 service-sector companies. The manufacturing and service sectors together comprise more than 90% of the nation’s private-sector workforce.

The LINE data in the monthly reports and in this 2014 annual review are not seasonally adjusted. As can be
seen in Figure 1, the LINE employment expectations series shows seasonal fluctuations. For example, the percentage of firms hiring during January is much lower than the percentage of firms hiring in other months. Which provides more useful information, a data series that has been adjusted to remove the effects of seasonal fluctuations or a data series that has not been seasonally adjusted? The answer, of course, depends on how the data series will be used. For human resource managers trying to estimate the budget and staff they will need to support hiring in the upcoming month, the seasonally unadjusted data would be most relevant. Seasonally unadjusted data might also be helpful when formulating a staffing strategy. For example, a firm might conclude that it has a better chance of attracting the top job seekers if they are recruited during a month when other employers are doing less hiring.

On the other hand, there are many occasions when the objective is to determine whether the month-to-month change in an index value suggests changes in economic conditions beyond those that result from typical seasonal fluctuations. In such situations a seasonally adjusted series is ideal. A seasonally adjusted LINE series is currently being developed. When working with a series that is not seasonally adjusted, the simplest way to control for typical seasonal fluctuations is to compare the LINE indicator for a given month to the LINE indicator for that month in earlier years.
Employment Slow to Recover

The recession ended in 2009, but employment did not recover until 2014. The National Bureau of Economic Research (NBER) determined that the recession, which began in December 2007, ended in June 2009. However, the end of a recession does not mean that an economy returns to prerecession levels. On the contrary, under the technical definition the NBER uses, the end of the recession is the lowest point in the business cycle, that is, the point when the economy stops receding. U.S. nonfarm employment reached 138.4 million in January 2008. It then fell to 129.6 million in February 2010. Recovering the 8.7 million jobs that were lost has been a slow and, for many individuals, a painfully long process. The number of jobs in the U.S. economy did not return to the 138.4 million prerecession level until April 2014.

Participants in the LINE surveys are asked whether they expect their organization’s employment headcount to increase, remain the same or decrease in the upcoming month. The LINE employment expectations index is calculated as the percentage expecting an increase minus the percentage expecting a decrease. It can therefore be thought of as a “net increasing” index. As can be seen in Figure 2, this index provided an early indication of the employment declines that led to the Great Recession, of the turnaround that began in 2009 and of the slow return to prerecession employment levels. The LINE employment expectations index reveals that the percentage of manufacturing firms expanding their employment during 2014 was slightly larger than the percentage expanding in the prerecession year of 2006. Within the service sector, a slightly smaller percentage was expanding in 2014 compared with 2006. The number of new jobs created depends, of course, on both the numbers of firms expanding and the rate of expansion within each of those firms.

Figure 2: LINE Employment Expectations Index

![Graph showing LINE Employment Expectations Index from 2006 to 2015, with two lines representing manufacturing and service-sector employment expectations. The graph illustrates the changes in expectations over time, with a peak in 2006 and a trough in 2009.](source: SHRM LINE historical data, not seasonally adjusted)
Job growth following the most recent recession was unusually slow. Of the five previous recessions (1973, 1980, 1981, 1990 and 2001), four were relatively mild. The recession that began in July 1981 was the most severe, and a comparison to the 1981 experience may help clarify just how slow the current jobs recovery has been. Figure 3 reveals that by 28 months after the start of the second worst recession in recent history, employment had returned to a point above the prerecession level. Unfortunately, 28 months after the start of the most recent recession, employment remained 6.0% below its prerecession level. It did not fully recover until April 2014, a full 76 months after this recession began.

Figure 3: Percentage Change in U.S. Employment Since the Start of the Recession

Source: U.S. Bureau of Labor Statistics nonfarm employment, seasonally adjusted
Same Output from 6 Million Fewer Workers

Figure 4 compares the jobs recovery with the recovery in the total output of the U.S. economy. The recession began in December 2007, and both employment and real GDP (gross domestic product adjusted for inflation) plummeted during 2008. Real GDP returned to its prerecession level 42 months later, in August 2011. U.S. nonfarm employment 42 months after the start of the recession was still 6 million below its prerecession level. At this point, the country was producing the same amount as in 2007 but with 6 million fewer workers. That situation created substantial stress for both workers and HR managers.

Several factors delayed the growth in jobs. First, firms were very cautious about expanding employment before they were confident that there would be a sustained demand for the goods or services they produced. Second, the forced belt-tightening during the recession required firms to learn how to manage their human resources more efficiently, achieving more output from each worker and therefore needing fewer workers. Finally, firms have substantially increased their investments in labor-saving machinery and software. Taken together, these increases in productivity enabled the output of the U.S. economy to recover much quicker than U.S. employment levels. This period of slow employment growth may, however, be coming to an end. It is unlikely that additional productivity increases will be sufficient to offset the increasing demand for goods and services. At the end of 2014 several indications (discussed below) point to the fact that there is not much remaining slack in the workforce and that the pace of employment growth may increase in 2015.

