

## Consumer Morsel

# Signs of a broadening labor market slowdown?

16 November 2023

### Key takeaways

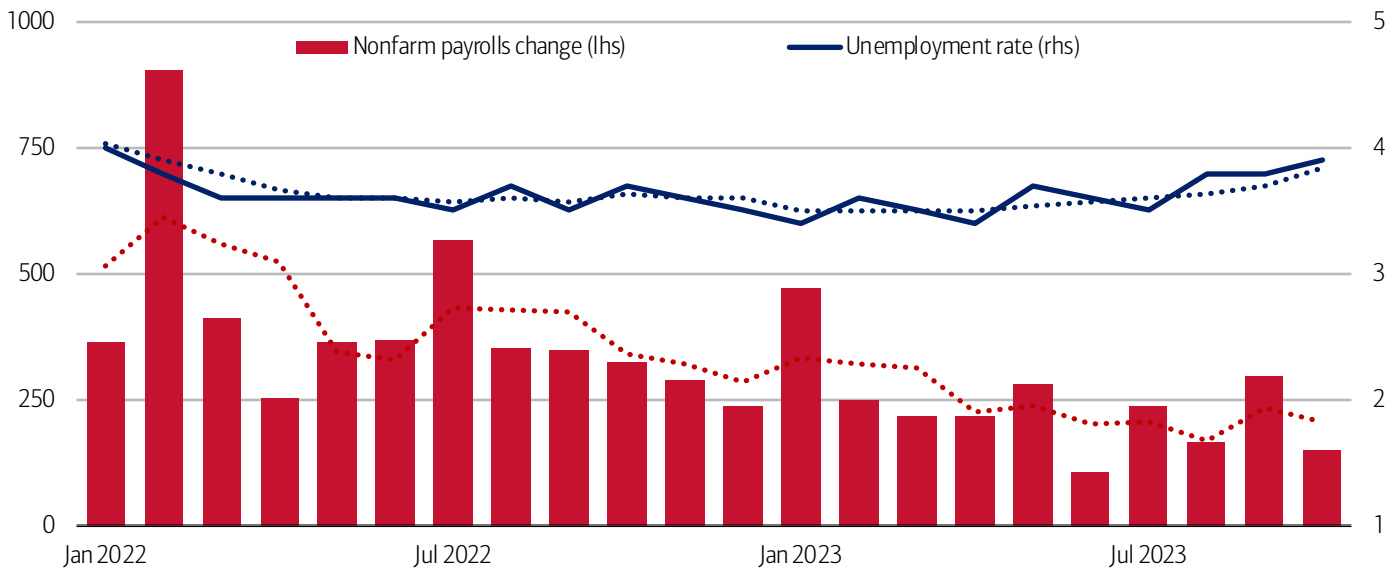
- Bank of America internal data suggests the labor market is slowing. And while the slowdown is gradual, our internal data suggests that its impact has broadened.
- There has been a rise in 'pay disruptions' in our data over 2023, which is likely consistent with rising unemployment. While at first this was a higher-income story, it now appears to be extending to middle- and lower-income cohorts. Finance, Media and Tech are the industries with the biggest rise in disruptions.
- We also see a significant slowdown in job-to-job moves, consistent with slower hiring and people's reluctance to move against an uncertain backdrop. And for those that do take the leap, our data suggests the associated pay rise has softened, though for higher-income workers we see some signs of a strengthening in pay rises in the most recent data.

## A slow slowdown

Recent data suggests the US labor market is starting to cool, albeit gradually. The Bureau of Labor Statistics (BLS) shows the October unemployment rate was 3.9%, up from the 3.4% low recorded at the start of 2023. Meanwhile, so far, the second half of this year is tending to deliver nonfarm payroll growth below that seen in the first half (Exhibit 1).

### Exhibit 1: Change in nonfarm payrolls and the unemployment rate ('000s, %, dotted lines = three-month averages)

An uptick in the unemployment rate and slowing payrolls growth suggests the labor market is cooling



Source: Bureau of Labor Statistics

BANK OF AMERICA INSTITUTE

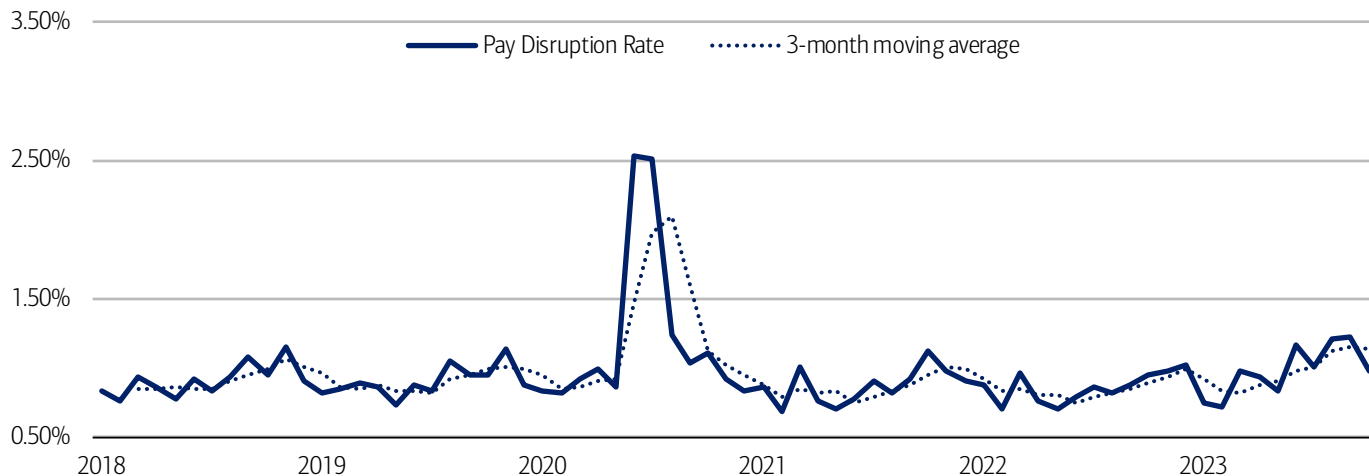
How significant is the slowdown in the US labor market and is it broadly based? Bank of America internal data provides additional insights. So, what are we seeing?

# 1) Pay disruptions have been rising over most of 2023

Using Bank of America data, we define the 'Payroll Disruptions Rate' as the proportion of customers who previously had 12 months of regular payroll payments into their accounts, but then had three months of no payments, relative to the total number of customers with 12 consecutive months of payroll. Exhibit 2 shows that this rate has been rising over most of 2023. Even with a drop back in the latest October data, the Payroll Disruptions Rate is higher than before the two years prior to the pandemic.

## Exhibit 2: Pay disruptions rate (%)

The pay disruptions rate has been rising in 2023



Source: Bank of America internal data. Data to October 2023.

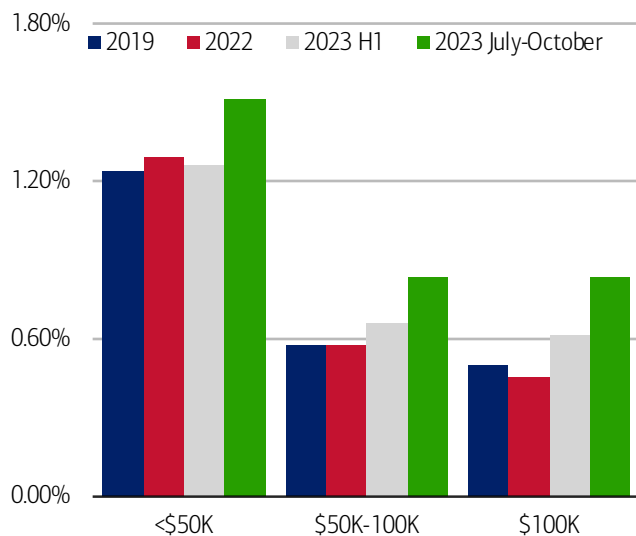
A pay disruption is defined as 12 months of income into a customer account followed by three months of no income

BANK OF AMERICA INSTITUTE

Pay disruptions will likely occur for a number of reasons. Most obviously if someone loses their job and takes over three months to find another. If someone exited their job for other reasons, such as the need to take care of children, this would also increase the Payroll Disruptions Rate, as would someone taking over three months to set up a direct payment into their account. But a persistent rise in the rate, is likely to indicate a weakening labor market. It remains to be seen if the October drop is just noise, or a more consequential break in the upward trend.

