RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

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May Hiring Reflects Favorable Outlooks for Hotel and Industrial Properties

Hiring reaches four-month high. Employers across the country created 339,000 new jobs last month, the most since January. Hiring occurred across industries, as only the manufacturing and information sectors reported net staff contractions. The number of self-employed individuals also declined notably in May, contributing to a 30-basis-point rise in unemployment to 3.7 percent. The rate has not been higher since February of last year, and is still very low from a wider historical context. Part of the increase also came from more people re-entering the labor pool, a potential benefit for future hiring efforts.

Hotels' summer outlook favorable, despite labor shortage. Hiring in the leisure and hospitality sector stood out last month with the onboarding of a net 48,000 new personnel. Most of this growth occurred at bars and restaurants, however, as fewer than 10,000 new accommodation jobs were created for a fifth consecutive month. The total staff count at U.S. hotels still trails the pre-pandemic mark by 197,000, or 12 percent, a constraint that is most apparent in hotel occupancy rates. The national measure still trails pre-pandemic metrics by about 300 basis points. Yet, the labor shortfall has not prevented hotels from reporting record room revenue levels, driven by bookings that are within 2 percent of the all-time high. A busy summer travel season is ahead, kicked off by a Memorial Day weekend that saw an estimated 7 percent more Americans travel 50-plus miles than the year before. This trend should further help hotels recover, sustaining demand for labor.

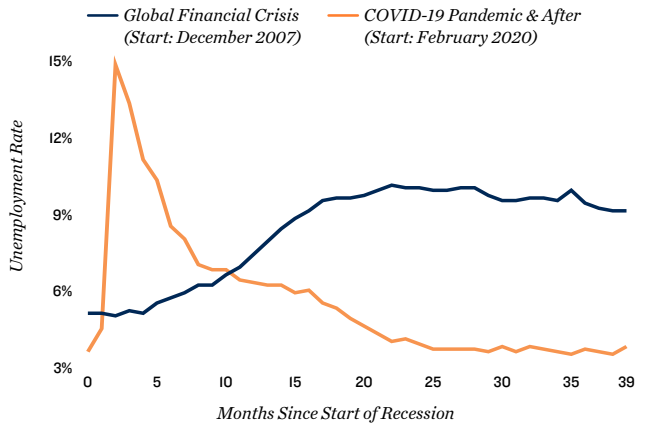
Strong logistics hiring reflects sturdy industrial sector. Warehousing and transportation firms reported notable job creation in May with 24,200 new positions, triple the trailing 12-month average. Labor needs reflect consumer and commercial demand for such services, translating into robust industrial property performance. Entering the second quarter at 4.0 percent, the national industrial vacancy rate was 300 basis points below the long-term average, despite a multi-decade high level of completions last year. Tight conditions are fostering property-type leading rent growth that is most apparent in heavy in-migration markets, including Tampa-St. Petersburg, Miami-Dade, Phoenix and Charlotte. Mean asking rates climbed by more than 30 percent year-over-year in March among each of those metros, against an overall national average that ascended by 16.6 percent.

Inflation and Capital Markets Implications

Signs of some labor market softening apparent. Beyond the uptick in unemployment, the average number of hours worked dipped to 34.3 per week last month, the lowest the mark has been since April 2020. This slight drop in hours worked coincided with a further slowing of wage growth to 4.3 percent year-over-year. These factors point to lessened inflation pressure. The pace of personal consumption expenditures inflation has tempered into the low- to mid-4 percent band, well under last June's 7 percent high, but still above the Federal Reserve's 2 percent target. The Fed expects it may take time to completely close that gap, but recent labor market trends imply that progress is continuing.

Fed likely to hold the course at June meeting, benefit for CRE. Higher unemployment, paired with modest drawbacks in wage growth and hours worked, support the market consensus of no Fed rate hike later this month. Wall Street has priced in a pause until at least the July meeting. This lending rate stability, combined with an eleventh-hour suspension of the national debt ceiling to avoid default, should act as stabilizing factors for capital markets. While banks are still lending conservatively following recent regional bank failures, less interest rate volatility should help more commercial real estate investors obtain financing, potentially opening the valve slightly for more transactions to take place in the months ahead.

Low Unemployment Run Continues, Even with May Uptick



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve