

Discussion: Wages and Inflation

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Summary of paper

Do inflation expectations affect job search behavior and job transitions?

- Why would we expect this?
 - Inflation lowers real wages
 - This provides workers with an incentive to increase their wages through an outside offer
- Helps explain:
 - Job search mechanisms
 - Inflation dynamics
 - Self-reinforcing wage-price spirals
- This paper:
 - Empirical evidence
 - Explanatory model

This paper: yes, inflation expectations matter

Summary of paper





Data

- *Survey of Consumer Expectations* from the NY Fed
 - Representative sample, households stay in for up to 12 months
 - Monthly survey: macroeconomic expectations, finances, employment, and demographics
 - March, July, November: labor market survey

- Main survey responses of interest:
 - Inflation expectations:**
 - Point estimates: *What do you expect the rate of [inflation/deflation] to be over the next 12 months? Please give your best guess.*
 - Density estimates: *Now we would like you to think about the different things that may happen to inflation over the next 12 months. We realize that this question may take a little more effort. In your view, what would you say is the percent chance that, over the next 12 months...*
 - 12% or higher, between 8% and 12%, between 4% and 8%, between 2% and 4%, between 0% and 2%
 - Job search and transition:**
 - *Have you looked for [work/new work] in the last four weeks?*
 - Month and year that current employment began [within the last four months/since last labor market survey]

Summary of paper

Results

- Probit model with controls for demographic characteristics, labor market expectations, and macroeconomic expectations
-  1 p.p. in expected inflation →  0.66% in probability of job search
 - Only for currently employed respondents
 - Very robust
-  1 p.p. in expected inflation →  0.21% in probability of job transition
 - Effect goes away when controlling for job search

Model

- On-the-job search with fixed nominal wage contracts
 - Wages depend on: productivity of the worker's current firm, the current price level, and a benchmark from last negotiation (the then-productivity and then-price level)
- As inflation increases, the real value of the outside option declines, reducing the worker's bargaining power
 - Therefore, better for workers if offers arrive more frequently, allowing the negotiation benchmark to reflect recent and higher price levels

Comments

Question set #1: Mechanism

- What causes some workers to have higher inflation expectations?
 - Who is making the error?
 - Omitted variables?
- Are the job searchers persistently higher job searchers?
- Some potential groups to look at:
 - Those who have changed their own inflation predictions across surveys relative to the mean
 - Those whose predictions deviate from recent inflation experiences
- It would be nice to find some exogenous change in inflation expectations, e.g. in a specific region

Comments

Question set #2: Interpretation

- New search or mid-search? How would these results change?
- How does the 0.66% compare to other macroeconomic job search factors?
 - How would this affect overall worker flow?
- Do the results change depending on baseline inflation forecast?

Comments

Question #3: the “Great Resignation”

- How does this relate to pandemic-era job search and inflation dynamics?



Top reasons why U.S. workers left a job in 2021: Low pay, no advancement opportunities

Among those who quit a job at any point in 2021, % saying each was a ___ why they did so

| | Major reason | Minor reason | Net |
|---|--------------|--------------|-----|
| Pay was too low | 37 | 26 | 63 |
| No opportunities for advancement | 33 | 30 | 63 |
| Felt disrespected at work | 35 | 21 | 57 |
| Because of child care issues* | 24 | 24 | 48 |
| Not enough flexibility to choose when to put in hours | 24 | 21 | 45 |
| Benefits weren't good** | 23 | 20 | 43 |
| Wanted to relocate to a different area | 22 | 13 | 35 |
| Working too many hours | 20 | 19 | 39 |
| Working too few hours | 16 | 14 | 30 |
| Employer required a COVID-19 vaccine | 8 | 10 | 18 |

*Among those with children younger than 18 living in the household.
 **Question provided health insurance and paid time off as examples.
 Note: Figures may not add to subtotals due to rounding.
 Source: Survey of U.S. adults conducted Feb. 7-13, 2022.

PEW RESEARCH CENTER

Thank you!

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