Job Search, Wages, and Inflation*

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PRELIMINARY

Abstract

How does inflation affect the job search behavior of workers, given that wages are typically set in nominal terms? Using pre-COVID data from the Survey of Consumer Expectations, we show that employed workers who expect higher inflation are more likely to search for jobs and are subsequently more likely to have a job-to-job transition over the short term. This behavior is consistent with the idea that people look for new jobs with higher real earnings, anticipating that real earnings at their current job will fall. We validate this hypothesis using new survey data collected via the Real Time Population Survey that asks individuals how their (i) current nominal earnings and (ii) search behavior would respond under various inflation scenarios. We then develop a model of search on-the-job which can replicate these patterns, and use the model to study the partial equilibrium passthrough of shocks to inflation and inflation expectations to wages. In the model, workers have a greater incentive to search when they expect higher inflation because they expect a larger decline in their real wage, while outside offers more closely track inflation. When inflation or inflation expectations rise, search effort rises, which leads to real wage enhancing job-to-job transitions.

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1 Introduction

Elevated inflation expectations prompt households to act in ways that can themselves generate inflation. When households expect higher inflation, they will increase consumption and make nominal wage demands to offset their expected loss in purchasing power. These actions put upward pressure on prices and make it harder for the central bank to achieve its inflation target. For this reason, monetary policymakers emphasize that keeping inflation expectations anchored can facilitate keeping inflation itself stable. While the consumption-savings response to expected inflation has been well studied, the mechanisms behind expectations-driven wage growth are less explored.

Recent work finds that, unconditionally, people do not expect their nominal income to adjust more with higher inflation (Hajdini et al. 2022, Jain, Kostyshyna, and Zhang 2022). This is at odds with policymakers' belief that elevated inflation expectations create inflationary pressure in the labor market. How, then, do increased inflation expectations translate to wage growth, if at all? If households expect that their nominal wages will increase at a rate lower than their expected rate of inflation, they associate inflation with a decline in their real wage and purchasing power.[1] While a worker may expect the real wage at her current job to decline, she may anticipate that nominal wages for new hires will more closely track inflation than nominal wages for stayers.[2] Accordingly, she can maintain her purchasing power by obtaining an outside offer and changing jobs, or use the offer to renegotiate her current wage. This paper studies, both empirically and theoretically, this particular labor market response to expected inflation which operated through on-the-job search (OJS).[3]

Using data from the Federal Reserve Bank of New York's Survey of Consumer Expectations (SCE) from 2014-2019, we first provide cross-sectional evidence for a novel finding - that employed workers with higher inflation expectations are indeed more likely to search for new employment. An employed worker with a one percentage point higher inflation expectation is 0.6 percentage points more likely to search for a job in the subsequent period (mean = 15.3%). Furthermore, employed respondents with higher inflation expectations are more likely to make a job-to-job transition within the next four months; a one percentage point higher inflation expectation is associated with an 0.3 percentage point increase in the probability of making a job-to-job transition over the next four months (mean = 3.8%). We find that higher inflation expectations do not predict future reported promotions or the size of a respondents' change in

[1] Hajdini et al. 2022 theorize that households' perception of this decline causes them to view high inflation as a source of financial hardship.

[2] In the United States, the majority of earnings are set in nominal terms without indexation to inflation. Wage indexation is rare in European countries as well. See `https://www.ecb.europa.eu/pub/pdf/mobu/mb200805en.pdf`, page 51, for a list of European countries with and without automatic wage indexation.

[3] Recent survey evidence suggests that job search is a common way that workers respond to the financial hardship posed by inflation. `https://news.gallup.com/poll/400565/inflation-causing-hardship-majority.aspx?mod=djemRTE_h.`

salary. Salaries do increase with job-to-job transitions and - to a lesser extent - with promotions. This suggests that inflation expectations influence wage growth through the decision to search and to select higher-earning career advancements.

The evidence from the SCE relies on cross-sectional variation among individuals prior to the COVID-19 pandemic and before the historically high levels of inflation were realized in the United States. However, cross-sectional identification nonetheless poses endogeneity concerns, as certain respondent characteristics may be associated with both higher inflation expectations and increased search intensity. We address these concerns in two ways. First, we control for a host of respondents' demographic characteristics, labor market characteristics, and labor market expectations, and additionally present several robustness checks.

Second, to corroborate our results further we included new questions in the October 2022 Real-Time Population Survey (Bick and Blandin 2021). We first collected respondents' inflation forecasts. We then provided respondents with a hypothetical level of inflation and asked each respondent for their (i) expected nominal earnings growth *conditional on remaining at their current job* and (ii) expected search behavior under the corresponding hypothetical inflation. All respondents answered these questions for two hypothetical levels of inflation: 2% and 10%. We find that employed respondents expect similar nominal earnings growth conditional on remaining in their current job under both levels of inflation, meaning they expect lower real earnings growth under the higher level of inflation if they remain with the same employer. This corroborates the first part of our hypothesis: individuals perceive that their real wages will fall if they remain at their current job and inflation rises. Using these data, we again find that - controlling for demographics - consumers with higher inflation expectations report being more likely to search on the job under either hypothetical inflation level, with a one percentage point increase in expected inflation increasing the likelihood of search by 0.6 percentage points (mean = 14.9%). Moreover, the share of of employed respondents who would search for a job under hypothetical 10% inflation is 5.7 percentage points higher than the same share under hypothetical 2% inflation. The magnitude of this effect is strikingly in line with the size of the effect estimated cross-sectionally.

What do these patterns imply for the macroeconomy? At the aggregate level, the propensity of the employed to search and the frequency of job-switching are closely linked to both wage growth and inflation (Faberman and Justiniano 2015, Moscarini and Postel-Vinay 2017, Karahan et al. 2017, Faccini and Melosi 2021). Faberman et al. 2022 show that on-the-job search is not only common, but also more efficient than the search of the unemployed, meaning that the search behavior of employed workers is more likely to result in labor market transitions and wage growth. If elevated inflation expectations prompt the employed to maintain their real wage through on-the-job search - and this behavior itself leads to higher inflation - on-the-job search is an important mechanism to understand when studying the passthrough of inflation to

wages as well as possible self-reinforcing wage price spirals (Blanchard 1986).

To study this mechanism more formally, we introduce a model of on-the-job search in which the exogenous distribution of real wage offers is fixed as in Burdett 1978 while nominal wages for stayers are rigid.[4] This means that nominal wages for job switchers will track one-for-one with inflation, while stayers' real wages will decline with inflation.[5] Our newly collected data from the Real-Time Population Survey is consistent with this assumption; workers indeed perceive that their real wages at their current positions will decline more under higher inflation. The model predicts that workers are more likely to search for outside work when their inflation expectations are higher, as their perceived return to search is higher, inline with our reduced-formed findings.

We calibrate the model to the pre-pandemic U.S. Economy. Specifically, we allow for exogenous variation in inflation expectations to match the pre-pandemic cross-sectional dispersion of year-ahead inflation expectations. We further allow for there to be an empirically disciplined bias in worker expectations such that workers, on average, overestimate inflation, as is well documented in consumer expectations data (D'Acunto, Malmendier, and Weber forthcoming). The calibrated model delivers a cross-sectional relationship between search behavior, job-to-job transitions, and inflation expectations that is qualitatively consistent with our empirical findings.

Our empirical estimates provide a measure of the effect of a change in an individual's inflation expectations on her probability of searching for a new job. However, policymakers would ultimately like to know how changes in the cross-sectional distribution of inflation expectations will impact wage growth. As we cannot run such an experiment in the data, we turn to the model. Specifically, we consider the partial equilibrium effect of changes in the inflation expectations process on the rate of job-to-job transitions and aggregate wages in the economy. We show that temporary shocks to inflation expectations increase job-to-job transitions and aggregate real wages by shifting the average search intensity of the economy.[6] Much of the policy discussion of preventing so-called wage-price spirals focuses on anchoring longer-run inflation expectations.[7] Our results suggest that even changes in short-run inflation expectations which monetary policymakers are often comfortable ignoring as long as longer-run expectations remain stable, can put upward pressure on wages, both when those changes are accurate and when they

[4]Given our data, we do not model the effect of inflation on raises at the worker's current job. We explore this question in a companion paper, Pilossoph and Ryngaert 2023.

[5]One can allow for partial rigidity in stayer wages by assuming that the nominal wage rises with inflation with some probability. So long as the nominal wage for stayers is slower to adjust than the wage of new hires, the incentive to search will be higher for workers with higher inflation expectations.

[6]This is true whether the changes are driven by underlying inflation or by temporary shocks to the expectations process.

[7]For example Jerome Powell, in August of 2021 stated, "Policymakers and analysts generally believe that, as long as longer-term inflation expectations remain anchored, policy can and should look through temporary swings in inflation. Our monetary policy framework emphasizes that anchoring longer-term expectations at 2 percent is important for both maximum employment and price stability."

are not.

1.1 Related Literature

This paper contributes to several literatures. The first considers how inflation expectations influence decisions making. This literature has largely focused on inflation expectations as they relate to beliefs about the real interest rate, but has more recently considered the empirical link between expected inflation and labor market decisions. A second literature empirically considers on-the-job search and how the frequency of on-the-job search influences inflation. Our empirical evidence speaks to both of these literatures showing that on-the-job search may not only generate inflationary pressure, but also responds to inflationary beliefs. We further contribute to the theory of on-the-job search by proposing a model in which nominal wage frictions create an incentive to look for new jobs.

There is a large literature exploring the link between inflation expectations and economic decision-making. Coibion and Gorodnichenko 2015, Coibion, Gorodnichenko, and Ropele 2020 show the link between firms' inflation expectations and their hiring, investment, and price-setting. The focus of the literature on consumer-decision making has been on spending decisions. For example, Bachmann, Berg, and Sims 2015, Coibion et al. forthcoming(b), Duca-Radu, Kenny, and Reuter 2021, Burke and Ozdagli 2021, D'Acunto, Hoang, and Weber 2016, D'Acunto, Hoang, and Weber 2018, and Ryngaert 2022, explore the relationship between expected inflation and purchases of durables. Dräger and Nghiem 2021, Crump et al. 2021, Ichiue and Nishiguchi 2015, and Ryngaert 2022 consider the relationship between expected inflation and consumption via the consumption Euler equation. We contribute to this literature by characterizing the relationship between inflation expectations and household labor market decisions - particularly the decisions to engage in on-the-job search and to transition from one employer to another.

To the best of our knowledge, ours is the first paper to use consumer surveys to address the link between expected inflation and the *realized* search and labor market transitions of employed workers. Hajdini et al. 2022 investigate the low passthrough of inflation expectations to income growth expectations and propose a model that suggests this arises from nominal wage rigidities due to infrequent nominal wage negotiation. They ask consumers about their labor market plans and establish a link between expected inflation and the likelihood a consumer assigns to searching for a new, higher-paying job. Their paper provides evidence for a link between inflation expectations and planned labor search; our paper confirms this link by using search and transition *outcomes* to show that workers with higher inflation expectations are in fact more likely to search and to change jobs. In a model, Hajdini et al. 2022 assume that higher inflation expectations prompt those who cannot negotiate to search and generate new offers, creating upward pressure on nominal wages. We develop a model in which rigidity in nominal

wages incentivizes search when workers anticipate inflation.

We further contribute to an empirical literature characterizing on-the-job search and its importance in the macroeconomy. Faberman et al. 2022 use a supplement of the Survey of Consumer Expectations to characterize on-the-job search. They describe not only the ways in which the employed search for new work, but also their effectiveness in yielding offers and wage increases. Our paper uses data from the same survey and adds to theirs in that we characterize the link between the search behavior of employed workers and respondents' inflation expectations. Other papers also look at the relationship between on-the job search and job-to-job transitions and inflation, but with causality running in the other direction. Faccini and Melosi 2021 model the rate of on-the-job search as important for wage growth via the effect it has on the intensity of inter-firm competition for workers. Karahan et al. 2017 use cross-state variation to establish a link between the job-to-job transition probability and wage growth. Our emphasis is instead on how inflation causes changes in on-the-job search, but combining these two literatures is a topic we hope to explore in the future.

Finally, our paper is linked to recent work which takes expectations seriously when thinking about search behavior. Conlon et al. n.d. incorporate information frictions into an otherwise standard model of search on-the-job, and discipline their model with data on labor market expectations from the same data set we use. In their framework - as is true in many models of search in the labor market - no real distinction is made between real and nominal wages. Our model makes and explicit distinction between real and nominal wages and we focus here on a new set of expectations which are important for job search behavior - inflation expectations.

The paper proceeds as follows. Section 2 describes data from the Survey of Consumer Expectations. Section 3 presents the results linking on-the-job search and job-to-job transitions with higher inflation expectations. Section 4 discusses our newly-collected data and provides additional evidence for increased inflation expectations precipitating on-the-job search. Section 5 describes a model in which search is endogenous to inflation expectations and demonstrates a counterfactual in which the economy transitions from near-target rate inflation to high inflation. Section 6 concludes.

2 SCE Data

The Survey of Consumer Expectations is a representative monthly survey conducted by the Federal Reserve Bank of New York. Households rotate through the survey, staying in the sample for up to 12 months. The survey includes questions about households' macroeconomic expectations as well as their demographic characteristics, financial circumstances, and employment situations. In addition to the core survey, which is conducted every month, we use data from the ad hoc labor market survey conducted in March, July, and November of each year. This survey

includes more detailed information about the respondent's current employment situation and job satisfaction, job search behavior, and expectations regarding finding a job and labor market transitions. Our sample extends from February 2014 to November 2019. The limited timing of the sample is driven by the COVID-19 pandemic, as well as the availability of the labor market survey, which contains the search and labor market realizations. Though data from the labor market survey is available into 2020, we omit the early phases of the pandemic as shutdowns and restrictions may have made it difficult for people to search for work.

2.1 Search and Job-to-Job Transitions

Each time respondents participate in the Labor Market supplement, they are asked if they have looked for work or - in the case of employed respondents - for *new* work in the last four weeks. Employed respondents are further asked if they have been searching in order to leave their current job or for supplemental work. Search is an indicator equal to 1 if the respondent reports searching in the last four weeks. In the case of employed respondents, we classify searchers as those looking for work that would replace their main job.[8]

Panel A of Table 1 gives the proportion of employed and non-employed respondents reporting search. Some non-employed respondents will be happy with their current labor market situation (i.e. retirees, students, caretakers) and will therefore have little reason to search. We split the non-employed sample into those who report that they were not working, but would like to work (Q10=3) and those not working who have not specifically indicated a desire to work.[9] The table shows that 15.3 percent of the employed sample reports recent search for new work, with an additional 4.7 percent searching for additional work. Among the non-employed sample, 12.6 percent searched, but this number increases to 66.8 percent when we restrict the sample to those who report wanting to work.

