

# Cyclical Job and Worker Flows: New Data and a New Set of Stylized Facts

Rüdiger Bachmann, Christian Bayer, Stefan Seth and Felix Wellschmied\*

September 3, 2013

## Abstract

We study the relationship between cyclical job and worker flows at the plant level using a new data set spanning 1976-2006. Cyclical dynamics in labor demand are mainly characterized by plants moving from inactivity to a growing labor force during booms. These dynamics explain relatively little of procyclical worker flows. Instead, all plants in the employment growth distribution increase their worker turnover during booms. Models stressing procyclical on the job search as means to move to better employers can rationalize procyclical conditional worker flows. Yet, they fail to rationalize procyclical accession rates for all shrinking plants and the fact that separations and accessions rise by more during booms at low productive relative to high productive plants.

**Key Words:** Job flows, Worker flows, Aggregate fluctuations

**JEL Classification:** E32, J23, J63

---

\*Rüdiger Bachmann: RWTH Aachen, Christian Bayer: University of Bonn, Stefan Seth: IAB, Felix Wellschmied: University of Bonn. The research leading to these results has received funding from the European Research Council under the European Research Council under the European Union's Seventh Framework Programme (FTP/2007-2013) / ERC Grant agreement no. 282740.

# 1 Introduction

Worker turnover is large<sup>1</sup> and strongly procyclical.<sup>2</sup> Several different explanations have emerged for the procyclicality of worker flows, each carrying different implications for worker sorting over plant types. One view is that procyclical worker flows arise from procyclical labor demand. In Mortensen and Pissarides (1994), it is more profitable to open vacancies during a boom, and, going back to the idea of Schumpeter (1939), newly created vacancies are assumed to be more productive than existing ones. Elsby and Michaels (2008) and Kaas and Kircher (2011) extend this framework by endogenizing the characteristics of newly created vacancies in a framework with multiple worker firms and idiosyncratic productivities. An alternative view is that part of these procyclical flows come from worker flows exceeding job flows during booms, i.e., procyclical churn. The most prominent explanation is a procyclical job to job flow rate. In Moscarini and Postel-Vinay (2013) and Schaal (2011), workers flow from less to more productive firms. As vacancy creation is procyclical, relatively many workers flow to more productive matches during booms; thus, having a feedback effect on aggregate productivity. In Barlevy (2002) and Moscarini and Vella (2008), a boom may even increase aggregate productivity without increasing average plant productivity by decreasing mismatch through on the job search. A third view of procyclical worker turnover that has so far not been formalized with aggregate dynamics<sup>3</sup> is that plants and workers learn about match quality and an increasing hiring rate during booms; therefore, also implies an increasing separation rate.

A major obstacle for quantifying the different channels of procyclical worker turnover is the availability of data sets that provide information on plant characteristics, worker flows and labor demand. In this paper, we introduce a new data

---

<sup>1</sup>Davis et al. (2006) find for the US that more than 3 percent of workers are employed at a job that they did not hold the month before and more than 3 percent separate from their current job each month. Contini (2002) reports yearly worker turnover rates for Belgium, France, Germany, and Italy of 41.7%, 59.6%, 43.8% and 61.7%. Jung and Kuhn (2011) find a total monthly job separation rate in West-Germany around 7%.

<sup>2</sup>See Davis et al. (2006).

<sup>3</sup>See Pries and Rogerson (2005) and Kiyotaki and Lagos (2007) for steady state analyses.

set, the German *Establishment Labor Flow Panel*, *ELFLOP*, containing quarterly information on job and worker flows of all employees working within the universe of German establishments. The new data set currently covers the period 1975 – 2006 and features detailed information on plant and worker characteristics.

With regard to steady state analysis, we find consistent with Davis et al. (2006) and Davis et al. (2012) that job flows can explain 50 percent of worker flows in the cross-section, and that plants from the entire growth distribution hire and separate from workers:

1. For both positive and negative net employment growth, plants hire and separate from workers. Worker flows are twice as large as job flows.
2. Accessions of workers are almost flat for negative net employment growth and separations from workers are almost flat for positive net employment growth.

Our analysis reveals the following stylized facts for the link between job and worker flows over the business-cycle:

3. Job and worker flow rates are about 50% smaller and somewhat more volatile in Germany than in the US. The correlation with the cycle is comparable.
4. The job creation rate is procyclical, the job destruction rate is weakly counter-cyclical. Both are leading the cycle.
5. A boom is characterized by a high share of employment being located at expanding plants. During a recession, plants shift to a wait and see approach or exit the market. During a boom, plants along the entire size and age distribution increase on average employment. During a recession particularly small and young plants shift to a wait and see approach, while large and old plants decrease employment.
6. There are little differences regarding size of entering and exiting plants during booms and recessions.

7. The accession and the separation rate are strongly procyclical with a standard deviation of 8.5 and 5.9%, respectively.
8. Conditional on plants' employment growth, the accession and separation rate are procyclical for each plant category.
9. Most business cycle dynamics in worker flows can be explained by plants changing accession and separation behavior conditional on employment growth. Shifts in the distribution of employment growth explain some variations in the accession rate and very little in the separation rate. Contrary, spikes in worker flows at higher frequencies are predominantly explained by changes in the employment growth distribution
10. The churning, accession and separation rate are procyclical along the entire age, size and pay distribution of plants. These rates rise by relatively more during booms at small young and low paying plants compared to large, old and high paying plants.
11. The dispersion of the churning, accession and separation rate is acyclical or slightly countercyclical.
12. Systematic cyclical variations in excess worker flows are predominantly explained by plants that increase employment.

While this paper mostly descriptive in aiming at establishing business cycle facts, the choice of questions directly speak to the mechanisms of different theories of worker turnover. Stylized fact 1 implies that pure labor demand models can explain at most half of all worker flows. Stylized facts 4 and 5 shows that from a plant perspective an exogenous, cyclical independent job destruction rate is appropriate, once plant exit is explicitly taken into account. The data suggests that, opposite to upward adjustments in plants' employment, major downward adjustments in plants' employment are linked to idiosyncratic and not to aggregate shocks.

In line with previous evidence, we find that both the accession and the separation rate are procyclical (Stylized fact 7). How much of the procyclical worker turnover

can we explain by changes in aggregate labor demand? Stylized facts 8 and 9 show that this is surprisingly little. Especially shifts in aggregate labor demand explain very little of business cyclical variation in the separation rate. Instead, labor demand is the primer determinant of higher than business cycle frequency movements in worker flows.

Does our data help us to differentiate between different theories of procyclical excessive worker flows? Moscarini and Postel-Vinay (2013) assume that job destruction is countercyclical for all plants and do not allow for idiosyncratic shocks or plant exit. Our results suggest that idiosyncratic shocks are key to generate acyclical shares of downward adjusting plants, and to endogenize plant exit to reconcile a countercyclical job destruction rate (Stylized fact 5). Their baseline specification with exogenous worker contact rates provides sufficient flexibility to match the procyclical move from inactivity towards upward adjustment. Yet, Schaal (2011) shows that once endogenizing contact rates by vacancy posting, low productive plants find it unattractive to replace workers that are poached by more productive plants. Consequently, the share of employment at contracting plants becomes procyclical. Contrary to on the job search theory, we find no evidence that larger and older plants are more likely to grow during booms than small and young plants.

As discussed above, once worker contact rates are endogenized by vacancy creation, it is difficult to rationalize procyclical churn at contracting plants (Stylized fact 8). Consistent with on the job search theory, separations at small (young, low paying) plants drop by more during recessions than at large (old, high paying) plants (Stylized fact 10). Yet, we also find that their accession rate drops by more, which is inconsistent with these theories. Similarly, second moments of worker flow rates provide little evidence for the majority of these flows being driven by procyclical upward mobility resulting from job to job transitions (Stylized fact 11). One possibility is that they do not result from systematic differences in plant characteristics, as in Barlevy (2002) and Moscarini and Vella (2008).

Finally, Stylized fact 12 suggests that theories along the line of Pries and Rogerson (2005) and Kiyotaki and Lagos (2007) carry promise to explain the data. Growing plants have a large fraction of newly hired workers, of whom relatively many are of

poor match quality.

The rest of the paper is organized as follows: The next section introduces the data set and explains our main concepts that we use to analyze the data. The following section presents stylized facts about aggregate job and worker flows in Germany on business cycle frequency and compares the flow rates to US data. Thereafter, we quantify the amount of cyclical worker flows explained by job flows. Finally, we study cyclical job and worker flows conditional on different plant characteristics that allow us to test different theories of excessive worker flows. The last section concludes.

## 2 Data

### 2.1 Data Source

#### 2.1.1 The Establishment Labor Flow Panel

The basis of our analysis forms the *Establishment Labor Flow Panel (ELFLOP)*, a data set we compiled and that measures employment and labor flow data for the universe of German establishments. *ELFLOP* covers the time period 1975-2006 (West Germany until 1992-II the re-unified Germany thereafter, but regional information is available). We drop all establishments that are on the territory of former Eastern-Germany and Berlin to avoid a break in the series. All data is available at a quarterly frequency. The data used to produce *ELFLOP* originate from the German notification procedure for social security. Essentially, this procedure requires employers to keep the social security agencies informed about their employees by reporting any start or end of employment and by annually confirming existing employment relationships.

The *Forschungsdatenzentrum der Bundesagentur für Arbeit* (German Bureau of Labor) uses the data collected through the notification procedure as input for its BLH (Employees And Benefits-Recipients History File), which in turn is *ELFLOP*'s data source. The BLH is an individual-level data set covering all workers in Germany liable to social security. The main types of employees not covered are public officials (*Beamte*), military personell and the self-employed. Also, marginal part-time workers

(less than 15h/week and below 315€monthly income) are only included in the BLH since 1999. To ensure consistency over time, all variables are therefore calculated on a *regular worker* basis: apprentices and interns, marginal part-time workers, workers in partial retirement (and a few other groups of minor importance) are being excluded from the data.<sup>4</sup>

From the BLH files, *ELFLOP* aggregates the worker and job flow information to the plant level, such that a plant becomes the observational unit. Job and worker flow disaggregated by sub-categories of workers are available in the micro data as well, but for the present paper we only exploit information for the aggregate job and worker flows at the plant level. Similarly, plant information (industry, age, location, workforce composition, average salary, etc.) is available as part of the micro data. Further details on the data set are described in Bachmann et al. (2011).

### 2.1.2 US Data

We compare our aggregate job and worker flows to US plant level data in Section 3.<sup>5</sup> Unfortunately, a dataset as comprehensive as *ELFLOP* does not exist for the US. We obtain seasonally adjusted US quarterly job flows from the *Business Employment Dynamics (BED)* data provided by Davis et al. (2006) for the period of 1990-2005. *BED* job gains and job losses contain information on the universe of US establishments, excluding household employment, most agricultural employment and governmental employees.

Unfortunately, the *BED* data does not contain information on worker flows.

---

<sup>4</sup>Also, workers working below 15 hours a week and earning less than roughly 315€(in 1999, lower values before) were exempt from social security taxation (geringfügige Beschäftigung) and hence not recorded. Since 1999 these workers are recorded as well in the data but as a separate category. We exclude these workers from the analysis.

<sup>5</sup>The two concepts of establishments are not identical. In the US, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. In our data set, each firm's production unit located in a county (Kreis) receives an establishment identifier based on industry classification. When each production unit within a county has a different industry classification, or a firm's production unit are located in different counties, the two definitions coincide. When a firm has more than one production unit within the same county that are classified by the same industry, they may receive the same establishment identifier. The employer may decide; however, to have different identifiers assigned (see Dundler et al. (2006)).

Therefore, we obtain seasonally adjusted worker flows from the *Job Openings and Labor Turnover Survey (JOLTS)* for the years 2001-2012 first quarter. *JOLTS* samples every month 16000 establishments from the universe of US plants with the exception of agriculture and private households. Moreover, it does not feature entering and exiting plants that are; however, responsible for a significant share of aggregate job creation and destruction and has only limited amount of information on plant characteristics. We aggregate the monthly flows to quarterly frequency. An alternative data source is the *Longitudinal Employer-Household Dynamics (LEHD)* program. It tracks workers by their unemployment insurance records. It allows for quarterly aggregation to the plant level. In principle, it reaches back to 1993, but coverage was only 30% of US private employment. Since 2000, the coverage rate is above 80% in each year (see Abowd and Vilhuber (2011) for details.). While LEHD has several advantages over JOLTS, we still mainly opt for a comparison with the latter. In LEHD, half of all worker flows are flows result from workers being employed for less than one full quarter (see Davis et al. (2006)). These extremely short tenure flows have no counterpart in the German data.

## 2.2 Stock Concepts, Data Cleaning and Aggregation

In the *ELFLOP* data, a worker is considered to be working for a given establishment (*Betrieb*), or short: plant, in a given quarter when she has been employed at this plant at the end of the quarter.<sup>6</sup> This definition yields the number of jobs at a plant at the end of a quarter, the number of hires (accession *ACC*) of a plant (a worker that has not been working for that plant at the end of the previous quarter), as well as the number of separations (*SEP*) (a worker that has been working for the firm at the end of the previous quarter). These are the basic data from which all other data are constructed.

