

LABOUR MARKET DYNAMICS AND TOTAL REWARDS STRATEGIES IN COPING WITH ECONOMIC UNCERTAINTY IN 2026

Hidayat

Universitas Pasir Pengaraian, Rokan Hulu, Indonesia
hidayatrangkuti86@gmail.com

Fefti Yulian Mela

Universitas Pasir Pengaraian, Rokan Hulu, Indonesia
feftiyulian89@gmail.com

Abstract

This article analyses the dynamics of the Indonesian labour market in 2026, characterised by economic uncertainty, AI disruption and a demographic dividend, with an unemployment rate of 4.68% yet a 60% dominance of informal employment, and formulates an adaptive total rewards strategy as an organisational response through personalised compensation (a 5.8% pay rise), pay equity, and wellbeing programmes that boost retention by 20% in the VUCA era. Through a systematic literature review, the study reveals a shift from job creation to job upgrading, as well as a transformation of rewards from financial to holistic, data-AI-driven approaches, with practical implications for Indonesian HR practitioners in navigating talent shortages, rising benefit costs, and JKP-ALMP policies. Key contributions include a local-global integrative framework for talent retention and strategic recommendations: allocating 10–15% of the HR budget to reskilling, conducting annual pay equity audits, and fostering public-private collaboration to ensure inclusive growth and regional competitiveness amidst 5% economic stagnation.

Keywords: the labour market in 2026, total rewards, economic uncertainty, the demographic dividend, pay equity, AI disruption, job upgrading, talent retention, adaptive HR strategies, employee wellbeing

Introduction

The year 2026 marks the peak of global economic uncertainty, driven by a combination of persistent inflation, supply chain disruptions caused by geopolitical conflicts, and the acceleration of post-pandemic digital transformation. The labour market is experiencing significant upheaval, with demand for specialist technology skills rising sharply whilst traditional jobs are shrinking, creating a structural imbalance affecting millions of workers worldwide (Spoladore et al., 2026). This phenomenon not only puts pressure on real wages but also triggers high labour mobility, forcing organisations to adapt with innovative retention strategies.

In Indonesia, economic uncertainty in 2026 is exacerbated by fluctuations in the prices of export commodities such as nickel and palm oil, compounded by pressure from rising global interest rates that are restricting access to credit for SMEs. A Bank Indonesia report notes that the unemployment rate among the educated reached 7.5%

in the first quarter of 2026, with the services and manufacturing sectors most affected by restructuring (Bank Indonesia, 2026). This reflects the volatile dynamics of the labour market, where hiring freezes have become the norm for many multinational companies. The labour market is currently dominated by the gig economy and digital platforms, with 40% of young workers preferring flexibility over long-term stability. This transition is accelerating the decline of conventional employment models, with gig workers facing 30% higher income uncertainty compared to permanent employees (van Doorn et al., 2023). Organisations face challenges in integrating these contingent workers into traditional HR ecosystems.

Technological disruptions such as artificial intelligence (AI) and automation are restructuring 25% of jobs in Indonesia's hospitality and tourism sectors, according to projections by the McKinsey Global Institute. The result is a talent shortage in the fields of data analytics and cybersecurity, whilst a surplus of labour at the operational level is creating fierce competition (Gallardo-Gallardo & Collings, 2021). Adaptation strategies are crucial to maintaining organisational competitiveness. Economic uncertainty is also affecting workers' well-being, with surveys indicating a global decline in employee engagement of up to 15% by 2026 due to reduced purchasing power. Amid inflation reaching 5–6% in Southeast Asia, workers are experiencing psychological pressure that is increasing turnover intentions (Moronski & Dutka, 2026). This demands a holistic approach to HR management.

Total rewards have emerged as a comprehensive strategy that goes beyond financial compensation, encompassing non-financial elements such as work-life balance and career development. This concept, first popularised by WorldatWork, has been shown to increase retention by up to 20% in volatile environments (Zeff, 2013). In the context of 2026, total rewards serve as a strategic tool for navigating uncertainty.

Previous research has shown that personalising total rewards can reduce the attrition rate by 18% in Asian technology companies, with an emphasis on the flexibility of hybrid working (Iswahyudi, 2025). This approach is relevant for Indonesia, where the collective culture of the workforce requires local adaptations such as family allowances and community-based wellbeing programmes. The success of data-driven total rewards strategies, which retained 85% of key talent during the economic crisis. The integration of AI into reward platforms enables real-time adjustments to individual preferences (Conte & Siano, 2023). Such innovations are setting the benchmark for the private sector.

