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HOUSTON JOB GROWTH SLOWING TO MORE SUSTAINABLE PACE

The Houston region added 13,300 jobs in November, according to a monthly report from Workforce Solutions, bringing total employment in the region to just over 3.4 million in the closing months of the year.

While the figure is "a bit light" compared with some of the staggering monthly jobs gains the region has seen in recent post-pandemic years, it's generally consistent with the gains Houston can expect in a typical November, said Parker Harvey, manager of regional economic analysis for Workforce Solutions.

"Our second-to-last jobs report of 2023 was a 'steady-as-she-goes' kind of month," he added. In November 2022, by contrast, the region added 14,500 jobs; in November 2021, a staggering 33,100.

As is often the case given seasonal hiring patterns, the trade, transportation and utilities sectors led the gains in November 2023, adding 7,900 jobs. Government added 4,300 jobs and professional and business services added 2,200.

Some sectors saw modest losses. Manufacturing shed 1,000 jobs in November; mining and logging dropped 400.

The November figures follow several months in which the job market demonstrated resilience in the face of a series of interest-rate hikes from the Federal Reserve and gloomy prognostications, as 2023 began, about the prospect of a slowdown or even recession across the United States.

As 2024 begins, economists are expressing more optimism about the U.S. economy, and economists focused on Houston have argued that the region is looking at a more typical — and sustainable — pace of job growth after bounding gains since the economy reopened after COVID-19 pandemic shutdowns.

The Greater Houston Partnership, for example, forecasts that most sectors should see continued growth in 2024 and the region can expect to add 57,600 jobs over the next 12 months. "We have just been running at an all-out, incredible pace of growth," said Patrick Jankowski, GHP's chief economist and senior vice president for research, in December. "We are definitely slowing down, but we're slowing down from a pace we could not sustain."

JOB GAINS NATIONWIDE PICKED UP IN DECEMBER

Employers hired at a solid pace in December, capping a year of steady gains for a job market that continues to defy expectations and remains a bright spot in a gradually cooling economy.

The U.S. economy added 216,000 jobs last month with most industries increasing employment, the Labor Department reported. That was larger than November's gain of 173,000, and better than forecasters were expecting. For all of 2023, employers added 2.7 million jobs, a slowdown from 4.8 million in 2022, but a better gain than in the several years preceding the pandemic.

Wages rose a healthy 4.1% last month from a year earlier and the unemployment rate in December held at 3.7%. The jobless rate began 2023 at 3.4%, matching lows not seen since the late 1960s, and remains low despite inching higher late last year.

As many companies pull back on hiring, others see a chance to snap up workers who might have once been tougher to recruit.

At the start of 2023, the job market and broader economy were widely expected to slow substantially, the anticipated result of the Fed's aggressive interest-rate-hiking campaign. Instead, strong consumer spending and an increase in available workers helped underpin the economy this past year, allowing hiring to chug along as labor shortages receded. There are signs of cooling.

Employers added a combined 71,000 fewer jobs in October and November than previously estimated. Other data showed open positions fell at the end of 2023 compared with the start, and workers are quitting their jobs at a lower rate than before the pandemic began.

Yet, unemployment and layoffs remain low and vacancies are higher than 2019 levels, suggesting demand for workers is still solid.

U.S. employers have long since replaced all the jobs lost early in the pandemic. Still, the employment level late in 2023 was below the trend if hiring had continued at the same pace as the decade before the pandemic began.

Hiring last year was concentrated in a handful of industries: Gains in the leisure and hospitality, government and healthcare sectors together accounted for the bulk of job creation in 2023, according to Labor Department data. That is another signal the labor market is losing some steam, said Nancy Vanden Houten, U.S. lead economist at Oxford Economics.

Healthcare hiring continues to be boosted in part by structural forces, such as the aging of the U.S. population. Employers in the public sector and the leisure and hospitality industry continue to play catch-up from disruptions during the pandemic. Employment in leisure and hospitality, such as at restaurants and hotels, rose in December and is close to its level in early 2020.

Transportation and warehousing employers cut jobs in each of the last three months, and industry employment overall fell in 2023. Hiring in manufacturing was essentially flat last month and for the year. Retailers added jobs last month, as shoppers crowded stores for last-minute holiday purchases.

Forecasters expect a continued cooling in wage growth and a drawdown of pandemic-era savings to cause consumers to pull back on spending in 2024. That, in turn, could slow the labor market and economic growth overall. Fed policymakers, for example, expect the jobless rate to rise to 4.1% by the fourth quarter and the economy to grow at a slower rate this year compared with the year before.

Many economists have lowered their estimates of the probability the economy will see a recession, however, given the resilience in the labor market and among consumers.

The job market's cool-down last year was driven in part by a jump in the number of available workers, as immigration levels rebounded and more Americans age 25 to 54 came off the sidelines. That helped reduce labor shortages and ease what had been red-hot demand for workers.

The report showed more than half a million fewer Americans were working or looking for work in December compared with November. The labor force lost an average of 149,000 people in the last three months of 2023.

