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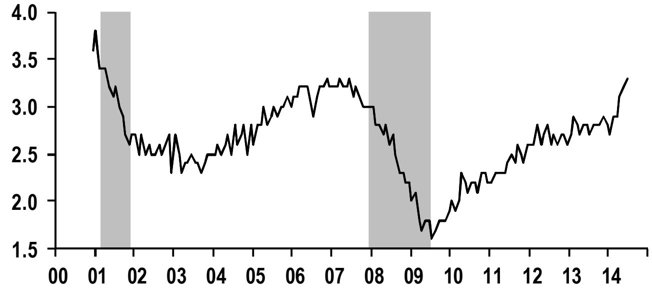
Focus: job openings surge

- The latest JOLTS report showed that job openings surged almost 60% saar over the three months through June while the job openings rate jumped 0.4%-pt to 3.3%, matching the high reported for the previous expansion (first chart). This recent run-up in job openings was likely noticed by the Fed, considering that its officials frequently mention job openings as an important gauge of labor market conditions. Based on evidence from the past few years, we think the increase could translate into stronger payroll growth in the near term, but not necessarily stronger earnings growth.
- Looking at very recent history, the industries with higher job openings rates in April 2014 generally had stronger growth in payrolls over the subsequent three months (circles in second chart). Meanwhile, there has not been a very noticeable correlation between the job openings rates from April 2014 and the subsequent growth in earnings (Xs in second chart).
- These relationships from recent months seem to hold true over recent years. Beginning with data in 2010 to avoid the sharp down-up swing associated with the Great Recession, we ran regressions modeling the three-month growth rate for payrolls on a constant and the job openings rate lagged by three months, both in the aggregate and as a panel made up of the seven industry categories available in the JOLTS report. Both of these models indicated that the job openings rate was a statistically significant factor in determining job growth over the subsequent three months, as shown in the table (there is also evidence of job openings having an influence with shorter and longer lags, but these results are not as robust and are not shown).
- All else equal, these results—which are similar to the model estimates based on the complete JOLTS history—imply that the 0.4%-pt jump in the job openings rate over the three months through June may lead to an increase in job growth over the subsequent three months of about 0.5%-pt (annualized), or an increase of about 60,000 jobs/month over a three-month period. We may have already seen some of the related job growth by the July employment report. We should note that as with most models of payroll growth, these models have large standard errors.
- We also ran analogous regressions looking at earnings growth instead of job growth but did not find very meaningful results, at least when looking at the sample beginning in 2010. As shown in the table, the coefficients on the job openings variable actually have different signs, suggesting that increased job openings may lead to lower earnings growth, but without any statistical significance. And other variations of these models also failed to yield very meaningful results when looking at recent years (not shown). But job openings are a statistically significant driver of both jobs growth and earnings growth in regressions spanning earlier years. Therefore, on our evidence at least, the recent relationship between job openings and earnings growth appears weaker than in earlier years.

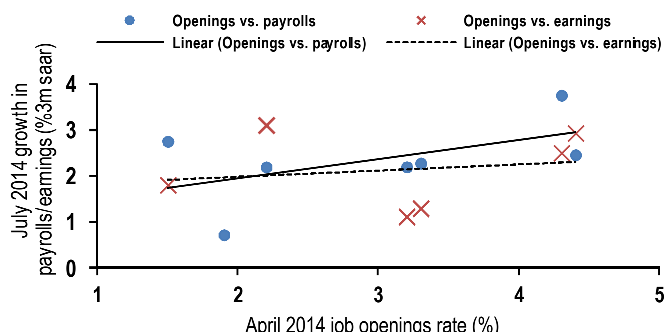
Job openings rate

%, sa



Source: BLS

Job openings rate vs. growth in payrolls/earnings: by industry



Source: BLS, J.P. Morgan

Regression results

	Job openings rate (3m lag) Coefficient	t-stat	r^2
Post-2010 sample			
Dependent variable: nonfarm payrolls (%3m, saar)			
Panel regression	1.23	4.32	0.20
Aggregate regression	1.25	2.46	0.25
Dependent variable: private average hourly earnings (%3m, saar)			
Panel regression	0.07	0.85	0.00
Aggregate regression	-0.01	-0.05	0.00
Full sample			
Dependent variable: nonfarm payrolls (%3m saar)			
Panel regression	1.70	4.17	0.18
Aggregate regression	1.32	1.60	0.08
Dependent variable: private average hourly earnings (%3m saar)			
Panel regression	0.55	5.92	0.09
Aggregate regression	1.04	3.99	0.23

Note: Constants included in regressions but related statistics not shown.

Source: J.P. Morgan