

Consumer Morsel

What lies beneath: 4 key findings on the labor market

30 May 2023

Key takeaways

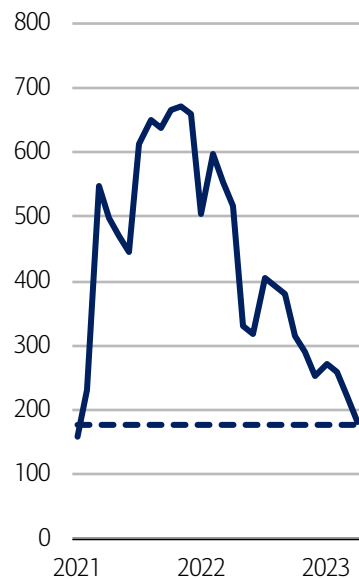
- The overall US labor market remains strong and resilient, but is there anything going on beneath the surface that tells a different story? Using Bank of America internal data we make four key findings.
- First, we find evidence that the rate of job-to-job (j2j) changes is slowing. Second, we see signs that the raises people are getting from switching jobs are cooling. Third, higher-income and younger workers appear to be softening most.
- Finally, we look at movements out of employment and find that while overall outflows are broadly unchanged relative to 2019, they are becoming significantly more skewed towards higher earners.

The labor market remains resilient

After the severe economic disruption caused by the pandemic, the US labor market has been recovering strongly. As Exhibit 1 through Exhibit 3 indicate, private payroll growth remains robust, while the unemployment rate has fallen to low levels. Job openings in the economy also remain relatively high relative to pre-pandemic levels, even if they are falling back somewhat.

Exhibit 1: Change in private payrolls (3-month moving average, '000s)

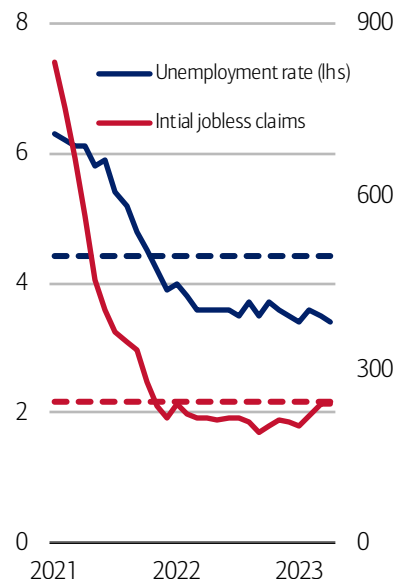
Payroll growth has slowed but remains robust..



Source: Haver Analytics
Dotted lines in Exhibit 1-3 are 2015-2019 averages for respective series

Exhibit 2: Unemployment rate and initial jobless claims (% , '000s on rhs)

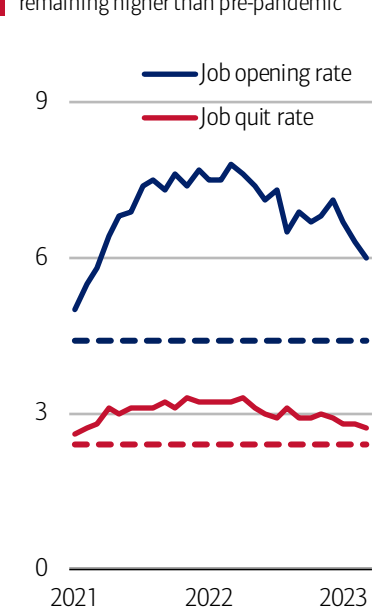
...while the unemployment rate remains low...



Source: Haver Analytics

Exhibit 3: Job opening and quit rate (% , seasonally-adjusted)

...with the job openings rate declining but remaining higher than pre-pandemic



Source: Haver Analytics

But what's going on underneath the surface? We've used Bank of America data to look for any early signs of weakening and uncovered four main findings:

Finding #1: Job-to-job (j2j) flows are slowing...

It's relatively difficult to assess people making job-to-job (j2j) moves, as surveys asking just about employment status don't pick up on job changers when they are consistently employed and such surveys need to be very large to produce useful estimates of job-to-job flows.

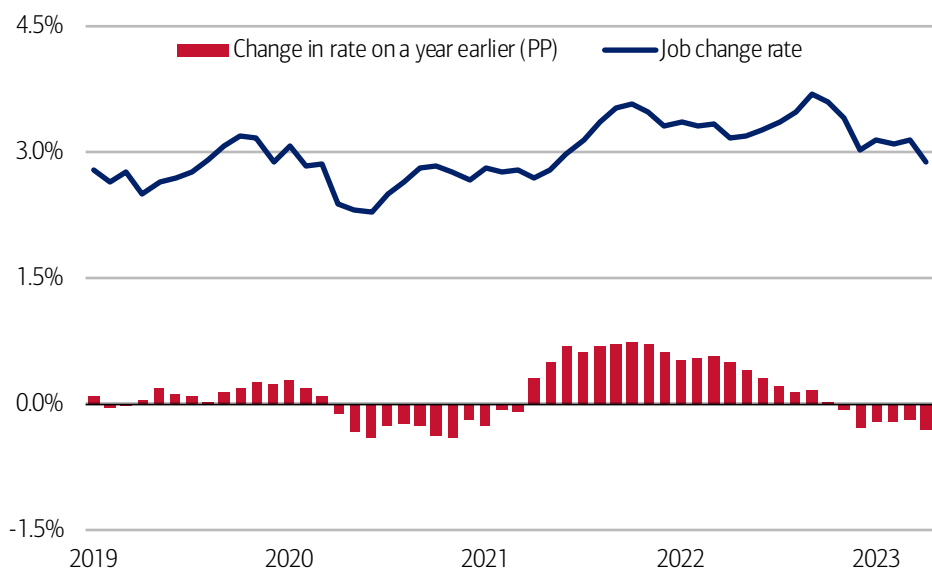
However, we can use aggregated and anonymized Bank of America account data across millions of customers to identify the rate at which people are making these j2j changes.

Exhibit 4 shows an estimated j2j rate from Bank of America data, which we estimate to be around 3% on average over the sample. The j2j rate rose over the 2021-2022 period, known as the 'great resignation', when the economy was re-opening after the pandemic and the labor market started to really accelerate. Previously published research from the PEW Research Center also estimated a similar sized rise in the j2j rate in 2021 and 2022.

More recently, we saw a downshift in the j2j rate, indicating fewer people are moving between jobs. This started in the fourth quarter of 2022 and appears to be continuing. While the current j2j rate is well off the post-pandemic high, it is not back to 2019, pre-pandemic levels.

Exhibit 4: Job change rate (%)

The j2j rate is only showing very tentative signs of dropping back



Source: Bank of America internal data

The fact that the job change rate appears to be declining, but remains higher than 2019, is consistent with the findings in the [May Small Business Checkpoint](#), which showed the number of small business job openings declining but still 35% higher than in 2019.

Finding #2: The pay raise for job changers is declining

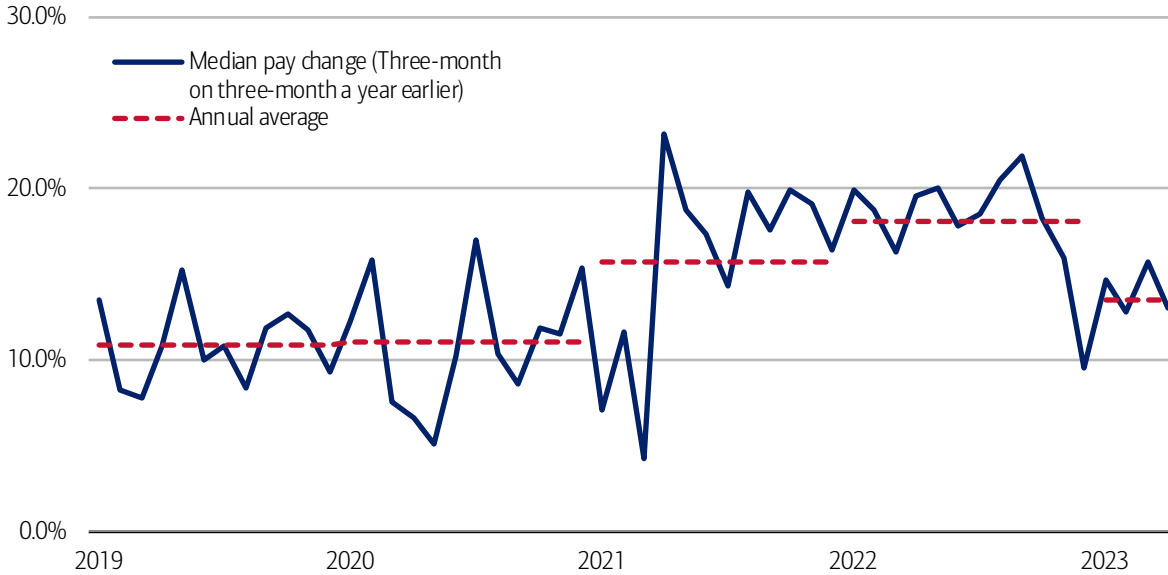
With signs that j2j moves are moderating, we also find the pay raise that job movers are getting is declining.

