RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

APRIL 2019

Labor Deficit Boosts Wages; Invigorates Hiring in Tertiary Markets

Job growth rebounds in March; pace of hiring moderating. Removed from the disrupting effects of the partial government shutdown and winter storms, U.S. employers created a combined 196,000 jobs last month, well above the 33,000 personnel who were added to payrolls in February. Employment gains for the first quarter bring the average monthly total to 180,000, down 19 percent from the first quarter of 2018. The decline in hiring is in line with the current year-end forecast of about 2 million jobs.

Labor shortage curbs onboarding but lifts wages. Employers' aggressive hiring plans are being thwarted by a shortage of people looking for work, slowing employment growth. The labor shortage works to the advantage of commercial real estate by adding upward pressure to wages. Average hourly earnings improved 3.2 percent over the past 12 months. Such a sustained period of growth has not occurred in a decade. Higher wages are bolstering discretionary spending, increasing the demand for retail stores, apartments, and other properties.

Employment gains coming to smaller markets. In contrast to earlier in the economic cycle, the majority of jobs are going to the country's smallest metros instead of the largest. Since 2016, nearly 50 percent of new positions have been in tertiary markets. The current labor deficit has motivated some companies to move to where the prospective hires reside instead of trying to recruit prospects to major cities. Employers can recoup some of the expenses of an office relocation or expansion through the lower operating and living costs often found in these smaller settings. Investors benefit as well. Since much of the post-2010 commercial development has been confined to primary metros, less new supply is being added in several of these more modest cities. While some businesses are building to suit, others are renting existing space, driving down vacancies and lifting rents.

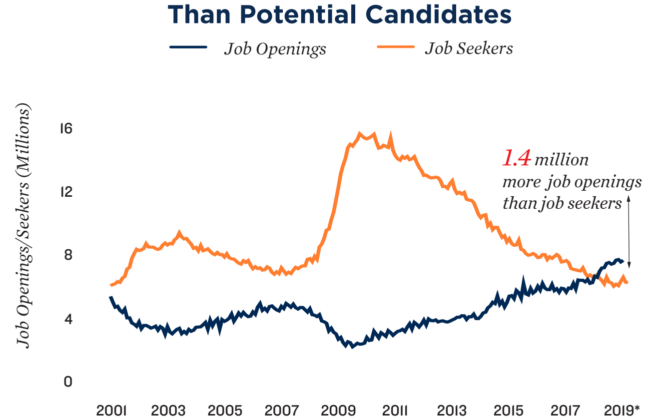
Developing Trends

Data suggests the economy is at effective full employment. The unemployment rate remained flat month-over-month, at 3.8 percent, and has not moved out of the 3.7-to-4.0 percent band in a year. Other measures of joblessness, such as the total number of people marginally attached to the labor force and the underemployment rate, remained little changed in March. These factors suggest that the economy is at effective full employment, with little slack left in the labor pool to propel vast hiring.

Employment growth fuels new economic activity, benefiting commercial real estate. The creation of 2.5 million jobs over the past 12 months at a 3.2 percent higher average wage has supported the formation of 1.3 million households, $10 billion in additional core retail spending, and 85.5 million square feet of new office leases. The added jobs and discretionary spending have also boosted both commercial and leisure travel, lifting hotel occupancy to the highest level on record dating back to 1988.

180,000 *Average Jobs Added Per Month in the First Quarter*	3.2% *YOY increase in Avg. Hourly Earnings in March 2019*

More Open Positions Than Potential Candidates



** Job Seekers as of March; Job Openings as of January*
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics