

# The Conference Board Special Webcasts

The Impact of Today's Tight Labor Market on Wages  
December 3, 2019



## Some of the critical questions and issues we will be answering today

- Despite an historically tight labor market, **wage growth is not back to pre-recession rates**. Why?
- What are the recent trends in **salary increase budgets**?
- Why are wages for **blue-collar workers** rising faster than for highly educated white-collar workers?
- What is causing **pay compression** in recent years and how are companies dealing with this?
- What do **rising labor costs** mean for **profitability**?



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# Today's Presenters



**Lisa Freeman**  
Vice President of  
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*Memorial Sloan  
Kettering Cancer  
Center*



**Frank Steemers**  
Associate Economist  
**The Conference Board**



**Gad Levanon, Ph.D.**  
**(Moderator)**  
Labor Markets  
Institute Leader  
*The Conference Board*





# The Impact of Today's Tight Labor Market on Wages

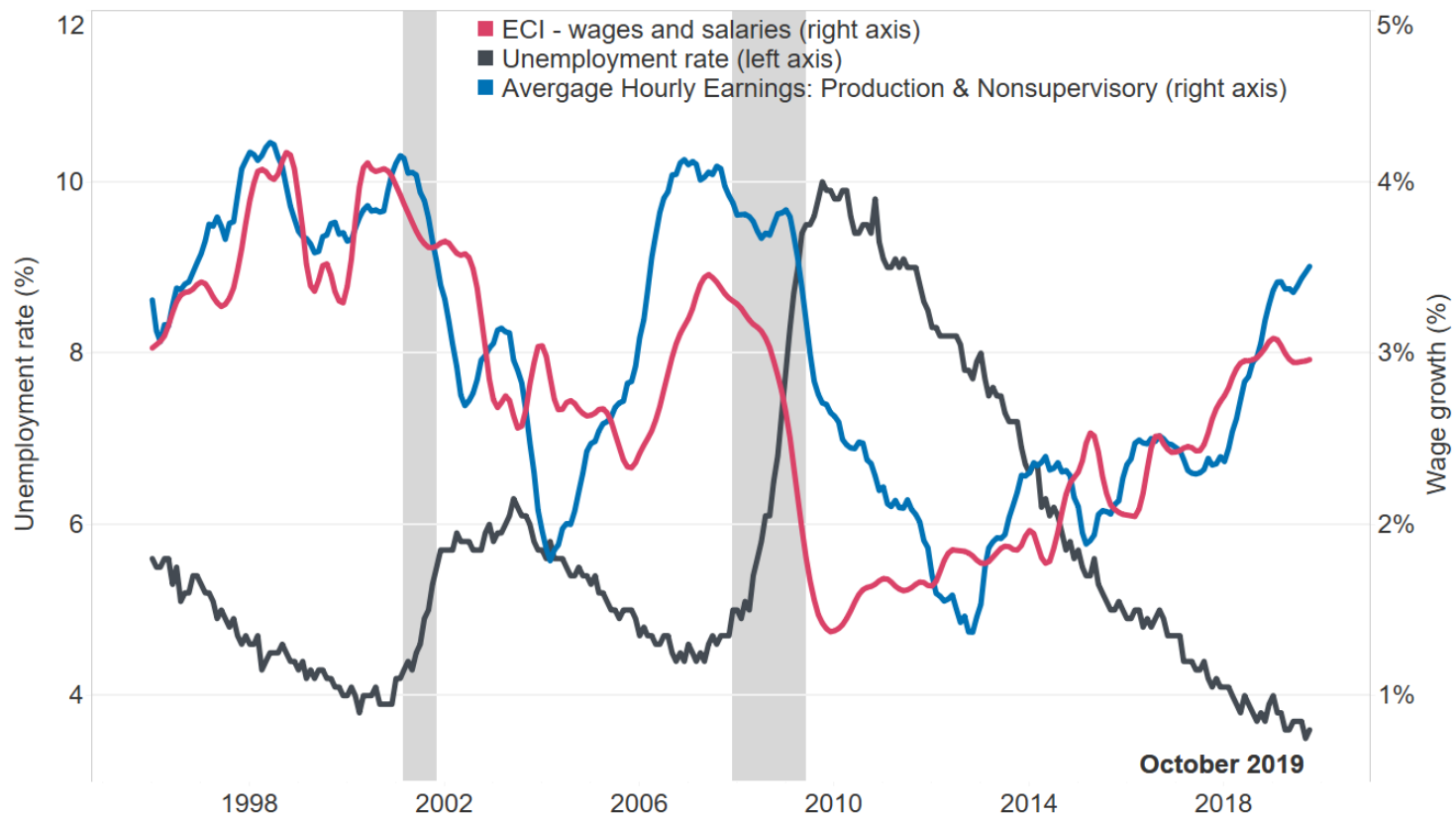
## Wages are accelerating amid an especially tight labor market for blue-collar workers

- In a span of 10 years, the US economy moved from the weakest labor market since the Great Depression to one of the tightest
- Despite an historically tight labor market, wage growth is not back to pre-recession rates. Why?
- There is a lot of variation across occupations and types of workers
  - ✓ For highly educated management, professional, and related occupations, wages have been growing much slower
  - ✓ Labor markets for blue-collar, manual services workers are much tighter and compensation is also growing faster
  - ✓ New hires are receiving stronger pay increases than existing workers
- Pay compression has become a real problem for employers
- Wage gaps by education, gender, and race and ethnicity are still visible, but for some the gaps are shrinking
- With revenue growth slowing, wages have started to affect profits



# Wages are accelerating but remain below prerecession rates

The unemployment rate, Average Hourly Earnings and the Employment Costs Index (wages and salaries), 3-month moving and quarterly averages, year-over-year percentage change, January 1996 to October 2019

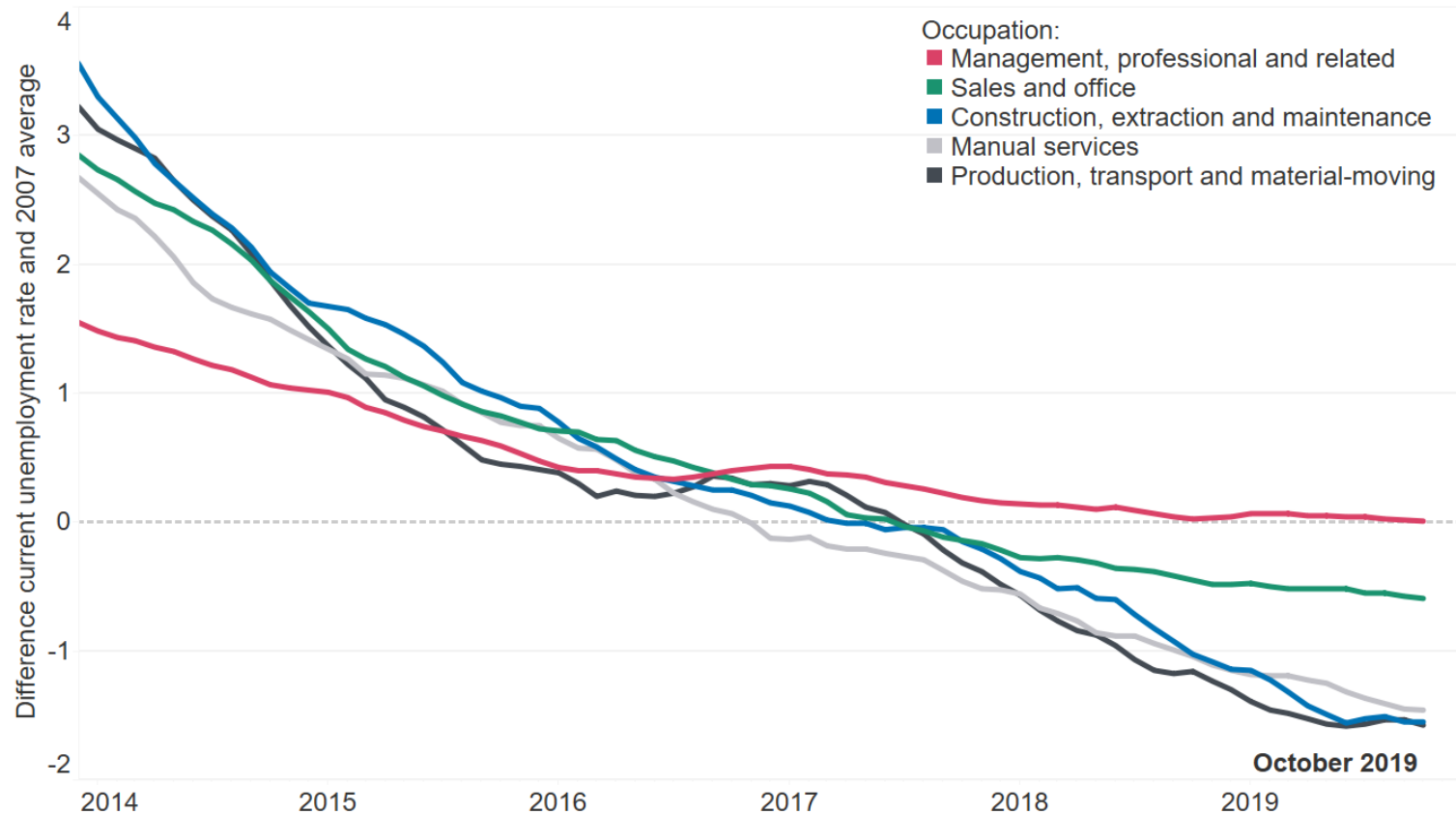


Source: US Bureau of Labor Statistics



# Blue-collar and manual services occupations experience the tightest labor markets

Unemployment rates by occupation group, difference compared to 2007 unemployment rates, 12-month moving average



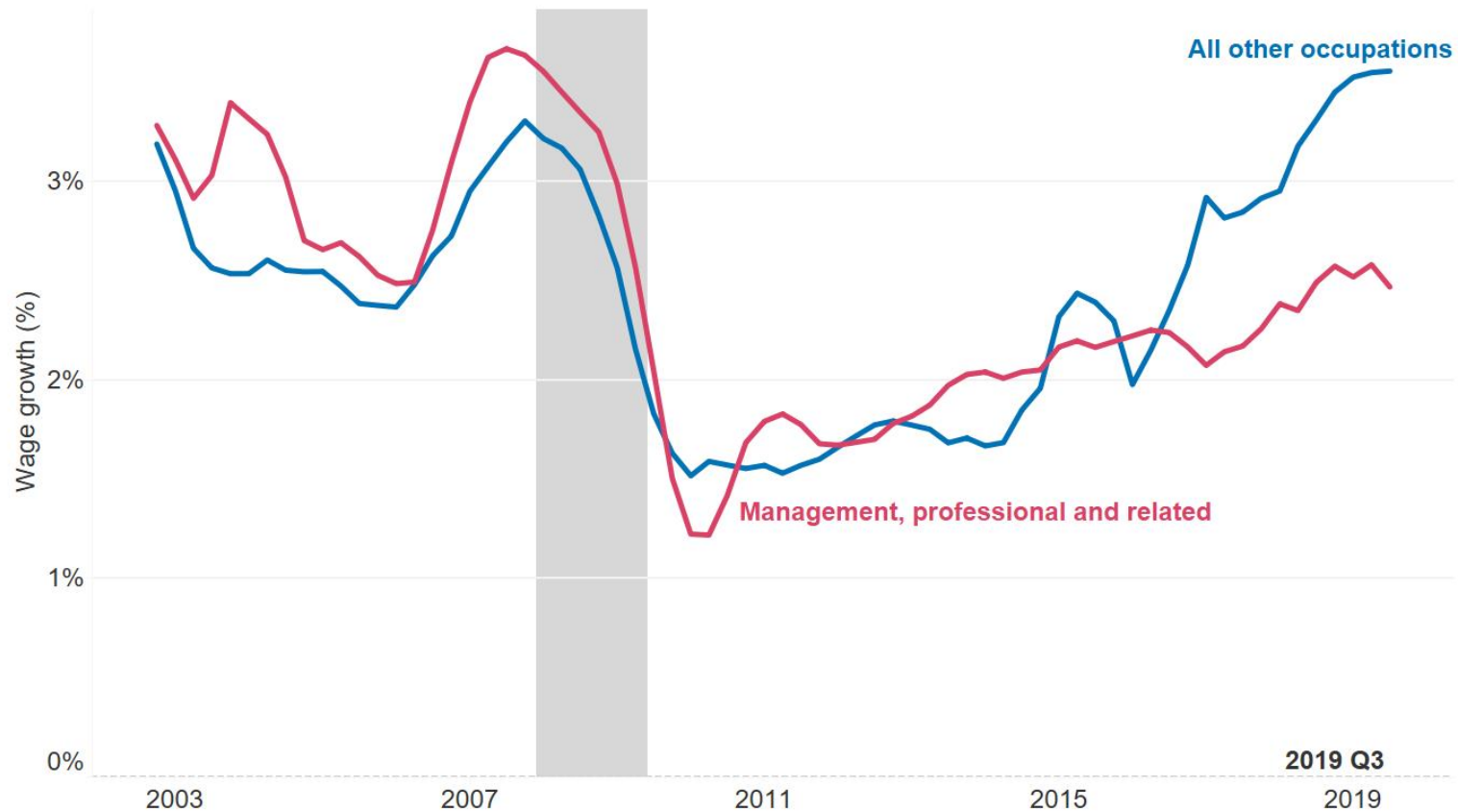
Source: US Bureau of Labor Statistics.





# Wages are accelerating, but less so for highly educated management and professional occupations

Year-over-year growth in the Employment Cost Index (wages and salaries), 4-quarter moving average, 2002Q4 to 2019Q3



Source: US Bureau of Labor Statistics and calculations by The Conference Board.

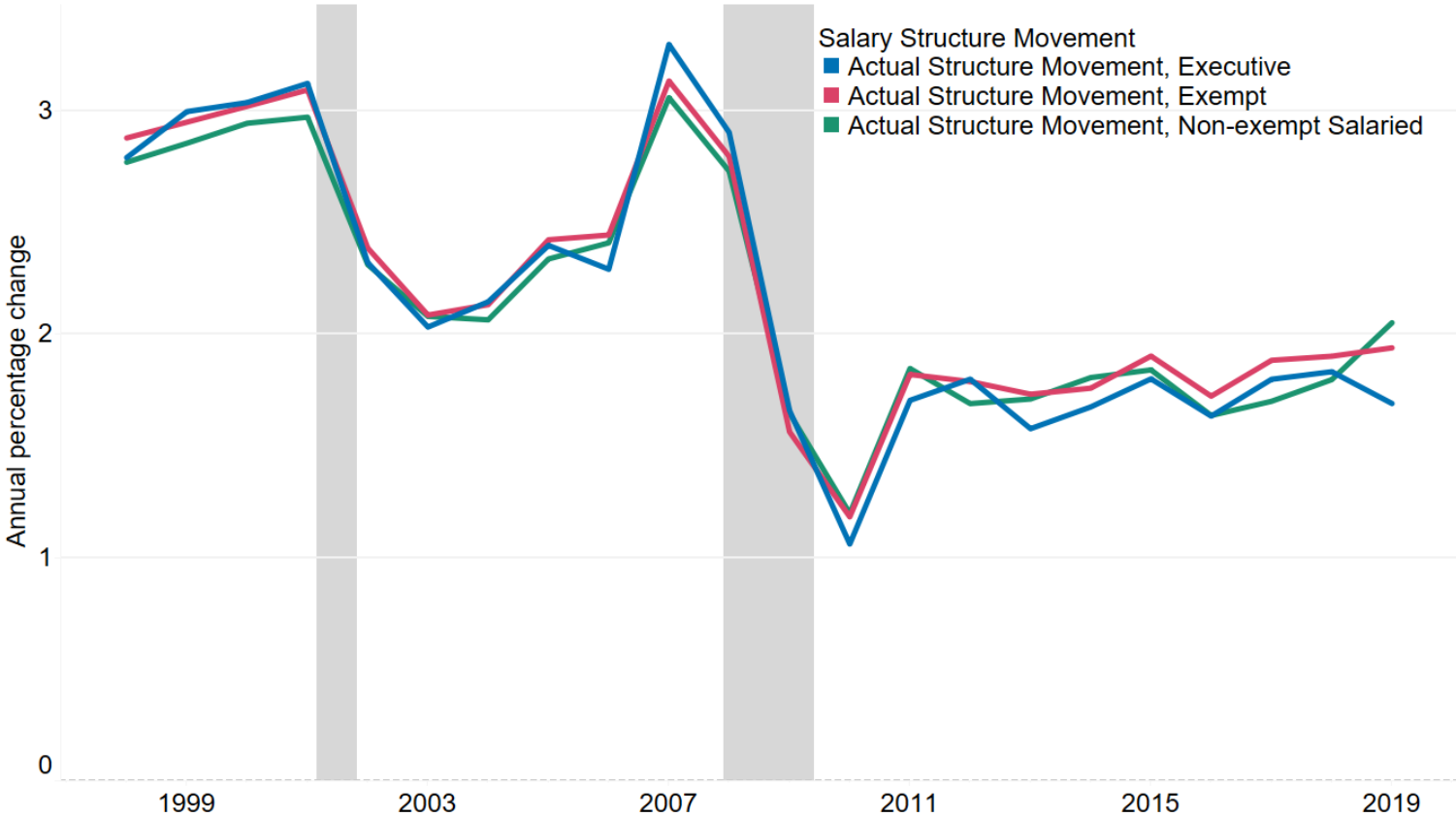


## New Hires versus Existing Workers

For new hires, wages are accelerating much faster than for existing workers, which has created the problem of pay compression

# Salary structure movement remains well below prerecession rates...

Average actual salary-structure movements, percent change from previous year, by category, 1998 to 2019

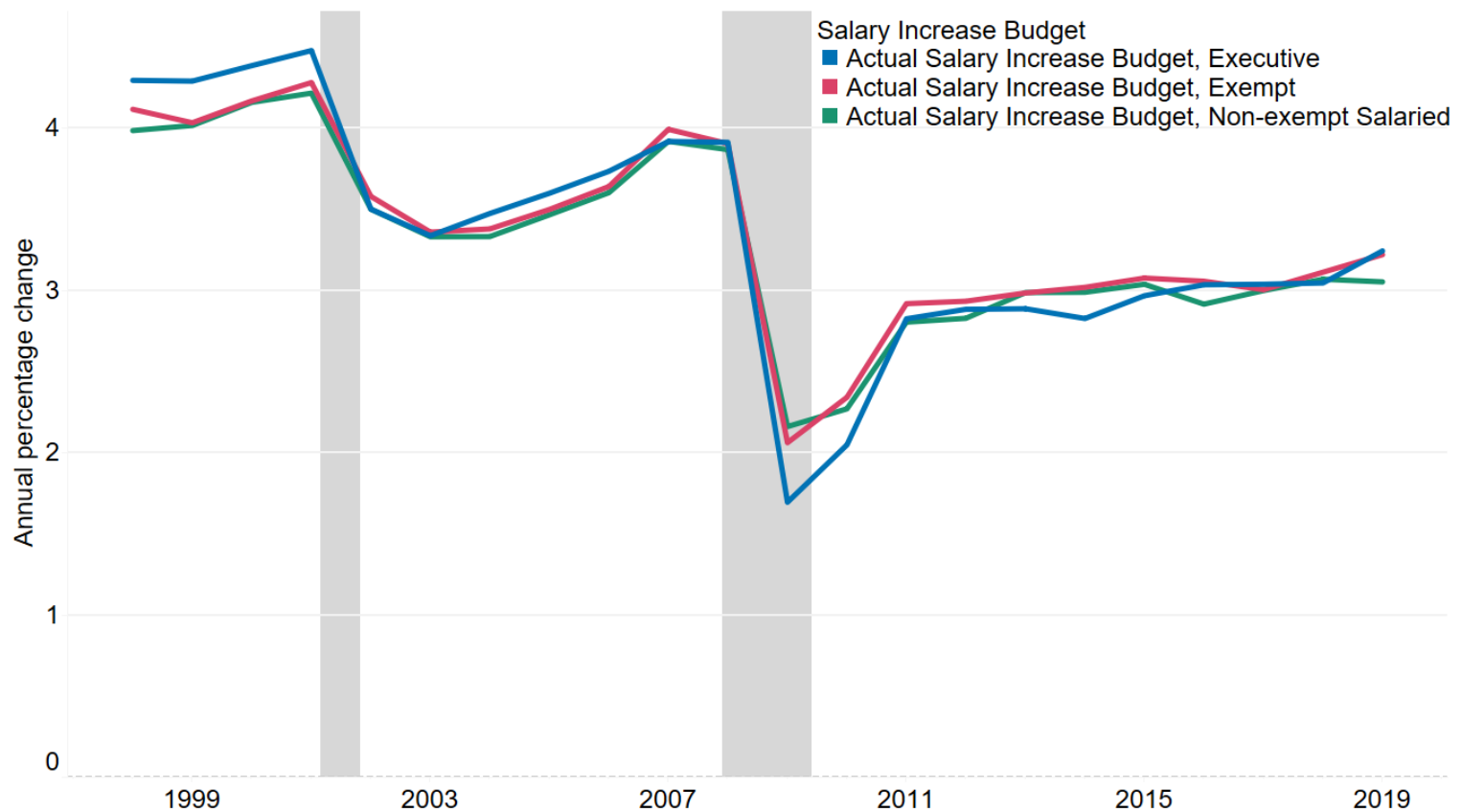


Source: The Conference Board



## ...As do salary increase budgets

Average actual salary increase budget, percent change from previous year, by category, 1998 to 2019

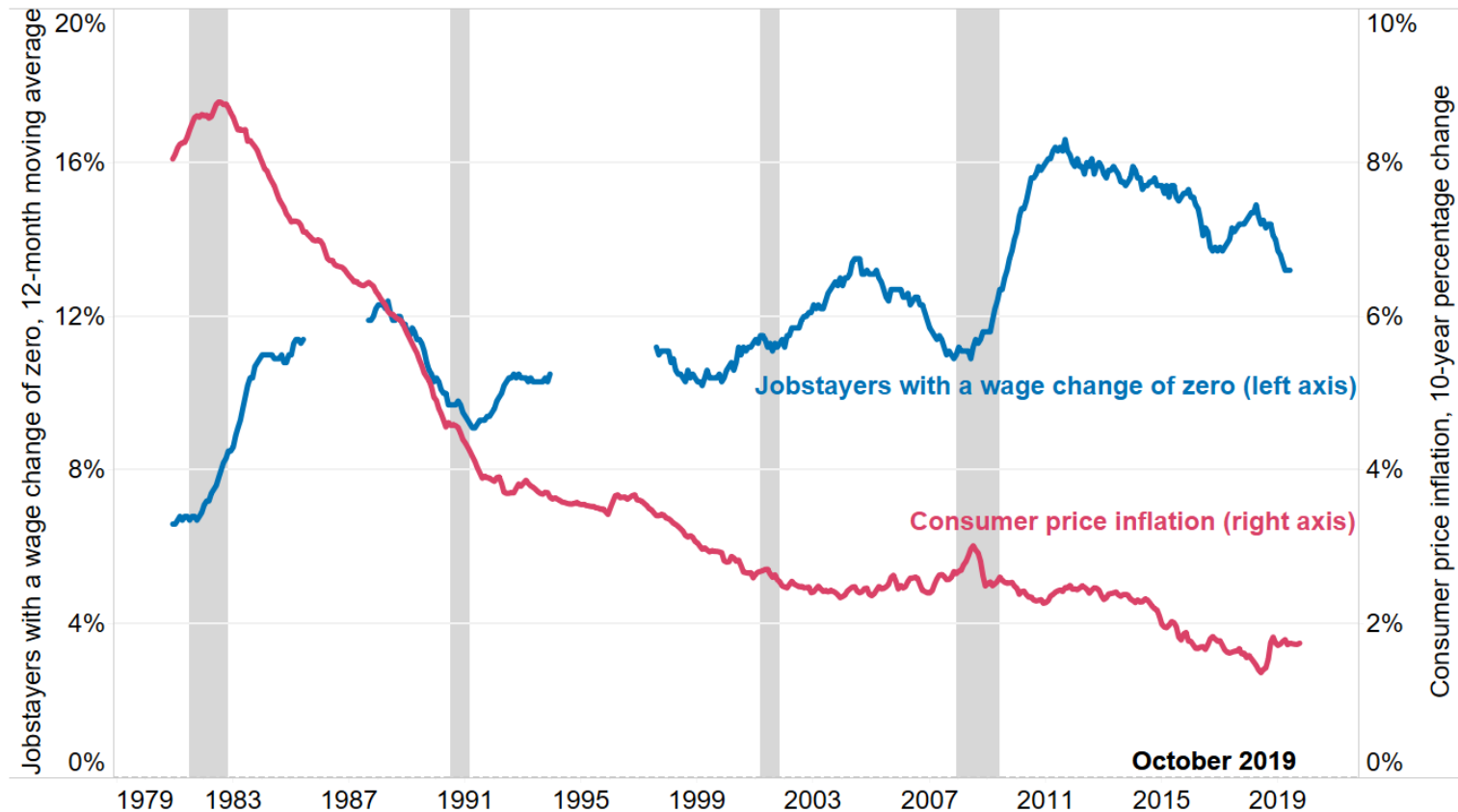


Source: The Conference Board



# A large share of jobstayers do not get any pay increase, likely related to slower growth in the cost of living

Share of jobstayers with zero wage growth and consumer price inflation 10-year annualized percentage change, January 1980 to October 2019

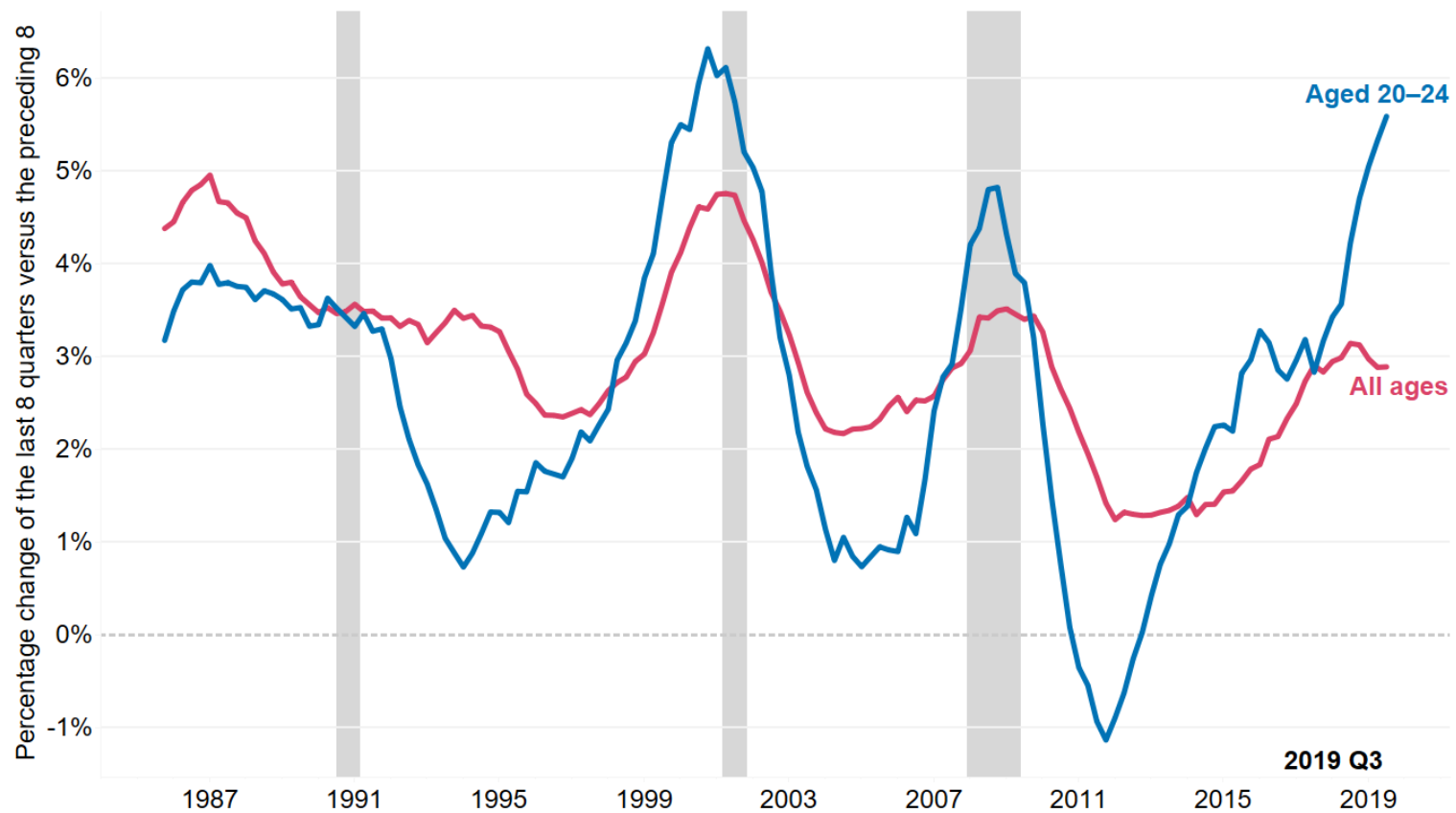


Source: Federal Reserve Bank of San Francisco and US Bureau of Labor Statistics



# Wages for young workers, a proxy for new hires, are rising faster than total wages

Wages for workers aged 20-24 and all ages, last 8 quarters versus the 8 preceding quarters, annualized percentage change, 1985Q4 to 2019Q3

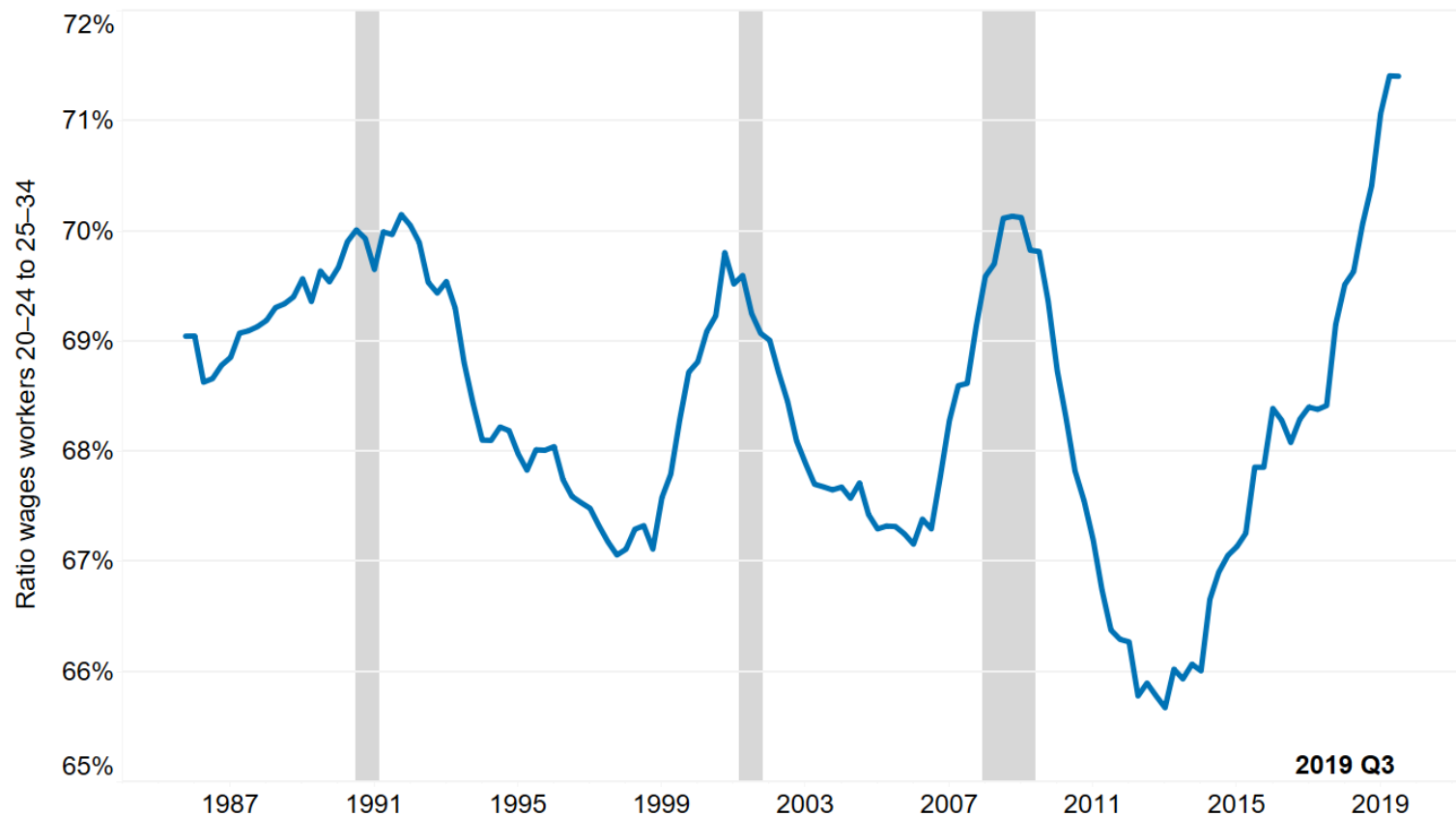


Sources: US Bureau of Economic Analysis and The Conference Board



# The wage gap between new and existing workers is at its smallest in 36 years – causing pay compression

Ratio of the wages of workers 20–24 years of age versus those of workers 25–34 years of age, 8-quarter moving average, 1985Q4 to 2019Q3