Exhibit 5 shows an estimate using Bank of America data of the pay raises people are getting when they make a j2j move. Pre-pandemic, it appears job changers were receiving around a 10% rise. Then, when the great resignation was in full swing this appears to have risen to 20%. But as of April 2023, pay raises moderated to 13%.

Annual inflation has dropped from a peak of around 9% in mid-2022 to 4.9% in April 2023, so some of the moderation in job change wage increases might reflect this. But it appears plausible that there is some moderation in pay growth over and above this impact, which may reflect a loosening labor market and therefore a job-changers' bargaining power is less than it was at the peak of the great resignation.

Exhibit 5: Median pay raise for job-to-job movers (% YoY)*

We see signs that the pay raise people receive when they change jobs is moderating



Source: Bank of America internal data

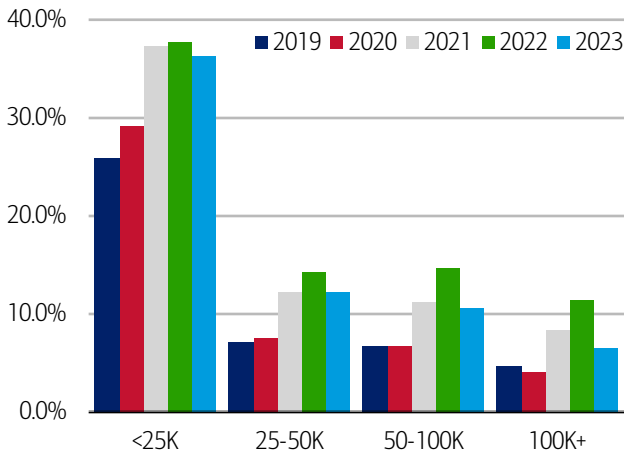
*Calculated as the change in pay in the three months from a job move compared to pay over the same three months a year earlier. See methodology for details.

Finding #3: Younger generations and higher-income earners are seeing the biggest softening in j2j pay raises

Exhibit 6 shows that the largest drop back in job-to-job pay growth appears to be at the higher end of the income distribution, which is consistent with demand in this part of the labor market softening more than that of lower-paying jobs. And we find the biggest deceleration is among Gen Z and Millennials (Exhibit 7). Taken together, these findings suggest that younger workers in relatively better paid jobs may be experiencing the biggest moderation in labor market conditions.

Exhibit 6: Median pay raise for job-to-job moves by income (% YoY, annual average)

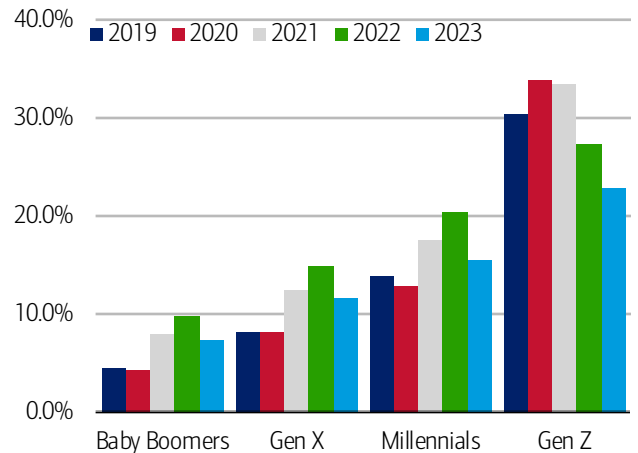
The biggest slowdown in job-to-job pay growth appears at the higher end of the income distribution



Source: Bank of America internal data

Exhibit 7: Median pay raise for job-to-job moves by age generation (% YoY, annual average)

Younger generations appear to be experiencing steeper drops in job-to-job pay growth



Source: Bank of America internal data

Finding #4: Higher earners are leading flows out of employment

What about flows of people out of employment rather than into new jobs?

