RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT JULY 2019

Robust Job Growth Underscores Confidence in Apartment, Retail Sectors

Recent hiring trends fall below pre-tax stimulus job growth. Employers created 224,000 jobs in June, bringing the total so far this year to 1.03 million. That is the lowest first-half sum since 2010, although comparable periods in 2016 and 2017 reported only slightly higher employment growth. The fiscal stimulus from tax reform encouraged greater hiring in 2018, but as those effects fade, staffs are expanding at a slower pace, further hindered by historically low unemployment.

Tight job market keeps Class C multifamily vacancy low. Greater employment and continued household formation are driving housing demand, particularly for rentals. Unemployment and apartment demand continue to move in sync as individuals with a range of experiences and education levels find opportunities. The correlation is especially strong for Class C units, which serve the broadest renter pool. The second quarter ended with a 3.7 percent unemployment rate and a Class C vacancy rate of 3.5 percent, a near-20-year low. High renter interest and limited availability are propelling effective rents up at a class-leading pace.

Higher earnings bolster discretionary spending, driving demand for retail services. Tight labor market conditions support an annual pace of wage growth above 3 percent, helping lift retail sales by a similar margin. Spending is improving at an even faster rate at restaurants and bars, up 3.6 percent year over year in May. Consumers continue to gravitate toward social experiences and the convenience of eating out, making dining an important driver of foot traffic for retail centers. Spending in grocery stores is also rising at a steady clip, prompting more store openings, especially for smaller format locations. Solid demand factors paired with subdued retail construction will contribute to one of the lowest vacancy rates in 20 years at the end of 2019 and rent growth above the cycle average.

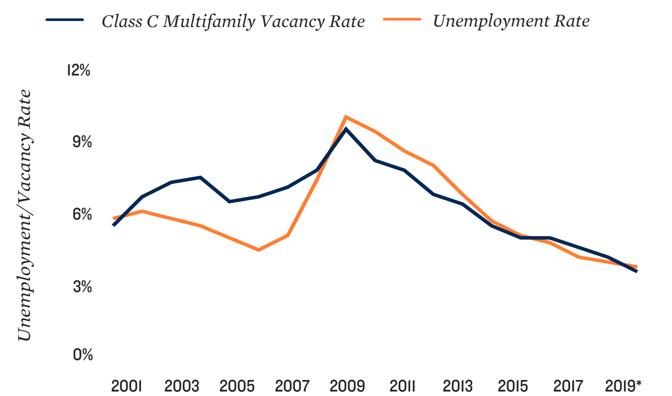
Developing Trends

Labor market entrants decline amid hiring shortage. Total job openings continue to surpass the number of unemployed by about 20 percent. The strength of the labor market is empowering employees to change jobs more frequently, raising the number of people quitting their current position in favor of another. At the same time, the labor pool has tightened due to factors such as education. Labor force participation for people between the ages of 20 and 24 is lower compared with past cycles as more young people stay in school longer to obtain advanced degrees.

Higher earnings, trade tensions raise inflation risk. Stable wage growth aided by a labor shortage and the impact of existing tariffs may be behind the recent appreciation in consumer prices. Core CPI rose 0.3 percent in June, the highest monthly increase since January 2018, for a 2.1 percent annual gain. Inflation has been subdued this year despite upward economic pressures, which could begin to manifest in the near future.

3.7% *June 2019 Unemployment Rate*	3.5% *2Q 2019 Class C Apartment Vacancy*

Class C Multifamily Vacancy Closely Aligns with Unemployment



** Through 2Q*
Sources: Marcus & Millichap Research Services; RealPage, Inc.; Bureau of Labor Statistics

Follow Us on Twitter @MMReis