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JOB GROWTH POINTS TO COVID'S FADING GRIP

In a buoyant sign for the U.S. economy, businesses stepped up their hiring last month as omicron faded and more Americans ventured out to spend at restaurants, shops, and hotels despite surging inflation.

Employers added a robust 678,000 jobs in February, the largest monthly total since July, the Labor Department reported. The unemployment rate dropped to 3.8%, from 4% in January, extending a sharp decline in joblessness to its lowest level since before the pandemic erupted two years ago.

Friday's hiring figures were collected before Russia's invasion of Ukraine, which has sent oil prices jumping and has heightened risks and uncertainties for economies in Europe and the rest of the world.

Yet the February hiring data suggest that two years after COVID-19 sparked a nationwide shutdown and 22 million job losses, the disease is losing its grip on America's economy. More people are taking jobs or searching for work — a trend that, if it endures, will help ease the labor shortages that have bedeviled employers for the past year.

In addition, fewer people are now working remotely because of the disease. A continuing flow of people back to offices could boost employment in urban downtowns. And the number of Americans who are delaying job hunts for fear of the disease fell sharply from January, when omicron was raging, to February.

Other recent economic data also show the economy maintaining strength as new COVID infections have plummeted. Consumer spending has risen, spurred by higher wages and savings. Restaurant traffic has regained pre-pandemic levels, hotel reservations are up and far more Americans are flying than at the height of omicron.

Still, escalating costs for gasoline, wheat and metals such as aluminum, which are exported by both Ukraine and Russia, will likely accelerate inflation in the coming months. Higher prices and anxieties surrounding the war could slow hiring and growth later this year, though economists expect the consequences to be more severe in Europe than in the United States.

Inflation has already reached its highest level since 1982, with price spikes especially high for such necessities as food, gasoline and rent. In response, the Federal Reserve is set to raise interest rates several times this year beginning later this month. Those increases will eventually mean higher borrowing rates for consumers and businesses, including for homes, autos and credit cards. Chair Jerome Powell said this week he plans to propose that the Fed raise its benchmark short-term rate by a quarter-point when it meets in about two weeks. Powell has acknowledged that high inflation has proved more persistent and has spread more broadly than he and many economists had expected.

One figure in the report could provide reassurance for the Fed's policymakers as they assess inflation pressures: Average hourly pay barely grew in February. Higher wages, while good for workers, often lead companies to raise prices to cover their higher labor costs and thereby further heighten inflation. But that slowdown might not last if inflation worsens. Some staffing agencies are seeing a shift in what is driving higher pay. Previously, it was companies' need to fill jobs. Now, some workers are saying they need raises to cover rising costs.

The strong hiring in February occurred across most of the economy, with restaurants, bars and hotels adding 79,000 jobs, construction 60,000 and transportation and warehousing 48,000. Though the economy still has 2.1 million fewer jobs than it did before the pandemic struck, the gap is closing fast.

After months of concerns about labor shortages holding back businesses, more Americans started job searches in February for the second straight month. The proportion of Americans either working or looking for a job rose to 62.3%, up from 61.5% a year ago, though it remains below the pre-pandemic level of 63.4%.

The number of people who said they avoided job hunting because they were concerned about COVID fell to 1.2 million in February, down 600,000 from January, when omicron was raging. Gregory Daco, chief economist at tax advisory firm EY-Parthenon, suggested that the increase in the number of Americans looking for a job last month was “the most important number” in the report. “That will reduce wage growth pressures and put us on a more sustainable trajectory for the economy," Daco said.

JOBLESS CLAIMS FALL TO 215,000

New applications for unemployment benefits edged lower and remained near historically low levels as the labor market stays tight following a decline in Covid-19 cases.

Initial jobless claims, a proxy for layoffs, fell by 18,000 to a seasonally-adjusted 215,000 for the week ended Feb. 26, down from the revised 233,000 the week before, the Labor Department said. The four-week average, which smooths out volatility, fell to 230,500.

Continuing claims, a proxy for the total number of people on unemployment rolls through regular state programs, ticked up by 2,000 to 1,476,000 for the week ended Feb. 19. The four-week moving average of continuing claims that week fell to 1,539,500, the lowest since April 1970. Continuing claims are reported with a one-week lag.

