COMMERCIAL REAL ESTATE ADVISORS

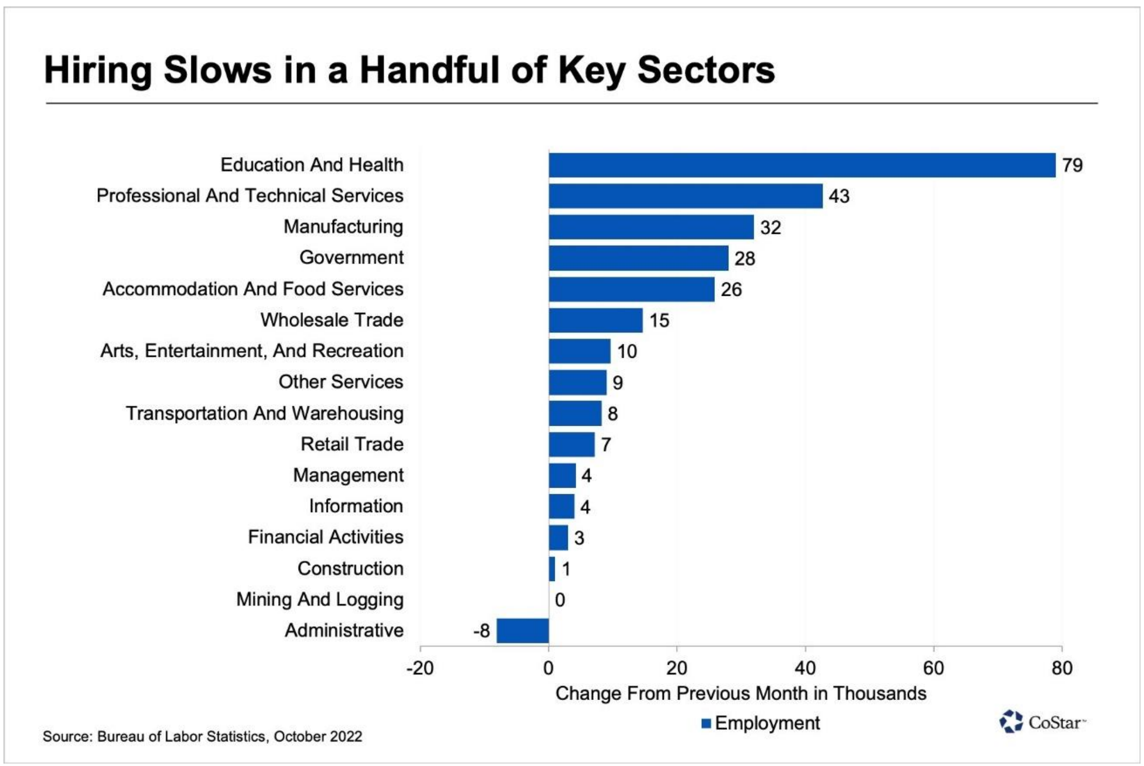
"Taking Tenant Representation to the Next Level"

JMS NEWS BLOG

CRACKS FINALLY APPEAR IN THE JOB MARKET

Don't be fooled by the strong jobs report that arrived last Friday.

While nonfarm payrolls grew by 261,000 positions in October, and revisions to the prior two months added another 29,000 positions, 40% of the net new jobs were in the most counter-cyclical sectors — education, health care and government, which are mostly population-serving sectors — where employers have faced hiring challenges and significant backlogs of openings remain unfilled.



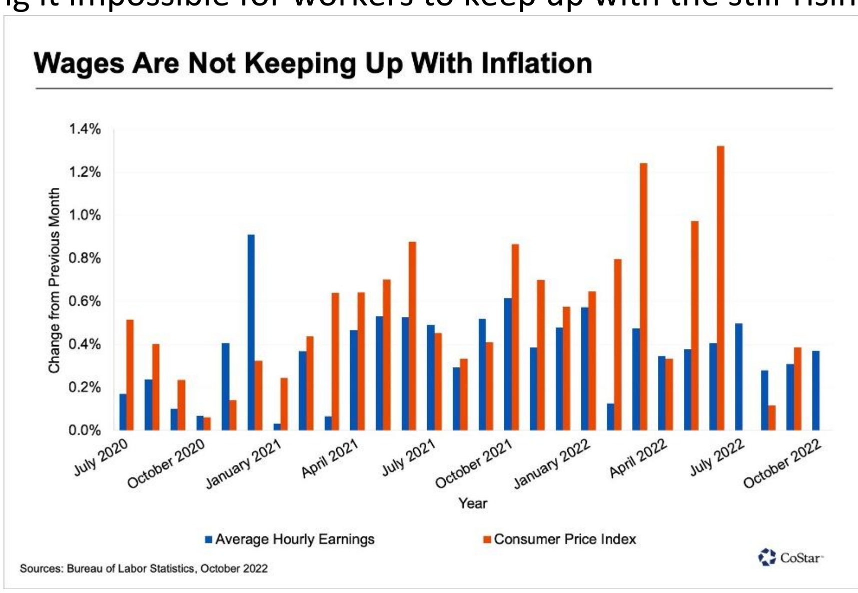
Employment in health care has experienced among the fastest growth over the past two decades due to increasing demand for medical and social services from an aging population. But most of these jobs tend to be lower-wage positions, and workers have been reluctant to return to them or have chosen other occupations that offer better pay, making it difficult for firms to fill positions during the prolonged labor shortage. Much of the hiring in October occurred in ambulatory health care services, including doctors' offices, dentists and walk-in outpatient care centers, which are driving demand for medical offices, and in many cases, retail space. Hospitals, meanwhile, are continuing to face staffing challenges amid concerns that they will be overwhelmed this winter with an onslaught of respiratory viral infections, seasonal flu and COVID cases.

Education providers, including public schools, have faced similar hiring issues. Relatively few positions here offer the type of hybrid or partially remote work arrangements that some workers prefer.

So to some extent, continued hiring in these sectors is just making up for lost time, and is not a true indicator of a healthy economy. Indeed, the number of monthly job gains was the smallest since April 2021, and the three-month moving average has been falling since the beginning of the year and is now at its slowest rate since December 2020.

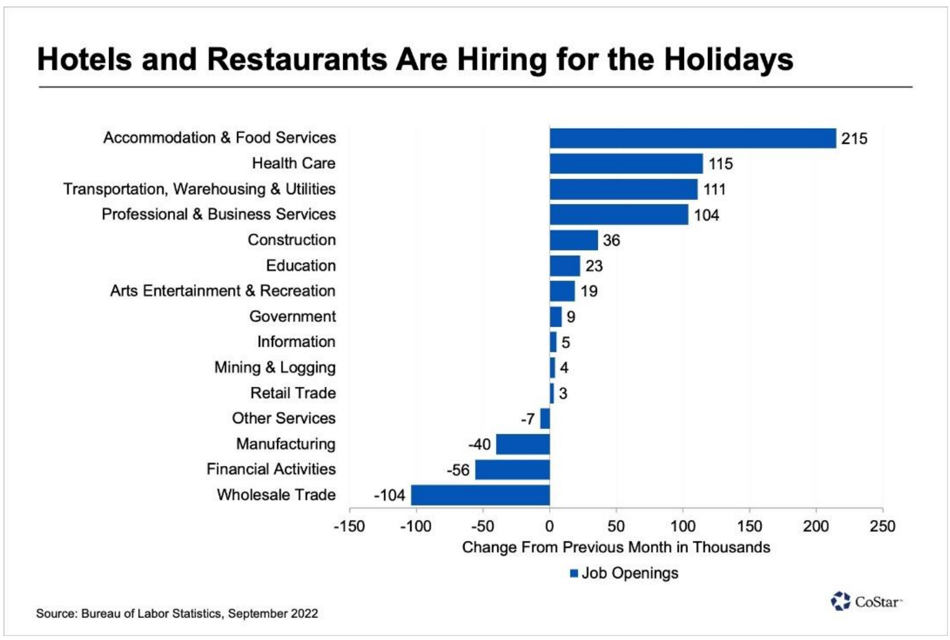
Still, several sectors have maintained strong hiring, including professional and technical services, where most jobs were added in the tech sector and in architecture and engineering. In the past, these jobs were demand drivers for non-medical office space, but that hasn't been the case recently as remote working arrangements have allowed many firms to downsize their footprints. More recently, tech firms have announced numerous layoffs as their earnings outlooks soften, so these lofty job gains may well be a thing of the past.

But the more troubling side of the October jobs report was the wage growth it reported. Average weekly earnings grew by 0.4% in October, or an annualized rate of roughly 4.4%, and was up from September's 0.3% gain, which in any other time would be celebrated. But with inflation still running at a four-decade high, real wages are falling. Monthly price increases have exceeded wage gains for 16 of the past 22 months, making it impossible for workers to keep up with the still-rising cost of living.



Despite any slowdown occurring in hiring, the Federal Reserve is paying closer attention to job vacancies. These have come down a bit since reaching a historic high of 11.7 million in April this year, but they remain elevated. In September, openings actually rose by 437,000 spots — a move in the wrong direction. However, the increase was mostly confined to a handful of sectors. For example, with the holidays approaching, employers in hotels and restaurants added 215,000 job listings. Health care workers remain in demand as vacancies have never been fully staffed since the pandemic, and transportation and warehousing jobs are on the rise as online shopping ramps up yet again.

Until more meaningful slowdown in job gains and job openings occur, the Fed is likely to continue its monetary tightening program.



WHAT WE'RE WATCHING ...

The inflation report for October, due on Thursday , is forecast to show prices moderating somewhat over the year but could perversely show an acceleration over the month as energy prices have once again inched higher. But increases in the core consumer price index, which excludes food and energy, are likely to slow in both monthly and annual terms. This would be welcome news to just about everyone, but it would be only one small step in the right direction.

CoStar Economy is produced weekly by Christine Cooper, managing director and chief U.S. economist, and Rafael De Anda, associate director of CoStar Market Analytics in Los Angeles.