Sources: US Bureau of Labor Statistics and The Conference Board





Memorial Sloan Kettering  
Cancer Center

# Wage Compression

Lisa Freeman

Vice President, Talent Management and  
Compensation

December 3, 2019

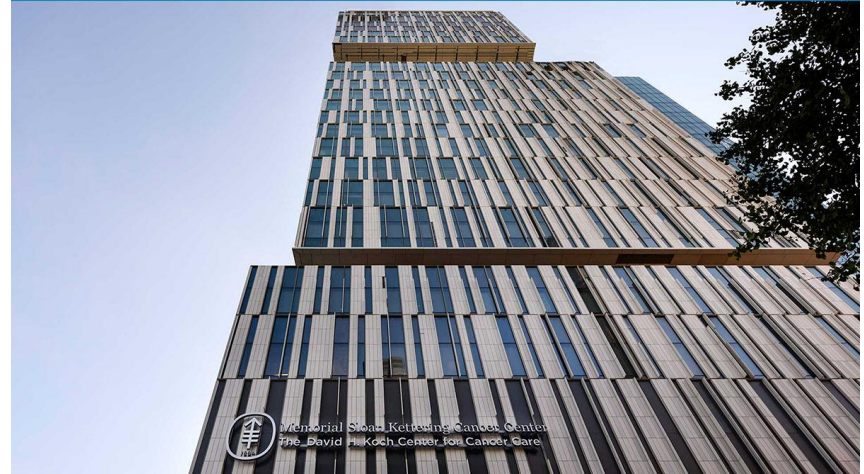




# Memorial Sloan Kettering Cancer Center

- › Memorial Sloan Kettering Cancer Center — the world's oldest and largest private cancer center — has devoted more than 130 years to exceptional patient care, innovative research, and outstanding educational programs.
- › Today, we are one of 50 National Cancer Institute-designated Comprehensive Cancer Centers, with state-of-the-art science flourishing side by side with clinical studies and treatment.

**OPENING JANUARY 2020**



- 498 inpatient beds
- 24,243 inpatient stays
- 776,546 outpatient visits
- 18,500+ employees including 1,200 physicians, 4,000 registered nurses, 130 SKI scientists, and 13,000 staff
- 27 facilities across Manhattan, New Jersey, Long Island, and Westchester



# Wage Compression: Challenges @ MSK

- › Healthcare industry undergoing a paradigm shift.
  - Digitization and new technologies
  - Emergence of new hybrid roles
  - Increased role of advanced analytics
  - Continuous need to upskill existing talent pool
- › Limited talent pools for specialized skills.
- › Competing for talent not only with healthcare but also with tech giants.
- › High cost of living and very competitive landscape in New York metropolitan area.
- › Demographic trends exacerbate these challenges.



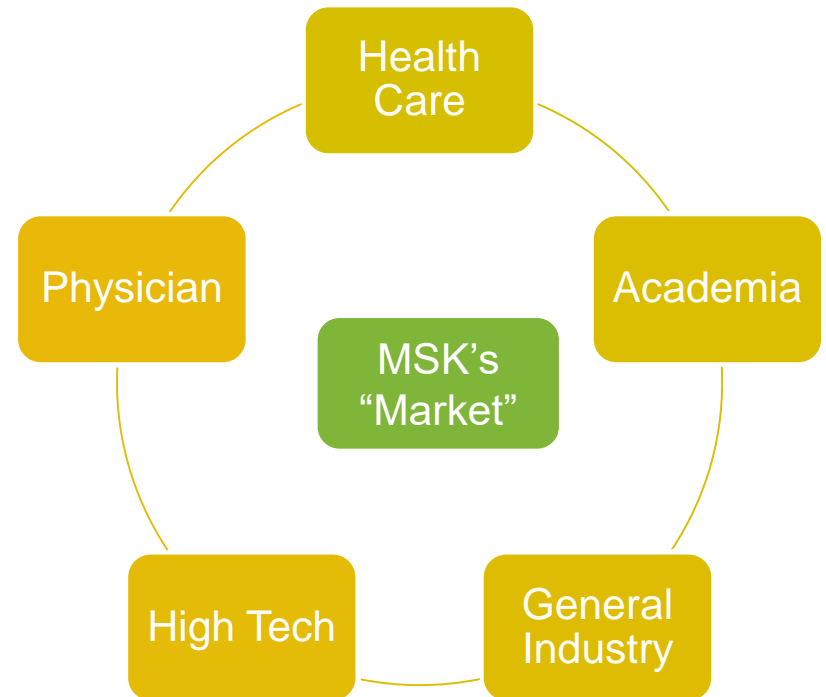
# Wage Compression: Strategy @ MSK

- › Robust market benchmarking strategy
  - Emphasis on internal pay equity
  - Refresh salary grade ranges every year to reflect inflation
  - Market studies for specialized roles on yearly basis
  - Use of geographical differential for specialized roles
- › Flexible approach to pay adjustments to reward high performers and respond to market challenges
  - Annual salary increases aligned with position in range and performance
  - In-range adjustments
  - Red circling



# MSK's Market Benchmarking Approach

- › Define a target market position for each market in which we compete.
- › Look at both quantitative and qualitative factors.
- › Flexibility is a core value of our compensation philosophy and structure.



# Case Study: Nurse Anesthetists (CRNAs)

## › Background

- MSK expanding: Significant pressure to fill vacancies in our new network sites.
- Demand for CRNAs exceeds the available talent pool as outpatient procedures increase (e.g., colonoscopy).
- As result, starting salaries in the New York metropolitan area were rising rapidly.

## › Challenges

- Adjustments in salaries for existing staff to avoid wage compression had significant costs associated with them.
- Leadership did not understand the need to constantly review (let alone adjust) salaries.
- Failure to respond in a timely manner resulted in high turnover and recruitment costs.



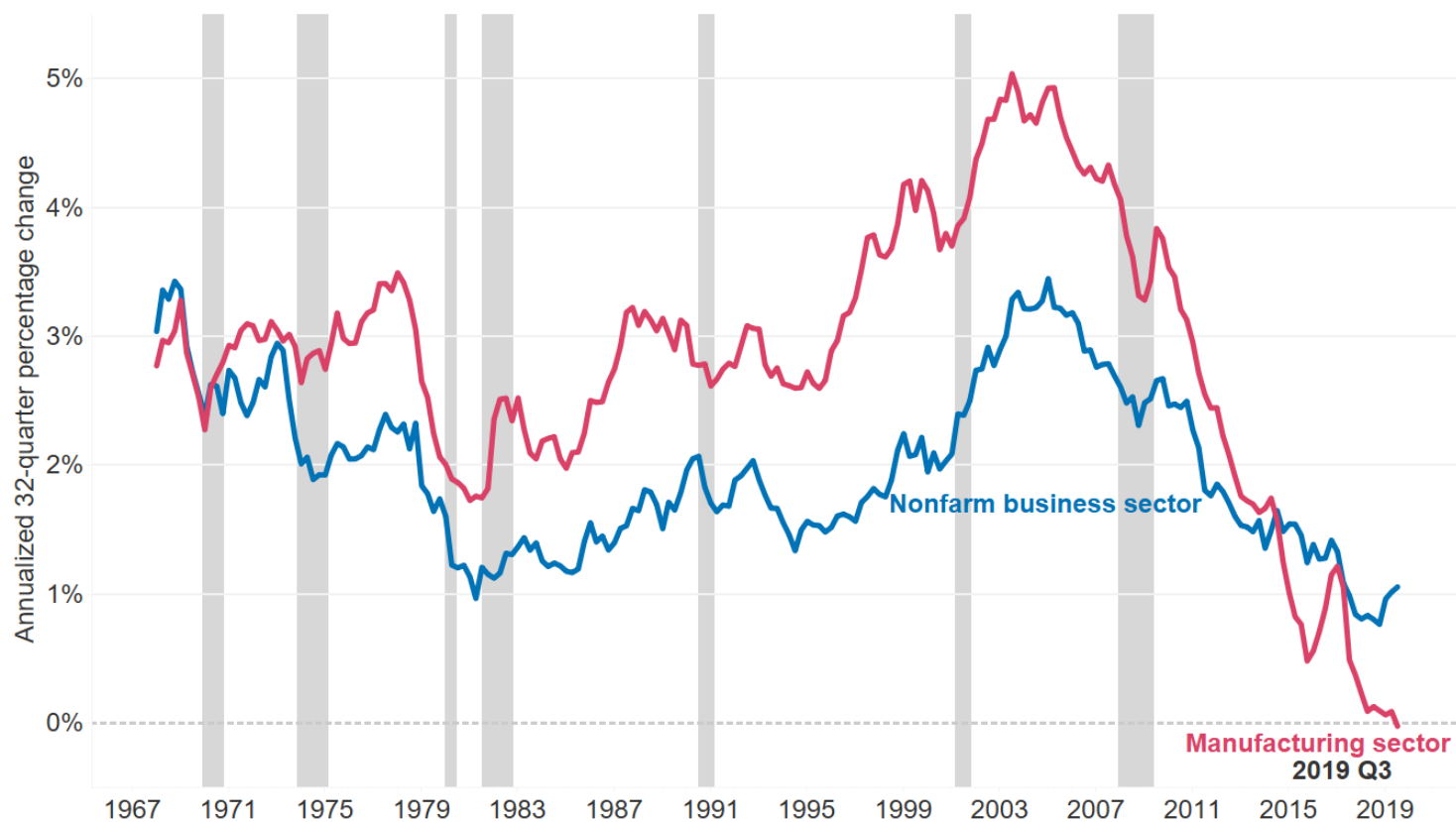
## Case Study: Nurse Anesthetists (CRNAs)

- › Our Approach: Analyze cost of turnover and open positions to support pay adjustments:
  - Significant overtime and external per diem expenses being paid to existing staff to cover for vacancies.
  - Burnout a real issue.
  - Time and costs associated with searches, interviews, selection, credentialing, and on-boarding.
- › Outcome
  - Cost of the vacancies was almost 50% of the proposed salary adjustment cost.
  - Cost rose to nearly 100% of the proposed salary adjustments if we filled all vacancies with temporary help.



