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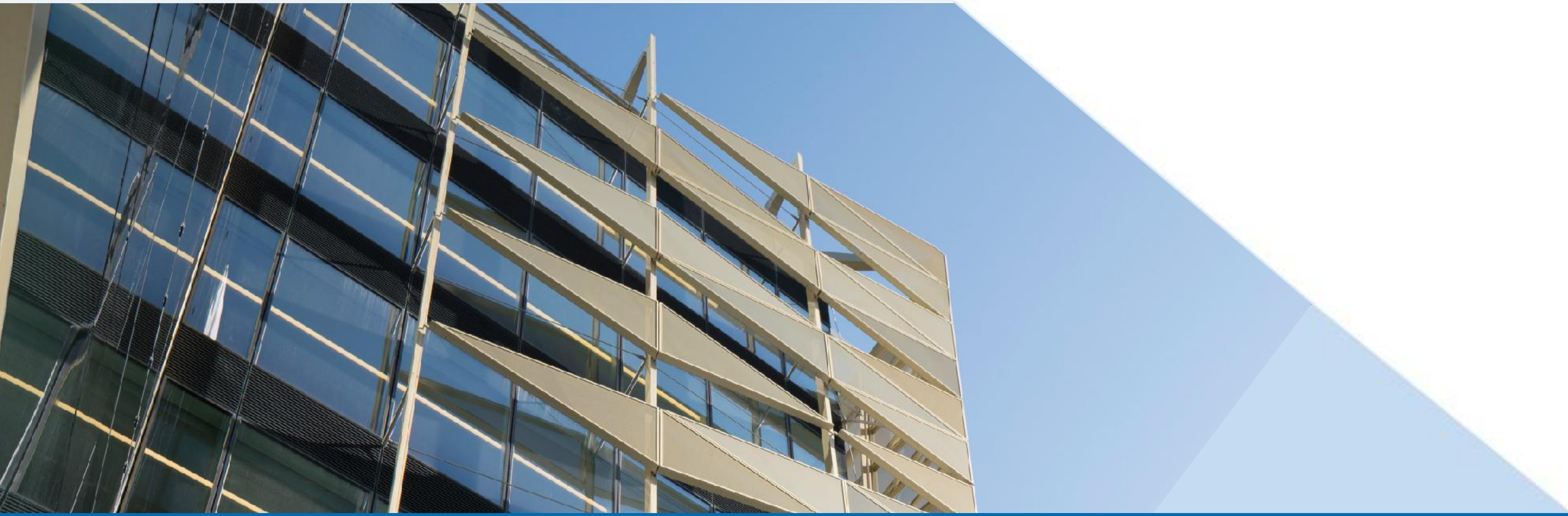


Job switching wage premia

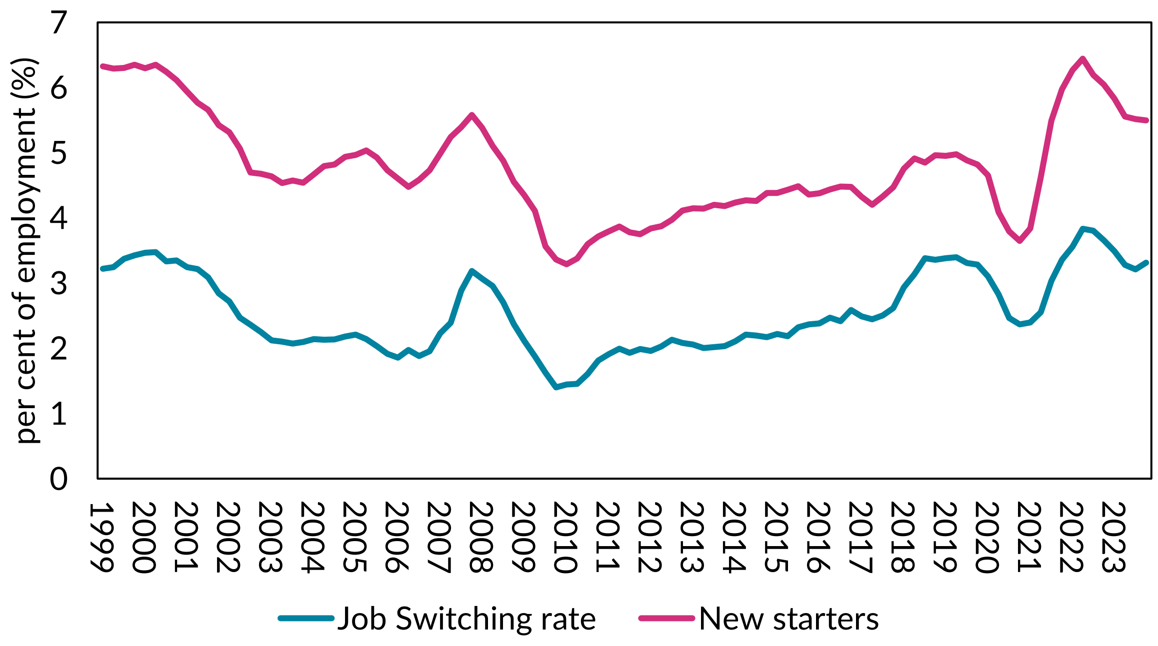
NERI 12th Annual Labour Market Conference
Maynooth University, 18th May 2024

Enda Keenan
Central Bank of Ireland

Outline

- **Part 1**: Developments in job switching
- **Part 2**: Wage premium for switchers relative to stayers using admin data
- What is job switching?
  - A person who moves from E to E over a quarter without a period of U or N in between
  - On average, 68% of all new hires

		ILO Status in time *t*		
		Employed (E)	Unemployed (U)	Inactive (N)
ILO Status in time *t-1*	Employed (E)	96.1	1.3	2.6
	Unemployed (U)	18.2	61.0	20.7
	Inactive (N)	5.1	3.0	91.9