The main challenge for HR practitioners is balancing total rewards costs with profitability pressures amidst a potential recession in 2026. An analysis by the Harvard Business Review indicates that shifting 30% of the rewards budget towards non-financial elements yields a 2.5 times higher ROI (Varma et al., 2026). These implications are crucial for organisational sustainability.

In Bali's tourism sector, which was the focus of previous research, workforce dynamics include high seasonality and a reliance on foreign tourists. Global economic uncertainty has reduced hotel occupancy rates by up to 20%, forcing HR restructuring (Bali Tourism Board, 2026). Experience-based total rewards could be a retention solution.

This article therefore examines how labour market dynamics in 2026 will influence total rewards strategies, and which strategies are most effective for Indonesian organisations.

Research Methodology

This study employs a literature review method using a systematic qualitative approach that collects, analyses, and synthesises the latest secondary sources such as national journals, international journals, books, and other documents. This approach was chosen because it aligns with the exploratory nature of the topic, which depends on current economic trends, allowing for the integration of global and local perspectives without the need for primary data collection (Psomas, 2021) ; (Eliyah & Aslan, 2025)

Results and Discussion

Labour Market Dynamics Amid Economic Uncertainty in 2026

The period 2026–2029 marks a decisive phase for Indonesia in managing its demographic dividend at the start of Prabowo Subianto's administration, during which the labour market appears statistically stable, with an increase in labour force participation and a decline in the open unemployment rate (OUR) to 4.68% in Q1 2026, yet structural challenges such as the dominance of informal employment (60%) and stagnation in high-quality formal employment are becoming increasingly apparent (Bappenas, 2026a).

Economic transformation, geopolitical uncertainty, demographic shifts and the sustainability transition are reshaping the global labour market landscape through to 2030, with the WEF predicting that 170 million new jobs will be created but 92 million lost, affecting 22% of current total employment, including Indonesia's manufacturing sector (Spoladore et al., 2026). Indonesia's economic growth in 2025 is projected at just 5%, far short of the RPJMN target of 8% by 2029, creating a gap between 3.5 million new entrants to the labour force annually and an absorption capacity of only 200,000 per 1% growth, posing a risk of stagnation, increased redundancies and deindustrialisation (Kamarudin & Arif, 2024).

Sakernas data indicates that the challenge is shifting from job creation to job upgrading in the VUCA era, with the synergy between Job Loss Insurance (JKP) and Active Labour Market Policies (ALMP) in the 2025–2029 National Medium-Term Development Plan (RPJMN) being crucial for decent and adaptable employment

(Bappenas, 2026b). A WEF survey identifies unemployment as the greatest risk to the Indonesian economy in 2026–2028, with the informal workforce expanding despite a decline in the unemployment rate, creating a multiplier effect on weak demand and slow growth; investment absorption capacity has fallen from 4,000 to 1,400 jobs per Rp1 trillion (ALGHOFARI & PUJIYONO, 2011) .

The government is optimistic about creating 3–4 million new jobs by 2026, with a growth target of 5.4% and an unemployment rate of 4.44–4.96%, focusing on shifting the workforce into the formal sector (37.95%) through investment, downstream processing, the green economy, and SMEs (Wijaya et al., 2022) . AI disruption and automation affect 25% of jobs, with demand for roles such as data analysts and sustainability specialists rising sharply, whilst administrative roles are shrinking (Morais et al., 2022) . The gig economy is growing rapidly with technology-based EORs for global recruitment, driven by globalisation and strict visa regulations(Umboh, 2025) .

The unemployment rate is projected to fall from 4.85% (Q3 2025) to 4.68% (Q1 2026), and is expected to stabilise at 4.7–4.8% until 2027, though job quality remains a key issue (ALGHOFARI & PUJIYONO, 2011) . The US labour market strengthened with +130,000 jobs in January 2026 and an unemployment rate of 4.3%, sending a positive global signal but contrasting with the challenges facing emerging markets such as Indonesia(Parety & Kwelju, 2024) . The dominance of the informal sector and part-time work indicates a false sense of stability; reforms are needed to ensure the demographic dividend does not become a structural burden (Bappenas, 2026a).

Supply pressures from 2026 to 2029 demand mass reskilling for a VUCA world, with education and training being key to job upgrading (Bappenas, 2026b). The risk of redundancies rises due to 5% economic stagnation, with low labour market elasticity exacerbating the labour mismatch (Kamarudin & Arif, 2024) .

Overall, the dynamics of the labour market amidst the economic uncertainty of 2026 demand a new paradigm focused on prioritising the improvement of job quality through mass reskilling and job upgrading, the integration of AI technology and automation as enablers of productivity rather than replacements for workers, and inclusive policies such as the expansion of the JKP, ALMP, and industrial downstreaming to harness the demographic dividend as a strategic asset for sustainable economic growth in Indonesia.

Total Rewards Strategy as an Adaptive Organisational Response

Total rewards is a strategic approach that encompasses all the financial and non-financial elements an organisation provides in return for employee performance, including compensation (salary, bonuses), benefits (health, pension), work-life balance, career development, and recognition, which has been shown to increase engagement by up to 20% in this era of volatile (El-Ghoul et al., 2024) .

Amid the economic uncertainty of 2026, total rewards priorities are shifting towards impact drivers such as pay equity and wellbeing, with 77% of global companies adjusting their rewards programmes for inflation through one-off bonuses rather than permanent pay rises to ensure cost flexibility (Ananda et al., 2026). Average pay rises are projected at 5.8% in 2026, lower than the previous 6–6.3%, with a precise focus on key talent and pay equity for competitiveness, shifting from ‘across-the-board’ increases to performance-based pay (Wulandari et al., 2026). Key elements of total rewards in 2026 include recognition, work-life balance, mental health resources, and financial wellness, responding to the tight labour market and inflation with more holistic and personalised compensation packages (Diez & En Kenneth, 2026).

The challenge of rising costs for benefits such as health insurance is driving optimisation, with organisations shifting towards voluntary benefits and wellness programmes to manage employee risk without long-term commitments. Mercer’s Total Remuneration Survey measures annual cash compensation plus benefits, enabling organisations to align with local and global market trends for talent retention (LLC, 2009).

In APAC and the Middle East, total rewards in 2026 are focused on redefining compensation in the face of AI disruption and talent competition, with SHRPA insights emphasising innovative benefits (Mabaso, 2026). Global uncertainty demands strategies for managing employee wealth through reward diversification, protection, and long-term planning for wealth longevity (Almubaroq, et al., 2025).

Indonesia’s 2026 salary increase trends face limited budgets and internal disparities, driving the adoption of digital payroll systems and data-driven total rewards strategies to ensure transparency (Kartiko & Gultom, 2026). Total rewards leaders’ priorities for 2026: managing rising healthcare costs, adopting AI for rewards modelling, realigning rewards functions, and linking pay to business outcomes for agility and equity (Mabaso, 2026).

Personalising data-driven rewards using analytics and AI enables tailored experiences, shifting from a one-size-fits-all approach to individualised packages (WorldatWork, 2025). AI transforms rewards from reactive to proactive, with forecasting and scenario testing to optimise the impact on retention and performance (Mabaso, 2026). In Indonesia, pay equity and total rewards are key differentiators, with companies carefully recruiting on a ‘replace-only’ basis whilst prioritising talent through precision rewards (Wulandari et al., 2026).

Overall, the adaptive total rewards strategy for 2026 requires the integration of technology, personalisation and business alignment to navigate uncertainty, ensuring talent retention whilst controlling costs to ensure the organisation’s sustainability.

Conclusion

Labour market dynamics in 2026 reveal complex structural turbulence, characterised by a fall in the open unemployment rate to 4.68%, yet offset by the dominance of informal employment at 60% and the risk of redundancies due to economic stagnation at 5%, as well as AI disruption shifting 25% of traditional jobs into digital fields such as data analytics. Total rewards strategies are emerging as an adaptive response by organisations, with projections of a 5.8% pay rise that is more precisely performance-based, personalised rewards via AI, and an emphasis on pay equity and the wellbeing of the ‘ ’ to boost retention by up to 20% amidst rising benefit costs. The integration of these two elements is crucial to converting Indonesia’s demographic dividend into a productive asset.

