Hiring Source

eNEWSLETTER | DECEMBER 2023

REGIONAL ECONOMY SHOWS SIGN OF SLOWING

The Houston economy is slowing, the Greater Houston Partnership said December 7th, but most sectors should see continued growth in 2024 and the region can expect to add 57,600 jobs over the course of the year.

"We have just been running at an all-out, incredible pace of growth," Patrick Jankowski, longtime chief economist and senior vice president for research at Greater Houston Partnership, said of his outlook for the coming year at an annual luncheon. "We are definitely slowing down, but we're slowing down from a pace we could not sustain."

Between May 2020 and October 2023, Jankowski said, the region has added 557,000 jobs, significantly in excess of the 360,000 jobs lost during the COVID-19 pandemic and surpassing the relatively pessimistic expectations prevalent at the beginning of the year. Jankowski had himself offered a contrarian perspective a year ago, giving a sanguine forecast for 2023. "The economy's actually in much better shape than people realize," he said at the time.

This year, he posted that Houston's economic situation could be explained by Newton's Third Law of Motion, which says that for every action there is an equal and opposite reaction. After the pandemic forced Houstonians into isolation, watching Netflix and baking bread, consumers stormed back into the marketplace in mid-2020, fueled by cabin fever and a "sugar rush" in the form of $6.4 trillion in federal stimulus spending.

"When we finally reopened, when we finally got our feet underneath ourselves, we really took off," Jankowski said. "We were Usain Bolt — very fast over a very short distance."

Going forward, the expectation is that the Houston economy will be more analogous to celebrated marathon runner Eliud Kipchoge. As 2023 draws to a close, activity is calming.

Jankowski noted that the Houston region added 53,7000 jobs in 2023 through October, compared to the 122,800 jobs added in same period the year earlier.

The slowdown in job growth comes as the number of single-family homes sold in the region dropped from about 83,000 in the first 10 months of last year to about 72,000 in that period this year. The Houston Purchasing Managers Index, tracked by the Institute for Supply Management, has recently ticked down to 49.9, with 50 serving as the dividing line between expansion and contraction.

Jankowski is nevertheless expecting "sustainable" growth in 2024, though he cautioned that if the U.S. economy enters a recession, Houston would likely follow.

Ongoing labor shortages, along with higher interest rates and a tight lending environment, are likely to constrain growth in the region and across the nation, and the GHP's forecast projects job losses in the construction, real estate and finance and insurance sectors, all of which are particularly affected by those factors.

The region's other sectors are poised for continued growth, however, with energy forecast to add 3,000 jobs in 2024, manufacturing to add 6,300 and health care to add about 10,000. The net forecasted gain of 57,600 jobs would bring the Houston region to total employment of 3.4 million by the end of 2024, a new record for the region.

HIRING TRENDS LOWER, STAYS STRONG

A gradual cooling of the still-solid labor market extended into November, renewing optimism the economy is still on a glide path for a soft landing.

Employers added a seasonally adjusted 199,000 jobs last month, the Labor Department reported December 8th, slower than earlier in the year but consistent with gains before the pandemic. When excluding the effects of auto worker strikes in recent months, November's job gain was roughly 169,000, slightly cooler than 180,000 in October. Most recent hiring occurred in two big sectors: healthcare and the government.

Other data in the report showed the labor market remains strong. The unemployment rate fell to 3.7%. It had climbed to 3.9% in October from 3.4% in April, fanning fears on Wall Street of a more rapid slowdown ahead. Often, a rise in the unemployment rate of that magnitude has coincided with the start of a recession.

A half-million more Americans entered the labor force in November and many who were looking found jobs, according to a survey of households. On a monthly basis, wage growth picked up in November. Average hourly earnings advanced 4% from a year earlier, a good raise for workers but a figure consistent with a continuing slowdown in inflation.

The jobs report keeps the Federal Reserve on pace to hold rates steady at next week's meeting and challenges the view that the central bank will quickly shift toward cutting rates next year. Low unemployment, moderating job gains and easing inflation are consistent with a so-called soft landing, where inflation cools without a recession.

The data likely reinforces Fed Chair Jerome Powell's latest guidance that the central bank can hold its policy rate steady for now as it judges how an aggressive series of rate increases over the past two years will slow economic activity and inflation in the months ahead.
The report could temper enthusiasm by bond market investors that the central bank will cut interest rates as soon as March. For that to happen, the economy would likely need to show signs that hiring, spending and investment are slowing sharply, something that isn't evident in recent economic data.

On Dec. 1, Powell offered the strongest signal yet that officials are likely done raising rates, but his comments were laced with caution. He said it was too soon to confidently conclude that the Fed was done increasing rates or to speculate about rate cuts.

Recent labor market trends indicate "progress toward the soft landing," said Stephen Juneau, U.S. economist at Bank of America. "But also things are pointing toward a labor market that's getting into better and better balance over time," meaning the number of available workers is growing while employers' hiring needs are easing, lessening labor shortages and wage pressures.

A robust pace of job gains and wage growth earlier in the year helped propel consumer spending, prompting strong economic growth over the summer. Labor shortages gave workers strong leverage and prompted employers to raise wages and perks to try to fill a high number of job vacancies.

