May 12, 2016 | Andrew J. Nelson, Chief U.S. Economist

WHERE WE ARE: Focus on Employment

With investors and analysts digesting last month's disappointing first quarter GDP estimates and hoping for better in the rest of 2016, attention moved to secondary indicators and global growth estimates. Of note, GDP in the Eurozone (+1.6% annualized) surged past that in the US (0.5%), though many economists expect the Eurozone GDP to slip in Q2 while the U.S. regains its momentum. The GDPNow forecast for Q2 GDP published by the Atlanta Fed has jumped to 2.2% based on strengthening consumer spending and business investment. On the other hand, Europe is expected to slow from its relatively strong Q1 growth, in part due to fears over Brexit - Britain's vote to potentially leave the EU. Meanwhile, China seems to be rebounding from its slowdown in late 2015 as Beijing's economic stimulus kicks in.

Back to the U.S., the important news was on the job front – the single most important set of metrics for the property sector, both for generating demand for space and as a barometer of economic strength. Nonfarm payrolls gains slowed modestly in April to only 160,000 after averaging over 200,000 per month in Q1. The economy has now added jobs for 67 straight months, while the private sector has done even better with 74 months in a row, both all-time U.S. records. Some economists were concerned that the number of people working or actively looking for work fell by 362,000 in April, pushing the labor force participation rate down slightly after several months of gains.

Do smaller job gains and lower participation rates risk derailing the job growth streak? Probably not. The Job Openings and Labor Turnover (JOLT) metrics closely followed by the Fed show continued strength. Job openings track how much hiring firms want to do, while labor turnover tracks worker willingness to leave one job for another, and thus is a measure of worker confidence in the economy. As shown in the graph, job openings (in blue) are at their highest level over the past two cycles in this century, while the quit rate (in red) is just off its post-recession peak. Together, they suggest strong conditions for both the supply and demand for labor.

The other positive employment news is actually a double-edged sword: rising wages. Average earnings are now up 2.5% over the past year. Not great, but well ahead of inflation and a clear gain from a year ago. So, good for workers and a positive indicator for the economy, but with two clear downsides. First, wages are rising just as corporate profits are falling, which could further dent profits and ultimately slow job gains. Also, rising wages could ultimately fuel inflation, which would present a challenge if inflation surged as GDP was slowing, the dreaded return of "stagflation." Not likely, but something the Fed will watch closely. More insights may be found here:

Job Openings and Labor Turnover – March 2016 (BLS)

The Job Market Cooled In April But Is Still Strong (FiveThirtyEight)

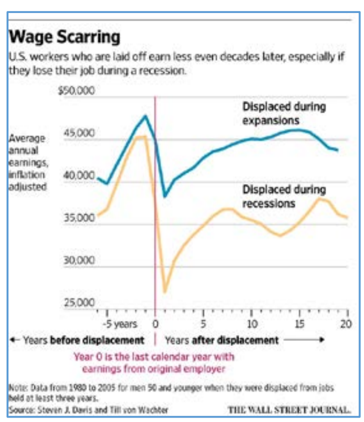
CHARTS OF THE WEEK

Chart #1: "Job Polarization" – Jobs are rising for unskilled workers and especially for highly skilled and highly educated workers, while jobs for those with lower skills or education are stagnating:

Source: "FRED" (Federal Reserve Bank of St. Louis) and Bureau of Labor Statistics.

"Middle-skill occupations such as manufacturing and production are declining and both high-skill and low-skill occupations such as managers and professionals on one end and personal care services on the other are growing. . .This process . . . is driven by both automation and offshoring. Automation reduces routine jobs because repetitive tasks are easily performed by machines or computers. Offshoring reduces low- and mid-skilled labor-intensive jobs because these tasks may be performed more cheaply or efficiently in foreign countries." From: [The FRED Blog: Job Polarization]

Chart #2: "Wage Scarring" – Workers' potential for recovering from a layoff depends greatly on at what point in the cycle they lost their job:



Source: Steven J. Davis and Till von Wachter via the Wall Street Journal.

"Millions of Americans face a phenomenon economists sometimes call wage scarring. People who lose a job, even during economic expansions, usually earn less money when they re-enter the workplace. They are out of work for a time and often take a pay cut as the price of returning to work at a new employer or even in a new career." From: [The Recession's Economic Trauma Has Left Enduring Scars]

OTHER WORTHWHILE READS

ECONOMIC NEWS AND VIEWS

The Economic 'Recovery' Is Over (My blog on Knowledge Leader)
"It's time to retire the term 'recovery' as it relates to this economic cycle. On most counts, the U.S. economy is stronger now than it was in 2008 at the peak of our last cycle. Although economic growth since the recession has been moderate and fitful, cumulative growth has been substantial. It's no wonder consumer confidence is now above its long-term average."

Workers Are Getting a Bit More of the Economic Pie . . .and Shareholders Less (New York Times)
"American workers are reaping fewer of the gains of a growing economy in the form of pay and benefits. Shareholders are reaping more in the form of corporate profits. That shift has been one of the most important economic stories of the last several decades . . . [But] that trend appears to be reversing itself."

The Economy's Crisis Ended Under Obama, But Its Long-Term Problems Didn't (FiveThirtyEight)
"Nearly seven years after the recession ended, the recovery has been at once impressive in its resiliency and discouraging in its failure to gain speed . . . [But] Obama inherited two distinct sets of economic problems when he took office: the ones the recession caused, and the ones it merely laid bare. He has made far more progress on the first set."

Why Is Productivity So Weak? Three Theories (New York Times)
"Even with years of hindsight, economists are never quite sure why productivity rises or falls . . . But the possible answers range from utterly depressing to downright optimistic."

PROPERTY MARKETS

What This Recovery Means for Commercial Real Estate (My article in Institutional Investor)
"We're getting to the end of this economic cycle. Analysis of current conditions and historical cycles suggests that even if a recession seems unlikely in the near term, we're clearly closer to the end of this expansion than the beginning. Investors sitting on underperforming assets waiting for the cyclical recovery to bail them out might be waiting a very long time."

Is San Francisco Punching Above its Weight? (My article in GlobeSt.com)
"Despite its reputation for left-wing, "anti-business" politics, in fact, investors view San Francisco very positively as a great market . . . But here's the kicker: The City by the Bay is far, far smaller than all of the cities with which it is routinely compared."

Changing Times (My blog on Knowledge Leader)
"Technology has both enabled and encouraged new retailing business models at the same time that financial conditions have forced households to deleverage and rethink their shopping habits, changing how, where and how often they shop. This creates a myriad of challenges for the incumbent players stuck in old operating modes, as well as abundant opportunities for new and existing players bold enough to innovate."

How Startups Are Forcing Change In Commercial Real Estate (Forbes)
"The startup market is forcing CRE professionals to rethink their strategies. Historically, the brokerage industry hasn't had strong incentives to help startups find the kind of spaces they require. In fact, brokers' motivations are often *misaligned* with the needs of startups."