RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

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Pace of Hiring Tapered in 2023, with Implications for CRE and Financial Markets

December job additions fall short of the monthly average. Employers closed out the year by adding 216,000 positions in the final month, while the unemployment rate remained unchanged at 3.7 percent. Although this was up from the prior two months, it sustains the trend of slowing addition, with December falling below the 2023 monthly average. This presents a sign that while hiring is still strong despite the pressure of high interest rates on company finances, the labor market has begun to cool. Job creation was most prominent in the government, health care, social assistance and construction sectors, while transportation and warehousing noted a decline, illuminating softening labor demand in more cyclical sectors. Government and in-recovery sectors accounted for roughly 151,000 positions.

Labor shortages reveal hiring difficulties in key sectors. There are over 1 million job openings in the leisure and hospitality and health care sectors, according to recent data. The leisure and hospitality sector is still notably 1 percent short of its pre-COVID high, while U.S. total employment has expanded 3 percent. Operators are challenged to keep sufficient staff levels, hiring only 40,000 personnel last month, less than half the average gain of 88,000 jobs per month in 2022. This shortfall appears most prominently in accommodation and food services, which may limit the feasibility of full hotel occupancy and restaurants' growth aspirations in 2024. Still, the high demand for this labor cohort shows that operators are not downsizing. The health care sector exhibits a similar complication for medical offices as job openings crest 1.7 million — illustrating a demand for labor and willingness of medical practices to expand — but only a modest 38,000 jobs were added in December.

Employment growth is muted in traditionally office-using sectors. Jobs additions in the professional, business and financial services were limited in December, reflecting a larger trend throughout 2023. Only 110,000 positions were added in this sector through the entirety of last year, a notable decrease from the 1 million-plus new roles added in both 2021 and 2022. The professional, scientific and technical subset was the only sector to record meaningful job growth of 25,000 roles. Meanwhile, employment in temporary help services continued to trend downward. This sector can be viewed as an early warning sign of a cooling labor market as companies generally cut temp positions first when signs of an economic slowdown occur.

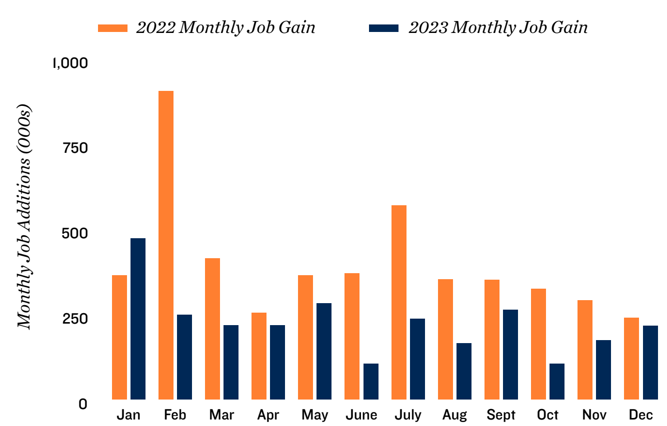
Pressure still evident in wage growth. Average hourly earnings rose by 0.4 percent in December, to $34.27. This marks a 4.1 percent increase over the last 12 months, despite an uptick in the unemployment rate over the course of 2023. Still, wage growth is steadily easing compared to the last three years, which each surpassed a 4.5 percent increase year-over-year. The annual increase in 2023 is on par with the gain observed in 2018, and on track to return to the 3 percent range. Commercial real estate operators may find some relief in the cost of operations, if wage pressure continues to soften.

Labor market performance a key factor in 2024 interest rate cuts. At its December 2023 meeting, the Federal Open Market Committee hinted that interest rate cuts are likely in 2024, but maintained its position that such decisions will be data-informed. If the Fed were to cut rates, borrowing costs should lower, facilitating commercial real estate transaction activity and taking some financial burden off businesses. Continued strength in job and wage growth, however, could encourage the Fed to either delay or reduce the number of cuts in the coming year. Workforce data updates will continue to be closely scrutinized by those active in the commercial real estate sector in the coming months.

2.7 *Million Jobs Created in 2023*

255,000 *Average Number of Positions Created per Month in 2023*

Hiring Slower in 2023 Than 2022 for Most Months



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