

## Confident about Quitting: Job Leavers and Labor Market Optimism

By José Mustre-del-Río and William Xu

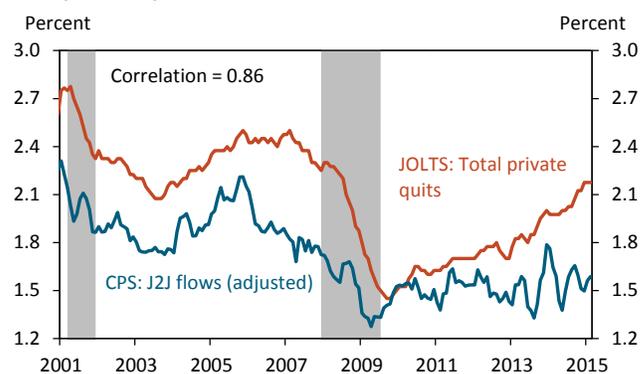
*A comparison of the quits rate from the Job Openings and Labor Turnover Survey (JOLTS) and a similar measure derived from the Current Population Survey (CPS) suggests voluntary job leavers are nearly as optimistic about labor market opportunities as they have been at any time in the past 15 years.*

The quits rate in the Job Openings and Labor Turnover Survey (JOLTS) is one of the most commonly used measures of voluntary turnover. However, this rate provides a limited picture of churn in the labor market: the JOLTS rate is an employer-level measure and thus lacks information about individuals' future employment status after leaving their jobs. This Bulletin examines the historical relationship between the JOLTS quits rate and job-to-job (J2J) flows derived from the Current Population Survey (CPS) to provide a more complete measure of voluntary turnover. The quits rate counts the fraction of individuals who voluntarily left employers. J2J flows measure the fraction of individuals who report working for a different employer compared with a month ago.

Comparing J2J flows from the CPS with the quits rate from JOLTS reveals two intuitive trends. In booms, when the labor market is tight and job opportunities are plentiful, the quits rate is high relative to what J2J flows predict. This suggests job quitters in JOLTS are optimistic about future employment opportunities and quit without a job in hand or take some time before starting a new job. In contrast, in recessions, the quits rate lies below what the J2J flows predict. This suggests job quitters in JOLTS are cautious and likely to leave their current employer only if they have a new job lined up. By these measures, recent data suggest job quitters are nearly as optimistic about labor market opportunities as they have been at any time in the past 15 years.

Chart 1 presents the historical relationship between the private quits rate from JOLTS and J2J flows from the CPS. By focusing on private quits, the JOLTS measure excludes retirements, transfers to other locations, and separations from public jobs. The J2J flow rate is similarly restricted and adjusted to control for the fact that some J2J flows capture individuals who report being employed in consecutive months (with different employers) but may have had a short intervening spell of unemployment.<sup>1</sup> The behavior of each measure over time is remarkably similar despite differences in scope. Nevertheless, the paths of the two measures occasionally diverge. Although we might expect differences to arise simply from survey methodology, Chart 1 suggests these differences move predictably with the business cycle.

**Chart 1: Historical Relationship between Quits and Job-to-Job Flows**



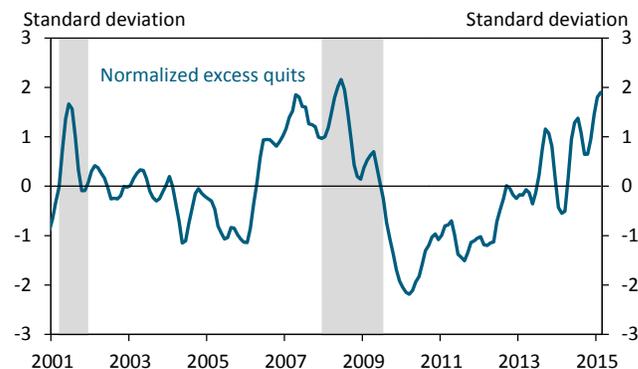
Notes: Gray bars denote NBER-defined recessions. Chart displays seasonally adjusted, 3-month moving averages.  
Sources: Bureau of Labor Statistics, Census Bureau, and authors' calculations.

To get a better sense of this systematic variation, Chart 2 displays the difference between the two measures extracted using a simple statistical technique.<sup>2</sup> This extracted difference can be interpreted as an *excess quits rate*—that is, quits that are not explained by transitions from one job to another.

Chart 2 shows that the excess quits peak when the unemployment rate is low and the labor market is at its tightest and then fall rapidly during recessions before gradually recovering as the labor market improves.

The high quits during booms suggest the JOLTS measure captures not only individuals who quit with a job in hand, but also individuals who optimistically quit and fail to find a job within a month or are able to delay the start date of their next job. Overall, when the labor market tightens and bargaining conditions favor workers, workers may be less willing to stay in sub-par jobs, thus raising excess quits. In contrast, excessively low quits during recessions suggest that on-the-job seekers are risk averse, only quitting with a job in hand. When bargaining conditions favor employers, workers' outside options decline and hence excess quits fall. After many years in negative territory, recent readings of the excess quits rate suggest workers may be more optimistic about the labor market and, therefore, quitting their jobs in search of better opportunities.

**Chart 2: Historical Behavior of Excess Quits**



Notes: Gray bars denote NBER-defined recessions. Chart displays seasonally adjusted, 3-month moving averages.

Sources: Bureau of Labor Statistics and authors' calculations.

<sup>1</sup> The adjustment involves two steps. In the first step, we adjust the J2J series for time aggregation following Mukoyama (2014). As an additional step to “clean” the J2J series from movements related to layoffs and other displacements, we regress the adjusted J2J flow on the layoffs and discharges and other separations series as provided by JOLTS. We then use the residuals from this regression to construct the J2J flow series displayed in Chart 1.

<sup>2</sup> More formally, we regress the JOLTS quits rate against a constant and the J2J flow series from the CPS. We use the residuals of this regression to construct the series in Chart 2.

## References

Mukoyama, Toshihiko. 2014. “The Cyclicalities of Job-to-Job Transitions and its Implications for Aggregate Productivity,” *Journal of Economic Dynamics and Control*, vol. 39, iss. C, pp. 1-17.

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