## Exhibit 3: Pay disruptions rate by income (%)

Both lower- and higher-income groups saw a rise in the pay disruptions rate in Q3 2023

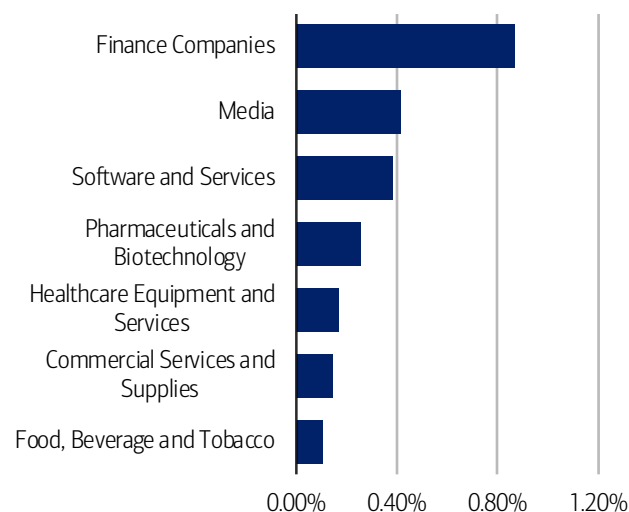


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

## Exhibit 4: Industries with large rises in pay disruptions rate in 2023 relative to 2022 (pp change January 2023-October-2023 relative to 2022 average).

Finance, Media and IT are the three industries with the largest rises in the pay disruptions rate in 2023



Source: Bank of America internal data. Exhibit shows industries where the pay disruption rate is larger than 0.1pp.

BANK OF AMERICA INSTITUTE

Interestingly, when we look at the Pay Disruptions Rate by income, it appears that the rise started with higher-income groups but is now broadening. Exhibit 3 shows that pay disruptions for higher-income customers started increasing in the first half of 2023 relative to 2022 and have risen again over the July-October period as a whole. On the other hand, there was no rise in the Pay Disruptions Rate in the first half of 2023 among lower-income customers, but in the second half of 2023 so far, the rate is higher.

Looking by industry, Exhibit 4 shows the largest rises in the Pay Disruptions Rate in 2023 are taking place in Finance, Media and IT. But a number of other industries are also feeling the impact.

## 2) Job-to-job moves are dropping

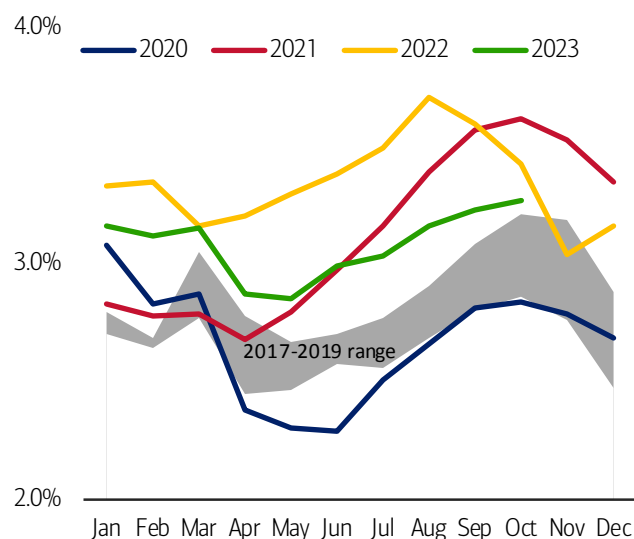
Another sign of a slowing labor market is people not moving between jobs. This could be because firms are slowing their hiring, or because people are deciding that staying put is the safest option in a more uncertain economy. We use aggregated and anonymized Bank of America account data across millions of customers to identify the rate at which people are making these job-to-job (j2j) changes, essentially by looking for payroll changes in accounts.

These j2j moves are fairly seasonal – a lot of people move jobs around September/October – so we compare similar periods across several years in Exhibit 5. Our data shows that j2j moves are well down this year from 2021 and 2022, though still higher than in 2017-2019.

When we look by generation (Exhibit 6), all cohorts have seen a drop in their j2j rate compared with 2022, but the biggest declines are among the younger generations. It may be that after the ‘great resignation’ younger people are finding it harder to move, or that the relative returns to staying in their current role are more attractive.

**Exhibit 5: Job to job change rate (% , monthly)**

J2j moves have slowed significantly in 2023 compared to 2022

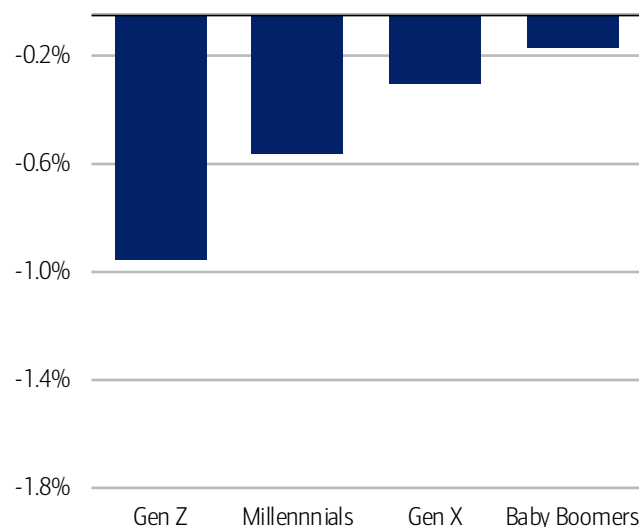


Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

**Exhibit 6: YoY change in j2j rate by age generation (pp, October data)**

Younger generations have seen the biggest drop in job change rates



Source: Bank of America internal data

BANK OF AMERICA INSTITUTE

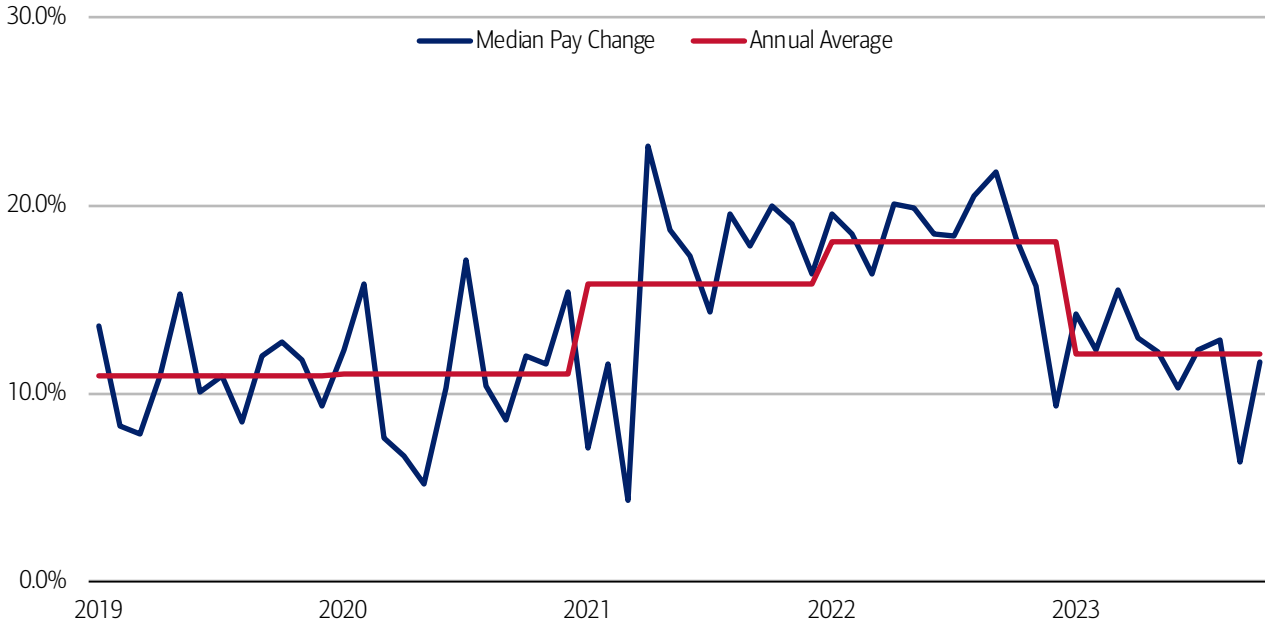
Our recent [On the Move](#) publication showed that there is also a geographical spread in where people are moving for work. In the third quarter, Boston (MA) and Portland (OR) are more likely to see population inflow due to job changes, while San Francisco has one of the lowest share of job changers among movers into the city.

## 3) Pay raises on a job change are sharply lower

Another reason fewer workers may be changing jobs is that the median j2j pay rise has dropped sharply (Exhibit 7). This is consistent with the slowing labor market we see in our Pay Disruptions Rate and j2j rates. Over July to October 2023, we estimate the median pay raise from a j2j move was 10.8%, significantly lower than the average of 18% in 2022, as well as below the 12.9% average of the first half of 2023. The pay rise for moving between jobs is back where it was before the pandemic, as the 2019 figure was 10.9%.