Figure 4: Percentage Change in U.S. Employment and U.S. GDP Since the Start of the Most Recent Recession

Source: Gross domestic product adjusted for inflation from U.S. Bureau of Economic Analysis; nonfarm employment, seasonally adjusted from U.S. Bureau of Labor Statistics
Employers Seeking to Fill 5 Million Open Positions

Figure 5 shows the recent movements in the LINE vacancy indices for the manufacturing and service sectors. Vacancies are defined as job openings that employers are actively trying to fill. Respondents to the LINE survey are asked whether the number of vacant positions in their organizations this month is less than, the same as or greater than the number of vacant positions in the previous month. The index value is calculated as the percentage increasing minus the percentage decreasing. Figure 5 reveals that in both the manufacturing and the service sectors, there is a clear seasonal pattern in recruiting. Recruiting usually reaches a low point as the winter begins (in December/January) and then picks up in the early spring (in March/April).

To isolate the impact of overall economic conditions from changes due to seasonal fluctuations, one can compare the index values for the same month in different years. During December 2011 in the early stages of the recovery, the vacancy index values for manufacturing and services were 15.0 and 5.9 respectively. By December 2013 those vacancy index values had risen substantially to 19.3 and 10.1. They then jumped again in 2014. In December 2014 the manufacturing index was at 24.4, and the service-sector index at 19.8. The percentage of organizations with increasing numbers of job openings is now well above where it was three years ago.

The strong vacancy index values shown in the LINE report that was released on December 4, 2014, provided an early indication of the December vacancy count that the BLS would release two months later.

Figure 5: Vacancy Indices for the Manufacturing and Service Sectors

Source: SHRM LINE historical data, not seasonally adjusted
on Feb. 10, 2015. The BLS estimates of the number of job openings in the U.S. economy are shown in Figure 6. The number of unfilled positions increased steadily between 2009 and 2013, and then rose at an even faster rate in 2014. This trend is consistent with the pattern seen in the LINE vacancy indices. The BLS estimates that on the last day of December 2014, employers were actively seeking to fill 5 million job openings. In December 2014 there were also 8.7 million unemployed individuals in the U.S. economy. The number of job seekers exceeded the number of open positions by 3.7 million. Nevertheless, employers continue to report increased recruiting difficulty. Unfortunately, because of geographic mismatches, skills mismatches and other factors, many firms find that the number of qualified job seekers is much lower than the number of open positions.

![Figure 6: Unfilled Positions: 2009-2014](image)

Source: Seasonally adjusted job openings from U.S. Bureau of Labor Statistics *Job Openings and Labor Turnover Survey*
The LINE recruiting difficulty index measures how difficult it is for firms to recruit highly qualified individuals to fill the positions of greatest strategic importance to their firms. There are no other published indices that measure the difficulty in acquiring this type of talent. Which positions are of greatest strategic importance depends on the organization’s business strategy. In a consumer electronics firm, it might be design or marketing talent. In a pharmaceutical company, it might be research scientists. In a big-box retailer, it might be logistics specialists. Recruiting the individuals who are most critical to a firm’s success is difficult even when labor markets are soft and even in sectors such as manufacturing, where employment has been declining for decades. It becomes even more challenging, however, during periods of employment expansion, as is confirmed by the data in Figure 7. The LINE recruiting difficulty index increased steadily between 2010 and 2013, and then rose sharply in 2014. This is not surprising because as shown in Figures 5 and 6, the number of open positions employers were unable to fill also increased dramatically during 2014. Employers that find it difficult to fill key positions have only a few options open to them. They can expand the pool of acceptable applicants by lowering their hiring standards. Significant reductions in hiring standards will, however, probably not be in the organization’s long-term interests. Alternatively, they can increase their recruiting expenditures in an attempt to identify and attract more qualified applicants. If these two approaches are not sufficient to satisfy their staffing needs, employers will be forced to compete for the limited pool of qualified applicants by offering higher salaries, greater benefits or both.
Possibility of Higher Wages

Will the tightening labor market translate into higher wages? Many analysts have been surprised (and many workers have been disappointed) that average hourly compensation has not increased more rapidly as the economy returned to prerecession employment levels. The usual expectation is that compensation (wages plus benefits) tends to grow slowly, if at all, during recessions but then rises more rapidly during periods of economic expansion. The U.S. BLS reported that during 2014 the average hourly earnings of employees on private payrolls increased by 1.7%. Inflation, as measured by the consumer price index for all urban consumers (CPI-U), was 0.7% during 2014. Therefore, the increase in real average hourly earnings was only 1.0%. This small increase follows several years of real wage declines. After adjusting for inflation, the average hourly earnings of private-sector workers in December 2014 were little changed from what they were in December 2008.