More recently, job openings are falling, and workers are quitting their jobs less. Hourly wage growth, while still outpacing inflation, has cooled from early in the year, when it rose as much as 4.7% annually.

Walmart, the nation's largest private employer, has cut starting pay for some new hires. The music-streaming company Spotify said earlier this week that it is preparing to lay off 17% of its workforce.

Many economists expect cooler wage gains, along with other softening labor market conditions, to weigh on consumers and economic output in 2024. They have reduced their forecasts for a recession, however. Economists surveyed by The Wall Street Journal in October saw a 48% probability of a recession within the next year, the first time they put the number below 50% since mid-2022.

Higher interest rates are "going to free up labor across the board and help kind of satisfy some of the demand that we've been seeing here," he said, noting the company has needed skilled workers, such as carpenters.

Americans who are still looking for jobs now might find them in healthcare or government. Those sectors have seen a strong pace of hiring recently, accounting for nearly two-thirds of job gains in November. Healthcare, in particular, could continue to be a bright spot for years to come because of an aging U.S. population and the lingering effects of the Covid-19 pandemic. Hiring in the transportation and warehousing industry was essentially flat last month, while retailers shed jobs. Some businesses have reported needing fewer workers for holiday jobs this year.

Leisure and hospitality employers added roughly 40,000 jobs in November, mainly driven by restaurants and bars, according to the Labor Department. Employment in that industry, which was hard hit by the pandemic, is close to returning to its level in February 2020.

SMALLEST EMPLOYERS TAKE THE LEAD ON HIRING

America’s tiniest employers have the highest share of job openings on record—more than one in five available positions—a sign the labor market might be tilting toward the little guy.

Solid demand for workers from small establishments, such as mom-and-pop businesses and many franchise locations, stands in contrast to a cooling labor market more broadly. It could give smaller businesses a chance to catch up on hiring with less competition from larger companies on pay and benefits, and offer refuge for job seekers as the unemployment rate creeps higher.

Establishments with one to nine employees accounted for 21% of all job openings in September, the highest share on records dating back to 2000, according to an analysis of Labor Department data.

Openings at the country’s smallest private establishments rose nearly 20% in September from a year earlier, while falling for larger companies over the same period.

The proliferation of remote employment and other changes to the way Americans work in recent years are allowing more small businesses to form and, in some cases, to source workers from locations across the country.

Applications for employer identification numbers—one of the first steps in launching a new business—from the type of entrepreneurs who tend to employ other workers reached nearly 1.5 million in 2023 through October, a 7.5% increase over the same period last year. That is the most since records began in 2005, with the exception of 2021.

Some 61% of small-business owners reported hiring or trying to hire in October, according to a National Federation of Independent Business survey, and 17% planned to create new jobs in the next three months, a level that has remained mostly steady throughout 2023.

While hiring demand is holding up at the smallest businesses, overall wage growth is easing. That pullback is a sign of a cool-down in a once red-hot labor market and could benefit smaller businesses that have struggled to compete with larger companies.

Economists expect consumer spending, which has helped boost the economy this year, to slow as the broader labor market eases and Americans spend down savings they accumulated during the pandemic. Forecasters don’t expect the summer’s blockbuster economic growth to continue into the end of 2023 and 2024.

FEWER FIRMS OFFERING SEVERANCE BENEFITS

Some workplace trends that became more popular during the pandemic have endured, like remote work. More generous severance benefits are not among them.

Just 42% of global employers offered severance to all laid-off employees this year, down from 64% that did so in 2021.

The current figure is also below the 44% of firms that extended severance back in 2019. US employers were the least likely to offer severance for all employees, with just one in four doing so. In the UK and Germany, about half of firms did so.

It's not a trivial matter, as more than 90% of the 430 firms surveyed said they plan some sort of workforce reduction in the next 12 months.

The findings come as companies from Wall Street to Silicon Valley continue to jettison workers. Citigroup Inc. is eliminating several layers of management and has already recorded severance charges of about $650 million tied to cutting about 7,000 positions this year, Chief Financial Officer Mark Mason said earlier this month.

Battles over separation benefits have also flared up after employees depart. X Corp., the company formerly known as Twitter, has been accused of failing to pay severance to thousands of workers fired late last year after Elon Musk's acquisition of the social media platform.

In the US, 37% offered a payout of three to four months' salary, the survey found, while the UK and Germany were more likely to offer as many as six months' pay.

Severance can vary widely depending on the organization and the employee's position, but is most often calculated by providing a certain number of weeks' pay for each year of service, along with continued health-care benefits. Payments are made in a lump sum or via a continuation on the payroll.

More than half of companies surveyed said they've made changes to their severance packages in the past three years, and a third of those that hadn't made changes said they're currently tinkering with their plans.

The most common tweak is offering so-called redeployment programs, where employees whose role is at risk of elimination have the opportunity to find an alternate position inside the organization.

Four in 10 respondents said they anticipate offering redeployment options over the next year. That won't help those who get laid off and aren't eligible for severance.

SOURCES

Wall Street Journal; Houston Chronicle