We compute beginning of quarter, *EB*, and end of quarter employment, *EE*, for each plant. When a plant decreases employment by  $N$  within a quarter, we count

---

<sup>6</sup>It is relatively rare to observe workers leaving a job before the end of a month in the data. In facts most workers leave or join a plant at the end reps. beginning of a quarter.

this as  $N$  job destructions,  $JD$ . When employment increases by  $N$ , we count  $N$  job creations,  $JC$ . The sum of the two is job turnover. A plant may hire and fire workers within the same quarter and we refer to the sum of accessions and separations as worker turnover. We have  $ACC \geq JC$  and  $SEP \geq JD$  for each establishment in each quarter. Part of our analysis deals with differences in plant level behavior given the amount of employment growth at the plant. For this purpose, we aggregate the plant level data to  $J = 11$  employment growth categories.<sup>7</sup> Similarly, we exploit information on plants industry, size, age and average wage bill. We refer to any of these different data cuts as *plant category*.

We allow each category to have an individual specific seasonal component and compute seasonally adjusted series, using the *X-12 ARIMA CENSUS* procedure.<sup>8</sup> The raw data suffers from several worker reclassifications resulting from changes in the social security system, industry reclassifications and outliers resulting from labor disputes during which workers were laid off for short periods of time as result of a strike. We adjust every series using a semi-parametric approach described in Appendix A. To derive the aggregate series for West-Germany, we finally aggregate over the seasonal adjusted series for all plant categories.

Given either the aggregated or plant categorical stock/flow data, we define flow rates. We use as denominator the average of end-of-quarter employment and beginning-of-quarter employment:

$$EM_t = [EE_t + EB_t]/2.$$

For example, the accession rate hence reads:

$$ACCR_t = \frac{ACC_t}{EM_t}. \quad (1)$$

All other rates are defined analogously. The measure implies that all rates are bounded in the interval  $[-2, 2]$  with endpoints corresponding to death and birth of

---

<sup>7</sup>The categories are: plants shrinking by 75, 10 – 75, 5 – 10, 1 – 5, 0 – 1 percent, plants leaving employment unchanged and plants that grow by 75, 10 – 75, 5 – 10, 1 – 5, 0 – 1 percent.

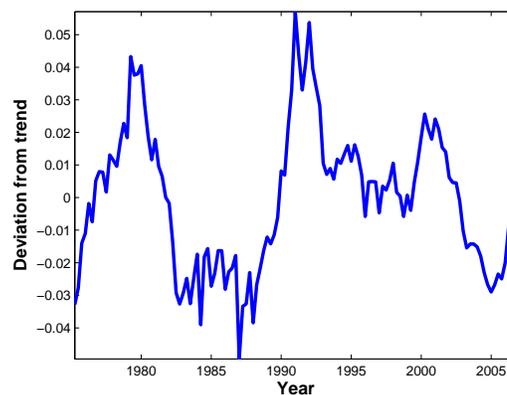
<sup>8</sup>Allowing for series specific seasonality may be surprising. We want to insure consistency for each variable for the sum of all individual categories and the aggregate series of West-Germany. Hence, we allow for individual specific seasonality and aggregate afterwards to the level of West-Germany.

plants.<sup>9</sup>

Our analysis deals with fluctuations at business cycle frequency. We compute the cyclical component for the aggregate or plant category series employing a HP-filter for the log series with a smoothing parameter of  $10^5$ . Consequently, the cyclical components have the interpretation of a percentage deviations from a slowly moving trend.

## 2.3 Business Cycles in Germany

Figure I: Cyclical Measure



Notes: The deviation of GDP from its trend component.

Figure I plots our cyclical measure GDP. There are several boom and bust cycles in the sample period. At the beginning of the sample, Germany was still recuperating from the first oil price shock and moved into a subsequent boom at the end of the 70's. The boom began to level off in 1979 (*second oil crisis*), leading into a subsequent long lasting recession that reached its trough (with regard to GDP) around 1987 (*Black Monday*). The economy moved afterwards into the post-reunification boom at the beginning of the 90's, which lasted until the mid 90's. The following years see unemployment peaking around 1998, until the economy moved into the boom at

---

<sup>9</sup>See Davis et al. (1996) for a more thoroughly discussion regarding the properties of this measure. Most importantly, the measure allows for consistent aggregation.

the beginning of the 2000's. Around 2002 unemployment was on the rise again, until two years before the end of the sample period the economy bettered again. Hence, our dataset provides us with almost four complete business cycles.

### 3 Cyclical Dynamics of Job and Worker Flows in Germany and the US

This section presents cyclical dynamics of aggregate job and worker flows in Germany. In Section 5.1 we compare our results to those found by previous studies conducted on US data. Therefore, we additionally compare our results for Germany to US data to assure that differences are not driven by labor markets that function very differently.<sup>10</sup> This section establishes that while job and worker flows are lower in Germany, their cyclical dynamics are similar to the US. Additionally, we investigate how (un)important difference in industry and size structure of plants are for the differences across countries. Appendix B, provides the details for the latter comparison.

Table 1 displays the cyclical properties of job flow rates in Germany to the US. The *job-creation rate*, *JCR*, is about half the size in Germany compared to the US, and its cyclical volatility is about twice as large. Similarly to the *JCR*, the *job-destruction rate*, *JDR*, is about twice as large in the US compared to Germany and about 40% less volatile.<sup>1112</sup> This reflects that the Shimer (2005) puzzle is even more evident in Germany compared to the US when looking at the job finding rate from unemployment and vacancies (see Jung and Kuhn (2011) and Gartner et al. (2009)). The *JCR* and *JDR* are 1.7 and 2.6 times more volatile than output in the US. We find for Germany ratios of 3.7 and 3.7, respectively. Likely, differences

---

<sup>10</sup>Keep in mind that contrary to *ELFLOP*, neither *JOLTS*, nor the *BED* cover all sectors. We report all rates based on the respective data sample.

<sup>11</sup>Based on *LEHD* data, Abowd and Vilhuber (2011) report for 1993 – 2007 a 7% and 6% job creation and destruction rate, respectively.

<sup>12</sup>The numbers imply that job turnover is somewhat more than twice as large in the US compared to Germany. This is roughly in line, yet somewhat larger, to the estimates provided by Davis and Haltiwanger (1999) based on yearly data (see their Table 5).

Table 1: Job Flow Rates

					Correlation to $GDP_{t+j}$				
		<i>mean</i>	<i>SD</i>	<i>AC(1)</i>	<i>j</i> = -2	-1	0	+1	+2
<b>Creation Rate</b>	GER	3.7%	8.1%	0.57	-0.02	0.06	0.19	0.27	0.33
	US	7.9%	3.4%	0.82	0.03	0.12	0.20	0.28	0.34
<b>Destruction Rate</b>	GER	3.3%	8.0%	0.60	0.13	0.01	-0.11	-0.19	-0.23
	US	7.6%	5.2%	0.80	0.48	0.36	0.24	0.21	0.19

Notes: Germany: *ELFLOP* 1975-2006, US: BLS 1990-2005, SD: standard deviation of log rate, AC(1): first order autocorrelation, Mean: average seasonally adjusted rate. The bottom panel of the table displays correlation of the flow rates with GDP.

in volatilities of cross-country labor demand, especially job creation, appear to be linked to differences in the cyclical behavior of the job finding rate and vacancy posting behavior, cf. Jung and Kuhn (2011).

This observation leads to a related point about relative volatilities of the *JCR* and *JDR*. Campbell and Fisher (2000) argue that the higher volatility of *JDR* relative to *JCR* is an equilibrium outcome with proportional hiring and firing costs and show that the volatilities are non-monotone in these costs (first increase then decrease). Hence, the relative low volatility of *JDR* in Germany must result from non-proportional hiring and firing costs (e.g. time-costs or firing costs increasing during recessions). Moreover, the high absolute volatilities challenge the conventional wisdom of high firing costs in Germany, as discussed in Jung and Kuhn (2011).

Despite being more volatile in Germany, the correlation of the *JCR* with GDP is almost identical across the two countries. The correlation becomes weaker as the boom matures and is acyclical already two quarters after the peak of *GDP*. The *JDR* is close to acyclical in Germany, turning slightly countercyclical at leads of GDP. Contrary, we find a slightly procyclical rate in the US, especially at lags of

GDP.<sup>13</sup>

Table 2: Worker Flows

					Correlation to $GDP_{t+j}$				
		<i>mean</i>	<i>SD</i>	<i>AC(1)</i>	<i>j</i> = -2	-1	0	+1	+2
<b>Accession Rate</b>	GER	7.2%	8.5%	0.86	0.35	0.45	0.56	0.61	0.64
	US	12.0%	6.2%	0.92	0.47	0.57	0.64	0.68	0.68
<b>Separation Rate</b>	GER	6.8%	5.9%	0.74	0.64	0.65	0.65	0.63	0.61
	US	12.0%	4.9%	0.87	0.66	0.59	0.50	0.43	0.36

See Notes to Table 1.

Table 2 establishes that worker flows are twice as large in the US compared to Germany.<sup>1415</sup> The *accession rate*, *ACCR*, is as volatile as the *JCR* and *JDR* in Germany, and the separation rate is less volatile. Worker flows are more volatile than job flows in the US, especially the *ACCR*. The *ACCR* is strongly procyclical in both countries and slightly leading the cycle. Similarly, the separation rate is procyclical in both countries. It is lagging the cycle in the US, but no such tendency is observable for Germany. One needs to be careful with such interpretations; however, because we observe only one cycle in the US.

It is instructive to compare the cyclical behavior of job and worker flows at this point and their implications for employment changes over the cycle. These facts are independent of the country under analysis. According to labor demand, employment

<sup>13</sup>Fujita and Nakajima (2009) report a slightly countercyclical rate. The difference arises because they use a HP smoothing parameter of 1600.

<sup>14</sup>Our job and worker flows imply an annualized rate that is about twice as large as the one reported by Bellmann et al. (2011) for a sub-sample of our data (see their Table 2). Our separation rate matches that reported by Jung and Kuhn (2011) (see their Table 1).

<sup>15</sup>As discussed above, *LEHD* data implies much larger worker flows. Abowd and Vilhuber (2011) report an accession and separation rate of 25% and 24% for the period of 1993 – 2007.

expands during a boom because the job creation rate rises and the job destruction rate falls (stays the same). Contrary, according to worker flows, employment rises during booms because the accession rate is more volatile than the separation rate. Both have higher correlations to GDP and than their job flow counterparts and their autocorrelation is higher and more similar to GDP. We will come back to these results below, but to previous some of our findings, it should be little surprising that we find that cyclical changes in labor demand leaves substantial cyclical variation in the accession rate unexplained and explains little of variation in the separation rate.

Table 3: Turnover Rates

					Correlation to $GDP_{t+j}$				
		<i>mean</i>	<i>SD</i>	<i>AC(1)</i>	<i>j = -2</i>	<i>-1</i>	<i>0</i>	<i>+1</i>	<i>+2</i>
<b>Job Turn-over Rate</b>	GER	6.9%	4.2%	0.43	0.10	0.06	0.09	0.11	0.14
	US	15.6%	3.2%	0.81	0.41	0.36	0.30	0.33	0.34
<b>Worker Turn-over Rate</b>	GER	14.0%	6.6%	0.88	0.51	0.59	0.65	0.68	0.69
	US	24.0%	5.0%	0.91	0.62	0.64	0.64	0.64	0.60

See Notes to Table 1.

Let us define job-, respectively worker-turnover rates as:

$$TOR_t^J = \frac{JC_t + JD_t}{EM_t}, \quad TOR_t^W = \frac{ACC_t + SEP_t}{EM_t}$$

Table 3 summarizes the cyclical dynamics of these flows. Turnover rates are both larger in the US compared to Germany and less cyclical volatile. Resulting from the slightly procyclical *JCR* in the US, the US job-turnover rate is more procyclical in the US than in Germany.<sup>16</sup> Worker turnover is strongly positively correlated with

<sup>16</sup>A well known finding from Davis and Haltiwanger (1992) is that the US manufacturing job

all lags and leads of GDP in both countries.

Of course some of the differences are also driven by plants being of different size and the industry composition not being the same in Germany and the US. In Appendix B we show that Germany has a relatively large employment share in manufacturing and that job flows are lower in manufacturing than in services. Therefore some part of the difference might be due to composition. Yet, we cannot do an industry by industry comparison, as for the US flow data by industry is only available to us at the annual frequency and for job flows only. Instead, we create synthetic series of aggregate worker and job flows for Germany, where we weight industries and size classes with their average employment share in the US (1977-2006). Table 4 displays the results, and details can be found in Appendix B for a discussion of the data and the way we construct the series controlling for composition. We find that the job-creation rate and accession rates on average would go up by 1/5 in Germany, while the separation rate would go up by roughly 1/10 and the job destruction rate would remain unchanged.<sup>17</sup> More importantly, the business cycle behavior of the synthetic rates coincides with the actual ones.

## 4 Plant Employment Growth and Worker Flows in the Cross-Section

This section studies the role job flows play in explaining worker flows in the cross-section. More specifically, we ask how worker flows change, conditional on a plant's employment growth. We discretize the plant distribution into  $J$  growth bins. Sum-

---

destruction and job turnover rate is strongly countercyclical. We find the same pattern for German manufacturing. The service sector drives the weakly countercyclical job destruction rate and weakly procyclical job turnover rate.

<sup>17</sup>Of course these synthetic rates do not respect the constraint that aggregate labor supply imposes. Since we do not see a corresponding increase in job-destruction moving from the actual to the synthetic rates, the higher synthetic job-creation rate reflects merely the trend growth of services over the sample period. In addition to the quantifiable differences we try to correct for in the Table 4, there remain differences between the two data sources in defining a plant and defining a job (recall ELFLOP excludes marginal part time workers, which are often production helpers with short tenure).

Table 4: Flow Rates controlling for Industry and Size

					Correlation to $GDP_{t+j}$				
	type	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	$j = -2$	-1	0	+1	+2
<b>Creation Rate</b>	real	3.8%	8.7%	0.63	-0.02	0.08	0.21	0.30	0.35
	syn	4.6%	8.3%	0.68	0.09	0.19	0.29	0.38	0.42
<b>Destruction Rate</b>	real	3.6%	8.8%	0.66	0.13	-0.02	-0.15	-0.23	-0.27
	syn	3.5%	8.3%	0.60	0.19	0.05	-0.07	-0.15	-0.19
<b>Accession Rate</b>	real	7.3%	9.2%	0.88	0.34	0.44	0.54	0.61	0.64
	syn	8.7%	9.5%	0.90	0.39	0.49	0.57	0.63	0.66
<b>Separation Rate</b>	real	7.1%	5.8%	0.72	0.67	0.66	0.63	0.61	0.60
	syn	7.6%	6.9%	0.80	0.65	0.66	0.66	0.65	0.64

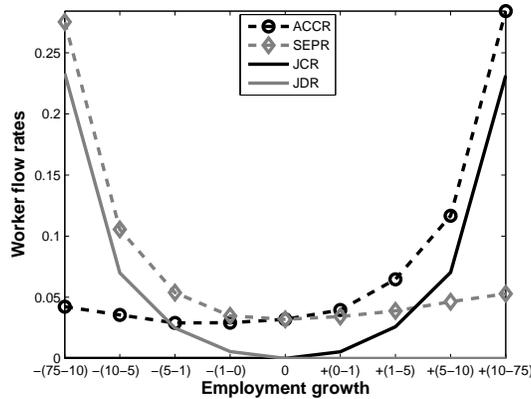
Notes: Germany: *ELFLOP* 1977-2006, US: *BDS* 1977-2006, N: Share of plants, EMP: Share of employment, JC: Share of job creation, JD: Share of job destruction, *JCR*: Yearly job creation rate using as denominator march employment, *JDR*: Yearly job destruction rate using as denominator march employment. Data excludes the primary sector, as data on size-industry cells is too thin there, the public service sector and households. “syn” refers to synthetic rates that enforce an average sectoral/size composition for the German data as in the US data from which Tables 1-3 are calculated.

ming over all quarters, we compute for each employment growth type the mean worker flow rates.

Figure II shows the accession and separation rate conditional on the job creation and destruction rate. The cross sectional relationship is very similar to the one presented in Davis et al. (2006) for the US (compare their Figure 6).<sup>18</sup> The stylized facts from the figure are: Separations increase almost one to one with job destruction and accessions increase almost one to one with job creation. Hence, growing plants rely preliminary on extended hiring, while shrinking plants do so preliminary by separating with existing employees. Second, accessions and separations are visible at all employment growth categories. Put differently, not all worker flows result

<sup>18</sup>Bellmann et al. (2011) present similar evidence for a subsample of German plants.

Figure II: Worker Flows and Employment Growth



Notes: The figure displays job and worker flows for plants that shrink by 10 – 75, 5 – 10, 1 – 5, 0 – 1 percent and for plants that grow by 10 – 75, 5 – 10, 1 – 5, 0 – 1 percent.

from job flows. Third, the separations rate increase again slightly to the right of the zero employment growth category and the same is true to the left for the accession rate. Theories that emphasize the importance of learning over match quality can rationalize an increasing separation rate at rapidly growing plants. Pries and Rogerson (2005) use a set-up where a match learns about its production potential over time and separation from unpromising matches is endogenous. Rapidly growing plants have relatively many new workers with unknown production potential, leading to large separations at these plants. While not able to generate a U-shape pattern in the separation rate, Schaal (2011) shows that on-the-job search models<sup>19</sup> can create a positive separation rate for growing plants. These plants are faced by workers switching to more productive plants, but are able to overcompensate these separations by accessions from less productive plants and out of unemployment. Yet, these models fail to create any significant accessions for shrinking plants because vacancy posting costs make it unattractive to replace workers. Menzio and Moen (2008) propose a model that carries some promise with this regard. They show that plants hit by a negative productivity shock may find it optimal to replace their high tenured workers

<sup>19</sup>Other examples for models studying aspects of on-the-job search in steady state are Faberman and Nágipal (2008) and Garibaldi and Moen (2010).

with low tenured workers to reduce wage costs.

## 5 The Link between Cyclical Job and Worker Flows

Table 3 shows that most worker turnover is preliminary taking place in booms. However, it is silent why this is so. This section and the following one provides evidence from our data that helps us to discriminate among different theories of worker turnover. More specifically, we ask whether the procyclical component of worker flows can be explained by cyclical shifts in the distribution of plants' employment growth levels, or by cyclical shifts in accession and separation flows conditional on plant growth.

### 5.1 Plants' Employment Growth and Worker Flows over the Business Cycle

The traditional approach to study the cyclical dynamics of worker flows is to study the dynamics of labor demand, i.e., job flows. The most widely framework are variants of the Mortensen and Pissarides (1994) model. During booms, firm value increases and fosters new job creation. Newly created vacancies are assumed to be more productive than existing ones. Elsbey and Michaels (2008) and Kaas and Kircher (2011) extend this framework by endogenizing the characteristics of newly created vacancies in a framework with multiple worker firms and idiosyncratic productivities. While the number of firms is fixed in Elsbey and Michaels (2008), plants are allowed to enter and exit the market in Kaas and Kircher (2011).

To evaluate the amount of worker flows that we can explain by these theories, we decompose changes in worker flows into changes that result from a change in the distribution of job flows and into dynamic changes of plant behavior conditional on job flows. To demonstrate the basic concept, we closely follow Davis et al. (2012). Denote any worker flow rate in period  $t$  as  $F_t$ . Moreover, discretize the plant distribution into  $J$  growth bins. Denote by  $f_t(j)$  and  $h_t(j)$  the mean flow rate and the

employment share at plants of type  $j$ , respectively. Obviously

$$F_t = \sum_{j=1}^J f_t(j)h_t(j)$$

Our goal is to quantify the contribution of cyclical behavior of the plant growth distribution and conditional plant behavior for aggregate worker flows. We opt for the following notation: Let capital letters, denote aggregate variables, e.g.,  $ACCR_t$  is the aggregate accession rate at each period  $t$ . Moreover, let lower case letters denote the conditional mean of the  $j$ -th employment growth category, e.g.,  $accr_t(j)$  is the accession rate of firms in the  $j$ -th employment growth category at time  $t$ .

Using these definitions and using (1), we can rewrite the aggregate rate as:

$$ACCR_t = \sum_{j=1}^J accr_t(j) \underbrace{\frac{em_t(j)}{EM_t}}_{ec_t(j)} \quad (2)$$

The equation highlights that changes in aggregate rates must result from changes in employment growth specific rates, or changes in the distribution of employment growth. Before quantifying the contribution of each component for the aggregate worker flow rates, it is instructive to consider the cyclical behavior of each subcomponent. Therefore, we apply our standard HP-filter to each of the  $J$  series of  $ec_t(j)$ ,  $accr_t(j)$  and  $sepr_t(j)$ .

### 5.1.1 The Employment Growth Distribution

We begin by looking at the cyclical properties of the employment growth distribution. Table 5 shows the complex dynamics of the various  $ec_t(j)$ . The share of workers at plants increasing employment is procyclical in all categories, except for plants growing by more than 75% ( $\approx$  entrants). Interestingly, also plants that decrease employment by 5 – 75% have a (weakly) procyclical employment share. By contrast, the employment share of not actively adjusting plants (between -5%<sup>20</sup> and 0%) is

---

<sup>20</sup>Reflecting exogenous break-ups.

Table 5: Dynamics of the Employment Growth Distribution (Share of Employment)

growth rate	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	-1	0	+1	+2
-200% to -75%	0.6%	11.7%	0.58	-0.24	-0.31	-0.39	-0.44	-0.45
-75% to -10%	6.3%	8.3%	0.52	0.32	0.23	0.12	0.03	-0.01
-10% to -5%	6.0%	10.9%	0.70	0.40	0.26	0.15	0.06	0.03
-5% to -1%	19.8%	11.6%	0.80	0.13	0.00	-0.10	-0.15	-0.18
-1% to 0%	8.6%	9.3%	0.34	-0.27	-0.28	-0.33	-0.36	-0.36
0%	21.1%	4.1%	0.85	-0.56	-0.61	-0.62	-0.64	-0.64
0% to 1%	6.9%	11.4%	0.36	-0.14	-0.04	0.00	0.04	0.01
1% to 5%	16.7%	12.6%	0.82	0.00	0.13	0.23	0.28	0.30
5% to 10%	6.3%	12.6%	0.77	0.08	0.22	0.33	0.41	0.46
10% to 75%	7.0%	9.2%	0.56	0.10	0.19	0.31	0.40	0.46
75% to 200%	0.7%	9.9%	0.43	-0.20	-0.22	-0.14	-0.11	-0.06

Notes: See Table 1. The table refers to the share of employment in of plants in the respective growth categories as fraction of total employment  $ec_t(j)$ .

counter-cyclical. So is the employment share at strongly shrinking plants ( $\approx$  exiters,  $< -75\%$  employment growth). The latter confirms earlier findings of Campbell (1998) for the US manufacturing sector. Overall, the table suggests that during booms there is more job reallocation between ongoing firms, and more firms being actively adjusting their labor force. Hence, (in Germany) the overall increase in the job destruction rate during recessions is induced mainly by exiting plants. Table 6 shows that we find the same dynamics (maybe a fortiori) when looking at shares of plants in an employment growth category, instead of employment shares.<sup>21</sup>

<sup>21</sup>Now, the fraction of plants contracting by 5-75% is strongly procyclical. The fraction of entering firms is roughly the same.

Table 6: Dynamics of the Employment Growth Distribution (Share of Plants)

growth rate	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	$-1$	$0$	$+1$	$+2$
-200% to -75%	2.9%	5.6%	0.68	-0.25	-0.30	-0.38	-0.41	-0.46
-75% to -10%	10.0%	5.1%	0.51	0.49	0.44	0.37	0.31	0.25
-10% to -5%	2.3%	6.0%	0.64	0.59	0.50	0.42	0.33	0.27
-5% to -1%	2.2%	5.8%	0.71	0.20	0.08	-0.02	-0.09	-0.15
-1% to 0%	0.2%	6.5%	0.46	-0.24	-0.29	-0.34	-0.37	-0.39
0%	62.7%	1.7%	0.79	-0.60	-0.63	-0.65	-0.67	-0.66
0% to 1%	0.2%	7.1%	0.25	-0.01	0.08	0.10	0.14	0.15
1% to 5%	1.9%	5.8%	0.74	0.29	0.43	0.50	0.58	0.59
5% to 10%	2.3%	6.9%	0.83	0.44	0.57	0.64	0.71	0.74
10% to 75%	10.7%	6.3%	0.76	0.39	0.47	0.53	0.59	0.62
75% to 200%	4.5%	5.6%	0.44	-0.07	-0.04	0.05	0.11	0.17

Notes: See Table 1. The table refers to the share plants in the respective growth categories as fraction of total plants.

### 5.1.2 More on Plant Entry and Exit

Our results suggest that plant exit is countercyclical and plant entry is slightly counter, or acyclical.<sup>22</sup> Using data up to the 90's from the the US manufacturing sector, Campbell (1998) finds that employment at exiting plants is countercyclical. Linking to this, we find in our data that the countercyclical plant exit rate is heavily driven by this sector. The picture is much less clear in the private service and public service sector. Foster et al. (2006) find that the job destruction rate and job creation rate in the US manufacturing sector move similar since the mid 90's, while they moved in opposite directions before. Related to this, we find that the share of employment at plants exiting within the next year becomes procyclical in manufacturing since the mid 90's.<sup>23</sup>

There is a large debate, whether plants exiting and entering the market in a recession opposed to a boom are substantially different. Consistent with previous US evidence on manufacturing plants by Lee and Mukoyama (2012), we find that average size of plants exiting any quarter is countercyclical, both in manufacturing and in the total economy. We find it useful to broaden this concept to plants that exit within the next year. We find that the average plant size of plants exiting within the next year was countercyclical until the mid 90's and became procyclical thereafter, again in the total economy and in manufacturing. Regarding entering plants, we find little differences in size between plants entering in booms or a recession. Contrary, Lee and Mukoyama (2012) find that plants entering in recessions are substantial larger than plants entering during booms and plants exiting during recessions are somewhat larger. Survival probabilities are somewhat smaller for plants entering in recessions, but differences are very small. Linking to our previous results, we find that plants entering in booms have higher churning rates during their first three quarters of existence.

---

<sup>22</sup>Similar to us, Coles and Kelishomi (2011) find that plant entry is close to acyclical in US census data.

<sup>23</sup>Lee and Mukoyama (2012) find no systematic cyclical movements of the share of employment at exiting plants in a sample of US manufacturing plants including the 90's.

### 5.1.3 Conditional Worker Flow Rates

Table 7 shows the dynamics of  $accr_t(j)$ . Table 8 analogously displays the statistics for  $sepr_t(j)$ . All worker flow rates are procyclical in each category of plant growth. Put differently, conditional on each plant growth category, plants hire and separate from more workers in booms.

Table 7: Dynamics of the Accession Rate

growth rate	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	-1	0	+1	+2
-200% to -75%	2.1%	8.4%	0.50	0.28	0.31	0.36	0.37	0.37
-75% to -10%	4.2%	10.4%	0.91	0.50	0.60	0.68	0.70	0.68
-10% to -5%	3.6%	14.1%	0.94	0.45	0.57	0.65	0.69	0.69
-5% to -1%	2.9%	14.3%	0.95	0.49	0.59	0.65	0.68	0.68
-1% to 0%	2.9%	11.6%	0.88	0.56	0.64	0.69	0.71	0.69
0%	3.2%	10.9%	0.94	0.62	0.70	0.75	0.77	0.77
0% to 1%	4.0%	8.5%	0.79	0.64	0.69	0.72	0.73	0.72
1% to 5%	6.4%	6.1%	0.91	0.61	0.66	0.71	0.73	0.72
5% to 10%	11.6%	3.6%	0.93	0.58	0.67	0.73	0.76	0.76
10% to 75%	28.4%	1.7%	0.27	0.18	0.17	0.19	0.15	0.21
75% to 200%	164.7%	1.7%	0.19	0.39	0.41	0.32	0.33	0.31

Notes: See Table 1. The table refers to the accession rate in plants in the respective growth categories.

In relative, i.e. log, terms the business cycle volatility of the accession rate is up to a factor of 5 times higher at shrinking plants relative to expanding plants and vice versa for the separation rate. Going into more detail, one sees that the accession rate loses its connection to the cycle to quite some extent for firms expanding by more than 10% and again symmetrically the separation rate is less cyclical for plants shrinking by more than 10%. One reason may be the relative scarcity of labor during booms.

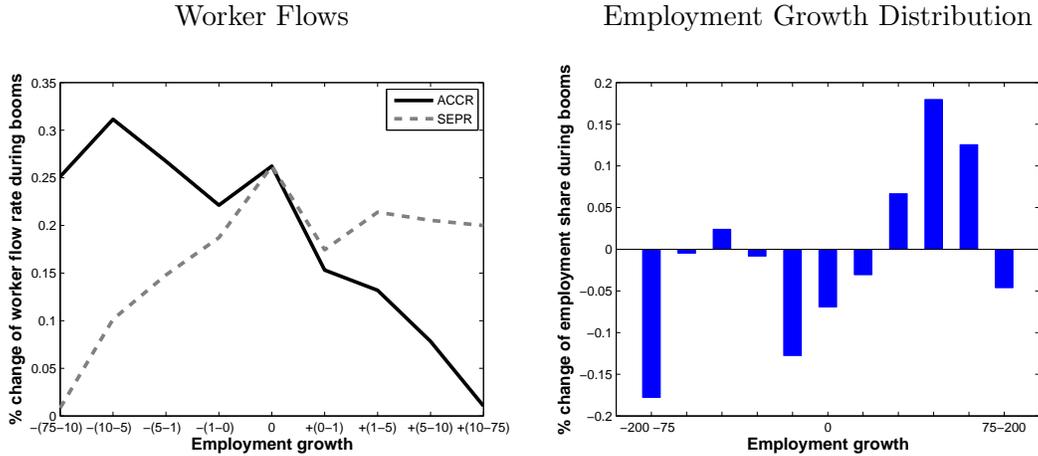
Table 8: Dynamics of the Separation Rate

growth rate	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	-1	0	+1	+2
-200% to -75%	151.9%	1.7%	-0.02	0.07	0.10	0.17	0.20	0.18
-75% to -10%	27.5%	2.2%	0.56	-0.01	0.12	0.20	0.24	0.26
-10% to -5%	10.6%	4.8%	0.91	0.44	0.56	0.64	0.68	0.68
-5% to -1%	5.4%	8.0%	0.94	0.53	0.62	0.68	0.70	0.69
-1% to 0%	3.5%	9.6%	0.87	0.58	0.65	0.69	0.72	0.69
0%	3.2%	10.9%	0.94	0.62	0.70	0.75	0.77	0.77
0% to 1%	3.4%	9.7%	0.80	0.64	0.68	0.72	0.73	0.71
1% to 5%	3.9%	9.8%	0.93	0.63	0.68	0.72	0.74	0.73
5% to 10%	4.6%	9.3%	0.93	0.57	0.66	0.72	0.75	0.75
10% to 75%	5.3%	7.8%	0.84	0.49	0.61	0.68	0.72	0.73
75% to 200%	2.0%	8.4%	0.38	0.20	0.26	0.35	0.40	0.42

Notes: See Table 1. The table refers to the separation rate in plants in the respective growth categories.

Figure III summarizes all the above findings in graphical form. It displays the procyclical conditional worker flows and the change in the employment growth distribution. In constructing the figure, we average over the five quarters with the highest positive and negative deviation from GDP trend. The left panel highlights that conditional worker flows shift up in a boom relatively to a recession. For the accession rate, the difference is most pronounced for shrinking plants. The accession rate at plants decreasing employment by more than 5 percent is by more than 25 percent higher during booms relative to recessions. Similarly, the difference in the separation rate is more pronounced at growing plants. Rapidly growing plants see their separation rate increasing by 20 percent during booms relative to recessions. The right panel shows the difference in the distribution of employment shares over the different employment growth categories. Differences at plants shrinking by 1-75 percent are

Figure III



Notes:  $-75\%$ : Plants shrinking by more than 75%,  $-75 - 10\%$ : Plants shrinking by 10 to 75% ,  $-10 - 5\%$ : Plants shrinking by 5 to 10%,  $-5 - 1\%$ : Plants shrinking by 1 to 5%,  $-1 - 0\%$ : Plants shrinking by 0 to 1%,  $0\%$ : Plants leaving employment unchanged,  $75\%$ : Plants expanding by more than 75%,  $10 - 75\%$ : Plants expanding by 10 to 75% ,  $5 - 10\%$ : Plants expanding by 5 to 10%,  $1 - 5\%$ : Plants expanding by 1 to 5%,  $0 - 1\%$ : Plants expanding by 0 to 1%. To calculate the figures, we take the statistics of the five quarters with the highest positive deviation of GDP from trend relative to the five quarters with the highest negative deviation of GDP from trend.

small and almost negligible, representing their close to acyclical employment shares. During a recession the share of inactive plants increases and employment shares at growing plants decrease.

#### 5.1.4 Decomposing Aggregate Worker Flows

The correlations that we presented so far are silent to the question of the quantitative importance of changes in the cross sectional distribution of employment over growth categories ( $ec_t(j)$ ) for explaining changes in worker flows. To address this formally, recall that an aggregate flow rate can be written as the sum of products of conditional flows and employment shares:

$$F_t = \sum_{j=1}^J f_t(j)ec_t(j)$$

Now, let  $\bar{x}$  denote time-mean values of variable  $x$ , e.g.,  $\overline{accr(j)}$  is the mean accession rate over time in growth category  $j$ . Then, using these definitions we can decompose movements in the aggregate rate into two synthetic series such that:

$$F_t - \bar{F} \approx \underbrace{\sum_{j=1}^J [f_t(j) - \overline{f(j)}] \overline{ec(j)}}_{=:FD-fix} + \underbrace{\sum_{j=1}^J \overline{f(j)} [ec_t(j) - \overline{ec(j)}]}_{=:Ff-fix} \quad (3)$$

In this vein, we construct series of implied worker flows, where we fix the distribution of employment growth ( $\overline{ec(j)}$ ) and the behavior of plants conditional on employment growth ( $\overline{f(j)}$ ):

$$\begin{aligned} ACCR_t^{D-fix} &= \sum_{j=1}^J accr_t(j) \overline{ec(j)} & ACCR_t^{f-fix} &= \sum_{j=1}^J \overline{accr(j)} ec_t(j) \\ SEPR_t^{D-fix} &= \sum_{j=1}^J sepr_t(j) \overline{ec(j)} & SEPR_t^{f-fix} &= \sum_{j=1}^J \overline{sepr(j)} ec_t(j) \end{aligned}$$

The two flow rates on the left ask how worker flow rates would look like when keeping the distribution of employment growth at their sample mean,  $D-fix$ . The two worker flow rates on the right ask how the aggregate had looked like keeping the flow rates conditional on plant growth at their sample means,  $f-fix$ , and vary the employment growth distribution.<sup>24</sup>

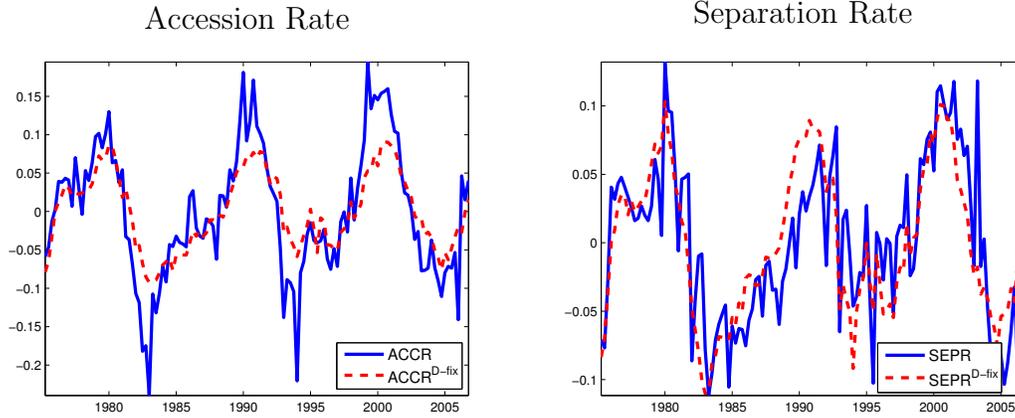
Figure IV shows the results from this exercise. The realized accession and separation rate and the rates that keeps the employment growth distribution constant ( $D-fix$ ) are a quite good fit for the realized rates. The accession rate is not sufficiently volatile, but the timing of periods with high and low rates is almost identical. The fit

---

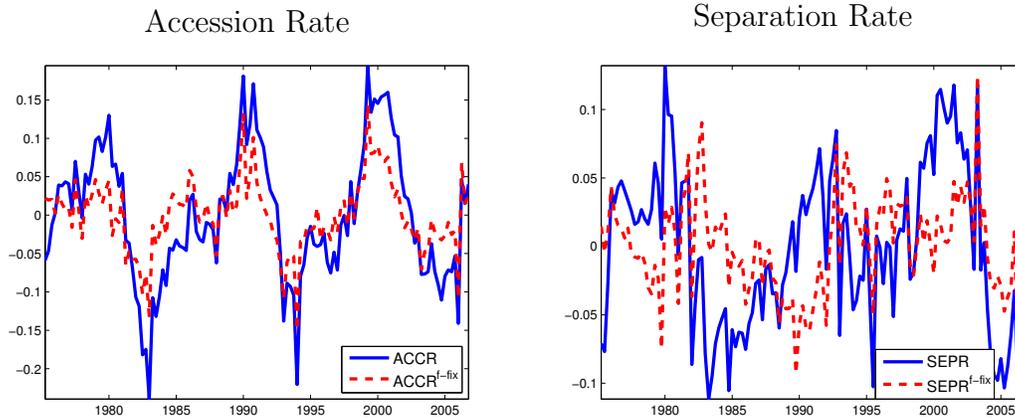
<sup>24</sup>Due to the length of our sample, it is unavoidable to allow worker flows to have a trend component. We construct the fixed distribution and fixed flow rates series from the raw data and detrend all (constructed) aggregate series afterwards using an HP-filter. Using HP-filtering at each series separately implies that aggregation does not need to hold any longer. However, we find that the resulting error is practically zero for both rates, i.e. for the cyclical component  $F_t \approx F_t^{D-fix} + F_t^{f-fix}$  still holds.

Figure IV: Components of the Accession and Separation Rate over the Cycle

(A) Fix Employment Growth Distribution



(B) Fix Conditional Flow Rates



Notes: *Panel A* displays the cyclical component of the accession and separation rates (solid) and the synthetic ones implied when holding the distribution of plant employment growth fixed (dashed). *Panel B* displays the cyclical component of the accession and separation rates (solid) together with the synthetic ones implied when holding the flow rates conditional on plant growth constant (dashed).

for the separation rate appears even better. The peaks and troughs of the two rates are almost identical, and the synthetic rate only fails to capture higher frequency movements. Recall from Tables 7 and 8 that plants change accession and separation behavior almost uniformly across the employment growth distribution. As a result, one can predict changes in the aggregate flows quite well by changes in conditional

plant behavior, the correlation between the raw and synthetic accession rate series is 87.5%, yet the variance of the synthetic one is only 34% of the variance of the raw accession rate series. For the separation rate, we obtain a correlation of 79.7% between raw and synthetic series with the variance of the synthetic series being 85% of the one for the actual separation rate series.

