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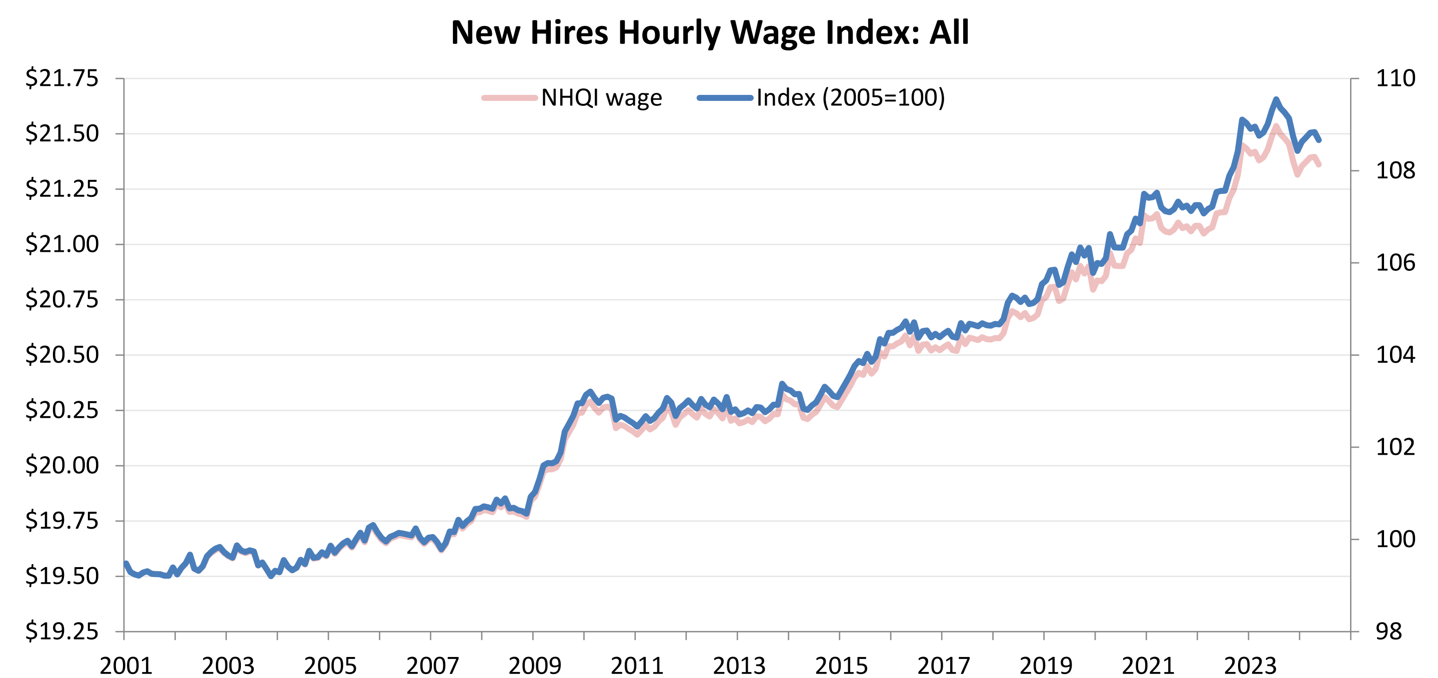
Upjohn Institute New Hires Quality Index dips in May 2024, with the goods sector experiencing the steepest decline

KALAMAZOO, Mich.— The Upjohn Institute New Hires Quality Index shows inflation-adjusted hourly earnings power of individuals starting a new job eased 0.2 percent between April and May of 2024, to $21.36. The index is down 0.3 percent from one year ago and 0.8 percent from its peak last July, but it is still up 2.5 percent since the COVID pandemic began. Hiring volume reversed its three-month slide, rising 0.6 percent over the month; however, it is down 3.5 percent since last May. Adjusting for population growth, hiring *rates* have fallen 4.4 percent over the year and 5.9 percent since February 2020, hovering just above a series low. Overall, the U.S. hiring market continues the most gradual cooling in its recorded history.