Search among both the employed and the non-employed does lead to subsequent labor market transitions. In the labor market supplement, respondents give the month and year that they began work at their current job. We define a respondent as having a new employer if her tenure at her current job is less than four months, i.e. less than the time since the prior labor market supplement was conducted. Panel B of Table 1 gives the proportion of respondents who report being at a new employer since their last job market survey. This sample is smaller as it requires participation in two consecutive job market surveys - or a survey tenure of at least five months. Job-to-job transitions are rare - with 3.8 percent of employed respondents reporting one. A larger proportion of those who are not employed and report wanting to work transition out

[8]We extend our analysis to include those looking for supplemental work in Appendix Table A-5.

[9]Non-employed persons are defined as unemployed if they have actively searched for work in the last four weeks. Because the definition of unemployment is search-based, it does not make sense to separate the sample into unemployed and out of the labor force.

of unemployment between surveys - 27.8 percent. Transitions are more common among those who reported search in the prior labor market survey - 14.8 percent of the employed report a job-to-job transition while 32.1 percent of those not employed and wanting to work begin work.

2.2 Inflation Expectations

The core survey, conducted every month, collects detailed data on the inflation expectations of households, over both short-run (the next twelve months) and medium-run (over the twelve months beginning two years from the survey date) horizons. Households provide their inflation expectations in two formats, first as a point estimate and then as probabilities that inflation may fall within a set of ranges. The probabilistic forecast gives information on the households' inflation uncertainty. They are first asked:

What do you expect the rate of [inflation/deflation][10] *to be* ***over the next 12 months****? Please give your best guess. (Q8v2)*

Respondents provide a number for this question. They also provide probabilistic forecasts over possible outcomes for inflation:

Now we would like you to think about the different things that may happen to inflation over the ***next 12 months****. We realize that this question may take a little more effort. (Q9)*

In your view, what would you say is the percent chance that, ***over the next 12 months...***

The respondent then assigns probabilities to a set of ranges for the rate of inflation or deflation. The ranges are a rate of inflation 12% *or higher*, *between* 8% *and* 12%, *between* 4% *and* 8%, *between* 2% *and* 4%, between 0% *and* 2%, and the same set of bins for the rate of deflation.

As our measure of inflation expectations, we use the implied mean of a distribution fit to the density forecast. The distribution mode is assumed to be equal to the respondent's point forecast as in Ryngaert 2023. Aside from this assumption, the distribution is fit in the same way as in Engelberg, Manski, and Williams 2009 and Armantier et al. 2017. We drop observations for which the point estimate falls outside the range of the density forecast as in this case the two forecasts are inconsistent with one another. We also winsorize inflation expectations at the 5% level by month. The distribution of responses appears in Figure 1. As is common in consumer surveys (D'Acunto, Malmendier, and Weber forthcoming), expectations exhibit high cross-sectional dispersion and are, on average, biased above realized inflation. We allow for these features of expectations in our model. All subsequent analysis is survey weighted.

Table 2 gives the average short run inflation expectation in the month before the labor market survey by employment status and search status. Employed respondents have lower inflation expectations on average. Employed searchers have higher inflation expectations than

[10] This selection is based on the answer to a previous question.

employed non-searchers. There is no statistical difference in the average inflation expectation between unemployed respondents who search and those who do not.

3 Results

In this section, we discuss the link between inflation expectations and the search and subsequent labor market transitions of employed workers. We show that currently employed respondents with higher inflation expectations are more likely to search for jobs and more likely to change jobs in the four months following the survey.

3.1 Job Search

Denote search as an indicator variable $search_{i,t+1}$, where a value of 1 means that a worker chooses in period t to search over the next approximately four-week period ending in $t+1$. We assume that the decision to search is based on an underlying value of search, $v_{i,t}$ which depends on both respondent characteristics and inflation expectations in time t:

$$v_{i,t} = \alpha E_{i,t}[\pi] + \gamma \mathbf{x}_{i,t} + \epsilon_{i,t} \tag{1}$$

where $\mathbf{x}_{i,t}$ is a vector of controls that may include respondents' demographic characteristics, labor market expectations, and other macroeconomic expectations. The respondent will choose to search if the benefit of search exceeds some cost, c:

$$search_{i,t+1} = \begin{cases} 1 & if \quad v_{i,t} \geq c \\ 0 & else \end{cases} \tag{2}$$

We estimate the relationship between inflation expectations and on-the-job search with the following probit regression:

$$search_{i,t+1} = \beta E_{i,t}[\pi] + \gamma \mathbf{x}_{i,t} + u_t + \epsilon_{i,t} \tag{3}$$

We would like to identify the causal effect of inflation expectations on search. As the variation in inflation expectations is across respondents, we need to address potential sources of endogeneity - factors that cause respondents to have both higher inflation expectations and to search more. We therefore include a number of controls, $\mathbf{x}_{i,t}$, for demographic characteristics such as gender, education, household income, census region, detailed employment status, marital status, and whether or not the respondent is a parent. The term u_t is a survey date fixed effect; this controls for potential time-series factors that influence both inflation expectations and search propensities. We also include tenure fixed effects in line with Kim and Binder

forthcoming who show that forecasts tend to improve over the course of a respondent's survey tenure.

Workers are likely to search for a number of reasons, including optimism or pessimism about the job market, which may be correlated with their inflation expectations. There is growing evidence that households view inflation as stagflationary (Kamdar 2019, Coibion et al. forthcoming(b), Coibion, Gorodnichenko, and Ropele 2020, and Candia, Coibion, and Gorodnichenko 2020). They may then believe that higher inflation signals increased job loss risk and difficulty in job finding. This suggests that households with higher inflation expectations might search due to employment insecurity rather than inflation itself. Accordingly, we include various measures related to the individuals expectations about their overall labor market prospects. These include the respondent's expected probabilities of job loss (Q13new), of finding a new job in the event of unemployment (Q22new), of receiving an outside offer (OO2e/OO2u), and of receiving a counter offer from their current employer (OO2f), and their expected nominal earnings growth conditional on staying at the same employer and working the same number of hours (Q24[11]). Because we are interested in the effect of expectations on future search, we use the expectations from the month prior wherever possible.[12] Some questions about labor market expectations are included only in the labor market supplement and therefore not available at a one-month lag. For these variables we use the contemporaneous expectation.

Table 3 reports the coefficients and marginal effects from Equation 3 estimated separately for the employed and the non-employed. For employed workers, higher inflation expectations are positively correlated with search propensities. A one percentage point increase in expected inflation is associated with an increase in the probability that a worker will search by 0.56 percentage points. An increase in expected inflation does not have the same effect on the job search behavior of the non-employed. The labor market expectations of respondents have intuitively sensible effects. As the subjective probability of receiving an offer in the near future and the expected number of offers increase, so does the likelihood of search. Employed respondents are further more likely to search if they anticipate greater job loss risk; a 1 standard deviation change in the subjective probability of job loss results in an 3 percentage point change in the likelihood of search. Perhaps counterintuitively, the probability of search decreases with the probability of receiving a matching offer from a respondent's current employer. If a respondent anticipates a counter offer, search should have more value for increasing the wage at her current position. This question may, however, proxy for a worker's satisfaction with her current employer.[13]

These results suggest a correlation between inflation expectations and job search, but we may

[11]This question is elicited as both a point forecast and a histogram forecast. We use the mean implied by the subjective density function as proposed by Ryngaert 2023.

[12]This means that people who join the survey in a Labor Market Survey month are excluded.

[13]Table A-1 shows that the question about receiving a counteroffer is positively correlated with satisfaction. Table A-2 presents the estimation results from Equation 3 controlling for job satisfaction measures. When we control for satisfaction, the negative effect of this probability remains, but is reduced in magnitude.

worry about reverse causation. Perhaps inflation is not prompting workers to search on the job, but rather searching is causing workers to expect higher inflation. Workers may receive nominal offers higher than their current wages and attribute this to an increase in the price level. The timing of the data collection alleviates some of this concern. The inflation expectation included in the regression is collected the month before the respondent answers the search questions and therefore prior to the start of the four-week search period. If higher inflation expectations cause search rather than the other way around, we should also expect that respondents who revise their forecasts up in time t will be more likely to initiate search. Table 4 re-estimates Equation 3 using revisions to inflation expectations in time t in place of $E_{i,t}[\pi]$. As the size of the revision will depend on the level of the expectation in time-$t-1$, we control for $E_{i,t-1}[\pi]$ as well. The results show that revisions to expected inflation are positively correlated with search among the employed, but not among the non-employed.

To address reverse causality concerns further, we include inflation expectations at various horizons to clarify the timing of the inflation expectations that are important for on-the-job search:

$$search_{i,t+1} = \sum_{h=\underline{h}}^{\bar{h}} \beta_h E_{i,t+h}[\pi] + \sum_{h=\underline{h}}^{\bar{h}} \gamma_h \mathbf{x}_{i,t+h} + u_t + \epsilon_{i,t} \tag{4}$$

Table 5 presents the results of various specifications of Equation 4.[14] This includes various combinations of lags and leads of inflation expectations and control variables that are available in the core survey. $E_{i,t+h}[\pi]$ is inflation expectation of respondent i h months following the search period beginning in t and ending in $t+1$, corresponding to the variable $search_{i,t+1}$. $E_{i,t}[\pi]$ is therefore the expectation at the beginning of the search period, $E_{i,t-1}[\pi]$ is the expectation a month before the search period begins, and $E_{i,t+1}[\pi]$ is the expectation at the end of the search period. The table shows that, regardless of the lags and leads included in the regression, $E_{i,t}[\pi]$ remains the expectation important for predicting search in the four weeks spanning from t to $t+1$.[15] We present a number of additional robustness checks in Appendix A. Table A-4 shows that these findings are robust to excluding some or all controls. Table A-5 includes employed workers looking for supplemental work and recovers a similar effect of inflation expectations on search. Table A-6 splits the non-employed into those who report that they would like to work and other non-employed. We find no significant coefficient on inflation expectations for those wanting to work and a slightly significant negative effect of inflation expectations on the

[14] An equivalent table for the search of non-employed respondents appears in Table A-3.

[15] We may still be concerned that this expectation may be a mid-search expectation, particularly if the respondent has been searching for more than four weeks. However, the labor market supplement is conducted once every four months, limiting our ability to tell how long a respondent has been searching. Even among workers who have searched for longer than four weeks, the relevant expectation for a worker's decision to search in t is $E_{i,t}[\pi]$.

search of non-employed respondents who do not report wanting to work. Table A-7 replicates Table 3 including data from the COVID-19 pandemic period and shows a similar effect of expected inflation on search. Table A-8 presents the results in a sample including data from the Job Search supplement conducted each October and shows the results are similar when we include these data points. While including this additional supplement expands the sample size, this supplement does not contain all of the labor market expectations that we include in our regression. Table A-9 shows a link between expected inflation and the intensive margin of search. This suggests that a one percentage point increase in expected inflation corresponds with an additional 25 minutes of search per week (mean = 5 hours, 39 minutes).

Our hypothesis is that employed workers search when they expect higher inflation because wages are set nominally, so they anticipate a real wage decline if they do not take any action. This mechanism need not affect all workers uniformly. For example, workers who have "automatic" wage adjustments should be less likely to search in response to a rise in expected inflation relative to those who do not. Consistent with our hypothesis, we find that - in the SCE - the effect of inflation expectations on search is either not present or largely reduced for those more likely to be union members. These workers are more likely to have either pre-existing cost of living provisions in their contracts or to be protected by collective bargaining agreements to make wage demands for them. Similarly, employees who are more satisfied with their jobs or who have non-wage benefits that increase their attachment to their employers will be more willing to tolerate real wage reductions and therefore less likely to search due to anticipated increases in the price level. Indeed, we find that the relationship between expected inflation and search is weaker among those reporting high satisfaction with non-pecuniary aspects of their jobs, as well as employees with a pension benefit. This supports the idea that workers who are relatively more willing and/or incentivized to remain at their current employer will be less affected by the proposed channel. Appendix C discusses this in detail.

3.2 Job-to-Job Transitions

Consumers with higher inflation expectations may be more likely to search for work - but does this search lead to actual changes in jobs? In this section, we are interested in whether higher inflation expectations predict job-to-job transitions among employees. Households will transition jobs as they receive offers whose value dominates that of their current job. Some received offers will be dominated by the respondents current wage or met with a counteroffer from the current employer. We anticipate, though, that some offers will be accepted.

Define a transition for an employed worker as:

$$Job\text{-}to\text{-}Job\,Transition_{i,t+5} = \begin{cases} 1 & if \quad new\ job\ between\ t+1\ and\ t+5 \\ 0 & else \end{cases} \tag{5}$$

We first estimate a probit regression in which the outcome variable is a job-to-job transition between labor market survey waves:

$$Job\text{-}to\text{-}Job\,Transition_{i,t+5} = \beta E_{i,t}[\pi] + \gamma \mathbf{x}_{i,t} + u_{t+5} + \epsilon_{i,t+5} \tag{6}$$

This equation includes the dependent variable of interest, $E_{i,t}[\pi]$, or the inflation expectation at the beginning of the search period ending in $t+1$. The first two columns of Table 6 Panel A show the estimates of Equation 6. Expected inflation has a small, but positive and significant impact on the probability of a job-to-job transition. The speculated mechanism for this effect is the propensity of consumers with higher inflation expectations to search on the job. As they search, offers should arrive more frequently. A searcher is therefore more likely than a non-searcher to draw an offer that dominates her current wage. Accordingly, the third and fourth column of Table 6 show the results of Equation 6 when we include the proposed mechanism, $search_{i,t+1}$, as a control variable. The coefficient and marginal effect on inflation are no longer significant, with the effects of inflation expectations operating through the $search_{i,t+1}$ variable, which has a strong positive and significant effect on the likelihood of a labor market transition. Searchers are 4.55 percentage points more likely to make a job-to-job transition than non-searchers.