Exhibit 8 shows a measure of the 'payroll disruptions rate' using Bank of America data, which we define 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 getting twelve consecutive months payroll.

Such disruptions are likely to partly reflect labor market conditions and we can clearly see the pandemic-related labor market stress, with the large spike in disruptions in 2020. In 2023, we see that the disruption rate is in line with that in 2019, which is consistent with the buoyancy of the overall labor market.

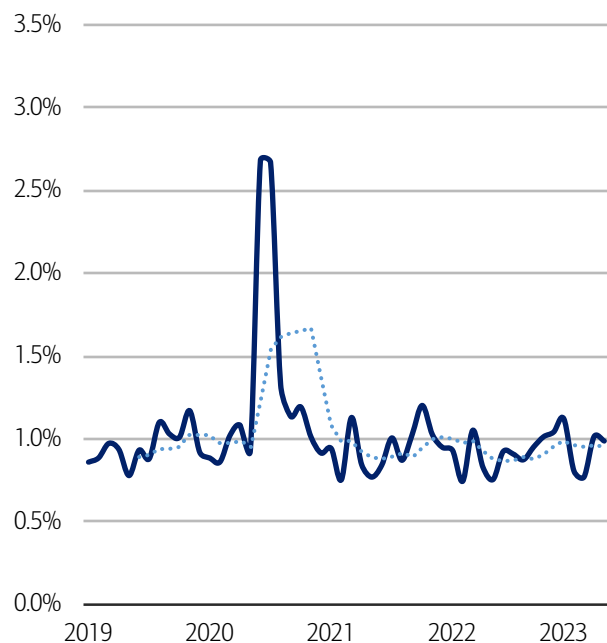
When we split these disruptions by income (Exhibit 9) we find that the share of pay disruptions among higher-income customers is rising sharply, but falling for lower-income customers, suggesting that the higher-income end of the labor market is softening much more significantly than the lower end.

Because higher-income consumers tend to contribute more to overall consumer spending, this differential mix of labor market outcomes may imply a slightly weaker outlook for both consumer spending and the broader economy than overall labor market flows might suggest.

This approach arrives at a very similar conclusion to the evidence we published in the [May Consumer Checkpoint](#), which highlighted that unemployment payments going into higher-income accounts were rising much faster than for lower-income households.

Exhibit 8: Pay disruptions rate (%)

The pay disruption rate in 2023 is little changed compared to 2019

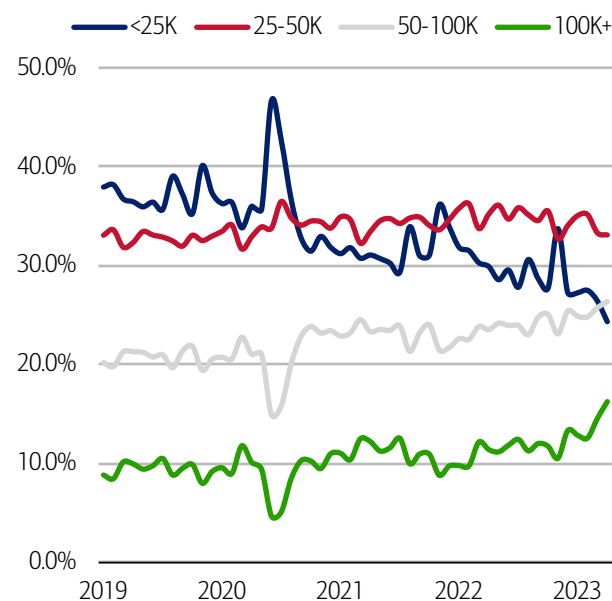


Source: Bank of America internal data

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

Exhibit 9: Pay disruptions by income (% share of total disruptions)

The share of pay disruptions have been rising for higher-income earners



Source: Bank of America internal data

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 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 1996
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

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

We calculate the **pay rise on moving jobs** as being the increase in the total pay over the three months from the job move, compared to the same three months a year earlier. We then look at the median raise across all job movers in any given month. For example, the April 2023 pay rise will reflect the pay increase received by job changers in February 2023, calculated as their total pay in February-April 2023 divided by their pay in February-April 2022.

We define a **pay disruption** as where we observe a payroll payment coming into a customer account *consistently* in each of the last 12 months, but then observe no payment for three consecutive months. Pay disruption rate is pay disruptions as a percentage of customers with 12 consecutive months of pay.

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

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Disclosures

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