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Consumer Morsel

US labor market: changing for the better?

25 May 2022

Key talking points

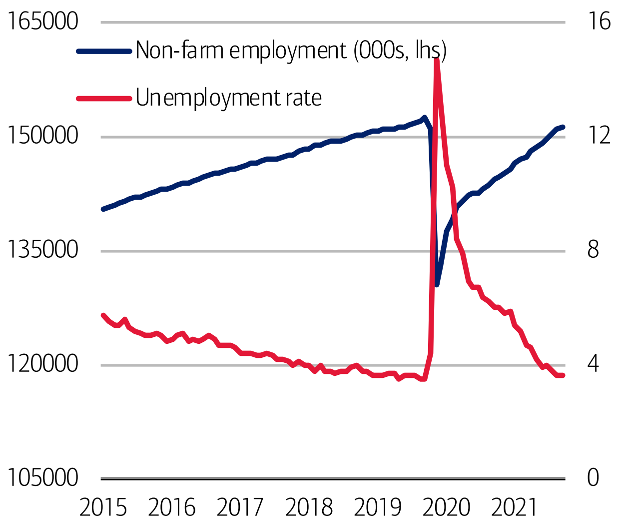
- We review anonymized Bank of America data to uncover who is benefiting most from the 'white hot' US labor market. We find younger and lower-income groups are benefiting disproportionately.
- For job changers, the pay rises have been even more significant. Again, younger workers are benefiting the most here.
- There is tentative evidence from our internal data, as well as from job listings, that labor market turnover is easing. As this occurs, pay growth should also decline somewhat.

Hot stuff – but for how long?

The US emergence from the pandemic has been accompanied by a welcome rebound in the labor market. In many respects, the rebound has gone well beyond expectations. Today's labor market has been commonly described as 'white hot', or words to that effect. This, alongside high inflation, is one of the reasons why the Federal Reserve is applying the brakes to the economy via higher interest rates.

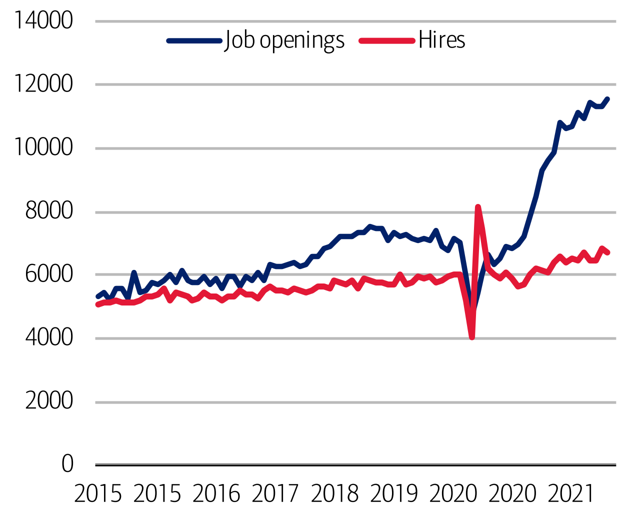
The unemployment rate in the US in the most recent data covering April was 3.6%. That is a fraction lower than it averaged in 2019, before the pandemic struck. While non-farm employment is still a little lower, with recent monthly increases in payrolls averaging over 500K, at the current rate of jobs growth the pre-pandemic level should be reached very soon.

Exhibit 1: US total non-farm employment ('000s) and unemployment rate (%)
The employment level and unemployment rate are largely back to where they were pre-pandemic



Source: Bureau of Labor Statistics

Exhibit 2: US job openings and hires ('000s)
Job openings surged to record levels in 2021 and 2022. But the job hire numbers did not rise to the same degree



Source: Bureau of Labor Statistics

One noteworthy feature of the rebound in the labor market has been the record levels of job openings in the economy. After an initial drop at the start of the pandemic, job openings began to rise from the second half of 2020. Since the middle of 2021, the number recorded in the economy has consistently been above one million. Relative to the declining number of people unemployed, this level of openings suggests that labor demand is outpacing labor supply – and this has been reflected in a pick-up in wage growth. As one might expect, industries experiencing the fastest jobs growth have tended to see the biggest increases in wages.

Against the current backdrop of the Fed raising rates and high inflation eating into consumers' spending power, there has been much commentary on the risks of the economic outlook deteriorating. The most obvious example of increased recessionary fears is probably the decline in equities markets, but the more negative sentiment can also be detected in consumer confidence.

Pay Day today, slowdown tomorrow?

We looked at aggregated Bank of America customer data for insights into labor market trends

To add some color on recent US labor market developments, we have explored Bank of America's anonymized customer data. We utilize an anonymized database that provides information on around nine million customers who have 24 months of consecutive direct deposits from an employer into their accounts. By looking closely at the data we are also able to identify those customers who have changed jobs and whether they have received a pay rise by doing so. Customers who have lost a job or have some discontinuity in direct deposits are not included in the database so as not to bias the results. By learning more about the nature of the current labor market, we hope to shed some light on what a slowdown may look like.

So what have we found? Positive real pay growth

In our data we compare the annual pay rise we see over the period May 2021 to April 2022 against the preceding 12 months (May 2020 to April 2021). Over this period we find the total pay rise to be a healthy 9.2%. Bear in mind this reflects the change in **net** pay, after taxes and deductibles, and is not directly comparable to official Bureau of Labor Statistics (BLS) data. The BLS data on pay usually gets quoted on an average hourly earnings basis, while our data will reflect rises in hourly pay combined with any rises in average hours, along with any changes in taxes.

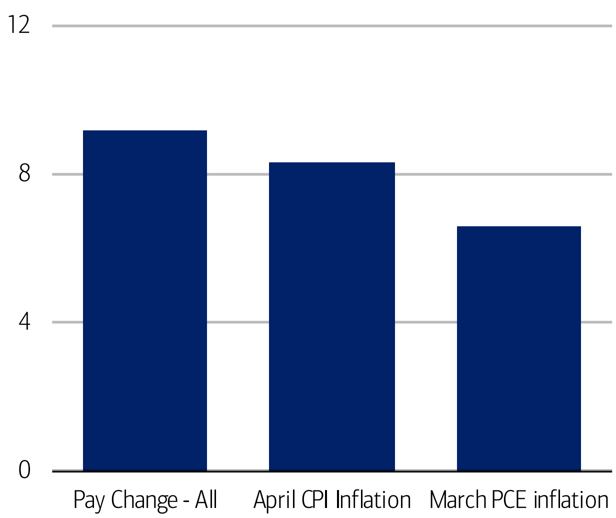
Looking at Exhibit 3, it is noteworthy that the rise in net pay exceeds the rate of both CPI and PCE inflation in April. This means that real pay growth was positive over this period for those customers in the database.

Younger people are reaping the most benefit

When we cut the data by age group we find it is younger generations that are experiencing the largest pay rises. Generation Z (aged up to 25) and Millennials (aged 26-41) received pay increases of 19.9% and 11.3%, respectively, over this period. Some of the Gen Z rise will simply reflect that people in this group are embarking on their career journeys from education, which inevitably involves significant pay changes. But it is noteworthy that Millennials appear to experiencing higher net pay rises over Gen X (42-57) – it is Gen X where median pay is highest, so it appears Millennials are achieving some catch-up.

Exhibit 3: Annual pay change, May 2021-April 2022, compared to CPI and PCE inflation (%)

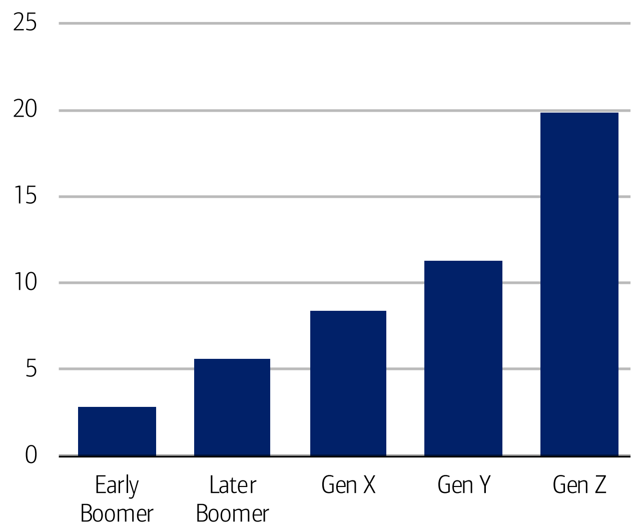
Pay change in the Bank of America deposit dataset shows an annual increase larger than inflation



Source: Bank of America Internal Data, Bureau of Labor Statistics, Bureau of Economic Analysis

Exhibit 4: Annual pay change by age cohort (%) May 2021-April 2022

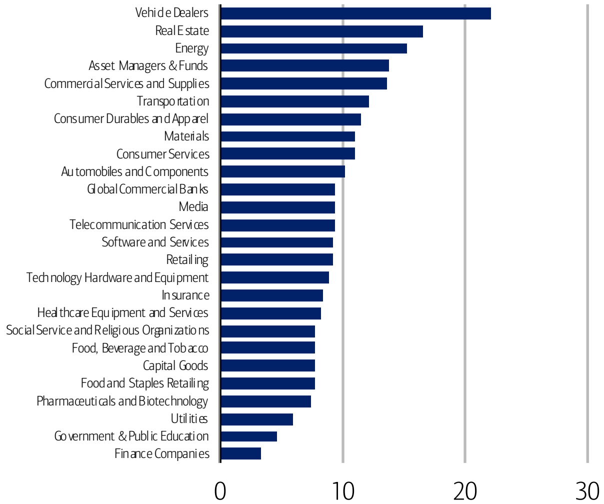
Younger generations have been receiving the highest pay rises



Source: Bank of America Internal Data

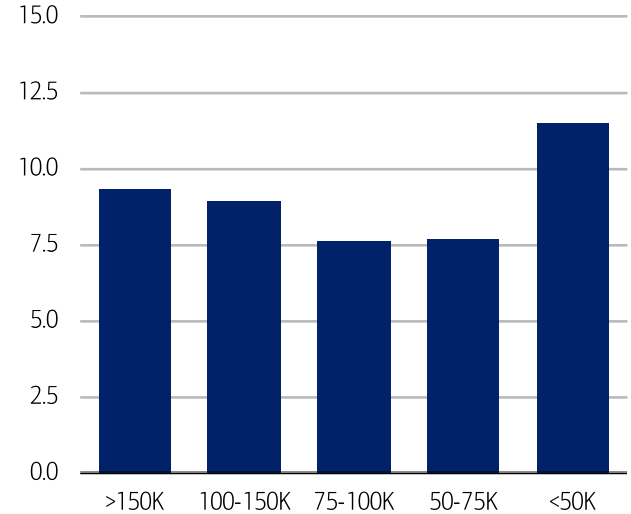
When we cut the data by industry (Bank of America definitions), we see some stand-out sectors. For example those working in vehicle dealerships, real estate, commercial services and supplies, energy and transportation are all experiencing very strong pay growth. In many ways, this is no surprise as these are areas where the economy has been doing well.

Exhibit 5: Annual pay change (May 2021-April 2022) by employer industry
People working in vehicle dealerships, real estate and energy received the largest pay increases



Source: Bank of America Internal Data

Exhibit 6: Annual pay change (May 2021-April 2022) by income range ($'000)
Lower-income customers have received higher pay rises than other income categories



