Morgan Stanley
INVESTMENT MANAGEMENT

Calvert

Reshaping Worker Expectations: From the Great Resignation to the Great Reshuffle

MARKETING INSIGHT | CALVERT RESEARCH AND MANAGEMENT | September 2023

In this second paper of our 2023 gender diversity series, we examine changes in the makeup of the U.S. labor force and workforce that occurred partly because of the pandemic—in particular, the effects on women workers. We also explore these trends among other developed economies and offer perspectives on how companies can recruit and retain workers in this new era.

AUTHOR

YIJIA CHEN, CFA
Vice President,
Portfolio Manager

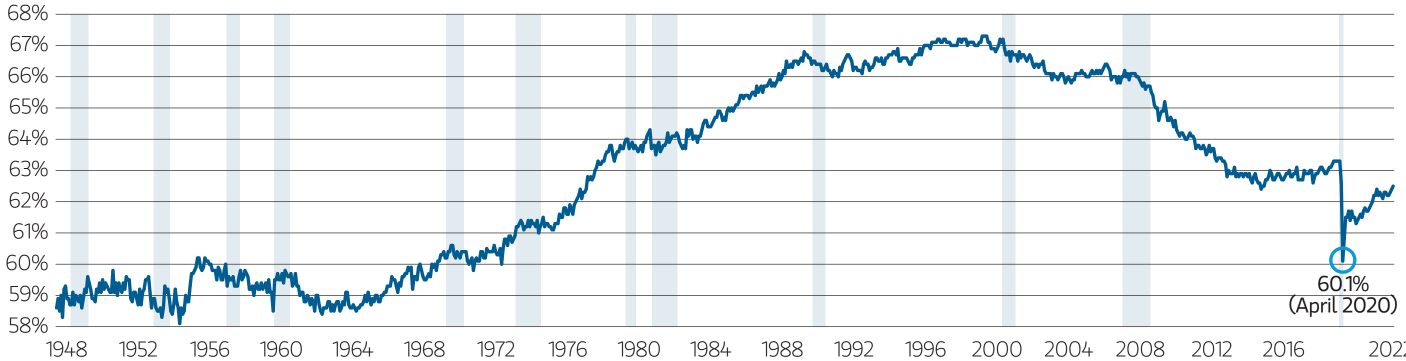
Key Points

- Widespread layoffs in early 2020 gave way to tight labor markets in 2021 and higher "quit rates" among workers, leading to what's known as the "Great Resignation."
- Overall participation in the U.S. labor force fell precipitously during the pandemic. Women left the workforce—often for childcare or eldercare reasons as well as layoffs and low-paying jobs—in greater numbers than men.
- Post-pandemic, with the reopening of global economies, worker expectations in many industries shifted toward improved work-life balance, greater flexibility, increased compensation and stronger company cultures. This trend has been called the "Great Reshuffle."
- At the macro level, high inflation has driven down real wages. Historic worker shortages persist across many industries, especially leisure and hospitality.
- At the household level, loss in purchasing power has pushed families to weigh the benefits and tradeoffs of unpaid family care work versus a paying job, which impacts women workers more profoundly than men.
- Worker shortages may compel companies to pursue policies offering greater flexibility and improved compensation to attract and retain talent, fill frontline positions, and bring more women back into the workforce.

DISPLAY 1

Participation in U.S. Labor Force Fell Precipitously in 2020

U.S. Labor Force Participation Rate (%) – Monthly, Seasonally Adjusted, January 1948 - December 2022



Source: U.S. Bureau of Labor Statistics; Federal Reserve Economic Data. Blue shaded areas indicate recession periods.

Labor Force Participation Plummeted in 2020

Historically, the U.S. has seen steady growth in overall labor force participation since the 1950s. This largely reflects the greater inclusion of women as more married women have chosen to work in addition to—or in place of—being the primary family caretaker. This was discussed in detail in our previous paper, "More Women at Work: Historical Perspectives."

Overall participation in the U.S. labor force fell precipitously during the pandemic (Display 1). After reaching a peak of 63.3% in December 2019, it dropped to 60.1% as of April 2020, climbing back to 62.2% by the end of 2022. This measure reflects those who are employed or actively looking for work.

Despite the steep drop in participation in the U.S. labor force overall during the pandemic, women's participation fell only slightly more than that of men, and we do not see the difference as significant. From February 2020 (when the pandemic started in the U.S.) to April 2020 (when the labor force participation rate hit bottom), the percentage of the male population in the labor force decreased from 69.3% to 66.1%, versus that of women from 57.9% to 54.6%—a decrease of 3.2% versus 3.3%, respectively.

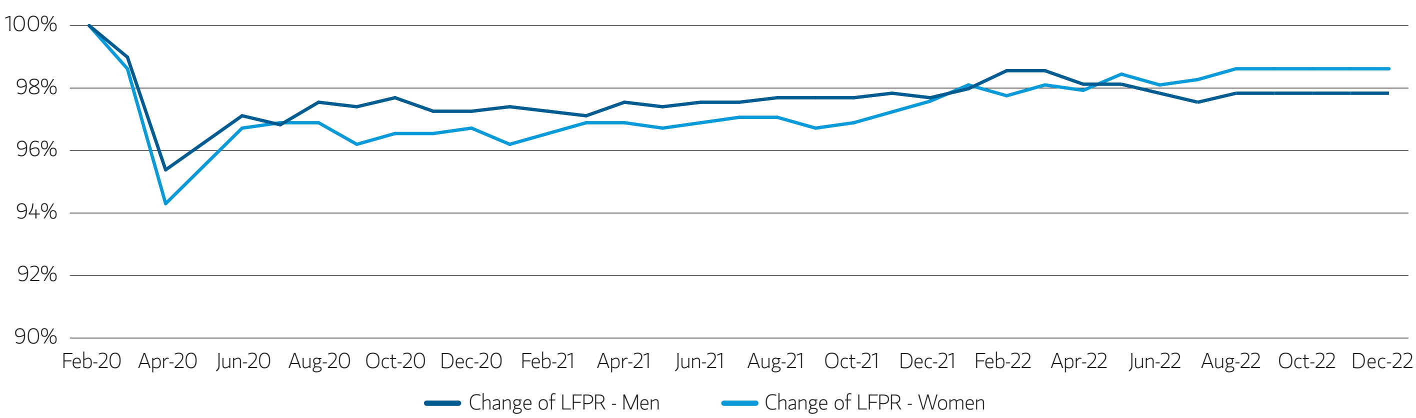
After 2020, we observe both male and female labor force participation rates slowly increasing. As of December 2022, 68.1% of men and 56.8% of women were in the labor force—still lagging pre-pandemic levels. According to U.S. Bureau of Labor Statistics, the female labor force participation rate had recovered to 98.6% of where it stood as of February 2020—a higher recovery rate than for males, at 97.8% *(Display 2).*

According to the U.S. Chamber of Commerce, "**there would be 1.97 million more workers today if labor force participation was the same as in February 2020**—and this shortage is impacting all industries in nearly every state." Along with early retirements and less immigration, another contributing factor to worker shortages in 2023 is that many women have not returned to the labor force in the wake of the pandemic. Compared to February 2020, the female labor

DISPLAY 2

Labor Force Participation Still Lags 2020 Rates

% Change in Labor Force Participation Rate (LFPR) – Monthly, Seasonally Adjusted, February 2020 - December 2022

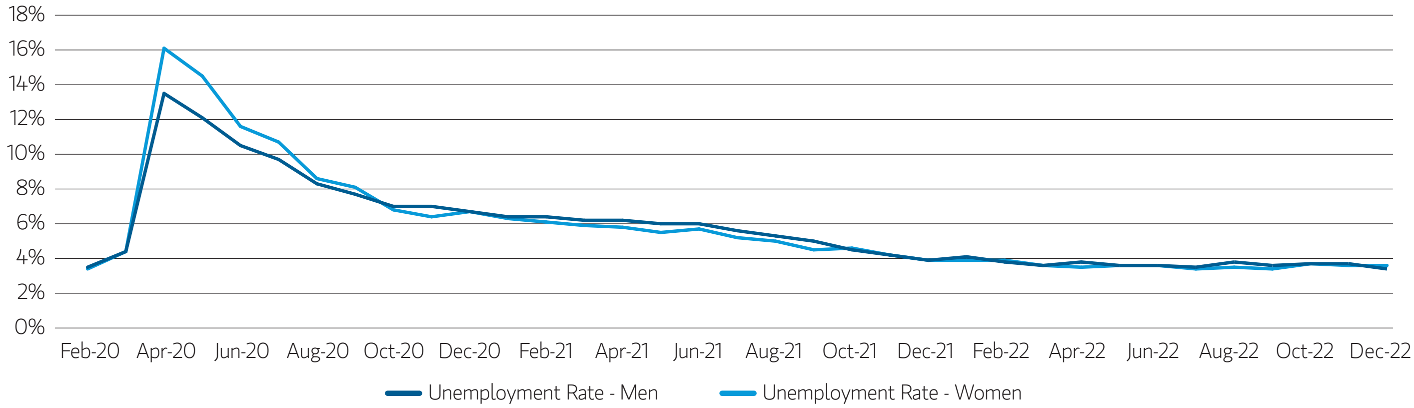


Source: U.S. Bureau of Labor Statistics.

DISPLAY 3

Female Unemployment Spiked Early in Pandemic

Unemployment Rate (%) – Monthly, Seasonally Adjusted, February 2020 - December 2022



Source: Bureau of Labor Statistics.

force participation rate is one percent lower as of December 2022, which implies **there are one million women missing from the U.S. labor force** based on the Chamber's estimates.[1]

Women Workers More Vulnerable During Pandemic

On the unemployment front, it was a very different picture. Female unemployment spiked early in the pandemic, from 3.4% in February 2020 to a high of 16.1% in April 2020 *(Display 3)*.

Women left the workforce in greater numbers than men primarily due to low wages and layoffs, or for childcare or eldercare reasons. According to the U.S. Chamber of Commerce, historically men have had higher rates of unemployment than women, "but in April 2020 as the pandemic took hold, women's unemployment surpassed men's by 4.1%." By July 2022, the U.S. unemployment rate had fully recovered for both men and women, standing at 3.5% and 3.4%, respectively.[2]

In contrast to past financial crises, when resources-based industries were generally hard hit and job opportunities shrank, both resources-based industries and service-providing industries were hugely impacted during this pandemic. From December 2019 to December 2020, the total number of jobs decreased 4.34% in resource-based industries and 6.78% in service-providing industries.

Historically, more women than men have worked in the service sector. In the education and health services industry—arguably the most essential industry during the pandemic—about 77% of the workforce was women, and that proportion persists today. Most service industries, which traditionally have lower-wage jobs that require in-person attendance, had massive layoffs early in the pandemic and a more difficult time recruiting workers later when recovering. Total U.S. employment in the service sector decreased 6.78% over the one-year period ended December 2020, while female employment in this sector dropped 7.35%. As of December 2022, employment grew 2.52% for the entire population but increased only 1.44% for female workers.[3]

The Great Reshuffle

Recently, high inflation has been eroding household savings, requiring many people to go back to work. **Certain industries that staffed up heavily during the pandemic are now experiencing layoffs and a slowdown in hiring. This does not, however, represent the broader U.S. job market.** Although the number of job openings increased 43.3% from January 2020 to June 2023, the national hiring rate stood at 4% and the national quit rate at 2.6% in June 2023, varying by industry.[4]

All industries are gradually recovering from the pandemic, but workers' job expectations have changed amid industry reshuffling. Across most U.S. industries, jobs that require in-person attendance and pay lower wages have experienced higher quit rates. Yet industries with higher-paying jobs and greater flexibility for remote work, like information technology and financial services, have bucked this trend. From 2019 to 2022, these two industries consistently had the lowest quit rates.