3.3 Promotion

Aside from changing jobs, workers can improve their situation at their current jobs. In this section, we document that higher inflation expectations are not predictive of reporting a subsequent promotion. We estimate a parallel to Equation 6 for respondents remaining at the same employer in which the outcome variable is receiving a promotion rather than a job-to-job transition. This variable is equal to one if - since the last labor market survey - the respondent reports being at the same job but with a new title or duties.

$$Promotion_{i,t+5} = \beta E_{i,t}[\pi] + \gamma \mathbf{x}_{i,t} + u_{t+5} + \epsilon_{i,t+5} \tag{7}$$

The results appear in Panel B of Table 6. Inflation expectations have small and non-significant effect on reported promotions regardless of controlling for search. When we control for search, we find that search is positively predictive of a subsequent reported promotion, but that the size of this effect is smaller than the effect of search on making a job-to-job transition. The results suggest that those searching for reasons other than expected inflation are more likely to have a reported promotion.

3.4 Change in Salary

Workers may search due to expected inflation, but do they receive higher wages because of that search? We expect that workers with higher inflation expectations should only receive larger nominal wages due to actual offers received or changes in employment situations. We use the self-reported annual (nominal) earnings in each labor market supplement to calculate changes in nominal earnings. As these numbers are given annually, we limit our sample to workers who report the same detailed labor status across adjacent labor market supplements in order to hold hours worked as constant as possible. We estimate the following equation:

$$\Delta\, earnings_{i,t+5} = \beta E_{i,t}[\pi] + \gamma \mathbf{x}_{i,t} + u_{t+5} + \epsilon_{i,t+5} \tag{8}$$

where $\Delta\, earnings_{i,t+5}$ is the percentage change in annual earnings between the labor market survey taken in $t+1$ (when realized search is reported) and the labor market survey taken in $t+5$.

The results of Equation 8, with and without indicators for search, having an offer, promotion, and job-to-job transition appear in Table 7. Across specifications, the coefficient on $E_{it}[\pi]$ is near 0 and not statistically significant. In the second column, search has a positive, but insignificant effect on the change in earnings; the point estimate indicates that those who search obtain a 1.4 percentage point increase in their salary over non-searchers. Searchers should be more likely to receive a higher earnings change if they have successfully obtained an outside offer. Accordingly we include an indicator for receiving an offer- $Offer_{i,t+5}$ - in the third column - as well as an interaction term for the two. The coefficients on both $search_{i,t+1}$ and $Offer_{i,t+5}$ are positive but insignificant, but the sum of the two is significant at the 10 % level and implies searchers who generate at least one offer receive an additional 2.42 percentage points change in earnings, ceteris paribus. Adding indicators for $Promotion_{i,t+5}$ and $Job\text{-}to\text{-}Job\, Transition_{i,t+5}$ reduces the magnitudes of the coefficients on $search_{i,t+1}$ and $Offer_{i,t+5}$, indicating that changes in compensation occur primarily through taking on new responsibilities or changing jobs, with the latter yielding a larger change in nominal earnings (though this difference is not statistically significant).

We interpret these results to mean that inflation expectations alone do not drive the change in earnings. That is workers who expect higher inflation do not automatically receive larger changes in nominal compensation than their counterparts who expect lower inflation. Rather, these workers have to undertake actions that drive their wages up. While we see inflation expectations driving search, search itself does not appear to generate large changes in compensation. Workers obtain these changes by getting promoted by their current employer or by transitioning to a new employer. Our results have shown that workers with higher inflation expectations are more likely to change jobs, but not to report receiving a promotion. This indicates that when presented

with the choice between a promotion and a change in employer, searchers who anticipate higher inflation may choose the option that provides the larger change in nominal compensation.

4 Real-Time Population Survey

Thus far, the evidence we have presented is cross-sectional - it relies on variation across individuals in inflation expectations. In order for the effects of inflation expectations on search to have a causal interpretation, we must believe that - after controlling for observables - differences in inflation expectations are approximately exogenous. This section presents additional survey evidence in which we ask each respondent to consider two different hypothetical inflation levels and their earnings expectations and planned actions at these levels of inflation. This provides an alternative source of variation at the individual level, and allows us to capture aggregate differences in expectations and labor market actions when inflation is near the Federal Reserve's target and when it is above target. Hypothetical values of macroeconomic variables have been used elsewhere in the literature to capture the response of expectations to changes in these variables, holding the rest of a respondent's information set constant (Roth, Wiederholt, and Wohlfart 2022, Andre et al. 2022, Coibion et al. forthcoming(a)). [16]

These questions were administered as a part of the Real-Time Population Survey Bick and Blandin 2021 in October of 2022.[17] Prior to collecting nominal earnings growth expectations and planned decisions at different hypothetical levels of inflation, we collect respondents inflation expectations so that we can replicate our cross-sectional analysis on these data. We elicit unconditional inflation expectations by asking:
By how much do you expect prices in the overall economy to change (the inflation rate) over the next 12 months)? Please give your best guess.

We winsorize these answers at the 5% level and present the distribution of answers in Figure 2. The average inflation expectation among employed respondents is 7.6% and 9.1% among non-employed respondents.. This is higher than the average expectation of respondents in the SCE in the pre-COVID period, but also tracks with the increase in inflation since 2021.

[16] Roth, Wiederholt, and Wohlfart 2022 provide survey respondents with monetary policy vignettes in which they propose a change in the federal funds rate as well as the reason for the change (outlook or composition of the FOMC, etc.) and track the change in expectations across scenarios. Andre et al. 2022 ask respondents to consider hypothetical vignettes about different exogenous shocks to the macroeconomy; respondents first consider a baseline scenario and then consider a shock scenario. Coibion et al. forthcoming(a) ask respondents to consider hypothetical values of short-run inflation and elicit their corresponding medium-run expectations to assess respondent's understanding of average inflation targeting.

[17] The survey ran from October 17-21, 2022.

4.1 Earnings Growth with Current Employer

Increases in the price level only reduce the the real wage when the rate of price inflation exceeds the growth in nominal wages. We expect respondents to search due to inflation if they perceive that their compensation at their current job will grow slowly relative to the general level of prices. To see if workers do perceive nominal earnings growth in these terms, we asked respondents about their anticipated nominal earnings growth under different levels of inflation. Specifically, we asked:

Suppose prices in the overall economy were to increase by [2, 10] % in the next 12 months. If you were to remain at your current main job, by what percent would your employer increase your usual earnings before taxes and other deductions. Please provide your best guess.

Each respondent answers the question under both levels of inflation. We construct a measure of real earnings growth by subtracting the hypothetical inflation rate. Figure 3 shows the resulting distributions. The distribution of expected real earnings growth is lower under 10% inflation than under 2% inflation, meaning respondents do not anticipate changes in their current nominal compensation to keep pace with inflation. The average difference between a respondent's expected earnings growth under 10% inflation and under 2% inflation is 0.67 percentage points (compared to an 8 percentage point difference in inflation). This is consistent with the findings of Hajdini et al. 2022 who find that U.S. households anticipate low passthrough of price inflation to wage inflation.

4.2 Job Search

To see if workers respond to these anticipated reductions in real earnings, we also asked respondents what measures they would take under different levels of inflation. These actions included various labor market actions that would allow workers to increase their nominal wages:
Suppose prices in the overall economy were to increase by [2, 10] % in the next 12 months. Which of the following actions would you take? Please check all that apply.

- *Ask for a raise at my current job.*
- *Search for a new job to replace my current job.*
- *Search for additional work.*

Figure 4 shows the difference in the share of respondents who would undertake a certain action under 10% inflation and the same share under 2% inflation along with 95% confidence intervals. Respondents are significantly more likely to search for new or additional work as well as ask for a raise under 10% inflation.[18] Under 2 % inflation, the 12.2% and 26.0 % of

[18]Note that asking for a raise does not mean the worker will get a raise.

respondents would search for new and additional work, respectively. These shares increase by 5.7 and 4.4 percentage points. The share of respondents who would ask for a raise increases 3.1 percentage points, from 18.4 % of the sample under lower inflation to 21.5 % of the sample under the higher value of inflation.

We first conduct a probit analysis similar to that in Equation 3 with "Search for a new job to replace my current job" as the dependent variable. As respondents answer this question under two different hypothetical levels of inflation, we include each individual in the sample twice, controlling for the hypothetical. Specifically, we estimate:

$$search_i^{RPS} = \beta E_i[\pi] + \gamma \mathbf{x}_i + \mathbf{1}(\pi = 10) + \epsilon_i \tag{9}$$

$\mathbf{x}_i$ is a vector of controls for employment type, gender, age, race, Census region, marital status, relationship status, and number of children. The indicator variable $\mathbf{1}(\pi = 10)$ is equal to 1 if the response was given under the high inflation hypothetical. The results appear in Table 9. The marginal effect on $E_i[\pi]$ indicates that as a respondent's expected inflation increases by one percentage point, the probability of searching for a new job increases by 0.62 percentage points. The marginal effect on $\mathbf{1}(\pi = 10)$ shows that respondents are 5.7 percentage poitns more likely to plan to search under the higher inflation scenario as shown in Figure 4.

These results imply that, holding respondent characteristics and information sets constant, workers are more likely to search for work under higher inflation. They also have consistent nominal earnings growth expectations across different levels of anticipated inflation. This means that they expect their real wages are declining in inflation. In the next section, we build a model consistent with these facts.

5 Model

We now outline a simple model of on-the-job search (Burdett 1978) with endogenous search effort which we use to conduct simulations of worker behavior in response to exogenous movements in inflation and inflation expectations. There is a measure 1 of workers of which u_t are unemployed and e_t are employed at date t. [19]Each individual i has some inflation expectation $\tilde{\pi}_{i,t}$ (the rate of growth of the price level between t and $t+1$) at the beginning of date t, which may or may not correspond to the true level of inflation, π_t. Denote by $u_t(\tilde{\pi})$ the mass of unemployed workers with particular inflation expectation $\tilde{\pi}$, $e_t(\tilde{\pi})$ the mass of employed workers with particular inflation expectation $\tilde{\pi}$, and $g_t(w|\tilde{\pi})$ the cross sectional distribution of real wages w among the

[19]Throughout we will use unemployed and non-employed interchangeably. When we calibrate the model, we think of u_t as included unemployed and non-participants.

employed with inflation expectation $\tilde{\pi}$. We have the following identities:

$$\int \left[u_t\left(\tilde{\pi}\right) + e_t\left(\pi\right)\right] d\tilde{\pi} = 1$$

$$\int g_t\left(w|\tilde{\pi}\right) dw = 1 \quad \forall \tilde{\pi}$$

In every period, both employed and unemployed workers choose whether or not search $s \in \{0, 1\}$, taking as given an independentally and identically distributed cost of search cost $c \sim H\left(c\right)$, their current inflation expectations $\tilde{\pi}_{i,t}$, and their current real wage w, if employed. The probability of receiving an offer is a function of whether or not someone searches and their employment status, and we denote these probabilities by $\lambda_e\left(s\right)$ for the employed and $\lambda_u\left(s\right)$ for the non-employed. If they choose to search, employed and unemployed workers receive offers with probability $\lambda_e\left(1\right), \lambda_u\left(1\right)$, respectively. The return to searching is that the probability of receiving and offer while searching is higher than if not searching, $\lambda_e\left(1\right) \geq \lambda_e\left(0\right)$ and $\lambda_u\left(1\right) \geq \lambda_u\left(0\right)$. Conditional on receiving an offer, real wage offers are drawn from an exogenous distribution $F\left(w\right)$ which is bounded by $[\underline{w}, \bar{w}]$. Once employed, workers earn their real wage w in the current period while unemployed workers earn their value of leisure b. However, employed workers' nominal wages remain fixed so long as they remain at the same job; this means that as their job tenure increases, their real wage falls with actual inflation π_t, and they perceive that it will fall at rate $\tilde{\pi}_{i,t}$. We assume that offered wages for new matches keep up with inflation; in other words, the real wage offer distribution remains constant. Finally, workers separate exogenously into unemployment with probability δ, and they may separate endogenously depending on how inflation actually evolves, as we describe below. The timing of the model is summarized in Figure 5.

5.1 Inflation Expectations

Actual inflation follows:

$$\pi_t = \mu_\pi + \rho_\pi \pi_{t-1} + \xi_t$$

where $\xi_t \sim N\left(0, \sigma_\xi^2\right)$and $\rho_\pi < 1$. An individual's inflation *expectations* at date t about π_t are given by:

$$E_{i,t}\left(\pi_t\right) = \tilde{\pi}_{i,t} = \bar{\pi} + \pi_t + \varepsilon_{i,t}$$

where $\varepsilon_{i,t}$ is an independently and identically distributed (i.i.d.) normal random variable with mean 0 and variance σ_ε and $\bar{\pi}$ represents the average deviation of inflation expectations ("mean

bias") from the true level of inflation, π_t. [20]We think of $\varepsilon_{i,t}$ as an idiosyncratic exogenous shock to short-run inflation expectations around a longer-run expectation so that all agents expect inflation next period to be $E_{i,t}(\pi_{t+1}) = \tilde{\pi}_{i,t+1} = \mathbf{E}_t[\pi_{t+1}] + \bar{\pi}$ with certainty.

5.2 Perceived Values of Employment and Unemployment

The value of unemployment to a worker with current inflation expectation $\tilde{\pi}$ can be written as:

$$U(\tilde{\pi}_t) = b + \max_{s\in\{0,1\}} \int_c \Big\{ -cs + \beta\lambda_u(s) E_{\pi_{t+1}} \left[\int \max\{W(w,\pi_{t+1}), U(\pi_{t+1})\} dF(w) \right] + \beta E_{\pi_{t+1}} (1-\lambda_u(s)) U(\pi_{t+1}) \Big\} dH(c)$$

In the current period, the worker earns the flow value of leisure b. She then must choose whether or not to search $s \in \{0,1\}$, taking into account the i.i.d. cost of search c, and the returns to search embedded in $\lambda_u(s)$. If she receives an offer w, she must decide whether to accept or reject that offer, and if she does not receive an offer, she continues into next period unemployed.

Evaluating the above for $s = 1$ and $s = 0$ implies a cutoff search cost for the unemployed, $\hat{c}_u(\tilde{\pi}_t)$, above which they do not search ($s = 0$) and below which they search ($s = 1$). This cutoff value satisfies:

$$\hat{c}_u(\tilde{\pi}_t) = \beta[\lambda_u(1) - \lambda_u(0)] E_{\pi_{t+1}} \left[\int \max\{W(w,\pi_{t+1}), U(\pi_{t+1})\} dF(w) - U(\pi_{t+1}) \right]$$

Moreover, we can define the reservation wage $\hat{r}_u(\tilde{\pi}_t)$ for the unemployed with inflation expectation $\tilde{\pi}_t$ implicitly using the following condition:

$$W(\hat{r}_u(\tilde{\pi}_t), \tilde{\pi}_t) = U(\tilde{\pi}_t)$$

which is the lowest real wage the worker is willing to accept from unemployment.