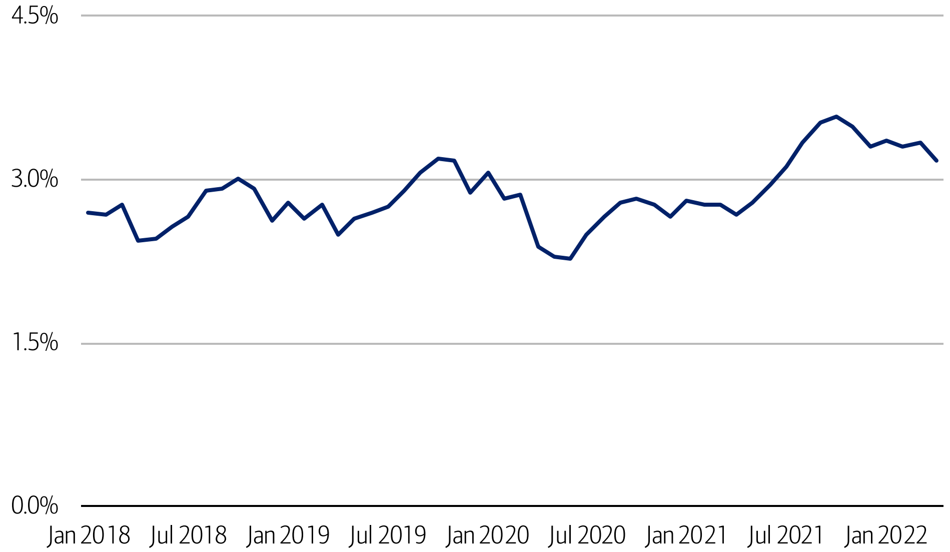
Source: Bank of America Internal Data

The lowest paid saw the biggest rises
Overall we find that the net pay increases in the data have been larger for those at the ends of the income distribution. Those earning below $50,000 have seen an average pay rise of 11.5%, while those with incomes just above this threshold have received a 7.7% rise. Those earning above $150,000 also appear to have received slightly higher pay increases than people in the middle of the distribution, though this could just be 'noise'.

Best way to secure a rise? Change jobs
Bank of America anonymized data can also be used to analyze those who have experienced a job change. We do this by looking for people who have had a change of employer in their monthly deposits. As Exhibit 7 shows, we find our data exhibits a similar pattern to the official BLS data on 'quits' here, with a rise in quits/job changes over the course of the pandemic (particularly since 2021). However, in the Bank of America data there are signs that this rise has peaked – and perhaps even started to decline somewhat.

Exhibit 7: Customer job change rate (%)

From mid-2021 there has been a surge in job changes. But this may now have peaked



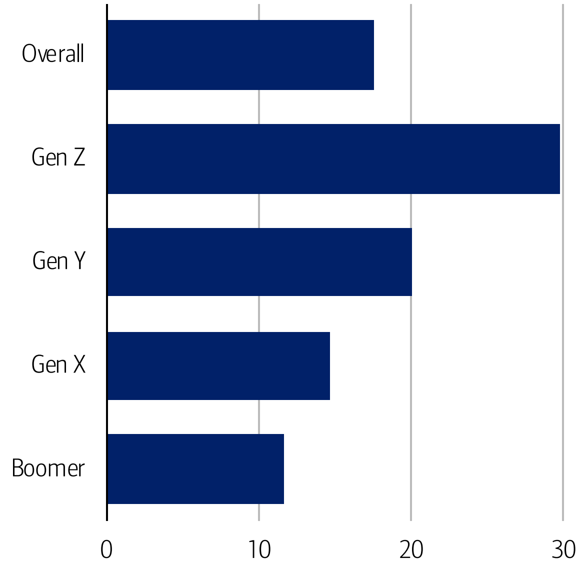
Source: Bank of America Internal Data, data through April 22

We find that the average pay rise associated with job moves is around 17.6%. In other words, and perhaps unsurprisingly, it has paid off to move jobs. And on an age basis, the younger generations appear to have done exceptionally well by switching jobs. Gen Z job changers have secured an average 29.7% rise, while Millennials have received 20.0%.

Looking at the detail of the data on job changes, it appears that over the past six months these are skewed towards the younger generations: around 16% of those in Gen Y appear to have changed jobs. Likely a related point is that job changes have tended to be made by those on lower incomes, with those earning below $50,000 showing a particular tendency to move.

