

# The Power of Pay: 2018 Study Update

Hourly Wage Increases Drive Business Results



“As was the case in 2016, our pay study of over 200 companies clearly shows hourly wage increases are likely to significantly reduce turnover, improve attendance, and enhance productivity.”

## Competitive and Challenging Labor Market Conditions Continue

- Unemployment continued at historic lows: 3.8% as of May 2018, according to the Bureau of Labor Statistics (BLS).
- Available workers continue a downward trend, with .9 unemployed person per job opening as of April 2018 (BLS).
- There were 6.7 million open jobs at the end of April; 5.6 million hires left many of those unfilled, barely outpacing separations of 5.4 million (BLS).
- Average hourly earnings rose slightly year-over-year: manufacturing by \$0.31, and transportation/warehousing by \$0.63.
- Wage increases have not narrowed the gap with CPI. In fact, “From May 2017 to May 2018, real average hourly earnings were unchanged” (BLS).
- And finally, the labor participation rate of 62.7% remains largely unchanged since 2014 (BLS).

## Employee Opinion Surveys

**Hourly workers continue to report competitive pay as top priority.** According to the ResourceMFG (a sister brand of Westaff) Manufacturing Employee Opinion Survey, in which 9,980 hourly workers were surveyed in 2018:

- Employees ranked pay as #1 in importance and also the #1 reason they chose to switch employers—a consistent result across all four years this survey was distributed.

According to the ProLogistix (a sister brand of Westaff) Warehouse Employee Opinion Survey, in which 15,883 hourly workers were surveyed in 2018:

- For the ninth consecutive year, Employees rank pay as #1 in importance. Pay was the #2 reason they chose to switch employers in 2018.

### The Draw of More Pay

Competitor's Rate Differential	Of Employees Who Left a Job for More Pay, % Who Left for Which Differential
\$2.00 +	31%
\$1.01 - \$2.00	57%
\$0.00 - \$1.00	12%

## 2018 Pay Rate Study—The Power of Pay Increases

This year's data supports 2016 findings that pay increases improve productivity and attendance, and decrease turnover and fill time. Data was collected from 202 companies including 101 in the Manufacturing sector and 101 in the Logistics sector.

Hourly Pay Rate Increase	% Reporting Turnover Improvement
\$2.00 +	21%
\$1.01 - \$2.00	21%
\$0.00 - \$1.00	8%

Hourly Pay Rate Increase	% of Companies Reporting Improved Attendance
\$2.00 +	93%
\$1.01 - \$2.00	77%
\$0.00 - \$1.00	40%

Hourly Pay Rate Increase	% of Companies Reporting Improved Productivity
\$2.00 +	88%
\$1.01 - \$2.00	80%
\$0.00 - \$1.00	28%

## 2018 Pay Rate Study—Case Studies

Data on pay raises also show fill rate increases, increases in Temp-to-Hire conversions, and reductions in overtime hours and absenteeism.

- A manufacturing operation that increased pay by \$2 or more per hour saw temp-to-hire conversions in various job categories increase by 15–50%; meanwhile, overtime fell and absenteeism was cut by two-thirds, to 5%.
- A distribution operation that increased rates by \$2 per hour saw turnover decrease from 21% to 12% over three months, while fill time was cut from 1–2 weeks to 1–3 days.

## In the News—The Positive Business Results of Higher Pay

Workforce analysts, economists, and others have long reported that increases in worker pay can lead to improvements in productivity, savings, and profitability. Increasing the minimum wage has gained momentum, too;

this year, 18 states will increase their minimum wage. Such increases are expected to have a ripple effect on other hourly-wage jobs.

- **Increased productivity and turnover reduction helped offset payroll cost increases** in California's minimum wage increase (*Institute for Research on Labor and Employment*).
- **Increasing wages generates business savings**, according to "Higher Wages for Low-Income Workers Lead to Higher Productivity" (*Peterson Institute for International Economics*).
- **Lower levels of turnover and absenteeism follow pay increases**; Walmart sees improved metrics in customer service and sales (*Workopolis.com*).
- **Better pay attracts a better applicant pool in a competitive market**; Target continues to increase pay to meet \$15 per hour goal in 2020 (*Associated Press March 6, 2018*).
- **Higher wages drive consumer demand**: "The U.S. Economy is Suffering from Low Demand. Higher Wages Would Help" (*Harvard Business Review*).

## Conclusion

Increased pay makes sense in light of business gains and a tight labor market, while it encourages demand and begins to reverse income inequality trends. The research from Westaff, along with third party studies that validate these findings, confirms that wage increases can lead to increased productivity as well as a reduction in workforce turnover. The research also indicates that the cost of raising wages for workers is easily offset by improved productivity and reduced hiring costs.

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202 Companies Surveyed
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19,619 Hourly Employees in Study
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18 States Raising Minimum Wage in 2018

*Presented by Keith Wisner, Vice President, Workforce and Supply Chain Analytics*

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