The Changing Cyclical Dynamics of U.S. Labor Markets

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Without implication, these remarks draw heavily on joint research with Steven J. Davis, Jason Faberman, Ron Jarmin and Javier Miranda
Overview

Flow Approach:

- **Much Richer Perspective on Dynamics of U.S. Labor Market from Flow Approach**
  - U.S. highly dynamic:
    - High rates of gross job creation, destruction, hires, quits, layoffs and vacancy posting in expansions and contractions
    - In normal times, productivity enhancing reallocation
    - Different margins (e.g., creation and destruction) respond asymmetrically over the cycle
  - Newly developed statistical programs at U.S. Statistical Agencies enable us to track these dynamics in a much more comprehensive way
    - JOLTS, BED, BDS
  - Even richer picture by examining flows in consistent manner at micro (business) and macro level
  - Also, look at unemployment inflows and outflows from CPS

- Relevant for understanding anemic recovery and policy debate about stimulating job creation
Creation is all expanding and entering establishments. Destruction is all contracting and exiting establishments.

Destruction spike in all downturns. Downward trend in job flows. Post-2007 period large decline in Job Creation.
Cyclical and Secular Dynamics of Hires and Creation Vary Substantially Over Time
High Pace of worker churning in excess of job reallocation evident in expansions.
Worker Flow Rates as a Function of Establishment-Level Growth

![Graph showing worker flow rates as a function of establishment-level employment growth. The x-axis represents establishment-level employment growth (percent of employment), ranging from -160 to 160. The y-axis represents percent of employment, ranging from 0 to 160. The graph includes lines for Hires, Layoffs, Total Separations, and Quits.](image-url)
Relationship between Establishment-Level Worker Flows and Net Growth, Subperiods

**Hires**
- 2001Q2 - 2003Q1
- 2006Q1 - 2006Q4
- 2008Q3 - 2009Q2

**Separations**
- 2001Q2 - 2003Q1
- 2006Q1 - 2006Q4
- 2008Q3 - 2009Q2

**Layoffs**
- 2001Q2 - 2003Q1
- 2006Q1 - 2006Q4
- 2008Q3 - 2009Q2

**Quits**
- 2001Q2 - 2003Q1
- 2006Q1 - 2006Q4
- 2008Q3 - 2009Q2
Implications for Unemployment Inflows and Outflows
The Role of Firm Size and Firm Age...

- Claim is often made that small businesses create 60 to 80 percent of net new jobs
  - Regression to the mean leads to mechanical relationship
  - More informative to consider firm age than firm size

- But still of interest to ask:
  - Does the recent recession and anemic recovery look different for young and small businesses?
Contributions to Job Creation and Destruction

- Firm Births
  - Young (1-10)
  - Mature (10+)

- Employment
- Job Creation
- Job Destruction

- Small (1-500)
- Large (500+)
Role of Age and Regression to the mean…
“Up or Out” for Young Businesses

Net Employment Growth for Continuing Firms by Firm Age

Job Destruction from Firm Exit by Firm Age
Net Job Creation Levels by Employer Size
Net Job Creation Rates by Employer Size
Job Creation Rates by Employer Size
Job Destruction Rates by Employer Size
Job Creation Levels by Employer Size
Job Destruction Levels by Employer Size
Job Creation and Destruction Levels for Goods-Producing Industries
Job Creation and Destruction  Levels for Service Providing Industries
Job Creation and Destruction Levels for Construction
Job Creation and Destruction Levels for Financial Activities
Summing Up

- **Downward trend in flows**
  - U.S. less dynamic, less flexible than 1990s?
  - Given downward trends and cyclical downturn:
    - Job Creation, Hires, Quits and Job Finding Rates at historical lows

- **Recession different?**
  - Job Creation has fallen more than in prior recessions
  - Small (and young) businesses have exhibited more cyclical sensitive
  - Small (and young) businesses job creation is still quite low