Exhibit 8: Annual pay change (May 2021-April 2022) for customers changing job (%)

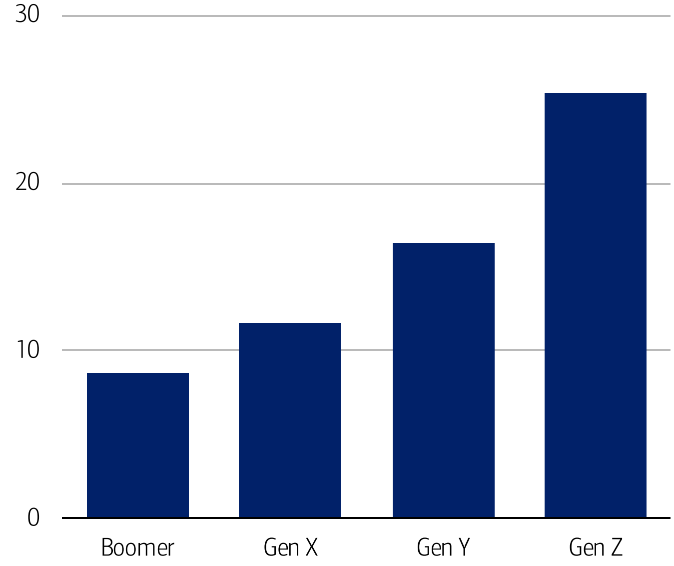
Younger age cohorts have received large pay rises when changing job



Source: Bank of America Internal Data

Exhibit 9: % of customers changing job over past six months by age cohort

Younger age cohorts are proportionately more likely to have changed job over the past six months



Source: Bank of America Internal Data

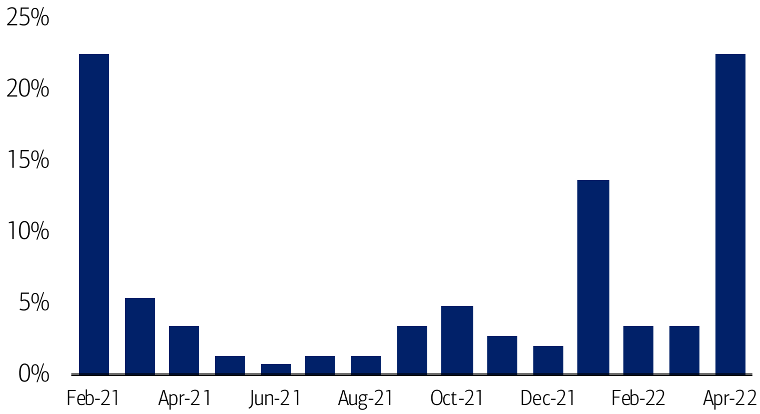
Consumer data can help give us clues on labor market trends

These findings can give us important insights into how the labor market may develop going forward. For example, should job openings decline back to more 'normal' levels, then we would expect the elevated level of job changes/quits also to recede. Indeed, if economic uncertainty rises amongst workers, they may in any case feel less inclined to risk a job move. Given wage growth amongst job changers has been very high, this development will be a contributory factor in slowing overall pay pressures.

As noted above, the very latest Bank of America data on the number of job changes suggest they have at least peaked. There are even signs of a drop, but it is too early to be sure this isn't 'noise' or seasonality. However, Global Research Economics' measure of new job listings (using data from Revelio Labs – so a measure of labor demand – has also shown signs of a decline, with a drop in the April data across a wide number of industries. Some high profile retailers and tech companies have also suggested a slowdown in hiring recently.

Exhibit 10: Share of industries with yoy decline in new job postings (%)

In April 2022, 22.5% of Revelio industries recorded a yoy decline in job postings, highest since Feb 21



Source: Revelio Labs, BofA Global Research

The beginning of a cooling-off? Perhaps – watch this space

It could then be that this early-stage indicator of labor demand and our own internal data are suggesting that the 'white hot' labor market is beginning to cool. But it is early days and we will continue to monitor and report on this Bank of America data as things develop.

Contributors:

David Tinsley

Director, Bank of America Institute

Sources:

Dale Lin

Quantitative Finance Manager, Global Risk Analytics

Methodology

Selected Bank of America ("BAC") transaction data is used to inform the macroeconomic views expressed in this report and should be considered in the context of other economic indicators and publicly available information. In certain instances, the data may provide directional and/or predictive value. The data used is not comprehensive; it is based on aggregated and anonymized selections of Bank of America data and may reflect a degree of selection bias and limitations on the data available.

The payroll and tax direct deposit data based on the BAC internal data is derived by anonymizing and aggregating direct deposit data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Additional information about the methodology used to aggregate the data is available upon request.

Disclosures