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HOUSTON'S JOB GROWTH SURGED

The first half of '22 was the strongest opening on record for Houston's economy. Job growth surged. The unemployment rate fell. Houston's civilian labor force grew significantly. Only a few sectors struggled. Rising interest rates and soaring prices cut into home sales. Double-digit inflation weighed on consumer spending. The apartment market began to soften. And little progress was made in reducing the glut of office space.

Even so, the positives greatly outweighed the negatives. Houston enters the second half of '22 with considerable momentum. The region should grow through the end of this year and well into next. Metro Houston created 84,600 jobs in the first half of '22. That's the best start on record for the region, better than any year in the '80s, when the domestic rig count topped 4,500, or the early '10s, when the Eagle Ford Shale boom lead Houston out of the Great Recession.

The recovery has been uneven, though. Eleven sectors have fully recovered their pandemic losses: administrative support (37,300); arts, entertainment, and recreation (23,700); educational services (12,900); finance and insurance (6,200); government (8,600); health care (47,900); professional, scientific and technical services (16,300); restaurants and bars (111,900); retail (57,400); transportation and warehousing (20,300); and wholesale trade (12,300).

At their current pace of growth, a handful of sectors should recover their remaining losses within the next month or so (jobs needed in parenthesis): real estate and equipment rentals (200); information (700); hotels (2,300); other services (3,400); and construction (5,700).

Only two sectors still struggle: manufacturing (9,100 jobs) and energy (9,400 jobs). The bulk of the manufacturing jobs still to be recouped are in oil field equipment manufacturing. They won't return without a significant increase in drilling activity. As of mid-August, the U.S. rig count had yet to return to its pre-pandemic level. Energy companies are reluctant to significantly expand their payrolls. Instead, they are repurchasing shares, paying dividends, funding alternative energy efforts, and marginally increasing exploration programs.

Metro Houston added over 60,000 workers to its labor force in the first half of this year and nearly 100,000 over the past 12 months. Houstonians who dropped out during the pandemic have re-entered the job market. The economy has also benefitted from the surge in new residents to the region. In June '22, the workforce hit 3,521,124, an all-time high for the region.

Initial claims for unemployment benefits, a proxy for lay-offs in the region, trended down through late spring then inched up starting in April. They remain well below pandemic peaks, however, and are only marginally above pre-pandemic levels. Most of the recent layoff announcements have been at the national level, not a response to a local slowdown. Layoffs are concentrated in the tech sector and the digital currency trading platforms, not a slowdown in the national economy. Almost none of the layoffs impact Houston.

There were 22,122 continued claims for unemployment benefits filed in the Gulf Coast Region the second week of June. That's up from 20,221 in May but an improvement over the 43,092 filed in June of last year. The drop suggests those who have lost jobs had little difficulty finding new ones. Continued claims peaked at 276,116 in June '20.

Houston began the year with an unemployment rate of 5.5 percent. By June, the rate had slipped 4.8 percent. That equates to just over 170,000 residents unemployed and looking for work. In April '20, the depth of the pandemic, there were over 420,000 unemployed and looking for work.

Though the Houston rate exceeds the 3.8 percent reported for the nation in June, that's not a cause for alarm. Any rate below 5.0 percent represents a tight labor market. In the 10 years prior to the pandemic, Houston's rate averaged 5.6 percent. In the five years prior, the rate average 4.8 percent.

JOB SWITCHERS ARE EARNING MORE MONEY

It often pays to switch jobs, and now is one of the best times to do it. The pay difference between those who stay and those who changed jobs is growing, according to the Federal Reserve Bank of Atlanta. Job stayers, or people who stayed in their job for the past three months, increased their wages by about 4.7% as of June 2022. Meanwhile, those who switched jobs received a raise of 6.4%. The gap is the largest in two decades.

The Bureau of Labor Statistics shows median weekly earnings rose 4.2% in U.S. metro areas between April 2021 and April 2022. In the Houston-The Woodlands-Sugar Land area, median weekly earnings rose 5.7% over the past year while the cost of living rose 10.2%. Compare that to an 8.9% increase in earnings in the Austin-Round Rock area where the cost of living rose 13.1%. Meanwhile, Dallas-Fort Worth-Arlington saw a 5% increase in earnings and a 9.1% rise in cost of living.

Workers are facing fast-rising prices on gas, groceries, rent and other essentials. Even in a tight labor market, many workers aren't getting a large enough pay increase at their current job to keep up with inflation, say workers and economists who study the labor market. As a result, some Americans are reconsidering expenses they once considered affordable, while many also are looking for a new job with a bigger paycheck to keep up.

Some 47 million Americans have changed jobs in the past year, according to the Bureau of Labor Statistics. Overall, the labor market remains strong. Employers added 372,000 jobs in June and the number of people changing jobs has consistently been elevated for much of the past year and a half. Researchers say more people are considering switching jobs now for more money.