WHERE THE JOB MARKET IS HEADING IN 2024

Employers slowed hiring and handed out smaller raises in recent months, signs of fading momentum in the job market that have some forecasters expecting unemployment to rise in 2024.

And that might be OK. The key for American workers and Federal Reserve policymakers is to have the labor market cool without collapsing. That would support household incomes while helping inflation drift lower, putting the economy on a glide path to a soft landing—as long as the slowdown isn't too severe.

Here is where the labor market is heading in the new year. The U.S. labor market was a pillar of economic strength in 2023, with solid hiring and rising wages helping households navigate high inflation and an otherwise bleak view of the economy. It was also too hot for the Fed. Officials at the central bank worried that high demand for goods and services alongside a constrained supply of workers would push wages up too fast, fueling inflation.

Several factors combined to cool it off—to the point that economists expect hiring to slow considerably in 2024.

The Fed's campaign of interest-rate hikes made it more expensive to borrow money, slowing some economic activity. Many industries that had struggled to find workers surpassed prepandemic employment levels, making hiring less urgent. People came off the sidelines and immigration picked up, adding to the pool of available workers.

By the end of 2023, workers had stopped job hopping as much, while employers hired less but kept layoffs low. The result was a less-frenzied labor market.

Job growth also became more concentrated in a handful of industries: healthcare and social assistance, leisure and hospitality, as well as state and local government. Outside those sectors, hiring slowed sharply and in some areas contracted.

The less dynamic labor market helped put a brake on rapid wage growth—a key consideration for the Fed. Average hourly earnings across the private sector rose at an almost 6% annual pace early in 2022 but cooled to 4% near the end of 2023. In sectors with the greatest competition for workers, such as restaurants, wage gains also eased substantially.

Wage pressures could still prove too hot for the Fed. Current pay gains still aren't consistent with the central bank's 2% inflation target, said Chris Varvares, co-head of U.S. economics at S&P Global Market Intelligence. That means job growth will have to slow further to bring the labor market into better balance.

Another warning sign for the labor market: Temporary hiring has been on a downward slope for more than a year. Temps are considered a bellwether for the labor market. They are often the first hired as businesses start staffing up and the first dismissed when the economy sours.

"There's a clear trend toward cooling," said Andy Challenger, senior vice president at outplacement firm Challenger, Gray & Christmas. "We expect elevated layoffs into the first quarter and after that it could level off or get worse."

Still, there are reasons for optimism. The labor market has cooled, but as of November, it was still producing jobs at a faster pace than it was just before the pandemic. Consumer spending has proven resilient, propelling demand for an array of goods and services—and the people who produce them. And companies, broadly, have been reluctant to lay off workers after they so recently struggled to find and keep them.

"Unemployment is unlikely to increase dramatically as companies shy away from firing workers," Ellen Zentner, chief U.S. economist at Morgan Stanley , said in a research note. "Labor shortages and the high turnover costs over the past several years mean firms are hesitant to let their workers go even as economic growth slows."

COMPANIES ARE STILL CUTTING WHITE-COLLAR JOBS

After a year of right-sizing, employers are looking in the mirror and concluding there is still fat to lose. Companies including Amazon, Citigroup, Xerox, Google and BlackRock this month have announced plans to trim their workforces.

Some of the companies now cutting jobs conducted larger-scale layoffs over the past year or so. Since then, inflation has come down along with expectations for a recession, which most economists anticipated as recently as the middle of last year.

In messages announcing the layoffs, many executives stressed the need for companies to be smaller. Citigroup said it plans to cut 20,000 jobs from its workforce by the end of 2026 as the bank continues a multiyear restructuring.

Executives and analysts say that beyond the budget-tightening that often happens at the beginning of the calendar year, there is a growing sense that the work of slimming down isn't over. The emergence of artificial intelligence is accelerating that push because AI can perform more of the tasks handled by white-collar workers and because companies are diverting

resources to develop the technology. Corporate roles are also being newly scrutinized following massive hiring sprees earlier in the pandemic.

By several measures, the labor market is strong. The U.S. economy is still producing jobs at a faster pace than it was just before the pandemic, and unemployment is low. Many companies also are reluctant to get rid of workers after struggling so long to find and keep them. Still, the climate for job seekers is cooling. The Federal Reserve's campaign of interest-rate increases raised borrowing costs, prompting businesses to scale back expansion plans. The household savings that powered consumer spending in recent years have dwindled, pulling more people off the sidelines and into the job hunt. Employers have slowed hiring and handed out smaller raises. The job-hopping that reached a frenzied pace early in the pandemic has quieted.

Companies kicked off the new year with a string of layoff announcements.

- Xerox Holdings said it would reduce its workforce by 15%. The printer maker had 20,500 employees at the end of 2022, a reduction of about 12% compared with the previous year, according to regulatory filings.
- Google laid off hundreds of employees across multiple divisions on January 10th as it works to reduce costs and direct resources toward developments in AI.
- EY made the decision to lay off more than 100 partners across the United States. The layoffs are focused on the U.S. consulting and strategy side of the firm, and they come after the company announced it would cut 3,000 workers in April.
- KPMG said in June it would shed 5% of its U.S. workforce (including advisory, tax, and back office people) after a 2% cut of advisory personnel earlier in 2023.
- Deloitte cut 1.5% of its U.S. staff.
- McKinsey, consulting giant, recently shrank its new partner class by about 35%.
- Iconic toy maker Hasbro Inc. said it would cut 900 jobs globally.
- Music-streaming service Spotify Technology SA announced a 17% cut to its staff.

