RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT SEPTEMBER 2023

Shift Toward Pre-Pandemic Hiring Patterns Clearer, Aiding Fed Objectives

Labor market dynamics becoming more familiar. Job growth in August tallied 187,000 positions, one of the slowest months for hiring in the pandemic recovery period. Headcounts declined in the information and transportation sectors, heavily influenced by Hollywood strikes and the bankruptcy of trucking company Yellow. Even without these one-off factors, the labor market is displaying clear signs of returning to pre-health crisis dynamics. Since May, employers have brought on an average of roughly 150,000 personnel on net per month, below the monthly average for 2019. The unemployment rate also rose 30 basis points in August to 3.8 percent, its highest level in 18 months. Amid higher joblessness, the number of people voluntarily leaving roles fell month-over-month. Taken together, these factors point to a labor market that is still growing but undoubtedly loosening.

Inflation and hiring trends may sway Fed from hike this month. The core personal consumption expenditures index, the Federal Reserve's preferred inflation target, rose 0.4 percent from May to July, the slowest two-month climb since late 2020. While the annual level of core PCE inflation was 4.2 percent in July, if this recent monthly pace were to continue for a full annual span, it would produce an inflation rate of 2.4 percent, only 40 basis points above the Fed's target. Cooling upward momentum in consumer prices, paired with a loosening labor market, give the Federal Open Market Committee more room to maneuver at this month's meeting. While another hike to the overnight lending rate is not out of the question, Wall Street currently favors a hold. Some market participants believe a rate cut could happen as early as December. A plateauing of the current interest rate hiking cycle would send an important signal to financial markets and property investors.

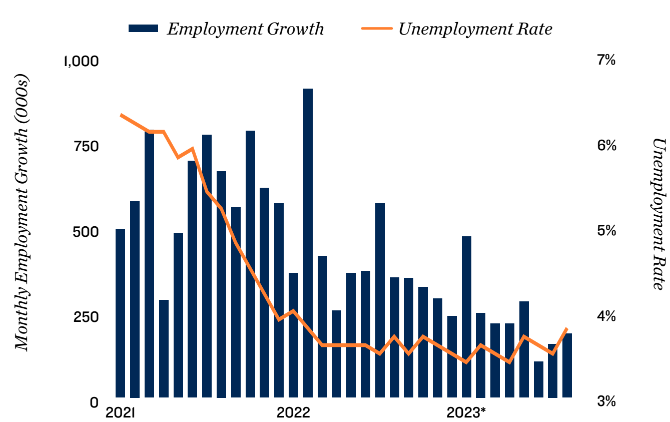
Rate stability a tailwind for investment sales. The rapid climb in interest rates, especially in 2022, led to a tempered investment sales environment for commercial real estate this year. Total transactions above $1 million in the first half of 2023 predictably fell short of the strong volumes recorded in the same spans of recent years, instead aligning broadly with figures from 2015. As more investors become confident that interest rates will remain stable, however, more deals can move forward. Private buyers have enjoyed a recent span of reduced competition, but that could end soon if larger parties re-enter the market.

Commercial Real Estate Implications

Recent job creation informs on industrial property performance. Transportation employment has moved down over the past two months, while at the same time, the number of manufacturing jobs has shifted up. This reflects ongoing trends in the nation's industrial sector. Truck tonnage has not quite hit the peaks of last year amid slower retail sales growth, while government support has encouraged re-shoring efforts among manufacturers. Among these forces, industrial properties are performing well overall. While elevated construction is placing upward pressure on vacancy, demand for space is still supporting higher asking rents. The national average rate climbed 14.2 percent in the second quarter, keeping well ahead of general inflation.

Health care hiring positive for multifamily outlook. The health care and social services sector added over 97,000 jobs last month, the most of any employment category. These gains extended the total headcount among such fields by 2.9 percent for the year and 4.4 percent since 2019. Ongoing employment growth in this largely non-cyclical sector, with roles spanning income levels, bodes well for apartment demand. Net absorption among multifamily properties has been improving over the course of the year, helping temper the pace of rising vacancy amid robust development. Rent growth across rental classes reinforces the broad-based demand, with gains strongest among the Class C tier, which is mostly insulated from the impacts of new supply.

Unemployment Trends Up



* As of August

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; Moody's Analytics; Real Capital Analytics; RealPage, Inc.