Experts say the issue is posing several challenges for companies. It’s a trend that’s straining small businesses that are feeling the squeeze from soaring inflation on multiple fronts, and experts say the pace of growth isn’t sustainable in the long term. It’s also causing several headaches — particularly when companies pony up for new hires and existing employees believe they are losing out by being loyal. Recruiters say a day of reckoning is likely on the horizon as companies realize they are overpaying for many roles, but they admit the current hiring market gives them little choice in the short term. Adding to those challenges is an increasing willingness — especially among the youngest members of the workforce — to freely discuss compensation.

More companies are getting creative on the retention side when they can’t afford to keep pace with a traditional salary increase. One increasingly common option is long-term retention bonuses that reward candidates for staying for a set period of time with their company, often two or three years. That allows the company to spread out the cost while avoiding losing key personnel that would be expensive to replace.

HIRING IN OIL & GAS SECTOR REBOUNDED

The pace of hiring in Houston’s oil and gas sector is accelerating after lagging the rest of the state for much of the pandemic, according to new analysis from the Federal Reserve Bank of Dallas.

The number of Houston oil and gas jobs rose to 64,330 in June as the sector added 4,630 jobs, for an annualized employment growth rate of 44.5 percent between May and June, compared to a year-to-date rate of 15.9 percent.

The acceleration in Houston-area hiring comes as oil prices have spent much of past few months about $100 a barrel. Oil prices have retreated recently, at one point falling below $90 a barrel. Even with the recent declines, prices are still very high — more than enough for oil companies to make healthy profits.

Statewide, oil and gas payrolls also grew at a healthy clip, particularly in West Texas, home to the Permian Basin, one of the world’s most productive oil fields. Most of the hiring has been for oil field jobs in the Permian and other producing regions since the sector began recovering from its pandemic downturn. As a result, oil and gas employment growth in Houston, where most of the jobs are in office towers and campuses, has lagged the rest of the state.

The TIPRO analysis shows that overall, Texas added 6,100 jobs in June, subject to revision, for a total of nearly 195,000 upstream oil and gas jobs. The growing employment among producers follows the release of data this month showing that in June, oil field services companies operating in Texas added 2,142 jobs for a total of 308,553, according to analysis of preliminary federal data from Energy Workforce and Technology Council. The OFS sector is led by Schlumberger, Halliburton and Baker Hughes, each with headquarters in Houston.

Nationwide, the sector added about 5,000 jobs last month for a total of 633,198, according to the preliminary data. The numbers from May were adjusted down by 603 to 628,190 total jobs nationally.

Employment in the oil field services sector is likely boosted by an increasing rig count. In the most recent national rig count from Baker Hughes, oil and gas companies have added 273 rigs in the past year for a total of 752 operating in the U.S. last week. Companies in Texas are currently operating 361 rigs, a more than 60 percent jump from this time last year when only 224 rigs were operating in the state.

REMOTE WORK VS. RECESSION

Finding a job with greater flexibility is now one of the top three reasons job candidates look for greener pastures, according to a recent study by the global consulting firm McKinsey &Co. Flexible work arrangements have become so entrenched in the expectations of job candidates that companies are finding they must include flexibility in their offer packages, recruiters and human resource professionals said. That is creating a tectonic shift in the relationships between employees and employers that labor experts say can't be undone — even during a recession.

The backdrop for this rapid rise in remote work is a remarkable labor market in which there were about 273,000 unfilled positions in the 13-county region that includes Houston as of June, according to Gulf Coast Workforce Board. That compares to about 170,400 people who were unemployed across the region in June on a non-seasonally adjusted basis, according to data from the Texas Workforce Commission.

About 66 percent of employees in Houston said they can work remotely, slightly higher than the national average of about 58 percent, according to McKinsey. Large influential companies in Houston have integrated hybrid work into their long-term strategies. Even the region's two biggest hospital systems, as well as cancer center, offer remote work for roles that don't require face-to-face patient interactions.

Remote work is blurring the geographic boundaries of Houston's labor market. Out-of-state companies are now hiring Houston workers without requiring them to move. And job candidates are evaluating positions not just in their local market, but across the globe.

Oceaneering said the added flexibility is helping their diversity initiatives, too, particularly for people balancing elder and childcare responsibilities. Even if the power in the labor market tilts away from job candidates, there are employers who are going to continue to use (flexible work policies) as an advantage to get that diverse candidate pool in there and be more inclusive.

While Houston's labor market is still roaring, if a recession does set in, that could give employers more leverage to dictate where employees work, said Parker Harvey, principal economist at Gulf Coast Workforce Board. But they may find the cost savings from remote work too compelling to turn back now, he said.

Already some firms with hybrid work policies are shrinking their offices in Houston, including Enbridge and Bechtel, which are cutting their office footprints in half, and Halliburton, which reduced its real estate footprint in Houston by about 30 percent in the past two years.

On average, employers are saving an estimated $11,000 annually on every employee who works remotely at least half of the time, when accounting for reduced real estate costs, lower absenteeism rates, less turnover and greater productivity, according to an analysis by the San Diego-based consultancy Global Workplace Analytics.

As a result of those savings, if companies slow their pace of hiring or even lay off people during a possible recession, their remote working arrangements might not change much. If the economy does slide into recession, it's possible office-using professions may be more insulated to layoffs, but even if they weren't entirely immune to job cuts, you'd still be in a universe in which for the last 2.5 to 3 years in the pandemic, the base (population) from which you're recruiting has worked remotely in some form or fashion. The longer we go in a situation in which hybridity and flexibility is the status quo, the more locked in that becomes into the behavior, and the harder it becomes to claw back.

Critically, for the commercial real estate sector, most companies in Houston are requiring workers commute to the office at least part of the time. Most Houstonians working remotely are doing so three days a week, according to McKinsey.

Many job candidates prefer a balance that allows them to develop relationships with colleagues or get mentored at the office while having some of the benefits of flexibility. Requiring too much time in the office can be a turnoff for some job candidates.

JOBS ARE BACK, BUT MAYBE NOT YOUR JOB

The U.S. finally has as many jobs as it did before the pandemic struck. Ultimately, a lot of them might not be in the right place.

The Labor Department on August 5, 2022 reported that the economy added a seasonally adjusted 528,000 jobs in July from a month earlier—far more than the 258,000 that economists expected to see. With that the employment losses brought on by Covid-19 crisis have finally been erased: There were 32,000 more jobs in July than there were in February 2020. Similarly, the unemployment rate slipped to 3.5% from 3.6%, bringing it back to the multidecade low it logged just before the pandemic.

Even so, to say that the job market has recovered isn't exactly right. The number of people employed as a share of the working-age population came to 60% last month; if it rose back to February 2020's 61.2%, there would be millions more people working. That should be a concern for Federal Reserve policy makers: While on the one hand they want to cool off a job market that is looking too hot, on the other they don't want to forestall a future where more Americans join the labor force.

The pandemic is a continuing problem for the job market. The employment report showed that there were 656,000 more people out sick last month than in July 2019. A survey from the Census Bureau shows a large number of people weren't working because they were worried about catching or spreading Covid. For many families, child-care issues remain unresolved.

Another reason more people might not be working is that, despite the pressing demand for workers across the country, their old job hasn't come back.

As with the recovery in the economy, the recovery in the labor market hasn't been even. Americans bought stuff like crazy in response to the pandemic, eschewing spending on services such as travel and haircuts, and the jobs followed.

In July, there were about a million more jobs, combined, in the so-called goods-producing sectors—manufacturing, construction and mining and logging—plus the retail trade and warehousing and transportation sectors, than in February 2020. And there were about a million fewer jobs in the remaining service-sector industries.

So in some respects the recovery in jobs probably has left some people out—somebody who is a good line cook, for example, might have neither the skills nor the desire to work in the shoe department of a department store. There is also a geographic component to consider. The hybrid work arrangements that have left many offices less than half full on any given day have crushed many downtown businesses serving office workers, while businesses in what used to be bedroom communities are struggling to keep up.

With many Americans less enamored of piling up goods, and reengaging in activities such as going out, there could be some big changes coming for the employment picture in the months ahead. If Covid worries and, importantly, infections ease, those changes will be even more pronounced. A job market that has actually recovered will look a lot different than the job market does now.

US FIRMS BRING HOME OVERSEAS JOBS

U.S. companies are bringing workforces and supply chains home at a historic pace. American companies are on pace to reshore, or return to the U.S., nearly 350,000 jobs this year, according to a report from the Reshoring Initiative. That would be the highest number on record since the group began tracking the data in 2010. The Reshoring Initiative lobbies for bringing manufacturing jobs back to the U.S.

Over the past month, dozens of companies have said they had plans to build new factories or start new manufacturing projects in the U.S. Idaho-based Micron Technology Inc. announced a $40 billion expansion of its current headquarters and investments in memory manufacturing. Ascend Elements said it would build a $1 billion lithium-ion battery materials facility in Kentucky. South Korean conglomerate SK Group said it would invest $22 billion in a new packaging facility, electric vehicle charging systems, and hydrogen production in Kentucky and Tennessee.

To be sure, globalization has been a tailwind for investors and large companies for much of the past 30 years, particularly U.S. firms. Increased trade across borders boosted profits and productivity and allowed countries to focus on the goods and services they were best equipped to produce. Globalization has also provided multinational companies with new customers and new pools of low-cost labor.

But the Covid-19 pandemic, which snarled supply chains worldwide, pushed many executives to think about bringing their business closer to home. Russia's invasion of Ukraine, which upended commodities markets, is another motivator. So is the possibility of a conflict between China and Taiwan, which produces the chips used in smartphones, personal computers and cars.

The U.S. government is also luring companies back. The Chips and Science Act and the Inflation Reduction Act, both passed this month, provide tax breaks and other incentives for building and investing in manufacturing centers for goods such as semiconductors, electric vehicles and pharmaceuticals.

Investors' increased focus on carbon emissions also has bolstered the need for closer-to-home supply chains. Carbon pricing mechanisms and taxes recently implemented in the European Union and elsewhere will further reduce the appeal of extensive cross-border supply chains, Barclays economists wrote in a recent note to clients.

Barclays found that large S&P 500 companies are recruiting more in their home countries and slowing cross-border M&A activity.

The 350,000 reshored jobs expected this year would far exceed the roughly 265,000 jobs added in 2021 and would be more than 50 times the 6,000 jobs reshored to the U.S. in 2010. The Reshoring Initiative tallies company announcements of headcount increases for positions that were previously held in other countries, new positions in industries that had little to no U.S. presence and positions created in the U.S. from direct investment by companies based in other countries.

LITTLER ANNUAL EMPLOYER SURVEY

No one said adjusting to the "new normal" would be easy. That sentiment is hitting home for employers as workers increasingly return to offices in the midst of a historically tight labor market and after more than two years of a global pandemic. Issues and initiatives that have consumed the corporate world's attention – from vaccine policies to hybrid work models to evolving regulations and emerging technologies – are now entering a pivotal phase, posing new challenges and opportunities alike.

Employers are relatively split on the ongoing question of whether to mandate vaccination for employees. Just over 40% have a policy that requires COVID-19 vaccination or regular testing – nearly double the percentage who said their organizations were mandating vaccinations or planning to do so in our last survey in August 2021.

On one hand, employers cited a range of potential benefits of requiring vaccinations, including contributing to public health, aiding a return to more in-person work and improving business continuity. On the other hand, mandates may bring administrative burdens and employee relations issues, particularly in today's labor market.

Notably, the level of concern about vaccine mandates is lower among those survey respondents whose organizations have already instituted mandates – and the perceived positive impacts are more pronounced – suggesting that some of the perceived challenges with requiring vaccination may be more daunting in perception than in reality. For instance, respondents whose organizations have vaccine mandates in place are less concerned about such mandates leading to loss of staff (51% compared with 85% of those without mandates) and the difficulty of recruiting new staff (32% versus 65%). With regard to the positive effects, 68% of those with mandates believe that such policies can make employees feel safer and facilitate more in-person work (compared to 41% without mandates), and 57% feel they can help improve business continuity (compared to 46% without mandates).

In addition to employee relations issues, the challenges for employers stem from a lack of regulatory clarity, most prominently in relation to the suspended Occupational Safety and Health Administration (OSHA) Emergency Temporary Standard (ETS), as well as the growing patchwork of state and local rules on vaccine mandates. Employers also expressed concern about regulatory changes in the next 12 months that go beyond pandemic-related workplace safety. Over 60% of respondents anticipate a moderate or significant impact on their businesses from enforcement efforts and compliance requirements associated with OSHA (76%), state and local agencies (73%), the Department of Labor (DOL) (65%) and the Equal Employment Opportunity Commission (EEOC) (63%).

The effects of workplace decisions and regulations will only intensify as workers increasingly return to the office, where the potential for workplace COVID-19 infections will rise and employee relations issues will play out in person. Nearly 70% of respondents said they had already instituted a formal return-to-office policy as of the end of March (54%) or would do so between April and August (13%). Thirteen percent plan to institute a return-to-office policy but have not yet set a date. The remainder did not have any employees working remotely (14%) or have shifted to all remote work (6%).

Amid the fierce competition for talent, employers see flexibility and remote work options as key offerings. Nearly all (97%) are already offering or considering expanding such options to help attract and retain employees – and 47% are doing so to a great extent. Despite the broader acceptance of flexibility, however, maintaining company culture and employee engagement within a hybrid work model is an ongoing concern, as noted by 86% of respondents.

The data reveals several other areas where employers are adapting to changes accelerated by the pandemic and today's talent market, including new and expanded benefits offerings; the advancement of inclusion, equity and diversity (IE&D) plans and goals; and the increasing use of AI and other technologies in recruiting efforts.

SOURCES

Greater Houston Partnership; Wall Street Journal; Houston Chronicle; Littler