

DISCUSSION: HOW WORKERS KEEP UP WITH INFLATION

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The views expressed are those of the author; no responsibility for them should be attributed to the Bank of Canada.

Motivation

- Pandemic followed by rapid rise in inflation and vacancies
- Narrative emerged that vacancies signaled tight labour markets
 - Beveridge curve shifted during pandemic ...
 - Back to pre-pandemic by late 2022: vacancies fell with little change in unemployment
- High vacancy rate coincided with fall in real wages
- Can labour search framework with on the job search help account for these facts?
- Intuition: slow adjustment of nominal wages creates incentives for workers to search (more) on the job:
 - Rise in E-E transitions to obtain higher pay
 - Increase in Vacancies

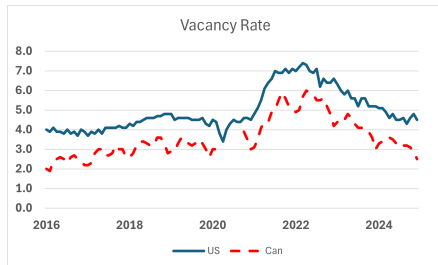
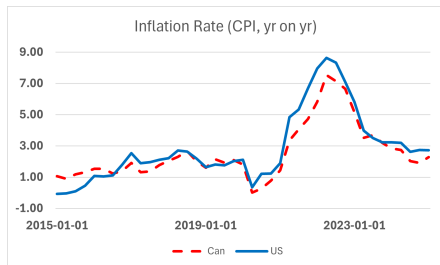
My Take-aways

- Very nice paper!
- Frictional labour markets with search and matching to quantify how E-E transitions respond to inflation shock
 - Thoughtful assumptions around wage adjustment
- Interesting insight: Slow adjustment of nominal wages following unanticipated inflation $\uparrow$ on the job search and rise in vacancies
 - Useful insight for policy: whether Beveridge curve would shift back was important part of debate over potential impact of tightening monetary policy on labour market
 - Bank of Canada publish dashboard of labour market indicators ... but we need theory to extract the signal from the noise

Main Comments

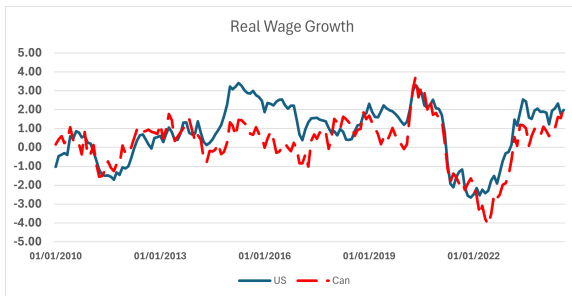
- What about Canada?
 - Many similarities with US
 - Less evidence of great resignation (rise in E-E flows)
- How important were E-E channel compared to disruption in consumption, production and employment during pandemic
 - Large shift from hard to distance services to good consumption
 - Sharp fall & recovery in employment and hours worked
 - Large gaps in real wages between public and private sectors
 - Rise in remote work
- Findings helps resolve puzzles in pandemic labour markets
 - Quantitatively significant contribution to rise in vacancies
Rise of 15 % in V to U ratio vs 60 % in US data

Similar Inflation and Vacancies Dynamics



- Rapid rise in inflation and vacancies starting in late 2020
- Both eased in 2022, near pre-pandemic levels by 2024

Real wages fell over 2020-2024



- 2021 & 2022: falling real wages
- 2023: positive real wage growth, but level below pre-pandemic
- Caveat: Difference in CPS vs LFS
 - CPS: Atlanta Fed wage tracker is same worker
 - LFS: wage conditional on worker characteristics (see Indicators of capacity and inflation pressures for Canada)

Labour Markets seemed tight in 2022

- Vacancies suggest a tight labour market: V to U ratio high
- but real wages suggests weak market
- Hours worked per adult near pre-pandemic levels in 2022
- Surveys of firms reported perception of difficulty to hire
e.g., Statistics Canada: Labour shortage trends in Canada (2022)

Labour shortage and intensity of labour shortages



* Percentage of firms reporting more intense labour shortages minus the percentage reporting less intense shortages

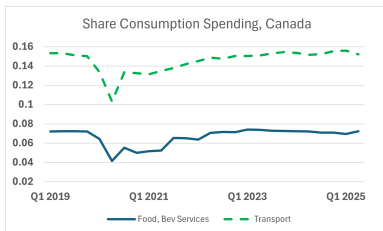
Source: Labour market: Definitions, graphs and data, Bank of Canada

Was there a "great resignation" in Canada?

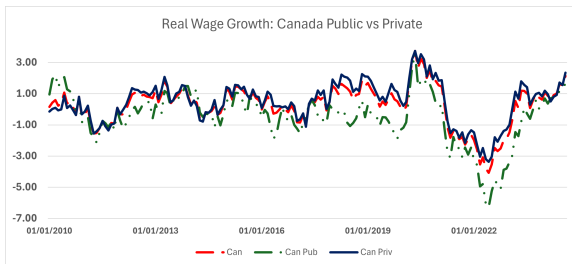
- Little evidence of "great resignation" in Canada
 - Labour Force Survey public use files are cross-sectional
 - Tenure in current job
 - But not previous state (employed, unemployed)
 - But snapshots on E-E transitions reported by BoC SANs:
2019 mean: 0.69 %
Aug 2021: 0.76 %
March 2023: 0.5 %
- Share of full-time workers with short job tenures (1-3 months) below 2019 levels in 2022
Except for 15-24 and over 55
- Low hiring rate surprising: surge in population due to non-permanent immigrants post 2022

Was Economy in Steady State in 2021?

- Counterfactual experiments calibrate to pre-pandemic moments
 - Hit economy with unanticipated inflation shock
- Is state of economy in 2021 important?
 - 2021: Canada hrs worked per adult 2 % below 2019
Sharp recovery from 9 % fall in hrs per adult in 2020
 - Shift (back) from hard to distance services to goods in progress



Real Wage gap between Public & Private



- Real wage fell behind more in public sector in Canada
 - By 2024: roughly 7 ppt gap in real wage levels
- Public employment rose sharply during pandemic
 - Sharp rise in vacancies in health and education

Do Job Ads Support Rise in E-E Vacancies?

- Mechanism features rise in vacancies targeted at employed
- Do job ads provide evidence?
 - One proxy could be years of experience required?
- Some evidence that job ads in Canada in 2022 compared to pre-pandemic
 - Increase in fraction with 3 yrs experience or more required
 - Decrease in fraction requiring higher education
- Could this give rough estimate of contribution of vacancies targeted at E-E as share of total rise in vacancies

Summary

- Pandemic had large economic effects
- Challenging in real time to unpack labour market dynamics
 - Dashboard of indicators gave conflicting signals over labour market
- This paper: new insights into drivers of high vacancies and shifting Beveridge curve
- Questions for future work: relative quantitative contribution of
 - 1 Disruption across industries due to shifting consumption and supply disruptions
 - 2 Inflation
 - 3 Remote work