# Productivity growth has been historically weak in the last decade – less need to increase compensation

Real output per hour for the nonfarm business sector and manufacturing, 32-quarter percentage change, annualized, 1968Q1 to 2019Q3

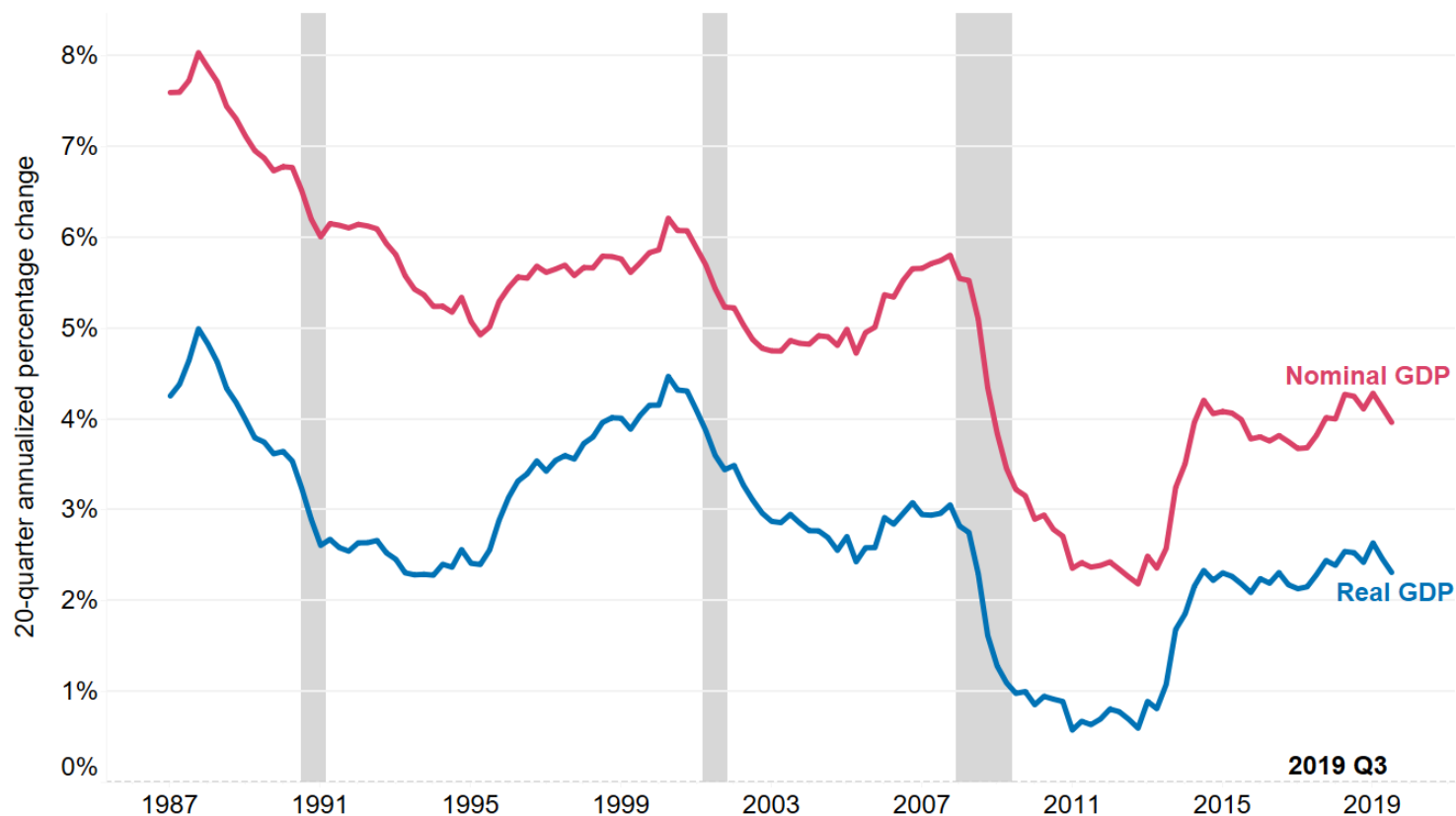


Source: US Bureau of Labor Statistics



# Revenues growth is slower compared to previous decades – another reason for lower wage growth

Nominal and Real GDP, 20-quarter percentage change, annualized, 1987Q1 to 2019Q3



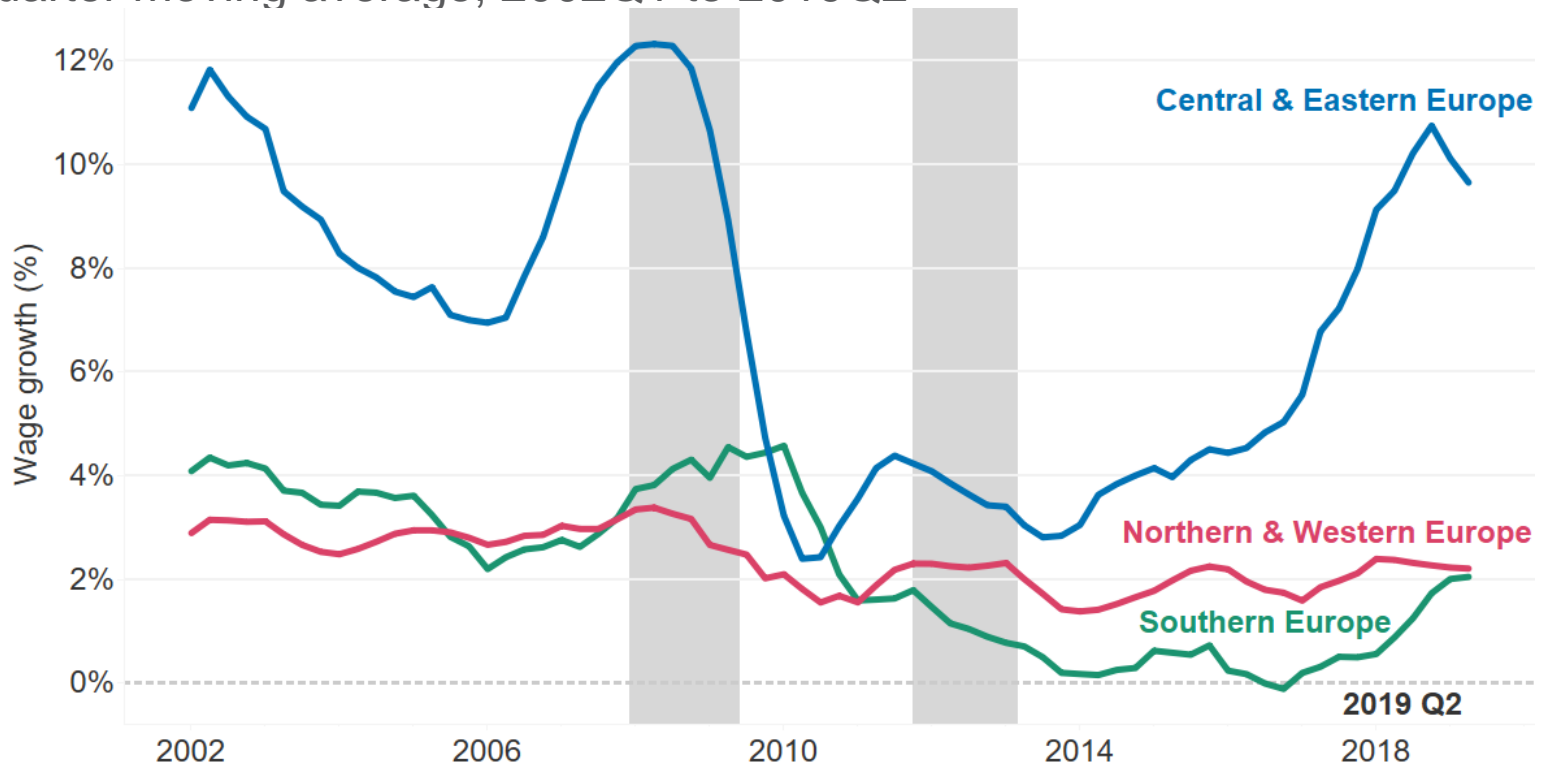
Source: US Bureau of Economic Analysis





# Slow wage growth visible in most of Europe, with Central and Eastern Europe being a clear exception

Eurostat Labour Cost Index (wages and salaries), percentage change compared to the same quarter in the preceding year, business economy, 4-quarter moving average, 2002Q1 to 2019Q2



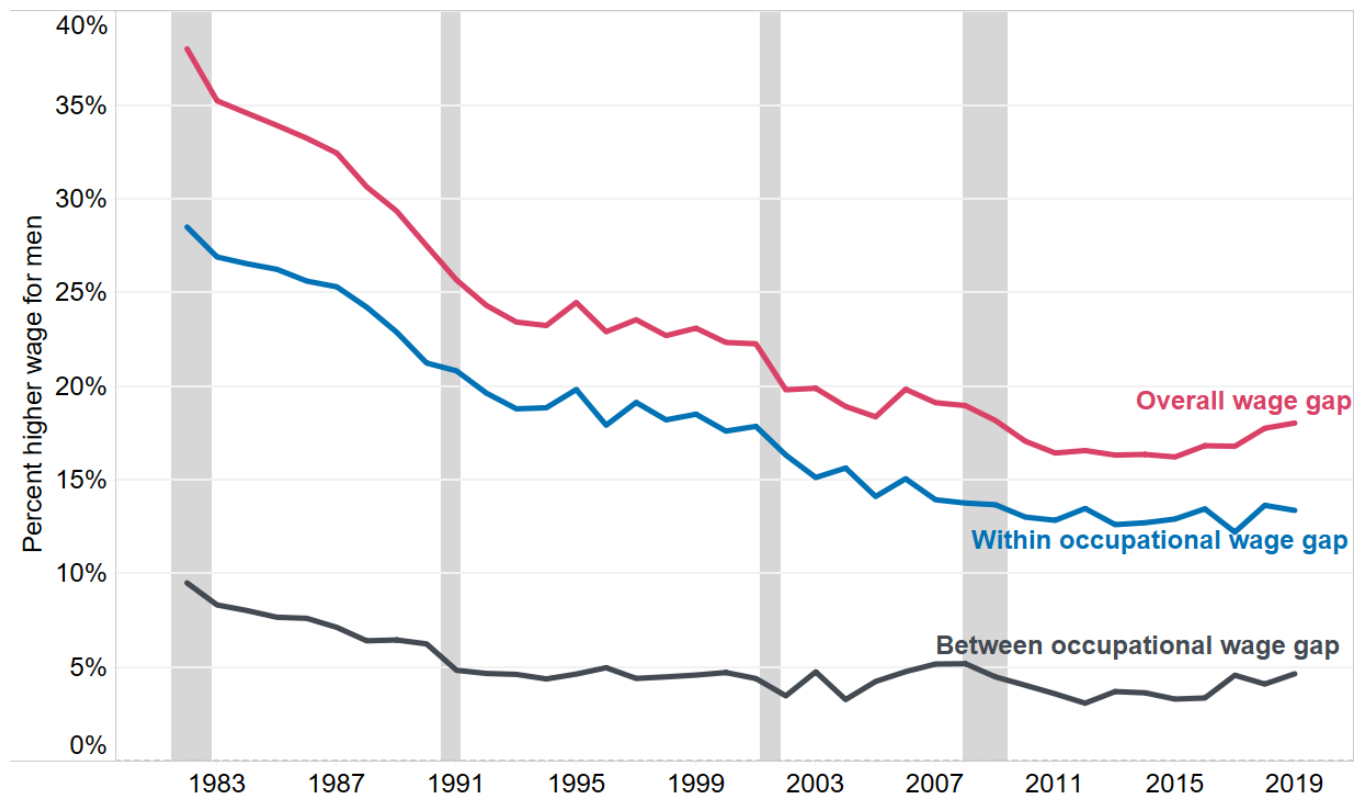
Sources: Eurostat; The Conference Board



# Trends in other wage gaps

# The gender wage gap has shrunk over time, but recently started to widen

Male worker wages compared to female worker wages; percent difference; controlled for differences in age, race/ethnicity, education, state, and for the within gap, also for occupation; 1982 to 2019



Note 1: 2019 represents the average of the period November 2018 to October 2019.

