RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

JANUARY 2022

Labor Market Tightens Further, Fostering Upward Pressure on Wages, Interest Rates

In rare feat, unemployment drops below 4 percent. Employers added 199,000 personnel to payrolls in December, below the 2021 monthly average of 537,000 jobs, while the unemployment rate fell 30 basis points to 3.9 percent. Of the past 22 years, fewer than three have been spent with sub-4 percent unemployment. The tight labor market is also reflected in the surplus of job openings, last counted at 10.6 million, compared to 6.3 million people actively seeking work. Closing that gap will take time and may impede the recovery of certain commercial property types, as many retailers, hoteliers and medical practices look for staff. At the same time, more people earning incomes fosters household formation, benefiting apartment demand.

Recent hiring indicative of strong industrial space needs. The transportation and warehousing sector grew by 19,000 personnel last month, raising the total headcount to 218,000 above the February 2020 level. Robust hiring in these fields reveals just how quickly consumer demand has recovered following the brief pandemic-induced economic downturn. Demand for distribution and logistics services as well as warehousing space has driven sharp vacancy reductions at industrial properties, including in smaller cities. Vacancy in tertiary markets fell 90 basis points between the end of 2019 and September 2021, compared to a 70-basis-point drop in primary metros. Strong residential growth in many of these smaller markets has largely outstripped development.

Office tenants continue to hire staff; in-person return delayed. Ongoing job growth in professional and business services has lifted the traditionally office-using sector close to its pre-pandemic headcount. This recovery has not yet translated to office properties, however, as many positions remain remote. Multiple companies, including those that had previously brought staff back in, recently asked employees to stay home amid the rapidly spreading omicron variant of COVID-19. Roughly 168 million square feet of office space has been vacated since the start of the pandemic, although absorption turned net positive in the third quarter of 2021.

Additional Trends:

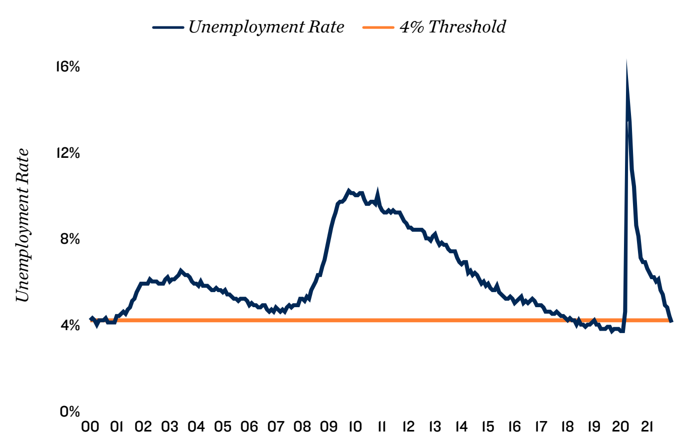
Labor participation subdued despite low unemployment. While the unemployment rate has contracted to just 40 basis points above the pre-pandemic rate, labor participation has not fully recovered. The employment-to-population ratio was at 61.2 percent in February 2020, compared to 59.5 percent at the end of 2021. In order to bring the ratio back up to that previous rate, about 4 million more people would have to be working. One strategy of enticing people back into the workforce is wage increases. Average hourly earnings rose 4.7 percent in 2021, well above the pre-health crisis mean of 2.5 percent.

Falling unemployment bolsters Fed's policy change. Job openings in excess of job seekers and a sub-4 percent unemployment rate imply the economy is essentially at full employment for the current pandemic situation. This underscores the Fed's recent decision to accelerate its tapering of support programs, as well as plans to hike lending rates more than once this year. The anticipated upward movement in interest rates should not curb commercial real estate investment activity as spreads remain wide.

3.9% *Unemployment Rate for December 2021*

18.8 Million *Jobs Created Since April 2020*

Unemployment Breaks Below Rare Threshold



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics