WAGE INFLATION:

How Staffing Can Ride the Tide

By Noah Yosif and Max Aldrich

Step into the dynamic realm of postpandemic economics, where 2024 unfolds as a pivotal chapter in the labor market saga. Wage inflation takes the spotlight, driven by increased labor demand and Federal Reserve policies. Explore the intricacies of wage gains across industries and demographics, offering insights into their impact on strategic staffing decisions. >>>

Exclusive Industry Research & Data

This issue's research-focused article looks at four prominent metrics for wage growth and examines the impact of wage inflation on staffing in the year ahead. As the industry's research and data leader, ASA reports on timely industry data in every issue of *Staffing Success.*

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The postpandemic economy has been a roller coaster of historic developments in the labor market and wild predictions about its future. Wages have been a frequent feature on this tumultuous ride, with much speculation regarding their trajectory in 2024 and impact on the staffing industry. In this article, we take a deep dive into the national upward trend in wages, or wage "inflation," and examine its impact on the outlook for staffing companies in the new year.

Key takeaways for staffing firms:

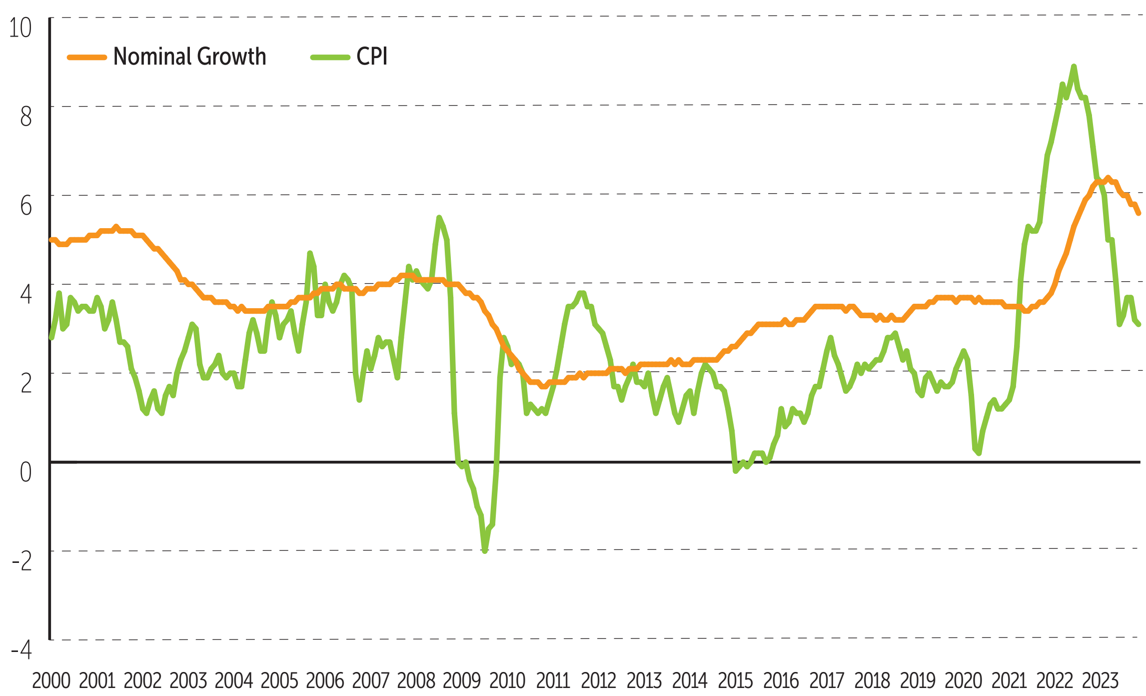
- **Increased labor demand and inflation caused wages to rise** in the aftermath of the pandemic, sustained by constrictive monetary policy by the Federal Reserve.
- **Wage gains vary between workers across different industries,** geographies, income brackets, and other demographic characteristics due to variations in supply and demand for labor.
- **Wage inflation is poised to remain strong in 2024** and will continue to buttress consumption as a counterweight against both high interest rates and inflation.
- **The varying impact of wage inflation by industry and occupation will require staffing companies to be attentive** to how their clientele responds to these changing dynamics.

