

## Following the Leaders: Wage Growth of Job Switchers

By José Mustre-del-Río

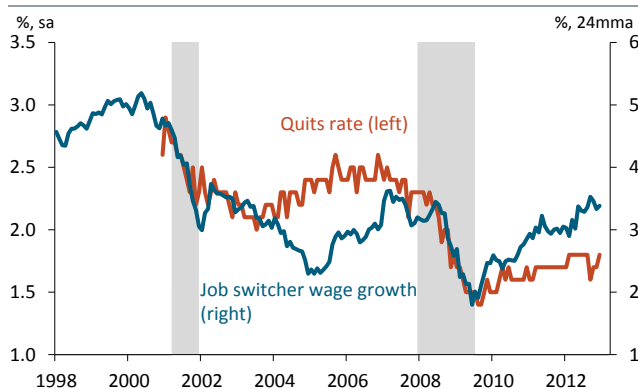
*Recent aggregate wage and compensation statistics have signaled nascent growth as the labor market continues to tighten. Looking specifically at job switchers, we find evidence of significant wage growth over the past several quarters. With the quits rate rising and returning to pre-recession levels, we should expect to see even greater wage growth for job switchers and ultimately job stayers in the future as competitive pressures take hold.*

Wage growth is often cited as an important gauge for the labor market's strength. For contractual reasons, however, wages of workers who stay in the same job ("stayers") are unlikely to vary much from month to month. Since the workforce is disproportionately composed of stayers, aggregate measures of wage growth may understate the cyclical behavior of the labor market. To control for this bias, we focus on wage growth of those who switch jobs ("switchers") using data from the Survey of Income and Program Participation (SIPP) and Automatic Data Processing's (ADP) Workforce Vitality Index (WVI). Unlike wages of stayers, wages of switchers are much more cyclically sensitive, as contracts signed with new employers are more likely to reflect current economic conditions. Historically, wage growth of switchers tracks the quits rate, suggesting that as the labor market continues to recover and the quits rate continues to rise, switchers' wage gains should rise even further as a result of competitive pressures. Consistent with this hypothesis, we find that switchers' wage growth has been quite strong the past several quarters as the labor market continues to tighten.

To get a historical perspective of wage growth for job switchers, we use data from the SIPP. The SIPP's panel structure allows us to track individuals across consecutive months and label them as job switchers whenever their main job in the current month is different from their main job in the previous month.<sup>1</sup> We restrict our sample to individuals who report being paid at an hourly rate and being employed in the private sector.

Chart 1 presents the time series behavior of average wage growth for switchers.<sup>2</sup> This measure of wage growth

**Chart 1: Historical relationship between switchers' wage growth and quits rate**



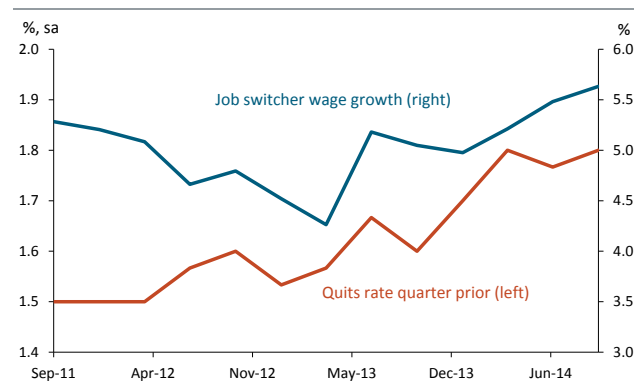
Sources: Bureau of Labor Statistics, Census Bureau, and author's calculations.

displays significant cyclicity, rising during economic expansions and falling sharply in recessions. Chart 1 also presents the total private quits rate as measured from the Job Openings and Labor Turnover Survey (JOLTS). Although the quits rate comes from a different survey than the SIPP, it is clear from the chart that wage growth of switchers co-moves with the quits rate. Indeed, the contemporaneous correlation is 0.54 and remains above 0.50 when looking at the quits rate four months prior. If we look specifically at data since 2007, the contemporaneous correlation rises to 0.73, suggesting an even stronger relationship between the wage growth of switchers and the quits rate during the Great Recession and recovery. Overall, this chart suggests a tight historical relationship between voluntary

turnover and the resulting wage gains.

Because the most recent data from the SIPP ends in 2012, we turn next to data from ADP's WVI.<sup>3</sup> The WVI includes several labor market indicators including wage growth of individuals who switched employers from one quarter to the next.<sup>4</sup> Unlike the survey-based SIPP, wage growth from the ADP is derived from payroll data and hence subject to less measurement error. Chart 2 reveals that despite these measurement differences, wage growth from the ADP shows the same pattern as in the SIPP, with switchers' wage growth comoving with the quits rate. In this case, the correlation between the wage growth of job switchers and the average monthly quits rate one quarter prior is 0.51.

**Chart 2: ADP switchers' wage growth and quits rate**



Sources: ADP, Bureau of Labor Statistics, author's calculations.

As the quits rate rose, switchers' average wage growth rose from roughly 4.3 percent per quarter in the first quarter of 2013 to 5.6 percent in the third quarter of 2014. Job switchers in leisure and hospitality reached average wage growth of 7.7 percent, while switchers in professional and business services saw wage increases of 6.8 percent by the third quarter of 2014. In contrast, switchers in the education and health sector observed gains of only 3.9 percent, and switchers in the manufacturing sector saw wage gains of 4.2 percent. However, as the labor market continues to tighten and turnover continues to rise, these trends should become more broad-based.

<sup>1</sup> We define an individual's main job as the job at which they spent the most time employed (or worked the most hours) during the month in question.

<sup>2</sup> We apply a 24-month moving average to the wage growth series to account for seasonality and to impute missing data in between survey panels and months without all four rotation groups.

<sup>3</sup> We stop our SIPP analysis in 2012 since not all rotation groups were interviewed in 2013.

<sup>4</sup> To compare with the SIPP data, we convert the original ADP data to nominal terms using the Personal Consumption Expenditures (PCE) price index.

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