

Hiring Continues in High Gear with Implications for Real Estate, Fed Policy

Job growth continues at consistent, above-average pace. Employers added 372,000 personnel to payrolls in June, bringing the total job count to within 0.4 percent of the February 2020 high. June marked the fourth consecutive month with an unemployment rate of 3.6 percent and job creation in the high-300,000 range. While last month's hiring trails measures from earlier in the year, it is nevertheless well above other periods of tight unemployment. Encouragingly, robust employment growth is occurring in sectors that have already surpassed pre-pandemic headcounts, in addition to other fields that continue to steadily recover.

Larger industrial, office staffs have differing real estate impacts. Sectors that have grown the most relative to pre-pandemic include transportation and warehousing, along with professional and business services. Staffing in the former segment is up by 759,000 since February 2020, with the added labor reflecting elevated demand for distribution centers and warehouses. A record 551 million square feet of industrial space was absorbed in the 12 months trailing April, dropping vacancy to a historic low. The 880,000 additional personnel in professional and business services have had a less direct effect on offices, given remote options. While absorption has been net positive for more than a year, vacancy has stayed within 30 basis points of the March 2021 high. Larger staffs may help offset lower office visitation rates as firms continue to evaluate long-term needs.

Health care, hospitality hiring aids hotels, seniors housing. Employment categories still in recovery that posted stout hiring in June include leisure and hospitality, as well as health care. This growth benefits operations at hotels and seniors housing facilities, which are facing acute labor shortages. Occupancies are improving across both property types, although the strongest gains so far have been in room rates and rents. The average daily hotel room rate in May was \$150, up 13 percent from the same month in 2019, while the mean rent across seniors housing categories was up 7.3 percent between the end of 2019 and March of this year.

Monetary Policy Considerations:

Favorable jobs numbers likely to reinforce Fed policy targets. Consistently strong employment growth amid historically low unemployment may give the Federal Reserve further confidence to raise the fed funds rate by 75 basis points again in late July. Given labor demand in excess of supply, with roughly 1.9 open positions per job seeker, the Fed will likely prioritize combating inflation over preserving employment growth. In another indication of the strength of the labor market, non-elective part-time employment is below the pre-pandemic measure. Most other unemployment metrics continue to exceed those benchmarks to some degree.

Wage growth a factor in Fed decision making. By raising borrowing costs for employers, the central bank intends a drop in labor demand to help temper inflation by cooling wage growth. Average hourly earnings were up 5.1 percent year-over-year in June, down from recent months but above the historical average. While higher wages help employees keep up with sticker shock, they simultaneously contribute to higher prices going forward by lifting production costs.

375,000

Average Number of Jobs Added Per Month in 2Q 2022

190,000

Average Number of Jobs Added Per Month from 2015 to 2019

Job Creation at High Level Given Low Unemployment