What is causing wages to rise?

Part of the pandemic and postpandemic economic experience has been the rapid increase in wages that began in early 2021—to a peak of 6.7% nominal year-over-year growth in the middle of 2022. Several related factors contributed to this sharp wage growth. First, a tight labor market prompted employers to raise wages to attract talent. Second, as widespread inflation caused prices to rise, wages needed to rise more quickly to keep pace, and with the tight labor market workers were able to command still higher wages. Wage inflation, or the rising cost of labor, can be considered both a consequence and cause of price inflation, or the rising cost of goods and services.

After the brief but steep recession in spring of 2020, demand for workers quickly recovered to outweigh supply. This dynamic has largely remained, as workers still have relatively more leverage in the labor market because they are scarcer, which they utilize to receive higher wages from employers. We see this in real-world labor market data with 1.3 job openings per available worker, and the comparatively low unemployment rate—currently at 3.7%. While labor demand is not as strong as it was in 2022, when it reached a peak of 12 million openings in March, there are still one million more job openings today than at the height of the prepandemic economy in November 2018.

Figure 1: Inflation vs. Nominal Wage Growth



Source: BLS

At the same time, during the pandemic record levels of federal spending coupled with a zero-interest-rate policy by the Federal Reserve accelerated economic consumption, leading to an increase in the price of goods and services as well as the wages demanded by workers to maintain their relative purchasing power in the face of inflation. The postpandemic shift in bargaining power from employers to employees solidified these gains for workers, enabling wage inflation to become a key driver of price inflation. Now, the Federal Reserve is seeking to curtail price inflation through higher interest rates, relying on reduced consumption to rebalance the bargaining power between employers and employees, thereby alleviating wage inflation.

If the rate of price inflation is greater than the rise in wages, that means that workers have less purchasing power in real terms as inflation eats away at their earnings. This was the case from April 2021 to January 2023, during which price inflation accelerated at a faster pace than nominal year-over-year wages. In 2023, price inflation began to decelerate and wages grew faster than prices, which enabled workers to realize new gains (see Figure 1).

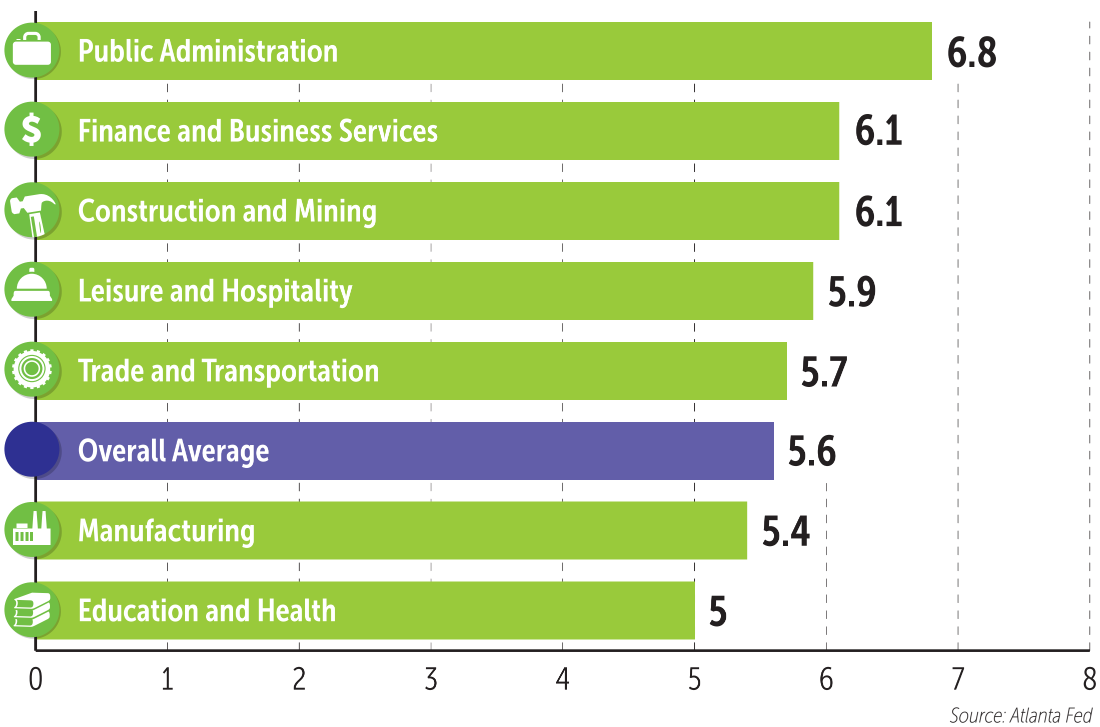
Who is experiencing wage increases?

The extent of wage gains varies between workers across different industries, geographies, income brackets, and other demographic characteristics. For example, workers in public administration, finance and business services, and leisure and hospitality saw above-average wage growth compared to manufacturing and education and health care—shown in Figure 2. Similarly, workers situated within the Mountain census region saw the highest wage growth, while those situated within the West South-Central census region experienced the lowest such growth—shown in Figure 3.

While these differences are driven by a variety of complex factors, most are due to variations in supply and demand for workers. For example, workers on the bottom half of the income distribution spectrum saw higher wage growth relative to workers in the upper half. These gains are the result of increased demand for a stable labor force, as workers within the bottom half of the income distribution spectrum were more likely to hold jobs requiring an in-person presence, and which faced greater turnover exacerbated by the pandemic. Recently, the distance between the two halves has narrowed; wage growth among the workers on the bottom half of the income distribution spectrum rose by 5.9% while that among the top half grew by 5.5%. This near-equalization in wage inflation between the two halves comes as much of the acute labor demand in customer-facing, in-person roles that immediately followed the pandemic has eased.

Levels of supply and demand for workers have seen significant volatility following the pandemic, which has fostered inordinate disparities in wage

Figure 2: Nominal Wage Growth by Industry



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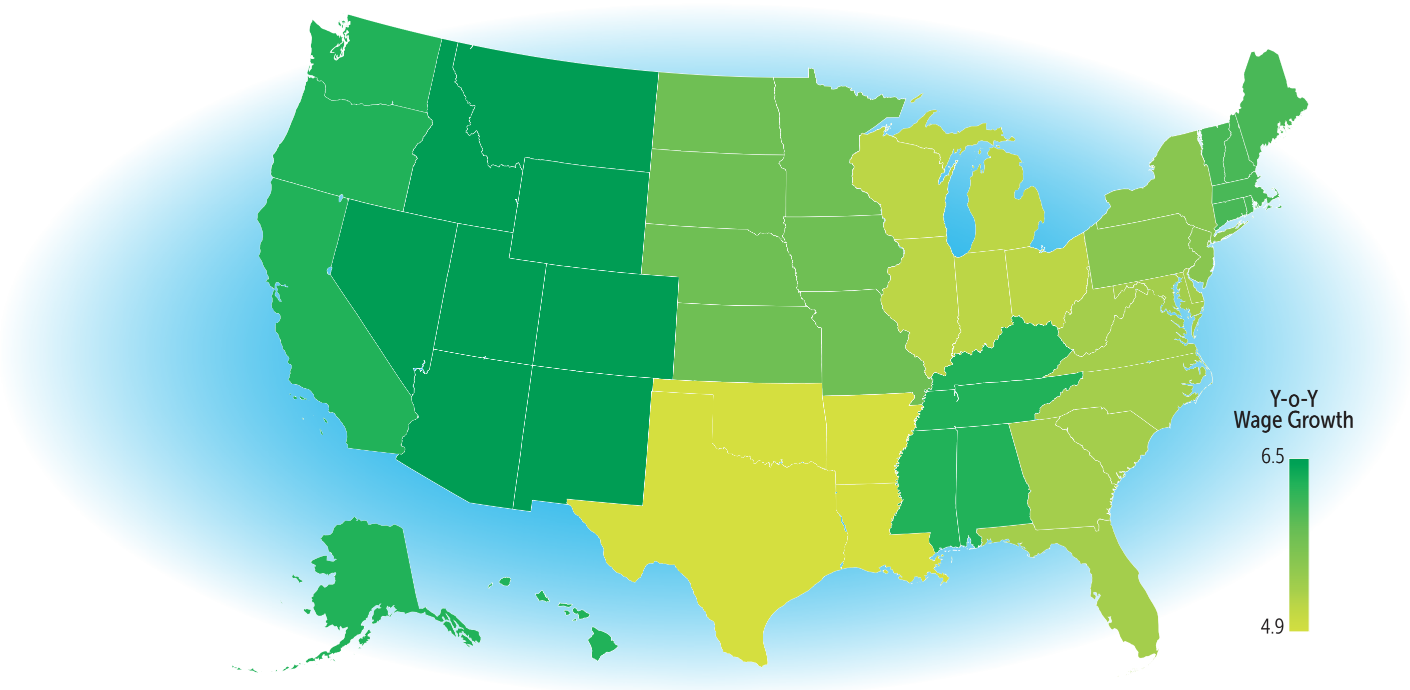
inflation between workers. During the "Great Resignation" of 2022, in which 50.5 million workers voluntarily left their jobs for better prospects elsewhere, workers classified as job switchers saw their year-over-year wages rise by 7.7%, compared to 5.5% for those who chose to stick with their current employers (see Figure 4). The shortages endured by employers encouraged many to reconsider their efforts to maintain employee loyalty, offering workers greater compensation and benefits. This fundamental realignment in supply and demand for labor, primarily within jobs on the lower end of the income distribution spectrum, has contributed to the recent spike in wage inflation and is also credited with encouraging employers to refrain from mass layoffs despite higher interest rates and tightening economic conditions.

While real average weekly earnings are now increasing, there are still disparities between various demographics. In the third quarter of 2023, real average weekly earnings for Black ($299) and Hispanic ($288) workers were lower than white ($371) workers, reflecting historical trends. While the gap between Black and Hispanic workers has narrowed, the difference between white and nonwhite remains largely the same. However, year-over-year wage growth for nonwhite workers (6.1%) is currently modestly outpacing white workers' wage growth (5.6%). Men and women's nominal year-over-year wage growth has largely been equal; however, women's average real weekly earnings are still less than men's. In the third quarter of 2023, men's average real weekly earnings were $395, compared to $328 for women. Because the rate of wage growth is the same, the existing income gap between the two will be persistent into the future.

Will wage growth continue?

Despite an amalgam of economic headwinds, wage inflation is poised to remain strong. According to a recent survey by Willis Towers Watson, U.S. employers are planning for an average salary increase of 4% in 2024. Twenty-five states (half the nation) are expected to increase their minimum wage in 2024, amounting to an average of $13.38. An average of four promi-

Figure 3: Nominal Wage Growth by Census Region



Source: Atlanta Fed

nent metrics for wage growth—Compensation of Employees series measured by the Bureau of Economic Analysis, the Employment Cost Index measured by the Bureau of Labor Statistics, the Wage Growth Tracker administered by the Federal Reserve Bank of Atlanta, and the Private Wages series measured by the Bureau of Labor Statistics—show average wage growth trending at 4.6% as of December 2023.