[1] U.S. Chamber of Commerce, "Understanding America's Labor Shortage: Why One Million Women Are Missing from the Workforce," by Stephanie Ferguson, August 10, 2023.

[2] U.S. Chamber of Commerce, "Data Deep Dive: A Decline of Women in the Workforce," by Stephanie Ferguson, April 27, 2022.

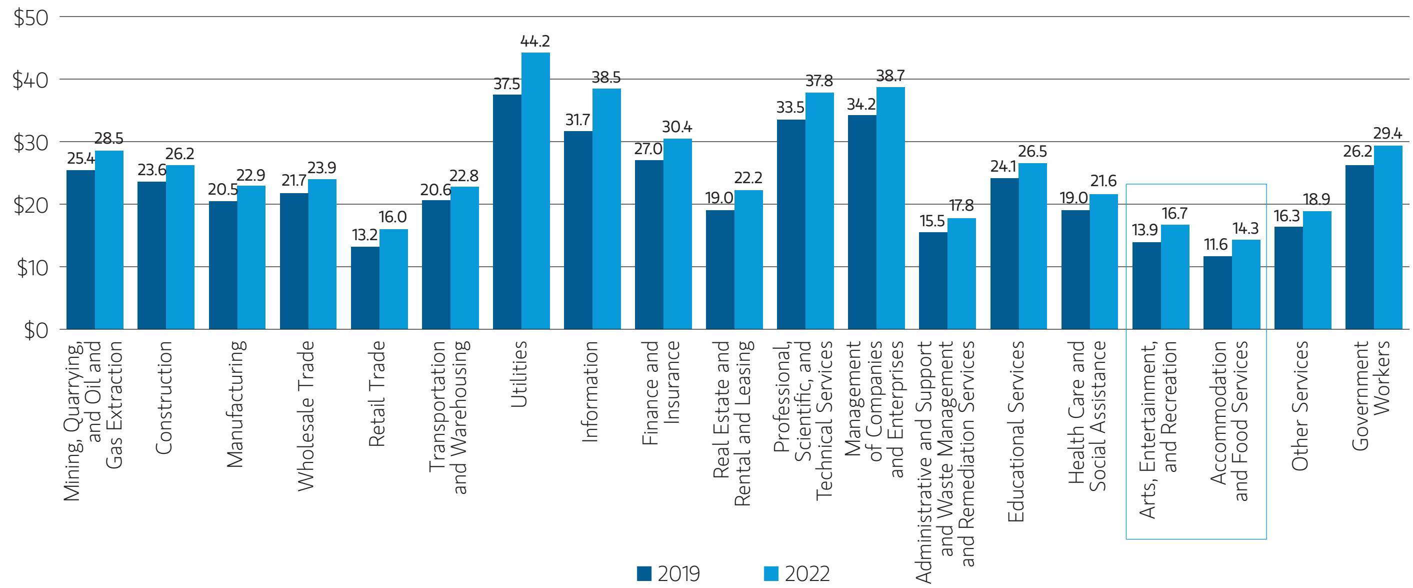
[3] U.S. Chamber of Commerce, "Understanding America's Labor Shortage: Why One Million Women Are Missing from the Workforce," by Stephanie Ferguson, August 10, 2023.

[4] U.S. Chamber of Commerce, America Works Data Center, Understanding America's Labor Shortage: The Most Impacted Industries, August 10, 2023.

DISPLAY 4

Lowest Median Hourly Wage in Leisure and Hospitality Industry

Median Hourly Wage by Subindustry, 2019 - 2022



Source: U.S. Bureau of Labor Statistics.

Not surprisingly, employment in the low-paying leisure and hospitality industry suffered the most during the pandemic, although from 2019 to 2022, it had the largest wage increase of any industry *(Display 4)*. The leisure and hospitality industry also had the greatest worker shortages post-pandemic and the highest quit rate across all industries *(Display 5)*.

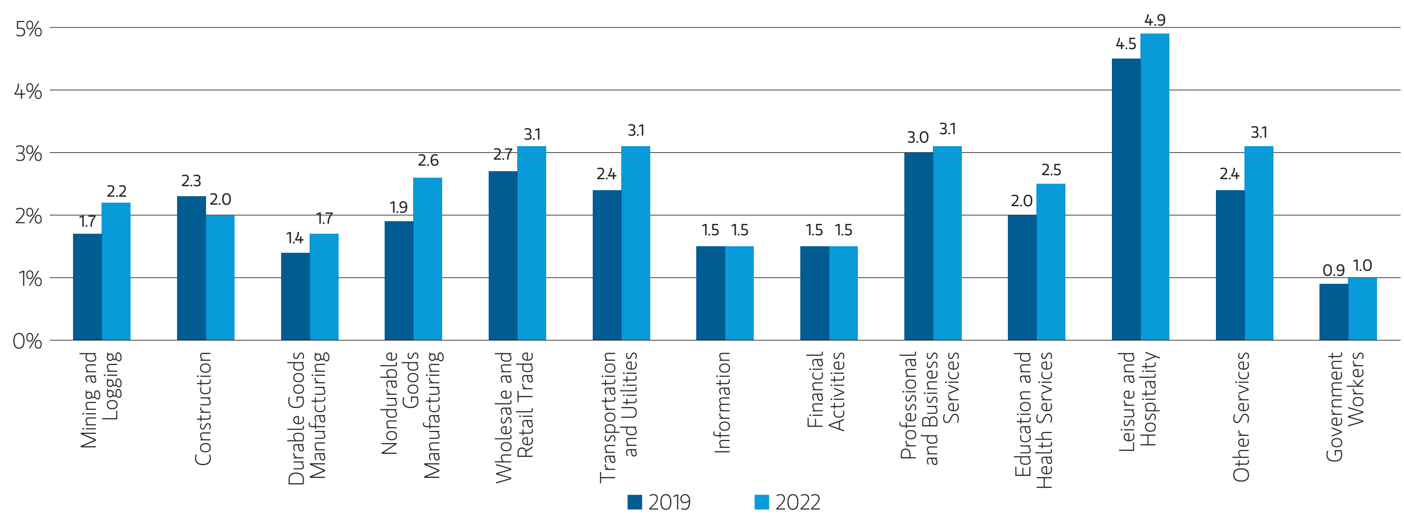
In the service sector, female workers lost more jobs than their male colleagues during the pandemic and have obtained fewer jobs afterward. Along with persistently high quit rates, U.S. job openings have remained high post-pandemic. During this great reshuffle, workers appear to be looking for higher-paying jobs, with flexible work schedules and benefits for child- and eldercare—a better work/life balance overall. Some industries are adapting; others are not.

