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PACE OF US JOB-QUITTING NEARING LEVEL BEFORE PANDEMIC

The surge in Americans quitting their jobs has abated since peaking during the pandemic, another sign that the labor market is cooling from ultra hot levels as the Federal Reserve raises interest rates. Americans voluntarily left four million jobs in May, the Labor Department said. That marked a drop of around 500,000 from 4.5 million in November 2021, the highest level in Labor Department records back to 2000.

The so-called quits rate—the number of resignations as a share of total employment—averaged 2.5% from March to May, down from 3% as recently as April 2022, and only slightly higher than the prepandemic level. The decline in quits adds to underlying signs the labor market is easing, but top-line hiring remains firm. Employers added an average 314,000 jobs a month this year, through May. ADP estimated that private-sector employers added 497,000 jobs in June.

Quitting rose as the economy recovered from deep job losses early in the pandemic. Many industries struggled with labor shortages as millions of people exited the labor market. Some workers re-evaluated their lives and the kinds of jobs they wanted, others jumped ship for more money, and others switched into fully remote roles. Those trends have since eased.

A slowdown in voluntary departures can indicate a softening labor market if it reflects employers' easing demand for workers. Employees might have less confidence they will find a better job or feel they have less bargaining power. Others might just be content with their jobs.

Quits touched the lowest level in more than two years in April before rising some in May. Job openings fell to a seasonally adjusted 9.8 million, down from a revised 10.3 million in April.

Initial applications for unemployment benefits, a proxy for layoffs, rose and are up about 20% from the start of the year. The average number of hours worked a week has fallen, which in the past often preceded increased job cuts.

WAGES RISE EVEN AS JOB GROWTH EASES

Hiring slowed in June but wages rose and unemployment fell, likely keeping the Federal Reserve on track to raise interest rates later this month to combat inflation.

U.S. employers added 209,000 workers in June, a solid monthly gain but down from May's revised 306,000. In the first half of this year, payrolls grew by an average of 278,000 a month, down from nearly 400,000 last year.

The unemployment rate fell to 3.6% last month from 3.7% in May. Employers ramped up wages as they competed for a limited pool of workers. Average hourly earnings grew 4.4% in June from a year earlier, matching gains in the preceding two months and remaining well above the prepandemic pace.

Better-paid workers spent more on travel, dining out and ballgames in the first half of the year. Others bought new cars. The economy expanded at a solid 2% annual rate in the first quarter, and many economists estimate similar growth for the April-through-June period.
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Employment grew each month for 2½ years, but June's gain was the smallest during that time. Healthcare, construction and government employers added jobs last month. Several factors contribute to persistent hiring, including employers playing catch-up from the pandemic and longer-term forces shaping Americans' lives.

State and local governments, which struggled to find staff for much of the pandemic, snatched up workers in June. Government employment grew at well over twice its 2022 pace in the first half of this year as public schools and hospitals and transit systems added workers. Private hospitals and nursing homes also need more workers to serve the fast-growing elderly population. Healthcare added 41,000 jobs in June. Residential-home builders are clinging to labor despite higher interest rates because of a chronic shortage of available housing. And industrial and infrastructure businesses continue to snap up workers for projects related to electric-vehicle batteries and semiconductors.

The labor market is cooling in some corners. Restaurants and bars slashed jobs in June for the first time since late 2020, after powering the U.S. labor market's pandemic rebound. Employment declined at businesses that deliver and sell goods, including retailers and companies in transportation and warehousing.

The number of people working part time because they can't find full-time work jumped by nearly half a million in June. The Labor Department said the jump partially reflects more workers saying their hours were cut due to slower business conditions.

The labor-force participation rate, or the share of Americans who are working or actively seeking jobs, remains well below the February 2020 prepandemic level of 63.3%. That largely reflects the aging U.S. population and is triggering persistent labor shortages.

However, the strong labor market is drawing in younger workers. The labor-force-participation rate for Americans ages 25 to 54 rose in June to the highest level since 2002.

