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eNEWSLETTER | NOVEMBER 2023

HIRING SLOWDOWN SIGNALS A COOLING ECONOMY

Job growth slowed sharply last month, a sign the U.S. economy is cooling this fall after a torrid summer.

Employers added 150,000 jobs in October, half the prior month's gain and the smallest monthly increase since June, the Labor Department said. The unemployment rate rose to 3.9%, up a half-point since April, and wage growth slowed.

If sustained, a hiring pullback is likely to bring the Federal Reserve's historic interest-rate increases to an end by providing stronger evidence that higher borrowing costs have slowed the economy. The report could also mollify concerns that brisk consumer spending this summer would lead hiring or wages to reaccelerate.

The report suggests a downshift in the labor market that outperformed expectations most of this year. Now employers are pulling back in light of high interest rates, persistent inflation and wars in Europe and the Middle East.

Moreover, just three sectors—healthcare, government and leisure and hospitality—accounted for nearly all the job gains, leaving the rest of the overall economy with no net job growth. This contrasts with the more broad-based hiring seen earlier this year.

Automakers had around 33,000 fewer workers on payroll because of the United Auto Workers strike, the department said. Transportation and warehousing industries lost 12,000 and information industries, which include striking film and television actors, lost 9,000.

Job gains in August and September were revised down by 101,000.

Manufacturing activity contracted in October, snapping three months of expansion, according to the Institute for Supply Management. Services providers' activity grew more slowly. The number of people seeking continuing unemployment benefits rose last month to the highest level since mid-April, a sign it takes longer to find a new job.

Even before the weaker-than-anticipated report, Fed Chair Jerome Powell suggested a slowdown in wage growth meant the labor market might not be as hot as prior hiring figures had suggested.

The unemployment rate rose last month above the 3.8% level that Fed officials in September had projected for the end of the year. That means the Fed can focus on when to cut rates next year rather than on whether to raise them, said Neil Dutta, an economist at the research firm Renaissance Macro.

Job growth appeared to slow in early summer, only to reaccelerate. The Labor Department also significantly revised initial employment reports in recent months, muddying the job market picture.

The job market could lose further momentum in 2024. The number of new hires and the number of people who voluntarily quit their jobs have declined since early last year. The number of layoffs has held steady, according to the Labor Department.

That suggests the labor market is starting to freeze up, with less turnover, as uncertainty about the future prompts employers and workers to decide now isn't the time to make big changes. Employers say hiring is easier now than in 2021 or 2022, when persistent fear of Covid-19 kept workers at home while a rebound in consumer spending made many businesses desperate for workers.

THE IMPROBABLY STRONG ECONOMY

The economy is still generating jobs. A year ago, a lot of economists and Federal Reserve policy makers thought that it would be shedding them by now.

The Labor Department reported that the U.S. added a seasonally-adjusted 150,000 jobs in October from the previous month, versus September's gain of 297,000 jobs. Some of that step down was due to auto workers' strikes, which have since been resolved but temporarily caused workers to not draw paychecks.

Average hourly earnings rose 0.2% from a month earlier, putting them 4.1% higher than a year earlier. That was the smallest year-over-year gain since June 2021.

One takeaway is that the job market is moderating, but not buckling—a message reinforced by a variety of other data, including low levels of weekly unemployment claims and layoffs. Another is that the Federal Reserve is probably through with tightening.

This wasn't the sort of job market the Fed expected. When policy makers offered projections last December, they forecast that the unemployment rate would average 4.6% in this year's fourth quarter, versus the 3.7% rate (since revised to 3.6%) they had seen in the November 2022 job

report. Such a large increase in the unemployment rate would count as a strong signal the U.S. is in a downturn. The report showed the October unemployment rate at 3.9%.

Inflation has cooled despite the addition of 2.4 million jobs so far this year, and gross domestic product is expanding much faster than economists expected. Plus, at least so far this year, the economy has made it through a regional bank crisis, a sharp increase in both short- and long-term borrowing costs, and the resumption of student-debt payments.

The jury is out on what happens next. The cooling in the job market could turn into a lurch lower, for example, as the full effect of the Fed's past rate increases begins to take hold. Inflation, which is still too high, could accelerate, prompting the central bank to further tighten the screws. But the chances of the economy avoiding a recession seem stronger now than they did even a few months ago. A lot of that would be down to luck, but it would nonetheless be something worth celebrating.