At the end of 2022, U.S. job openings, which consider both job demand and quit rates, remained elevated across nearly all industries. Information is the outlier: Job openings spiked to 253,000 in 2021 but then retreated to 106,000 in

DISPLAY 5

Quit Rates Highest in Leisure and Hospitality Industry

U.S. Workers Quit Rate by Industry (%), 2019 and 2022, as of December 31

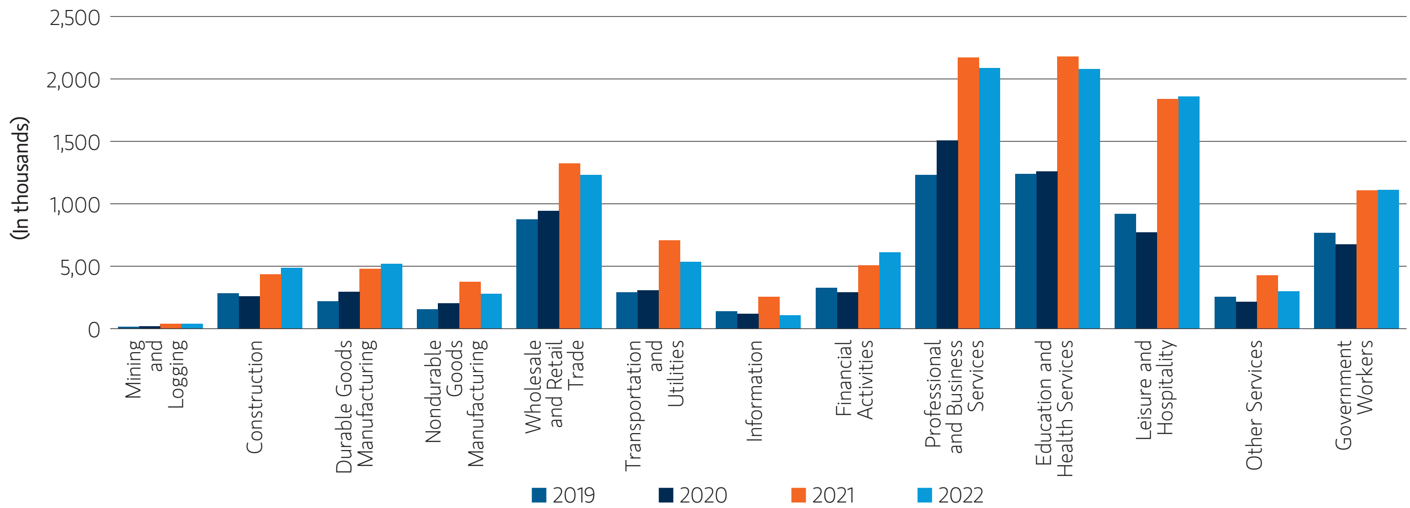


Source: U.S. Bureau of Labor Statistics.

DISPLAY 6

Job Openings Remain High Post-Pandemic

U.S. Job Openings by Industry, in Thousands, 2019 - 2022, as of December 31



Source: U.S. Chamber of Commerce Analysis, U.S. Bureau of Labor Statistics.

2022, amounting to a 24% reduction compared to 140,000 openings before the pandemic in 2019.

While recovery appears to be underway in the leisure and hospitality industry, job openings there—at 1.8 million—were still two times higher in 2022 than in 2019. In terms of absolute numbers, other industries with the most job openings are education and health care, and professional and business services.

