The January Jobs Report: Lots to Like! But Still . . .
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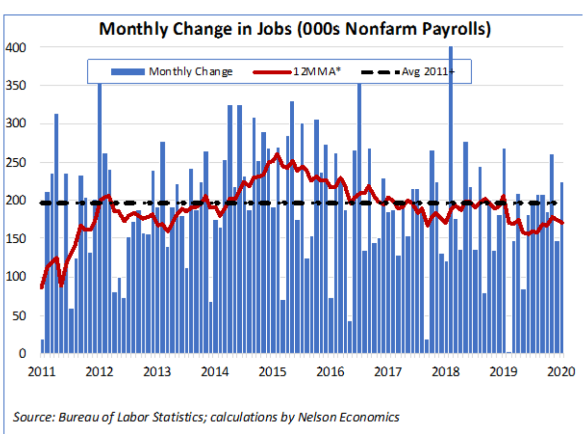
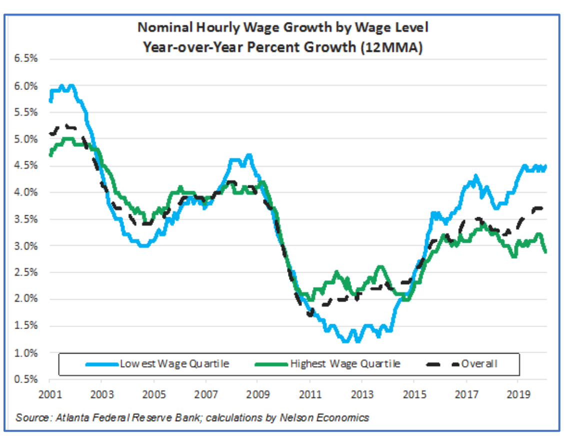
- *The January jobs report was surprisingly positive, with a significant jump in new hires, a slight bump in hourly wage growth, and continued rise in people entering the labor force. Meanwhile, unemployment remains near its lowest level in five decades.*
- *These trends are all positive for property markets and the broader economy.*
- *Nonetheless, on deeper analysis, the trends are not nearly as positive as they seem on first blush: job openings are falling along with business sentiment, suggesting job growth will to slow further this year. Despite the blip in January, the rate of job creation has been slowing for more than four years and remains well below trends from earlier in the economic cycle.*
- *Wage growth remains below its 2019 average and earnings are flat due to falling hours worked.*
- *While we can applaud the modest improvement in the job picture last month, it does not negate the weakening labor market overall. Based on these trends, we can expect CRE leasing to slow in 2020.*

Viewed as snapshot in time with a narrow-focus, there's plenty to like in the BLS's January jobs report: The number of jobs added to payrolls jumped above recent trends (and expectations), and wage growth picked up slightly. And though unemployment ticked up, it was for a good reason, as strong hiring encouraged more people to enter the labor force.

The key data: The nation added 225,000 jobs in January, up from less than 150,000 in December and almost a third above the 175,000 monthly average last year *(chart below on left)*. January marked the 112th consecutive month of positive job growth, by far the longest stretch in our history.[*]

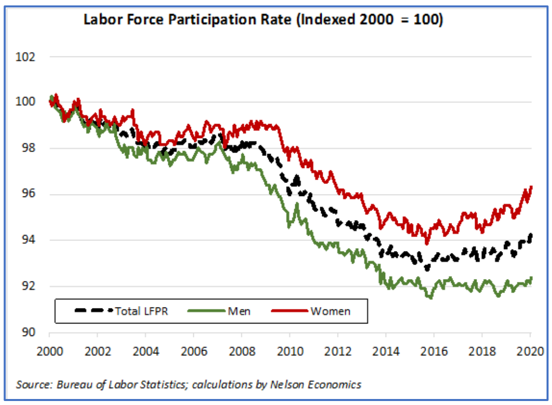


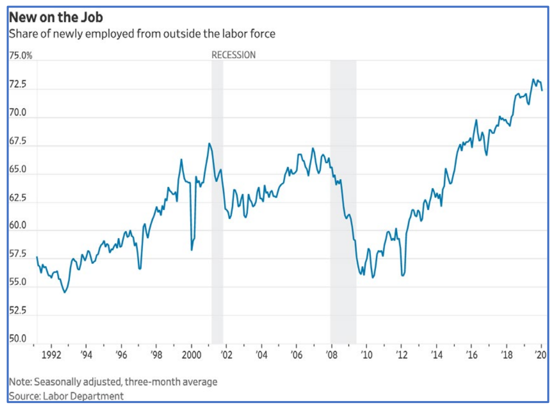


[*] As in most any run like this, a bit of luck is involved. In this case, the BLS's annual data revision shaved 56,000 jobs off the February 2019 job growth figure, to a revised gain of just 1,000 jobs in the month – barely keeping the streak intact. Overall the revision cut the estimate of total jobs in the economy by 514,000 (or 0.3%), but the estimate of jobs created last year was reduced by just 12,000, with small net gains in November and December 2019.