Other data shows initial applications for unemployment benefits, a proxy for layoffs, are up about 20% from the start of the year. Tech-industry job cuts dominated at the start of 2023 and included Facebook parent Meta Platforms, Google parent Alphabet and Microsoft. The pain extended to other parts of the economy as retailers, manufacturers, media companies and financial firms all announced cuts.

CFOs WEIGH THE VARIOUS ISSUES OF RETURN TO OFFICE

The return-to-office discussion has upended the workplace. Sparsely populated workplaces are affecting corporate cultures and workers' ambitions, bosses say, leading some to step up their return-to-office mandates. Rank-and-file workers, meanwhile, are reluctant to give up the flexibility gained during the pandemic, with long commutes, caregiving duties and high costs among the motivators keeping them at home, at least some of the time.

So far, most U.S. companies—51%—are opting for some kind of hybrid-work arrangement, according to a report covering more than 4,000 companies conducted by hybrid-workplace software company Scoop. The share of people in the office under a so-called structured-hybrid work arrangement, which requires workers in the office a set number of days, increased to 30% in the second quarter of this year, up from 20% in the first quarter. Fully flexible work arrangements, which are defined as remote working all of the time or letting employees decide if and when they are in, dropped 3 percentage points, to 28%, in the second quarter.

Many finance chiefs are stuck somewhere in the middle, toeing the company line on issues such as the effect on workers' morale, productivity and the potential bottom-line impact of unused office space. Yet on a human level, many empathize with workers' view on the return-to-office question and what's more, welcome the ability to work from home themselves.

Still, some managers are eager to have workers be in the office more regularly.

The share of companies planning to keep office attendance voluntary as opposed to mandatory is dropping, according to a survey released in May of more than 200 corporate real-estate executives conducted by property-services firm CBRE. Meanwhile, the share of people in the office full time, at 42% in the second quarter of 2023, is down 7 percentage points from a quarter earlier but is still above the share of worker arrangements that are either fully flexible or structured hybrid, according to the Scoop data.

MANY IN US WORKING LESS THAN THEY DID PRE-COVID

During the white-hot labor market of the past couple of years, Americans have been earning healthy wage increases but putting in fewer hours. In May, the average workweek edged down to 34.3 hours. That's more than half an hour less than the typical 35 hours they logged in January 2021 and matches the low reached shortly before COVID (excluding the depths of the crisis in March 2020), Labor Department figures show.

The average workweek ticked up to 34.4 hours in June, Labor Department said, but that's still historically low.

At the same time, employers added a booming 306,000 jobs in May and a solid 209,000 in June, signaling a still-strong labor market. That's an unusual combination. As customer demand rises, employers generally give existing workers more hours until they're forced to add new employees.

Economists and staffing officials attribute the shorter workweek to employees' desire for more flexible schedules and businesses' reluctance to lay off employees even as the economy slows, among other factors.

The June jobs report is expected to reveal whether the average workweek stayed low or declined further and whether job growth is slowing. Economists surveyed by Bloomberg estimate a solid 225,000 jobs were added last month but that would be down from an average 283,000 the past three months.

Here's why workers are putting in fewer hours:

Better Work-Life Balance - In the early days of the pandemic, worker absences and persistent labor shortages forced millions of employees to put in more hours. In a survey by Harris Poll last year, most workers said they continued to feel burned out. Sixty-two percent of employees now say it's important that a company offers flexible work hours and nearly half of firms are offering that option.

Is the jobs market still hot? In June, employers add 209,000 jobs while unemployment falls.

Few Layoffs - Despite a slowing economy, layoffs have remained remarkably low.

The drop in average hours could signal that employers are hoarding workers because of labor shortages, Bank of America economists say. Even though sales are slowing, bosses aren't laying off staff because they fear they won't be able to find replacements when conditions improve. Instead, they're giving each worker fewer hours.

More Workers Want Part-time Jobs - Many Americans are choosing to work part time rather than full time for better work-life balance. Others, such as retirees, are taking part-time gigs or moonlighting to better cope with high inflation. Overall, that reduces the average number of hours worked by each employee. In May, 21.5 million Americans, or 13.4% of all workers, voluntarily worked part-time, up from 18.1 million, or 12% of all workers, in January 2021.

A Return to Normal - When employers struggled to find workers during the worker shortages, they gave existing employees more hours. Now that the labor shortages are easing, the average number of hours for each employee may be getting back to normal.

A SURGE IN MINIMUM WAGE HIKES IS COMING

Minimum wages are set to rise in several places across the country - and those higher wages could put pressure on small business owners. On July 1, Nevada, Oregon and Washington D.C. will raise their minimum wages alongside Chicago, San Francisco and Montgomery County, Maryland among others.

While there have been proposals from the White House and prominent lawmakers to raise the federal minimum wage, the battle over the wage floor is playing out locally for now.

While many states have not touched their minimum wages, the wave of increases, the push for pay transparency and the tight talent market have employees at all ends of the pay spectrum looking for more – a dynamic that is putting pressure on small businesses, which have struggled to keep pace with their larger counterparts. Discussions of raising minimum wages – particularly some of the federal proposals – must be balanced by the impacts on small businesses and consumers. One best practice would be to phase in minimum wage increases over time and have it apply differently to the smallest businesses to help reduce shocks.

NEW GRADS HAVE HIGH EXPECTATIONS FOR WORKPLACE FLEXIBILITY

A new crop of college graduates is entering the job market, and they have optimistic expectations for workplace flexibility. That being said, the survey suggests some graduates may be in for a rude awakening when it comes to some of their other expectations.

85% of graduates say they have already been recruited, and 70% expect to land a full-time job in the coming year. About 44% of graduates want a hybrid work arrangement, while 33% want to be fully remote. Recruiters have said that jobs offering fully remote work are getting tougher to come by, and many companies are pulling back on their hybrid models. That suggests a rude awakening could be on the horizon. Only 23% of new graduates said they want to be in the office every day.

WHAT NEW GRADS EXPECT FOR STARTING SALARIES

While flexibility remains important, it's not one of the top three factors new grads are looking for. The top three are advancement opportunities, pay and job security.

The average pay expectation is $69,200 for women and $71,900 for men.

But the expectation drops among students who have already begun their search, with pay expectations among that group averaging $8,300 less — suggesting that many grads have unrealistic expectations about what they might get at a time when many employers are tweaking their pay strategies after two years of aggressive raises and signing bonuses.
In March, starting pay among newly hired workers at small and midsized businesses was 7.5% lower than pay for those hired last year.

Inflation is weighing on the minds of new grads, with 90% of respondents expecting to offset rising costs by taking on a side hustle, moving to an economically friendly city, living with their families or finding a roommate. They are also being more flexible with how they think about their careers.

A separate survey of 500 soon-to-be college grads conducted earlier this year said the ability to work remote was the most important factor in their job search, followed by pay at 21%.

About 58% said they would look for a new job if their employer required them to be in the office five days a week.

Despite a tight labor market over the last few years, early retirements and other demographic changes, the job market is starting to show signs of weakening under the weight of the Federal Reserve's efforts to tamp down inflation with rising interest rates.

The number of job openings fell to 9.6 million on the last day in March, the lowest in nearly two years — although still higher than before the pandemic, according to the newest data from the Bureau of Labor Statistics.

Meanwhile, layoffs creeped up to 1.2% as many companies cut back. The quit rate ticked down to 2.5%, the lowest since the pandemic began, showing fewer workers willing to leave their job. Despite high-profile layoffs at big tech and consulting companies and overall national economic growth slowing in the most recent quarter, small-business owners are optimistic about their fortunes — and they are hiring or at least trying to.

New graduates will be a critical component of that effort, as experts say retaining and recruiting Gen Z workers should be a top priority for businesses because the generation is smaller than prior generations — meaning employers are likely to face a tight talent market even if the economy struggles.

SOURCES

Wall Street Journal; Houston Business Journal; USA TODAY