International Labor Shortage Post-Pandemic

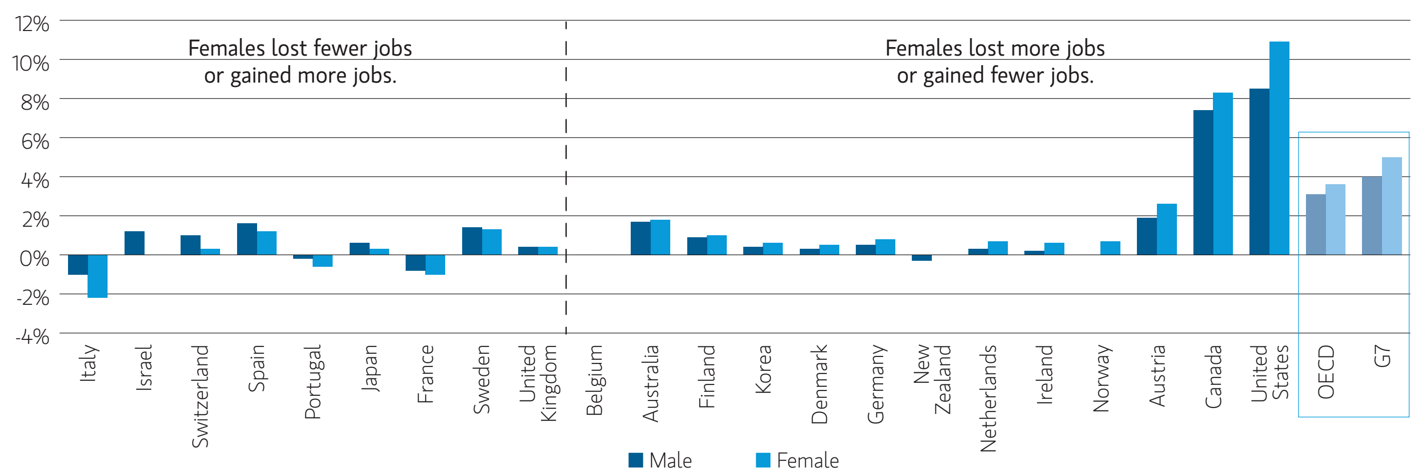
A robust labor market is the lynchpin to post-pandemic economic recovery and essential to preserving jobs, incomes and livelihoods. In international markets and OECD countries, we see labor shortages among certain industries and some vulnerable groups, including women, where employment recovery is lagging.

Women overall lost ground both in the first stage of the pandemic and over its entire duration. From the final quarter of 2019 to the second quarter of 2020, most countries were hit with business closures and increasing COVID-19 hospitalizations. During this period, the unemployment rate of male workers was lower than that of female workers for both G7 and OECD countries. The North American labor market demonstrated the highest discrepancy in the rate of change between male and female employment, at 2.45% in the U.S. and 0.94% in Canada *(Display 7)*.

DISPLAY 7

In OECD Countries, Women Lost More Jobs During First Stage of the Pandemic

Change in Unemployment Rate, by Sex, Quarterly, 2019 Q4 - 2020 Q2

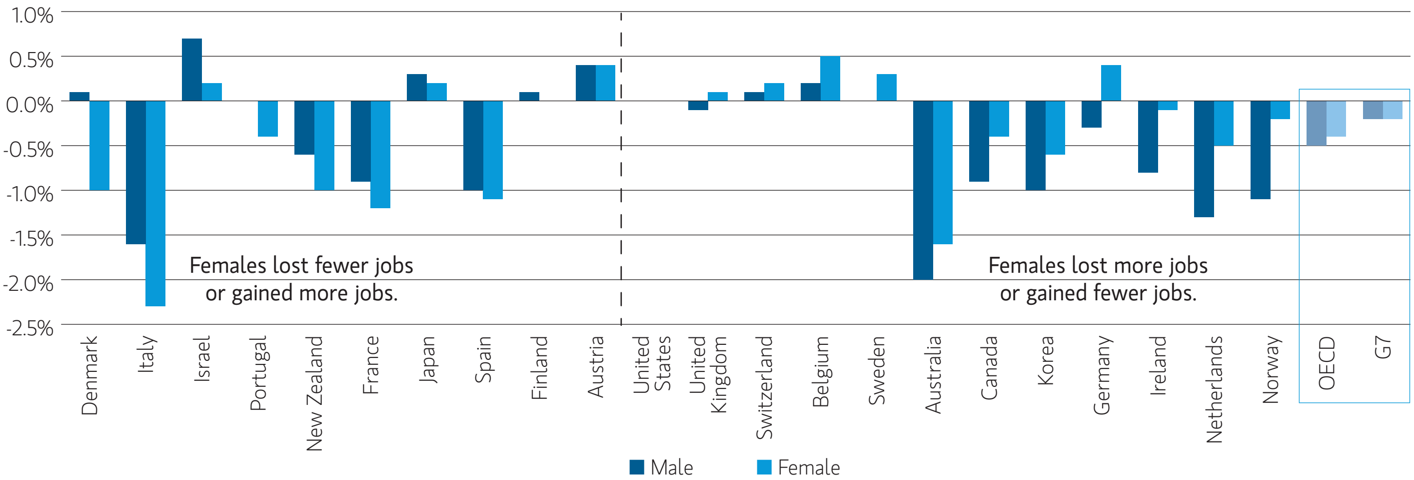


Source: OECD.

DISPLAY 8

Female Unemployment Was High Across Entire Pandemic

Change in Unemployment Rate, by Sex, Quarterly, 2019 Q4 - 2022 Q4



Source: OECD.

Unemployment rates peaked in the second quarter of 2020 for both genders, and then gradually receded with the rebound in economic activities and surging job demands. Overall, the recovery for women workers in OECD countries has been much slower than for men. **Across the entire period of the pandemic (*Display 8*), the gender employment gaps widened in most OECD countries.**

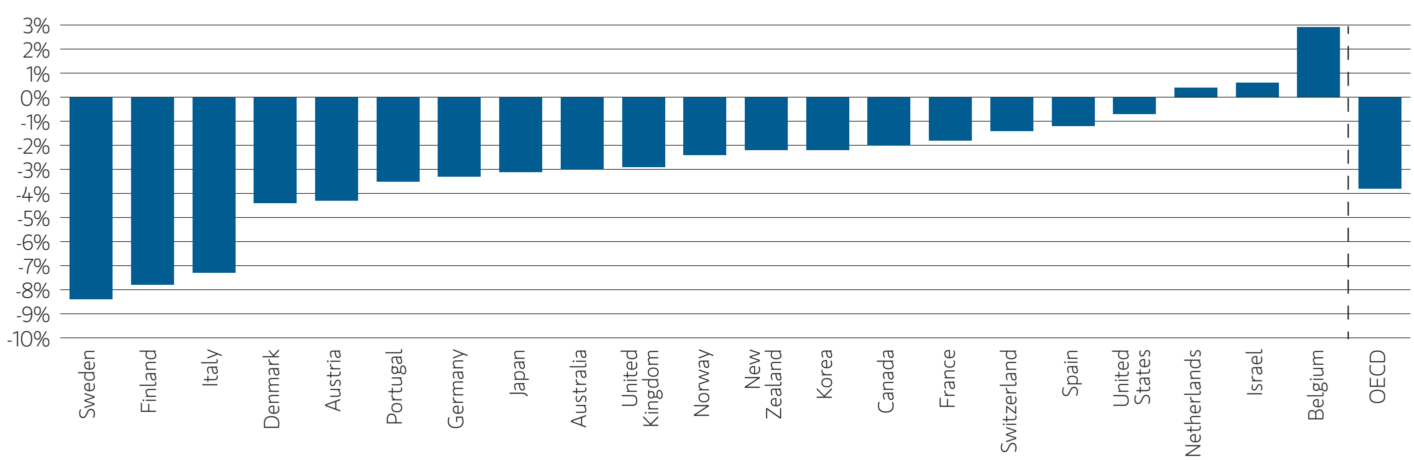
While labor participation rates of both genders remained mostly unchanged relative to pre-pandemic levels, what has changed are workers' job expectations, especially for women who take on the main responsibilities of family care. According to the OECD, as is true for the U.S., many women in international markets have been looking for different types of jobs post-pandemic amid economic challenges—favoring positions with higher pay, more flexibility and more inclusive workplace cultures.

Inflation is now playing a major role in pressuring companies and families alike. Although nominal wage growth (which does not take inflation into account) has risen sharply in many regions, real hourly wages have fallen. According to the OECD 2023 Employment Outlook, the cost of living has risen in many OECD countries, while real hourly wages (that factors in inflation) have fallen in many industries *(Display 9)*. The report states: **"In the first quarter of 2023, despite the pick-up in nominal wages, real annual wage growth was negative in 30 of the 34 countries with available data, with an average decline of 3.8%,"** relative to Q1 2022.

DISPLAY 9

Real Wages Declined in Most OECD Countries

Growth in Real Wages, % Change, Q1 2023 vs Q1 2022

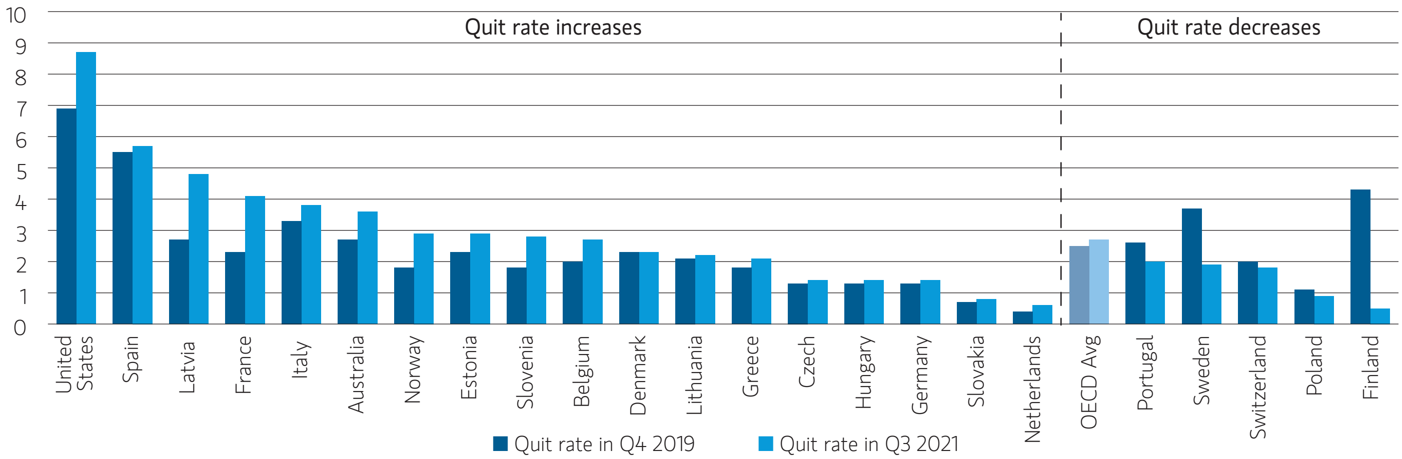


Source: OECD Employment Outlook 2023.

DISPLAY 10

Quit Rates Rose in Most OECD Countries

Quit Rate Across Countries, Q4 2019 - Q3 2021



Note: For EU countries, the data are available on a quarterly basis, so the quit rate is defined as the share of workers who report having left their job in the last three months before the interview. For the United States, quarterly quit rates are proxied by the sum of monthly quit rates. Source: Eurostat (OECD-EU), US Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (USA).

Since late 2021, nominal wage increases have generally remained well below the fast-growing inflation generated by rising commodity prices. Some countries have rules in place that trigger adjustments to minimum wages, while others choose to hike their interest rates in response to prolonged and accelerating inflation.

Significant inflationary pressures often lead to labor shortages across certain industries, and the recent structural shift in workers' job expectations has made widespread labor shortages more persistent. As of May 2023, the overall unemployment rate for OECD countries remained at a record low of 4.8% for the third consecutive month[5] while broad-based labor shortages have been particularly acute in contact-intensive industries, such as accommodation and food services, and manufacturing.

Aligned with our observations for the U.S., many other developed market OECD countries have seen a "great resignation" from low-paying jobs. Rising job vacancy rates have gone hand in hand with rising quit rates, and this has been particularly pronounced in the U.S. *(Display 10)*.

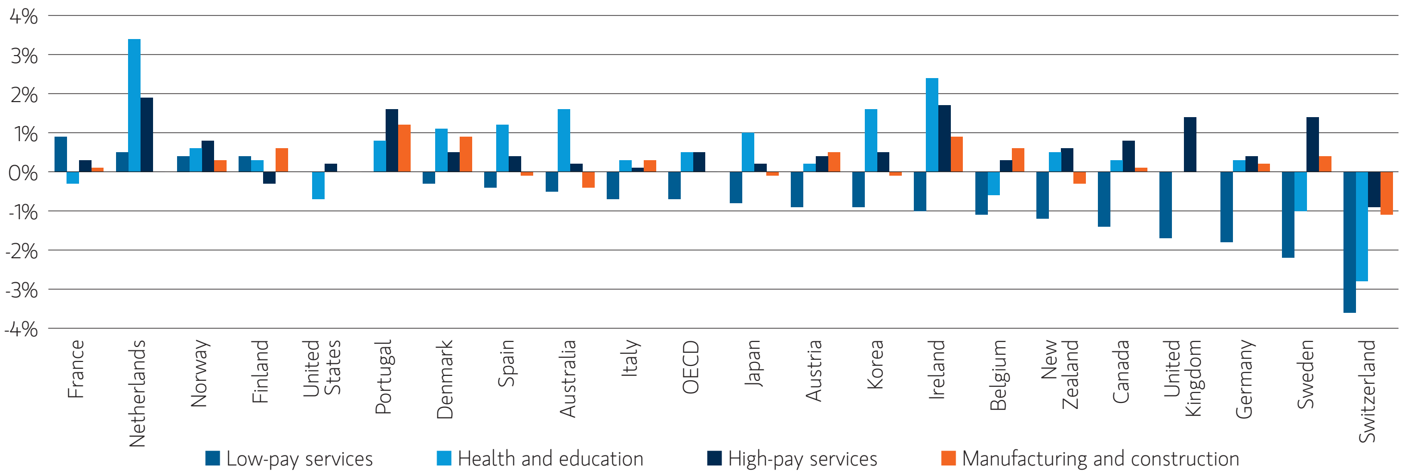
In tight labor markets, workers are more likely to look for better job opportunities. According to the OECD, although labor shortages are often tied to cyclical factors, such as a rebound in economic activity, the post-pandemic increase in labor shortages may also partly reflect structural changes. Changes in worker preferences may play a role, as some workers may no longer accept low pay and poor or strenuous working conditions.

[5] OECD, "OECD Job Markets Remain Tight Though Inflation Is Hitting Real Wages," July 7, 2023.

DISPLAY 11

More Women Employed in Higher-Paying Industries

Change in percentage of women employed in select industries, by country, 2022 Q1 relative to 2019 Q1



Source: OECD data, August 2023.

Note: Age group: 15-74; Selected industries: Low-pay service industries (Accommodation and Food Service Activities, Administrative and Support Service Activities, Arts, Entertainment and Recreation, Wholesale and Retail Trade, and Transportation and Storage), Health and Education (medium-pay), Manufacturing and Construction (medium-pay), and high- pay service industries (Professional, Scientific and Technical Activities, Information and Communication, and Financial and Insurance Activities). OECD indicates the unweighted average of the countries included.

At the household level, the loss in purchasing power is particularly challenging for low-income households and women. Some families must weigh the benefits and tradeoffs of unpaid family care work versus a paying job. Thus, we have seen an inflow of women workers into higher-paying services, health care and education jobs (*Display 11*). The health care and education industries traditionally have higher female representation and provide better compensation and benefits compared to low-paying service jobs with a similar level of work flexibility.

How Companies Can Tackle the Challenges

According to a Pew survey, most workers who quit a job in 2021 cited low pay (63%), a lack of advancement opportunities (63%) and feeling disrespected at work (57%) as reasons why they quit.

Roughly half said childcare issues were a reason they quit a job (48% among those with a child younger than 18 in the household). A lack of flexible working hours (45%) or not having good benefits such as health insurance and paid time off (43%) were other top reasons they left.[6]

Current economic and market conditions are unstable, and companies face financial pressures from many directions. Some companies are scaling back their diversity, equity and inclusion (DEI) practices to reduce layoff costs. By doing this, however, they may be at risk of losing their best talent.

Implementing all or some of the following practices can help foster an equitable and inclusive corporate culture that attracts diverse talent, encourages employee productivity and promotes long-term talent retention.

- **Address the gender pay gap.** Providing female employees with pay commensurate to their roles and equal to their male peers would likely help reduce the quit rate.
- **Place and promote more women in leadership roles.** Decades of research by Mercer, Catalyst and others have linked greater numbers of women in executive and higher roles to improved corporate financial performance. Calvert's own independent research has linked equal promotion opportunities for male and female workers to better financial performance, which will be discussed more closely in the following papers of this series. This would also help address the structural gender pay gap.
- **Offer robust family care policies.** Offer parental leave for both primary and secondary caregivers, as well as support for ongoing, daily child-, elder- and pet-care needs. This would help employees transition from virtual to in-office.
- **Allow flexible work schedules and/or remote work.** Many companies are now offering a hybrid of remote and in-office work, where feasible.
- **Provide health care coverage and ensure a safe working environment.** Jobs in low-pay services, manufacturing and

[6] Pew Research, "Majority of Workers Who Quit a Job in 2021 Cite Low Pay, No Opportunities for Advancement, Feeling Disrespected," by Kim Parker and Juliana Menasce Horowitz, March 9, 2022.

construction, and health care and education generally face a greater risk of high employee turnover. Companies with proactive and preventive policies may be better positioned to recruit and retain well-qualified employees.

- **Ensure a living wage and adjust salary based on merit to mitigate inflation.**

Conclusion

In view of the shift in worker expectations across many industries and strengthening global economies, we believe labor shortages are likely to persist mid- to long term. In order to tackle the challenges of worker shortages—and the great reshuffle of employee expectations—we believe companies with leading DEI practices will be better positioned to recruit and retain the best talent. These types of well-managed, forward-thinking companies could also present attractive investment opportunities.

As a leader in responsible investing, Calvert engages with companies to tackle challenges and improve corporate performance on material DEI issues in the post-pandemic environment. We also seek to support women and vulnerable groups in their efforts to obtain better livelihoods through the impact of our investment strategies.

DEFINITIONS (WORKFORCE AND LABOR FORCE)

Workforce: The workforce only includes people who are employed.

Labor Force: Conceptually, the labor force level is the number of people who are either working or actively looking for work. According to U.S. Census Bureau, the labor force includes all people age 16 and older who are classified as either employed or unemployed. Persons are classified as unemployed if they do not have a job, have actively looked for work in the prior 4 weeks, and are currently available for work. Persons who were not working and were waiting to be recalled to a job from which they had been temporarily laid off are also included as unemployed.

This document relates to a financial product which is not subject to any form of regulation or approval by the DFSA. The DFSA has no responsibility for reviewing or verifying any documents in connection with this financial product. Accordingly, the DFSA has not approved this document or any other associated documents nor taken any steps to verify the information set out in this document, and has no responsibility for it. The financial product to which this document relates may be illiquid and/or subject to restrictions on its resale or transfer. Prospective purchasers should conduct their own due diligence on the financial product. If you do not understand the contents of this document, you should consult an authorised financial adviser.

U.S.

NOT FDIC INSURED | OFFER NO BANK GUARANTEE | MAY LOSE VALUE | NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY | NOT A DEPOSIT

Latin America (Brazil, Chile Colombia, Mexico, Peru, and Uruguay)

This material is for use with an institutional investor or a qualified investor only. All information contained herein is confidential and is for the exclusive use and review of the intended addressee, and may not be passed on to any third party. This material is provided for informational purposes only and does not constitute a public offering, solicitation or recommendation to buy or sell for any product, service, security and/or strategy. A decision to invest should only be made after reading the strategy documentation and conducting in-depth and independent due diligence.

ASIA PACIFIC

Hong Kong: This material is disseminated by Morgan Stanley Asia Limited for use in Hong Kong and shall only be made available to "professional investors" as defined under the Securities and Futures Ordinance of Hong Kong (Cap 571). The contents of this material have not been reviewed nor approved by any regulatory authority including the Securities and Futures Commission in Hong Kong. Accordingly, save where an exemption is available under the relevant law, this material shall not be issued, circulated, distributed, directed at, or made available to, the public in Hong Kong. **Singapore**: This material is disseminated by Morgan Stanley Investment Management Company and may not be circulated or distributed, whether directly or indirectly, to persons in Singapore other than to (i) an accredited investor (ii) an expert investor or (iii) an institutional investor as defined in Section 4A of the Securities and Futures Act, Chapter 289 of Singapore ("SFA"); or (iv) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA. This publication has not been reviewed by the Monetary Authority of Singapore. **Australia**: This material is provided by Morgan Stanley Investment Management (Australia) Pty Ltd ABN 22122040037, AFSL No. 314182 and its affiliates and does not constitute an offer of interests. Morgan Stanley Investment Management (Australia) Pty Limited arranges for MSIM affiliates to provide financial services to Australian wholesale clients. Interests will only be offer in circumstances under which no disclosure is required under the Corporations Act 2001 (Cth) (the "Corporations Act"). Any offer of interests will not purport to be an offer of interests in circumstances under which disclosure is required under the Corporations Act and will only be made to persons who qualify as a "wholesale client" (as defined in the Corporations Act). This material will not be lodged with the Australian Securities and Investments Commission.

Japan:

For professional investors, this material is circulated or distributed for informational purposes only. For those who are not professional investors, this material is provided in relation to Morgan Stanley Investment Management (Japan) Co., Ltd. ("MSIMJ")'s business with respect to discretionary investment management agreements ("IMA") and investment advisory agreements ("IAA"). This is not for the purpose of a recommendation or solicitation of transactions or offers any particular financial instruments. Under an IMA, with respect to management of assets of a client, the client prescribes basic management policies in advance and commissions MSIMJ to make all investment decisions based on an analysis of the value, etc. of the securities, and MSIMJ accepts such commission. The client shall delegate to MSIMJ the authorities necessary for making investment. MSIMJ exercises the delegated authorities based on investment decisions of MSIMJ, and the client shall not make individual instructions. All investment profits and losses belong to the clients; principal is not guaranteed. Please consider the investment objectives and nature of risks before investing. As an investment advisory fee for an IAA or an IMA, the amount of assets subject to the contract multiplied by a certain rate (the upper limit is 2.20% per annum (including tax)) shall be incurred in proportion to the contract period. For some strategies, a contingency fee may be incurred in addition to the fee mentioned above. Indirect charges also may be incurred, such as brokerage commissions for incorporated securities. Since these charges and expenses are different depending on a contract and other factors, MSIMJ cannot present the rates, upper limits, etc. in advance. All clients should read the Documents Provided Prior to the Conclusion of a Contract carefully before executing an agreement. This material is disseminated in Japan by MSIMJ, Registered No. 410 (Director of Kanto Local Finance Bureau (Financial Instruments Firms)), Membership: the Japan Securities Dealers Association, The Investment Trusts Association, Japan, the Japan Investment Advisers Association and the Type II Financial Instruments Firms Association.