November 9, 2020

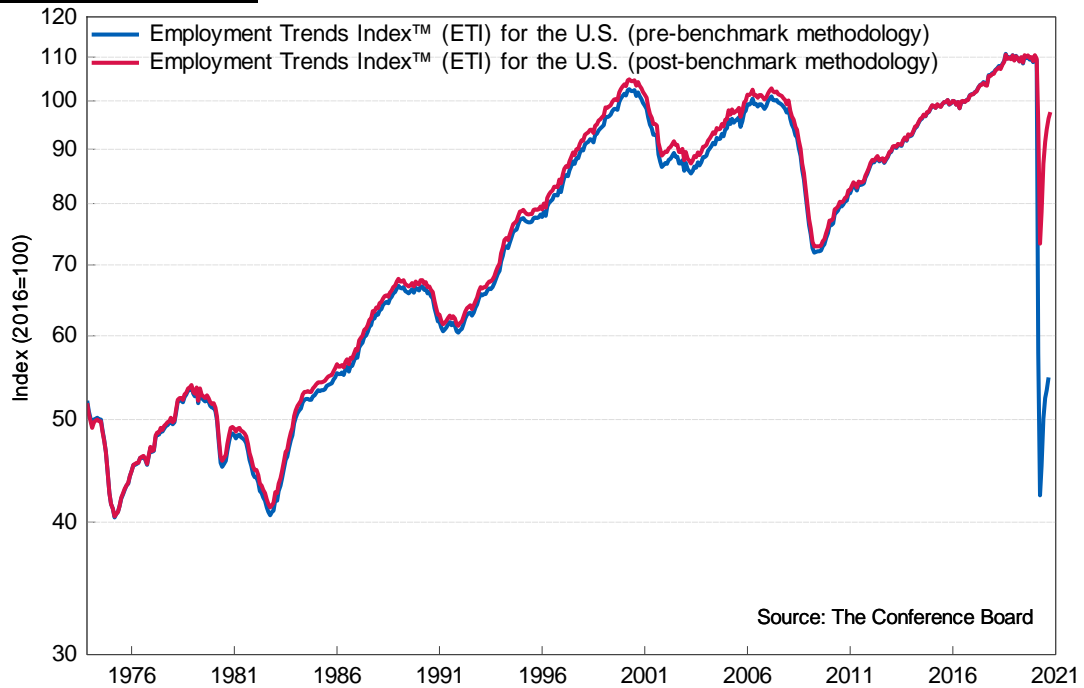# The Conference Board Employment Trends Index (ETI)™ Methodology Revision

Starting with the November 2020 release (Monday, November 9, 2020 10:00 AM ET) The Conference Board Employment Trends Index (ETI)™ will be calculated using a symmetric monthly change methodology of the individual components. The symmetric monthly change methodology ensures that if an indicator goes up and then down by the same amount, and gets back to its original level, the index returns to its original level.

The Conference Board decision to move from a simple monthly percent change methodology to a symmetric monthly change methodology was prompted by the unprecedented monthly changes in Initial Claims for Unemployment Insurance during March 2020 through April 2020, due to the COVID-19 pandemic. The former methodology did not properly capture and reflect changes in the ETI. As a result, The Conference Board decided that to better reflect long-term trends in the level of employment, a revision to the methodology was needed.

The chart below shows the ETI pre-benchmark (simple percent change) and post-benchmark (symmetric monthly change). The historical difference through February 2020 is negligible and the timing of the turning points is not affected.

In addition, each January the ETI undergoes annual benchmark revisions that update the standardization factors used to calculate the index. This brings the index up to date with revisions in the source data. The Conference Board decided to apply this revision in November, along with methodological changes. These revisions do not change the cyclical properties of the index. The standardization factors, known as volatility adjustment factors, are calculated using the standard deviation of the monthly percent change in each component. The period used for calculating the standardization factors begins in November 1973 and ends in December 2019. The standardization factors are then used to construct the index from November 1973 to present. As a result, the revised index, in levels and month-on-month changes, will not be directly comparable to those issued prior to this annual revision. For more information, please visit our website at http://www.conference-board.org/data/eti.cfm

The Conference Board Employment Trends Index™ pre- and post-benchmark methodology comparison

The Components

Below is a list of the eight components chosen for the Employment Trends Index (ETI)™.

1. **Percentage of respondents who say they find "Jobs Hard to Get" (The Conference Board Consumer Confidence Survey):** The difficulty of getting a job is determined by how many employees' companies are hiring and by the number of workers competing for each job, which is approximated by the unemployment rate. This component is highly correlated with employment and consistently leads before peaks in employment.

2. **Initial Claims for Unemployment Insurance, State Programs (U.S. Department of Labor):** This component measures the number of new claims for unemployment compensation; this is also a component of the LEI. It tends to lead the unemployment rate (which in turn leads employment), consistently before both peaks and troughs. This component is not highly correlated with employment compared to the other components and has the largest number of false signals.

3. **Percentage of Firms With Positions Not Able to Fill Right Now (© National Federation of Independent Business Research Foundation):** This component measures the demand for labor before hiring actually occurs. It consistently leads employment before peaks and is one of the components that do not produce false signals.

4. **Number of Employees Hired by the Temporary-Help Industry (U.S. Bureau of Labor Statistics)[1]:** Firms tend to let go of temporary workers before permanent ones as the economy weakens, and to hire temporary workers before permanent ones as they cautiously test a strengthening economy. This component is highly correlated with employment and tends to lead before peaks.

5. **Part-time Workers for Economic Reasons (BLS):** This component measures the number of employees who settle for part-time positions although they wanted full-time work instead. Companies tend to shift some of their workforce to part-time prior to reducing the number of workers. This component significantly leads employment before peaks but has a relative low correlation with employment and produces several false signals[2].

6. **Job Openings (BLS, through Job Openings and Labor Turnover Survey):** Job Openings tend to lead employment.

7. **Industrial Production (Federal Reserve Board)** and

8. **Real Manufacturing and Trade Sales (U.S. Bureau of Economic Analysis).** These last two components are good monthly indicators of economic activity, which is highly correlated with employment. In response to changes in economic activity, companies usually adjust productivity and work hours before changing their workforce. Both components are highly correlated with employment and consistently lead before peaks in employment.

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[1] The time series Temporary Help Services is created as follows: The original data, as reported by BLS, comes in two segments. The currently active segment, NAICSTHS, tracks back only to 1990:1, and it is under the definition of NAICS. The second segment, SIC7363, spans from 1982:01 to 2003:04, and it uses the definition of SIC, which use has been discontinued by BLS. Although the two segments are slightly different in definition, they are indeed very similar in terms of their actual behavior. We can project one time series using the trend of another, to create one series that spans throughout the period. We take the ratios between NAICSTHS and the new SIC7363 in 1990:01 by dividing SIC7363 by NAICSTHS. Next, we take the ratio found using the same method.

[2] This component is calculated as the ratio between part-time workers for economics reasons, divided by total part-time workers.