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Alternative Data: Workforce Recovery and the Great Resignation

More displaced workers seem ready to come back into the labor force, but employers may need to watch their highly compensated "stayers."

One of the key economic side effects of the COVID-19 pandemic and lockdowns was the wholesale departure of a large segment of the workforce. Whether tied to excess stimulus payments, early retirement or struggles with childcare, the availability of workers remains a key stumbling block in seeking to ease wage pressures and inflation, and ultimately in maintaining economic growth.

Given the importance of current labor trends, and their significance for investors, the Neuberger Berman Data Science team decided to take a closer look at both the ongoing workforce recovery and what has been called the "great resignation" of employees—in our view, two separate but closely related topics. We combined analysis of specific cohorts, granular "big data" and trend-monitoring to develop a set of leading indicators providing insights into wage inflation, competition for workforce talent, and other labor market-related investment themes and opportunities.

Our takeaway? That much of the "permanent" departure of the workforce appears likely to be transient, and that given enough pressures and incentives, many individuals will probably begin to seek and find employment once again. In terms of the great resignation, analysis of our alternative data supports the wage growth of job "switchers," reinforcing the added value of corporate culture as a tool to help strengthen retention.

WORKFORCE RECOVERY

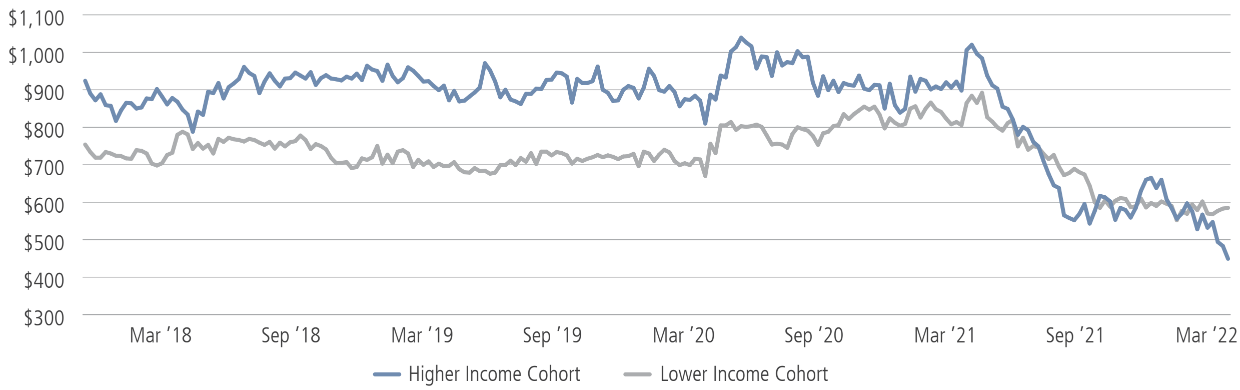
Our proprietary alternative data and research on cohort-based leading indicators suggest that workforce recovery should continue to improve, and even accelerate, in the second half of the year. Our data analysis suggests that (1) people are more motivated to go back to work in 2022 than in the second half of 2021, (2) wage inflation should continue to moderate, and (3) there should be incrementally less market concern around labor shortage-driven upward inflationary price pressure.

Income/Savings

Trends in depleted savings and reduced income, constructed and analyzed via our proprietary transactional data, suggest that current income/savings now more closely resemble historical post-recessionary periods, when people returned to the workforce after depleting savings. Current trends stand in contrast to the second half of 2021, when those in our study still had elevated savings levels boosted by stimulus payments.

SAVINGS FOR JOB-LOSS GROUP HAS DECLINED

Monthly savings of workers who lost their job during the pandemic and were not back at work by September 2021

