RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

JULY 2023

Sturdy Labor Market Sustains Positive Momentum for Multifamily and Retail

Employment growth strong, but down from recent periods. Monthly hiring dropped below the 300,000 mark for the fourth time this year with the creation of 209,000 jobs in June. While the softest period for employment growth since December 2020, June's total is still well above the past 30-year average of 126,000. Staff additions were led by 60,000 new public sector positions, while payroll gains in private industry were most apparent in healthcare, social assistance, and construction. Amid this hiring, the unemployment rate dipped 10 basis points to 3.6 percent, staying within the 3.4 percent-to-3.7 percent band maintained since March 2022. A still-tight labor market is translating to above-average year-over-year wage growth of 4.4 percent, which has been sustained since April, supporting household budgets.

Positive signs mount for multifamily sector. As average hourly earnings keep rough pace with core PCE inflation, households may be gaining some financial confidence. Household formations, which slowed to an estimated year-over-year total of 790,000 in the second quarter, are projected to climb back above one million by year-end. This threshold was consistently surpassed from 2011 to 2016, a period which correlated with a 110-basis-point drop in U.S. apartment vacancy and 29 percent jump in the average effective rent, all amid a 7.1 percent increase to multifamily stock. While renter demand regressed some last year, leasing activity has improved so far in 2023. Preliminary data from May shows that the number of renter leads is rising, helping hold vacancy steady despite an increasing pace of construction. Given low for-sale single-family inventory, rising housing demand is set to support the multifamily outlook, both this year and beyond.

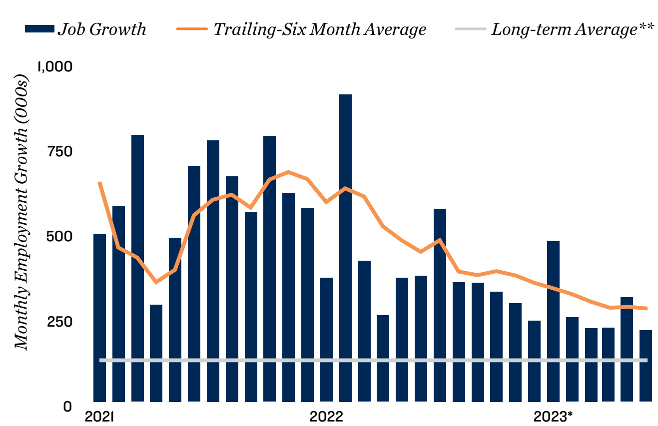
Current shopping trends could be waylaid by student debt. Climbing consumer spending on necessities and dining, aided by income security from historically tight unemployment, is supporting value retailers, drug stores, grocers, and social dining venues. Retail space demand is generally ahead of modest construction, aiding property fundamentals. A new upcoming headwind has emerged, however, in the October resumption of student loan payments. As an average monthly payment can range from $200 to over $2,000, depending on education level, this constitutes a major expense that could weigh on holiday shopping. Discretionary retailers could feel the most impact until budgets adjust.

Developing Trends

Cut hours and temp roles foreshadow further hiring slowdown. While June job growth was strong historically, the labor market is showing signs of softening. Overall labor force participation has not improved since March, and may not climb much in the near future as less engagement from older individuals will be difficult to replace in the short-term. The number of people working part time for economic reasons also increased by 12 percent last month, as some businesses cut hours. The most recent measure of job openings showed a decline as well, while the number of temporary help positions continued to decrease in June. Such a trend has, in the past, foreshadowed larger job contractions. Ultimately, these factors imply that employment growth will continue to downshift into a slower place as the year progresses.

June employment gain supports July Fed rate hike. While a step back in hiring aligns with the Federal Reserve's goal of cooling the labor market to temper inflation, sustained high wage growth does not. To further taper upward pricing pressure, Wall Street participants currently expect the Federal Open Market Committee to raise the overnight lending rate another 25 basis points at its July meeting. Such a decision would maintain high capital costs, although the small magnitude of the hike should minimize the broader disruption to in-progress transactions among borrowers and lenders.

Pace of Job Creation Continuing to Moderate



* Through June ** Long-term average for June 1993 to June 2023
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; RealPage, Inc; U.S. Census Bureau