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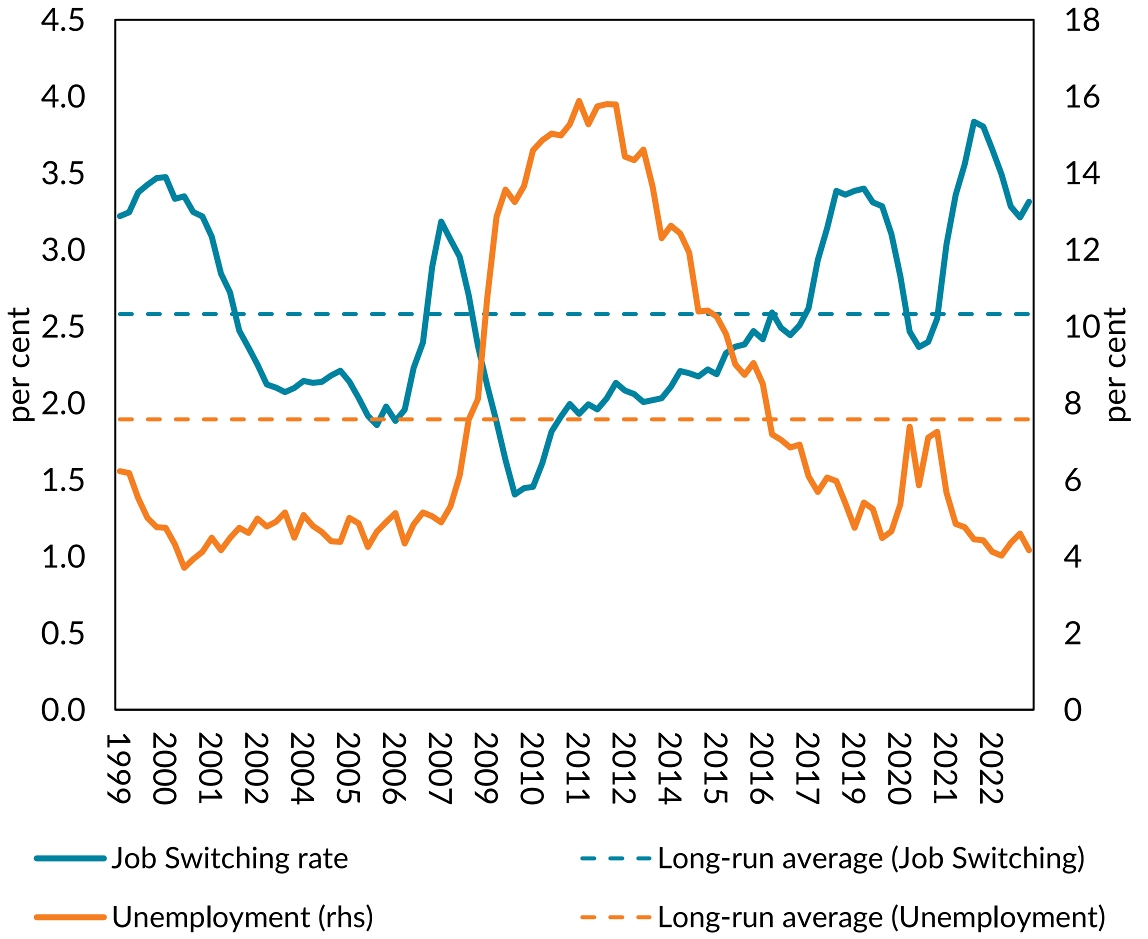
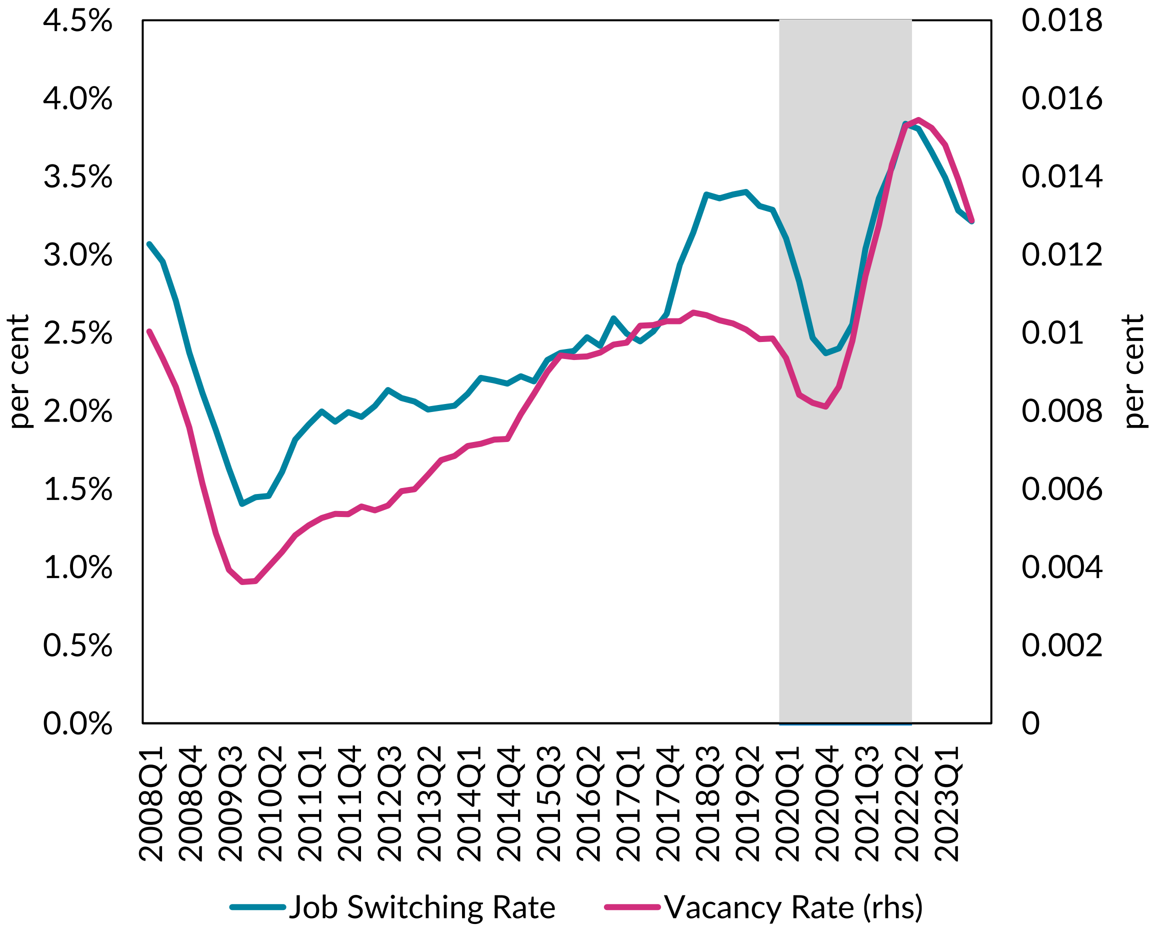
Motivation and Literature

- Wage analysis of job switchers and stayers can be important, particularly when the labour market is tight
  - Rival firms may pay premium to attract workers with specific skills
  - Remaining workers increase wage bargaining power
- Elevated inflation poses questions about wage growth in general
- Changes in the job switching rate can be a strong predictor of future wage growth
  - Wage growth for switchers can be more cyclical and quicker to react to economic conditions
  - Stayers are more closely tied to pay agreements that can experience lags
- **Lydon and Staunton (2018)**: Higher job switching rates suggests higher wage growth to occur given relatively low labour slack
  - Switching has granger causality toward wage growth in one direction only
- **Lydon and Lozej (2018)**: Switching job in a tight labour market tends to increase earnings in excess of 10% using HH survey data
- **UK ONS (2022)** show stayers have higher salaries (approx. 17%) but switchers experience 7% wage growth
- **Atlanta Fed** analysis shows drop from peak of 8.6% to 5.3% between 2022 and 2023
- **Barrett and Goggin (2009)** show retuning Irish migrants can earn an average wage premium of 7% relative to comparable stayers
- Labour Force Survey now includes admin data on gross pay from 2019 onwards using PMOD
  - We use this panel data to calculate the premium of switching job in a given sector relative to a stayer

Job switching broadly correlates with tightness





Note: Grey shaded area denote period when COVID pandemic restrictions were active and had related effects on labour market data

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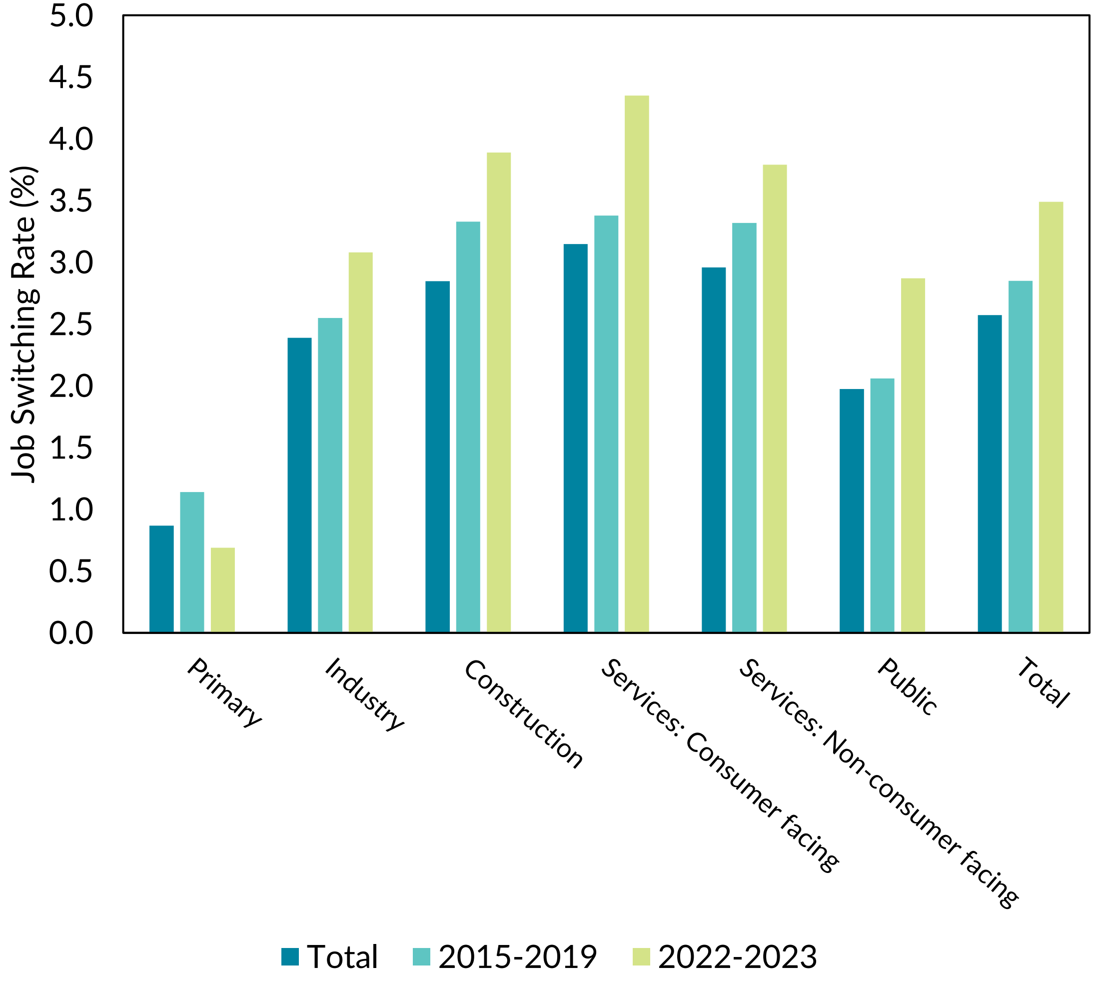
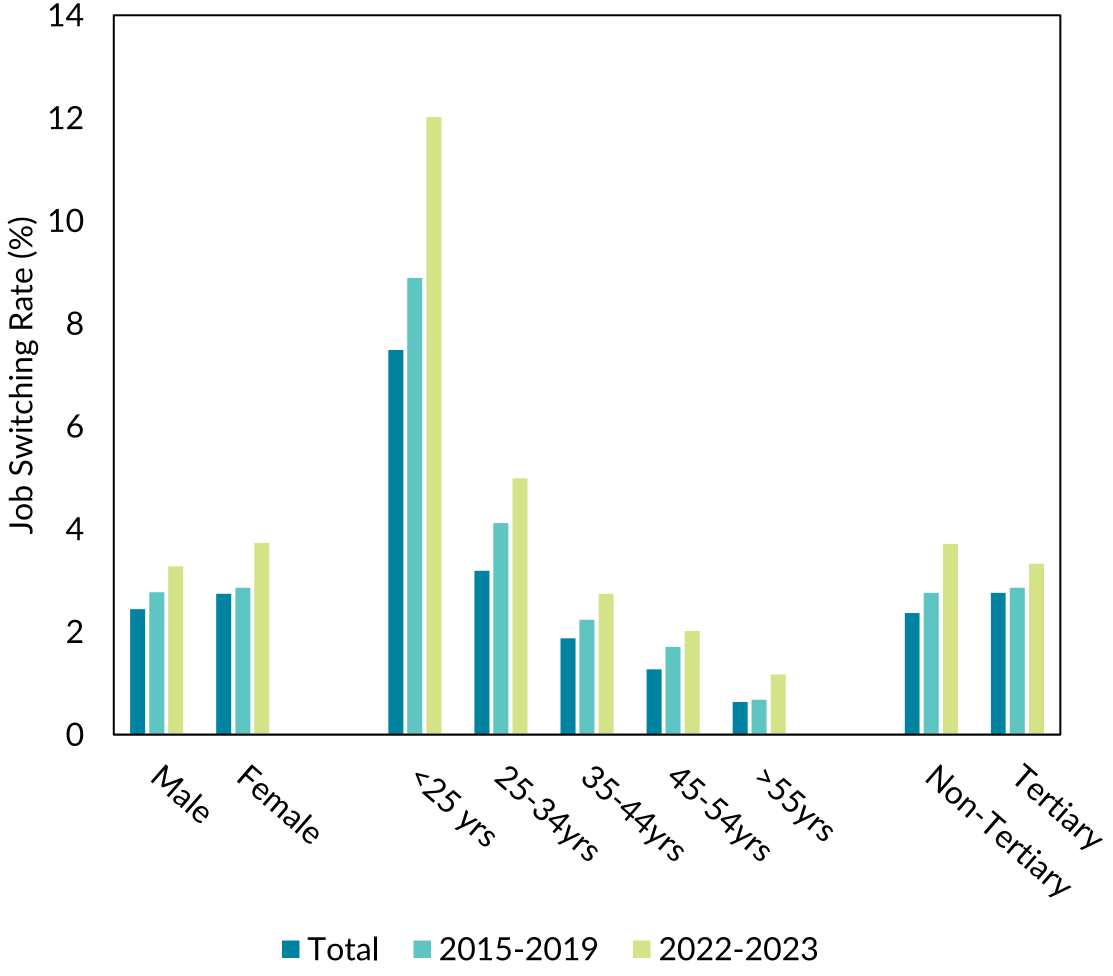
Job switching rate by sector and demographics





