

## Rising Joblessness Puts Pressure on the Fed to Stay on Course for a Soft Landing

**Unemployment rate hits a near three-year high.** Total employment increased by 114,000 jobs in July, the second-lowest monthly gain in 2024 and falling well under the trailing-year average of 215,000 roles added. That hiring slowdown contributed to unemployment rising by 20 basis points month-over-month to 4.3 percent, the highest measure since October 2021. Health care accounted for about half of the overall net July employment gain, while accommodations and food services as well as construction also recorded monthly increases of at least 20,000 jobs. Headcount reductions, however, spanned several labor segments. The sharpest drops occurred in the information, finance and insurance as well as educational services sectors. In total, the number of unemployed people rose by 352,000 to 7.2 million.

**Joblessness uptick edges toward a historically reliable signal.** The Sahm indicator – which activates once the three-month average unemployment rate rises by 50 basis points relative to the minimum three-month mean across the prior year – has identified the start of every recession since 1970. Climbing unemployment in July lifted the three-month average rate to 4.1 percent, approaching that threshold relative to the lowpoint in May to July of 2023. While this indicator has been accurate in the past, Fed Chair Jerome Powell warned that the Sahm rule is not an absolute determinant of a recession, and that the labor market continues to normalize. Although the Fed held the overnight benchmark rate firm at the most recent FOMC meeting on July 30-31, pressure is mounting to remain on track for a soft landing. Following the weaker-than-expected jobs report and near-activation of the Sahm rule, over 70 percent of Wall Street participants expected a 50-basis-point rate cut at the FOMC meeting in September.

**Labor trends have mixed implications for investors.** The increased likelihood of interest rate cuts, potentially at a greater magnitude than was previously expected, should start alleviating the headwinds real estate investors and lenders have faced. Lower debt costs could motivate capital accumulating on the sidelines to flow back into the market. At the same time, recession concerns could make investors and financiers diligent. Balancing out these fears, fundamentals remain healthy across most segments, highlighted by robust apartment demand and near-record low retail vacancy in the second quarter.

## Real Estate Implications

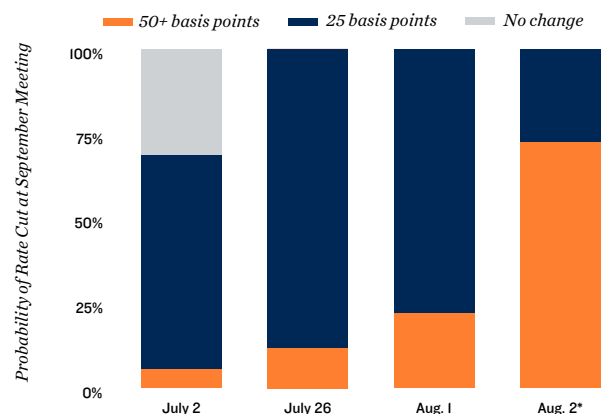
**Apartment demand surges despite labor market softness.** While the average monthly employment gain from May through July of 154,000 jobs added was below the prior four-month mean of 273,000 roles, reduced cost-of-living pressures aided household growth. During the second quarter of 2024, roughly 294,000 households were created nationwide, the largest expansion since the same three months of 2022. Amid unrelenting barriers to purchase a single-family home due to high prices and mortgage rates, a substantial share of that growth flowed into the apartment sector. Multifamily net absorption from April through June reached an 11-quarter high. That resilient performance amid slower hiring should reinforce confidence.

**Hotel industry job normalization relieves wage pressure.** The accommodations and food services headcount climbed within 1 percent of the February 2020 mark in July 2024. Growth is reflected in the sector's job openings rate falling to 5.6 percent in the second quarter, which is 10 basis points below the same span of 2019. This realignment of the labor market eased annual wage growth to 3.7 percent in the second quarter, down from 6.1 percent one year prior. This should help hotel operators maintain margins amid softer ADR growth.

4.3% Unemployment Rate in July 2024

4.7% Average Unemployment Rate 2014-2019

### July Unemployment Spike May Alter Fed Response



\* Date of July jobs report

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



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