

# Financial Press: Key Words: 'They'll be entering a job market that's eager to have them': Will record-high inflation encourage more people to go back to work?

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## FULL TEXT

Labor costs are driving up inflation. But will inflation also drive more people back to the workforce?

The annual rate of inflation slowed to 8.3% in April from 8.5% the previous month, helped by a fall in gasoline prices, but consumers still face rapidly rising costs. The March reading was the highest since 1981.

The unemployment rate held steady last month at 3.6%, remaining near a 54-year low, while hourly pay rose in April, putting pressure on the Federal Reserve's goal to temper inflation and steer the U.S. economy away from a potential recession.

And although the increase in hourly pay over the past 12 months —rising 5.5% as employers upped the ante to lure more job candidates —was the largest gain since the early 1980s, it was still significantly less than the annual rate of inflation.

"These increased costs may help us get more people back into the labor force."

Everything from rent to food is getting more expensive. "These increased costs may help us get more people back into the labor force," said Ron Hetrick, senior economist at Emsi Burning Glass, a labor-market analysis firm.

"They'll be entering a job market that's eager to have them," Hetrick added. "With our historically low unemployment rate, our biggest hope to solve our labor crisis depends on people re-joining the labor force."

Earlier this week, Minneapolis Federal Reserve President Neel Kashkari said he doesn't "really buy the Great Resignation," the moniker used for the supposed mass exodus from the workplace.

Instead, people are moving "from the toughest jobs to more attractive jobs," Kashkari said, saying child care and long-haul truck driving are jobs that are more difficult to fill.

Nearly 57 million people left jobs —sometimes more than one job —from January 2021 to February 2022, up 25% compared to a similar period before the pandemic, but almost 89 million people were hired in the past 14 months.

"It is concerning if wages don't keep up with inflation for a longer period of time, but I believe inflation is going to normalize."

—Elise Gould, senior economist at the Economic Policy Institute, a progressive think tank

Not everyone agrees that the U.S. workforce is disengaged, and some say the relationship between inflation and the desire to work is complicated. "I understand why many people think that folks are sitting at home on the bench," said Ben Wigert, director of research and strategy for Gallup's workplace management practice.

"They go to restaurants where half the seating is closed because of staffing issues," he told MarketWatch. "They see 'now hiring' signs everywhere, and the media constantly publishes articles about the record quit rates."

"Right now, pay is the number one reason people decide to take a job or leave a job, and the importance of pay in taking a job has increased substantially," Wigert said. His research shows people are taking better-paying jobs with 25% more money.

Rising rates may cause people to find better paid work, he added. "For people struggling to make ends meet, it is certainly possible that inflation could push unemployed individuals into the labor market, or cause employed individuals to take another job."

Elise Gould, senior economist at the Economic Policy Institute, a progressive think tank, sees the return to work as a natural result of the world returning to a more normal business schedule after the worst days of the pandemic. "More people are coming back and there are more opportunities for them," she told MarketWatch. "The labor supply will likely increase over the next year, and that will continue. We're seeing increases in participation and that will continue."

"Typically, economists would say that inflation does not have a strong effect on long-term unemployment because wages adjust with inflation in the long run."

"It is concerning if wages don't keep up with inflation for a longer period of time, but I believe inflation is going to normalize," she added. "The month-to-month volatility is not going to continue rising."

What's more, Gould said, a stronger labor market will help lift up those who were struggling to find work. "If you're going from not having a job to having a job, you're in a far better position even if average wages are not keeping up with inflation."

Wigert agreed. "Typically, economists would say that inflation does not have a strong effect on long-term unemployment because wages adjust with inflation in the long run," he said. "In this case, wages actually began increasing before cost of consumer costs – so from my perspective, in many ways the employment market is already adjusting to higher costs, if not contributing to inflation."

"If increased costs cause companies to slow hiring rates and reduce job openings, that would tighten the labor market and potentially curb quit rates and wage increases," Wigert added. "Right now, we live in a job seekers' market."

The post Key Words: 'They'll be entering a job market that's eager to have them': Will record-high inflation encourage more people to go back to work? appeared first on Financial Press.

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