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Savvy Investors Look to Job Postings to Predict a Company's Performance

New research suggests that changes in a company's demand for new hires is a valuable leading indicator

Job-postings data have become increasingly available in recent years. Shown, a job fair in Seattle in May.

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By *Daisy Maxey*
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Some investors are taking advantage of a once-obscure indicator of a company's financial prospects: job postings.

According to research published in the July issue of the journal Management Science, changes in the number of a company's online job postings are a leading indicator of changes in that company's future performance. The relationship is stronger when the job postings likely represent the addition of new employees rather than the replacement of people leaving the company, the researchers found.

Job postings provide more-timely information to outsiders than financial reports because companies often begin to post jobs immediately after the beginning of a new year. Financial reports, on the other hand, usually don't start to be disclosed until the end of the first quarter.

"When companies increase the number of job postings on their websites, we anticipate an increase in sales and earnings in the future," says study co-writer Alex Nekrasov, an assistant professor of accounting at the University of Illinois at Chicago. "When they cut them, it means some not-so-good times are likely ahead, probably sales and earnings will decline. It doesn't mean there won't be growth, but it will be less than expected."

There are, of course, instances when hiring isn't a positive indicator—when a chief executive becomes overconfident, for example—but the evidence shows that on average hiring appears to be an indicator of growth, Dr. Nekrasov says.

Easier to find

Continuously updated job-postings data have become increasingly available in recent years to institutional investors who buy it from data-scraping companies. Such information, which is costly to collect and process in a meaningful way, likely isn't being purchased by individual investors, many of whom aren't aware such data exist or sophisticated enough to know how to use it.

Some institutional investors likely trade shares based on this data, and the trading is more pronounced when companies are hiring because they are growing, the study found. The researchers also found that market reaction to job-posting changes tends to be stronger when the number of employees at a given company is relatively low, and therefore the marginal productivity of each employee is higher.

The researchers say their findings could be relevant to regulators who want to ensure that companies disseminate information in ways that don't give certain investors an advantage, as well as to managers and investor-relations departments responsible for company disclosures to investors.

Since jobs data are difficult for the average person to obtain, "It's not a level playing field," says Dr. Nekrasov, who co-wrote the research with Elizabeth Gutiérrez, an assistant professor of accounting at the University of Chile; Ben Lourie, an assistant professor of accounting at the University of California, Irvine; and Terry Shevlin, a professor of accounting at UC Irvine.

"Unlike numerous disclosures on acquisitions of nonhuman resources, such as property, plant and equipment, companies aren't required to disclose their hiring activities, except for the number of people they employ at the end of the year," says Dr. Nekrasov. Yet investments in human capital are key to the value corporations create.

Stock movers

In their study, the researchers looked at 2,255 public companies over more than 2.8 million trading days from Aug. 1, 2007, to Dec. 31, 2016. Based on changes in the number of active job postings from the prior day, they concluded that the postings are positively associated with subsequent growth in the number of employees; selling, general and administrative expenses; and revenue and earnings. The effect on revenue is greater than on expenses, said the researchers, who obtained the job-postings data from U.S. job-search engine LinkUp.com, which aggregates job listings from employer websites.

When the number of active job postings for a company increases, the stock return for that firm tends to be higher on average in the two trading days around the changes, the researchers found. When the number of job postings decreases, the return is lower on average over the same time frame. The association remained significant when the researchers eliminated data from days when earnings announcements or significant filings, such as quarterly or annual reports, were made, and when they controlled for the number and sentiment of news articles about companies, they say.

The rise of the internet has led to a surge in companies that scrape and process job postings, and the researchers found that investor reactions to postings were concentrated in the latter period of their data sample—from 2012 to 2016.

As jobs-postings data become even more available, it is likely to lead to stronger market reactions in the future, they say.

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