Economic Watch

Job Openings and Labor Turnover: July

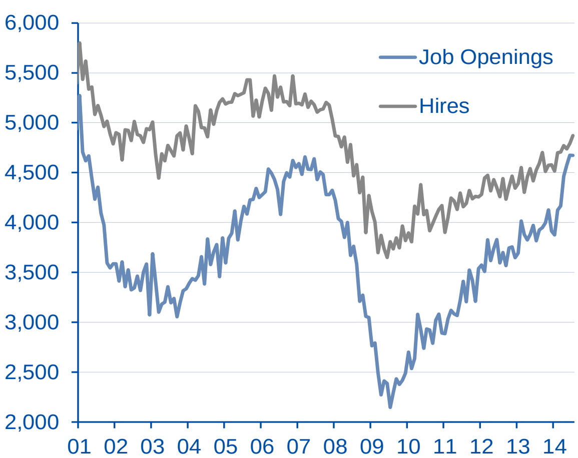
Kim Fraser Chase

Labor Market Conditions Stable but Fed's Concerns Remain Valid

- **Job openings mostly unchanged following five months of steady gains**
- **Hires and quits increased on the back of a significant boost from the construction sector**
- **Data address some of Yellen's concerns but unlikely to change FOMC's current stance**

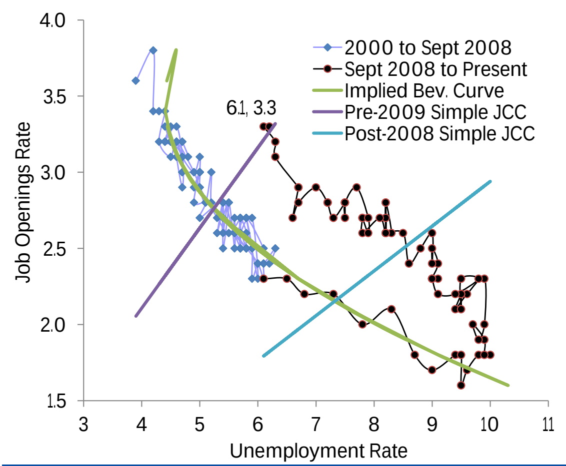
The Job Openings and Labor Turnover Survey (JOLTS) for July 2014 showed little change in the health of the labor market following significant improvement throughout the past few months. Job openings for the month remained steady at 4673K compared to the slightly revised 4675K in June. While this monthly change is insignificant, the level of job openings has officially surpassed the pre-recession peak, suggesting that at least one aspect of the labor market has fully recovered. However, total hires remain weak at only two-thirds the highest level seen before the crisis. Data in July looked a bit more positive, with the number of hires up 1.7% to 4872K due to a significant boost coming from the construction sector (up 36.6%). This helped to maintain the gap between job openings and hires, which had decreased dramatically in June. Total separations also increased in July, again reflecting a large jump from construction (37.8%). Within separations, quits increased 1.3%, other separations increased 1.1%, and layoffs and discharges increased 0.1%. The increase in quits is certainly a positive sign for the labor market as individuals feel more comfortable leaving their current job to find another, but conditions remain soft compared to pre-recession standards.

Chart 1
Job Openings and Hires
SA, Thousands



Source: BLS & BBVA Research

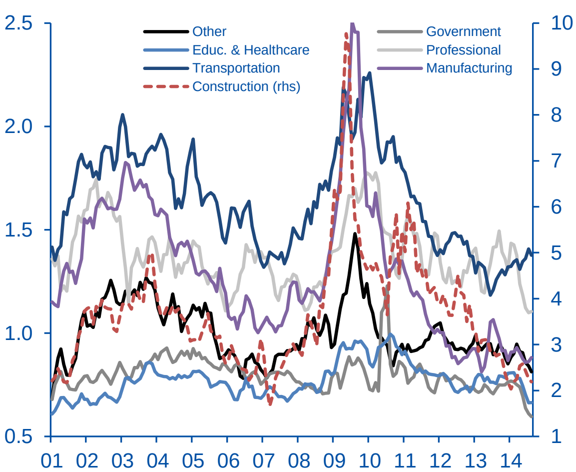
Chart 2
National Beveridge Curve



Source: BLS & BBVA Research

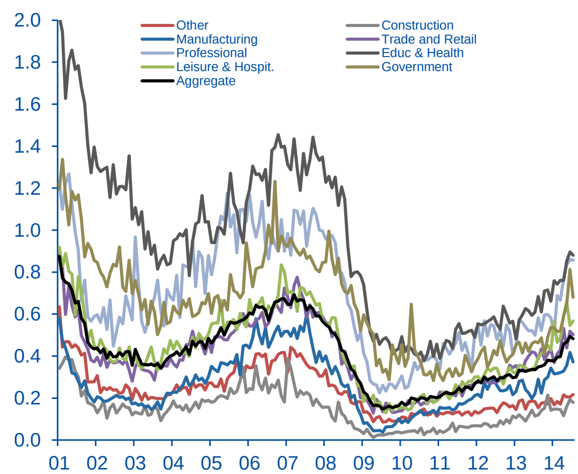
The JOLTS report has held increasing importance throughout the past few months, even more so than the usual employment reports, as Fed Chair Janet Yellen strengthens her emphasis on monitoring “other” indicators. Labor market slack and employment underutilization are just a few of the terms she has thrown around lately to highlight her views on the current stance of the economy and, ultimately, convey her dovish approach to monetary policy accommodation. In her speech at Jackson Hole, Yellen suggested that significant cyclical factors still affect the under-use of labor resources, specifically in the dramatic decline of the participation rate, part-time employed for economic reasons, labor market flows (levels of quits and hires), and labor compensation. Yellen also noted that “as the recovery progresses, assessments of the degree of remaining slack in the labor market need to become more nuanced because of considerable uncertainty about the level of employment consistent with the Federal Reserve’s dual mandate.” Looking forward, we expect Yellen and her FOMC colleagues to continue on the path of increased communication and transparency regarding the impact of incoming economic data on monetary policy accommodation. However, it is unlikely that the JOLTS report for July will offer much in the way of advancing the FOMC’s strategy one way or the other. Furthermore, the significant deceleration in employment growth for August suggests that the month’s JOLTS report will show little improvement.

Chart 3
Vacancy Yield by Industry
3MMA



Source: BLS & BBVA Research

Chart 4
Labor Tightness by Industry
(Higher = Tight)



Source: BLS & BBVA Research