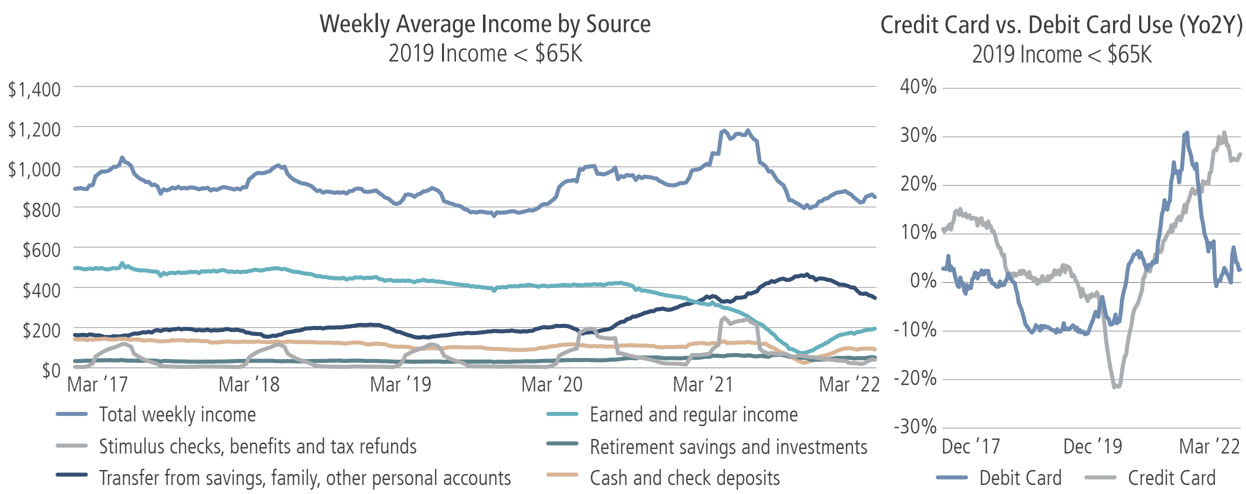


Source: As of April 9, 2022. For illustrative use only.

Lower Earners Are Motivated to Return

Looking at specific labor cohorts, we believe that the lower earners in our study are likely more motivated to return to the labor force than in the second half of 2021, given their significantly reduced income and savings and increased credit utilization.

WEEKLY INCOME AND CREDIT UTILIZATION OF LOW-INCOME COHORT

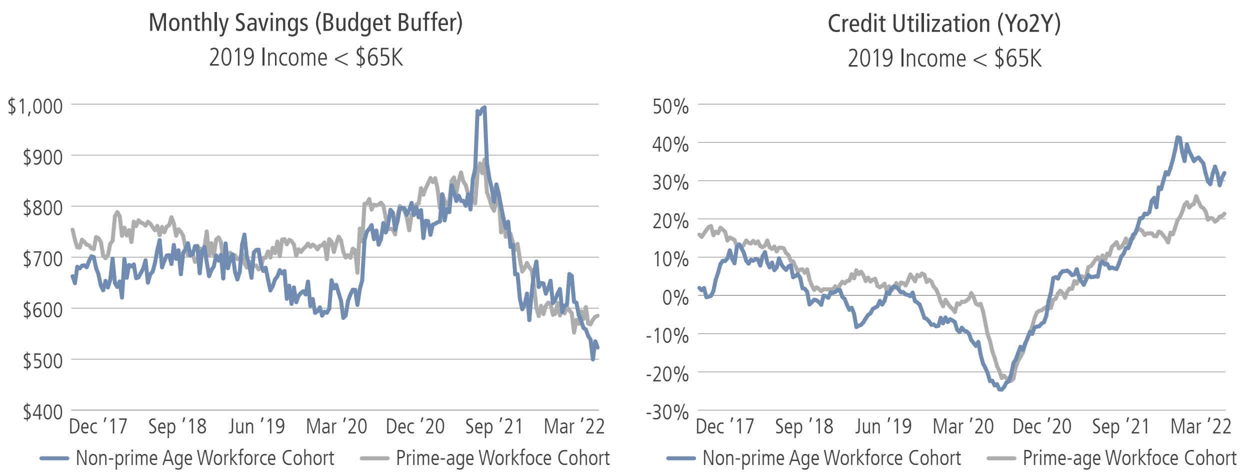


Source: As of April 9, 2022. For illustrative purposes only.

Older Workers Face Pressures

Data from our research suggest that the non-prime age (over 55) workforce cohort, which was the biggest group contributing to workforce reduction during the pandemic, is likely experiencing increasing financial pressure—evidenced by higher credit utilization and spending. That could be one reason for more members of this group returning to the labor force.

