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The Shift to Remote Work Lessens Wage-Growth Pressures

Based on BFI Working Paper 2022-80, "The Shift to Remote Work Lessens Wage-Growth Pressures," by Jose Maria Barrero, Instituto Tecnológico Autónomo de México Business School; Nicholas Bloom, Stanford University; Steven J. Davis, Chicago Booth; Brent Meyer and Emil Mihaylov, Federal Reserve Bank of Atlanta

The shift to remote work moderates wage growth by 2 percentage points over two years, shrinking the real-wage catchup effect on near-term inflation pressures by more than half.

The recent inflation surge caught many businesses and policy makers flat-footed. US consumer prices rose 8.6 percent over the 12 months ending May 2022, a jump of several percentage points relative to previous years. Nominal wage growth failed to keep pace. After adjusting for CPI inflation, *real* average hourly earnings in the US private sector fell 3 percent over the 12-month period ending May 2022.

Some economists have argued that this development intensifies inflation pressures as workers, having experienced a material drop in purchasing power, will bargain for a bigger boost in wages to make them whole. Employers will then accommodate the desire for wage catchup, especially when faced with tight labor markets. The resultant faster wage growth will raise production costs and feed into higher price inflation. For policy makers, a bigger wage-catchup effect implies the need for tighter monetary policy to bring the inflation rate down to a desired level, raising the likelihood of recession.

However, this argument misses a key point: the pandemic-induced shift to remote work is a positive shock to the amenity value of work, meaning that US workers are likely willing to trade off some wage gains to work from home. How strong is this wage-growth restraint on inflation?

Impacts of Remote Work on Wage-Growth Pressures

Firms expanded opportunities to work from home to keep employees happy or restrain wage growth pressures

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Survey data show firms achieve, on average, a cumulate wage-growth moderation of two percentage points over two years

This source of wage-growth moderation shrinks the real-wage catchup contribution to near-term inflation pressures by more than half, easing the challenge confronting monetary policy

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Figure 1 • The Shift to Remote Work Moderates Wage Growth Over Two-Year Period Centered on April/May 2022

	Mean Cumulative Wage-Growth Moderation Over Two Years (Percentage Points)	
	Unweighted	Weighted by Firm Size
Overall	**2.2**	**2.0**
Small Firms (Fewer Than 250 Employees)	2.2	2.0
Large Firms (250 or More Employees)	2.1	2.0
Goods Producers	1.3	1.3
Retail and Wholesale Trade, Transportation and Warehousing, Leisure and Hospitality	1.4	1.8
Education, Healthcare, Social Assistance, Other Services	2.7	3.8
FIRE, Professional and Business Services, Information	3.0	2.3

Note: The entries in this table sum the look-back and look-ahead wage-growth moderation values reported in the working paper. Please see full paper for details, including further notes and sources.

To answer this question, the authors develop novel survey evidence to test the mechanism, quantify its force, and draw out its implication. They find the following:

- Looking back 12 months from April/May 2022, about four-in-ten firms say they expanded opportunities to work from home or other remote location to keep employees happy or moderate wage-growth pressures. Looking forward, a similar number expect to do so in the coming year. Thus, the authors find clear evidence that the wage-growth restraint mechanism associated with the rise of remote work is operating in the US economy.
- When firms say they are expanding remote work options to restrain wage growth pressures, the authors ask how much wage-growth moderation they achieve? Aggregating over all the responses, including firms that are not using remote work to restrain wage growth, the survey data imply a cumulative wage-growth moderation of 2 percentage points over two years centered on April/May 2022. This wage-growth moderation shrinks the real-wage catchup effect on near-term inflation pressures by more than half.
- Bottom line: the recent rise of remote work materially lessens wage-growth pressures, easing the challenge confronting monetary policy makers.

In concluding, the authors remark that their evidence and analysis do not argue for complacency about the inflation outlook; rather, they imply only that the challenge is modestly less daunting than it might seem.

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