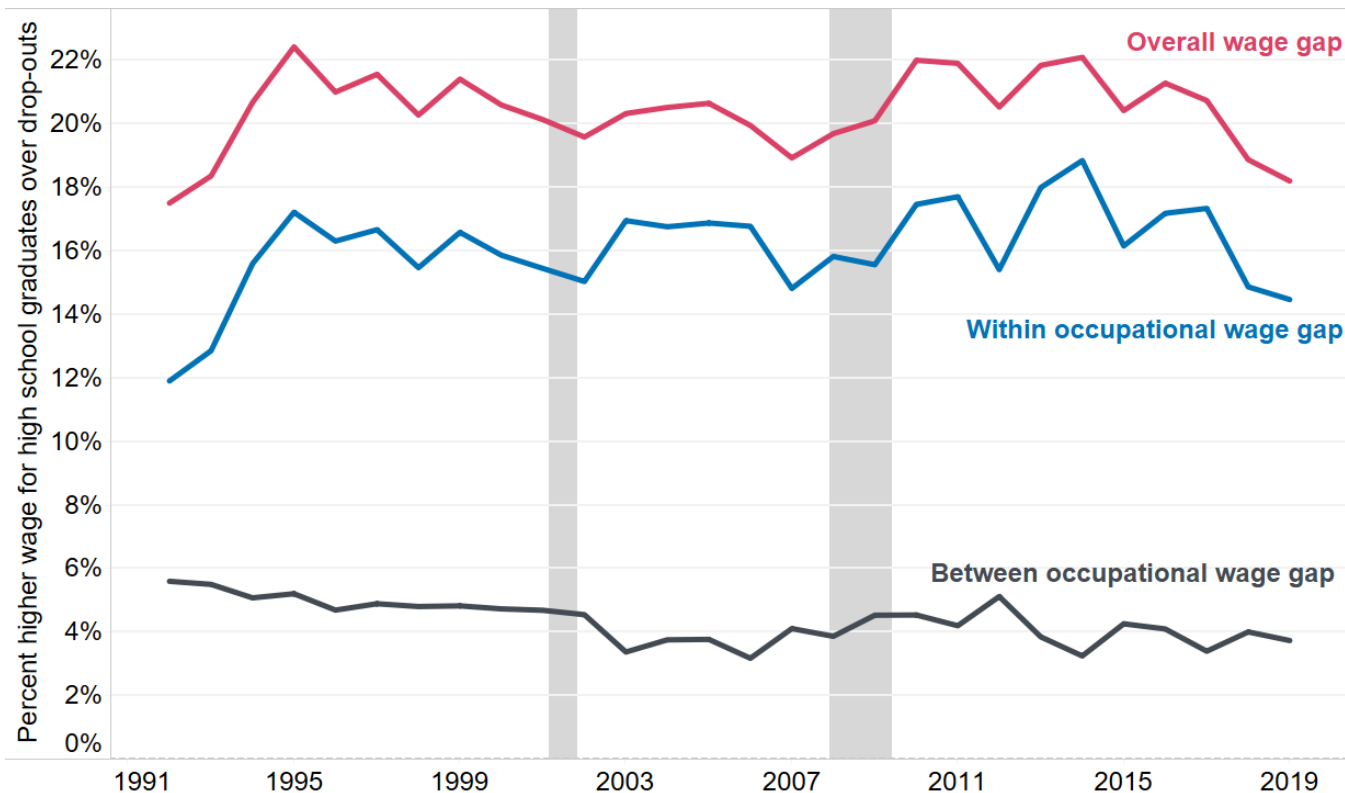
Note 2: The within occupational wage gap also controls for the impact of occupations on wages.

Sources: The Conference Board using microdata from IPUMS-CPS, University of Minnesota



# Wage differences between high school graduates and high school drop-outs are shrinking

High school graduate wages compared to high school drop-out wages; percent difference; controlled for differences in age, race/ethnicity, education, state, and for the within gap, also for occupation; 1992 to 2019



Note 1: 2019 represents the average of the period November 2018 to October 2019.

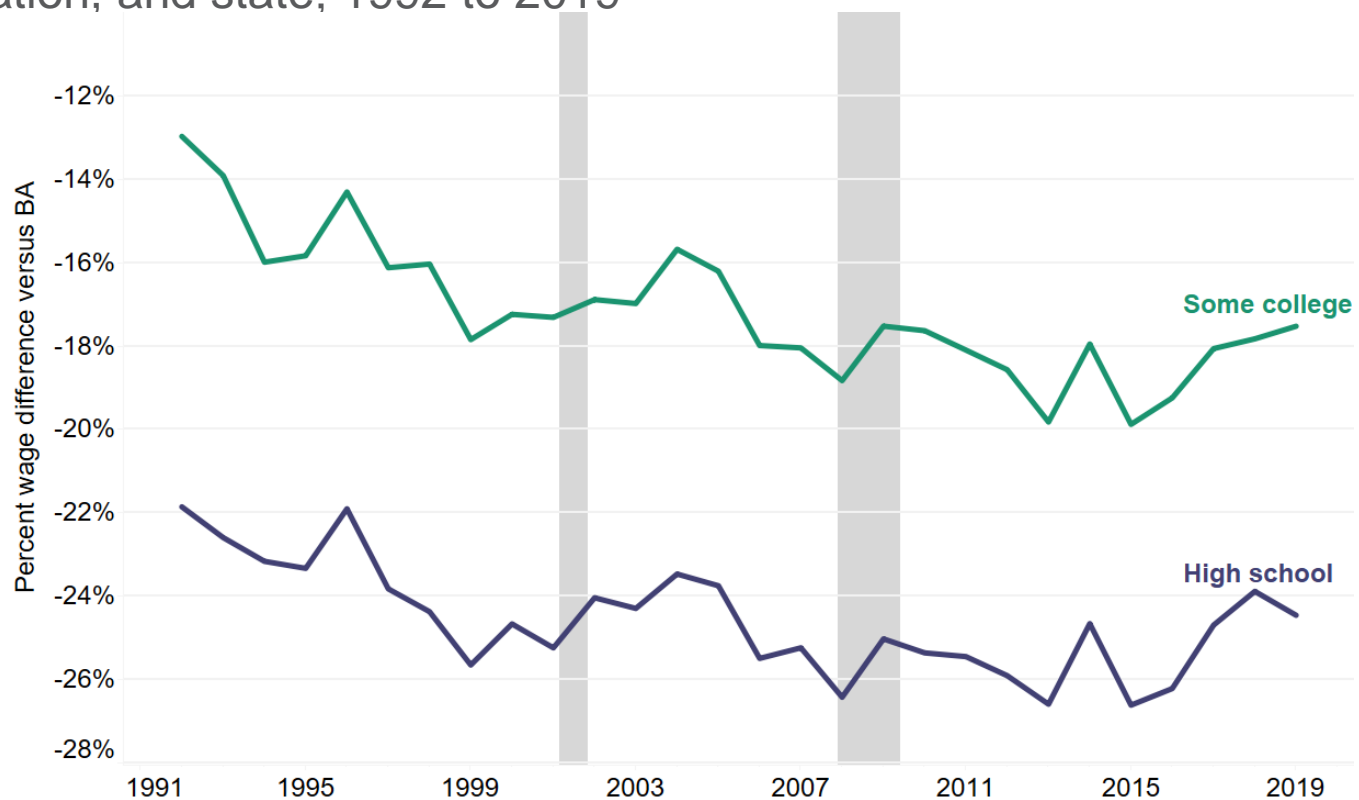
Note 2: The within occupational wage gap also controls for the impact of occupations on wages.

Sources: The Conference Board using microdata from IPUMS-CPS, University of Minnesota



# There is still a significant wage premium for workers with a BA, though shrinks amid tight non-BA labor markets

High school graduate and some college wages compared to BA worker wages; percent difference; controlled for differences in age, race/ethnicity, education, and state; 1992 to 2019



Note 1: 2019 represents the average of the period November 2018 to October 2019.

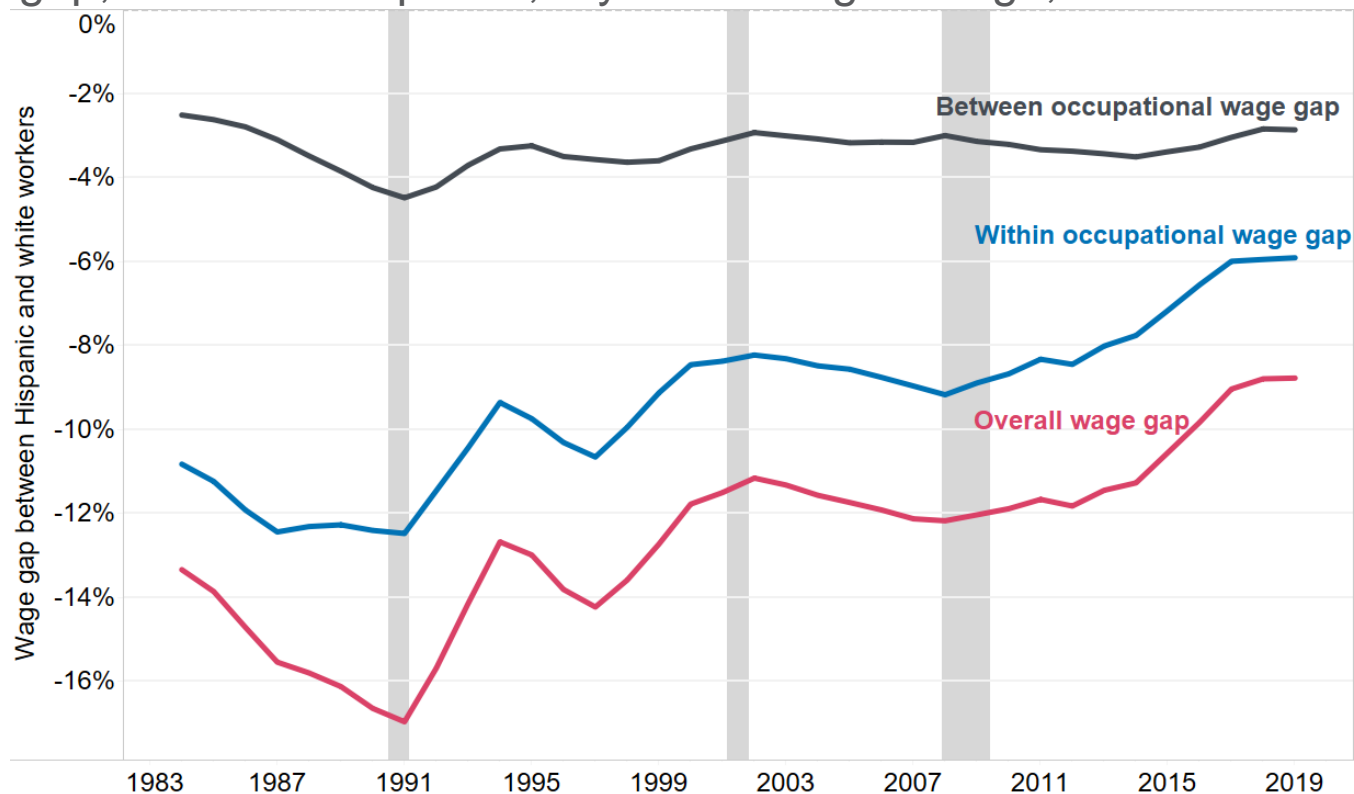
Note 2: We only show the overall wage gap and do not control for difference in the occupational distributions.