The lower two panels in Figure IV show the results for the synthetic series obtained from holding conditional worker flows constant at their sample averages and varying the employment composition over the employment growth distribution. The employment growth distribution explains parts of the overall shape in the accession rate. It fails in predicting the rise at the end of the 70's and the downturn at the mid 2000's, but it captures all other major movements. In fact, the correlation is with 80% almost as large as for the other synthetic series, just the volatility is with only 30% of the actual accession rate series.<sup>25</sup> For the separation rate however, the synthetic series with fixed conditional flow rates shows only a correlation of 41% with the actual separation rate series and the variance of the synthetic series amounts only to 38.8% of the original series.<sup>26</sup> Table 9 summarizes the covariance structure of the actual and the two synthetic series.

Appendix E shows that the aggregate pattern is mainly driven by the private service sector. In manufacturing, labor demand is more closely related to worker flows. A related finding is that the autocorrelation of cyclical worker flows is the highest in the private service sector, the lowest in manufacturing, with public services in between.

Table 9 also shows the analogue results for band-pass (cf., Baxter and King (1999)) filtered series that allow to focus on movements at business cycle (2-8 years) and below business cycle frequency ( $< 2$  years). Since the filter is not linear, the filtered actual series is no longer equal to the sum of the two filtered synthetic series. Overall, the movements in the employment growth distribution explain particularly strongly the below-business-cycle-frequency movements in worker flows. Conversely

---

<sup>25</sup>The remainder 26% is explained by positive comovement of the two synthetic series.

<sup>26</sup>Again the (here negative) remainder is explained by the (here negative) covariance of the two synthetic separation series.

movements in the conditional flow rates are particularly important in explaining movements at business-cycle frequency, especially for the separation rate.

Table 9: Variance and covariance structure of actual and synthetic worker flow series

	Frequency					
	All		Business Cycle		High	
	rel. var.	correl.	rel. var.	correl.	rel. var.	correl.
<b>Accession</b>						
Fix Distribution	34%	88%	24%	90%	10%	23%
Fix conditional flows	31%	87%	36%	93%	94%	95%
<b>Separation</b>						
Fix Distribution	85%	79%	124%	72%	10%	67%
Fix conditional flows	39%	41%	64%	22%	68%	96%

Notes: The table displays correlations and relative volatilities between the raw worker flow rates and synthetic worker flow rates.

*Fix Distribution / Fix conditional flows*: Synthetic worker flow rate with constant employment growth distribution and with constant conditional worker flows, respectively. *Business Cycle*: Frequency between 2 and 8 years. *High*: Frequency between .5 and 1.5 years. *All*: HP( $10^5$ )-filtered series.

### 5.1.5 Comparing the Results to Existing Studies

Our conclusions are in contrast to the one drawn by Davis et al. (2006) for the US and Bellmann et al. (2011) for Germany and differ in some respects to the ones drawn

by Davis et al. (2012) for the US. We can explain much of these differences by the different methods that are applied to reach the conclusion.

Bellmann et al. (2011) use a bi-annual 1% sub-sample of German plants between 1993-2009. Using a regression based approach, they find that the relationship between the amount of hires (separations) and the individual employment growth (Figure II) is relatively stable over time and conclude from this that changes in the employment growth distribution must cause the changes in separation and hires over the cycle. Our Figure III shows that the relationship does shift up in a boom, but one may miss this shift with a low sample size.<sup>27</sup> Indeed, their result would imply that Tables 7 and 8 show no correlation to the cycle.

Davis et al. (2006) use monthly seasonally non-adjusted JOLTS data between Jan. 2001 and Jan. 2004. They find that changes in the employment growth distribution explain 38% of movements in aggregate hires and 42% of movements in aggregate separations. They conclude that "*[...] business cycle swings mainly involve shifts in the distribution of employer growth [...]*". Two issues arise with their conclusion: First, they leave a large fraction of variation unexplained, making an assesment of their conclusion difficult. Second, they use a short sample period coupled with monthly seasonally non-adjusted data. In Appendix C, we show that non-seasonal adjustment of the data leads to a larger role played by changes in the employment growth distribution. This finding supports our earlier notion that changes in the employment growth distribution are the main driver behind higher frequency spikes in worker flows.

Finally, Davis et al. (2012) overcome some of the shortcomings in Davis et al. (2006). They use quarterly seasonally non-adjusted JOLTS data from 2001-2010. Their analysis proceeds in several steps. First, they regress movements in worker flow rates on dummies of the employment growth distribution. They find a  $R^2$  of 0.54 and 0.47 for the accession and separation rate, respectively. Afterwards, they seasonally adjust the predicted and the realized rates and show that the seasonally adjusted

---

<sup>27</sup>Davis et al. (2005) show that from eyeballing this relationship is very stable in the US, too. However, changes in the cross sectional distribution can only account for 40% of the changes in the accession and separation rate.

predicted rates do a poor job in explaining aggregate worker flows, especially it fails almost completely to explain the separation rate. We take this evidence as supportive for our earlier finding that changes in the employment growth distribution do a good job in predicting high frequency fluctuations, but they contribute little to fluctuations in the separation rate at business cycle frequency. The authors proceed and allow in their regressions for several cyclical indicators, meaning that the cycle can shift plant behavior conditional on employment growth. The fit of the seasonally adjusted realized and predicted worker flows becomes quite well, which leans support to our findings in Figure IV. The authors do one more exercise to evaluate the importance of the cross sectional distribution. They first regress raw worker flows only on cyclical indicators, omitting the employment growth distribution. They find a  $R^2$  of 0.81 and 0.65 for the accession and separation rate, respectively. The predictive power goes close to one when they keep the employment growth distribution constant. They conclude that keeping track of the employment growth distribution is important to account for dynamics in worker flows. We speculate that the increase in predictive power is mainly due to the ability to explain higher frequency spikes in worker flow rates.

## 6 Procyclical Churn and Plant Characteristics

How can we explain the amount of procyclical worker flows that is not explained by job flows? Several recent studies propose structural theories that imply excessive procyclical worker flows. The most prominent explanation rests on the observation that the job to job flow rate is procyclical. Allowing for replacement hiring, such theories can rationalize that the difference in worker flows and job flows, i.e. churn, is procyclical. In Moscarini and Postel-Vinay (2013) and Schaal (2011), workers flow from less to more productive firms. Having more job to job transitions during booms, implies that average job productivity increases during booms; thus, there is a feedback effect on aggregate productivity. Barlevy (2002) shows that a boom may even increase aggregate productivity without increasing average plant productivity by decreasing mismatch through on the job search. Moscarini and Vella (2008) give

the notion of mismatch an interpretation in mismatch of occupation and study its cyclical behavior with on the job search. Finally, worker flows may exceed job flows because plants and workers learn that the current match is not sufficiently productive.<sup>28</sup> When poor matches are preliminary replaced during booms, this mechanism can rationalize procyclical worker flows.

The different theories have testable implications once using micro data on plant characteristics. A large body of literature finds a positive correlation between plant productivity and its size, age and average worker salary. Therefore, this section studies cyclical job and worker flows conditional on these characteristics.

## 6.1 The Employment Growth Distribution

This section decomposes the aggregate changes in the employment growth distribution into changes by plant size and age.<sup>29</sup> Optimally we would like to have information on the entire growth distribution. Yet, confidential requirements force us to group plants by those that increase, decrease or leave employment unchanged in a period.<sup>30</sup> To study differences in plant behavior, we follow the idea of Moscarini and Postel-Vinay (2012) in studying the cyclical dynamics of the differences in plant statistics. Call any such statistic  $X^k$  for plant characteristic  $k$  (size, age). We study the cyclical component of

$$X_t^{k-l} = X_t^k - X_t^l.$$

Appendix D reports summary statistics of this measure for the employment share where  $k$  is the largest (100+) and oldest (40+) plant category. Both data stratifications tell a similar story. The share of growing plants behaves very similar among large and small and old and young plants. Contrary, large (old) plants are more likely to downward adjust their workforce during recessions, while small (young) plants are more likely to be inactive during recessions. Moscarini and Postel-Vinay (2012) find that large plants have more cyclical employment growth than small plants. Our

---

<sup>28</sup>See Pries and Rogerson (2005) and Kiyotaki and Lagos (2007) for steady state analysis.

<sup>29</sup>We impute plant age from our sample implying that we drop the first 40 quarters of observations.

<sup>30</sup>This also implies that we group marginal downward adjusters (inactive plants) as downward adjusters.

results suggest that the different behavior in recessions is driving this result.

## 6.2 Conditional Worker Flows

We now turn to a comparison of cyclical worker flows by plant characteristics. We rely partly on the notion of churn, i.e., the excess of worker flows over job flows:

$$CH_t = (ACC_t - JC_t) + (SEP_t - JD_t).$$

Moreover, we can define the churning rate as

$$CHR_t = \frac{CH_t}{EM_t}$$

Appendix F summarizes the differential churning behavior for three size categories relative to the largest size class 100+. The churning rate is relatively less procyclical at large plants compared to plants with 20–99 employees, but it behaves very similar to plants with 1–19 employees. Looking at differences in worker flow rates provides a yet richer picture. Both the accession and separation rate rise by relatively more during booms in plants with 20–99 employees. The same is true, yet to a lesser extent, for the accession rate at plants with 1–19 employees. However, at these plants the separation rate rises somewhat less during booms than at plants with 100+ employees.

Looking at plant age and average worker pay, Appendix F shows that a similar picture emerges. The churning, accession and separation rate at plants aged 4–39 rise by more during booms than at plants older than 40 quarters. The same is true for the separation rate at plants aged 1–3 but not for their accession rate. Similarly, these rates respond more to booms at plants that are in the 2<sup>nd</sup> to 4<sup>th</sup> quintile of the average worker pay distribution relative to plants that are in the 5<sup>th</sup> quintile. Again, plants in the first quintile have very comparable flow rates as those in the 5<sup>th</sup> quintile.

Similar to us, Kahn and McEntarfer (2012) find that differential worker flows are countercyclical for high paying vs. low paying and for low churn vs. high churn

plants in the US between 1998 and 2008. Contrary to us, they find that these flows are procyclical for large vs. small employers. Our analysis suggests that this latter result is likely to be driven by the very small plants that just entered the market.

### 6.3 Cyclical Behavior of Dispersion Measures

So far, we considered the behavior of flow rates over the business cycle. Yet, some of the above theories also carry implications for the cyclical behavior in the *dispersion* of those rates. Table 10 presents summary statistics for the cyclical behavior of the standard deviation of employment growth, the accession and the separation rate, after controlling for regional and 22 industry fixed effects.<sup>31</sup>

Table 10: Cyclical Behavior of Second Moment

	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	-1	0	+1	+2
<b>std. EGR</b>	0,59	1,24%	0,49	-0,13	-0,15	-0,12	-0,07	-0,03
<b>std. ACCR</b>	0,41	1,05%	0,43	-0,08	-0,05	0,02	0,10	0,15
<b>std. SEPR</b>	0,41	1,15%	0,19	-0,09	-0,11	-0,16	-0,15	-0,15

Notes: See Notes to Table 1. The measures are the employment growth rate (EGR), the accession rate (ACCR) and the separation rate (SEPR).

All three second moments have substantial mean standard deviations reflecting the large heterogeneity in employment outcomes between plants. Yet, none of the series shows a strong cyclical pattern. Dispersion in the employment growth rate and the separation rate grow somewhat during recessions, but the correlation turns out to be weak.

<sup>31</sup>Ideally, we would like to compute the standard deviation based on seasonally adjusted data. Yet, our data collection procedure forces us to compute these on the raw data and run seasonal adjustment on the resulting time series of the standard deviation.

## 7 Aggregate Churning Behavior

Our final exercise quantifies the relative importance of different plant types in explaining cyclical differences in job and worker flows. More specifically, we ask how much growing, inactive and contracting plants contribute to procyclical excessive worker flows.

### 7.1 Churning over the Business Cycle

Following Lazear and Spletzer (2011), note that churn at expanding plants,  $CH(E)_t$ , at non adjusting plants,  $CH(Z)_t$ , and at shrinking plants,  $CH(S)_t$ , is given by:

$$CH_t = CH(E)_t + CH(Z)_t + CH(C)_t.$$

$$CH(E)_t = 2SEP(E)_t; \quad CH(S)_t = 2ACC(C)_t; \quad CH(Z)_t = 2SEP(Z)_t = 2ACC(Z)_t$$

Put differently, churn can be procyclical when plants that leave employment unchanged increase their worker turnover during booms, shrinking plants hire more during booms, or because expanding plants separate from more workers during booms. Let us express the amount of churn relative to employment (the churning rate):

$$\begin{aligned} CHR_t &= \frac{CH_t}{EM_t} & CHR(E)_t &= \frac{CH(E)_t}{em(E)_t} \\ CHR(Z)_t &= \frac{CH(Z)_t}{em(Z)_t} & CHR(S)_t &= \frac{CH(S)_t}{em(S)_t}. \end{aligned}$$

Moreover, define for  $k \in [E, Z, S]$ :  $ec(k)_t = \frac{em(k)_t}{EM_t}$ . Obviously,

$$CHR_t = \sum_{k \in \{E, Z, S\}} CHR(k)_t ec(k)_t.$$

Table 11 displays the cyclical dynamics of these rates. The churning rate at ex-

Table 11: Churning

	<i>mean</i>	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
				$j = -2$	-1	0	+1	+2
<b>Churning rate</b>	7.1%	11.3%	0.96	0.55	0.65	0.71	0.74	0.74
<b>Churning rate(E)</b>	8.3%	9.1%	0.93	0.60	0.68	0.74	0.76	0.76
<b>Churning rate(Z)</b>	6.4%	10.9%	0.94	0.62	0.70	0.75	0.77	0.77
<b>Churning rate(S)</b>	6.4%	12.9%	0.95	0.51	0.61	0.67	0.70	0.69

Notes: *CHR*: Churning rate, *CHR(E)*: Churning rate at expanding plants, *CHR(Z)*: Churning rate at constant plants, *CHR(S)*: Churning rate at shrinking plants. See also notes to Table 1.

panding plants has a somewhat higher sample average, but there are little differences to the other rates at business cycle frequency.<sup>32</sup> All series are strongly procyclical<sup>33</sup>, and have similar business cycle volatilities. The correlations to GDP are somewhat more pronounced early in a boom, but remain strong throughout it. This reflects basically our earlier results in Tables 7 and 8.

While the churning rates have very similar cyclical properties, cyclical changes in  $ec(k)_t$  may imply that the quantitative effect of the sub-categories on the cyclical changes in the aggregate churning rate may be very different. Similarly to above, we define (disaggregated) synthetic churning rates

$$CHR_t^{D-fixed}(k) = CHR(k)_t \overline{ec(k)}; \quad CHR_t^{vary}(k) = CHR(k)_t ec(k)_t,$$

i.e., the churning rate of type  $k$  when its employment share is at its sample mean and when it is allowed to vary. Again, we look at the detrended series.

Figure V *Panel A* displays  $CHR^{D-fixed}(k)_t$ . As expected, all three series show very

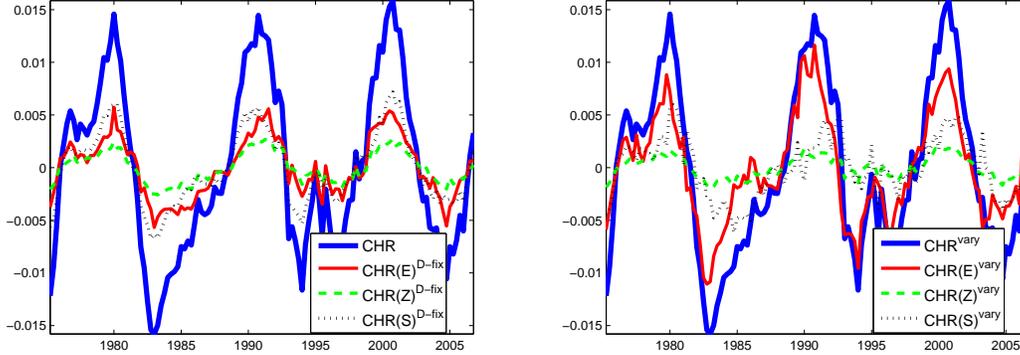
<sup>32</sup>Alda et al. (2005) report for Germany that the churning rate is twice as high at plants that leave their employment unchanged relative to shrinking plants, with expanding plants being in the middle. However, their dataset is only a small subsample of ours and covers only the year 1999.

<sup>33</sup>Burgess et al. (2000) also find a procyclical churning rate for the state of Maryland from 1985-1994.

Figure V: Cyclical Dynamics in the Churning Rate

(A) Constant Employment

(B) Varying Employment



Notes:  $CHR^{vary}$ : Cyclical component of the churning rate with varying employment share,  $CHR(x)^{D-fix}$ : Cyclical component of the churning rate with constant employment shares,  $CHR(E)$ : Cyclical component of the churning rate at expanding plants,  $CHR(Z)$ : Cyclical component of the churning rate at constant plants,  $CHR(S)$ : Cyclical component of the churning rate at shrinking plants.

similar patterns over the business cycle. The contribution of plants without employment change is somewhat smaller, because less firms are in this category compared to the other two. *Panel B* allows  $ec(k)_t$  to vary over the cycle.<sup>34</sup> The procyclicality of the aggregate churning rate is almost entirely driven by the procyclicality of churning at expanding plants. Recall from Figure III that cyclical changes in the employment distribution are mainly concentrated at the right side of the distribution. Hence, the share of employment and thus the amount of churning varies more strongly at expanding plants.<sup>35</sup> Put differently, cyclical changes in the employment growth distribution have little effects on cyclical dynamics of worker flows because all plant types expand worker flows during booms. However, the dynamics change the composition of worker flows among different plants.

<sup>34</sup>We apply the HP-filter to the rates in levels (as opposed to logs) to insure that the sub-components aggregate almost to the aggregate series.

<sup>35</sup>Particularly, plants growing between 1 – 75% explain most of procyclical churn.

## 8 Discussion

How do theories of job and worker flows fare in comparison with our evidence from the data? The Mortensen and Pissarides (1994) framework with a constant exogenous job destruction rate appears suitable to capture business cycle dynamics of labor demand, once explicitly controlling for plant entry and exit (as in Kaas and Kircher (2011)). Procyclical churn cannot be captured within the Mortensen and Pissarides (1994) framework. Yet, cyclical dynamics in labor demand alone explain less than 1/3 of variation in cyclical worker flows with particular poor performance regarding the separation rate.

On the job search theory can rationalize procyclical churn rates. Moscarini and Postel-Vinay (2013) assume that job destruction is countercyclical for all plants and do not allow for plant exit, while our result suggest that it is nearly flat after controlling for plant exit. Otherwise, their baseline specification of the on the job search model with exogenous worker contact rates provides sufficient flexibility to match the procyclical move from inactivity towards upward adjustment. Yet, Schaal (2011) shows that once endogenizing contact rates by vacancy posting, low productive plants find it unattractive to replace workers that are poached by more productive plants. Consequently, the share of employment at contracting plants becomes procyclical. Contrary to on the job search theory, we find no evidence that larger and older plants are more likely to grow during booms than small and young plants. Instead, the stronger sensitivity of employment growth at large (old) plants over the business cycle appears to be entirely driven by different plant behavior during recessions.

With exogenous worker contact rates, as in Moscarini and Postel-Vinay (2013), a large spectrum of dynamics in procyclical churn is theoretically possible. Yet, as discussed above, once these rates are endogenized by vacancy creation, it is difficult to rationalize procyclical churn at contracting plants. Looking at different plant characteristics, we find consistent with on the job search theory that separations at small (young, low paying) plants drop by more during recessions than at large (old, high paying) plants. Yet, we also find that their accession rate drops by more, which is inconsistent with these theories.

Second moments of worker flow rates provide little evidence for the majority of these flows being driven by procyclical upward mobility resulting from job to job transitions. Particularly, this would imply that the deviation in the separation rates among plants is largest during booms, but the data suggests a acyclical, or even weakly countercyclical behavior.

While the data suggests that job to job transitions are strongly procyclical, see Jung and Kuhn (2011), this finding suggests that they are either not resulting from systematic differences in plant characteristics, as in Barlevy (2002) and Moscarini and Vella (2008) where they result from mismatch, or a significant fraction represents movements to less productive plants, as in Jolivet et al. (2006) and Tjaden and Wellschmied (2013).

Finally, our finding that quantitatively we need to understand why growing plants have procyclical churning rates suggests that theories along the line of Pries and Rogerson (2005) and Kiyotaki and Lagos (2007) carry promise to explain the data. Growing plants have a large fraction of newly hired workers, of whom relatively many are of poor match quality.

## 9 Conclusion

This paper studies the cyclical properties of job and worker flows using a newly composed administrative dataset covering the universe of German plants between 1976-2006. The literature contains a wide range of explanations for the fact that workers reallocate predominantly during booms. These range from labor demand rising during booms (the Mortensen and Pissarides (1994) framework) to workers using procyclical on the job search to move to more productive plants (Schaal (2011) and Moscarini and Postel-Vinay (2013)), or reduce mismatch (Barlevy (2002) and Moscarini and Vella (2008)). Our data allows us to thoroughly test several implications of these theories.

In line with previous evidence, we find that both accessions to and separations from plants are strongly procyclical. Concerning labor demand, we find that plants switch from a wait-and-see approach to actively upward adjusting their workforce

during booms. The share of employment at contracting plants is acyclical, with the exception of plant exit which is countercyclical, suggesting that plants idiosyncratic shocks are the predominant factor in explaining plant contraction. Consequently, labor demand is unable to explain a significant share of cyclical movements in the separation rate. Yet, it also explains less than 1/3 of the procyclical accession rate.

On the job search theory as in Schaal (2011) and Moscarini and Postel-Vinay (2013) carries some promises to provide a better fit for cyclical worker flows. Particularly, it is consistent with the fact that churn is procyclical, because during booms worker flow from less to more productive plants. Yet, in the data procyclical churn is similar strong along the entire growth distribution of plants, but on the job search theory finds it difficult to rationalize it for contracting plants. Moreover, looking at plant characteristics we find several aspects of the data inconsistent with workers systematically upgrading their employers during booms. Separation rates at small (young, low paying) plants are more procyclical than at large (old, high paying plants), consistent with on the job search theory. However, the same is true for their accession rates. Moreover, we find no evidence that the dispersion of accession or separation rates grow during booms, as would be implied by these theories.

Theories of mismatch have the potential to overcome some of these issues as mismatch is not necessarily related to employer type. However, these theories have no notion of plant size and of employment growth, making an evaluation of them difficult within the framework presented here. Moscarini and Postel-Vinay (2012) show that for understanding employment growth, a notion of plant size is quantitatively important. Our discussion of cyclical dynamics in the employment growth distribution provides additional evidence for this finding.

## References

- ABOWD, J. M. AND L. VILHUBER (2011): “National Estimates of Gross Employment and Job Flows from the Quarterly Workforce Indicators with Demographic and Industry Detail,” *Journal of Econometrics*, 161, 82–99.
- ALDA, H., P. ALLAART, AND L. BELLMANN (2005): “Churning and Institutions Dutch and German Establishments Compared with Micro-Level Data,” Discussion Paper 12/2005, IAB.
- BACHMANN, R., C. BAYER, AND S. SETH (2011): “ELFLOP Establishment Labor Flow Panel,” Documentation, IAB.
- BARLEVY, G. (2002): “The Sullyng Effect of Recessions,” *The Review of Economic Studies*, 69, 65–96.
- BAXTER, M. AND R. G. KING (1999): “Measuring Business Cycles: Approximate Band-Pass Filters For Economic Time Series,” *The Review of Economics and Statistics*, 81, 575–593.
- BELLMANN, L., H.-D. GERNER, AND R. UPWARD (2011): “Job and Worker Turnover in German Establishments,” Discussion Paper 6081, IZA.
- BURGESS, S., J. LANE, AND D. STEVENS (2000): “Job Flows, Worker Flows, and Churning,” *Journal of Labor Economics*, 18, 473–502.
- CAMPBELL, J. (1998): “Entry, Exit, Embodied Technology, and Business Cycles,” *Review of Economic Dynamics*, 1, 371–408.
- CAMPBELL, J. AND J. FISHER (2000): “Aggregate Employment Fluctuations with Micoeconomic Asymmetries,” *American Economic Review*, 90, 1323–1345.
- COLES, M. G. AND A. M. KELISHOMI (2011): “New Business Start-ups and the Business Cycle,” Discussion Paper 8588, CEPR.

- CONTINI, B. (2002): *Labour Mobility and Wage Dynamics in Italy*, Rosenberg and Sellier.
- DAVIS, S. J., J. R. FABERMAN, AND J. C. HALTIWANGER (2005): “The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links,” Discussion Paper 1639, IZA.
- (2006): “The Flow Approach to Labor Markets: New Data Sources and Micro-Macro Links,” *Journal of Economic Perspectives*, 20, 3–26.
- (2012): “Labor Market Flows in the Cross Section and over Time,” *Journal of Monetary Economics*, 59, 1–18.
- DAVIS, S. J. AND J. C. HALTIWANGER (1992): “Gross Job Creation, Gross Job Destruction, and Employment Reallocation,” *Quarterly Journal of Economics*, 107, 819–863.
- (1999): “Gross Job Flows,” in *Handbook of Labor Economics*, ed. by O. Ashenfelter and D. Card, Amsterdam: Elsevier Sci., vol. 3B.
- DAVIS, S. J., J. C. HALTIWANGER, AND S. SCHUH (1996): *Job Creation and Destruction*, MIT Press.
- DUNDLER, A., M. STAMM, AND S. ADLER (2006): “The Establishment History Panel BHP 1.0,” FDZ Datenreport 3/2006, IAB.
- ELSBY, M. W. AND R. MICHAELS (2008): “Marginal Jobs, Heterogeneous Firms, & Unemployment Flows,” mimeo, University of Michigan.
- FABERMAN, J. R. AND E. NÁGIPAL (2008): “Quits, Worker Recruitment, and Firm Growth: Theory and Evidence,” Working Paper 08-13, Federal Reserve Bank of Philadelphia.
- FOSTER, L., J. C. HALTIWANGER, AND N. KIM (2006): “Gross Job Flows for the U.S. Manufacturing Sector: Measurement from the Longitudinal Research Database,” mimeo, University of Maryland.