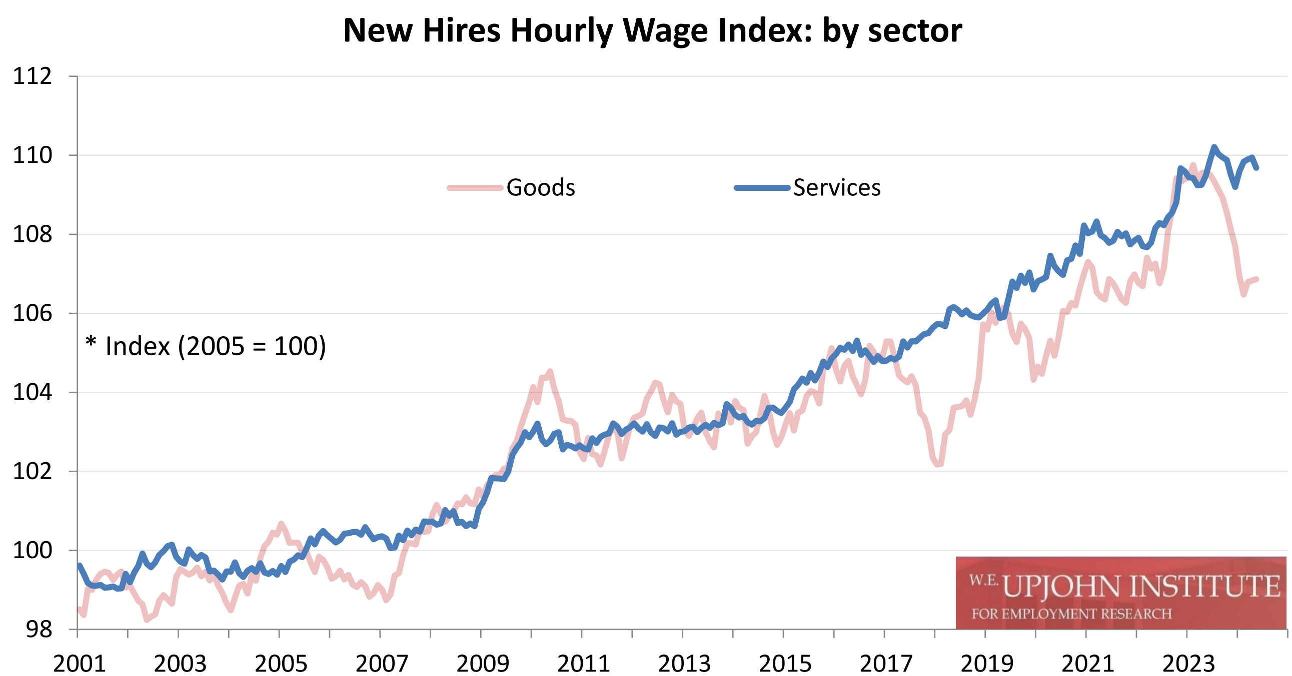
The index and accompanying interactive database and report, developed by Upjohn Institute economist Brad Hershbein, fill a key gap in the measurement of hiring activity. The NHQI provides monthly updates on the volume and occupation-based wages of newly hired workers, and is available for different groups based on sex, age, education, and other characteristics.



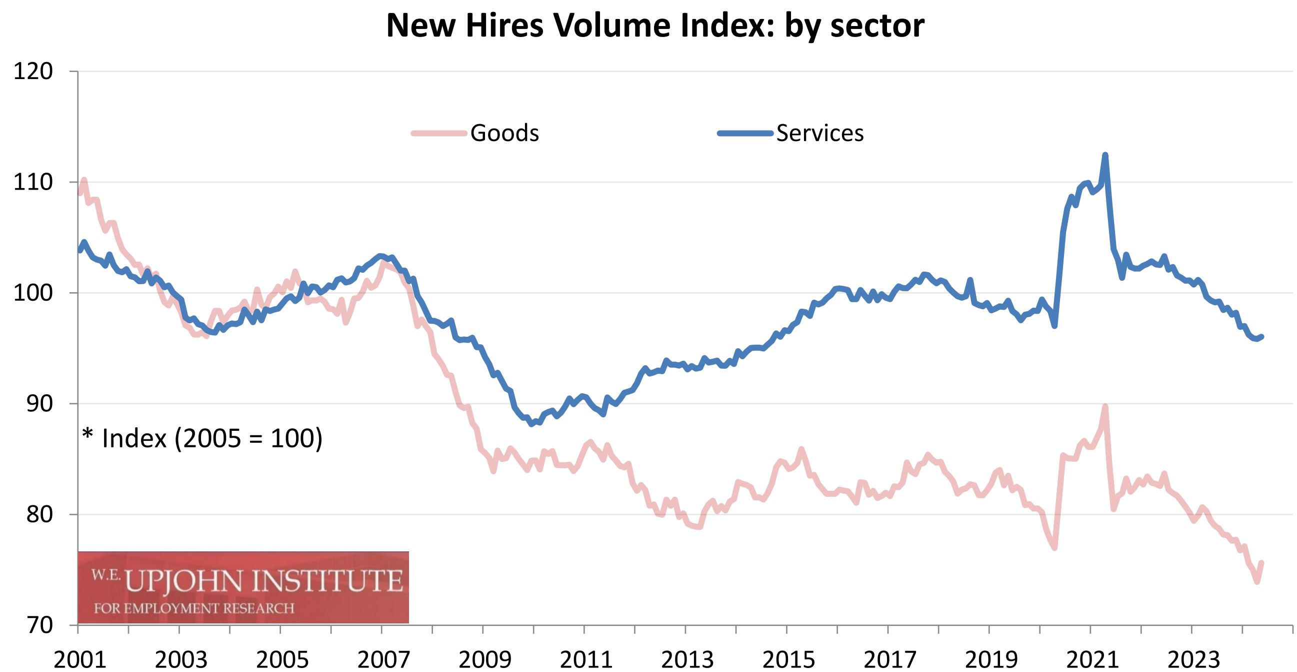
SOURCE: Upjohn Institute New Hires Quality Index
NOTE: The lighter line uses the left axis and shows the inflation-adjusted hourly wage of new hires. The darker line uses the right axis and shows the relative change since the base year of 2005.

The United States added 272,000 net jobs in May 2024, according to the Bureau of Labor Statistics, and while this number may be revised, it exceeded expectations—a common theme in the post-pandemic labor market. Most of these job gains have been in services, with only a net 10 percent of new jobs coming from the goods sector. Still, because the services sector lost more jobs early in the pandemic, not until last July—more than three years into the recovery—did this sector overtake the goods-producing sector in proportional job growth. But with industrial policy inducing construction of new fabrication plants for batteries and chips (among other electronic items), will the goods sector begin to catch up, and will job quality improve? In this month's NHQI release, we examine the earnings power and volume of hires in each of these sectors to assess whether trends are changing.

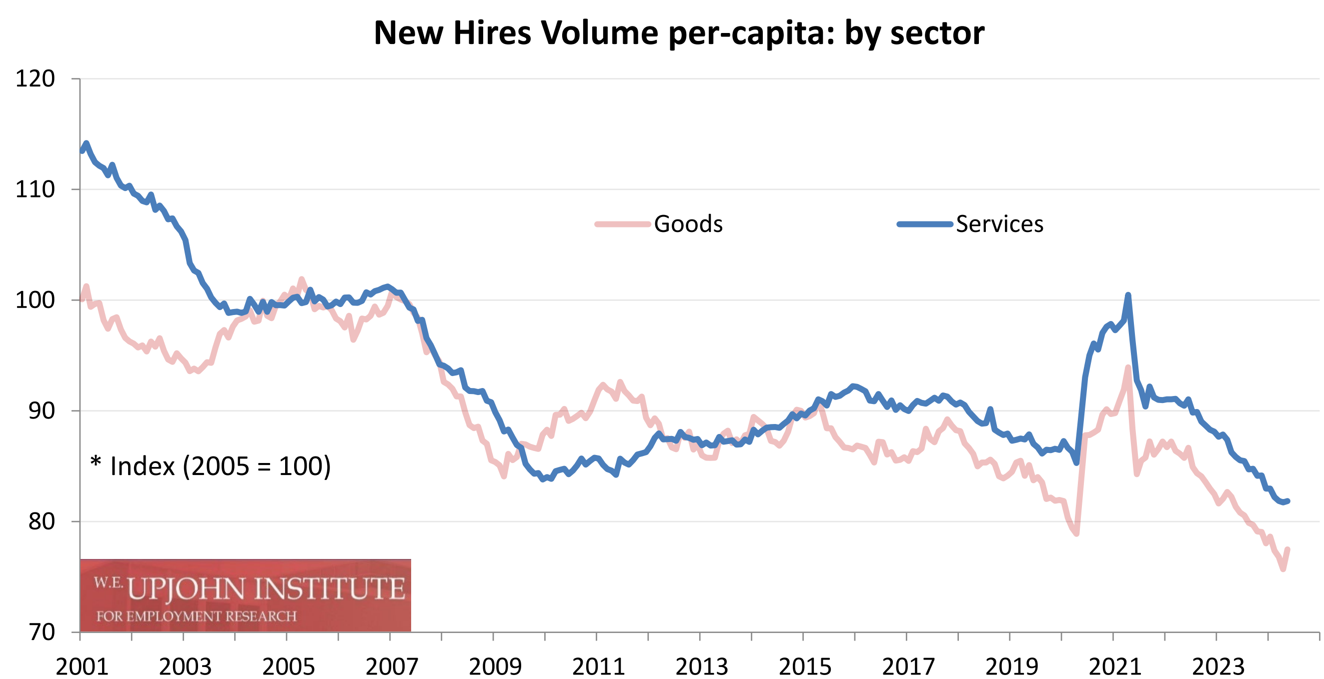
The graph below shows the hourly wage index separately for these two groups of newly hired workers, with the goods-producing sector in salmon and the services sector in blue. Each index is normalized to the respective group's own level in 2005 to better show relative changes. Although the wage index for the goods sector is more volatile, owing to its smaller size, it had largely kept pace with the wage index of the service sector until the summer of 2023. Over the past year, however, the wage index for the goods sector has plunged 2.5 percent—its second sharpest 12-month decline on record—while the wage index for the services sector has ticked up 0.2 percent. New construction, manufacturing, and mining jobs thus are not occurring in higher-paying occupations—at least not yet. Despite the recent decline, the wage index in the goods sector is up 2.3 percent since the pandemic, versus 2.6 percent for the services sector.



