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THE GREAT RESIGNATION AND WHAT IT MEANS

Somewhere between inflation, Russian aggression, Joe Rogan controversies, and the evolving nature of COVID, the labor market gets lost in the shuffle. It has proven resilient, based on how far the unemployment rate has fallen, along with initial jobless claims that were the lowest in 8 weeks for the week ended February 26, 2022. The U.S. also beat expectations and added an impressive 467,000 jobs in January and an additional 678,000 jobs in February, lowering the unemployment rate to 3.8%.

The labor market is extraordinarily fluid and unbalanced, and COVID's continued impact is a good excuse. However, with the recent surge in jobs and with the worst of the milder Omicron variant hopefully behind us, we may be seeing an economic surge in the U.S. There is a reason we are seeing extremely high inflation right now, and part of it is an overheating economy.

Of course, there has been a significant imbalance of jobless claims vs. total unemployed vs. job openings. Yet, a much bigger phenomenon is at play, beyond just a labor market rolling with the punches of a never-ending pandemic.

WELCOME TO THE GREAT RESIGNATION

The Great Resignation is more than just a movement of people quitting their jobs. Primarily driven by Millennials and Generation Z, it is a shift of fed-up workers looking for a change.

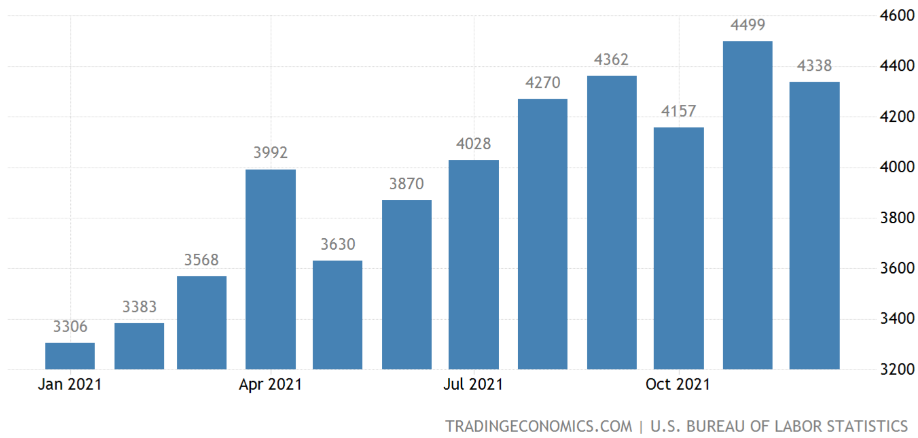
Perhaps this shouldn't come as much of a surprise.

Millennials, especially, have long had economic anxiety. Many started their careers riddled with student debt during 2008's financial crisis. Others finally found some career footing just as COVID shut the world down.

Then you have Generation Z, over half of whom reported plans to seek a new job within the next twelve months.

Interestingly, the Generation Z mindset can be found across the generations in the current workforce. A PwC survey from early August 2021 showed that 65% of employees are looking for a new job, while 88% of executives have found their companies experiencing higher than usual turnover.

Since early 2021, workers have been voluntarily resigning from their jobs en masse and the latest figures show no sign of that trend abating. In December of 2021, 4.3 million people quit their jobs in December compared to the pre-pandemic average of 3.5 million.