- FUJITA, S. AND M. NAKAJIMA (2009): “Worker Flows and Job Flows: A Quantitative Investigation,” Working Paper 09-33, Federal Reserve Bank of Philadelphia.
- GARIBALDI, P. AND E. R. MOEN (2010): “Competitive on-the-job Search,” mimeo, University of Torino.
- GARTNER, H., C. MERKL, AND T. ROTHE (2009): “They are even Larger! More (on) puzzling Labor Market Volatilities,” Discussion Paper 12/2009, IAB.
- JOLIVET, G., F. POSTEL-VINAY, AND J.-M. ROBIN (2006): “The empirical content of the job search model: Labor mobility and wage distributions in Europe and the US,” *European Economic Review*, 50, 877–907.
- JUNG, P. AND M. KUHN (2011): “The Era of the U.S.-Europe Labor Market Divide: What can we learn?” mimeo, University of Bonn.
- KAAS, L. AND P. KIRCHER (2011): “Efficient Firm Dynamics in a Frictional Labor Market,” mimeo, LSE.
- KAHN, L. B. AND E. MCENTARFER (2012): “Worker Flows Over the Business Cycle: the Role of Firm Quality,” mimeo, Yale School of Management.
- KIYOTAKI, N. AND R. LAGOS (2007): “A Model of Job and Worker Flows,” *Journal of Political Economy*, 115, 770–819.
- LAZEAR, E. P. AND J. R. SPLETZER (2011): “Hiring, Churn and the Business Cycle,” mimeo, Stanford University.
- LEE, Y. AND T. MUKOYAMA (2012): “Entry, Exit and Plant-Level Dynamics over the Business Cycle,” mimeo, University of Virginia.
- MENZIO, G. AND E. R. MOEN (2008): “Worker Replacement,” Working Paper 08-040, Penn Institute for Economic Research.
- MORTENSEN, D. T. AND C. A. PISSARIDES (1994): “Job Creation and Job Destruction in the Theory of Unemployment,” *Review of Economic Studies*, 61, 397–415.

- MOSCARINI, G. AND F. POSTEL-VINAY (2012): “The Contribution of Large and Small Employers to Job Creation in Times of High and Low Unemployment,” *American Economic Review*, 102, 2509–2539.
- (2013): “Stochastic Search Equilibrium,” *Review of Economic Studies*, 80, 1–44.
- MOSCARINI, G. AND F. G. VELLA (2008): “Occupational Mobility and the Business Cycle,” Working Paper 13819, NBER.
- PRIES, M. AND R. ROGERSON (2005): “Hiring Policies, Labor Market Institutions, and Labor Market Flows,” *Journal of Political Economy*, 113, 811–893.
- SCHAAL, E. (2011): “Uncertainty, Productivity and Unemployment in the Great Recession,” mimeo, Princeton.
- SCHUMPETER, J. (1939): *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process*, vol. 2, McGraw-Hill.
- SHIMER, R. (2005): “The Cyclical Behavior of Equilibrium Unemployment and Vacancies,” *American Economic Review*, 95, 25–49.
- TJADEN, V. AND F. WELLSCHMIED (2013): “Quantifying the Contribution of Search to Wage Inequality,” mimeo, University of Bonn.

# A Structural Break Adjustment

This section describes how we perform structural break adjustment. Call any seasonal adjusted series  $Y$ . For each  $Y$  we detect the number of structural breaks and assign a dummy variable to each  $D_{it}$  that takes the value 1 during the break. We have the following model for the DGP in mind:

$$Y_t = \beta_0 + \beta_1 D_{1t} + \dots + \beta_n D_{nt} + f_t + \epsilon_t$$

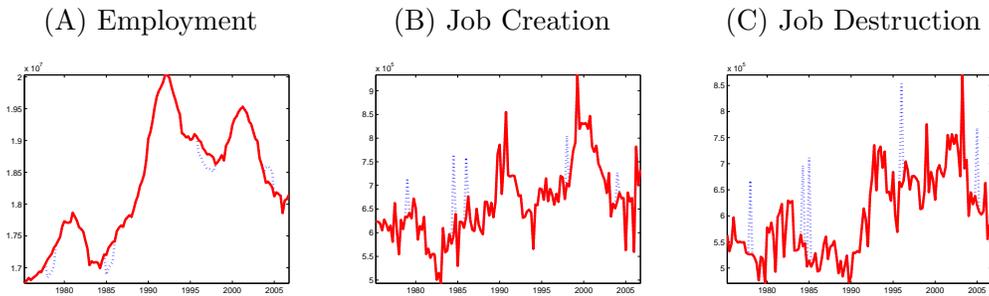
where  $n$  is the number of structural breaks,  $\epsilon_t$  is some short time fluctuation and  $f_t$  is a smooth time trend that is estimated semi-parametrically. To be more specific, we employ a local linear Gaussian kernel regression of the original series where points in the structural break receive zero weight. We then compute the residual

$$Y_t - f_t = \beta_0 + \beta_1 D_{1t} + \dots + \beta_n D_{nt}$$

We regress this residual on the defined set of dummy variables to obtain their predicted effects  $\hat{\beta}_i$ . The structural break adjusted series is then computed by

$$Y_t^{sb} = Y_t - \hat{\beta}_1 D_{1t} - \dots - \hat{\beta}_n D_{nt}$$

Figure VI: Structural Break Adjustment



Notes: The figure displays our structural break adjusted series. The red solid line is the adjusted series, the blue dashed line the original series.

Figure VI provides the original series and the structural break adjusted series.

The first structural break is from 1978 Q1 until 1978 Q4. The year was characterized by a series of major strikes in the metal industry. Workers demanded a 35 hour week and employers reacted by locking out workers, leading to 4281284 lost working days.

A similar even occurred in 1984, leading to our second structural break. Workers from the metal and printing industry demanded the 35 hour week, resulting again in lockouts and 5617595 lost working days. The strike was located in the second and third quarter, leading to an initial spike in job destruction and a subsequent spike in job creation.

We make three further break adjustments, of which the source is unknown unfortunately. First, the BLH drops a large amount of workers with university degree during the years 96 and 97. Second, in 1985 Q1 a large amount of jobs are destroyed, that are created again in 1986 Q1. Third, a large amount of jobs are created in 2004 Q1, but vanish again in 2005 Q1.

## B Comparing German and US Plant Structure

This section compares the micro structure of German and US plants with respect to size and sector composition. The Business Dynamics Statistics (*BDS*) provides yearly measures for the number of plants, total employment, job creation and job destruction for different industry and size classes in the US from 1977-2010. To obtain comparable measures, we aggregate the *ELFLOP* data to the yearly level.<sup>36</sup> The *BDS* covers the entire manufacturing sector, the primary sector and private services. It misses information on private households and governmental employees. To insure consistency, we drop these sectors from *ELFLOP* in this section. Similarly, we aggregate the plants in *ELFLOP* to six size classes that correspond to those reported in the *BDS*.

Table 12 shows the share of plants, the share of employment, the share of job creation and the share of job destruction that is attributed to the primary sector, the

---

<sup>36</sup>This assumes that the concepts of job creation and destruction are the same on the quarterly and yearly level. Given that some employment decisions may be reversed, our yearly aggregate is an upper bound for a yearly measure of flow rates.

Table 12: Sector Structure

	<u>EMP</u>	<u>JC</u>	<u>JD</u>	<u>N</u>	<u><math>\hat{J}CR</math></u>	<u><math>\hat{J}DR</math></u>
Germany						
Primary	0.07	0.05	0.05	0.03	0.11	0.11
Manufacturing	0.53	0.45	0.48	0.35	0.13	0.13
Services	0.41	0.51	0.46	0.62	0.19	0.16
US						
Primary	0.01	0.02	0.02	0.02	0.22	0.21
Manufacturing	0.25	0.21	0.24	0.15	0.14	0.15
Services	0.74	0.78	0.74	0.83	0.18	0.15

Notes: Germany: *ELFLOP* 1977-2006, US: *BDS* 1977-2006, N: Share of plants, EMP: Share of employment, JC: Share of job creation, JD: Share of job destruction,  $\hat{J}CR$ : Yearly job creation rate using as denominator march employment,  $\hat{J}DR$ : Yearly job destruction rate using as denominator march employment.

manufacturing sector and the service sector in Germany and the US. The primary sector is somewhat larger in Germany, but the share in the total economy is almost negligible in both cases. The major difference between the two countries is that the service sector is larger and the manufacturing sector is smaller in the US compared to Germany. Job destruction exceeded job creation in manufacturing in both countries implying a decreasing importance over the sample period. The opposite is true for the service sector. The table also suggests that the share of job creation and destruction relative to the employment share is lower in manufacturing than in services. Put differently, part of the lower job flows in Germany can be explained by differences in sectoral composition. The last two columns make this point more explicit and compute flow rates for the two countries.<sup>37</sup> With the exception of the primary sector, both job creation and job destruction rates turn out to be similar among the two countries.

Table 13 compares the two economies with respect to their plant size structure. Using the size structure implies that we have to take into account plant entry. For the US, we compute employment for all size categories net of job creation from entering plants assuming that plants enter at a constant rate over the year. Employment at entering plants is the amount of yearly job creation done by these plants. For Germany, we aggregate jobs created by entering plants to a yearly basis. Note that these measures are not directly comparable, and we overstate the importance of plant entry in the the US relative to Germany. Germany has a larger employment shares at the largest plant category and somewhat less at intermediate plant sizes. Plants with 1 – 4 employees are the only plants which job creation share exceeds their destruction share. In the US, no size category has a larger job creation than destruction share representing the larger amount of newly entering plants. Plants have higher job creation rates in the US than in Germany at all size categories. For the job destruction rate; however, the cross-country difference is only substantial for

---

<sup>37</sup>The *BDS* does not provide beginning and end of period employment for each series, but only employment in the middle of March. To make the German data comparable, we aggregate the *ELFLOP* data to yearly frequency and compute flow rates ( $J\hat{C}R, J\hat{D}R$ ) using employment at the beginning of second quarter as denominator. Note, this yields two comparable series for each country; however, these series are not directly comparable to those reported in Section 3.

Table 13: Size Structure

	EMP	JC	JD	N	$J\hat{C}R$	$J\hat{D}R$
Germany						
1 – 4	0.09	0.19	0.18	0.59	0.33	0.29
5 – 9	0.08	0.11	0.14	0.16	0.21	0.25
10 – 19	0.10	0.12	0.16	0.11	0.17	0.21
20 – 49	0.13	0.12	0.15	0.06	0.14	0.16
50 – 99	0.10	0.07	0.10	0.02	0.11	0.13
100+	0.47	0.18	0.27	0.02	0.06	0.08
Entry	0.03	0.21	0.00	0.04	1.00	0.00
US						
1 – 4	0.05	0.10	0.14	0.44	0.46	0.40
5 – 9	0.08	0.09	0.12	0.20	0.26	0.23
10 – 19	0.10	0.09	0.13	0.12	0.22	0.19
20 – 49	0.15	0.13	0.17	0.08	0.20	0.17
50 – 99	0.12	0.09	0.12	0.03	0.18	0.15
100+	0.43	0.23	0.33	0.02	0.13	0.12
Entry	0.06	0.27	0.00	0.11	1.00	0.00

Notes: Germany: *ELFLOP* 1977-2006, US: *BDS* 1977-2006, N: Share of plants, EMP: Share of employment, JC: Share of job creation, JD: Share of job destruction,  $J\hat{C}R$ : Yearly job creation rate using as denominator march employment,  $J\hat{D}R$ : Yearly job destruction rate using as denominator march employment. Data excludes the primary sector, as data on size-industry cells is too thin there, the public service sector and households.

plants with 1 – 4 and with more than 100 employees.

## B.1 German Labor Market Flows with US Plant Composition

The difference in size and sector decomposition suggests that differences in labor market flows may be partially explained by these differences. We investigate this question by creating synthetic flow rates in Germany with US plant weights. We compute for the manufacturing and private service sector flow rates and  $ec_t$  as before. We compute for both countries the mean employment share of each individual sector/size category and take the ratio of these means

$$\bar{R} = \frac{\overline{ec}_{march}^{US}}{\overline{ec}_{march}^G}.$$

We now create synthetic flow rates for Germany, e.g., for the accession rate

$$ACCR_t = accr_t ec_t \bar{R},$$

where we scale the sum of  $ec_t \bar{R}$  to one in each period. We report the results of this exercise in Table 4.

## C Allowing for Seasonal Movements

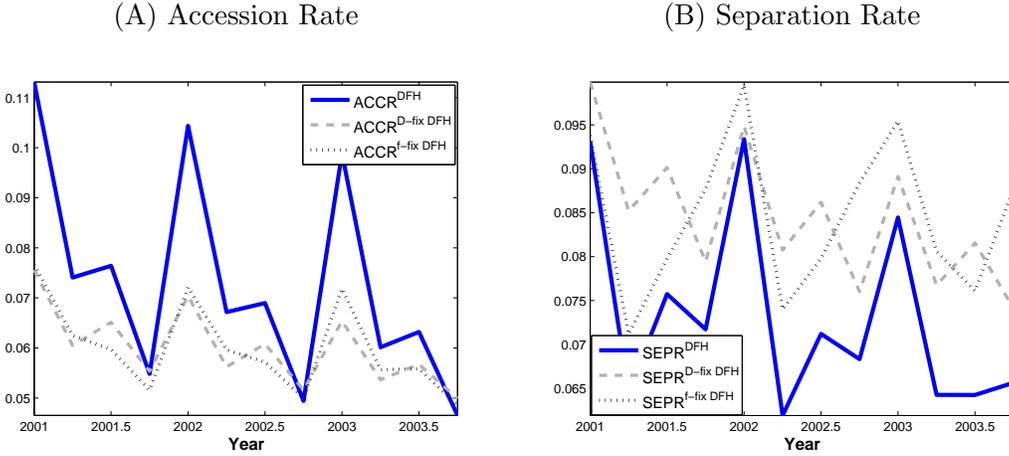
Davis et al. (2006) use monthly seasonally non-adjusted data to establish the importance for explaining cyclical changes in worker flows by changes in the employment growth distribution. In this section, we investigate whether we also find a more important role for variations in the employment growth distribution when we use seasonally non-adjusted data. We investigate this question using their approach with our quarterly seasonally non-adjusted data for the same time horizon.<sup>38</sup> Figure

---

<sup>38</sup>If seasonality played a major role, monthly data would extrapolate the effect even beyond our quarterly data.

