

Developing Trends

Job market gains momentum as expectations are surpassed.

The U.S. recorded another month of job creation as 223,000 employees were added to payrolls in May, compared to 190,000 expected. During that period, the retail trade sector staffed 31,000 workers; also, 25,000 construction jobs were generated. This continuation of strong hiring activity has driven the national unemployment rate to its lowest level in 18 years.

Single-tenant retail adapting to evolving retail environment.

Drug stores are generally considered relatively stable assets; however, they are not immune to e-commerce. Just like many retailers, drug stores have begun to refine their strategies, attempting to combat online prescription retailers, as well as internet heavyweights such as Amazon and Walmart. Many drug store chains are beginning to offer a more convenience-oriented selection, aiming to increase foot traffic and boost overall sales.

Economy Drives Increased Spending; Housing-Related Consumption Rising

Retail sales accelerate as unemployment rate tumbles.

Retail spending posted another strong month with help from an incredibly tight labor market. The 3.8 percent unemployment rate has placed upward pressure on wages as many companies compete for quality employees. This trend has supported modest but steady wage growth, driving the annual pace of wage gains to 2.7 percent in May this year, in turn supporting a 5.1 percent increase in core retail sales. With a number of tailwinds propelling retail sales, spending has been strong in several categories, particularly building materials, which grew by 5.0 percent over the past year. Elevated discretionary income has empowered homeowners to tackle home improvement projects, which many are undertaking instead of selling their homes and buying new ones. This has in turn weighed on home sales activity.

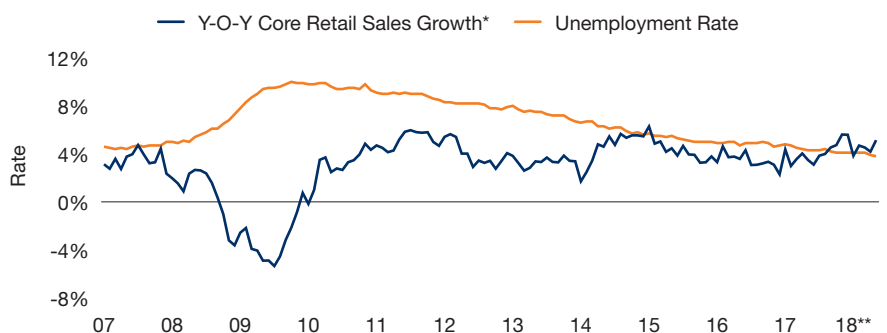
Apartments help fill void left by limited single-family housing construction.

Although more emphasis has recently been placed on accelerating single-family home development, builders are still falling short of the increasing pace of household formation. In 2018, the U.S. will create an additional 1.5 million new households. Elevated apartment construction over the past several years will be a critical factor in meeting the nation's housing needs, with 335,000 new apartment units slated for delivery this year. This wave of rentals coming to market will boost vacancy in neighborhoods where construction is most concentrated, nudging the national vacancy rate above 5 percent, as new units are absorbed. However, rising vacancy is not indicative of a broad-based shortfall in demand, as most markets are witnessing declining or stationary vacancy rates.

5.1% Core Retail Sales Growth Y-O-Y*

3.8% Unemployment Rate**

Retail Sales Benefiting From Tight Job Market



* Trailing 12-month average

** Through May

Core retail sales exclude auto and gasoline sales

Sources: Marcus & Millichap Research Services; BEA; BLS; RealPage, Inc.; U.S. Census Bureau

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