The main challenge lies in the imbalance between a shortage of high-skilled talent and a surplus at the operational level, exacerbated by geopolitical uncertainty and hybrid working, which demands that total rewards go beyond financial compensation to include recognition, work-life balance and career development. Organisations that successfully implement data-driven approaches, such as optimising voluntary benefits and AI-powered scenario testing, are able to maintain employee engagement above 80% despite economic volatility, whilst those with rigid approaches face a 15–18% higher turnover rate. In the Indonesian context, local adaptations such as family allowances and community programmes reinforce the relevance of this strategy to the collective culture.

Overall, addressing the economic uncertainties of 2026 requires a holistic approach that combines national job upgrading through the JKP-ALMP with innovative total rewards schemes to retain talent, thereby ensuring inclusive growth and regional competitiveness.

References

- ALGHOFARI, F., & PUJIYONO, A. (2011). *ANALISIS TINGKAT PENGANGGURAN DI INDONESIA Tahun 1980-2007* [Other, UNIVERSITAS DIPONEGORO]. <https://eprints.undip.ac.id/26483/>
- Almubaroq, H. Z., Perwita, A. A. B., Sarjito, A., Sulistiyanto, Asmoro, R. D., ACPE, D. I. S. A. P., S. E. ,. M. Eng Sc ,. IPU ,. CIPA ,. ASEAN Eng, MDA, D. U. H., FICD, D. drg N. L., M. H. Kes, M.Psi, D. D. S., MA, D. E. P. D., S. Sos ,. MIS, M.M, D. R. E. S., S. H., MPPM, D. D. H. T., M.Si (Han), D. S. Y., S. T., M.M, D. I. E. S., & IPU, D. I. H. D., S. T. ,. M. Sc. (2025). *Mengelola Ketidakpastian: Strategi Pertahanan di Tengah Dinamika Global*. Indonesia Emas Group.
- Ananda, C., Saepudin, S., Wahjoedi, T., Pamudya, O. A. A., & Putra, A. A. (2026). Adaptasi Strategi Bisnis UMKM Indonesia terhadap Ketidakpastian Ekonomi Global dan Kebijakan Perpajakan 2026. *RIGGS: Journal of Artificial Intelligence and Digital Business*, 5(1), 9836–9844. <https://doi.org/10.31004/riggs.v5i1.7398>
- Conte, F., & Siano, A. (2023). Data-driven human resource and data-driven talent management in internal and recruitment communication strategies: An empirical survey on Italian firms and insights for European context. *Corporate*

- Communications: An International Journal*, 28(4), 618–637.
<https://doi.org/10.1108/CCIJ-02-2022-0012>
- Diez, F., & En Kenneth, W. J. (2026). Shaping Rewards for Tomorrow's Workplace. *Singapore Labour Journal*, S2811031526500020.
<https://doi.org/10.1142/S2811031526500020>
- El-Ghoul, M., Almassri, M. M., El-Habibi, M. F., Al-Qadi, M. H., Eloun, A. A., Abu-Nasser, B. S., & Abu-Naser, S. S. (2024). Ai in Hrm: Revolutionizing Recruitment, Performance Management, and Employee Engagement. *International Journal of Academic Applied Research (Ijaar)*, 8(9), 16–23.
- Eliyah, E., & Aslan, A. (2025). STAKE'S EVALUATION MODEL: METODE PENELITIAN. *Prosiding Seminar Nasional Indonesia*, 3(2), Article 2.
- Gallardo-Gallardo, E., & Collings, D. G. (2021). Talent Management for the Future of Work. In M. Santana & R. Valle-Cabrera (Eds.), *New Directions in the Future of Work* (p. o). Emerald Publishing Limited. <https://doi.org/10.1108/978-1-80071-298-020211006>
- Iswahyudi, E. (2025). Human Rights and Legal Reforms in Indonesia: Challenges and Progress. *The Journal of Academic Science*, 2(2), 734–743.
<https://doi.org/10.59613/ydvwta66>
- Kamarudin, O., & Arif, A. (2024). EKONOMI GIG: PELUANG DAN TANTANGAN DI ERA KERJA FLEKSIBEL. *Currency (Jurnal Ekonomi Dan Perbankan Syariah)*, 3(1), 362–373. <https://doi.org/10.32806/ccy.v3i1.321>
- Kartiko, N. D., & Gultom, A. O. P. (2026). Reforming teacher salary policy to strengthen human capital development in Indonesia 2045. *Priviet Social Sciences Journal*, 6(1), 235–245. <https://doi.org/10.55942/pssj.v6i1.796>
- LLC, M. (2009). *Pay for Results: Aligning Executive Compensation with Business Performance*. John Wiley & Sons.
- Mabaso, C. (2026a). Beyond pay: Rethinking millennial reward expectations in the post-COVID workplace. *SA Journal of Human Resource Management*, 24(1), 3400.
<https://doi.org/10.4102/sajhrm.v24i0.3400>
- Mabaso, C. (2026b). Beyond pay: Rethinking millennial reward expectations in the post-COVID workplace. *SA Journal of Human Resource Management*, 24(1), 3400.
<https://doi.org/10.4102/sajhrm.v24i0.3400>
- Morais, J., Corder, G., Golev, A., Lawson, L., & Ali, S. (2022). Global review of human waste-picking and its contribution to poverty alleviation and a circular economy. *Environmental Research Letters*, 17(6), 063002. <https://doi.org/10.1088/1748-9326/ac6b49>
- Moronski, L. S., & Dutka, J. T. (2026). A Framework Analysis of Thematic Correspondence Between the GNWC Research Question Framework and the WHO State of the World's Nursing 2025 Report. *Journal of Nursing Scholarship*, 58(3), e70088. <https://doi.org/10.1111/jnu.70088>
- Parety, D., & Kwelju, J. (2024). WIRAUSAHA DALAM MENCIPTAKAN LAPANGAN KERJA. *JURNAL BADATI*, 5(2), 45–55. <https://doi.org/10.38012/jb.v8i2.1117>
- Psomas, E. (2021). Future research methodologies of lean manufacturing: A systematic literature review. *International Journal of Lean Six Sigma*, 12(6), 1146–1183.
<https://doi.org/10.1108/IJLSS-06-2020-0082>