Turning to employed workers, the value of employment to a worker with current real wage

[20]Allowing $\varepsilon_{i,t}$ to persist into longer-run expectations would be akin to modeling persistent differences in inflation expectations across people above the persistence coming through π_t, which we abstract from in this paper.

w and expected inflation $\tilde{\pi}_t$ is:

$$
\begin{aligned}
W\left(w,\tilde{\pi}\right) = \max_{s\in(0,1)} \int_c \Bigg\{ & -cs + w + \beta \mathbf{I}_{\frac{w}{1+\tilde{\pi}} < \hat{r}_u(\tilde{\pi}')} U\left(\tilde{\pi}'\right) \\
& + \beta\left(1-\delta\right)\lambda_e\left(s\right)\mathbf{I}_{\frac{w}{1+\tilde{\pi}} \geq \hat{r}_u(\tilde{\pi}')} \left[\int \max\left\{W\left(x,\tilde{\pi}'\right), W\left(\frac{w}{1+\tilde{\pi}},\tilde{\pi}'\right)\right\} dF\left(x\right)\right] \\
& + \beta\left(1-\delta\right)\left(1-\lambda_e\left(s\right)\right)\mathbf{I}_{\frac{w}{1+\tilde{\pi}} \geq \hat{r}_u(\tilde{\pi}')} W\left(\frac{w}{1+\tilde{\pi}},\tilde{\pi}'\right) \\
& + \beta \mathbf{I}_{\frac{w}{1+\tilde{\pi}} \geq \hat{r}_u(\tilde{\pi}')} \delta U\left(\tilde{\pi}'\right) \Bigg\} dH\left(c\right)
\end{aligned}
$$

$$
\begin{aligned}
W\left(w,\tilde{\pi}_t\right) = \max\left\{U\left(\tilde{\pi}_t\right), w + \max_{s\in(0,1)} \int_c \Bigg\{ & -cs + \\
& + \beta\left(1-\delta\right)\lambda_e\left(s\right) E_{\pi_{t+1}} \left[\int \max\left\{W\left(x,\pi_{t+1}\right), W\left(\frac{w}{1+\tilde{\pi}_t},\pi_{t+1}\right), U\left(\pi_{t+1}\right)\right\} dF\left(x\right)\right] \\
& + \beta\left(1-\delta\right)\left(1-\lambda_e\left(s\right)\right) E_{\pi_{t+1}} \max\left\{W\left(\frac{w}{1+\tilde{\pi}_t},\pi_{t+1}\right), U\left(\pi_{t+1}\right)\right\} \\
& + \beta\delta E_{\pi_{t+1}} U\left(\pi_{t+1}\right) \Bigg\} dH\left(c\right) \Big\}
\end{aligned}
$$

In the current period, the worker earns their real wage w. She then must choose whether or not to search $s \in \{0,1\}$, taking into account the i.i.d. cost of search c, and the returns to search embedded in $\lambda_e\left(s\right)$. At the start of next period, her real wage depreciates by actual inflation, but from the perspective of the period prior, she expects it to depreciate according to her inflation expectations $\tilde{\pi}_t$. If she does not exogenously separate (probability $1-\delta$), and receives an offer x, she must decide whether to accept or reject that offer; again, this choice is made under the assumption that her current real wage will depreciate according to her inflation expectations $\tilde{\pi}_t$, while the wage offers x are already in real terms. If she does not receive an offer, but does not exogenously separate, she remains employed, but she expects her real wage depreciates according to her inflation expectations, and may endogenously quit if the evolution of her expectations warrant it. Finally, if she exogenously separates, she continues into next period unemployed.

Once again, we can compare the value when searching to the value when not searching to arrive at a cutoff search cost, call it $\hat{c}_e\left(w,\tilde{\pi}_t\right)$, above which workers do not search and below

which they search. This cutoff search cost is given by:

$$\hat{c}_e(w,\tilde{\pi}) = \beta(1-\delta)(\lambda_e(1)-\lambda_e(0))\,\mathbf{I}_{\frac{w}{1+\tilde{\pi}}\geq\hat{r}_u(\tilde{\pi}')}\left[\int \max\left\{W(x,\tilde{\pi}'), W\left(\frac{w}{1+\tilde{\pi}},\tilde{\pi}'\right)\right\}dF(x)\right]$$
$$-\beta(1-\delta)(\lambda_e(1)-\lambda_e(0))\,\mathbf{I}_{\frac{w}{1+\tilde{\pi}}\geq\hat{r}_u(\tilde{\pi}')}\max\left\{W\left(\frac{w}{1+\tilde{\pi}},\tilde{\pi}'\right), U(\tilde{\pi}')\right\}$$

$$\hat{c}_e(w,\tilde{\pi}_t) = \beta(1-\delta)[\lambda_e(1)-\lambda_e(0)]\,E_{\pi_{t+1}}\left[\int \max\left\{W(x,\pi_{t+1}), W\left(\frac{w}{1+\tilde{\pi}_t},\pi_{t+1}\right), U(\pi_{t+1})\right\}dF(x)\right]$$
$$-\beta(1-\delta)(\lambda_e(1)-\lambda_e(0))\,E_{\pi_{t+1}}\max\left\{W\left(\frac{w}{1+\tilde{\pi}},\pi_{t+1}\right), U(\pi_{t+1})\right\}$$

Finally, each employed worker with a specific inflation expectation will have a different reservation wage, defined as:

$$W(\hat{r}_e(w,\tilde{\pi}_t),\tilde{\pi}_{t+1}) = W\left(\frac{w}{1+\tilde{\pi}_t},\tilde{\pi}_{t+1}\right) \Longrightarrow$$
$$\hat{r}_e(w,\tilde{\pi}_t) = \frac{w}{1+\tilde{\pi}_t}$$

This means that - for a given current real wage w, workers with higher inflation expectations will have lower reservation wages, exactly because they expect their current wage will depreciate faster.

5.3 Inflows and Outflows

We can write the evolution of the mass of unemployed workers with inflation expectation $\tilde{\pi}$ as

$$u_{t+1}(\tilde{\pi}) = \phi\left(\tilde{\pi}-(\pi+\bar{\pi});\sigma_\varepsilon^2\right)\int_{\tilde{z}}\left\{u_t(\tilde{z})\left(1-\bar{\lambda}_u(\tilde{z})\int_{\hat{r}_u(\tilde{z})} f(w)\,\mathbf{I}_{w\geq\hat{r}_u(\tilde{\pi})}dw\right)\right\}d\tilde{z}$$
$$+\phi\left(\tilde{\pi}-(\pi+\bar{\pi});\sigma_\varepsilon^2\right)\int_{\tilde{z}}\left\{\int_w e_t(\tilde{z})\left[\delta\mathbf{I}_{w\geq\hat{r}(\tilde{\pi})}+\mathbf{I}_{w<\hat{r}_u(\tilde{\pi})}\right]g_t(w(1+\pi_t)|\tilde{z})\,dw\right\}d\tilde{z}$$

where $\phi(\cdot;\sigma_\varepsilon^2)$ denotes the normal pdf with variance σ_ε^2 and

$$\bar{\lambda}_u(\tilde{\pi}) = H(\hat{c}_u(\tilde{\pi}))\,\lambda_u(1)+(1-H(\hat{c}_u(\tilde{\pi})))\,\lambda_u(0) \quad \forall\tilde{\pi}$$

is the probability an unemployed worker with inflation expectations $\tilde{\pi}$ of receving an offer. Unemployed workers with inflation expectations $\tilde{\pi}$ in $t+1$ will be those workers who either remain unemployed, and then draw an ε such that their new expectations are $\tilde{\pi}$, or employed workers who separate and draw a similar ε. We can write the evolution of employed workers

with different beliefs as:

$$e_{t+1}(\tilde{\pi}) = \phi\left(\tilde{\pi} - (\pi + \bar{\pi}); \sigma_{\varepsilon}^2\right) \int_{\tilde{z}} \left\{ u_t(\tilde{z}) \bar{\lambda}_u(\tilde{z}) \int_{\hat{r}(\tilde{z})} f(w) \mathbf{I}_{w \geq \hat{r}_u(\tilde{z})} dw \right\} d\tilde{z}$$
$$+ \int_{\tilde{z}} \left\{ \int_w e_t(\tilde{z}) (1-\delta) \mathbf{I}_{w \geq \hat{r}_u(\tilde{z})} g_t(w(1+\pi_t)|\tilde{z}) dw \right) \right\} d\tilde{z}$$

That is, employed workers with inflation expectations $\tilde{\pi}$ in $t+1$ will be those unemployed workers that find a job and draw an ε such that their new expectations are $\tilde{\pi}$, or employed workers who remain employed and draw a similar ε. The distribution of real wages among employed workers with inflation epectation $\tilde{\pi}$ is:

$$\begin{aligned} e_{t+1}(\tilde{\pi}) g_{t+1}(w|\tilde{\pi}) = \int_{\tilde{z}} \Big(& u_t(\tilde{z}) \bar{\lambda}_u(\tilde{z}) f(w) \mathbf{I}_{w \geq \hat{r}_u(\tilde{z})} \\ & + \mathbf{I}_{w \geq \hat{r}_u(\tilde{z})} (1-\delta) e_t(\tilde{z}) g_t(w(1+\pi_t)|\tilde{z}) \left(1 - \bar{\lambda}_e(w, \tilde{z})\right) \\ & + \mathbf{I}_{w \geq \hat{r}_u(\tilde{z})} (1-\delta) e_t(\tilde{z}) g_t(w(1+\pi_t)|\tilde{z}) \bar{\lambda}_e(w, \tilde{z}) F(\hat{r}_e(w, \tilde{z})) \\ & + \int_y^w e_t(\tilde{z}) g_t(y(1+\pi_t)|\tilde{z}) \mathbf{I}_{y \geq \hat{r}_u(\tilde{z})} (1-\delta) \bar{\lambda}_e(w, \tilde{z}) f(w) \mathbf{I}_{w \geq \hat{r}_e(y, \tilde{z})} dy \Big) d\tilde{z} \end{aligned}$$

where

$$\bar{\lambda}_e(w, \tilde{\pi}) = H(\hat{c}_e(w, \tilde{\pi})) \lambda_e(1) + (1 - H(\hat{c}_e(w, \tilde{\pi}))) \lambda_e(0) \quad \forall w \in [\underline{w}, \bar{w}], \forall \tilde{\pi}$$

That is, some unemployed workers find jobs at real wage w, some employed workers previously employed at wage $w(1+\pi_t)$ who do not separate endogenously or exogenously and do not receive an offer or receive an unacceptable offer will have their wage depreciate to w, and finally, some workers will find new employment at a job with real wage w.

In the steady state where $\pi_t = \mu_\pi$, we have $u_{t+1}(\tilde{\pi}) = u_t(\tilde{\pi}) = u^{ss}(\tilde{\pi})$, and $g_{t+1}(w|\tilde{\pi}) = g_t(w|\tilde{\pi}) = g^{ss}(w|\tilde{\pi}) \forall \tilde{\pi}$.

5.4 Inflation Expectations and Search

Before turning to the model calibration, we first explore the qualitative predictions of our model and show that they line up with our reduced form evidence from Section 2. The left hand panel of Figure 6 plots the probability of searching for employed workers at different real wages as inflation expectations vary. First, for a given inflation expectation, probabilities of search fall as real wages rise since the return to search - getting a higher real wage - falls. This feature is present even in a real version of the model, where workers at the lower end of the real job ladder have larger incentives to search. [21]Second, for each real wage level, the probability of search

[21]In this sense, if one were interested in the elasticity of search with respect to real wages, another way to measure it is by measuring the sensitivity of search with respect to inflation expectations for a given current

increases in inflation expectations. Workers with higher inflation expectations expect their real wage to fall faster than those with lower inflation expectations; therefore, they perceive the return to search - getting a higher real wage - to be larger. As seen in the right hand panel, of Figure 6, searching for work delivers higher probabilities of receiving an offer and therefore by definition, workers who search more are more likely to transition to new employers, all else equal.

Figure 7 plots the distribution of steady state real wages among the employed as well as the distribution of real offered wages. Typically, in a model without inflation eroding real wages for job stayers, the distribution of wages among the employed first order stochastically dominates the distribution of offered real wages; as workers sample job offers on the job, they move increasingly into positions in the upper part of the offer distribution. However, because real wages are falling while staying in a match, lower real wage offers begin to be seen as more valuable relative to a case without inflation, and so the distribution of wages among the employed may not stochastically dominate the offer distribution.

5.5 Calibration

We calibrate the model to roughly match the pre-Covid U.S. economy. One model period is one month. We consider employed and non-employed workers, the latter of which includes unemployed participants and non-participants. In this calibration, as well as all exercises that follow, we assume $\rho_\pi = 0$ and $\sigma_\zeta = 0$.[22]We set $\beta = .995$ to match an annual discount rate of 5% and assume $\mu_\pi = .0014$ to match and annual inflation rate of 1.65%, the average annual core PCE inflation rate pre-2020. We set $\bar{\pi}$ to .0018 to match a mean bias in annual inflation expectations of +2.17% , which is the mean pre-2020 bias in our SCE data, and the standard deviation of shocks to short-run inflation expectations to $\sigma_\varepsilon = .0027$, also taken from the pre-2020 SCE cross sectional distribution of inflation expectations.The exogenous monthly separation rate is set to $\delta = .025$, the monthly employment to non-employment transition probability in the SCE. We assume search costs are distributed exponentially with mean $\bar{c}_u$ for the non-employed and mean $\bar{c}_e$ for the employed, and that real log offers are normally distributed with mean μ_w and variance σ_w^2. The remaining parameters to calibrate are thus average search cost $\bar{c}_e, \bar{c}_u$, the arrival rates of offers conditional on search and employment, $\lambda_u(s)$ and $\lambda_e(s)$, $s \in (0,1)$, the value of leisure b, and the mean and variance of the offer distribution $\mu_w$and σ_w^2. For the offer arrival parameters, we use the probability of receiving an offer conditional on search status and employment status in our sample. These are 35.9%, 6.2%, 32.4%, and 14% for non-employed searchers, non-employed non-searchers, employed searching, and employed non-searchers, respectively. We choose the mean search costs for employed and non-employed to match the average share of workers in

nominal wage.

