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# Job Separation Rate Shows Economic Shifts

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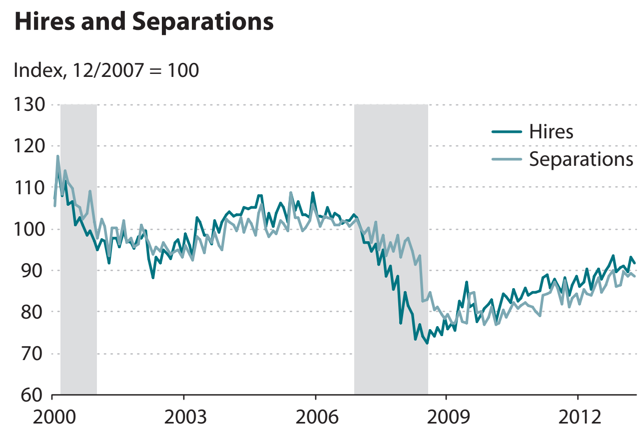
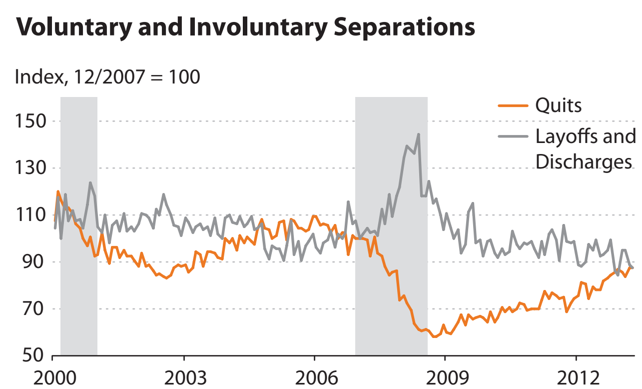
In what ways did the labor market respond to the Great Recession and to what extent has it improved? While the unemployment rate grabs attention, there is much more detailed data behind it, such as the components of the job separation rate. Specifically, the job separations rate (and its components) is an interesting barometer of labor market conditions in a number of ways. Fluctuations in the job separation rate affect the unemployment rate: If the job finding rate remains constant, an increase in the job separation rate will increase the unemployment rate. The two types of job separations further illuminate the bigger picture: Voluntary separations (quits) and involuntary separations (layoffs and discharges) tell us how workers perceive the economy and how firms anticipate their staffing needs. The data show us that the number of job separations was oddly stable throughout the Great Recession. Its composition changed during the recovery, however, and is now actually lower than it was before the recession.

**Quits rise when the economy is good; layoffs and discharges rise when the economy isn't.**




SOURCE: Bureau of Labor Statistics and Federal Reserve Economic Data.

The Bureau of Labor Statistics began a relatively new survey in 2000, the Job Openings and Labor Turnover Survey (JOLTS), to follow the flows of workers and jobs in the economy. This monthly survey asks about 16,000 firms how many workers separated, how many workers were hired, and how many job openings remain. The separations are categorized as either (i) voluntary quits or (ii) involuntary layoffs or discharges (a distinction which is more reliable because the firms rather than the employees are responding). The number of quits provides a window into workers' expectations of the labor market: Workers who quit their jobs likely anticipate finding better work. Layoffs and discharges, on the other hand, bode poorly for the economy, as they demonstrate that firms are paring back staffing faster than can be accomplished simply by slowing hiring. Thus, quits will rise when the economy is doing well, and layoffs and discharges will rise when the economy is doing poorly.

The first chart shows the relatively constant number of separations over the business cycle. A weak economy reduces quits but increases layoffs and discharges; and, as shown in the second chart, the two numbers balanced each other. What does this observation about the separation rate mean for the unemployment rate? The overall number of separations did not spike even during the Great Recession, the worst period of unemployment in the post-war period.

Instead the increases in the unemployment rate were largely driven by the rate at which workers found new jobs. That rate was very slow, as the number of hires plummeted during the Great Recession.

The second chart shows that, on average, job quits have been relatively stable; they have accounted for well over half of all job separations from 2000 through the 2001 recession and the good times that followed. During the Great Recession, however, job quits fell drastically in lockstep with the decline in hiring: Workers must have been reluctant to leave their jobs voluntarily, fearing little prospect of finding new ones. Yet, the overall separation rate did not follow the same downward spiral. Why? Because layoffs and discharges rose in mirror image to the quits. This spike in involuntary separations rose quickly and peaked in April 2009 at a level 44 percent higher than its pre-recession level, before eventually returning to trend level by January 2010. Quits, however, have remained depressed, at about 15 percent below their pre-recession level. Combined, these two paths account for the slight fall in the number of separations seen in the first chart.

The labor market now is closer to its pre-recession levels, as the unemployment rate has mostly returned to its historic average. However, the composition of unemployment seems to have changed. Layoffs and discharges recovered quickly and are now lower than their pre-recession level—supposedly a good sign. But, both quits and hires were slow to return to their pre-recession levels and remain low. The story these signals tell is a bit confusing. A low level of quits implies that workers do not believe it is easy to find another job, which is consistent with the still-low level of hiring. However, half a decade after the recession, firms are not laying off existing workers. So can the labor market still be "bad?" ■

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