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HIRING SLOWED AND UNEMPLOYMENT ROSE

Hiring slowed this summer and unemployment rose in August, signs the labor market is cooling in the face of high interest rates.

The readings from the jobs report keep the Federal Reserve on track to hold rates steady at its meeting this month, but won't resolve a debate over whether to raise rates again in November or December. Other data show the broader economy remains strong, with consumer spending surging this summer and inflation easing.

U.S. employers added 187,000 jobs in August, while payrolls in June and July were revised down a combined 110,000, the Labor Department said. Over those three months, a modest 150,000 jobs were added monthly on average, down from an average gain of 238,000 in March through May.

The unemployment rate was 3.8% in August, up from 3.5% in July—reflecting more Americans seeking work. Still, the job market remains tight enough that most employers are holding on to workers, rather than laying them off, and are paying them more.

Workers' average hourly earnings rose 4.3% in August from a year earlier, down from 4.4% in July, but well above the prepandemic pace. An increase in hours caused weekly earnings to rise the most since February.
month.

Employers in transportation and warehousing cut staff last month, after trucking company Yellow shut down. Employment in the entertainment industry fell as well, reflecting strike activity. But excluding trucking and motion-picture job losses, payrolls roughly rose by a healthy 240,000, said Stephen Stanley, chief U.S. economist at Santander US Capital Markets.

COOLING LABOR MARKET POINTS TO A SO-CALLED SOFT LANDING

The pandemic-driven hiring frenzy is ending.

Some economists think the labor-market cool-down points to a so-called soft landing, in which inflation falls without the economy entering a recession.

The job market—and overall economy—could still weaken significantly before inflation reaches the Fed's target of 2%. But as hiring cools and inflation eases, chances are rising that the economy might dodge such a severe downturn.

Overall job openings, a reflection of labor demand, peaked at 12 million in March 2022, about double the number of unemployed people looking for work the same month. That gap has since narrowed. Openings in July were much lower at 8.8 million compared with 5.8 million unemployed—showing easing but still elevated demand for labor.

Professional and business-services providers—which include many white-collar jobs in accounting, law and consulting—have sharply reduced job postings. Manufacturers and retailers have also cut back on openings, after seeking workers earlier in the pandemic to meet surging consumer demand for goods such as bikes, furniture and sweatpants.
figures.

Restaurants, hospitals and nursing homes, which struggled to staff up amid pandemic reopenings, have also reported fewer job openings over the past year-and-a-half. More workers started looking for jobs, helping these companies backfill positions they cut at the pandemic's onset.

In another sign of the cooling labor market, job growth in August logged in just above its 2019 prepandemic average, with revisions showing payroll gains below the average the prior two months.

More people are looking for work as pandemic-related disruptions fade and employers dangle bigger paychecks. Americans between 25 and 54 years of age are employed or looking for jobs at historically high rates, helping counter the exodus of older baby boomers from the workforce. Women are driving the charge. The lure of higher pay, adoption of remote work and high inflation are spurring more women to seek jobs after daycare and school disruptions during the pandemic drove many to the sidelines.

More foreign-born workers are jumping into hard-to-fill jobs at restaurants, amusement parks and nursing homes, as pandemic-era immigration restrictions ease.

Labor-force participation among individuals with disabilities also is surging as the tight labor market and flexible work options provide new job opportunities.

Wage growth is cooling as employers face less competition for workers. If more Americans hop into the labor force in the coming months, pay gains could slow further.

Still, earnings growth is running above its prepandemic pace and recently outstripped inflation. That puts more money in workers' pockets, helping fuel spending. But it also threatens to keep inflation elevated.

GOVERNMENT'S RECENT HIRING SPREE

While many companies have been cutting staff and freezing new hires this year, the government is laying out the welcome mat.

Public-sector jobs at the federal, state and local level have risen by 327,000 positions so far in 2023, according to the Bureau of Labor Statistics. That is approaching one-fifth of all new American jobs created in the first eight months of the year. In contrast, public-sector jobs accounted for 5% of employment growth during the equivalent period last year.

Much of the recent hiring spree has been to backfill jobs left open by millions of teachers, police officers and other public servants who quit during the pandemic. Other roles at government agencies languished because the public sector couldn't effectively compete against private employers that were offering pay raises and signing bonuses to attract talent during several years of a white-hot labor market.

But just as layoffs hit sectors from tech to finance, government agencies have boosted funding for new hires and have dangled richer perks. This year's growth in public-sector jobs represents the highest share of overall U.S. payroll gains since 2001, when the government hired masses of workers focused on public safety after the 9/11 terrorist attacks.

U.S. Customs and Border Protection has bulked up its staffing along the border with Mexico, and is offering recruitment bonuses as high as $20,000 for hard-to-fill jobs in some locations. Arizona recently started to give 12 weeks of paid time off to new parents who are employees of the state.

Most public-sector roles go ignored by job seekers. Half of all government jobs attracted an average of 5.5 applicants in the first quarter.

Public-sector workers tend to skew older than the general workforce. That has meant more retirements during the pandemic, on top of the other people who left because of caregiving or health concerns, or for better pay in the private sector.

While private-sector employment is now 3.29% over its prepandemic level, the public sector has struggled to shore up its staffing.

Recent gains in government payrolls could prove fragile if economic headwinds create budget shortfalls, making it harder for governments to fill new positions in the future, economists and human-resources executives said. Some job seekers see potential downsides to government work, as well. In addition to earning salaries that are lower than many in the private sector, government workers can face an advancement process that is slower and more cumbersome.

TEMP WORKER DROP NO LONGER A BAD SIGN

Temporary employment is falling, but that isn't the bad omen it used to be. The number of temp workers in the U.S. has been trending lower since it hit a peak in March 2022, and it has fallen every month since January.

In the past, declines in temp employment signaled broader weakness in the economy and were considered a bellwether of coming recessions. Typically, businesses staff up with temps to test the resilience of economic growth, then drop those workers first when demand begins to slow, portending wider layoffs as the economy softens. In 2001 and 2007, temp staffing began to fall around a year before recession set in.

But the current temp slowdown is taking place in a strong labor market with overall unemployment at 3.5% in July. The decline is a result of changes in both supply and demand, industry executives and economists say. While the drop in temp employment stems in part from business customers reducing orders for traveling nurses, project managers and other roles, it is also being driven by temp workers' ability to find permanent jobs.

Staffing companies had nearly three million workers on their payrolls in July, down 205,000 from March 2022, but still above prepandemic levels. The temp penetration rate—the share of employed people placed by staffing services—generally hovers around 2%, and is currently at 1.92%. In previous recessions, the rate has fallen as low as 1.3%.

Workers and employers are shifting more toward permanent work, at least for now, industry experts said. In a labor market with 1.5 job openings for every unemployed person, workers who want steady jobs with greater security are finding what they are looking for.

Among temporary and contract workers, 43% say they would rather have a standard job, according to a survey of workers' job experiences conducted by Paul Osterman, a labor economist at the Massachusetts Institute of Technology.

Employers use temporary labor because it allows them to scale up or down quickly and lay off workers without going through complex termination procedures, Osterman said. In a weak labor market, they can dictate the terms of employment. But "when the labor market gets tight, if you want to attract people, you have to offer them a standard job" if that is their preference, he said.

FIRING ACTIVITY HAS REMAINED VERY LOW

While hiring activity in the US seems to have cooled, firing activity has remained very low. Despite the Fed's hiking, there just haven't been that many layoffs, as evidenced by the weekly Initial Jobless Claims measure, which has remained near rock bottom levels.

That being said, the tech sector is the one area that saw a lot of prominent job cuts last year and early this year, with all the big companies announcing some sort of downsizing, as their share prices dwindled.

Salesforce indicated that it would be hiring 3,300 people across various departments, including sales and engineering. This is less than the 8,000 jobs that were cut in January. But it's an indication clearly of the turning tide. The company also indicated that it's interesting in bringing back employees who may have decamped for rival companies, showing that the fight for talent in Silicon Valley remains fierce.

Meanwhile, it looks like good times are coming back to Meta (Facebook). Various tech industry perks (which always get cut in downturns) are slowly coming back. T-shirts are being ordered again. There are more happy hours happening. Laundry services and haircuts have also come back.

Obviously tech can be out of step with the broader economy. Again, these companies were cutting back at a time when most employers were holding onto their workers. But on its face, it looks like more evidence that in this macro environment, the fear is being caught short on workers, rather than having too many.

PROPOSAL LETS MORE WORKERS GET OVERTIME

Restaurant managers, store supervisors and millions of other salaried workers would be eligible for time-and-a-half pay if they log more than 40 hours a week, under a rule proposed by the Biden administration.

Workers who make around $55,000 a year or less would be eligible for overtime by default under the plan—extending eligibility to 3.6 million more workers, the Labor Department said. The proposed rule would raise the annual salary threshold from the current $35,568 a year, set at the start of 2020.

The median full-time worker in the U.S. makes around $57,000 a year, according to separate Labor Department data.

The department also said it wants to start automatically raising the overtime salary threshold every three years to reflect current earnings data. That effectively allows the level to be adjusted for inflation, which has been historically elevated in recent years.

Many businesses pay overtime to hourly workers but often exempt managers and other salaried employees from additional pay when they work more than 40 hours a week. The Labor Department sets a salary threshold, below which, in most cases, a worker must be paid time-and-a-half regardless of their role in the firm.

In the first year, the rule will cost employers $1.2 billion to implement, the Labor Department estimates. In addition, the rule will boost wages by $1.2 billion.

The department proposed to automatically adjust the overtime threshold every three years to match the 35th percentile of weekly earnings of full-time, non-hourly workers in the lowest-wage census region, which is currently the South.

Workers earning more than the threshold can be exempt from overtime. Rapid wage growth in recent years could make it easier for some companies to comply. Companies are already raising pay and increasing benefits to compete for workers, especially in lower-wage jobs. Average wages have risen faster than inflation in recent months.

“It may be less important than anyone thinks because one of the things we have seen is the tightening of the labor market,” said Daniel Bachman, an economist at Deloitte.
The $55,000 threshold would be a boost from the current number but less than what some liberals were seeking.

The proposal kicks off a monthslong regulatory process to change the rule, including a 60-day public comment period. The rule could also be challenged in court.

In November 2016, a federal judge blocked the Obama administration from raising the overtime threshold to $47,476 a year, after states and businesses challenged it. That plan would have made even more workers eligible at the time than the Biden proposal because median wages were lower then. The Trump administration then raised the level to its current rate, the first increase since 2004.

Expanding the number of workers eligible for overtime, and requiring them to punch a clock or otherwise track hours, is inconsistent with the modern work environment, where many employees want flexible schedules and remote work, some businesses say.

SOURCES

Wall Street Journal; Bloomberg; Houston Chronicle