CONFIDENT ABOUT QUITTING: VOLUNTARY TURNOVER AND LABOR MARKET OPTIMISM

Getting an accurate picture of the labor market sometimes is difficult. For instance, how many people quit their jobs for better employment when the labor market is strong? One way to measure this is by analyzing the “quits rate” within the Job Openings and Labor Turnover Survey, referred to as JOLTS. The survey is commonly used in measuring voluntary turnover—when employees leave their jobs voluntarily. JOLTS looks at the rate from an employer perspective but lacks information about individuals’ employment status after leaving their jobs. For example, did they leave their jobs for another job, take time off before starting a new job or did they quit without any employment prospects.

José Mustre-del-Río, an economist, and William Xu, a research associate, both at the Federal Reserve Bank of Kansas City, examined the historical relationship between the JOLTS quit rate and job-to-job flows, also called J2J flows, derived from the Current Population Survey, to provide a more complete measure of voluntary turnover.

The JOLTS quit 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 both measurements reveals two innate trends.

In economic booms, when 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 having another job or take time off before starting a new job.

In recessions, the quits rate lies below what the J2J flows predict. This suggests job quitters are cautious and likely to leave their current employer only if they have a new job. 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.
Although the measurement tools use different methods, the behavior of both measures over time is remarkably similar. For example, JOLTS excludes retirements, transfers within the same organization and separations from public jobs. J2J flows have similar restrictions, but capture individuals who report being employed in consecutive months with different employers, but may have had a short intervening spell of unemployment. Sometimes the two measures’ paths converge, and though methodology differs, these differences move predictably with the business cycle.

To get a better sense of the systematic variation between the two measures, Mustre-del-Río and Xu used a simple statistical technique to display the differences between the measures. They said this extracted difference can be interpreted as an “excess quits rate”—quits that are not explained by transitions from one job to another. The chart 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.

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 a better opportunity.