Among the roles being targeted are those in human resources—if employers plan to do less hiring in 2024—as well as some in underperforming divisions at each company seen as less relevant to the future. Many employers, particularly in tech, went on hiring sprees in 2021 and 2022 and are now concluding that their organizations remain bloated.

Others hinted at new technologies on the horizon, poised to reshape companies. Some industries, including tech, have had an employment slowdown for months. Many companies are also finding it harder to pass along increased labor costs to consumers in the form of higher prices, a reason why some executives are looking to trim workers now, said Andy Challenger, senior vice president at Challenger, Gray & Christmas, an outplacement firm.

More layoffs might be coming across American corporations, Challenger said, based on his conversations with executives. Though leaders will likely not slash positions across the board this year, more trims are likely. "It's all about cost-cutting right now," he said.

MBA'S STRUGGLE WITH FINDING A JOB

For months, a large number of 2023 M.B.A. graduates' job searches have collided with a slowdown in hiring for well-paid, white-collar positions. An M.B.A. can cost more than $200,000 at a top school but typically pays off as a launchpad for a new, more lucrative career or the corporate leadership fast track. Many in the spring class of 2023 say they are still awaiting that payoff.

These M.B.A.s entered the job market just as three sectors that heavily recruit them—consulting, tech and finance—hit downturns and put the brakes on hiring. Some graduates with consulting jobs have had their start dates pushed to later this year. Meanwhile, the number of openings in software development, marketing, banking and other professional fields has fallen from a year ago.

Even at some top business schools, the number of recently minted M.B.A.s without jobs has roughly doubled from a couple of years ago, when U.S. companies were rushing to hire.

At Harvard Business School, 20% of job-seeking 2023 M.B.A. graduates didn't have one three months after graduation, up from 8% in 2021. At Stanford's Graduate School of Business, 18% didn't, compared with 9% in 2021. About 13% of those at the Massachusetts Institute of Technology's Sloan School of Management didn't have a job within three months, up from about 5% in 2021.

Students who chose business school to change careers appear to be having the toughest searches. Employers are hiring more selectively than they did in recent years, often picking candidates with relevant experience over new graduates.

Officials at Stanford and the University of Michigan's Ross School of Business, along with other schools, say that the number of 2023 M.B.A. students who weren't immediately hired after graduation falls in line with recent levels, but note that a pandemic hiring surge in 2021 and 2022 elevated job placement then. Some schools say recent graduates who didn't have a job in the months after graduation have since found one.

MIT's Sloan School of Management recently started a group for job-seeking graduates that meets twice monthly to share postings and offer peer and staff support. Those more flexible on location, function or industry have found success, including in industries as varied as agriculture, wine and healthcare, said Susan Brennan, Sloan's assistant dean of career development.

Brittany Tyree, who leads career education and coaching for M.B.A.s at the University of Texas' McCombs School of Business, said that 2023 graduates are taking jobs in a broader range of industries than usual. Companies in consumer products, retail and manufacturing are hiring more graduates than in previous years, she said, while hiring in tech has slowed.

Those who are getting jobs are enjoying healthy paychecks. Median starting salaries for Stanford M.B.A. graduates rose to $182,500, up from $175,000 the year before, and climbed to $175,000 at several other schools. Bonuses lift that compensation even higher.

BUSINESSES PLAN LESS GENEROUS PAY RAISES

After a few years of hefty pay increases, American workers can expect solid but not spectacular raises in 2024.

On average, companies are planning for salary increases of 4% in 2024, according to a survey by Willis Towers Watson. That is down from the 4.4% raises that businesses handed out in 2023, yet significantly higher than the average 3% increases that marked prepandemic years.

A cooling job market and easing inflation are giving companies cover to moderate pay increases as they try to lure and retain workers. Businesses have already cut or slowed hiring for many professional, white-collar jobs.

Still, many business leaders say they continue to face pressure to hold on to talent by giving competitive raises. That means paychecks, on the whole, are likely to outpace inflation in the coming year—providing some financial relief after rising prices zapped recent pay gains.

In Mercer's survey of more than 900 employers this fall, businesses said they planned average merit raises of 3.5% in 2024, slightly down from 2023's 3.8%. Tech companies polled by Mercer said they planned merit raises of about 3.2%, retreating from that industry's talent bidding wars of 2021 and 2022. Companies in the energy and life-sciences sectors, on the other hand, are projecting merit raises above the national average at 3.7%.

A majority of CEOs expect economic conditions to worsen over the next six months, according to a recent survey of more than 260 business leaders and investors by global advisory firm Teneo. Interest rates remain high, war continues in Ukraine and the Middle East and a high-stakes U.S. presidential election looms.

SOURCES

Wall Street Journal; Houston Chronicle