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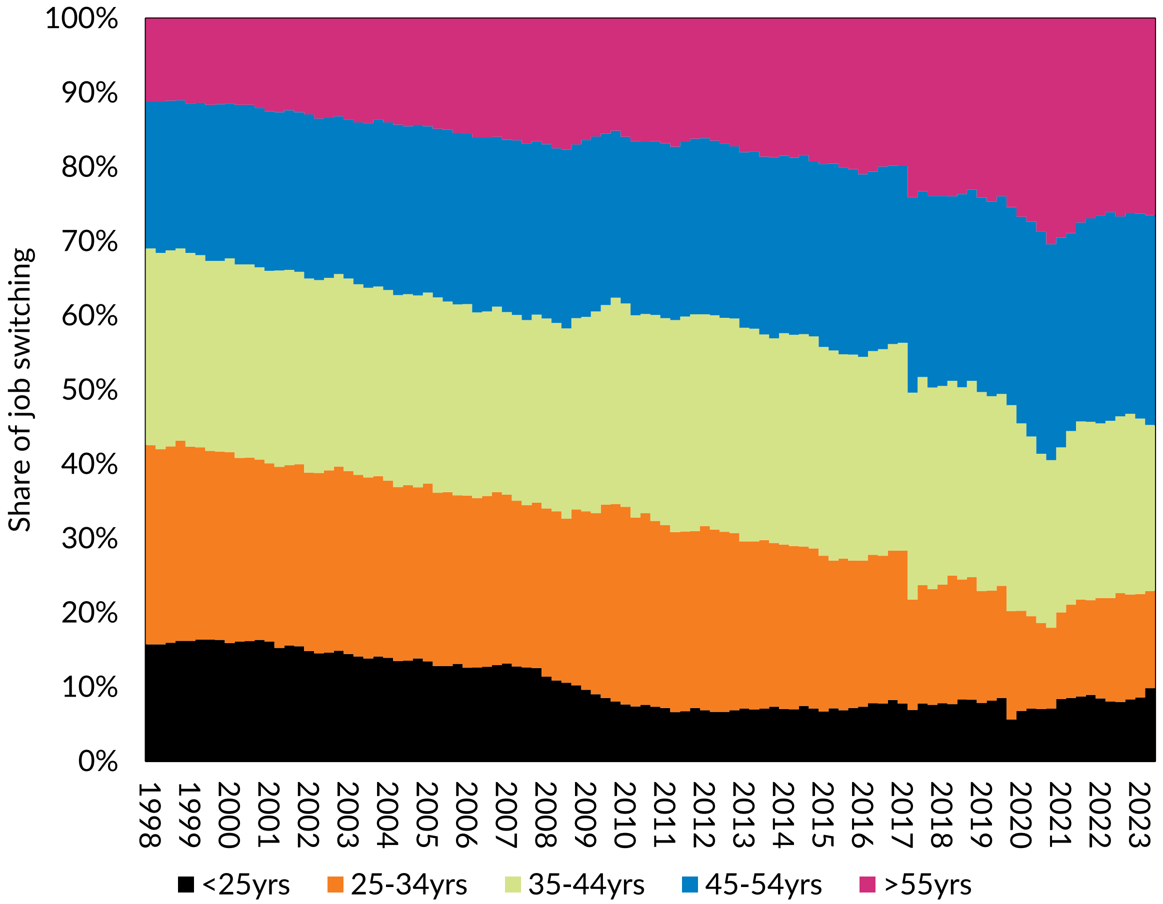
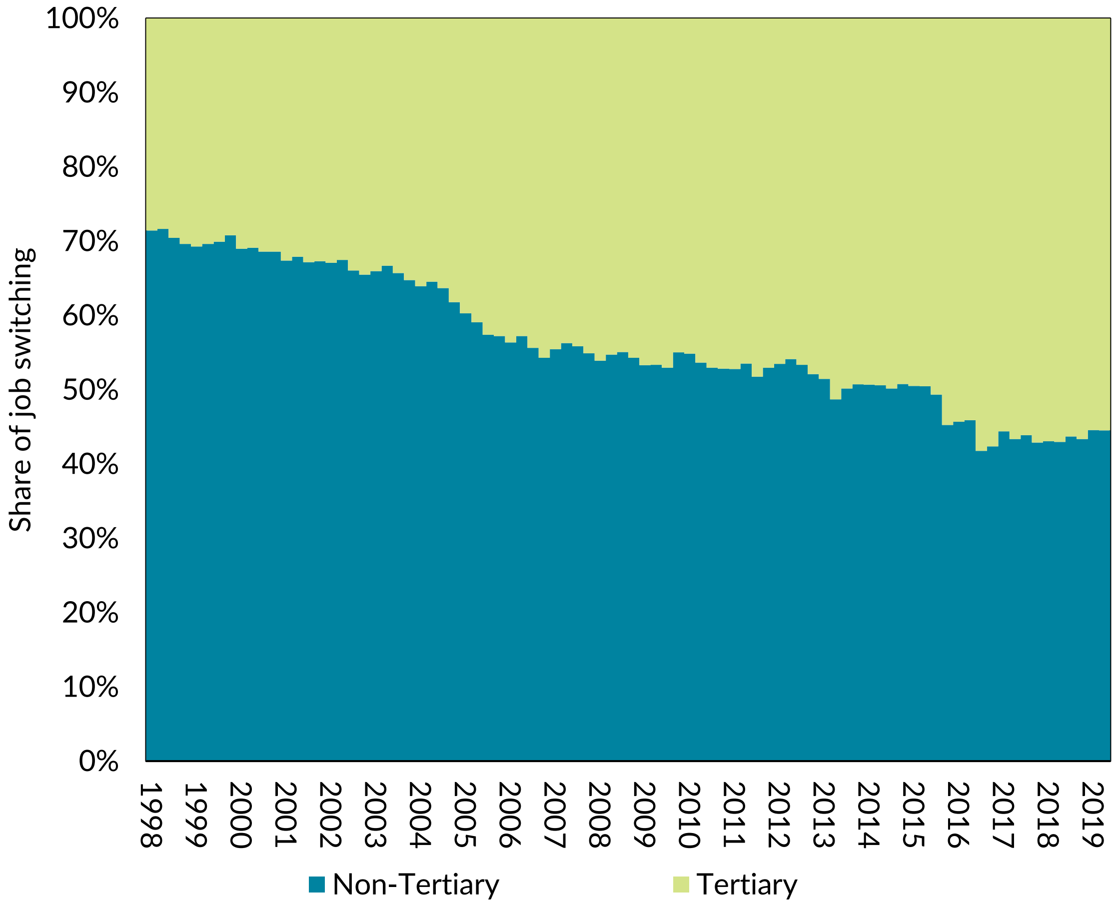
Share of switchers by demographic





