Raises for Job Switchers Heighten Inflation Risk

Guilford, Gwynn; Sarah Chaney Cambon . Wall Street Journal , Eastern edition; New York, N.Y. [New York, N.Y]. 25 Apr 2022: A.1.

FULL TEXT

Job-switchers are often reaping double-digit pay increases, a new survey shows, a phenomenon that is demonstrating bargaining power for workers while threatening to keep inflation high.

About 64% of job-switchers said their current job provides more pay than their previous job. Among these workers, nearly half received a raise of 11% or more, according to a ZipRecruiter survey provided exclusively to The Wall Street Journal. Nearly 9% are now making at least 50% more.

Elevated rates of job switching could continue: Among prime-age workers aged 25 to 54, around 20% anticipate leaving within a year, while an additional 26% said they see staying one to two years, the survey said. Historically, the average job lasts four years, said Julia Pollak, ZipRecruiter's chief economist.

Job switching is a key driver behind broader wage growth that developed as the economy rebounded from the Covid-19 pandemic. Workers who change jobs often command bigger pay increases and employers also raise wages to compete to keep existing workers, economists said. Annual wage growth for the typical worker hit 6% in March, averaged over three months, according to the Federal Reserve Bank of Atlanta's wage tracker. That is up from 3.4% a year earlier and above the 3.7% rate in February 2020, before the pandemic, when the unemployment rate was at a 50-year low.

The consumer-price index rose 8.5% in March from a year earlier, according to the Labor Department, the strongest annual rate of inflation since 1981. The broadening of wage gains throughout the economy could keep inflation high in coming quarters even if dynamics such as supply-chain disruptions and an energy crunch recede.

"It's great to get wage gains but not if it's pushing up inflation further," said Diane Swonk, chief economist at Grant Thornton.

Nearly 27% of economists surveyed by The Wall Street Journal in April said wage growth poses the biggest inflationary risk this year, a higher share than those who cited either the Russia-Ukraine war and supply-chain disruptions as the main inflationary threats. Companies are paying more to attract and retain workers in a competitive labor market and will need to pass on price increases to compensate, the thinking goes.

The dynamic poses a challenge for the Federal Reserve, which began raising rates in March for the first time since 2018. The central bank is trying to bring inflation down from a four-decade high closer to its 2% target.

Wage growth was weak in the years following the 2007-09 recession, even when unemployment fell to historically low levels. Some economists argued that was because workers were reluctant to switch jobs. Today, workers are quitting at rates that well exceed those preceding the pandemic, receiving large wage increases.

That includes employees like 37-year-old Dain Laguna.

Mr. Laguna was working in a human-resources job at a home-improvement company last year, feeling undervalued at an hourly wage of $19. Rising inflation started eating into his already tight budget.

"I'm the father of two children, and I can't work for pennies," Mr. Laguna said.

Higher costs and lack of upward job mobility spurred him to revamp his LinkedIn profile and to start applying for jobs last fall. He landed a new human-resources role, which he started in February. In his new job, Mr. Laguna helps onboard workers into information-technology jobs at large companies. Recruiters are still reaching out to Mr. Laguna to gauge his interest in new jobs, as HR workers are now in high demand, the Lexington, N.C., resident said.

Mr. Laguna makes the equivalent of about $28 an hour, or about 50% more than in his previous role. "My cup still does not runneth over, but I also don't feel like I'm drowning anymore," he said.

About 2.9% of workers quit their jobs in February -- far above the prepandemic February 2020 rate of 2.3%, as workers are confident in their job prospects. The majority of workers who quit last year and didn't enter retirement said they are employed in full- or part-time roles, a Pew Research Center survey published in March found.

The so-called quits rate appears to be peaking, a possible sign the labor market is cooling slightly. Still, rising quits translate into wage gains with a lag, so even if quits plateau in the coming months, wages can keep going up for a period, said Alex Domash, a research fellow at Harvard University.

"But even at current levels, wage growth is incompatible with the Fed's inflation target," said Mr. Domash, adding that the current rate implies sustained inflation above 5%.

