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It’s Time to Cash In

In a global survey from October, Remote.co found that 80% of respondents said their salaries were not keeping pace with inflation.

You’re likely to find rising wages on any list of the causes of the persistent inflation since the economy began emerging from its pandemic slump. Yet there’s evidence to suggest that assertion is incorrect, with an Economic Policy Institute analysis from May 2022 concluding that “to date, the rise of inflation has unambiguously not been driven by tight labor markets pushing up wages.” In a global survey from October, Remote.co found that 80% of respondents said their salaries were not keeping pace with inflation. That and the ever-looming specter of a recession – a mid-December poll of economists by Bloomberg found 70% of them predicting one in 2023 – have many workers both concerned for the security of their current jobs and looking for higher-paying ones. That will continue to shake up the job market this year.

Remote or Back to the Office?

During previous recessions, most workers were content just to keep their jobs. Any source of income was better than no income at all. One side of that equation remains unchanged: 90% of those surveyed said they “need to work.” But a major factor is drastically different from prior downturns. Job-seekers now are not limited by geography, as many organizations have been willing to hire remotely. It allows them to draw from a deeper pool of talent, and it allows applicants to go after more job openings.

That free rein has begun to tighten for workers, though. While 63% of people in Remote.co's survey said they would "absolutely" look for a new job if they couldn't work their current job remotely and 84% listed remote work as a key factor in evaluating opportunities, there are fewer remote openings as the pendulum swings back in employers' favor.

"The greatest threat to remote work is and has always been the threat of job loss. By most indicators, we are amidst an economic recession and the job market is certainly tightening," Michael J. Romer of Romer Debbas LLP told GlobeSt.com. "Many employers are faced with the difficult challenges associated with layoffs, salary cuts, and/or freezes. Now, more than ever, employers are deeming the remote employee a luxury and potentially even an unnecessary one. To ensure job security, employees are realizing that returning to the office is the smart move."

Sticky Wages

To be sure, wages have not been stagnant over the last two years. Average pay has risen about 4.5% annually, not nearly keeping pace with inflation, but higher than the 3% to 3.5% they tended to rise before.

The Federal Reserve remains committed to raising interest rates through 2023 and has been steadfast in its goal of bringing inflation down to 2%. As a consequence, the Fed projects unemployment rates of 4.6%, up significantly from 3.7% at year's end. That means that while the labor market remains tight, it's set to loosen up.

That's the biggest reason wages haven't kept pace with inflation. Employers are hesitant to pay more in the face of inflation because they fear it will be too hard to claw back those wage rises when things settle down. And after initial hesitation to raise interest rates for what it thought to be transitory inflation, the Fed has strongly signaled its intentions to stop inflation and raised rates seven times in 2022. Knowing this, employers have been trying to hold out as long as possible.

But the consensus is that 2023 will not be the year that pay raises return to that 3% to 3.5% range. Pearl Meyer surveys of C-suite executive indicate that most plan to offer wages of 4% or higher, more in still-competitive industries such as life sciences.

"There's still this sense across industries that wage inflation is strong, there is still strong demand for talent," Pearl Meyer managing partner Bill Reilly told CNBC. "For many companies, it's still really a seller's market as it relates to employees and employment opportunities and preferences. Slightly down, but still above the historical norm."

By 2024 or 2025, Reilly suspects, those higher raises will be gone. The lesson here is, if you're angling for a better-paying job or a raise from your current employer, you had better get it while the getting's good. The high-wage window is still open, but it could swing shut at any moment.

https://thebossmagazine.com/wages-not-keeping-pace-with-inflation/