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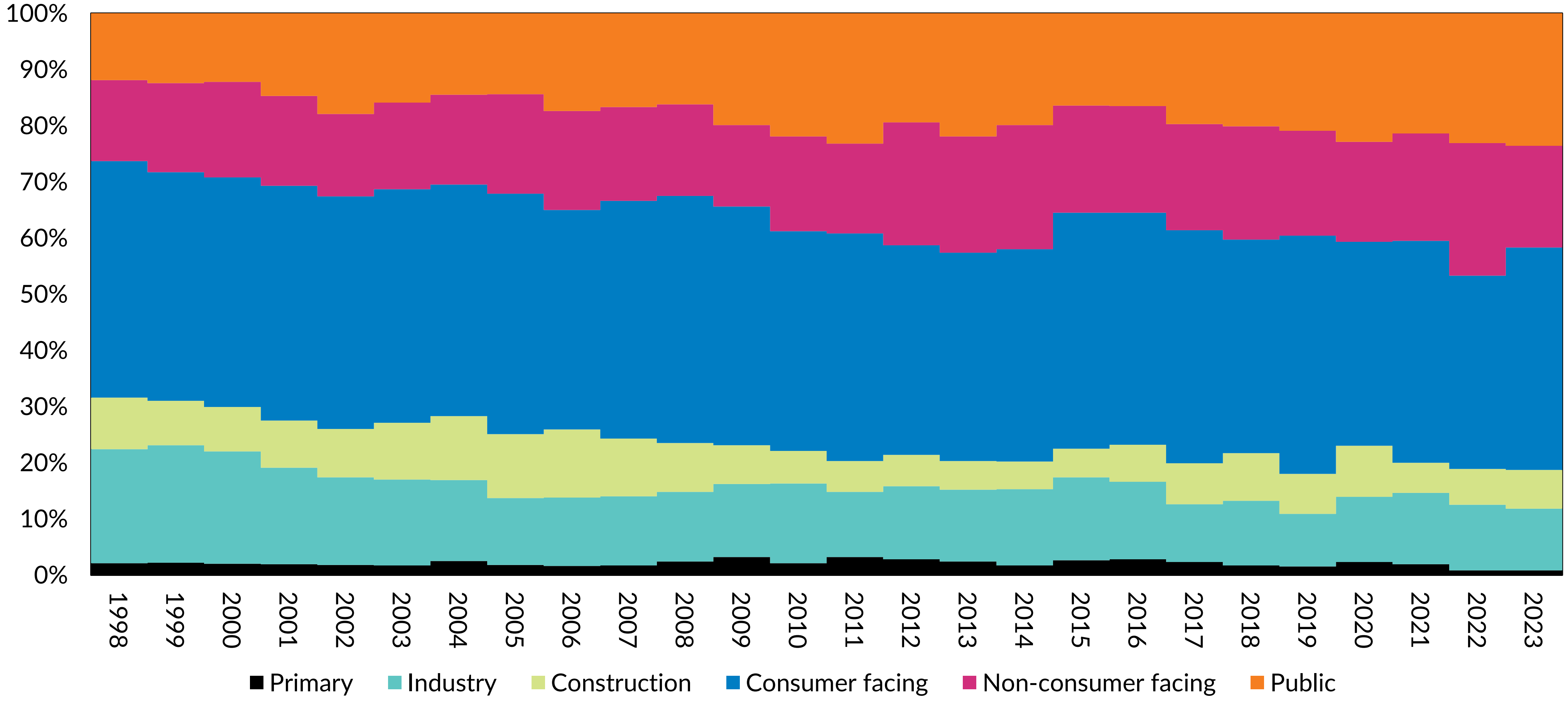
Share of switchers by sector



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Predicting job switching

- Using logit analysis, we assess various demographic factors to calculate likelihood of switching

- From 2019 onwards, significant for:
  - Younger workers
  - Higher educated
  - Services sector employees
  - Less time spent in current role
  - Lower earning quintiles

- Additional dummies:
  - Nationality: non-Irish
  - Working status: PT
  - Skill level: medium & lower-skill occupations

		2019-2022	Pre 2019
Male	(Relative to Female)	0.063	0.029**
15-24yrs	(Relative to 35-44yrs)	0.759***	0.756***
25-34yrs		0.260***	0.302***
45-54yrs		-0.217***	-0.346***
Tertiary	(Relative to non-tertiary)	0.247***	0.292***
Consumer-facing services	(Relative to Public)	0.424***	0.409***
Non-consumer facing		0.276***	0.254***
Construction		0.427***	0.267***
<18 months	(Relative to 8+ yrs)	0.939***	1.074***
18months – 3yrs		0.724***	0.709***
3-5yrs		0.532***	0.454***
Quintile 1	(Relative to Quintile 4)	0.324***	NA
Quintile 2		0.441***	NA
Quintile 3		0.151***	NA

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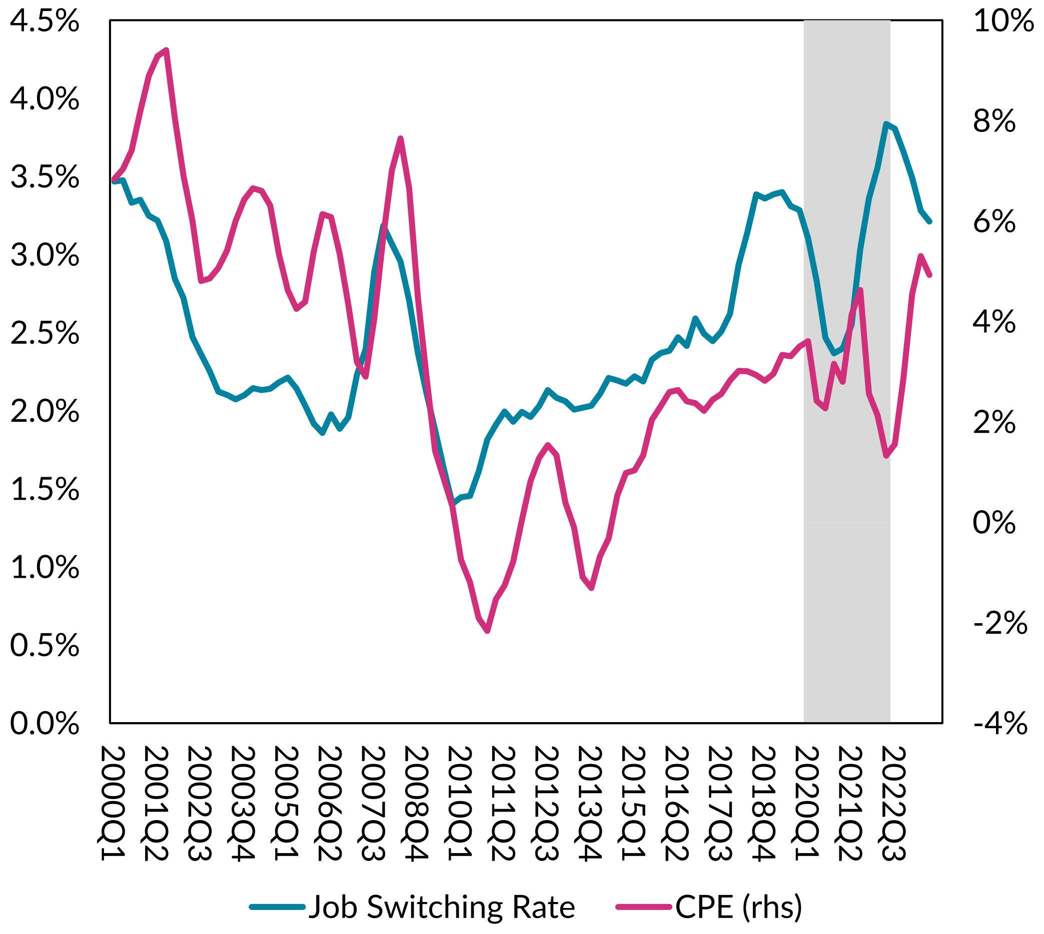
Job Switching and Wages



