RESEARCH BRIEF

EMPLOYMENT | **JANUARY 2020**

More People Emerge From Sidelines To Join Historically Strong Job Market

December job additions affirm steady growth for 2019. Employers expanded payrolls by 145,000 positions in December, bringing the total number of jobs created in 2019 to 2.1 million. That is below the total for 2018 but close to the number of roles added in 2017. The moderate but steady pace of employment growth sustained the 49-year low unemployment rate of 3.5 percent in December.

Historically tight underemployment fuels housing demand. While the standard unemployment rate maintained its nearly 50-year record last month, the more broad-based U-6 underemployment rate declined to an all-time low of 6.7 percent. This historic decline was driven by the hiring of people who had given up looking for work as well as the promotion of part-time employees to full-time positions. By accepting recruits from underutilized segments of the labor pool, companies are granting new financial freedoms to many, benefiting commercial real estate, especially multifamily properties. The new employment opportunities are supporting an elevated level of household formation, reducing the availability for apartments and Class C units in particular, where vacancy is at a record low.

Low inflation pulls down on wage growth. The tight labor market continues to challenge employers, with some raising pay to attract talent. Average hourly earnings advanced 2.9 percent year over year in December, an appreciable gain that was marginally below the pace of previous months. A major limiting factor to wage growth has been the lack of inflation, which has remained abnormally low this cycle. Yet, even without an inflation-driven boost to earnings, consumers are still spending more. Confidence in the economy remains high and the commonly tracked ratio of household debt to GDP is at its lowest level in more than 15 years. This trend underscores the demand for shopping centers and entertainment venues, as well as hotels and storage facilities.

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Developing Trends

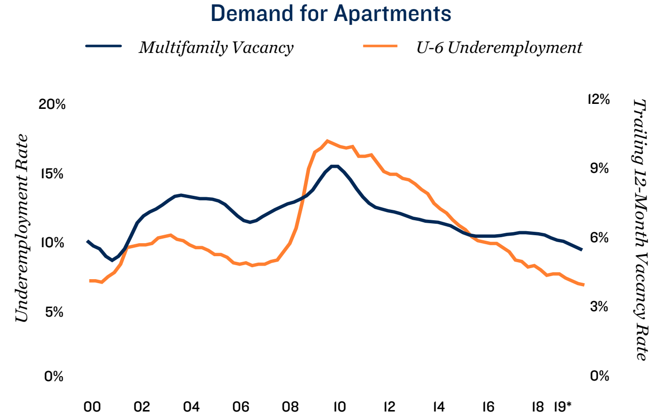
Labor shortage continues to change hiring dynamics. Employers are bringing on fewer personnel not because their needs have diminished, but rather due to an ongoing labor shortage. A surplus of job openings relative to potential hires has hindered recruiters for more than a year, prompting companies to raise pay and benefits. Firms are also taking advantage of underutilized segments of the labor pool by opening satellite offices in smaller cities and recruiting individuals with long job absences or limited employment histories.

Minimum wage hikes lift earnings for many. On January 1, the minimum wage increased in 21 states and 26 cities/counties, affecting a broad swath of the labor force. Average earnings should noticeably improve in January as a result. Over the next five years, at least five states will raise their minimum wage to $15 per hour, beginning with Washington, D.C., in July 2020. Pay will also appreciate in several other states that index to inflation.

175,700 *Average Number of Jobs Added Per Month in 2019*

1.4% *Y-O-Y Rate of Employment Growth*

Falling Underemployment Bolsters Demand for Apartments



* *Estimated vacancy value for fourth quarter*
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; RealPage, Inc.