VII displays that changes in the employment growth distribution and changes in the plant behavior conditional on plant growth explain both significant parts of the variance in worker flows. The share explained by each is very similar and larger for separations than for accessions. This finding supports our earlier notion that changes in the employment growth distribution are the main driver behind higher frequency spikes in worker flows.

Figure VII: Components of the Accession and Separation Rate Seasonally Non-adjusted



Notes: The figure decomposes seasonally non-adjusted worker flows as in Davis et al. (2006).  $ACCR^{D-fix DFH}$ : Accession rate computed with constant employment distribution,  $ACCR^{f-fix DFH}$ : Accession rate computed with constant conditional worker flows,  $SEPR^{D-fix DFH}$ : Separation rate computed with constant employment distribution,  $SEPR^{f-fix DFH}$ : Separation rate computed with constant conditional worker flows.

## D Employment Growth Distribution and Plant Characteristics

In this section we look at changing employment dynamics by plant size and age. We study the cyclical behavior in employment shares relative to the largest and oldest plants. To be more specific, let  $EMP_t^k(i)$  be the share of employment at the largest (oldest) plants that are currently in state  $i \in \{[decrease, unchanged, increase]\}$  and let  $EMP_t^l(i)$  be the corresponding employment share at any other plant category.

We study the HP-filtered behavior of

$$EMP_t^{k-l}(i) = EMP_t^k(i) - EMP_t^l(i).$$

Table 14: Plant Size Differential Employment Shares to 100+

<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$					
		$j = -2$	-1	0	+1	+2	
		Increase employment					
1 – 19	5,39%	0,83	-0,16	-0,03	0,06	0,11	0,12
20 – 49	4,42%	0,82	-0,16	-0,04	0,03	0,06	0,06
50 – 99	3,65%	0,81	-0,16	-0,06	0,01	0,03	0,02
		Inactive					
1 – 19	1,26%	0,75	0,64	0,67	0,66	0,68	0,67
20 – 49	1,11%	0,87	0,62	0,66	0,67	0,69	0,69
50 – 99	0,63%	0,79	0,58	0,62	0,65	0,66	0,65
		Decrease employment					
1 – 19	5,62%	0,86	0,01	-0,12	-0,21	-0,25	-0,26
20 – 49	4,72%	0,85	0,00	-0,11	-0,19	-0,22	-0,21
50 – 99	3,79%	0,84	0,05	-0,05	-0,12	-0,14	-0,13

Notes: The table shows HP-filtered differences in employment shares. The reference is always plants with more than 100 employees. The analysis is conducted separated for the employment share at plants that increase, decrease and leave employment unchanged.

Table 14 shows the cyclical behavior of the relative employment shares. The share of employment located at plants that increase employment shows almost no difference among plant size categories. The share of employment that are inactive is considerably more countercyclical at small compared to large plants. Contrary, the

share of employment at downsizing plants is more countercyclical at large plants.

Table 15: Plant Age Differential Employment Shares to 40+

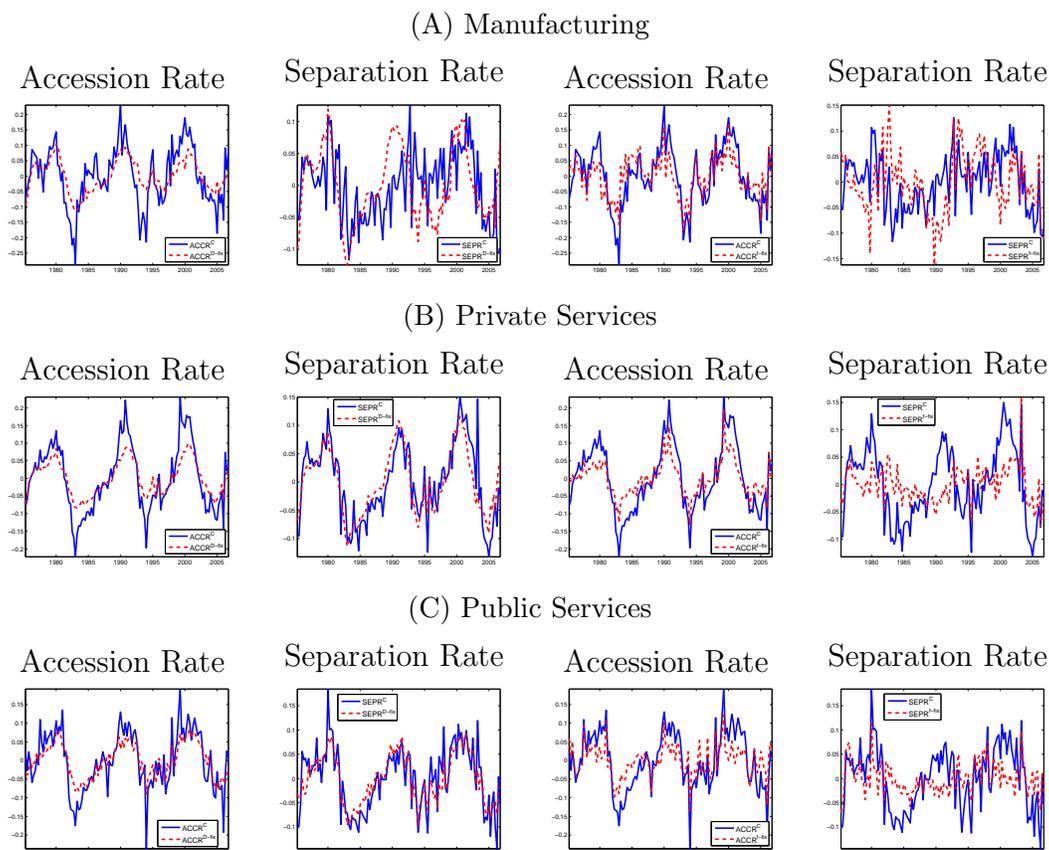
		Correlation to $GDP_{t+j}$					
$SD$	$AC(1)$	$j = -2$	$-1$	$0$	$+1$	$+2$	
		Increase employment					
1 – 3	3,00%	0,36	-0,14	-0,05	0,02	0,01	-0,01
4 – 19	2,03%	0,47	-0,15	-0,06	0,02	-0,01	-0,04
20 – 39	1,87%	0,66	-0,11	-0,01	0,06	0,05	0,02
		Inactive					
1 – 3	1,26%	0,68	-0,06	-0,03	0,01	0,04	0,05
4 – 19	1,36%	0,94	0,19	0,26	0,32	0,34	0,36
20 – 39	0,88%	0,89	0,26	0,29	0,26	0,23	0,18
		Decrease employment					
1 – 3	3,32%	0,39	0,15	0,06	-0,03	-0,02	-0,01
4 – 19	2,64%	0,63	0,01	-0,09	-0,18	-0,17	-0,16
20 – 39	2,44%	0,78	-0,01	-0,10	-0,14	-0,12	-0,08

Notes: The table shows HP-filtered differences in employment shares. The reference is always plants older than 40 quarters. The analysis is conducted separated for the employment share at plants that increase, decrease and leave employment unchanged.

Table 15 shows that the pattern is the same when looking at plant age. Again, employment at plants that are inactive is considerably more countercyclical at young compared to old plants. Moreover, the share of employment at downsizing plants is more countercyclical at old plants.

## E Connecting Job and Worker Flows by Sector

Figure VIII: Components of the Accession and Separation Rate over the Cycle by Sector



Notes: The figure displays the cyclical component of the accession and separation rates (solid) and the synthetic ones implied when holding the distribution of plant employment growth fixed (dashed) (left panels). The right panels displays the cyclical component of the accession and separation rates (solid) together with the synthetic ones implied when holding the flow rates conditional on plant growth constant (dashed).

Figure VIII displays the decomposition of cyclical worker flows into shifts in the employment growth distribution and shifts in conditional worker flows for manufacturing sector, the private service sector and the public service sector. In manufacturing, the link between worker flows and shifts in the employment growth distribution is the most visible. Contrary, these shifts explain least in cyclical dynamics of worker flows in the private service sector.

## F Connecting Job and Worker Flows by Plant Type

Table 16: Plant Size Differential Worker Flows Relative to 100+

	<i>SD</i>	<i>AC</i> (1)	Correlation to $GDP_{t+j}$				
			$j = -2$	-1	0	+1	+2
			Churning rate				
1 – 19	0,4%	0,80	0,06	0,15	0,19	0,23	0,23
20 – 49	0,3%	0,84	-0,53	-0,55	-0,57	-0,57	-0,58
50 – 99	0,4%	0,90	-0,52	-0,58	-0,65	-0,67	-0,68
			Accession rate				
1 – 19	0,4%	0,57	-0,20	-0,09	-0,08	-0,08	-0,11
20 – 49	0,3%	0,66	-0,34	-0,33	-0,37	-0,43	-0,45
50 – 99	0,3%	0,72	-0,36	-0,38	-0,45	-0,52	-0,55
			Separation rate				
1 – 19	0,4%	0,47	0,09	0,10	0,13	0,15	0,22
20 – 49	0,3%	0,58	-0,21	-0,20	-0,17	-0,16	-0,07
50 – 99	0,3%	0,59	-0,24	-0,26	-0,27	-0,28	-0,20

Notes: The table shows HP-filtered differences in worker flow rates. The reference is always plants larger than 100 employees.

Table 16 displays the cyclical component of differences in worker flows of plants with different employment levels relative to plants with more than 100 employees. Except for plants with less than 20 employees, all plant types have worker flows that are more procyclical than those at plants with more than 100 employees. Table 17 and 18 show that the same is true for plant age and average worker compensation.

Again, the youngest (lowest average worker pay) plants have worker flows comparable to those of the oldest (highest average worker pay) plants.

Table 17: Plant Age Differential Worker Flows Relative to 40+

		Correlation to $GDP_{t+j}$					
$SD$	$AC(1)$	$j = -2$	$-1$	$0$	$+1$	$+2$	
		Churning rate					
1 – 3	0,5%	0,70	0,01	-0,07	-0,13	-0,11	-0,11
4 – 19	0,3%	0,84	0,01	-0,11	-0,24	-0,32	-0,38
20 – 39	0,3%	0,82	-0,30	-0,41	-0,52	-0,60	-0,68
		Accession rate					
1 – 3	1,17%	0,26	-0,16	-0,21	-0,26	-0,31	-0,36
4 – 19	0,36%	0,47	0,10	0,03	-0,10	-0,17	-0,27
20 – 39	0,33%	0,62	-0,05	-0,14	-0,27	-0,38	-0,47
		Separation rate					
1 – 3	0,51%	0,59	0,02	0,00	0,02	0,12	0,18
4 – 19	0,28%	0,58	-0,01	-0,05	-0,06	-0,05	-0,01
20 – 39	0,20%	0,40	-0,33	-0,39	-0,40	-0,46	-0,48

Notes: The table shows HP-filtered differences in worker flow rates. The reference is always plants older than 40 quarters.

Table 18: Average Earnings at Plant Differential Worker Flows Relative to 5<sup>th</sup> Quintile

		Correlation to $GDP_{t+j}$					
<i>SD</i>	<i>AC</i> (1)	<i>j</i> = -2	-1	0	+1	+2	
		Churning rate					
1 <sup>st</sup>	0,70%	0,87	0,06	0,05	0,04	0,03	0,03
2 <sup>nd</sup>	0,80%	0,91	-0,25	-0,34	-0,42	-0,48	-0,53
3 <sup>rd</sup>	0,61%	0,92	-0,54	-0,62	-0,69	-0,72	-0,73
4 <sup>th</sup>	0,32%	0,83	-0,48	-0,56	-0,64	-0,68	-0,69
		Accession rate					
1 <sup>st</sup>	0,54%	0,74	-0,02	-0,01	-0,01	-0,04	-0,06
2 <sup>nd</sup>	0,61%	0,74	-0,14	-0,21	-0,29	-0,37	-0,43
3 <sup>rd</sup>	0,42%	0,74	-0,36	-0,43	-0,50	-0,58	-0,59
4 <sup>th</sup>	0,24%	0,67	-0,27	-0,32	-0,39	-0,49	-0,52
		Separation rate					
1 <sup>st</sup>	0,64%	0,47	0,03	0,00	-0,01	-0,04	0,00
2 <sup>nd</sup>	0,55%	0,66	-0,32	-0,38	-0,41	-0,43	-0,40
3 <sup>rd</sup>	0,41%	0,64	-0,51	-0,53	-0,52	-0,52	-0,45
4 <sup>th</sup>	0,24%	0,51	-0,19	-0,22	-0,19	-0,19	-0,17

Notes: The table shows HP-filtered differences in worker flow rates. The reference is always plants in the top quintile of the average worker pay distribution.