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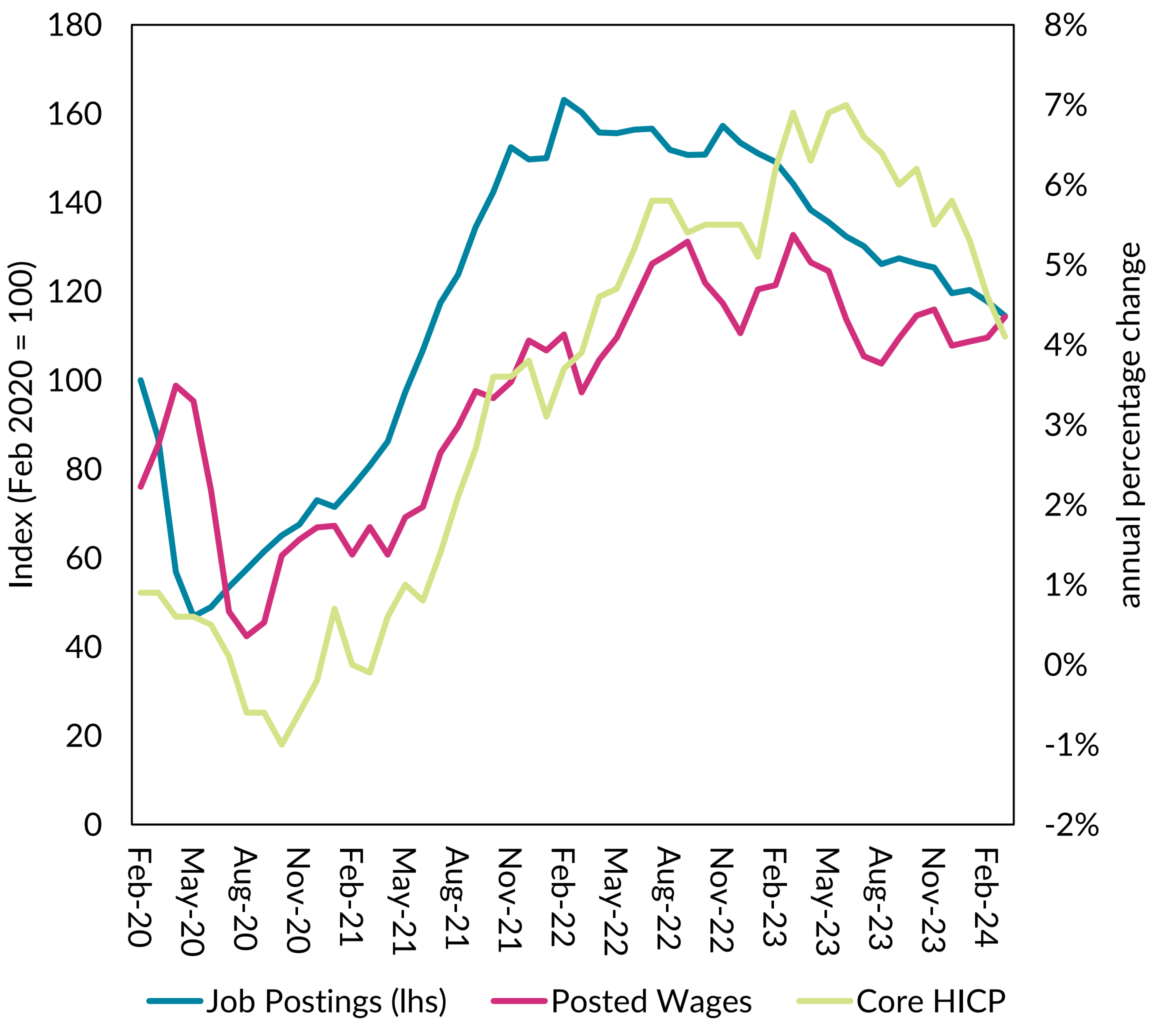
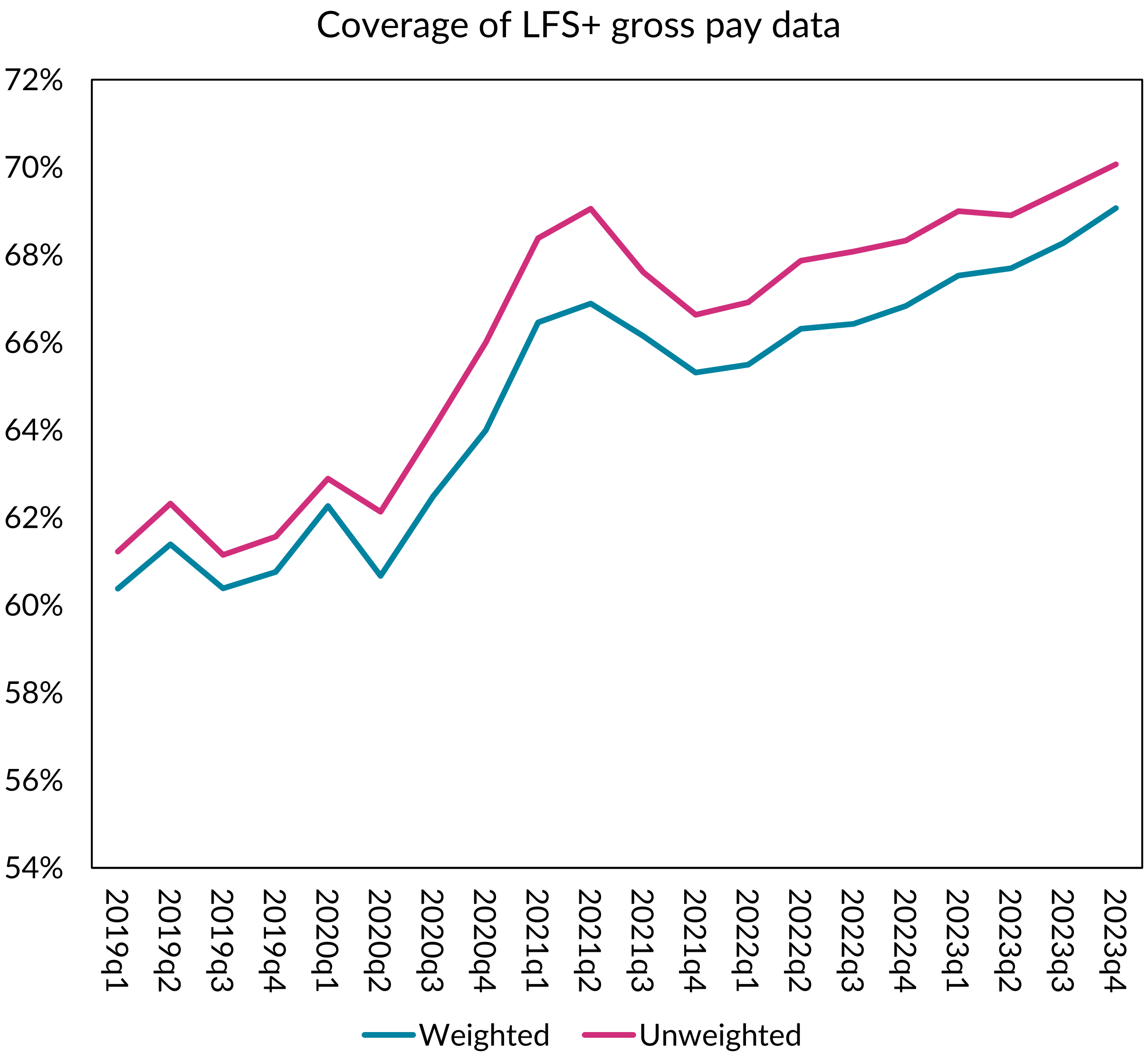


- Posted wages – external margin – slowing across many jurisdictions

Expanded LFS data

- LFS data available from Q1 2019 for approx. 70% of employees (No self-employed persons)
- Data refer to the gross pay received by the employee in the relevant quarter matched to revenue PMOD data
- Control variables for:
  - Weeks worked – Can be rebased to weekly
  - Absences in reference week
- Persons in LFS for max 5 quarters
- New hire defined as person in role for <=3 months
- No firm level ID: Unable to distinguish between internal promotions and external hires (ONS – 75% between firm movements)