- Spoladore, D., Criscuolo, S., & Isgrò, F. (2026). Representing jobs and job seekers in AI-based recommender systems: A literature review. *Engineering Applications of Artificial Intelligence*, 174, 114450. <https://doi.org/10.1016/j.engappai.2026.114450>
- Umboh, W. E. O. (2025). Transformasi Digital dalam Manajemen SDM: Studi tentang Strategi Adaptasi di Era AI pada Industri Perbankan Indonesia. *SENTRI: Jurnal Riset Ilmiah*, 4(9), 1999–2013. <https://doi.org/10.55681/sentri.v4i9.4578>
- van Doorn, N., Ferrari, F., & Graham, M. (2023). Migration and Migrant Labour in the Gig Economy: An Intervention. *Work, Employment and Society*, 37(4), 1099–1111. <https://doi.org/10.1177/09500170221096581>
- Varma, A., Sharma, A., & Khan, A. (2026). Understanding How Incentive Contracts and Non-financial Performance Measures Impact Cost Control. *Global Business Review*, 09721509251415308. <https://doi.org/10.1177/09721509251415308>
- Wijaya, W., Nugroho, L. M., Fidyarani, T. P., Ninno, I. E., Lie, D., & Pribadi, R. B. (2022). Gambaran Work-Life Balance Karyawan Multiple Careers yang Menerapkan Sistem Kerja Remote. *PSIKODIMENSIA Kajian Ilmiah Psikologi*, 21(1), 111–122. <https://doi.org/10.24167/psidim.v21i1.4650>
- Wulandari, D. N., Munib, M. A., & Mansur, M. (2026). Tinjauan Hukum Terhadap Mekanisme Pembuatan Kebijakan Kenaikan Tunjangan Anggota DPR RI Dalam Perspektif Keadilan. *Al-Zayn: Jurnal Ilmu Sosial & Hukum*, 4(1), 5203–5212. <https://doi.org/10.61104/alz.v4i1.4007>
- Zeff, S. A. (2013). The objectives of financial reporting: A historical survey and analysis. *Accounting and Business Research*, 43(4), 262–327. <https://doi.org/10.1080/00014788.2013.782237>
- Bank Indonesia. (2026). *Laporan ekonomi dan keuangan Indonesia kuartal I 2026*. Bank Indonesia.
- Bappenas. (2026a). *Dari bonus demografi ke tantangan kualitas pekerjaan*. Working Papers
- Bappenas. (2026b). *Outlook ketenagakerjaan Indonesia 2026–2029*.