[22]The case with $1 > \rho_\pi > 0$ and $\sigma_\zeta > 0$ is work in progress.

employment and non-employment who are actively searching in our sample (15.3% and 12.6%, respectively). We choose the value of leisure to match an average monthly job-finding rate for non-employed, non-searchers of 1.89%. Finally, we normalize $\mu_w = 1$ and choose σ_w^2 to match a 50-10 ratio of log wages to be 1.8. Table 9 reports the model-generated and targeted moments, which we are able to fit quite well using the parameters listed in 10.[23]

5.6 Shocks to Inflation Expectations

We now use the model to conduct an experiment testing the effects of a change in the distribution of inflation expectations on the the rate of job-to-job transitions and aggregate real wages in the economy. Specifically, we look at the effect of *temporary* increases in inflation expectations that are not realized in actual inflation itself. To do so, we look at the effect of the average bias in inflation expectations exceeding its long run average temporarily (for 2 years) and then returning to its long-run average pre-Covid. This is an unanticipated, repeated, one-period shock to the mean of the distribution of ε, whose increase is equal to .0022 monthly, or 1 standard deviation in the time series of deviation of the average forecast from realized inflation in the pre-pandemic SCE data. We begin the economy in the steady state dictated by the calibration described above.

Figure 8 shows the distribution of $\tilde{\pi}_{i,t}$before (blue dotted line), during (red dash-dotted line) and after the shock (blue dotted line). The distribution of realized inflation expectations under the shock shifts to the right towards higher values of inflation. By assumption, these shocks do not change the agents' search policy functions, but rather shift the distribution of inflation expectations towards values of $\tilde{\pi}_{i,t}$ associated with a higher probabilities of search following the search behavior depicted in Figure 6. Intuitively, workers who expect a higher rate of inflation believe that their real wages will deteriorate more relative to the fixed real offer distribution. This increases the perceived value of search, raising the cutoff search cost, and thus probability of search.

Figure 9 plots the evolution of the job-to-job transition probability. On impact, the job-to-job transition rate rises as more workers perceive that inflation will be higher in the future. This increase occurs for two reasons: first, search effort rises, and second, reservation wages for employed workers fall. Both of these mechanisms have an impact on the evolution of the distribution of real wages among the employed: the former should raise mean real wages among the employed while the latter has the opposite effect. As can be seen in Figure 10, real wages initially fall, suggesting that the reservation wage channel initially dominates. However, soon the rise in search effort leads to job-to-job transitions that increase mean real wages, putting

[23]These numbers are preliminary and meant to be illustrative at this time. In particular, we do not fit the elasticity of search to inflation expectations from our regressions well, which is a key feature that will determine the magnitude of the economy's response to shocks through our mechanism.

downward pressure on the job-to-job transition rate. The rate of job-to-job transitions continues to fall to what would be the new effective steady state if the shock distribution was permanent. When the shock ceases and the distribution of expectations returns to its former steady-state distribution, the job-to-job rate falls, and then slowly rises back to its former steady state level, effectively mimicking the behavior of the initial shock in reverse.

Importantly, this exercise does not move realized inflation. Rather, it moves short-run inflation expectations temporarily above their long run mean. This simple example illustrates that even movements in short-run inflation expectations can effect the distribution of real wages, which may impact ultimate pricing decisions by firms.

6 Conclusion

Common wisdom among monetary policymakers suggests that elevated inflation expectations leads to higher nominal wage demands. There is little evidence, however, for the mechanisms for such demands and how they are obtained. This paper fills that gap by providing evidence that currently employed workers with higher inflation expectations are more likely to search for new work and more likely to have a job-to-job transition during their survey tenure. We argue that expected inflation along with perceived nominal wage rigidity with current employers prompt workers to search for new opportunities in order to raise their nominal wage. In the data, we see that searching respondents experience changes in nominal earnings primarily by transitioning to a new employer.

We build a job search model consistent with these facts. We first use the model to formalize the intuition linking expected inflations and on-the-job-search. We then use the model to show that an upward shift in the cross-sectional distribution of inflation expectations leads to greater search intensity, more frequent job-to-job transitions, and an upward trend in average real wages. The model suggest that even changes in short-run inflation expectations can generate upward pressure on wages. Many monetary policymakers believe that short-run fluctuations in inflation expectations will not generate persistent inflationary pressure unless those beliefs become entrenched in longer-run beliefs. Accordingly, future work may further consider the effect of short-run beliefs on labor market tightness even as inflation expectations are considered well-anchored.

The paper has some limitations that point to productive avenues for future work. First, we model the partial equilibrium transmission of exogenous shocks to inflation and inflation expectations to wages. This provides simplicity as it abstracts away from an endogenous firm pricing or offer decisions in response to those wage changes, but does limit the interpretability of our measures of passthrough from inflation expectations to real wages. Future work may extend this model to a general equilibrium model to further study the role of on-the-job search

in wage-price dynamics. We also currently model repeated shocks to the inflation expectations process that are not absorbed into future expectations. Incorporating learning from shocks or persistence of shocks to expectations into the model may provide further insights into how the on-the-job search mechanism may play out over the course of an inflationary episode in the economy.

Panel A: Job Search	Employed	Not Employed		
		All	*Want to Work*	*Not Working, Other*
Searching				
for new work	15.3 (0.4)	12.6 (0.7)	66.8 (3.0)	6.8 (0.5)
for additional work	5.7 (0.3)			
Not Searching	79.0 (0.5)	87.4 (0.7)	33.2 (3.0)	93.1 (0.5)
N	9,352	4,669	427	4,242
Panel B: New Employer				
All	3.8 (0.3)	7.1 (0.6)	27.8 (3.3)	4.7 (0.5)
Prior Search	14.8 (1.6)	28.7 (3.5)	32.1 (4.5)	22.2 (5.4)
N	5,923	3,196	300	2,896

Table 1: The Labor Market supplement asks respondents if they have searched for work in the last four weeks as well as their start date at their current job. Panel A reports the proportion of respondents reporting search by employment status. Panel B reports the proportion of respondents at a new employer (defined as being with that employer for less than four months or being employed when previously unemployed) split out by employment status at the time of the prior Labor Market survey.

Table 9 reports the model-generated and targeted moments, which we are able to fit quite well using the parameters listed in

By Employment Status	Employed	Not Employed	p-value for equality of means
	3.53	3.89	0.00
By Search Status	Searching	Not Searching	p-value for equality of means
Employed	3.77	3.48	0.01
Not Employed	4.03	3.83	0.24

Table 2: The table shows the average year-ahead inflation expectation across various groupings as well as p-values from a t-test for the equality of means. It shows the average expectation by employment status and by whether or not the respondent searched in the following period.

	Employed		Not Employed	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0311***	0.0056***	0.0153	0.0013
	(0.0090)	(0.0016)	(0.0182)	(0.0015)
$E_{i,t}[Prob.\ Unemployment\ Increases]$,	-0.0013	-0.0002	-0.0033	-0.0003
(0 - 100)	(0.0011)	(0.0002)	(0.0023)	(0.0002)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$,	-0.0006	-0.0001	-0.0065***	-0.0005***
(0 - 100)	(0.0010)	(0.0002)	(0.0022)	(0.0002)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$,	-0.0022*	-0.0004*	0.0031	0.0003
(0 - 100)	(0.0012)	(0.0002)	(0.0027)	(0.0002)
$E_{i,t+1}[Prob.\ Offer]$,	0.0128***	0.0023***	0.0144***	0.0012***
(0 - 100)	(0.0011)	(0.0002)	(0.0020)	(0.0002)
$E_{i,t+1}[Number\ of\ Offers]$,	0.2731***	0.0498***	0.1948***	0.0146***
	(0.0288)	(0.0053)	(0.0471)	(0.0036)
$E_{i,t+1}[Prob.\ Counteroffer]$,	-0.0070***	-0.0013***		
(0 - 100)	(0.0009)	(0.0002)		
$E_{i,t}[Prob.\ Job\ Loss]$,	0.0086***	0.0015***		
(0 - 100)	(0.0012)	(0.0002)		
$E_{i,t}[Prob.\ Job\ Finding]$,	-0.0010	-0.0002		
(0 - 100)	(0.0008)	(0.0002)		
$E_{i,t}[\Delta\ earnings]$	-0.0088	-0.0016		
	(0.0059)	(0.0011)		
N	6,672		3,747	

Table 3: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins

	Employed		Not Employed	
	Coeff.	ME	Coeff.	ME
$Rev_{i,t}[\pi]$	0.0545***	0.0096***	-0.0025	-0.0002
	(0.0126)	(0.0023)	(0.0204)	(0.0016)
$E_{i,t-1}[\pi]$,	0.0471***	0.0083***	0.0100	0.0008
	(0.0106)	(0.0019)	(0.0194)	(0.0015)
N	6,000		3,421	

Table 4: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3 with $Rev_{i,t}[\pi]$ and $E_{i,t-1}[\pi]$. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. The table shows that both the level of inflation expectations and revisions in inflation expectations are positively predictive of search for the employed but not for the non-employed.

	Two Lags		One Lag, One Lead		Two Leads	
$E_{i,t-2}[\pi]$	0.0111	0.0019				
	(0.0158)	(0.0027)				
$E_{i,t-1}[\pi]$	-0.0121	-0.0020	-0.0149	-0.0026		
	(0.0152)	(0.0026)	(0.0132)	(0.0023)		
$E_{i,t}[\pi]$	0.0405**	0.0068**	0.0531***	0.0092***	0.0330***	0.0058***
	(0.0164)	(0.0028)	(0.0138)	(0.0024)	(0.0123)	(0.0022)
$E_{i,t+1}[\pi]$			0.0095	0.0016	-0.0080	-0.0014
			(0.0129)	(0.0022)	(0.0126)	(0.0022)
$E_{i,t+2}[\pi]$					0.0169	0.0030
					(0.0129)	(0.0023)
Observations	4,520		5,544		5,409	

Table 5: The table shows the coefficients and marginal effects on the inflation expectation at various lags, $h < 0$, and leads, $h > 0$, relative to the start of the search period, $h = 0$. These coefficients come from Equation 4. Across specifications, the inflation expectation that matters for the decision to search in the next four weeks is the expectation at the beginning of the search period.

Panel A: Job-to-Job Transition	Not Controlling for Search		Controlling for Search	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0352**	0.0025**	0.0240	0.0016
	(0.0155)	(0.0011)	(0.0163)	(0.0011)
$search_{i,t+1}$			0.6960***	0.0469***
			(0.1130)	(0.0084)
N	3,659		3,629	
Panel B: Promotion	Not Controlling for Search		Controlling for Search	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	-0.0005	-0.0001	-0.0041	-0.0005
	(0.0136)	(0.0016)	(0.0137)	(0.0016)
$search_{i,t+1}$			0.2192**	0.0253**
			(0.0987)	(0.0115)
N	3,425		3,407	

Table 6: Panel A provides the estimated coefficients and marginal effects from the probit regression specified in Equation 6. The first two columns give the coefficients and marginal effects when we do not control for $search_{i,t+1}$. In this case, higher inflation expectations are positively predictive of search. When we include the proposed mechanism through which inflation expectations influence labor market transitions - search behavior - the effect of expected inflation on the subsequent transition goes away.

Percentage Change in Annual Earnings	(1)	(2)	(3)	(4)
$E_{it}[\pi]$	-0.04	-0.04	-0.05	-0.05
	(0.13)	(0.13)	(0.13)	(0.13)
$search_{i,t+1}$		1.40	1.36	0.72
		(0.99)	(0.99)	(0.96)
$Offer_{i,t+5}$			1.07	0.10
			(1.08)	(1.05)
$Promotion_{i,t+5}$				2.54**
				(1.27)
$Job\text{-}to\text{-}Job\ Transition_{i,t+5}$				7.19**
				(2.87)
N	3,077	3,064	3,063	3,054

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 7: The table shows the results of regressing $\Delta earnings_{i,t+5}$ on the the inflation expectation at the outset of the search period, $E_{i,t}[\pi]$. The second column includes a dummy for $search_{i,t+1}$. The third column presents the results adding a dummy for having at least one offer between $t+1$ and $t+5$ to the regression. The fourth adds dummies for reporting a promotion and changing employers between labor market surveys.

	Coefficient	ME
$E_i[\pi]$	0.0281^{***}	0.0062^{***}
	(0.0041)	(0.0009)
$\mathbf{1}(\pi = 10)$	0.2583^{***}	0.0570^{***}
	(0.0686)	(0.0151)
Observations	2142	

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 8: The table shows the results from Equation 9. The dependent variable is equal to 1 if respondents report that they would search for a new job. $E[pi]$ is the respondent's inflation expectation and $\mathbf{1}(\pi = 10)$ is an indicator equal to 1 if inflation is at its higher hypothetical level.

Moment	Model	Target	Source
Monthly EN rate	0.030	0.049	SCE
Share of non-employed actively searching	0.134	0.126	SCE
Share of employed actively searching	0.093	0.153	SCE
50-10 ratio in residualized log wages	1.70	1.80	Hornstein, Krusell, and Violante 2011

Table 9: Targeted Moments

Notes. This table shows the model-generated moments (second column) along with the targeted moment (third column) and the data source. The moment calculated from the SCE are the authors calculations using the sample as the empirical analysis.

Parameter	Value
Value of leisure b	1.179
Average cost of search for non-employed $\bar{c}_u$	22.846
Average cost of search for employed $\bar{c}_e$	0.000
Variance of log wages σ_w^2	0.213

Table 10: Calibrated Parameters

Notes. This table shows the calibrated parameters from the procedure described in the text.