Sources: The Conference Board using microdata from IPUMS-CPS, University of Minnesota



# Hispanics have experienced strong wage gains compared to white workers

Hispanic worker wages compared to white worker wages; percent difference; controlled for differences in age, race/ethnicity, education, state, and for the within gap, also for occupation; 3-year moving average; 1984 to 2019



Note 1: 2019 represents the average of the period November 2018 to October 2019.

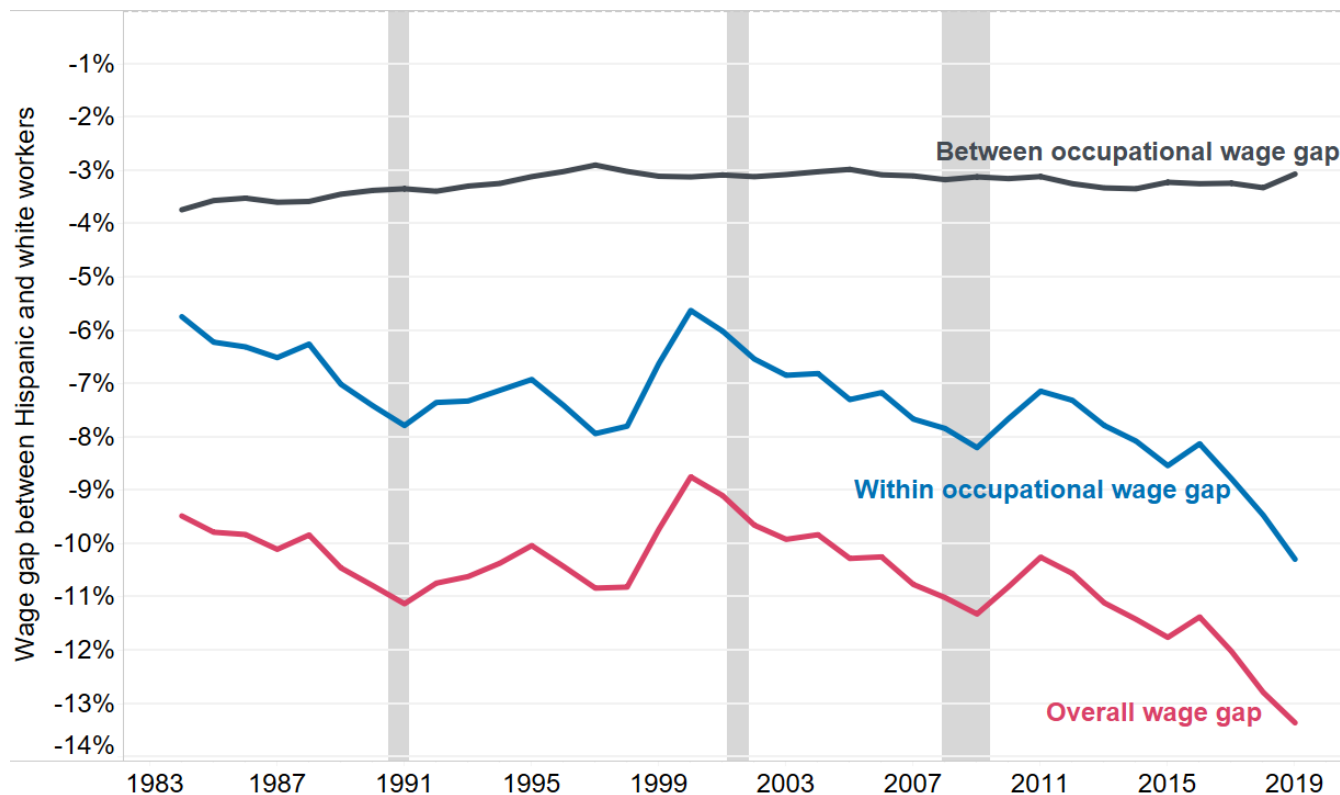
Note 2: The within occupational wage gap also controls for the impact of occupations on wages.

Sources: The Conference Board using microdata from IPUMS-CPS, University of Minnesota



# The wage gap between white and black workers has further widened

Black worker wages compared to white worker wages; percent difference; controlled for differences in age, race/ethnicity, education, state, and for the within gap, also for occupation; 3-year moving average; 1984 to 2019



Note 1: 2019 represents the average of the period November 2018 to October 2019.

Note 2: The within occupational wage gap also controls for the impact of occupations on wages.

Sources: The Conference Board using microdata from IPUMS-CPS, University of Minnesota

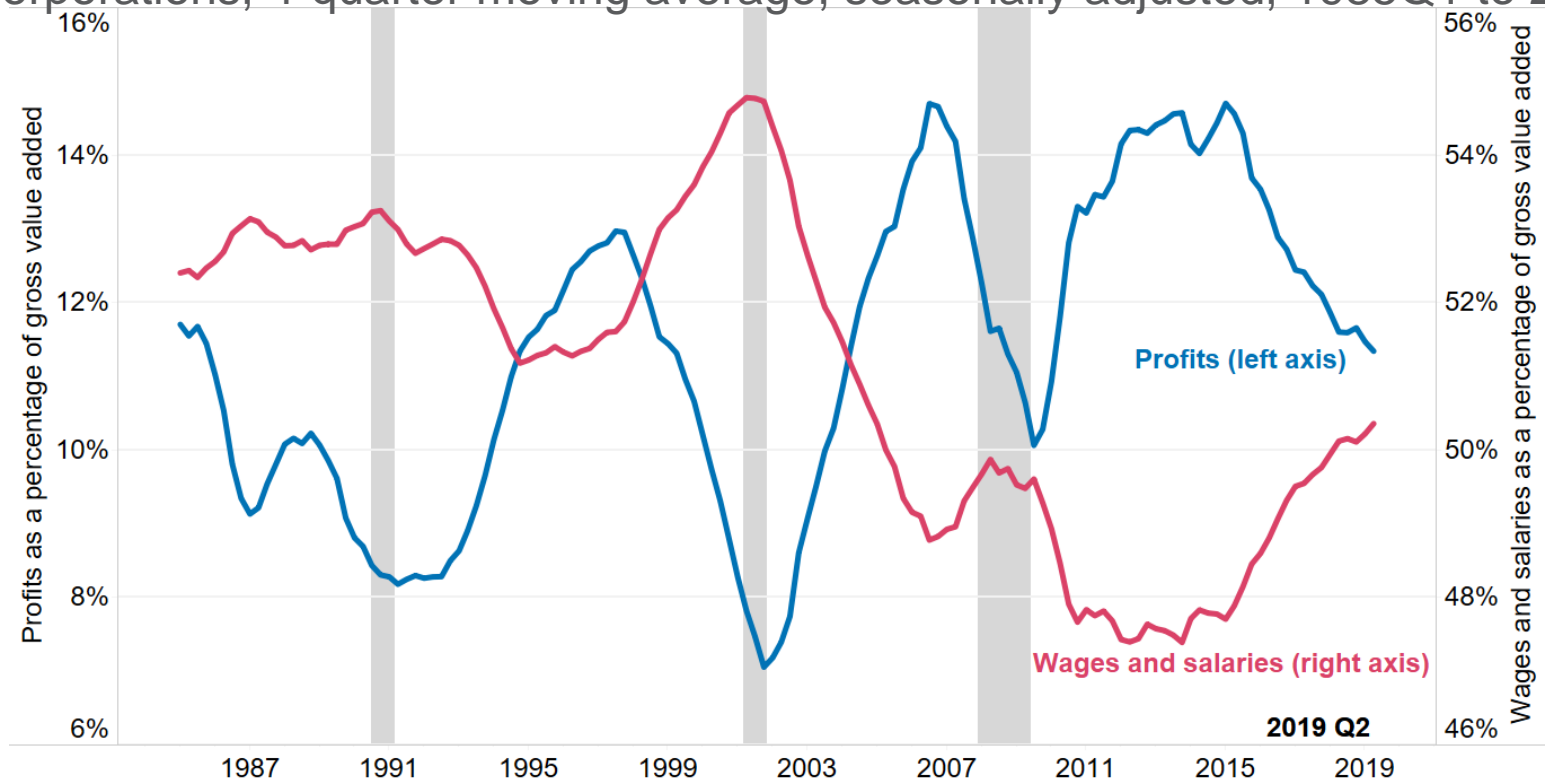


# Rising Wages and Lower Profits



# Corporate profit growth is rapidly declining as rising labor costs erodes profitability

Corporate profits (with inventory valuation and capital consumption adjustment) and wages and salaries, as a share of gross value added of nonfinancial corporations, 4-quarter moving average, seasonally adjusted, 1985Q1 to 2019Q2

