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JOB GROWTH DEFIES EXPECTATIONS

Hiring is booming, defying expectations the economy would cool after going gangbusters last year. Employers added 353,000 jobs January 2024, the Labor Department reported. That was the strongest in a year and nearly double what economists surveyed by The Wall Street Journal expected.

December's payroll gains were also revised upward to 333,000 from 216,000, further undercutting the widely held view among economists and investors that it was becoming harder to find a job.

The unemployment rate in January held steady at 3.7% instead of rising to 3.8% as economists had forecast. Wages outpaced expectations, jumping 4.5% last month from a year earlier, though the large increase may have reflected a big drop in hours worked—a possible result of bad winter weather, some analysts said.

Before February 2nd, recent data had shown the labor market cooling in a gradual manner, with wage growth easing and the pace of hiring moderating. Economists surveyed by the Wall Street Journal last month expected payrolls to grow a paltry 64,000 a month this year, after averaging 255,000 a month last year.

The bulk of hiring last year came from just three sectors: government, healthcare and restaurants and hotels. In January, however, job gains broadened, with nearly two-thirds of private-sector industries adding to their payroll or keeping them steady.

The labor force grew 124,000 after accounting for the annual change to the Labor Department's estimate of the underlying population. Without that adjustment, the labor force showed a decline. The participation rate in January was unchanged at 62.5%, with the population revisions having no effect.

Jobs reports for January have been somewhat hard to read since the onset of the pandemic. In the past two years, job gains were well above what economists had expected, but there was speculation that the numbers might have been exaggerated by shifts in seasonal hiring patterns.

Fed officials themselves said that slower growth and a weaker jobs market were likely needed to curb inflation and that an economic slowdown was a serious possibility.

Economists have no one explanation for how that has happened, but certain trends have gone as the Fed hoped. In particular, higher rates seemed to have cooled demand for workers without a big jump in layoffs. Job openings have declined and more workers are staying in their current jobs instead of quitting in the hopes of getting better pay.

That has helped bring down wage growth, which Fed officials see as critical to tempering overall inflation. In addition, businesses have been able to increase the supply of goods to meet still-high consumer demand, aided by an influx of workers returning to their labor force.

DECEMBER'S 9M JOB OPENINGS SHOW LABOR MARKET STILL HEALTHY

America's employers posted 9 million job openings in December, an increase from November and another sign that the U.S. job market remains resilient despite the headwind of higher interest rates.

The number of openings was up from November's 8.9 million, which itself was revised up. Job openings have gradually but steadily declined since peaking at a record 12 million in March 2022. But they remain at historically high levels. Before 2021, monthly openings had never topped 8 million.

Still, in a cautionary sign, layoffs rose in December. And the number of Americans quitting their jobs – a sign of relative confidence in their ability to find a better position – dipped to the lowest level since January 2021.

The Fed wants to see the job market cool from the red-hot levels of 2021 and 2022, thereby reducing pressure on businesses to raise pay to attract and keep staff – and to pass on those costs to customers through higher prices.

Higher rates have contributed to a slowdown in hiring, though the pace of job growth remains relatively healthy. U.S. employers added 2.7 million jobs last year, down from 4.8 million in 2022 and a record 7.3 million in 2021. The job market is cooling in a mostly painless way – through fewer openings. Despite a wave of high-profile layoffs, the number of job cuts across the economy remains relatively low.

WORKERS' PAY, BENEFITS GROWTH SLOWED LATE LAST YEAR

Pay and benefits for America's workers grew in the final three months of last year at the slowest pace in two and a half years.

Compensation as measured by the government's Employment Cost Index rose 0.9% in the October-December quarter, down from a 1.1% increase in the previous quarter, the Labor Department said. Compared with the same quarter a year earlier, compensation growth slowed to 4.2% from 4.3%.

The increase in wages and benefits was still mostly healthy, but the slowdown could contribute to the cooling of inflation and will likely be welcomed by Federal Reserve policymakers. While Fed officials have signaled they will lower their benchmark rate this year, they haven't signaled when they will begin. When the Fed reduces its rate, it typically lowers the cost of mortgages, auto loans, credit card rates and business borrowing.