Source: TradingEconomics

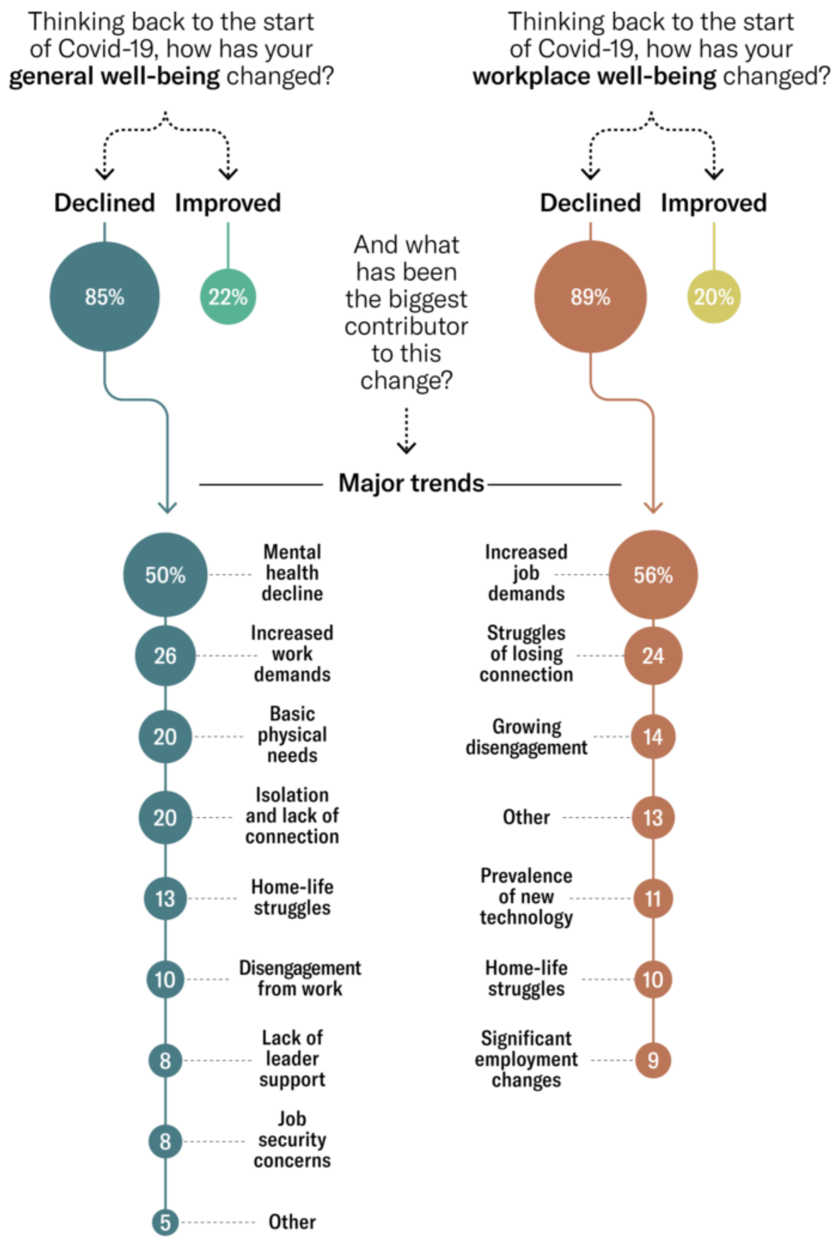
Many factors are driving this phenomenon, and far beyond U.S. borders as well. Germany, Japan, and other developed countries are seeing similar trends.

WHY ARE PEOPLE RESIGNING?

Several factors are at play here. The exhausting pandemic has been the primary catalyst causing workers to reevaluate their careers, priorities, work conditions, and long-term goals.

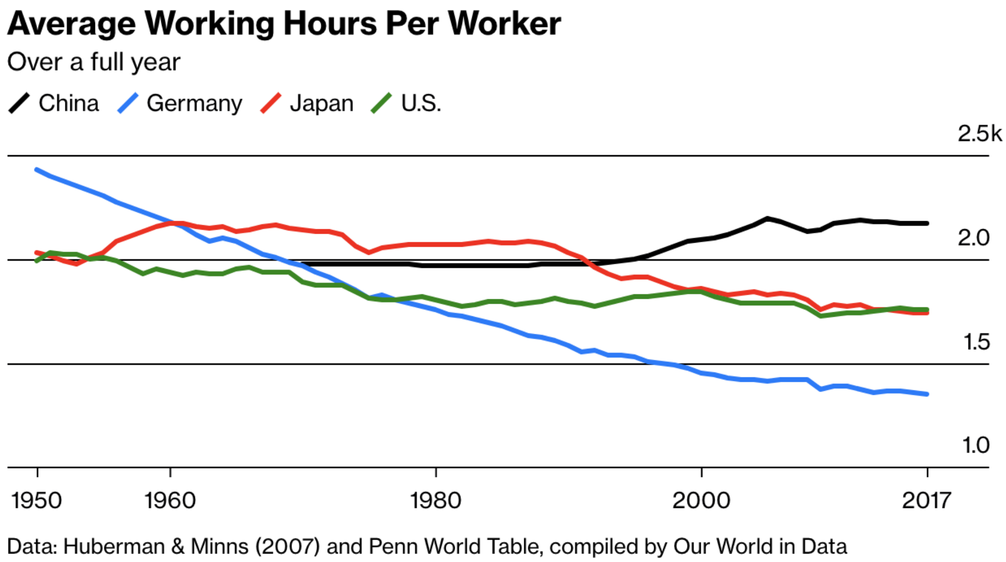
For one, people are seeking happiness and looking for a better work-life balance. Surveys have shown a rise of burnout coupled with deteriorating mental health. According to a Mind Share Partners survey, two-thirds of Millennials who left their jobs in 2021 cited mental health reasons. The share of Generation Z was even higher, at 81%.

The chart below from a Harvard Business Review study paints an even stronger picture.



Source: LinkedIn

China's "lie flat" movement depicts even more extreme working conditions, where many workers are on the job and working from 9 am to 9 pm, 6 days a week.

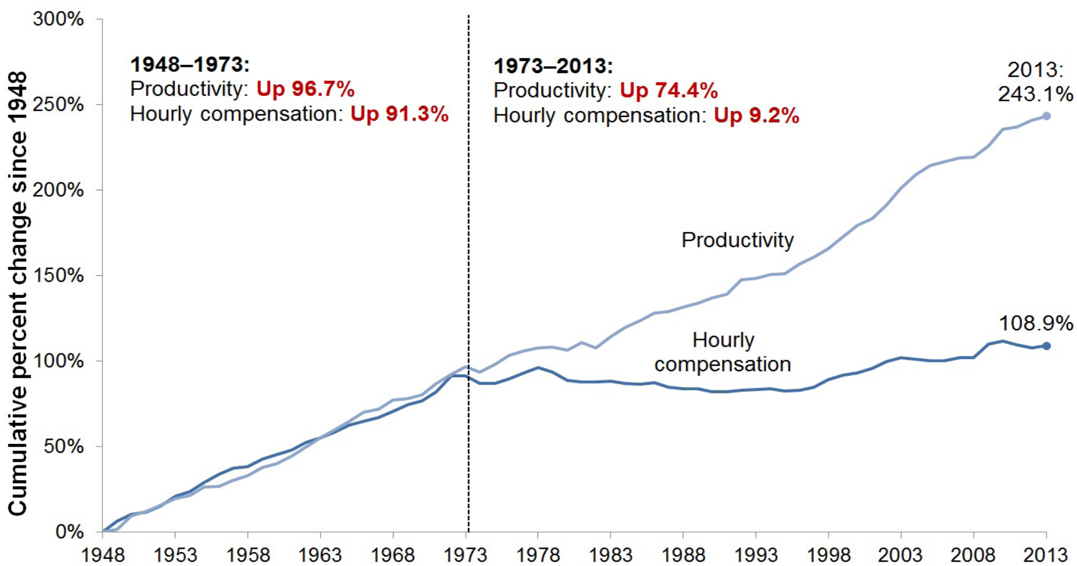


Source: *Bloomberg*

The pandemic brought many of these long-simmering feelings to the surface, and workers are acting on them. For example, during the pandemic, remote work took off. As things started to return to normal, many wanted to continue working remotely for a better work-life balance. Employers failing to adjust have had a rude awakening.

Wage stagnation is another prominent driver, especially as inflation hits its highest levels in 40-years and may only continue accelerating. While wages are increasing, they have not kept pace with inflation. Average hourly earnings jumped 5.7% over the past 12 months compared with inflation surging 7.5% over the same period.

