We exploit this variation and estimate a dynamic factor model with endogenous clusters based on detailed occupation level data from the U.S. Current Population Survey (CPS) for the period 1976-2010. Our model is designed to capture three important aspects of the data: We identify clusters of occupations with common cyclical dynamics in the employment/population ratio, we allow for a structural break in the cyclical cluster dynamics, and we disentangle the common cluster specific dynamics from idiosyncratic shocks.

In particular, our model identifies two clusters of occupations that broadly coincide with the widely discussed notion of “routine” and “non-routine” jobs (see Acemoglu and Autor, 2011, for a survey). Moreover, a comparison of panels A and B in Figure 1 illustrates that the aggregate dynamics of these endogenous clusters strongly resemble the dynamic patterns documented by Jaimovich and Siu (2012).4

4In Section 3 we discuss in detail why the levels in panels A and B of Figure 1 don’t match up. We argue that the information about the dynamics of aggregate employment contained in either aggregation scheme is essentially the same.