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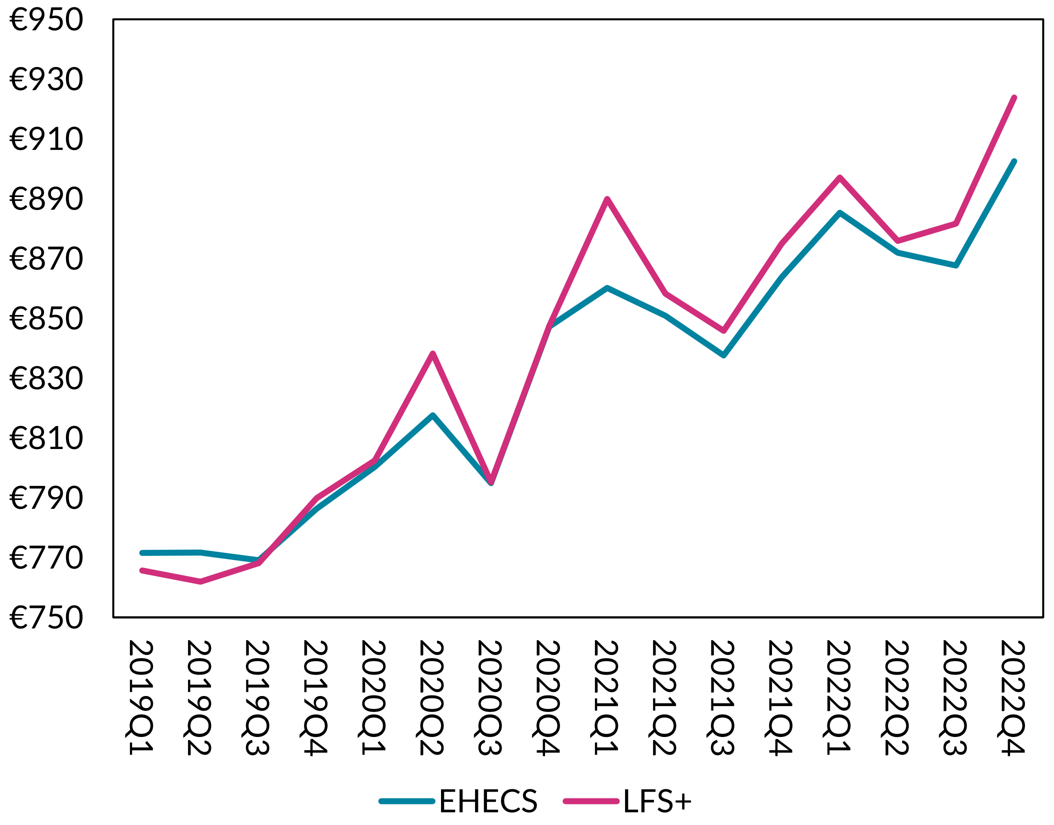
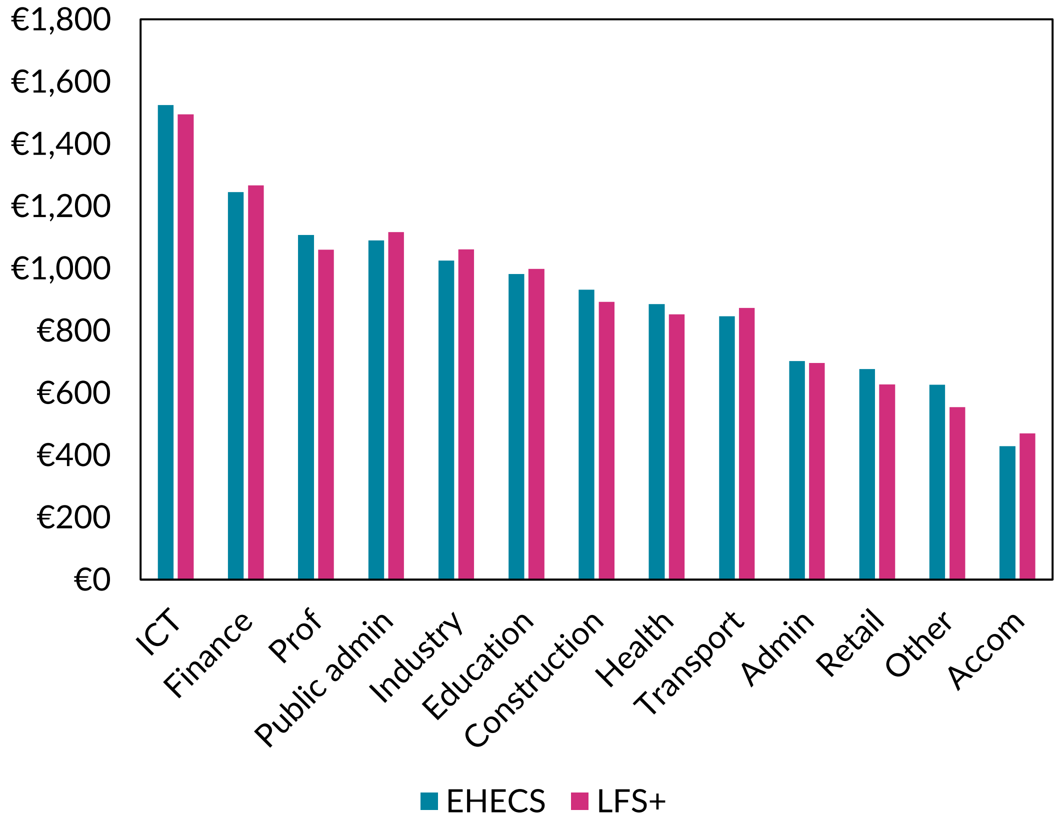
LFS+ admin data comparable to CSO EHECS survey data

Weekly earnings from LFS+ and EHECS data



Average weekly earnings by NACE sector (2022)



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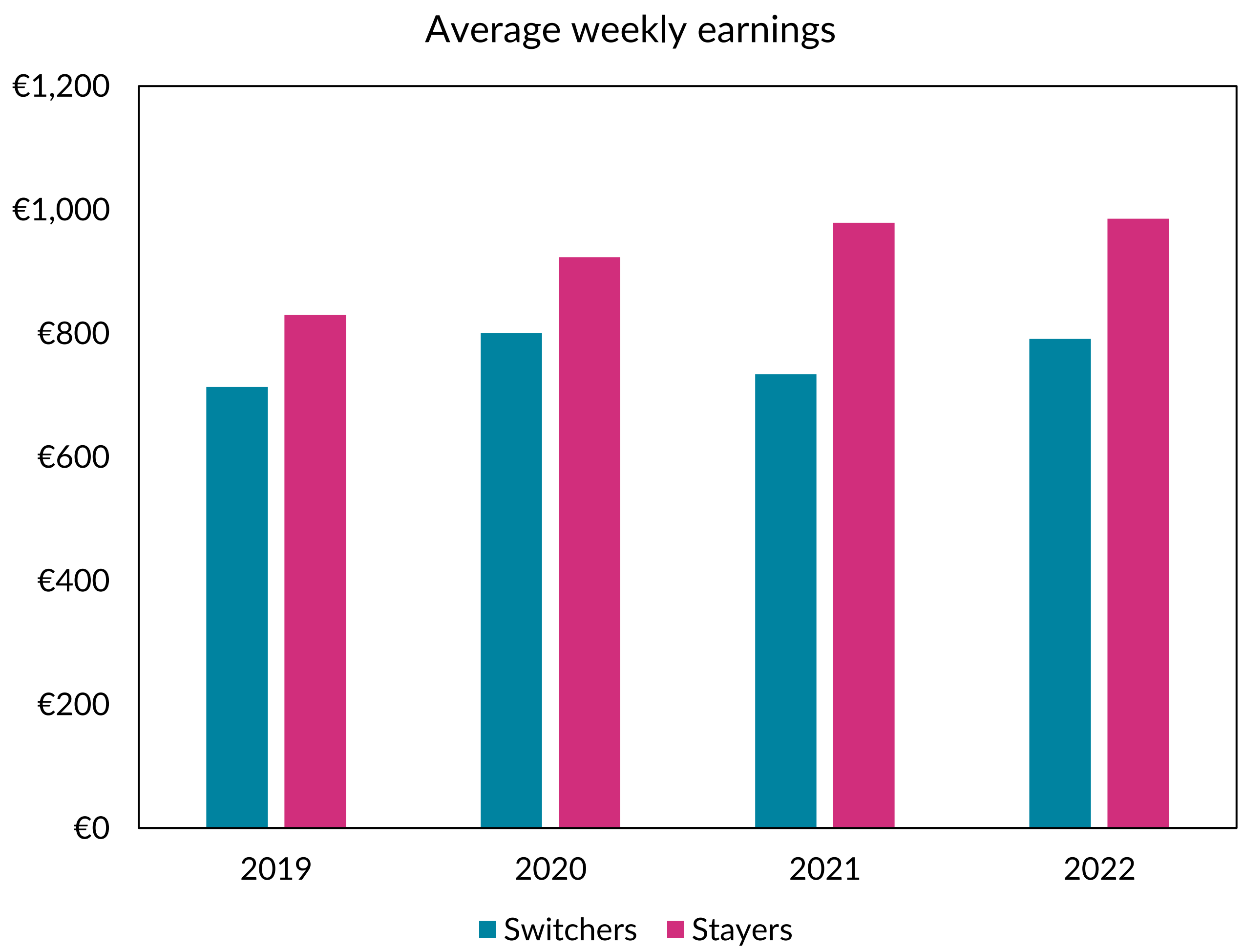
Raw data - Stayers have a higher pay level