Layoffs have settled at their historic lows after a brief uptick that coincided with the January surge in infections due to the Omicron variant of Covid-19. The labor market, despite headwinds from inflationary pressures, remains tight as the economy regains more of the jobs lost due to the pandemic in 2020.

Economists surveyed by The Wall Street Journal expect the Labor Department to report on Friday that employers added 440,000 jobs in February and the unemployment rate dipped to 3.9% from 4% in January. But predicting what the report will show has been difficult through the pandemic. The initial release of the monthly employment figures is often taken with a grain of salt by economists, given the revisions that have come throughout the past year.

Workers are using their enhanced leverage to hop from job to job—the number of times people quit jobs has remained high, at over four million a month for the entire second half of 2021, as far as Labor Department data goes. There had never been more than four million recorded quits in any month before July 2021.

Median hourly wages for all workers grew 4% in January over the prior year, the fastest growth since December 2008 at the outset of the global financial crisis.

COMPANIES SEE PERKS AS WAY TO KEEP PAY IN CHECK

Faced with high inflation and high turnover, many companies are looking to offer perks such as more time off or permanent work-from-home options as a way to limit how much they have to boost employee salaries.

Once salaries go up, they rarely come down. Increasing pay too much too fast can leave finance chiefs with little room to maneuver if inflation abates or economic conditions deteriorate. So while companies are spending more on wages and benefits, many are resisting across-the-board salary hikes. A December survey conducted by advisory firm Gartner Inc. found that just over a third of all organizations said they plan to adjust compensation to account for inflation, with 13% saying they planned to do so for all employees.

Corporate spending on wages and benefits in 2021 accelerated at the fastest rate in two decades amid record resignations, according to the U.S. Labor Department. But for many employees, those adjustments haven't been enough to keep pace with the rising cost of living. Wages and salaries for job holders who have been in the same role for at least one year have been rising at a slower pace than inflation, increasing 5.9% in December compared with inflation of 7%, Gartner found when analyzing data from the Labor Department and payroll firm Automatic Data Processing Inc.

Companies hope nice-to-have extras like more vacation can boost their reputation as good places to work and keep workers on board in today's tight job market, even if salary gains don't match inflation.

Companies rarely adjust base salaries directly in response to economic data and instead benchmark their employees' salaries and benefits against competitors. Boosting salaries for all employees can be expensive—and permanent.

Chief financial officers weigh a range of factors when determining compensation budgets, including their ability to pass along higher salary costs to customers. Many companies over the past year have reported their highest profitability in years on the back of strong demand and price increases.

Companies over time will likely have to boost employee pay across the board to keep pace with the run-up in inflation, said Jason Furman, a senior fellow at the Peterson Institute for International Economics, a research group. But it is unclear how long it will take before they do so, he said. “Workers are going to demand more. And businesses can afford to pay more because…their products are selling for more,” Mr. Furman said.

Forty-five percent of respondents in a recent survey of 892 human resource professionals from the Society for Human Resource Management said they began offering more flexible work arrangements during the second half of 2021 to reduce turnover. Other respondents said they offered merit, spot or referral bonuses or provided training opportunities. Just over two-thirds of human resource professionals said starting salaries at their companies were higher than they were a year ago.

Boosting salaries is a costly proposition for companies, said Tony Guadagni, senior principal at Gartner. Facing higher expenses for salaries, companies need to assess the risk of employee turnover. While some businesses aim to be compensation leaders in their industries, most are focusing on more affordable options to encourage retention, such as perks, Mr. Guadagni said.

COMPANIES PUSH FOR MARCH RETURN

The office return is in motion. After two years of remote work, companies including American Express Co. , Facebook parent Meta Platforms Inc. and Wells Fargo & Co. plan broader office re-openings in March. Many executives say they are uncertain about what the future may hold, but feel confident that offices can at least reopen this month as Omicron cases fall and health authorities loosen mask guidance.

At this point in the pandemic, “we’re looking at moments,” said Francine Katsoudas, chief people officer at Cisco Systems Inc., which is reopening its U.S. offices on March 1. “This is a moment where our employees can come in.”