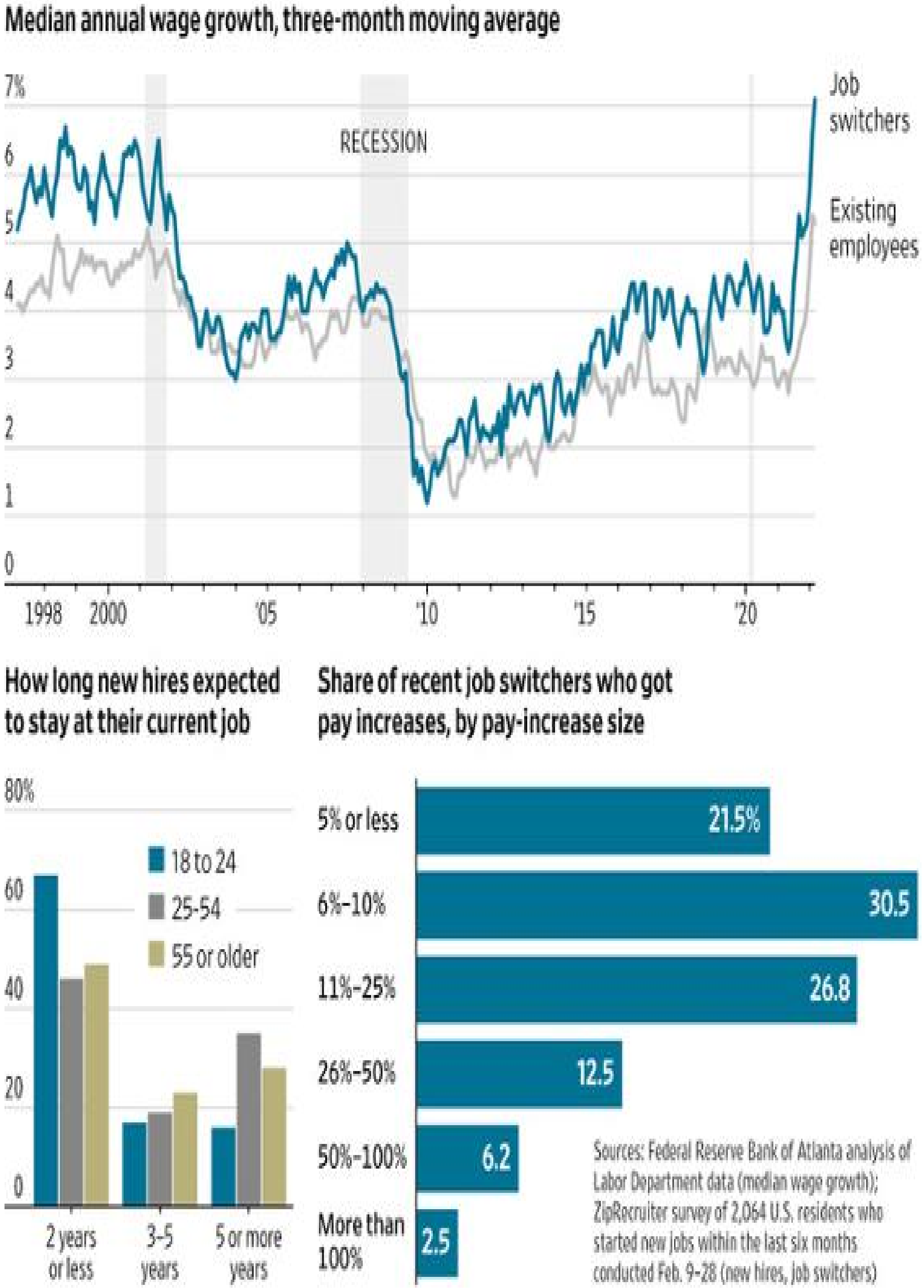
ZipRecruiter's survey, which was conducted in February, was drawn from 2,064 U.S. residents who had started a new job within the past six months, and doesn't necessarily reflect overall job-market dynamics. There are no direct historical data for comparison. However, the data offer a picture of worker bargaining power that has the potential to broaden.

"Companies facing stiff competition for scarce talent have been prompted to bump up wages, relax job requirements, expand benefits, and offer more favorable terms of employment," Ms. Pollak said. Some 37% of recent new hires had been recruited by their employer, and nearly 22% reported receiving signing bonuses, according to ZipRecruiter's survey.

The share of employed job seekers expecting their current employer to counter with higher pay if they resign hit 54% in March, up from 43% in January, according to a separate monthly survey by ZipRecruiter.

Annual wage growth for the typical job-switcher was 7.1% in March, averaged over three months, up from 4% a year earlier and the fastest pace since records began in 1997, Atlanta Fed data show. Those wage pressures are filtering through to everyone else as employers compete to keep staff.

"The moment an employer is scared people are leaving, it's going to give pay raises for everybody," said Guy Berger, principal economist for LinkedIn, the professional social network. "So even though the rate for job-stayers is lower, it's still gone up a ton."



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