Imposing controls on weeks worked and absences

- Minimum 12 weeks worked in quarter
- Not absent from work in reference week

- Higher base for stayers partly due to skills and experience gained by remaining in role (consistent with ONS)
- Positive correlation between time in current job and gross pay



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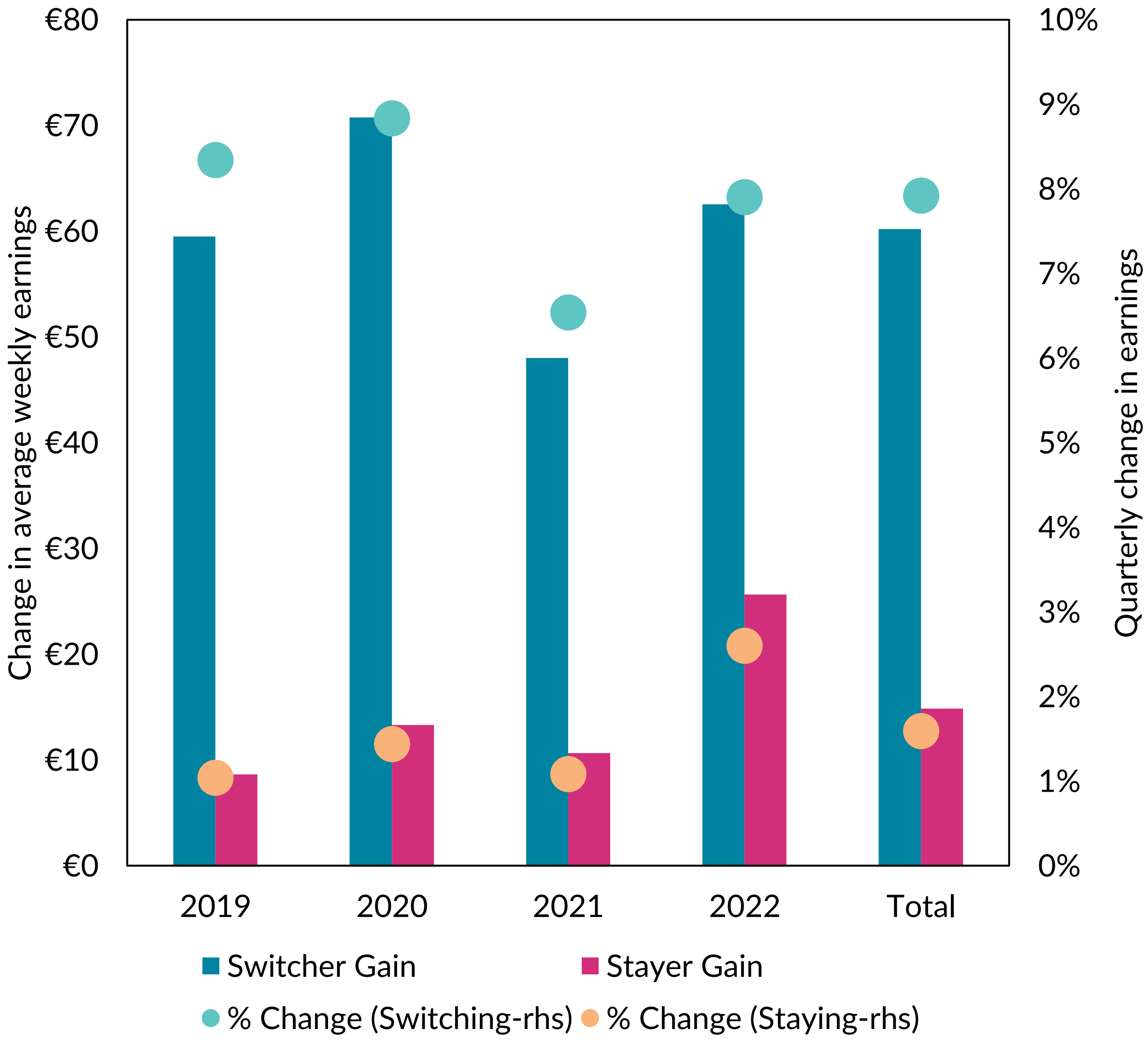
Raw data - Relative premium for switching is approx. 8%

- Switchers average 8% (€60) increase in gross earnings in the quarter following a job change
- Those who stay in jobs earned additional 1% (€10) per quarter between 2019-2021
- This increases to 2.6% in 2022
  - May reflect higher bargaining power for stayers as this is peak of switching rate
  - Possible wage increases to offset elevated cost of living



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Premium differs by sector (2019-2022)

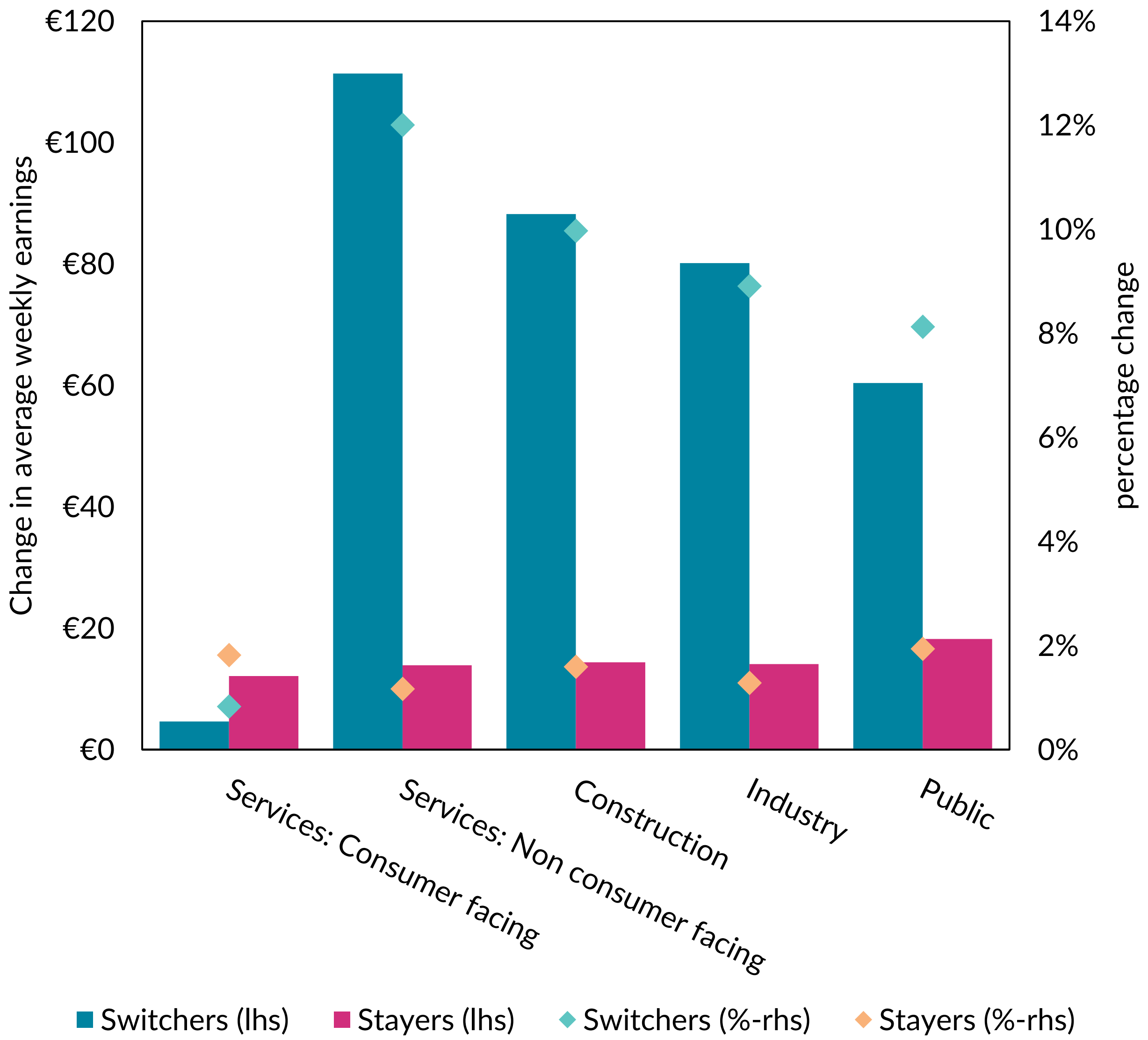
- Imposing same controls and aggregating NACE sectors for sample sizes

- Approx. 90% of switching is sector *i* to sector *I*
  - Chart shows only same sector movements

- Highest relative gain in ICT, Finance and Prof
  - Skills benefit/premium
  - Larger firms and MNE employers

- Consumer-facing jobs have a lower relative gain compared to stayers despite having higher tendency to change
  - Possible age/experience effect
  - Higher share of minimum wage roles
  - Potential changes in hours worked (part-time)
  - Similar ONS findings for hospitality in 2021

- Relatively higher gains for stayers in public possibly reflecting widescale wage agreements less prevalent elsewhere



