RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

JUNE 2022

Employment Gains Echo Economic Stamina As Higher Interest Rates Add Hurdles

Job growth overcomes inflation concerns. Total employment increased by 390,000 personnel in May, consistent with April hiring, while the unemployment rate held at a historically low 3.6 percent for a third consecutive month. Continued job creation is an important baluster amid economic turbulence stemming from elevated inflation and rising interest rates. June will likely bring the year's third rate hike from the Federal Reserve, as well as marking the start of quantitative tightening. Higher interest rates are beginning to temper sales in the housing market, while price increases are weighing on consumer sentiment and personal savings. Retail spending has nevertheless continued to advance in real terms in recent months, bolstered by climbing wages, reflecting an overall positive economic trajectory.

Structural forces underscore space demand. Multiple factors continue to enhance the needs of renters and tenants for a range of commercial spaces. The ongoing housing shortage, underlined by millennial family formation, drives demand for rentals, while the aging of the baby boomer generation emphasizes the necessity for medical offices and seniors housing. The removal of most mask mandates and other health restrictions, particularly in the Northeast and along the West Coast, is supporting foot traffic at retailers, hotels and offices. Across most property types, construction is also falling short of demand, hindered by shortages of materials and labor, aiding vacancies and rents.

Investment plans become more dynamic amid tighter margins. Strong property fundamentals are continuing to draw investor interest, keeping cap rates at historically low levels across most property types. As such, higher interest rates are pinching yield spreads, emphasizing the importance of value creation on behalf of buyers. Some investors are focusing more on properties where rents can be frequently adjusted, as is the case with multifamily, self-storage and lodging. At the same time, retail and office spaces are poised for a potential absorption lift from tenants later in the year, which could present some upside opportunity for buyers.

Developing Trends:

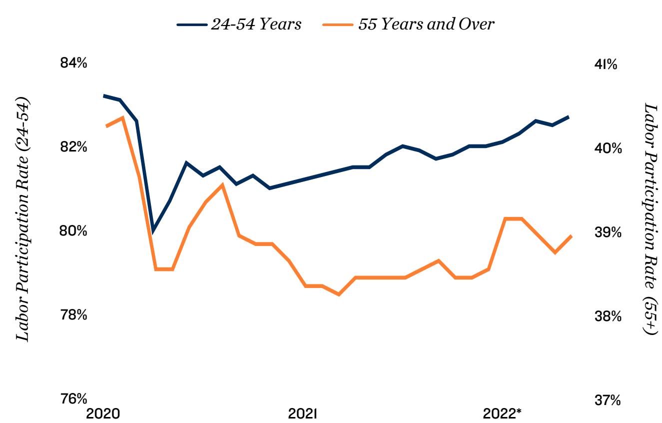
Core working ages participating at nearly pre-pandemic levels. The ongoing recovery in labor participation continues to be focused among the prime working age groups. The labor participation rate for those between the ages of 24 and 54 has closed in on the pre-pandemic high more rapidly than for the older cohorts. At 82.6 percent in May, the measure is only 40 basis points below the February 2020 rate. The shortfall for those over the age of 54 is more than three times as wide, with many individuals having retired early during the health crisis. Backfilling those workers with recent college graduates and young adults will take time, weighing on overall labor participation in the short term.

Wages advance at a tempering rate, aiding inflation outlook. Average hourly earnings continued to climb in May, up 5.2 percent year-over-year. The pace of wage increases is nevertheless decelerating, down from a yearly clip of 5.6 percent in March, lessening overall inflationary pressure. A slowdown in wage growth enhances the prospects that the trajectory of price increases will begin to decline.

2.4 Million *Jobs Added Year-to-Date in 2022*

822,000 *Jobs Short of February 2020 Total*

Older Individuals Participating Less in Labor Force



* Through May

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; RealPage, Inc.