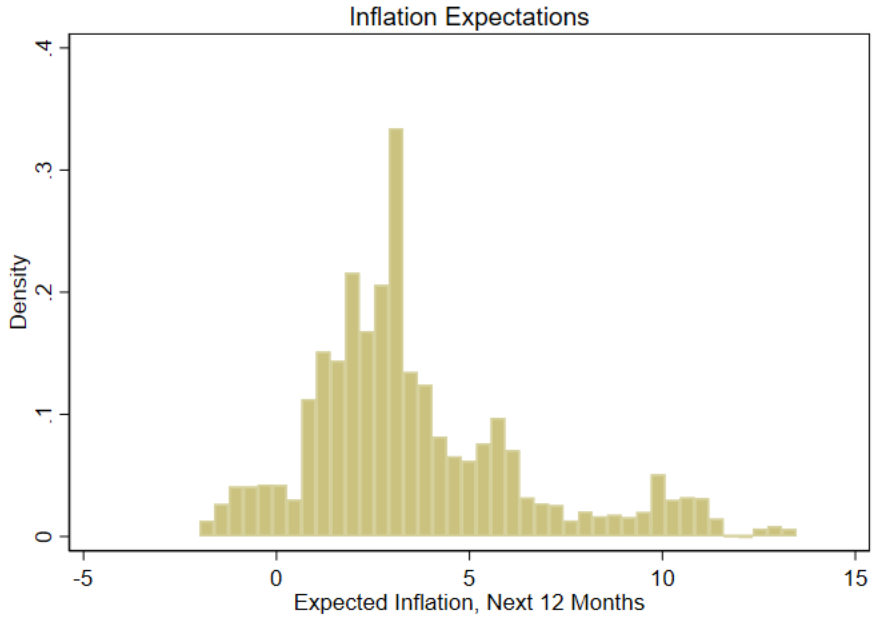

Figure 1: Inflation Expectations - Pre-2020

Notes: The figure shows the distribution of expected inflation in the Survey of Consumer Expectations prior to 2020.

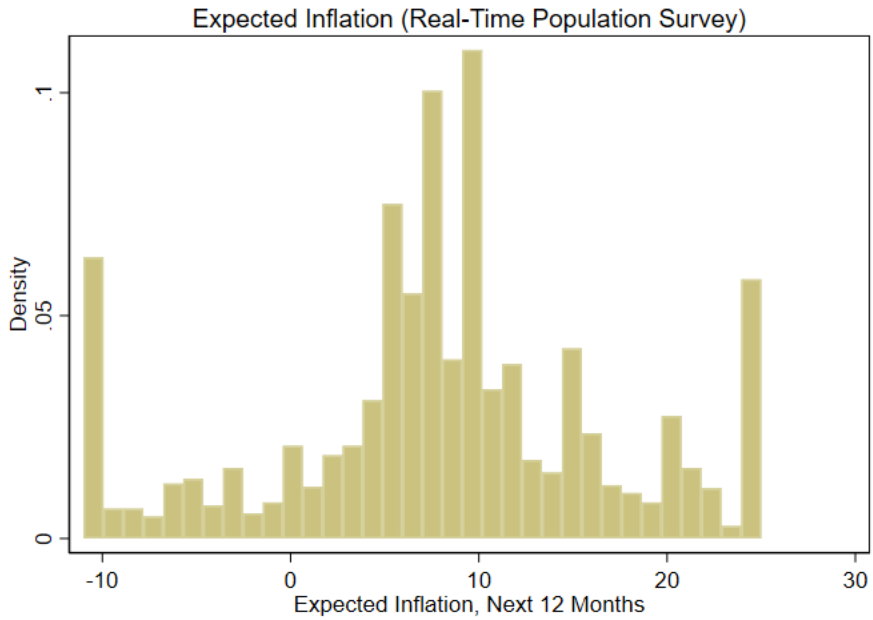

Figure 2: Inflation Expectations - October 2022

Notes: The figure shows the distribution of expected inflation in the Real-Time Population Survey fielded in October 2022.

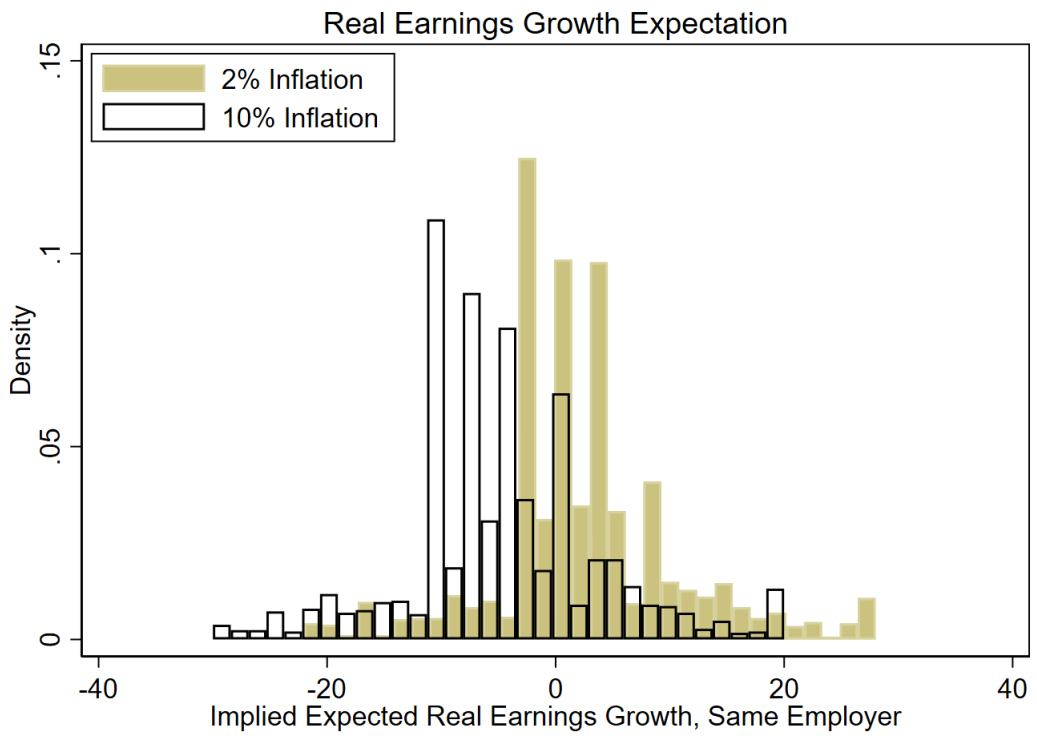

Figure 3: Earnings Growth Expectations

Notes: The figure shows the distributions of expected real earnings growth at the current employer under 2 % and 10 % inflation. These are calculated as the expected earnings growth at the current employer under a proposed level of inflation less that level of inflation.

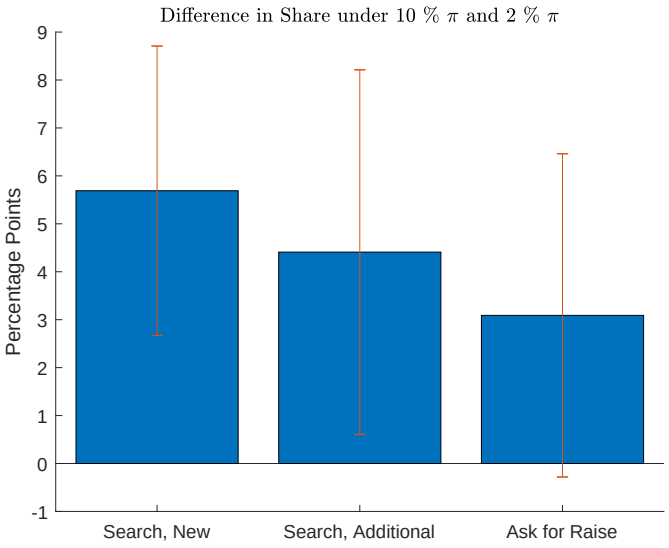

Figure 4: Labor Market Actions

Notes: The figure shows the difference in the share of respondents who would undertake a labor market action under 10 % inflation less and the share of respondents who would undertake the same action under 2 % inflation. Workers report that they are more likely to both search and to request a raise under 10% inflation than under 2% inflation. Standard error bands indicate a 95% confidence interval.

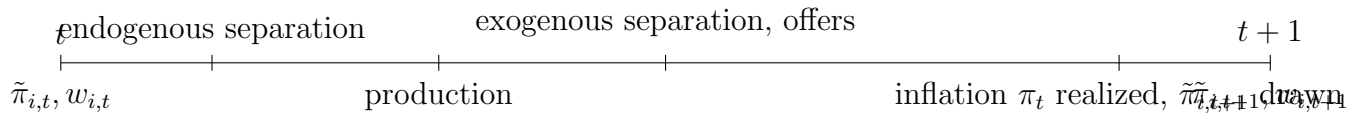

Figure 5: Model Timeline

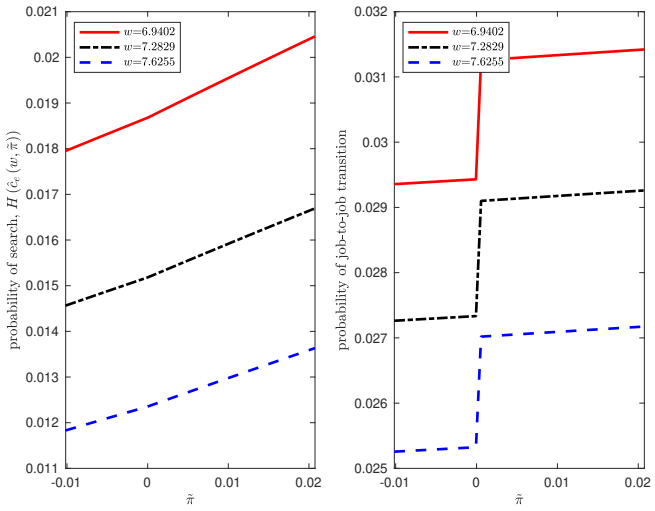

Figure 6: Search Policy, Employed Workers

Notes. This figure plots the probability of searching for different real wage levels going from lower (red) to higher (black) as a function of current inflation expectations $\tilde{\pi}$.

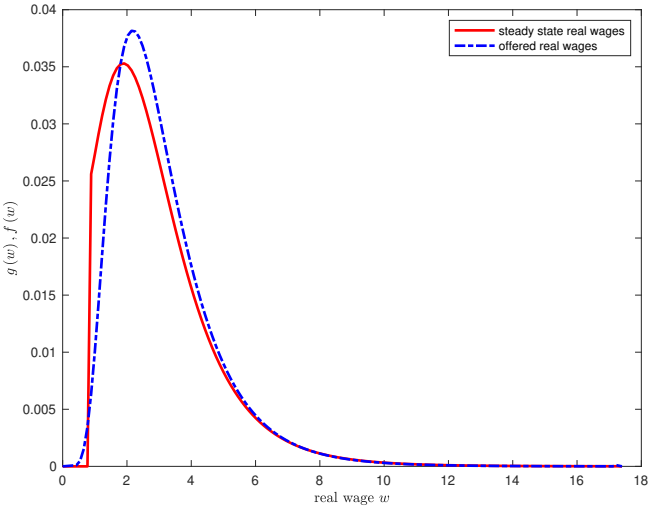

Figure 7: Steady State Real Wages and Offered Real Wages

Notes. This figure plots the exogenous real wage offer distribution (blue dashed line) and the endogenous steady state distribution of real wages (red solid line).

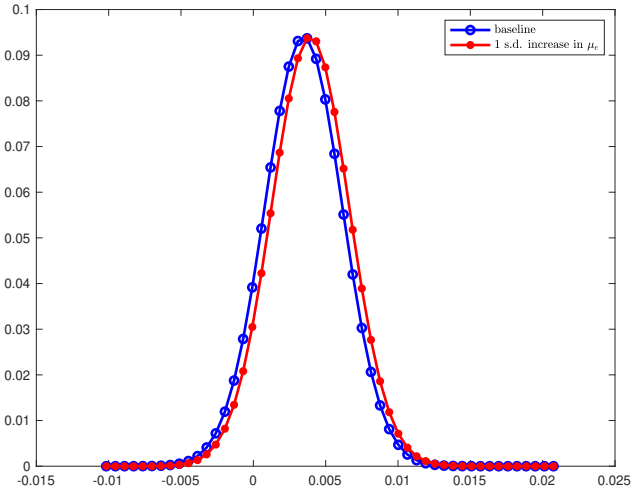

Figure 8: Inflation Expectations Before and After Shock

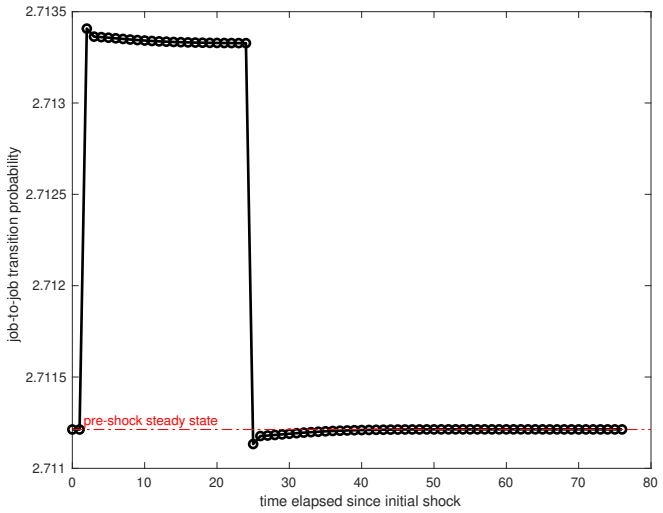

Figure 9: Search Probabilities and Job-to-Job Transitions

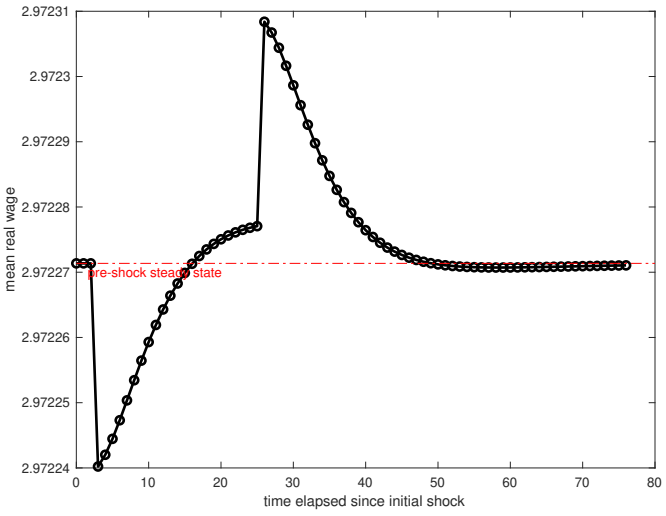

Figure 10: Mean Real Wages
Notes:

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APPENDICES

A Additional Tables and Figures

	Compensation	Benefits	Fits Skills	Opportunities	Overall
$E_{i,t}[\pi]$	-0.0152***	-0.0155***	-0.0082	-0.0104*	-0.0091
	(0.0059)	(0.0059)	(0.0067)	(0.0058)	(0.0061)
$E_{i,t}[Prob.\ Unemployment\ Increases]$, (0 - 100)	-0.0020***	-0.0030***	-0.0000	-0.0022***	-0.0013*
	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0007)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$, (0 - 100)	0.0012*	-0.0004	-0.0003	0.0017***	0.0002
	(0.0007)	(0.0007)	(0.0007)	(0.0007)	(0.0007)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$, (0 - 100)	-0.0005	0.0019**	-0.0003	-0.0002	0.0010
	(0.0008)	(0.0008)	(0.0008)	(0.0008)	(0.0008)
$E_{i,t}[Prob.\ Job\ Loss]$, (0 - 100)	-0.0057***	-0.0073***	-0.0080***	-0.0095***	-0.0115***
	(0.0009)	(0.0009)	(0.0010)	(0.0009)	(0.0009)
$E_{i,t}[Prob.\ Job\ Finding]$, (0 - 100)	0.0023***	0.0020***	0.0028***	0.0037***	0.0028***
	(0.0005)	(0.0006)	(0.0006)	(0.0005)	(0.0005)
$E_{i,t+1}[Prob.\ Counteroffer]$, (0 - 100)	0.0047***	0.0033***	0.0047***	0.0079***	0.0074***
	(0.0006)	(0.0006)	(0.0006)	(0.0006)	(0.0006)
$E_{i,t+1}[Prob.\ Offer]$, (0 - 100)	-0.0060***	-0.0031***	-0.0025***	-0.0007	-0.0058***
	(0.0008)	(0.0008)	(0.0008)	(0.0008)	(0.0008)
$E_{i,t+1}[Number\ of\ Offers]$,	-0.0434**	-0.0691***	-0.1089***	-0.0455**	-0.1151***
	(0.0177)	(0.0196)	(0.0198)	(0.0186)	(0.0184)
$E_{i,t}[\Delta\ earnings]$	0.0202***	0.0162***	0.0072	0.0502***	0.0293***
	(0.0042)	(0.0042)	(0.0048)	(0.0045)	(0.0043)
Observations	8023	8019	8023	8021	8024

Table A-1: The table shows the coefficients on macroeconomic expectations from ordered probit regressions of ranked job satisfaction on expected inflation. Higher inflation expectations are correlated with lower satisfaction with compensation and benefits. Inflation expectations have a less significant effect on perceived future opportunities and are uncorrelated with respondents satisfaction with the job's fit for their skills and experience as well as their overall satisfaction. This suggests that expected inflation leads to dissatisfaction with the current job primarily throguh dissatisfaction with the real wage rather than non-financial aspects of the job. The probability of receiving a counteroffer is positively correlated with measures of satisfaction, meaning that this question may reflect respondents happiness with their current match rather than the motive to search in order to obtain an outside offer.

	Employed	
	Coeff.	ME
$E_{i,t}[\pi]$	0.0320***	0.0050***
	(0.0102)	(0.0016)
$E_{i,t}[Prob.\ Unemployment\ Increases]$, (0 - 100)	-0.0030**	-0.0005**
	(0.0012)	(0.0002)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$, (0 - 100)	-0.0003	-0.0000
	(0.0011)	(0.0002)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$, (0 - 100)	-0.0023	-0.0004
	(0.0014)	(0.0002)
$E_{i,t+1}[Prob.\ Offer]$, (0 - 100)	0.0118***	0.0019***
	(0.0013)	(0.0002)
$E_{i,t+1}[Number\ of\ Offers]$,	0.2487***	0.0391***
	(0.0296)	(0.0047)
$E_{i,t+1}[Prob.\ Counteroffer]$, (0 - 100)	-0.0029***	-0.0005***
	(0.0010)	(0.0002)
$E_{i,t}[Prob.\ Job\ Loss]$, (0 - 100)	0.0051***	0.0008***
	(0.0013)	(0.0002)
$E_{i,t}[Prob.\ Job\ Finding]$, (0 - 100)	0.0008	0.0001
	(0.0010)	(0.0002)
$E_{i,t}[\Delta\ earnings]$	0.0021	0.0003
	(0.0070)	(0.0011)
N	6,178	

Table A-2: The table replicates Table 3 for employed workers, but includes measures of job satisfaction in the set of controls. It shows the estimated coefficients and marginal effects from the probit regression specified in Equation 3. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins, wherever possible. The results are consistent with those presented in Table 3. Including measures of satisfaction reduces the size of the negative coefficient on the reported probability of receiving a counteroffer from one's current employer.

	Two Lags		One Lag, One Lead		Two Leads	
$E_{i,t-2}[\pi]$	0.0052	0.0004				
	(0.0234)	(0.0018)				
$E_{i,t-1}[\pi]$	0.0052	0.0004	0.0021	0.0002		
	(0.0250)	(0.0020)	(0.0210)	(0.0016)		
$E_{i,t}[\pi]$	-0.0091	-0.0007	-0.0185	-0.0014	-0.0204	-0.0016
	(0.0256)	(0.0020)	(0.0238)	(0.0019)	(0.0227)	(0.0018)
$E_{i,t+1}[\pi]$			0.0240	0.0019	0.0513**	0.0041**
			(0.0213)	(0.0017)	(0.0223)	(0.0018)
$E_{i,t+2}[\pi]$					-0.0089	-0.0007
					(0.0225)	(0.0018)
Observations	2,757		3,296		3,224	

Table A-3: The table shows the coefficients and marginal effects of inflation expectation at various lags, $h < 0$, and leads, $h > 0$, relative to the start of the search period, $h = 0$ on the search of the *non-employed*. These coefficients come from Equation 4. Across specifications, $E_{i,t}[\pi]$ is not a significant predictor of search for nonemployed respondents.

	$E_{i,t}[\pi]$	
	Coefficient	M.E.
All Controls Included	0.0312***	0.0056***
	(0.0090)	(0.0016)
Exclude Macro Expectations	0.0315***	0.0057***
	(0.0090)	(0.0016)
Exclude Labor Market Expectations	0.0227***	0.0042***
	(0.0073)	(0.0017)
Exclude Demographic	0.0245***	0.0046***
	(0.0086)	(0.0016)
Exclude All	0.0173***	0.0042***
	(0.0066)	(0.0016)

Table A-4: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3 with different sets of controls. The dependent variable is equal to 1 if an employed respondent reports searching for work in the four weeks before the survey. $E_{i,t}[\pi]$ is the mean implied by the subjective distributions over inflation reported in the period in which the decision to search is undertaken winsorized at the 5% level. The coefficient on inflation expectations is positive and significant if we exclude respondents' demographic characteristics, macroeconomic expectations, labor market expectations, or all controls.

	Employed	
	Coeff.	ME
$E_{i,t}[\pi]$	0.0206**	0.0044**
	(0.0085)	(0.0018)
$E_{i,t}[Prob.\ Unemployment\ Increases]$, (0 - 100)	-0.0015	-0.0003
	(0.0010)	(0.0002)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$, (0 - 100)	-0.0002	-0.0000
	(0.0009)	(0.0002)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$, (0 - 100)	-0.0020*	-0.0004*
	(0.0011)	(0.0002)
$E_{i,t+1}[Prob.\ Offer]$, (0 - 100)	0.0129***	0.0028***
	(0.0011)	(0.0002)
$E_{i,t+1}[Number\ of\ Offers]$,	0.2839***	0.0605***
	(0.0260)	(0.0054)
$E_{i,t+1}[Prob.\ Counteroffer]$, -0.0014*** (0 - 100)		-0.0066***
	(0.0009)	(0.0002)
$E_{i,t}[Prob.\ Job\ Loss]$, (0 - 100)	0.0072***	0.0015***
	(0.0011)	(0.0002)
$E_{i,t}[Prob.\ Job\ Finding]$, (0 - 100)	-0.0014*	-0.0003*
	(0.0008)	(0.0002)
$E_{i,t}[\Delta\ earnings]$	-0.0076	-0.0016
	(0.0057)	(0.0012)
N	7,066	

Table A-5: The table replicates Table 3 for employed workers, but redefines search to include those searching for work to supplement their current job. It shows the estimated coefficients and marginal effects from the probit regression specified in Equation 3. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins, wherever possible. The results are consistent with those presented in Table 3.

	Wanting to Work		Not Working, Other	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0560	0.0119	-0.0439*	-0.0022*
	(0.0368)	(0.0077)	(0.0230)	(0.0012)
$E_{i,t}[Prob.\ Unemployment\ Increases]$, (0 - 100)	0.0114**	0.0024**	0.0014	0.0001
	(0.0050)	(0.0011)	(0.0026)	(0.0001)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$, (0 - 100)	-0.0152***	-0.0032***	-0.0036	-0.0002
	(0.0044)	(0.0009)	(0.0027)	(0.0001)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$, (0 - 100)	0.0146***	0.0031***	-0.0019	-0.0001
	(0.0051)	(0.0011)	(0.0030)	(0.0002)
$E_{i,t+1}[Prob.\ Offer]$, (0 - 100)	0.0207***	0.0044***	0.0171***	0.0009***
	(0.0039)	(0.0008)	(0.0025)	(0.0001)
$E_{i,t+1}[Number\ of\ Offers]$,	0.1042	0.0222	0.2106***	0.0106***
	(0.0742)	(0.0158)	(0.0521)	(0.0028)
N	312		3,150	

Table A-6: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3 for non-employed workers. The sample is split by those who report wanting to work and those who do not. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ is the implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins, wherever possible. The results are similar to those found for non-employed workers in Table 3.

	Employed		Not Employed	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0253***	0.0045***	0.0224	0.0019
	(0.0082)	(0.0015)	(0.0167)	(0.0014)
$E_{i,t}[Prob.\ Unemployment\ Increases]$,	-0.0005	-0.0001	-0.0005	-0.0000
(0 - 100)	(0.0011)	(0.0002)	(0.0020)	(0.0002)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$,	-0.0015	-0.0003	-0.0069***	-0.0006***
(0 - 100)	(0.0010)	(0.0002)	(0.0019)	(0.0002)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$,		-0.0008	-0.0001	0.0023
0.0002				
(0 - 100)	(0.0011)	(0.0002)	(0.0024)	(0.0002)
$E_{i,t+1}[Prob.\ Offer]$,	0.0133***	0.0023***	0.0155***	0.0013***
(0 - 100)	(0.0012)	(0.0002)	(0.0018)	(0.0002)
$E_{i,t+1}[Number\ of\ Offers]$,	0.2939***	0.0518***	0.1523***	0.0130***
	(0.0288)	(0.0053)	(0.0412)	(0.0035)
$E_{i,t+1}[Prob.\ Counteroffer]$,	-0.0070***	-0.0013***		
(0 - 100)	(0.0009)	(0.0002)		
$E_{i,t}[Prob.\ Job\ Loss]$,	0.0089***	0.0016***		
(0 - 100)	(0.0011)	(0.0002)		
$E_{i,t}[Prob.\ Job\ Finding]$,	-0.0016**	-0.0003**		
(0 - 100)	(0.0008)	(0.0001)		
$E_{i,t}[\Delta\ earnings]$	-0.0105*	-0.0019*		
	(0.0054)	(0.0010)		
N	7,958		4,478	

Table A-7: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3 including the COVID period through November 2020. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins

	On-the-Job Search	
	Coeff.	ME
$E_{i,t}[\pi]$	0.0221***	0.0048***
	(0.0070)	(0.0015)
$E_{i,t}[Prob.\ Unemployment\ Increases]$, (0 - 100)	-0.0031***	-0.0007***
	(0.0009)	(0.0002)
$E_{i,t}[Prob.\ Interest\ Rates\ Increase]$, (0 - 100)	-0.0004	-0.0001
	(0.0008)	(0.0002)
$E_{i,t}[Prob.\ Stock\ Prices\ Increase]$, (0 - 100)	-0.0016*	-0.0004*
	(0.0009)	(0.0002)
$E_{i,t}[Prob.\ Job\ Loss]$, (0 - 100)	0.0136***	0.0030***
	(0.0009)	(0.0002)
$E_{i,t}[Prob.\ Job\ Finding]$, (0 - 100)	0.0029***	0.0006***
	(0.0006)	(0.0001)
$E_{i,t}[\Delta\ earnings]$	-0.0053	-0.0012
	(0.0046)	(0.0010)
N	10,844	

Table A-8: The table provides the estimated coefficients and marginal effects from the probit regression specified in Equation 3. The dependent variable is equal to 1 if the respondent reports searching for work in the four weeks approximately between t and $t+1$. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. The sample is expanded to include the Job Search Supplement collected each October. While this increases the sample size, it also limits access to some of the labor market expectations we control for in Table 3. We use the value of the expectations variables reported in t, as the search period begins.

	Hours Searched
$E_{i,t}[\pi]$	0.41***
	(0.15)
$E_{i,t}[Prob.\, Unemployment\, Increases]$, (0 - 100)	-0.00
	(0.02)
$E_{i,t}[Prob.\, Interest\, Rates\, Increase]$, (0 - 100)	0.03
	(0.02)
$E_{i,t}[Prob.\, Stock\, Prices\, Increase]$, (0 - 100)	0.03
	(0.02)
$E_{i,t+1}[Prob.\, Offer]$, (0 - 100)	-0.07***
	(0.02)
$E_{i,t+1}[Number\, of\, Offers]$,	0.21
	(0.50)
$E_{i,t+1}[Prob.\, Counteroffer]$, (0 - 100)	-0.03**
	(0.01)
$E_{i,t}[Prob.\, Job\, Loss]$, (0 - 100)	0.03
	(0.02)
$E_{i,t}[Prob.\, Job\, Finding]$, (0 - 100)	-0.01
	(0.02)
$E_{i,t}[\Delta\, earnings]$	-0.11
	(0.09)
N	1 ,152

Table A-9: The table show the results of a regression of hours spent searching on expected inflation. The dependent variable is equal to the numbers of hours searched in the last week conditional on respondent searching for work in the period between t and $t+1$. We top code this variable at 40 hours of search in the prior week. $E_{i,t}[\pi]$ and $E_{i,t}[\Delta earnings]$ are the means implied by the subjective distributions over inflation and earnings outcome reported at the outset of the search period. Included in the regression are a set of controls for respondents' demographic characteristics, labor market expectations, and macroeconomic expectations. We use the value of the expectations variables reported in t, as the search period begins, wherever possible. The results are consistent with the extensive margin results presented in Table 3.