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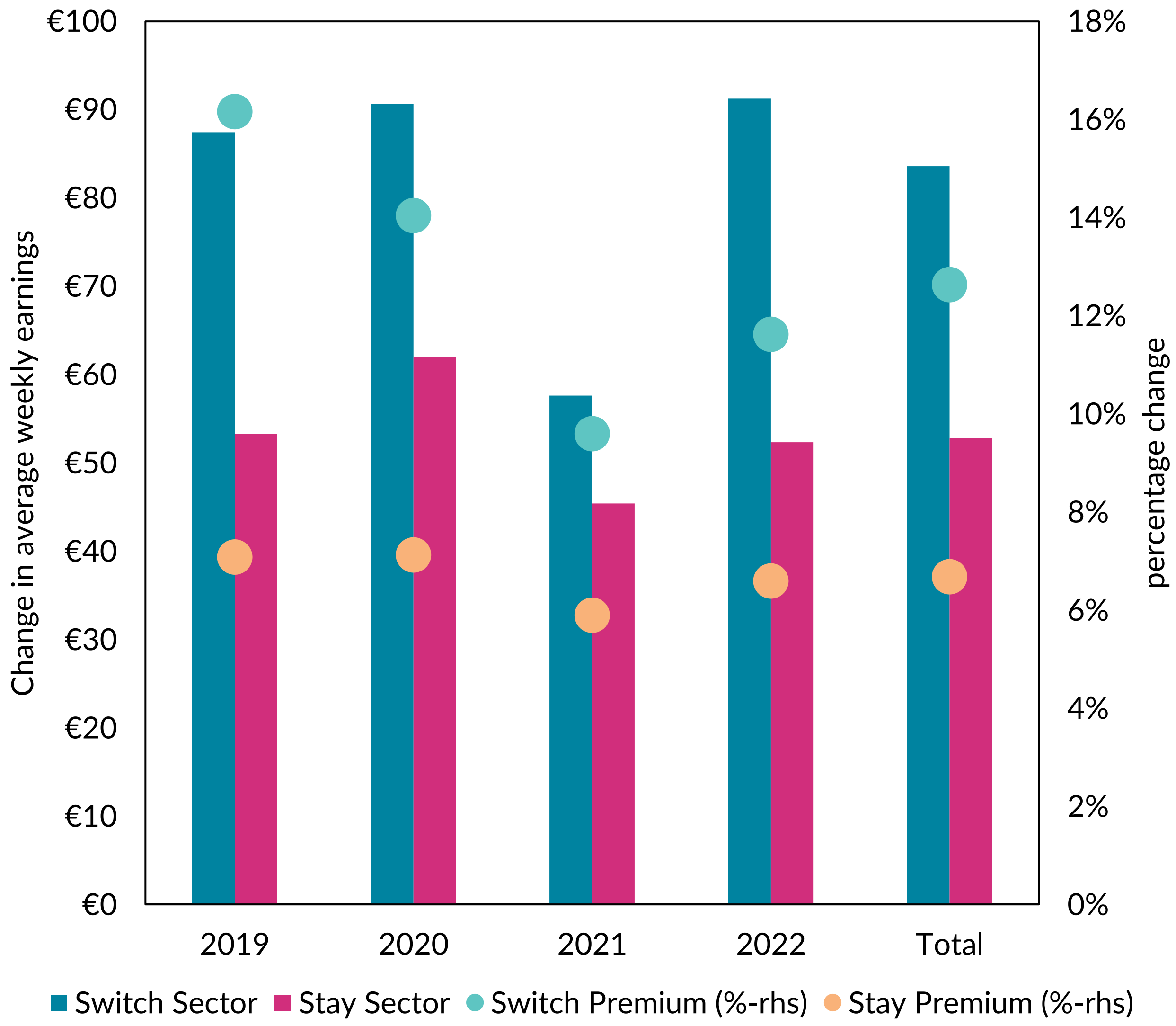
Switching between sectors (2019-2022)

- Majority of switching occurs with same broad sector (~90%)
  - ❑ Barriers to entry
  - ❑ Possible return to education required
  - ❑ Lay-off periods thereby becoming unemployed/inactive

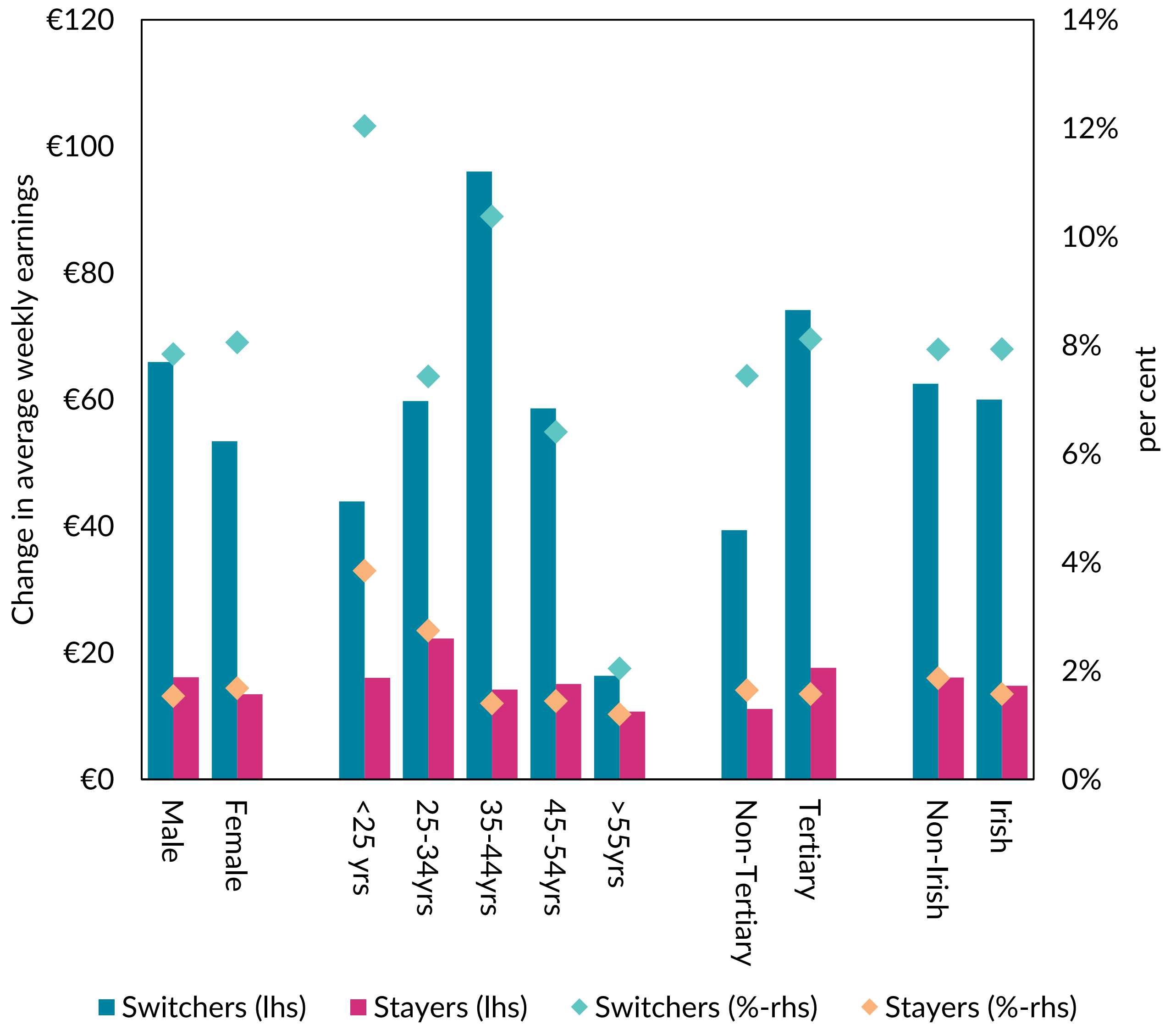
- Switching sectors offers a greater premium (12.6% compared to 6.7%)

- Not possible to show public-private due to cell sizes



Switching premium by demographic (2019-2022)

- Slightly higher for female (8%) though base pay is lower
  - Equivalent of €65 more for male and €53 for female
- Highest percentage gain for younger workers in both switchers and stayers as earnings reflect career progression
- Highest level change for workers aged 35-44yrs
  - Potential point at which you maximise skills/education returns
- Tertiary workers earn €74 more per week after switching than non-tertiary workers (€39)



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Summary

- Job switching is pro-cyclical and peaked in 2022. It remains above its long-run average despite slowing macro-economic trends

- Switchers more likely to younger or in lower income roles, though likelihood of switching decreases the longer time spent in current role

- LFS admin data shows switching premium of 8% between 2019-2022 and is consistent with US and UK analysis

- Wage increase for stayers is more modest (~1%) though has increased during time of elevated inflation

- Future work
  - Update to include 2023 data
  - Analyse trends alongside Indeed posted wages and labour demand data
  - Apply fixed effects model to assess premium controlling for various demographics factors