

Mild Unemployment Dip Eases Recession Fears While Job Growth Remains Tepid

Joblessness pulled back for the first time since March. National unemployment fell by 10 basis points month-over-month to 4.2 percent in August, alleviating some recession concerns following a notable jump in July. Driving the August decline was a moderation in the number of people on temporary layoff. The 190,000-person decline reversed an uptick from the prior month and implies more people in this situation were able to find alternative positions. Still, unemployment remained 40 basis points above the same point from last year, as job growth has cooled down. The 142,000 personnel added in August represents a three-month high, yet trailed the past year's average by roughly 60,000 roles. Government, leisure and hospitality, construction, and education and health services combined for 151,000 jobs created in August. However, a 24,000-headcount reduction in the manufacturing segment weighed on the overall expansion.

Softer labor market likely prompts a rate cut. Following July's near activation of the Sahm recession indicator — which triggers once the three-month average unemployment rate rises by 50 basis points relative to the minimum three-month mean across the prior year — expectations for the Fed to lower interest rates have grown. While projections from Wall Street participants for a 50-basis-point rate cut in September shrunk to 30 percent after unemployment dipped in August, the probability for a 25-basis-point reduction was still about 70 percent as the labor market continues to cool. This gradual drop in debt costs, along with softer employment growth, steadier joblessness and easing inflation, may support a soft landing. Risks persist, however, as job gains have been concentrated within just a handful of categories. Outside of the aforementioned sectors that drove growth in August, only financial activities added over 10,000 positions.

Conditions may present a strong mix for investors. Concerns of a recession have eased after the August jobs report, while the Fed still appears on track to cut interest rates in September. This combination may present an opportunity for commercial real estate investors, which has started to manifest in rising transaction activity. During the first week of September, the 10-year Treasury rate also fell to the lowest level since June 2023. This should help re-open the yield spread relative to cap rates, as well as help fuel lender appetite by reducing unrealized losses from those holdings in their balance sheets.

Real Estate Implications

Strong summer travel indicators continue. Accommodations and food services jobs rose by 33,500 roles in August, the segment's largest gain since September 2023. An expanding headcount in this category aligns with another indicator of robust domestic travel during the summer months. The TSA reported that the 14 busiest days for traveler throughput in history all occurred between May and August of 2024. Correspondingly, average occupancy at airport area hotels during the second quarter of this year was up by 80 basis points from the same span of 2023. Overall hotel occupancy from April to June 2024 also lifted by 60 basis points year-over-year, aided by reduced inflationary pressures on household budgets.

Manufacturing sector headwinds reflect economic cooling. In August, the headcount within the manufacturing segment fell to a 10-month low. This aligned with forward-looking signals from the ISM Manufacturing Index indicating decreasing new orders and rising stockpiles of inventories. Those conditions provide further proof of an ongoing economic cooldown, reinforcing pressure on the Federal Reserve to remain on track for a soft landing. New tenant demand for manufacturing facilities may face some near-term headwinds.

184,400	Average Number of Jobs Added per Month in 2024	142,000	Number of Positions Created in August 2024
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Unemployment Rate Contracts After Recent Swell