Inflation Expectations			
By Education	Searching	Not Searching	p-value for equality of means
College	3.28	3.16	0.08
Some College and High School	4.19	3.66	0.01
By Income	Searching	Not Searching	p-value for equality of means
$\geq \$50K$	3.48	3.31	0.07
$< \$50K$	4.22	3.73	0.03
By Age	Searching	Not Searching	p-value for equality of means
Under 40	3.12	3.13	0.53
40 or Older	4.20	3.61	0.00
By Gender	Searching	Not Searching	p-value for equality of means
Male	3.43	3.13	0.01
Female	3.97	3.84	0.23
By Numeracy	Searching	Not Searching	p-value for equality of means
High Numeracy	3.58	3.40	0.03
Low Numeracy	4.06	3.54	0.07

Table A-10: The table shows the average year-ahead inflation expectation across various groupings as well as p-values from a t-test for the equality of means. It shows the average expectation for employed respondents by whether or not the respondent searched in the following period. There is a statistically significant difference in the average expectations of searchers and non-searchers for all groups by women and respondents under 40.

By Education	College		Some College & High School	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0029	0.0006	0.0632***	0.0091***
	(0.0113)	(0.0024)	(0.0150)	(0.0022)
N	4,128		2,037	
By Income	$\geq \$50K$		$< \$50K$	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0157	0.0029	0.0673***	0.0110***
	0.0122)	(0.0022)	(0.0158)	(0.0027)
N	4,779		1,400	
By Age	Under 40		40 or Older	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	-0.0090	-0.0019	0.0575***	0.0091***
	(0.0147)	(0.0031)	(0.0123)	(0.0020)
N	2,405		3,770	
By Gender	Male		Female	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0544***	0.0094***	0.0258**	0.0048**
	(0.0158)	(0.0028)	(0.0120)	(0.0022)
N	3,454		2,717	
By Numeracy	Highly Numeracy		Low Numeracy	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0184*	0.0034*	0.0654***	0.0106***
	(0.0111)	(0.0020)	(0.0171)	(0.0029)
N	4,966		1,211	

Table A-11: This table shows the coefficient on $E_{i,t}[\pi]$ from 3, estimated separately by subgroup. The results show that both men and women and high numeracy and low numeracy respondents with higher inflation expectations are more likely to search. Inflation expectations have a positive and significant effect on the search of those who have not finished college, low income respondents, and those who have not finished college. Among college graduates, medium to high income respondents, and those under 40, inflation expectations are not predictive of search behavior.

B Description of Control Variables

- Age
- Married (Indicator)
- Female (Indicator)
- Hispanic (Indicator)
- Parent (Indicator)
- Numeracy (Indicator): 1 if low numeracy; 0 if high numeracy
- Census Region (Categorical): Midwest; Northeast; South; West
- Race (Categorical): White; Black; American Indian; Asian; Hawaiian/Pacific Islander; Other
- Education (Categorical): No College; Some College/Associate's Degree; Bachelor's Degree
- Household Income (Categorical): Less than 50K; 50K to 100K; More than 100K
- Labor Force Status: This variable takes on values of all of the possible combinations of these job statuses for the respondent and spouse (where No=0, Yes=1): Working full-time; Working part-time; Not working, but would like to work; Temporarily laid off; Self-employed; On sick or other leave; Permanently disabled or unable to work; Retiree or early retiree; Student; Homemaker
- Probability unemployment will increase in next twelve months
- Probability interest rates will increase in next twelve months
- Probability stock will increase in next twelve months
- Probability of losing main job in the next twelve months
- Probability of finding a job in the next three months if you were to lose main job
- Probability receive a job offer in next four months
- Expected number of offers in next four months (Categorical): 1 = 1 offer, 2 = 2 offers, 3 = 3 offers, 4 = 4 offers, 5 = 5 offers or more

C Search and the Wage Bargaining Mechanism

We argue that expected inflation induces on-the-job search as employees seek nominal wage increases to maintain their real wages. Search provides the employee with either a new higher paying job or increased bargaining power with her current employer. There is, however, substantial heterogeneity in employment situations that makes some workers more or less susceptible to this channel. In this section, we discuss several factors that may affect workers' response to a threat to the real wage. We argue that workers more likely to have union representation, employees with pension benefits, and workers highly satisfied with their jobs will have a lower incentive to increase their nominal wages through search. Workers with greater financial endurance should also be less sensitive to this channel. Our results show that these workers exhibit a weaker relationship between expected inflation and on-the-job search than their survey counterparts do.

C-1 Union Membership

Workers represented by unions and collective bargaining agreements may feel more secure that they do not need to garner additional bargaining power as their unions will likely respond to increased inflation with increased wage demands. We repeat our analysis, using respondents' state of residence to split the sample into those who are more and less likely to be represented by a union. We first split employed respondents by those living in the ten states with the highest rates of union representation and those who live in the remaining states.[24] Roughly a quarter of employed respondents live in the high union participation states. We estimate Equation 3 separately for each group. The coefficients and marginal effects for each group appear in Panel A of Table C-1. There is no effect of inflation expectations on search for those living in the high-union states. In the remaining states, a one percentage point increase in expected inflation increases the probability that a respondent searches by 0.79%. [25] Workers are asked in the Job Search Supplement each October whether they or workers at their current job are represented by a union. This roughly corresponds with the job the worker was at for the search period spanning from October to November - data collected in the November Labor Market Supplement. This measure is more direct, but cuts our sample size. Panel A of Table C-1 also shows that the

[24] According to the Bureau of Labor Statistics, the ten U.S. states with the highest rates of unionization in 2021 were Hawaii, New York, Washington, Oregon, New Jersey, Minnesota, California, Alaska, Rhode Island, and Connecticut.

[25] Table **??** shows the results of the regression in 3 splitting the sample into states with "right-to-work" laws and others. Since the Taft-Hartley Act in 1947, states are permitted to enact such laws preventing the requirement of union membership in employment contract provisions. Most of the states with the lowest percentage of union membership are right-to-work states. Roughly half of the employed sample lives in a right-to-work state. While the effects of expected inflation on on-the-job search are significant for both groups, the effect is stronger and more significant in the right-to-work states.

relationship between inflation and search is strong and highly significant among those who do not report any union members at their current place of work. While this relationship is positive for those who report union members at their job, the relationship is not statistically significant for this group.

These results suggest that the search of non-union workers is more responsive to changes in expected inflation and therefore expected real wages. This means that the relationship between expected inflation and the search of employed workers is more likely to contribute to increased wages in countries like the United States, where union membership is low. This does not rule out the possibility of wage increases and possible wage-price spiral in high union membership countries and states. Union workers are supported by collective bargaining agreements which can argue for higher wages in the event that inflation increases. Collective bargaining is an alternative mechanism by which inflation transmits to nominal wage growth for these workers.

C-2 Pension Benefits

Retirement benefits provide employers with a way to incentivize workers beyond nominal wages. Retirement plans in the United States fall into two broad categories - defined contribution and defined benefit or pension. A defined contribution plan does not guarantee workers a specific benefit in retirement, but rather states the contribution the firm will make to the workers retirement account. Pension plans specify a particular benefit that the worker will receive upon retirement, often dependent on years of service. Some minimum tenure at a job may also be required for the workers pension benefit to vest. The requirement to stay at the job for a specified length of time to receive this benefit may make employees more attached to these jobs and less sensitive to fluctuations in the real wage.

While pension benefits are rare among current workers in the United States, some workers - particularly public sector workers still have them. Approximately 26.3% of the employed sample and 57.6% of government workers have a pension benefit. Panel B of Table C-1 reports the coefficients and marginal effects from Equation 3 for workers with pension benefits and others. The effect of expected inflation on on-the-job search among pensioned workers is insignificant. For workers without a pension, a one percentage point increase in expectations corresponds to a 0.65 percentage point increase in the probability that a worker searches. This supports the idea that workers are less sensitive to real wage declines if other benefits make them more attached to their jobs. We next argue in Section C-3 that satisfaction with non-pecuniary benefits of a job, like security and opportunity, would create the same result.

C-3 Job Satisfaction

We argue that the currently employed will respond to expected declines in real wages by searching for new work. This creates upward pressure on the nominal wage only if the worker is credibly willing to leave her current job as she must either change employers or convince her current employer to give a counter offer. While labor is primarily compensated with wages, other aspects of the job influence employee satisfaction. If a worker is happy with other aspects of the job - like flexible hours or opportunities for growth - changes in the expected real wage may not be enough to induce them to leave or threaten to leave their current position to receive a nominal raise.

The Labor Market Supplement includes questions asking respondents to rank their satisfaction different aspects of their jobs. We use two of these questions to split the sample into highly satisfied workers and others. We hypothesize that the relationship between inflation and on-the-job search will be weaker among these highly satisfied workers. The first question asks about satisfaction with non-wage parts of the job:

How satisfied would you say you are with other aspects of the job, such as benefits, maternity/paternity leaves, flexibility in work hours, etc?

The second asks about opportunities for advancement:

How would you rate the opportunities for a promotion or other career progression with your current employer, over the next three years?

We split the sample by those who report high satisfaction in each category.[26] Panel C of Table C-1 presents the results of Equation 3. The results show that the relationship between inflation expectations and search is stronger and more significant among those who are less satisfied with the benefits and flexibility at their job than among those who are highly satisfied with aspect of the job.[27] While there is a strong and significant relationship between inflation expectations and search for those who are less satisfied with the opportunities for advancement at their current job, there is no relationship among those who are highly satisfied. This makes particular sense in the context of the model, as these respondents should have more opportunities for nominal wage growth without searching for outside offers.

[26]The benefits question has a scale of 1 to 5, with 5 being "highly satisfied." For this question, we split the sample by those who respond with 5 and those who respond with a lower rating. The opportunities question is on a scale of 1 to 7. We refer to those who respond with a 6 or a 7 as highly satisfied with opportunities for advancement.

[27]The there is a positive but not statistically significant relationship among the highly satisfied.

C-4 Financial Endurance

The financial situation of the households could also affect their sensitivity to potential declines in real wages due to inflation. Households with more liquidity may be able to tolerate a real wage decline for a greater period than highly constrained households. They may also prefer to tolerate a wage decline than to search and change jobs due to match quality or satisfaction non-wage aspects of the job.

To investigate this, we split the sample into relatively constrained and relatively unconstrained groups as in Crump et al. 2021 based on the answers to questions from the SCE. The first question, from the SCE Credit Access Supplement, asks about access to liquid funds.

What do you think is the percent chance that you could come up with $2,000 if an unexpected need arose within the next month?

Households answer this question only when they respond to the credit access supplement; it is therefore necessary to form a measure of high and low constraint for the periods that this question is not answered. Following Crump et al. 2021, we define households as less liquidity constrained if they answer 100% every time they are asked this question. A second classification of potential financial distress or constraint relies on a question from the core SCE survey about the households ability to repay debt.

What do you think is the percent chance that, ***over the next 3 months****, you will NOT be able to make one of your debt payments (that is, the minimum required payments on credit and retail cards, auto loans, student loans, mortgages, or any other debt you may have)?* (Q30new)

As households answer this question every time they take the survey, we define a household as more constrained if they respond with positive probability that month. Table C-3 presents the results of Equation **??** split by less constrained and more constrained households. The effects are smaller and either less significant or insignificant for the less constrained households. This suggests that financial endurance mitigates our proposed mechanism. Wage bargaining through on-the-job search requires households to be at least somewhat willing to leave their jobs, but - as established in the last section - many households are highly satisfied with non-wage aspects of their jobs. When a worker has more liquidity and less financial distress, she can tolerate a decline in the expected real wage to stay at a position that she otherwise enjoys. More constrained workers need to maintain their real wage in order to make ends meet and therefore participate in search and nominal wage bargaining when they expect higher inflation. This implies that as workers savings run low due to periods of extended inflation, on-the-job search becomes a more likely response to realized or expected inflation.

Search by Subgroups				
Panel A: Union Representation				
Top 10 Most Unionized States				
	Top 10		Out of Top 10	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0021	0.0004	0.0411***	0.0070***
	(0.0159)	(0.0030)	(0.0103)	(0.0018)
N	1,844		4,820	
Union Workers at Current Job				
	Yes		No	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0327	0.0037	0.0462**	0.0073**
	(0.0393)	(0.0045)	(0.0194)	(0.0031)
N	444		1,499	
Panel B: Pension Benefits				
	Has Pension Benefit		No Pension Benefit	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0139	0.0022	0.0354***	0.0065***
	(0.0174)	(0.0028)	(0.0101)	(0.0019)
N	1,893		4,776	
Panel C: Job Satisfaction				
Benefits and Flexibility				
	Highly Satisfied		Less Satisfied	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0243	0.0029	0.0346***	0.0068***
	(0.0210)	(0.0025)	(0.0098)	(0.0019)
N	1,751		4,876	
Opportunities at Current Job				
	Yes		No	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0066	0.0009	0.0389***	0.0077***
	(0.0144)	(0.0019)	(0.0115)	(0.0023)
N	2,974		3,686	

Table C-1: The table shows the coefficients and marginal effects of Equation 3 for subgroups. The results show that the relationship between expected inflation and labor search is stronger and more significant among workers without a pension plan, workers less likely to have union representation, and workers who are less satisfied with their jobs than among workers with pension plans, those more likely to be represented by a collective bargaining agreement, and those who are very satisfied with their jobs.

By Right-to-Work States	Non Right-to-Work States		Right-to-Work States	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0245^{*}	0.0046^{*}	0.0446^{***}	0.0076^{***}
	(0.0131)	(0.0025)	(0.0140)	(0.0024)
N	2,983		3,183	

Table C-2: This table shows the coefficient and marginal effect on $E_{i,t}[\pi]$ from Equation 3, estimated separately for those living right-to-work states and those living in states without right-to-work laws. States with right to work laws should be less unionized than those without. Consistent with our predictions, the relationship between inflation expectations is stronger and more significant in right-to-work states than in others.

Less Constrained	Could Come up with $2000		No Chance of Default	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0344^{*}	0.0056^{*}	0.0254	0.0036
	(0.0031)	(0.0106)	(0.0244)	(0.0035)
N	1,955		1,020	
More Constrained	Might Not Come up with $2000		Positive Prob. of Default	
	Coeff.	ME	Coeff.	ME
$E_{i,t}[\pi]$	0.0390^{***}	0.0071^{***}	0.0409^{***}	0.0076^{***}
	(0.0117)	(0.0022)	(0.0244)	(0.0035)
N	3,941		5,158	

Table C-3: This table shows the coefficient and marginal effect on $E_{i,t}[\pi]$ from 3, estimated separately for groups likely to be more and less constrained. The results show that the relationship between inflation expectations and employed search is stronger and more significant for more liquidity constrained respondents and for those who report positive probability of defaulting on their debt payments.