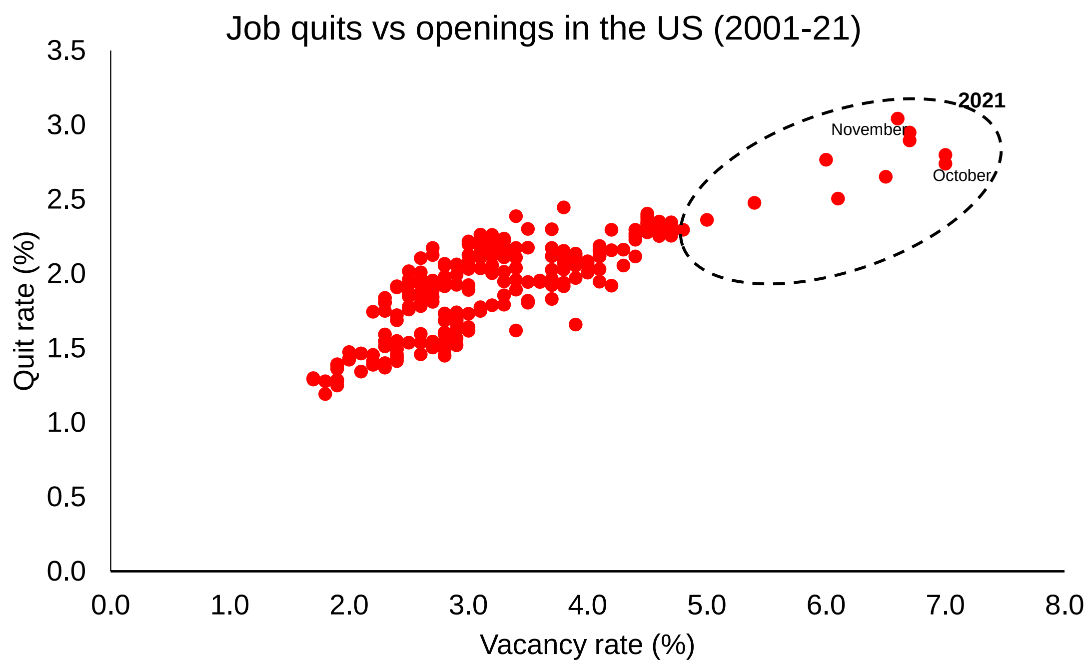
The Great Resignation: facts and implications



Source: BLS, UniCredit Research

- Anomalies in the recovery of the US labor market persist, clouding both the growth and inflation outlook. Our *Chart of the Week* shows that both job quits and openings, expressed as a percentage of total employment, remain at historically high levels, with the data points for 2021 (until November) being skewed to the top-right corner of the scatter plot. Since April 2021, around 33mn Americans have left their jobs (around 20% more than over the same timeframe in 2019), equivalent to one in every five workers in just eight months. ADP's most recent data show high turnover concentrated among 16-to-24-year-olds, with a turnover rate that is almost three times the national average. Understanding what is going on behind the scenes is key to putting into perspective the Great Resignation phenomenon that started last spring.

- Quits are employees who left their job voluntarily and it excludes retirements. According to anecdotal evidence, employed workers are not quitting jobs to become unemployed or inactive but rather to switch employers in exchange for better employment terms. Market conditions are especially attractive for these job-to-job moves. After months of restrictions, firms are rushing to rebuild their staff at record pace, but labor supply is not adjusting equally fast, pushing wages higher. At 61.9%, the participation rate is still around 1.5pp below its pre-pandemic level. Some workers are reportedly not rejoining the labor force for fear of infection, caregiving constraints or early retirement (generous unemployment benefits played a role until September). While a tight labor market has both pushed up wages and the incentive to quit in search of better job conditions, rising job-to-job flows have also pushed up wage growth because job movers tend to see larger wage rises than those who remain in the same job. The quits-to-vacancies ratio in November was 0.4, which is lower than the 2001-2019 average of 0.6, meaning that the number of quits is still relatively low compared to the near-record number of job openings.

- According to an industry breakdown, above-average quits tend to be concentrated in the sectors hit hardest by the pandemic. The highest quit rate is in accommodation and food services, which has also seen some of the largest wage rises. About 6.9% of people working in hotels, restaurants and bars gave notice in November. This is the highest rate in 20 years. Voluntary turnover in this sector is usually high, given the nature of these services, and has been above 5% several times over the past two decades. Retail trade also posted November's second-highest quit rate of 4.4%. Combined, these two low-skill industries, which represent together about 8% of GDP, accounted for one-third of all quits that month. On the other hand, the quit rates in construction, information, finance, insurance and real estate have also risen in recent months, but these remain relatively low – especially compared to other peaks reached in the past 21 years.

- Our view is that the number of quits are likely to ease, as the direct effects of the pandemic ease, labor force participation picks up, job openings are filled and wage growth eases. In addition, the pandemic has led to some sectoral shifts and to changes in workers' attitudes towards certain jobs, particularly those that require high social interaction, and this likely partly explains the rise in quits and job openings. Once these adjustments have been made, then quits should normalize too.

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