As long as the growth of nominal wages remains above inflation, real wages will increase and workers will continue to accumulate additional disposable income; this is good for the economy and could portend increased demand for staffing services. Wage inflation will continue to buttress consumption as a counterweight against both high interest rates and inflation, bolstering demand for goods and services while serving as a tailwind for new job creation within the labor market. Though unlikely, excessive wage inflation could pose further complications in the Federal Reserve's efforts to tame inflation—which would result in a "higher for longer" approach that would keep interest rates high for longer.

What will be the impact to staffing?

Economic uncertainty continuing into 2024 will encourage employers to be strategic about their staffing decisions, which means staffing companies will have to follow suit. Industries facing continued labor shortages, such as health care and transportation, are likely to see above-average wage inflation as employers compete to retain talent. Conversely, industries seeing a slowdown in job creation, such as financial services and engineering, may realize lower wage growth but experience greater stability for both permanent and temporary employees. The dynamics of wage inflation are complex and are poised to affect every employer and employee differently, which means staffing companies should be prepared to address such disparities between their clients. Regardless, the continuation of wage inflation at healthy levels is a promising sign for the economy at-large, and the rising tide is sure to extend to staffing companies as well. ■

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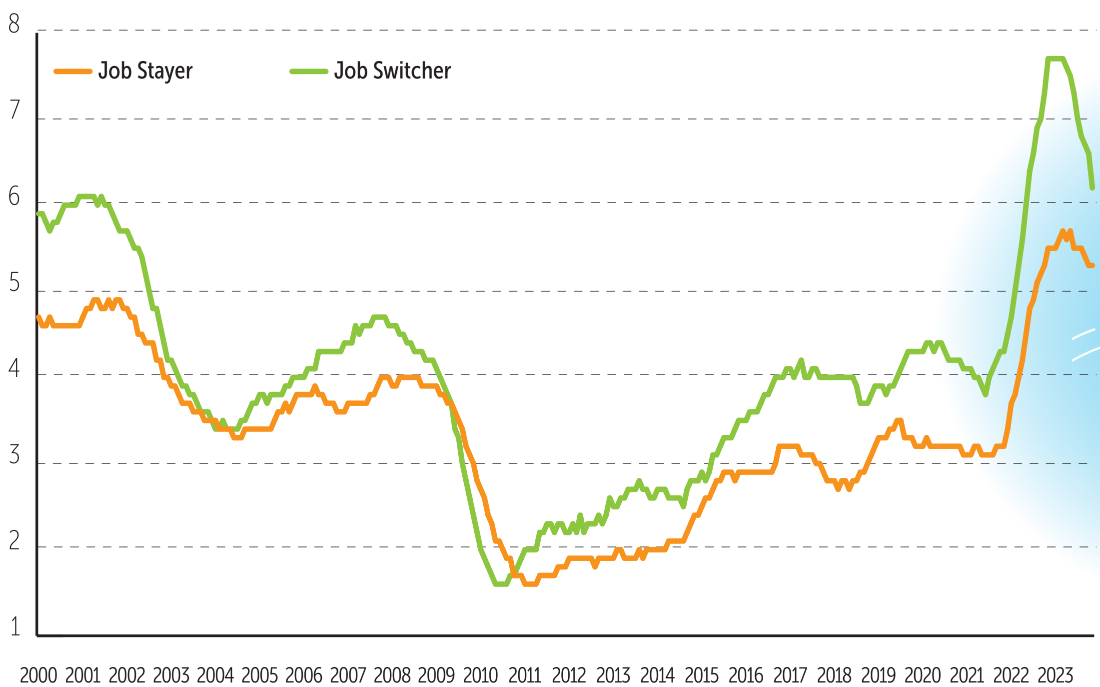
CONTACT A DATA EXPERT

ASA members are always welcome to contact the research team at 703-253-2020 or research@americanstaffing.net with questions about these findings or other ASA research. You can also tweet your questions to @StaffingData.

Figure 4: Nominal Wage Growth by Employment Status



Source: Atlanta Fed