MONTHLY SAVINGS AND CREDIT UTILIZATION OF OLDER WORKERS



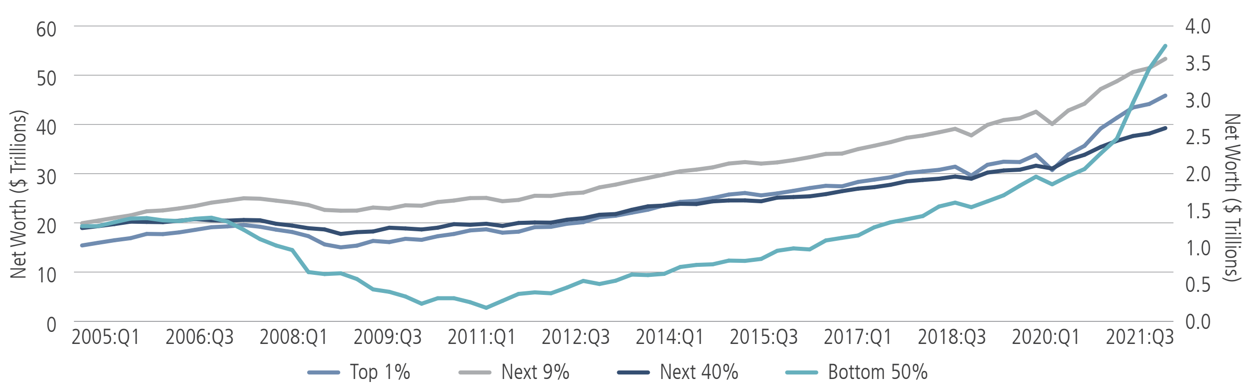
Source: As of April 9, 2022. For illustrative purposes only.

Pinpointing Financial Health

Our alternative data research offers the potential to monitor monthly income and savings—direct measures of households' financial health—on a weekly basis and by income level cohort. Income and savings for workers who lost their jobs during the pandemic increased largely due to stimulus payments and benefits through 1H21, in contrast to unemployment scenarios in typical recessions. This is consistent with the observation that net worth growth for the bottom half of households was the strongest among all wealth percentile groups. As a result, we believe there was little incentive for these workers to seek employment in 2021, helping to worsen the labor shortage. However, benefits later began to roll off and savings started to drop rapidly. Budget buffers accumulated over the past two years are now dissipating, especially for low-income panel members, likely providing a strong incentive for them to go back to work.

PANDEMIC PAYMENTS APPEARED TO HELP LOW EARNERS' SAVINGS

Total net worth of bottom 50% wealth households compared with other wealth percentiles



Source: Federal Reserve. As of April 9, 2022. For illustrative purposes only.

Another substantial factor in workforce shortages has been the aging population. With 6% more Americans at age 55 or older than during the Great Recession (2007 – 2009), the "non-prime" age cohort contributed significantly to the workforce reduction during the pandemic. With some choosing to retire early, our data suggest that many are facing increasing economic hardship versus their prime-age counterparts among low-income earners due to higher fixed spending. In our view, age cohort analysis is crucial to understanding when the non-prime age worker may return to the workforce.

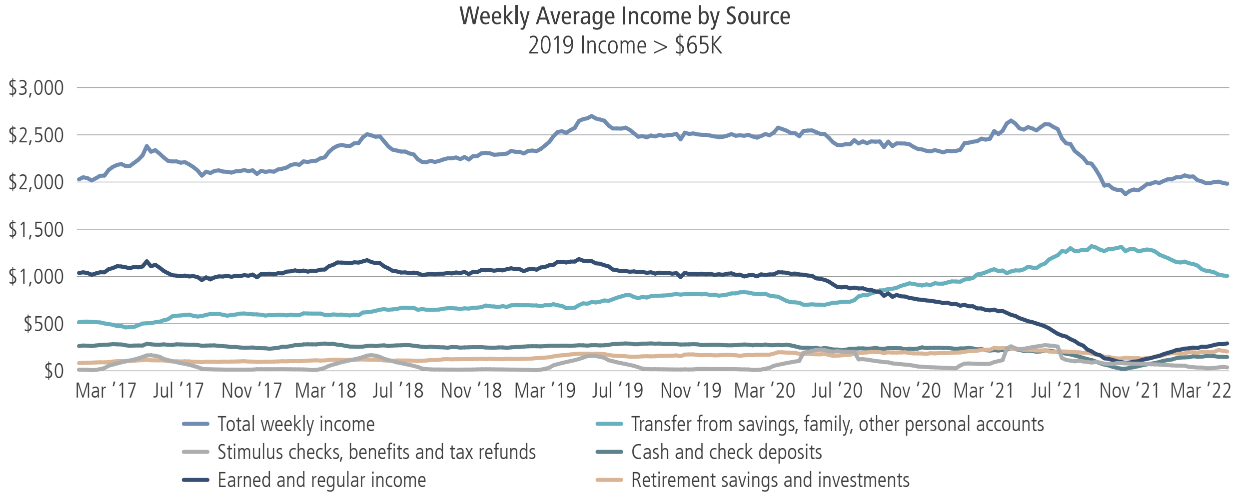
THE GREAT RESIGNATION

Although the trends above suggest an easing of some pressures around the workforce, it's likely that staffing could remain challenging for some time. As a result, we believe it is highly important for companies to do what they can to enhance employee satisfaction and thus both retain more workers and enhance their reputation in order to facilitate hiring. In our view, companies with higher standards and better execution on infusing corporate culture as well as diversity, equity and inclusion (DEI) may be at an advantage.

