RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT OCTOBER 2024

Job Growth Hits a Six-Month High, Likely Guiding the Fed Toward a Gradual Path

Labor market flexes renewed strength. Following three straight monthly gains below 160,000 new jobs, national employment rose by 254,000 positions in September 2024 — the largest hike since March. That addition lowered unemployment to 4.1 percent, which is up 30 basis points from the same point in 2023 but down from the 4.3 percent peak in July, easing recession concerns. Employment gains spanned a wide range of sectors in September. Driven by accommodations and food services hiring, the leisure and hospitality tally surged by 78,000 jobs — its largest expansion in 20 months. Education and health services continued to spearhead growth, with an 81,000-personnel surge in September bringing the sector's net gain year to date above 700,000 new positions. Manufacturing was the only major labor segment to post a monthly reduction, although the 7,000 roles lost was an improvement from August's drop of 27,000 positions.

Stronger jobs landscape may slightly shift the Fed's path. Moderating inflationary pressures and a cooling employment market motivated the Fed to cut the overnight benchmark rate by 50 basis points in mid-September — the first contraction since 2020. Recent monthly decreases in unemployment and stronger job growth may lead the Federal Reserve on a more gradual rate reduction path through next year, barring any unexpected shifts in the economy or inflation. The combination of an incremental rate cutting cycle with indications that the economy is on solid ground should nevertheless reinforce confidence in a soft-landing scenario. Lower debt costs have started to open the yield spread relative to commercial real estate cap rates while recession fears have subsided, creating an environment that supports stronger investor sentiment and activity.

Retail and hotel sector tailwinds are evident. Growth in accommodations and food services jobs in September correlates with a resilient consumer base. Restaurant sales were near a record level in August, helping support tenant demand and hiring. Moreover, households are spending on travel again, with the national hotel occupancy rate in August up by almost 100 basis points from one year ago. That consumer strength is aided by average hourly earnings increasing by 4.0 percent annually in September. This rate of growth is down from the 2020-to-2022 mean of 4.8 percent — which contributed to inflation — but nonetheless above the decade average of 3.6 percent.

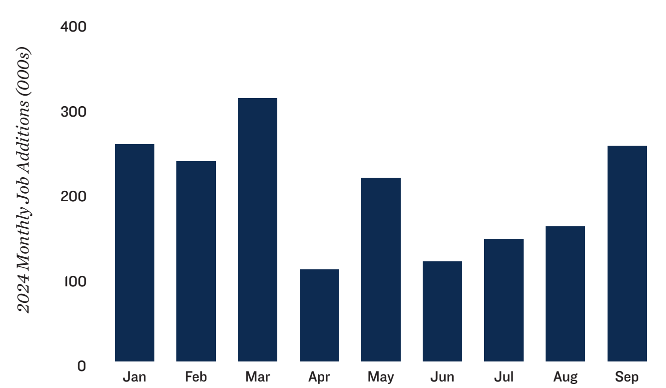
Real Estate Implications

Industrial-related hiring trends are mixed. While the manufacturing segment lost jobs for a second-consecutive month in September, the trade, transportation and utilities headcount increased by its largest margin since May. Additionally, an agreement was reached in early October to avert an East and Gulf Coast port strike that would have had major implications on national trade. While the resolution of that disruption diminishes potential short-term tenant needs to store stockpiles of inventories, it also alleviated the substantial downside risks to the U.S. economy that would have emerged if the disagreement lingered on. Industrial investors are likely to remain cautiously optimistic amid these trends, as the sector continues to face significant near-term development pressure in some markets.

Apartment demand underpinned by employment trends. Job gains, along with healthy wage growth, are supporting the multifamily sector. After significant upward vacancy pressure from 2022 to 2023, the national rate was stable during the opening half of this year, and preliminary data indicates that continued into the third quarter. Annual net absorption is on track to reach the second-highest level on record, helping mitigate historic construction and aiding investor sentiment.

1.6%	*Year over Year Change in Total Employment in September 2024*	2.0%	*Year over Year Change in Total Employment in September 2023*

Hiring Accelerated After a Cooler Summer Period



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