The pace of worker compensation plays a big role in businesses' labor costs. When pay accelerates especially fast, it increases the labor costs of companies, which often respond by raising their prices. This cycle can perpetuate inflation.

Since the pandemic, wages on average have grown at a historically rapid pace, before adjusting for inflation. Many companies have had to offer much higher pay to attract and keep workers. Yet hiring has moderated in recent months, to levels closer to those that prevailed before the pandemic. The more modest job gains have reduced pressure on companies to offer big pay gains.

Even as wage increases slow, inflation has fallen further, leaving Americans with better pay gains after adjusting for rising prices. After taking inflation into account, pay rose 0.9% in last year's fourth quarter, compared with a year earlier, up from a 0.6% annual gain in the previous quarter.

Growth in pay and benefits, as measured by the ECI, peaked at 5.1% in the fall of 2022. Yet at that time, inflation was rising much fast than it is now, thereby reducing Americans' overall buying power. The Fed's goal is to slow inflation so that even smaller pay increases can result in inflation-adjusted income gains.

YEAR-END BONUSES SHRINK 21% IN SIGN OF TURBULENT ECONOMY

U.S. workers are getting smaller bonuses, a sign that belt-tightening employers aren't as concerned about losing talent as in recent years.

The average cash bonus paid to employees last month was $2,145 down 21% from the previous year, according to payroll software company Gusto, which tracks payments made by more than 300,000 small businesses.

Every industry posted a decline, ranging from 3.8% for technology firms to 36% for tourism and transportation companies. Not only were bonuses smaller, but fewer workers got them in most industries. Small businesses employ nearly half of all private sector workers in the U.S., according to government data.

Not only were bonuses smaller, but fewer workers got them in most industries. Sixteen out of the 22 industries tracked by Gusto saw declines in the share of workers that received any sort of bonus, with the biggest drop coming at arts and entertainment firms. Compared with 2021, 6.9% fewer workers got a bonus in 2023.

Several factors drove the double-digit decline. Businesses are not hiring as aggressively as they were a year ago; businesses doled out more generous compensation packages over the past two years so there's less money in those coffers now; and the rate at which workers voluntarily quit ticked down in November to the lowest since September 2020.

That stinginess was also reflected in a November survey of companies of all sizes by outplacement firm Challenger, Gray & Christmas, which found that 34% of companies didn't award a bonus in 2023, up from 27% the previous year.

The biggest payouts went to finance workers, many at boutique investment firms, with an average bonus of $13,255, according to Gusto. Still, that's down about 12% from the roughly $15,000 paid out in 2022 and 2021. The falloff mirrors what workers at Wall Street's biggest banks will endure this year, as business has slowed and companies like Citigroup Inc. and others pare back expenses, according to projections from compensation consultant Johnson Associates. Deutsche Bank AG's Chief Financial Officer James von Moltke said a "difficult market" will be reflected in staffers' bonuses.

Bonuses in the tech sector dropped, on average, $672 from 2021, when talent was much more scarce. Over the past two years, tech firms of all sizes have slashed more than 265,000 jobs in streamlining efforts, according to Challenger, Gray & Christmas. Cuts have continued in the new year, with Alphabet Inc.'s Google and Amazon.com Inc.'s Twitch unit trimming headcount.

Merit-based salary increases will also see slower growth this year at larger employers, although the raises remain above pre-pandemic levels, data from Aon and Mercer has shown. Companies have greater flexibility to adjust bonuses to respond to changing economic circumstances than they do with salaries.

SEVERAL TECH FIRMS ARE LAYING OFF MORE EMPLOYEES

A bunch of companies in the technology sector have been laying off some of their employees recently after quickly ramping up hiring during the COVID-19 pandemic while people spent more time and money online. Now, many of them are making job cuts to help lower costs and bolster their bottom lines.

Here's some of the companies that have laid off employees of late:

Google said it is laying off hundreds of employees working on its hardware, voice assistance and engineering teams. The cuts follow pledges by executives of Google and its parent company Alphabet to reduce costs. A year ago, Google said it would lay off 12,000 employees or around 6% of its workforce.

Video game developer Riot Games, which is behind the popular "League of Legends" multiplayer battle game, is trimming 11% of its staff. The company, which is owned by Chinese technology giant Tencent, said 530 jobs were being eliminated. Los Angeles-based Riot Games said that it had expanded its investments across too many areas, doubling its staff in a few years, and now was cutting back to focus on games.

TikTok said it is shedding dozens of workers in its advertising and sales unit. A spokesperson for the company confirmed that the social media platform is cutting 60 jobs. TikTok, which is owned by Beijing-based ByteDance, did not provide a reason for the layoffs.

Online retailer eBay Inc. will cut about 1,000 jobs or an estimated 9% of its full-time workforce, saying its number of employees and costs have exceeded how much the business is growing in a slowing economy.

Twitch, which is owned by Amazon, is cutting more than 500 jobs in a bid to save on costs. The video streaming platform's CEO Dan Clancy said in an email to employees that even with cost cuts and growing efficiency, the platform "is still meaningfully larger than it needs to be given the size of our business."

Amazon-owned online audiobook and podcast service Audible is laying off about 5% of its workforce. A spokesperson for Audible declined to provide the number of employees who will be affected by the cuts. In a memo sent to employees, Audible CEO Bob Carrigan said that the company is in good shape but faces an "increasingly challenging landscape." In addition, Amazon's Prime Video and MGM Studios unit, is trimming hundreds of employees as it cuts back in areas that are not delivering.

Music streaming service Spotify said in December that it was cutting 17% of its global workforce as it moved to slash costs while focusing on becoming profitable. A spokesperson confirmed that the layoffs amount to about 1,500 people. It was the company's third round of layoffs last year.

WILL 2024 BE THE YEAR EMPLOYERS CRACK DOWN ON REMOTE WORK?

These days, it looks like the bloom is coming off the rose for remote work: Many employers are talking tougher. New research shows employees are actually less productive when they work from home full-time. And, with the tight job market starting to slacken, some predict 2024 will be the year employers finally clamp down.

But don't be too quick to conclude things are going back to the days of 9 to 5 in the old cubicle. It's true that widespread studies based on standard measures of efficiency have found that fully remote employees are 10% to 20% less productive than those working on company premises. Challenges related to communications, coordination and self-motivation may be factors in the decline.

And some employers have been warning that those who fail to meet new standards for being in the office may find adverse effects on their performance evaluations and incomes.

But the new research that showed lower productivity by full-time remote workers also found that those on a hybrid schedule — some days at home and some on site — were about as productive as those in the office fulltime. And there's some evidence that companies offering greater flexibility to workers may achieve better financial results.

Potentially even more important than abstract data are the surprisingly deep feelings of a great many workers about holding on to at least some degree of flexibility. And those personal feelings, which involve such cut-to-the-bone issues as commuting and the cost of childcare, are being reinforced by gains in communications technology and the persistent shortage of qualified workers.

Today, about 30% of all full-time employees are on a hybrid schedule, according to WFH Research. The outlook for fully remote workers, who currently make up about 10% of all employment, appears more cloudy. Those job openings have been shrinking faster in recent months as the job market has slowed.

Many people working full-time from home are in high-paying tech and information industries, which explains why San Francisco and Los Angeles metro areas are No. 1 and 2 when it comes to the share of all full-time workdays done at home, at 46% and 40% as of November.

But even fully remote work has things going for it. For many employers, what may be lost in productivity can at least partly be made up in cost savings from cutting back on office and related expenses. Plus, these companies can hire workers more cheaply anywhere in the world.

Right now, it's pretty much anybody's guess which of the many possible models will prevail when it comes to balancing management's desire for an on-site workforce and employees' desire for more flexibility.

Clearly, a lot of workers like the hybrid model but want about one day more of working from home than bosses prefer, which now averages two days a week, according to WFH Research.

SOURCES

Wall Street Journal; Houston Chronicle