Persistence of Retention Worries

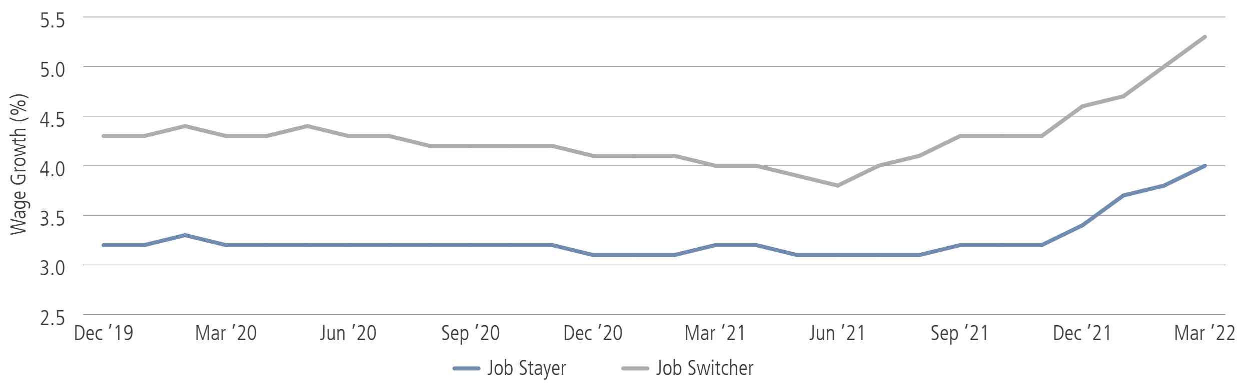
The data suggest that the "great resignation" issue for more highly skilled workers may persist. This cohort's income and savings levels are still high and healthy compared to pre-pandemic levels. In competition for talent, wage growth started with job switchers last June, and since last November has spread to job "stayers," highlighting the urgency of retention. Therefore, we believe it is especially productive for investors to evaluate and engage with companies (especially those with high skilled workers) to emphasize high cultural/DEI standards for talent retention in addition to compensation.

WEEKLY INCOME AND CREDIT UTILIZATION OF THE HIGH-INCOME COHORT



Source: As of April 9, 2022. For illustrative purposes only.

WAGE GROWTH OF JOB STAYERS AND SWITCHERS DURING THE PANDEMIC



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TAKEAWAYS

The observations above reflect only limited elements of the employment picture, and yet they may be highly useful in assessing both the potential around wage pressures and gradual unwinding of pandemic-related trends, as well as the potential benefit of targeting employees with policies that reinforce job satisfaction and loyalty. Importantly, we believe they also reflect the value of alternative data in identifying granular activity and broader trends to create useful observations for investors.

Looking at the retention and DEI issues, we have leveraged alternative data sources such as employee profiles and employee reviews to construct in-depth employee metrics, where there is limited disclosure, to monitor talent retention and competition trends.

For industries competing for highly skilled workers in a tight labor market, alternative data that allows us to monitor where companies are largely sourcing talent from and where talent is going have been highly informative. Specifically, in one recent study of companies in the digital consulting sector, such an analysis enabled employee quality assessments, which strengthened our conviction in certain organizations over other players in the field.

Another example involved our recent deep dive into an information services company in the commercial real estate space. Although the company was competitive on compensation in an industry where pay levels are typically high, and in our view had historically demonstrated strong operating performance, a deteriorating corporate culture was evident in employee review data; we analyzed alternative data such as employee profiles to better understand its poor retention statistics, which influenced the investment team's decision to avoid the stock. Subsequent to our analysis, the company was the subject of a high-profile article that featured several former employees describing a toxic work environment, causing the shares to fall about 15% on the day of the article's publication.

In addition, we have also found that alternative data is an important tool in our engagement discussions with management. Such use of data was helpful in our recent engagement with a leading sportswear company, where the Data Science team assessed the potential effectiveness of the company's retention of technology talent through a flexible work-from-home approach and regular employee surveys. We believe such observations can be combined with more traditional fundamental analysis to reach meaningful conclusions about both sustainability practices and broader business health and prospects.

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