If the tightening labor market conditions do translate into higher wages, where will these wage increases show up first? The BLS measures the average hourly earnings of all employees. Business cycle-induced changes in wage rates often show up earlier in the wages offered to new hires than in the wages received by all employees. This is true because the hiring process forces employers 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. The LINE report provides the only published index of new-hire compensation. Figure 8 reveals how during the last nine years new-hire wages have responded to changing economic conditions. Compensation growth often stalls during recessions, but actual declines in compensation levels are much less common. Yet 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 recession were frequently offered lower wages.

Figure 8: LINE New-Hire Compensation Index

Source: SHRM LINE historical data, not seasonally adjusted.
than employees hired into comparable positions in previous quarters.

The more recent LINE data reveal that the percentage of firms offering wage increases is growing rapidly. Because the LINE data in Figure 8 are not seasonally adjusted, it is easier to see these year-to-year changes by focusing on a particular month. In December 2010 the new-hire compensation indices for manufacturing and services were 2.9 and 1.8 respectively. By December 2013 the manufacturing index had risen to 5.7, and the service-sector index had increased to 4.1. The number of firms offering wage increases grew even more rapidly during 2014. For December 2014 the manufacturing index was 14.1, and the service-sector index was 7.7. The increases in new-hire compensation observed during the second half of 2014 should show up in the BLS measure of the earnings of all employees during 2015.

**Connecting the Dots**

The U.S. private sector added more than 3 million jobs during 2014. U.S. employment has finally returned to the levels that existed prior to the declines caused by the Great Recession that began in December 2007. That is certainly good news for job seekers and reflects the improving business prospects for U.S. corporations. During the depths of the Great Recession, unemployment reached 10%. That created extreme hardship for millions of families, but it is important to remember that 90% of the labor force remained employed. The economic challenge for the vast majority of the labor force participants has been providing for themselves and their families over a multiyear period of minimal wage increases. As noted above, the average hourly earnings of private-sector workers in December 2014 were similar to what they were in December 2008 after adjusting for inflation.

Several trends suggest the pace of wage increases will grow during 2015. National output, as measured by the GDP, recovered from the Great Recession much more rapidly than did U.S. employment. This was possible because of increases in labor productivity; employers were able to produce the same amount with fewer employees. Additional productivity increases are, however, becoming difficult to achieve. Labor productivity rose by just 1.2% in 2013 and 0.6% in 2014. Firms are being forced to add employees to meet the growing demand for the goods and services they produce. This trend is reflected in both the number of jobs added during 2014 and in the increase in open positions in 2014. At the end of 2014 there were 5 million open positions that organizations were unable to fill. The LINE recruiting difficulty index shows that firms have difficulty finding highly qualified individuals to fill key positions. When the number of open positions and the recruiting difficulty increase, organizations are forced to raise new-hire compensation. This is unavoidable if they are going to compete for the most talented potential hires. If, as these trends suggest, the pace of wage increases does accelerate in 2015, one of the earliest indications will be a rise in the LINE new-hire compensation index. The LINE new-hire compensation index is the only published index of the wages offered to newly hired employees. Wage changes caused by fluctuations in overall economic conditions show up in new-hire compensation before they show up in indices such as the BLS measure of the earnings of all employees.

Of course, if wages rise faster than productivity during 2015, the result will be an increase in unit labor costs. It is likely, however, that the negative consequences of increasing unit labor costs would be more than offset by increases in the demand for the products and services businesses sell. If wages rise, it will be because the economy remains strong. The wage increases themselves will then further strengthen consumer purchasing power and business sales. Hopefully, the result will be that a larger percentage of the population will “feel” that the recession is over.
About the Author

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About the SHRM LINE Report

Schedule of release
The SHRM LINE Report is released at 8:30 a.m. Eastern time on the first Thursday of each month. The SHRM employment expectations index describes the same time period referenced one month later in the Employment Situation Report issued by the U.S. Bureau of Labor Statistics.

For example, the LINE employment expectations index released on Dec. 4, 2014, described the same December time period described in the BLS report released on Jan. 12, 2015. LINE has tracked manufacturing sector hiring trends since 2004 and service-sector trends since 2005.

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.

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

About SHRM

Founded in 1948, the Society for Human Resource Management (SHRM) is the world’s largest HR membership organization devoted to human resource management. Representing more than 275,000 members in over 160 countries, the Society is the leading provider of resources to serve the needs of HR professionals and advance the professional practice of human resource management. SHRM has more than 575 affiliated chapters within the United States and subsidiary offices in China, India and United Arab Emirates. Visit us at shrm.org.

About SHRM Research

SHRM Research, as part of the Knowledge Development division supporting SHRM and its members, produces high-quality, leading-edge research on human resource management issues and trends, the economy and the workplace for the purpose of advancing the HR profession. SHRM Research acts as an advisor to SHRM and generates and publishes research used by human resource professionals and other business leaders to develop their knowledge and to provide strategic direction to their organizations.