The worst part? Since the 1970s, growth in real wages has slowed compared to overall economic productivity. Recent inflation only exacerbates what's been a long-term trend.



Source: *EPI*

As the cost of living continues to rise, employees are also fighting back against poor working conditions and fewer benefits.

A recent piece in the MIT Sloan Management Review suggests that toxic workplace culture is a primary driver of these resignations. According to the article, the main elements of a toxic environment include, "failure to promote diversity, equity, and inclusion; workers feeling disrespected; and unethical behavior." It further adds that, "A toxic corporate culture is by far the strongest predictor of industry-adjusted attrition and is 10 times more important than compensation in predicting turnover."

That same article reported four other factors stimulating The Great Resignation.

- Job insecurity and reorganization
- High levels of innovation
- Failure to recognize performance
- Poor response to Covid-19

HOW ARE COMPANIES ADDRESSING THIS?

We are in an unprecedented labor market where workers have the leverage. Employers have had no choice but to meet the demands of current employees and prospective employees.

Here are three ways they are adapting.

1. ADOPTING HYBRID WORK

We're somewhere between getting back to normal and embracing a new normal. One of the ways that's happening is with a hybrid office/work-from-home model. Companies are listening and adopting the hybrid work model as an integral component for employee happiness and company growth.

A recent report from Accenture showed that 83% of employees prefer a hybrid work schedule, while 63% of high-growth companies are now using a hybrid work model.

48% of employees expressed a desire to be fully remote, and 44% favored hybrid working arrangements according to May 2021's Remote Work & Compensation Pulse Survey. 51% of employers surveyed also appear to support the hybrid work model.

The Crain's Future of Work survey also revealed that 78% of HR professionals believe flexible schedules and remote working could help to retain workers while simultaneously cutting costs.

2. EXPANSION OF BENEFITS

Inadequate benefits have driven employees to quit, and big companies are noticing. 35% of Fortune 1000 companies have expanded benefits to bolster employee retention. Public sector jobs have noticeably had higher worker retention in these times compared with private-sector jobs, mainly due to more robust benefits, such as paid family leave.

Several fast-food industry companies have also increased benefits, such as college scholarships and healthcare.

3. WAGE INCREASES

A recent NPR article was titled "The Great Resignation? More like The Great Renegotiation." While The Great Resignation is an extreme case in workforce history, "the stars have aligned" for workers and they are now empowered to demand better wages. In the words of Karin Kimbrough, the chief economist at LinkedIn, "There are twice as many jobs on our platform as there were a year ago." With the vast number of job openings comes the leverage to negotiate.

Hourly wages in the United States have vertically spiked over the last year. Large companies like McDonald's, Chipotle, Bank of America, and Under Armour have also embraced the wage trend.

The Conference Board's survey from early December 2021 also projected wages to increase by 3.9% in 2022, close to a 1% jump from their April 2021 survey. The Conference Board hasn't accounted for salary hikes this way since 2008.

Furthermore, the $15 minimum wage hike for federal workers began on January 31, 2022 and 21 states intend to hike minimum wages throughout 2022, with Los Angeles planning to bump its minimum wage to $16.04 by July of 2022.

WRAPPING UP

The Great Resignation has created an unprecedented labor market, providing all the leverage needed for workers to demand better pay, additional benefits, improved work-life balance, and fair treatment.

Many workers aren't even looking for a new company. Some have seized the opportunity to strike out on their own. In fact, according to the Census Bureau, applications to form a new business have surged in the last year, hitting a record 5.4 million.

The global labor market, both from employees' and employers' perspectives, is having a historical reckoning. How much longer it may last is anyone's guess. But, corporations are shaking in their boots, with over 73% of Fortune 1000 CEOs anticipating that the Great Resignation will disrupt their businesses over the next 12 months.

While the future has yet to be seen, it will definitely be quite fascinating to see how things shake out.