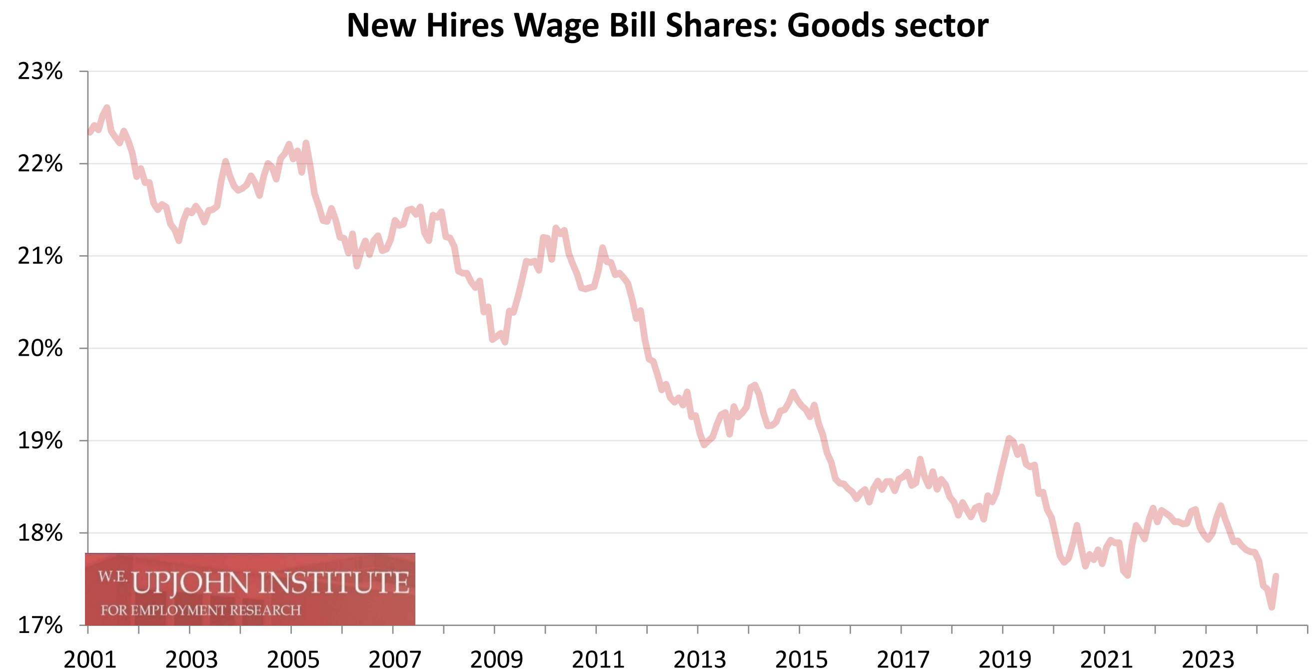
In some states, policymakers have recently criticized the size of tax incentives for companies building new plants while planning to create relatively low-paying jobs; moreover, slowdowns in sales of electric vehicles and permitting and public monies for new factories have also likely put downward pressure in goods-sector hiring. As shown in the next graph, hiring volume has been dropping in both sectors, but the decline in the goods sector has been faster—down 4.8 percent in the past 12 months, relative to a 3.3 percent fall in services.