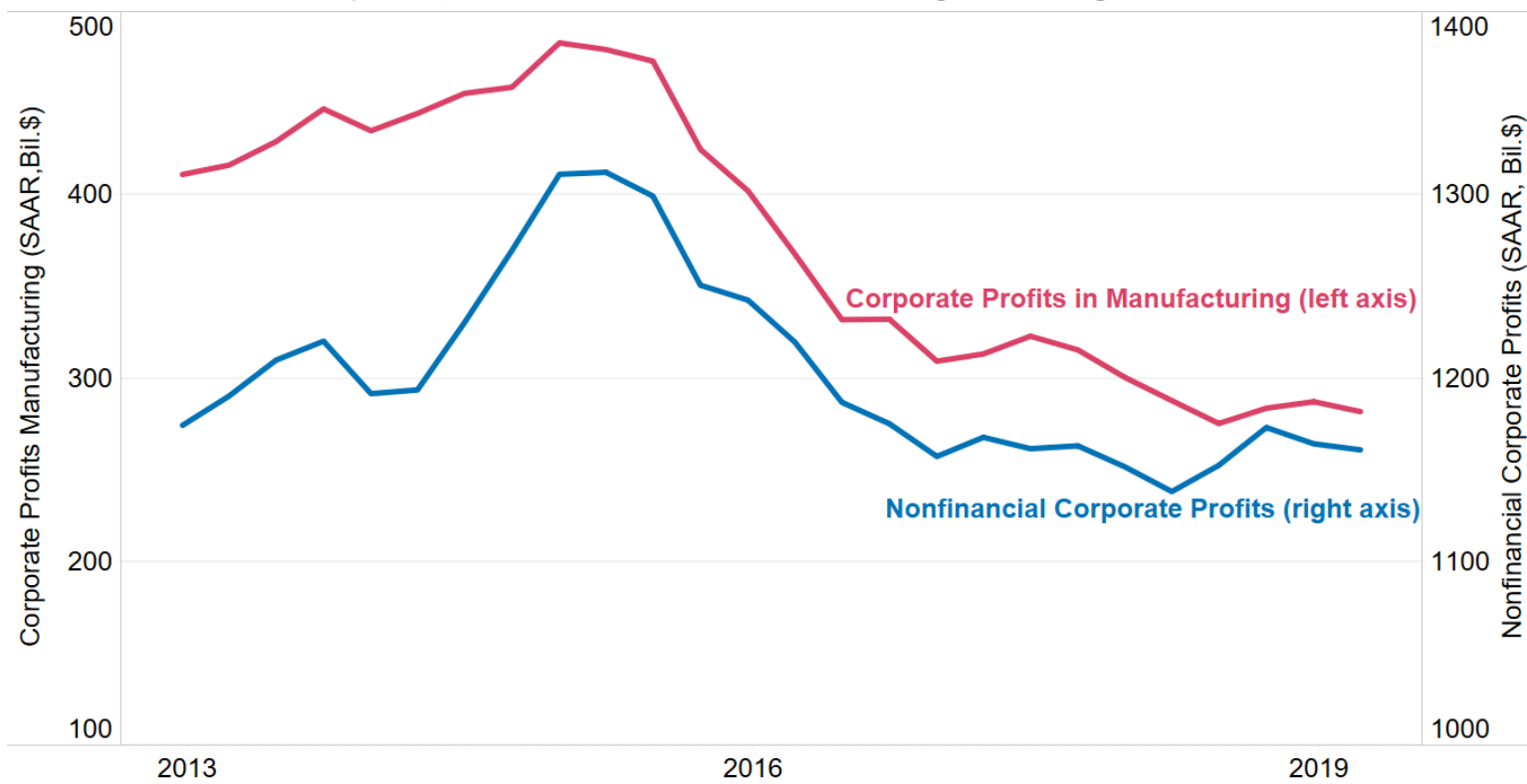


Source: Bureau of Economic Analysis



# Corporate profits are declining, especially in manufacturing

Corporate profits in the nonfinancial sector (with inventory valuation and capital consumption adjustment) and manufacturing (with inventory valuation), in billions, seasonally adjusted, 4-quarter moving average, 2013Q1 to 2019Q2



Source: Bureau of Economic Analysis

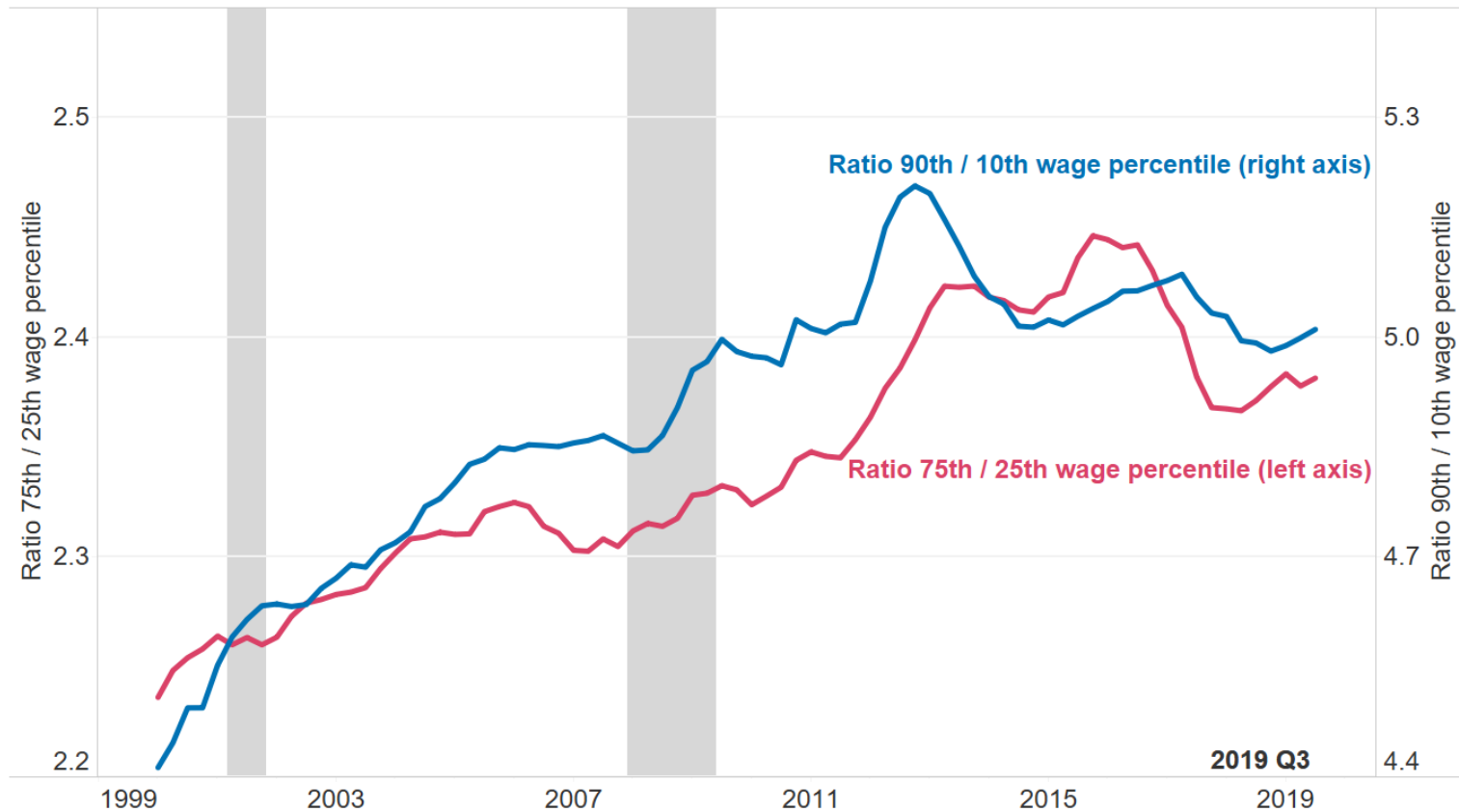




# The Worker Perspective

# A potential turning point in wage inequality

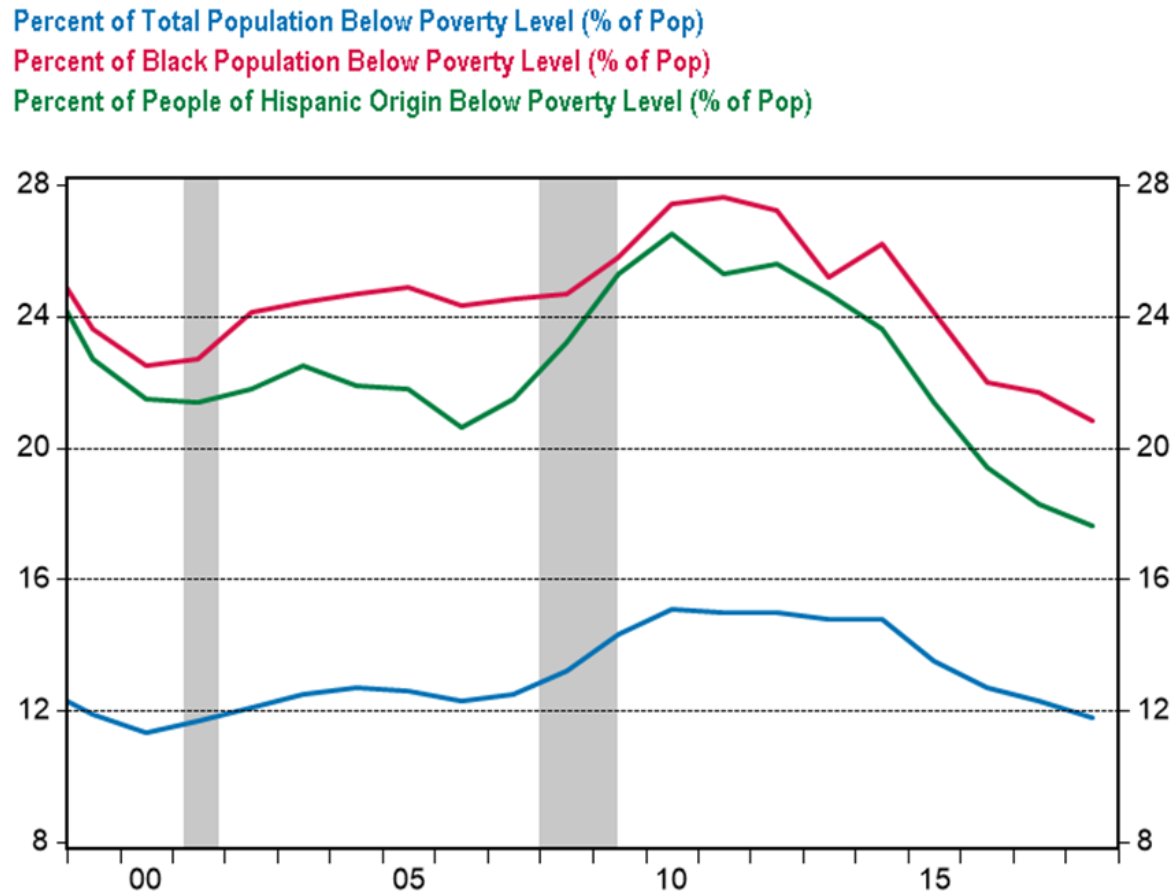
Ratio of the 10th by 90th and 25th by 75th percentile in the average hourly earnings wage distribution, 2001Q1 to 2019Q3



Source: US Bureau of Labor Statistics



# Stronger labor markets and wage growth across non-BA occupations have contributed to declining poverty rates



Source: Census Bureau



## Related Resources from The Conference Board



### Publications

[US Salary Increase Budgets for 2020](#)

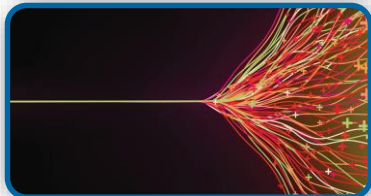


[Job Satisfaction 2019: Satisfaction Continues to Rapidly Increase in a Very Tight Labor Market](#)



### Webcasts

[Window On Recession? What Recession?](#)  
December 4, 2019



[How to Measure the Impact of a Great Employee Experience](#)

December 10, 2019