Like many employers, Cisco had planned to reopen its offices far sooner. A small number of its U.S. employees returned last summer, and the company had scheduled a broader return for February of this year. That got pushed back too, following the nationwide surge of cases tied to the Omicron variant. A few weeks ago, Cisco’s medical director pointed to a steep drop in cases, and executives felt confident the company could safely convene, Ms. Katsoudas said.

Should cases rise once more or other circumstances call for sending employees home, the company can adapt, she said. Cisco used to ask teams to map out their work schedules over the coming 90 days; Ms. Katsoudas said the company now considers that too long of a time horizon. Instead, she encourages teams to plan in 30-day increments.

Many companies, including Cisco, are leaving it up to teams and managers to determine when and how often employees come into the office. Bosses are preaching flexibility, careful not to alienate employees who have come to appreciate the upsides of remote work.

To ease employees back into the rhythm of in-person work, American Express is soft opening its New York office on March 1. The company encourages employees in hybrid roles to commute and come into the office at least one day a week. It will begin what it calls its full "Amex Flex" program on March 15; many employees will work, on average, one to three days a week in an office, depending on their jobs and team arrangements, a spokeswoman said.

"After a very long wait, it will be good for many of us to see each other again in person and enjoy the connections, collaboration, and variety in our daily routines," Stephen J. Squeri, CEO and chairman of American Express, said in a memo to employees in February.

The latest push to reopen reflects Covid-19's retreat across the U.S. Many states and local governments have pulled back Covid-19 mitigation efforts in recent weeks, and the Centers for Disease Control and Prevention last week said masks aren't necessary indoors where Covid-19 is circulating at low levels. New York City could lift its vaccine requirement for restaurants, fitness centers, and entertainment venues March 7, if current Covid-19 trends continue, Mayor Eric Adams said.

Office attendance has ticked up recently, though it remains sparse in many places. In 10 major U.S. cities, offices were on average 36.4% occupied as of mid-February, up from about 33% earlier in the month, according to Kastle Systems, a security company that tracks how many people swipe into buildings. Some executives have noted that Americans seemed willing to go to sporting events, live theater performances and restaurants, while still avoiding the office.

Improving health conditions, along with vaccinated workers, have given many executives confidence to push for a return. Citigroup Inc. recently asked its vaccinated employees at its U.S. offices that hadn't previously reopened to return at least two days a week beginning March 21. Many of its employees in cities like New York, Boston and Chicago returned last year.

Citi said earlier this year that it had reached 99% compliance one day before a January deadline the bank had set for U.S. workers to get vaccinated or to request an accommodation for medical or religious reasons.

Executives at Verizon Communications Inc. told U.S. employees in recent weeks that those working in hybrid roles should try in-office returns in March, with the schedules set with their teams going into full effect in early April.

Those who study workplaces say there are benefits of bringing teams together, even if only occasionally. Fewer lunches, in-person meetings and after-hours drinks with colleagues from the office can come with a downside: weaker bonds between workers. When employees are less connected to their peers, they have an easier time changing jobs, something that worries companies, said. Though Mr. Kropp expects many white-collar employees to continue to work at home, since productivity has soared in the remote era, he said companies have an incentive to find ways to bring people together, even if that means a gathering once a month or once a quarter.

HOUSTON CUBICLES ARE OPEN, NOT FULL

Houston has set the standard for bringing workers back to the office during Covid-19. About 85% of its businesses have employees at their desks or have plans to do so, one of the highest rates in the nation, according to firms that track the return-to-office trend.

But Houston office floors are barely half full. While the number of workers showing up at their desks has been steadily rising, the office crowds are far smaller than those showing up at restaurants, basketball games and other traditional gathering spots.

A big reason is that most Houston companies have implemented hybrid strategies, combining office and remote work. As this policy has played out, the average worker is showing up at the office about 10.7 days a month, compared with 17 before the pandemic, according to an analysis from Central Houston Inc., which represents downtown landlords, businesses and residents.

Houston and other Texas cities have been closely watched during the pandemic because workers there have consistently returned to the office at a higher rate than those in other states, according to Kastle Systems, the nationwide security company that monitors access-card swipes in 10 large U.S. cities.

The state's low reliance on public transportation and decision to keep public schools open through most of the pandemic have paved the way for more workers to return to the office. Dallas, Houston and Austin last week recorded office-return rates of 51%, 52% and 58%, respectively, according to Kastle.

The Lone Star State offers an early glimpse into what the return-to-office movement might look like across the U.S. this year, as Covid-19 infection rates plummet and more companies enact back-to-work plans but offices remain well below capacity.

That future has enormous implications for the value of commercial property, the health of business districts and city tax revenues derived from real-estate owners. Thousands of restaurants, bars, stores, barbers and other small businesses throughout the country also depend heavily on commuters and office workers.

It is still unclear if workers are in the office for only two to three days a week what exactly that would mean for office-space demand. Some real-estate owners suggest any retreat in interest will be minimal, especially if companies need more space to spread employees farther apart for health considerations. But others note that many of the companies that have signed leases during the pandemic have opted for less space because they have adopted hybrid work strategies.

Nationwide the return-to-office rate has steadily risen since the Omicron variant peaked earlier this year. The 10-city average was 41% last week, up from 28% the second week of January, according to Kastle.

But even as Covid-19 fades, a new obstacle is emerging to a more full-fledged return to the office: higher gas prices. The cost of fuel was already rising, when the Russian invasion of Ukraine made it worse. Workers, especially those who have lower incomes, are pushing back against return-to-office plans, especially in states like Texas where most commuters drive, according to interviews that Gartner has had with dozens of heads of human resources.

The remote-work trend poses a larger threat to office-space usage than gas prices. Some employers have insisted that workers return to offices five days a week. But many have found remote work hasn't impaired efficiency, and others worry that if they don't accede to employee requests for more flexibility, top performers might go to the companies that offer remote opportunities.

Companies have adopted hybrid strategies to give workers flexibility but also spend time in the office to promote collaboration, mentorship and the company culture.

In Texas, companies in a range of industries are adopting hybrid approaches. Halliburton Co. , one of the world's largest oil-field-services companies, has about 3,200 workers in Houston, about one-third hybrid, one-third remote and one-third full time, according to a spokeswoman.

Chevron U.S.A. Inc., one of Houston's largest employers with nearly 6,000 people in downtown Houston, allows workers two days of remote work per week, the company said.

EMPLOYERS SAY MORE JOB SEEKERS "GHOSTING"

An increasing number of Houston employers say they've been "ghosted" by potential hires, the latest sign of a market in which job seekers have the upper hand.

About 40 percent of local employers said they've had more candidates unexpectedly cease communications with them than prior to the COVID-19 pandemic. About half of the workers in the report said they stopped communicating with potential employers because they received another job offer, or because remote work options weren't available.

Patrick Jankowski, senior vice president of research at the Greater Houston Partnership, said it's an indication of a job market in which employees have more options and bargaining power. "Given the tightness of the labor market, there seems to be no repercussion for this lack of courtesy, at least not yet," he said. "It shows how the job market has swung 180 degrees over the past two years. It used to be that employers held all the cards. Now, workers have as many aces in their hands as their prospective employers."

Since the economy began to reopen after the business shutdowns at the beginning of the pandemic, employers have found it increasingly difficult to find workers as Americans increasingly prefer remote work options or demand higher wages and benefits. A lack of child care also forces many potential employees to remain at home.

Labor shortages have persisted across all industries in 2022 as unemployment has dropped to near-historic lows nationally. A record 4.5 million Americans quit their jobs November, the Labor Department said. About 4.3 million quit in December.

Annie Spilman, Texas director for the National Federation of Independent Businesses, said many small businesses — regardless of industry — have increased pay as they try to find workers. Employers struggled to find skilled labor before the pandemic, when the economy was strong and unemployment fell to half-century lows, she said, but now they can barely find people to interview — some of whom don't show up at all.

Jankowski said he expects the labor market to remain tight for the coming years, as more Americans reassess their work-life balances because of the pandemic, contributing to an ongoing wave of retirements and career changes to persist.

Americans, he said, have typically been workaholics, spending an average 1,767 hours at their jobs in 2020 - compared with 1,644 in Canada and 1,598 in Japan, a country that Americans often view as "full of workaholics."

"Bottom line, employees can now pick and choose from available job offers," he said. "They don't have to settle for what's available. But that's also no excuse for not sending an email saying 'Thank you, but I've decided to pursue other options.'

SOURCES

Houston Chronicle; Wall Street Journal; Houston Business Journal