When we look at *hiring rates*—new hires per worker in the sector, again normalized to levels in 2005—the declines are more similar: down 4.8 percent over the year in the goods sector and 4.6 percent in the services sector. Nonetheless, active industrial policy programs should be propping up hiring rates in the goods sector, while the services sector is absent of comparable policies.



Consequently, the goods sector's new hires wage bill share—the fraction of total earnings power among all new hires accruing to the goods sector—has continued to fall. As shown below, as of May 2024, this share is near a series low, at 17.5 percent, marking a decline of 0.7 percentage points since May 2023 and a continuation of the long-term trend that was briefly interrupted by the goods bonanza of 2021 and 2022. There may yet be an uptick in hiring in the goods-sector—investment is certainly surging—but it may be months, if not years, down the road.



These statistics and many more, as well as interactive charts and data downloads, can be found at the website for the Upjohn Institute New Hires Quality Index: www.upjohn.org/nhqi.

The full report, including methodology, can be found here: https://www.upjohn.org/sites/default/files/2021-05/NHQI_report_0.pdf.

All data will be regularly updated during approximately the first week of the second month following the reference of the data release month. For example, data for June 2024 will be released during the first week of August 2024. To sign up to regularly receive monthly press releases for the Upjohn Institute New Hires Quality Index, visit: www.upjohn.org/nhqi/signup.

FAQ

1. What is the New Hires Quality Index?

The New Hires Quality Index (NHQI) is a consistent way of measuring the earnings power of people taking new jobs each month, allowing comparisons over time.

2. How is the Index constructed?

The Index is based on the occupations of newly hired workers as documented in the Current Population Survey, the same source used to produce the national unemployment rate each month. Separate data on the hourly wages for each occupation from another government survey, Occupational Employment Statistics, are connected to the newly hired workers in the Current Population Survey. These hourly wages are then statistically adjusted to account for differences in the demographic composition of new hires (sex, race and ethnicity, education, and age) before being averaged.

3. Does the Index measure actual, reported wages of newly hired workers?

No. Although the data used to create the Index do have some information on self-reported wages (or those reported by another household member), many economists consider these self-reported wages increasingly unreliable, as a growing fraction of workers refuse to answer the wage questions, and the government's attempts to impute (make an "educated guess") for these workers are problematic. Moreover, because relatively few workers are even asked the wage questions, and only a small subset of these are newly hired, use of the self-reported wage data would lead to very small samples.

The Index captures changes in the wages of new hires due to both changes in the mix of occupations hired and the demographic characteristics of individuals taking new jobs. It will not capture change in the wages of new hires due to other factors, such as individual aptitude, geography, or employer characteristics.

A comparison of the Index with a series derived from the actual self-reported wages in the Current Population Survey can be found in the technical report. An analysis of self-reported wages can also be found in press releases for July 2018, July 2019, July 2020, July 2021, July 2022, and July 2023.

4. Does the NHQI count self-employed workers?

No, the NHQI excludes the self-employed (including those who report bring independent contractors).

5. How often is the NHQI updated?

Every month, with the release by the Census Bureau of the Current Population Survey microdata. Updates will be posted on the NHQI website during the first week of the month, covering data from two months ago. Data are currently available from January 2001 through May 2024. To receive updates through email or social media, visit the signup page.

6. What data are available on the NHQI website?

The NHQI website contains monthly data for all components of the NHQI. The four main components are: the hourly wage index, the hiring volume index, the wage bill index (the product of hourly wages and hiring volume), and the hires per capita index. Each component is available at its actual level or normalized to the base year 2005. In addition to providing data for all new workers, the NHQI exists for men, women, different age groups, different education groups, different races/ethnicities, different industry sectors, different regions, native and foreign-born, full- and part-time workers, and different types of new hires (the newly employed and employer changers). All data can be charted interactively or downloaded for separate analysis.