# RESEARCH BRIEF

Marcus & Millichap

**EMPLOYMENT** APRIL 2023

## Tempering Job Creation May Herald Less Inflation and Interest Rate Pressure Ahead

**Employers continuing to hire, but at tapering pace.** The economy welcomed 236,000 new positions in March, the slowest month for job creation since a net loss in December 2020. Hiring was led by the leisure and hospitality sector, along with additions in health care, the public sector, and professional and business services. These gains offset job losses in retail trade, construction and manufacturing. Overall, while last month's hiring is well above the long-term average, it falls short of recent benchmarks and aligns with other indicators of a strong, but softening labor market.

**Signs of slackening labor demand gathering.** While the unemployment rate dipped 10 basis points last month to 3.5 percent, the modest decline was predominantly driven by fewer people voluntarily entering the unemployment pool. This includes those choosing to leave positions, as well as individuals entering or re-entering the labor force. The number of people who were temporarily laid off or lost permanent positions both increased in March. Globally, the first few months of 2023 have witnessed the most announced layoffs since the beginning of 2009, led in the U.S. by Amazon, Meta and Microsoft. National job openings also declined by 632,000 in February to 9.9 million in the most recent data available. Taken together, these indicators point to loosening job market conditions, with implications for the economy at large.

**Cooling wage growth and inflation factor into Fed policy.** A softening of labor demand is helping to temper year-over-year wage growth, which moderated to 4.2 percent in March, a 21-month low. This bodes well for inflation, which is also on a moderating trajectory. The core personal consumption expenditures index — the preferred inflation gauge of the Federal Reserve — eased to a year-over-year climb of 4.6 percent, matching December 2022 for the slowest increase since October 2021. Core PCE inflation is nevertheless more than double the Fed's 2 percent target, underscoring market expectations of a 25-basis-point hike in the overnight lending rate in May. Through commentary and its own dot plot, the Fed has implied that subsequent rate increases are less certain.

## Commercial Real Estate Implications

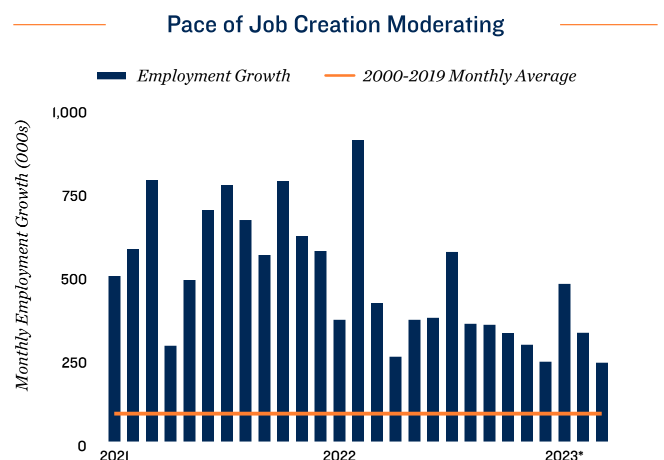
**Easing inflation a positive for multifamily.** A retreat in the pace of price increases would be a benefit to consumer sentiment and housing demand. An improved economic outlook can bolster confidence to undertake major financial decisions, such as forming a new household. While consumer sentiment dipped in March, it has been on a general upward trend since summer 2022. This shift may already be having a positive effect on housing demand, as preliminary data shows apartment absorption returned to positive territory in the first quarter, after remaining negative throughout most of last year.

**Investment sales outlook improving.** Market participants currently anticipate the Fed's next rate hike to be its last of the current cycle. Interest rate stability would allow commercial property investors to better adapt to the higher capital cost environment. While many lenders are still cautious following recent banking disruptions, as more buyers and sellers come into alignment on terms, transaction activity should pick up. Positive sales momentum is expected to build in the second half of the year.

**+344,700** *Average Monthly Change in Job Count Year-to-Date*

**+87,400** *Average Monthly Change in Job Count (2000-2019)*

### Pace of Job Creation Moderating




** Through March*
*Sources: Marcus & Millichap Research Services; Bloomberg Layoff Study; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; MSCI, Inc.; RealPage, Inc.; University of Michigan*

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