**Exhibit 7: Median pay raise for job-to-job movers (% YoY)\***

Pay rises for j2j moves appear to be declining sharply

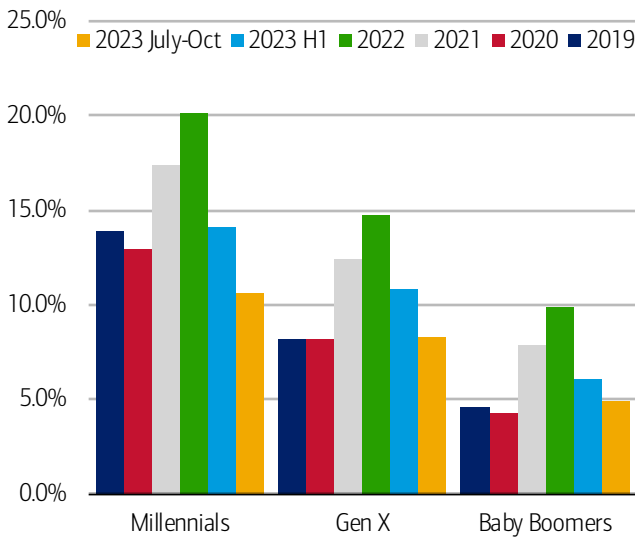


Source: Bank of America internal data. Data to October 2023. \*Calculated as the change in pay in the three months from a job move compared to pay over the same three months a year earlier. BANK OF AMERICA INSTITUTE

When we look by generation and by income, Millennials are seeing the largest drop in the associated j2j pay rise (Exhibit 8). By income, interestingly, we see the largest decline versus 2022 amongst middle-income cohorts (Exhibit 9). And over the July to October period there appears to have been some rebound in the pay rise for a j2j move for a higher earner.

**Exhibit 8: Median pay raise for job-to-job movers by generation (% YoY)**

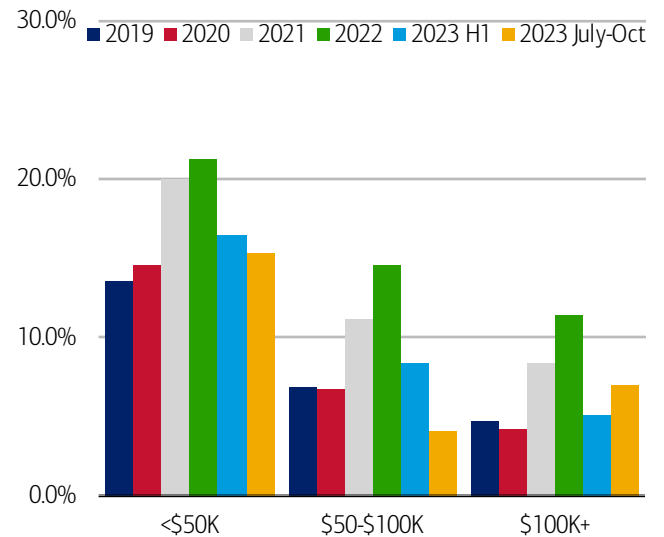
The biggest drop in the median j2j pay rise is in Millennials



Source: Bank of America internal data. BANK OF AMERICA INSTITUTE

**Exhibit 9: Median pay raise for job-to-job movers by income (% YoY)**

Lower-income cohorts have a smaller drop in the j2j pay rise



Source: Bank of America internal data. BANK OF AMERICA INSTITUTE

Overall, Bank of America internal data suggests that the labor market is continuing to cool, though relatively gradually. But perhaps most interestingly, there appears to be some evidence that this slowdown is broadening into lower- and middle-income groups, while the hiring market for higher-income workers may have improved.

## Methodology

Selected Bank of America 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.

Any payments data represents aggregated spend from US Retail, Preferred, Small Business and Wealth Management clients with a deposit account or credit card. Aggregated spend include total credit card, debit card, ACH, wires, bill pay, business/peer-to-peer, cash and checks.

Any **Small Business** payments data represents aggregate spend from Small Business clients with a deposit account or a Small Business credit card. Payroll payments data include channels such as ACH (automated clearing house), bill pay, checks and wire. Bank of America per Small Business client data represents activity spending from active Small Business clients with a deposit account or a Small Business credit card and at least one transaction in each month. Small businesses in this report include business clients within Bank of America and generally defined as under \$5mm in annual sales revenue.

Unless otherwise stated, data is not adjusted for seasonality, processing days or portfolio changes, and may be subject to periodic revisions.

The differences between the total and per household card spending growth rate can be explained by the following reasons:

1. Overall total card spending growth is partially boosted by the growth in the number of active cardholders in our sample. This could be due to an increasing customer base or inactive customers using their cards more frequently.
2. Per household card spending growth only looks at households that complete at least five transactions with Bank of America cards in the month. Per household spending growth isolates impacts from a changing sample size, which could be unrelated to underlying economic momentum, and potential spending volatility from less active users.
3. Overall total card spending includes small business card spending while per household card spending does not.
4. Differences due to using processing dates (total card spending) versus transaction date (per household card spending).
5. Other differences including household formations due to young adults moving in and out of their parent's houses during COVID.

Any household consumer deposit data based on Bank of America internal data is derived by anonymizing and aggregating data from Bank of America consumer deposit accounts in the US and analyzing that data at a highly aggregated level. Whenever median household savings and checking balances are quoted, the data is based on a fixed cohort of households that had a consumer deposit account (checking and/or savings account) for all months from January 2019 through the most current month of data shown.

Bank of America aggregated credit/debit card spending per household includes spending from active US households only. Only consumer card holders making a minimum of five transactions a month are included in the dataset. Spending from corporate cards are excluded. Data regarding merchants who receive payments are identified and classified by the Merchant Categorization Code (MCC) defined by financial services companies. The data are mapped using proprietary methods from the MCCs to the North American Industry Classification System (NAICS), which is also used by the Census Bureau, in order to classify spending data by subsector. Spending data may also be classified by other proprietary methods not using MCCs.

Generations, if discussed, are defined as follows:

1. Gen Z, born after 1995
2. Younger Millennials: born between 1989-1995
3. Older Millennials: born between 1978-1988
4. Gen Xers: born between 1965-1977
5. Baby Boomer: 1946-1964
6. Traditionalists: pre-1946

The Pay Disruptions Rate is defined as the proportion of customers who previously had 12 months of regular payroll payments into their accounts, but then had three months of no payments, relative to the total number of customers with 12 consecutive months of payroll.

The job-to-job change rate (j2j rate) is defined as the proportion of customers with an identified change in their employer as a proportion of the total number of customers.

We estimate the median pay rise associated with a j2j change using the pay in the latest three month period compared to the same three months a year ago.

Any reference to card spending per household on gasoline includes all purchases at gasoline stations and might include purchases of non-gas items.

Additional information about the methodology used to aggregate the data is available upon request.

## **Contributors**

### **David Michael Tinsley**

Senior Economist, Bank of America Institute

## **Sources**

### **Adam Zeid**

Quantitative Finance Analyst, Global Risk Analytics

### **Dale Lin**

Senior Quantitative Finance Manager, Global Risk Analytics

# Disclosures

These materials have been prepared by Bank of America Institute and are provided to you for general information purposes only. To the extent these materials reference Bank of America data, such materials are not intended to be reflective or indicative of, and should not be relied upon as, the results of operations, financial conditions or performance of Bank of America. Bank of America Institute is a think tank dedicated to uncovering powerful insights that move business and society forward. Drawing on data and resources from across the bank and the world, the Institute delivers important, original perspectives on the economy, sustainability and global transformation. Unless otherwise specifically stated, any views or opinions expressed herein are solely those of Bank of America Institute and any individual authors listed, and are not the product of the BofA Global Research department or any other department of Bank of America Corporation or its affiliates and/or subsidiaries (collectively Bank of America). The views in these materials may differ from the views and opinions expressed by the BofA Global Research department or other departments or divisions of Bank of America. Information has been obtained from sources believed to be reliable, but Bank of America does not warrant its completeness or accuracy. Views and estimates constitute our judgment as of the date of these materials and are subject to change without notice. The views expressed herein should not be construed as individual investment advice for any particular client and are not intended as recommendations of particular securities, financial instruments, strategies or banking services for a particular client. This material does not constitute an offer or an invitation by or on behalf of Bank of America to any person to buy or sell any security or financial instrument or engage in any banking service. Nothing in these materials constitutes investment, legal, accounting or tax advice. Copyright 2023 Bank of America Corporation. All rights reserved.