BOSSES' NEW PROBLEM: EMPLOYEES WON'T QUIT

The white-collar labor market is softening to a point that companies are encountering an issue that would have been unthinkable in the era known as the Great Resignation.

These days, too few people are voluntarily leaving their jobs.

Turnover has declined so steeply at some large employers that companies now find themselves over budget on certain teams, requiring leaders to weigh whether to postpone projects or to cut additional staff as the end of year approaches. Other bosses worry about how to keep star employees engaged when there are far fewer vacant positions internally, making it harder to move people into new roles.

Companies such as Bank of America and drugmaker Ferring Pharmaceuticals said they have seen fewer employees leave their jobs this year. In some cases, executives said, turnover is returning to prepandemic levels following years of upheaval in the labor market.
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The decline in quitting would seem a welcome development for bosses who spent years bemoaning high levels of job-hopping and rapidly rising salaries. But some executives said they have been caught by surprise at how quickly the labor-market dynamics flipped, posing new challenges.

Hiring slowed sharply in October, with U.S. employers adding half as many jobs as they did in September, according to the Labor Department. The unemployment rate rose to 3.9% from 3.8%, but is still hovering near historic lows.

Morgan Stanley had layoffs in recent months in part because of low attrition within the 80,000-person Wall Street firm, CEO James Gorman said on a call with investors in mid-October.

Wells Fargo's Chief Financial Officer Mike Santomassimo told investors this summer that attrition has been slower than expected at the company and that the bank planned to record higher severance expenses to reduce its head count. He reiterated the message in mid-October,

telling investors that the company believed it still had more jobs to cut, as attrition has remained low, which will likely result in additional severance costs next year.

Nationally, what is called the quits rate—the number of resignations as a share of total employment—remained at 2.3% in September for the third month in a row, down from a 3% peak in April 2022, the Labor Department said. The level of quitting hit a record during the pandemic, as Covid-19 lockdowns eased and workers sought out better pay or working conditions, leading to a phenomenon that became widely known as the Great Resignation. In surveys of workers, many show a newfound commitment to their current employers. This year, 73% of workers said they planned to stay at their jobs, up from 61% last year, according to a survey released in October.

Some movement among employees at a company is healthy and necessary, said Purvi Tailor, U.S. vice president of human resources at Ferring Pharmaceuticals. Turnover creates promotion opportunities for high-performing employees and allows employers to bring in new staffers with fresh perspectives or in-demand skills.

If bosses want to get rid of employees, they can generally fire them, but layoffs can harm morale. In periods of low turnover, veteran HR leaders said they typically follow a different playbook before resorting to broader job cuts. When too few employees leave, companies will often get tougher in performance appraisals, pushing employees to quit. Cash can be another alternative. During periods of low attrition, companies tend to offer incentives, such as buyouts, to motivate employees to leave.

At Bank of America, the company told investors in January that it planned to cut its head count this year through slower hiring and attrition. But that task became more challenging, executives said, as fewer employees left the bank.

Morgan Stanley's Gorman told investors that he saw the lack of turnover as a reflection of the firm's culture and its stability. "I guess we should feel flattered," he said, before quickly adding: "The broader message is attrition has been remarkably low, and that's something that we've just got to work through." After almost 14 years as CEO, Gorman is doing his part to bump up attrition within the bank: He will step down from the top job in the coming months.

WHAT WAVE OF CONSOLIDATION MEANS FOR HOUSTON

Recent megadeals struck by Chevron and Exxon Mobil have put pressure on others in the oil industry to catch the consolidation wave, potentially kicking off a groundswell of mergers and acquisitions that could have a profound impact on employment in Texas.

It's happened before. The state has been a dominant player in the oil industry for more than a century, exposing its workforce to many ups and downs over the past 100-plus years as the industry cycles through booms and busts.

As in consolidation waves gone by, the latest mergers and acquisitions carry the promise of some job cuts in the short-term as companies look for redundancies but the possibility of long-term gains as the deals play a role in the transition to low-carbon sectors such as hydrogen and carbon capture, industry analysts and economists said.

"There are always some job losses associated with consolidation, and you hope they're at a minimum," said Patrick Jankowski, senior vice president of research at the Greater Houston Partnership, which markets the city as the energy capital of the world. "It's something we should be concerned about, but if you look on the whole for the region it's a positive."

The oil and gas industry directly employs 443,000 people in Texas, according to the Texas Oil and Gas Association. That number includes jobs in oil field exploration, production and services as well as pipeline work, equipment manufacturing, metal fabrication, engineering and work inside the region's chemical plants and refineries. And, the trade group says, each direct job creates more than two other jobs in the state.

Exxon merged with Mobil in 1999, and Jankowski said he sees the latest round of consolidation as a continuation of that trend that began as the oil industry adjusted in response to market challenges in the 1990s, drawing talent from elsewhere and concentrating control over the nation's oil industry here, the nation's energy capital.

The latest megadeals are likely to lead to even more oil industry consolidation in Texas, giving the state even more keys to the kingdom, Jankowski said.

"Whenever a Houston company acquires a company based in Dallas, that's a good thing," he said, nodding to Exxon's acquisition of Irving-based Pioneer Natural Resources. "And I hope we see more of that."

The nation's third-largest oil company, Houston-based ConocoPhillips, is likely next in line to make a deal on the heels of the two announced last month. In the most recent, Chevron is acquiring Hess Corp. for $53 billion. That deal was announced less than two weeks after Exxon Mobil said it would acquire Pioneer for about $60 billion.

As big oil companies wrestle for access to high quality "tier 1" shale rock in the Permian Basin of West Texas and New Mexico, Midland-based Diamondback Energy and Permian Resources have emerged as potential acquisition targets.

"What happens if somebody buys Diamondback tomorrow? Now all of a sudden your ability to do meaningful transactions goes down," said Dan Pickering, chief investment officer for Pickering Energy Partners. "Tier 1 inventory is dwindling and sellers of tier 1 inventory are also dwindling, so if you wait too long, you don't go to the prom."

While there could be nominal employment gains in Texas as mergers continue, the job gains aren't likely to be as great as they were in the 1990s, when a massive reshuffling led more companies to Houston because of its concentration of geoscientists, geophysicists and petroleum engineers, said Bill Gilmer, director of University of Houston's Bauer Institute for Regional Forecasting.

Mergers and acquisitions during the 1990s resulted in big employment jumps for Houston — and Texas — as its companies pillaged workers from Tulsa, Okla., New Orleans and Baton Rouge, La., he said. Now, the industry is so Houston- and Texas-centric that there is not much to gain.

Consolidation is instead likely to be a mixed bag for Texas. Chevron's acquisition of Hess could lead to some areas of overlap between the companies' oil production in the Gulf of Mexico, for example, which could shed some Houston jobs, said Ken Medlock, director of the Center for Energy Studies at Rice University's Baker Institute for Public Policy. Some jobs could be lost as a result of Exxon's acquisition of Pioneer to the extent that there are duplicated efforts in the Permian.

Still, Exxon and Chevron wouldn't make these deals without an expected payoff, which would also boost the region as they build their more climate-friendly businesses in Texas and hire local talent.

Both companies have a stake in the federally backed Houston hydrogen hub announced late last month. The hub would produce hydrogen both from natural gas, using carbon capture to mitigate emissions, as well as hydrogen made through renewables-powered electrolysis. It is expected to create 10,000 permanent jobs and 35,000 construction jobs over the next decade, the Department of Energy said. Construction on Gulf Coast projects could begin within three or four years.

The development of hydrogen as a fuel source is seen as a pathway for Houston and the rest of Texas to maintain its foothold on global energy, even as the world shifts away from fossil fuels and toward cleaner options.

"That's not to say traditional energy is going away tomorrow," said Brett Perlman, CEO of the Center for Houston's Future, "this would just create additional opportunities for us to continue to grow our economy."

Chevron's acquisition also puts it front and center offshore Guyana alongside Exxon. The South American oil region has been among the world's most successful areas since its discovery in 2015, Medlock said, and expertise associated with Guyana is here in Texas.

"It's going to be interesting to see what those two balance sheets combined bring to the activity down there," he said. "Given those companies are fielding all of that activity from Houston, there's going to be some implications here as well."

WORKERS SEE GROWTH IN PAID TIME OFF

Americans are increasingly getting paid for not doing work. Growth in paid-time off—including family leave, sick leave and vacation—is widening the gap between the number of hours for which workers get paid and the number of hours they are actually on the job. Employers have expanded paid benefits to retain and attract workers in a hot job market. Employees, meanwhile, are using the new benefits as they juggle work, family and health.

Americans broadly receive less paid leave and work more hours than their peers in other developed countries. As of this spring, employers offered 80% of workers paid sick leave, up from 67% a decade ago, according to Labor Department data. Paid vacation expanded to 77% of the workforce from 74%. And paid family leave, with the most dramatic jump, increased to 27% from 12%.

During the same period, the unemployment rate dropped to a half-century low of 3.4% from above 7% a decade ago. As of August, there also were about 3.3 million more job openings than jobless people seeking work, according to Labor Department data.

As a result, the paid workweek held steady at 34.5 hours over much of the past decade—except for a spike when businesses raced to gear up as Covid-19 started to fade. The number of hours worked dropped to 32.9 a week in the first half of this year from 33.5 a week a decade

ago, according to research from Federal Reserve Bank of Atlanta. The rise in paid time off as a part of employee compensation is responsible for the growing gap, the economists concluded.

Fewer hours on the job might also reflect changing attitudes toward work, especially in the aftermath of the pandemic. And this appears to be continuing despite cooler job growth this year compared with the prior two years. What was once a perk might have become more broadly ingrained in the labor market as an expected benefit.

EMPLOYERS' HEALTH-PLAN COSTS TO SWELL

Health insurance costs are climbing at the steepest rate in years, with some projecting the biggest increase in more than a decade will wallop businesses and their workers in 2024. Costs for employer coverage are expected to surge around 6.5% for 2024, according to major benefits consulting firms Mercer and Willis Towers Watson.

Such a boost could add significantly to the price tag for employer plans that already average more than $14,600 a year per employee, driving up health-insurance costs that are among the biggest expenses for many American companies and a drain on families' finances.

Employers worry the hike might signal a new trajectory, with health costs resuming the rapid upward march of the early 2000s. Now, though, big increases would come on top of a total annual cost per covered family that is often equivalent to the purchase price of a small car. These increases come at a time when employers are reluctant to add to out-of-pocket charges that have left some of their workers in debt or unable to get care they needed.

For people who have individual insurance plans sold under the Affordable Care Act, premiums are also expected to rise by about 6% next year, according to public insurance filings analyzed by health-research nonprofit KFF, though that increase is comparable to this year's.

Among the factors leading to the faster health-insurance cost growth are hospitals' higher labor costs and heavy demand for new and expensive diabetes and obesity drugs. The employer-plan increases are expected to strike businesses of all sizes, and regardless of whether they rely on an insurer to handle their health coverage or are self-insured.

Many workers will learn about their workplace coverage options for 2024 in the next few months, during the annual fall open-enrollment period. They will likely end up paying more out of their paychecks for it as the overall expense goes up and some employers lift out-of-pocket costs to help offset the increases.

Yet many employers are expected to take on the lion's share of the increase, partly due to a labor market that remains tight in many sectors, benefits consultants said.

For several years, health-coverage costs nationally increased relatively slowly, partly because the pandemic chilled doctor and hospital visits. Yet hospitals have had to hike wages for nurses and pay more for other expenses.

To cover their own rising costs, hospital systems have been winning price increases from insurers. Benefits managers expected that would eventually raise costs for employers that pay for health coverage, since hospital care is a major source of healthcare spending.

The domino effect was slowed because insurers' contracts with hospital systems usually aren't renegotiated annually. It began hitting some insurance rates this year, and is likely to accelerate in 2024 for many employers.

The survey of more than 450 employers by WTW, performed in June and July, found they expect health coverage costs to rise by an average of 6.4% next year, not including the effect of plan design tweaks. That would be the steepest increase in that measure since 2012, WTW projects. Also contributing to the health-coverage cost increases is rising drug spending, particularly for the increasingly popular weight-loss and diabetes drug class that includes Ozempic and its sister Wegovy, as well as competitor Mounjaro. Many employers don't cover medications for weight loss, and those that do are taking steps to limit access. Aon projects employer plan costs will rise by 8.5% next year, the biggest jump in more than a decade.

Mercer's survey, which included about 1,700 employers when preliminary results were analyzed in August, suggested healthcare costs will increase 6.6% in 2024 without factoring in plan design changes such as increasing workers' out-of-pocket charges.

In the individual insurance market, where consumers, often helped by federal subsidies, buy their own ACA plans, increases for 2024 are also expected to be similar to 2023, but steeper than prior years, according to KFF's analysis of insurer filings. KFF found insurers are seeking a 6% median increase for individual ACA plans in 2024 compared with the 7% they got in 2023. In justifying their requests for higher rates, insurers are citing the effects of inflation flowing through the healthcare sector, said Cynthia Cox, a vice president at KFF.

SOURCES

Wall Street Journal; Houston Chronicle