And wages, as measured by average hourly earnings, grew 3.1% year on year in January, up from 3.0% in December. Even more positive is that wage growth for lower-paying jobs (lowest 25% of wages) continues to outpace growth for higher-wage earners (top 25% of wages), a trend that began in early 2015 and has continued to widen *(chart above on right)*.

Meanwhile, unemployment at 3.6% remains near its lowest level in five decades. But perhaps the best news is the continuing recovery in the labor force participation rate ("LFPR"): the share of the population that is either working or looking for work. After peaking in 2000, the LFPR fell steadily through late 2015, particularly after the Great Financial Crisis. But labor force participation has been edging up in the last two years *(black line in chart below on left)*, though the gains have been much greater for women than for men *(red and green lines, respectively)*.





Related to the rising LFPR is that a record share of new hires are coming from outside the labor force, that is, not previously working or looking for work *(chart above on right)*. This helps explain why wage growth has been relatively modest in this cycle despite historically low unemployment rates. Since employers apparently need not increase pay significantly to attract qualified workers, this trend suggests there is still room for continued job growth without inflationary wage growth.

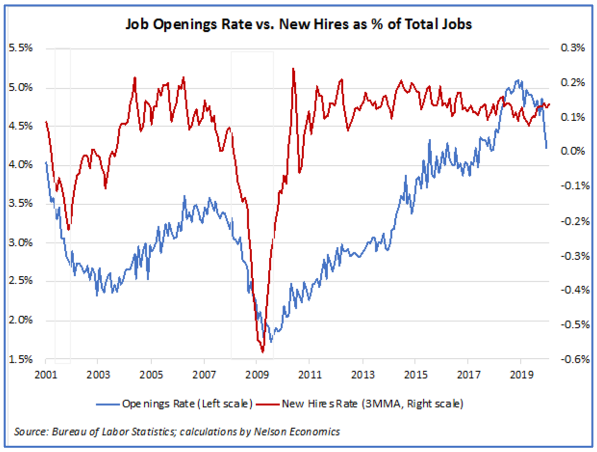
A greater share of the population working benefits the economy in three main ways: faster potential GDP growth, greater household income equality, and reduced draws on government social programs. This trend is very positive for commercial real estate as well. Job growth is the single most important driver for property demand. It's what put more households in apartments, more workers in office buildings, and gives spending power to consumers to spend at shopping centers.

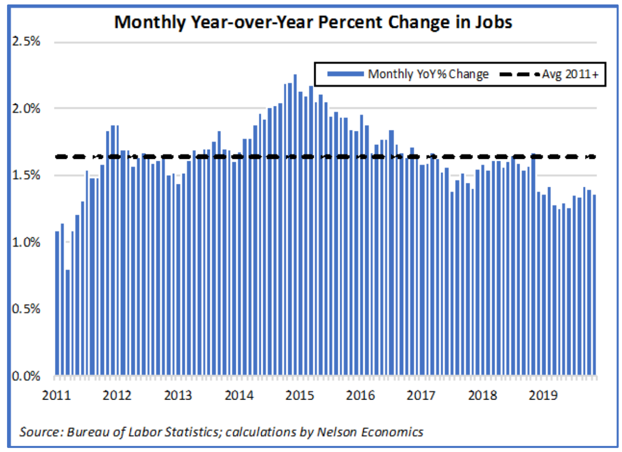
But on the Other Hand . . .

This was all certainly welcome news after the somewhat disappointing 4Q19 GDP report. But before we get too excited, some perspective is in order. First, January's job creation was aided by the unusually mild weather. We know this because weather-sensitive sectors like construction and hospitality accounted for a disproportionate share of total growth. Thus, assuming a reversion to normal weather patterns in February, we can expect job growth to revert to return to its prior – and slower – pace.

Second, further indication that job growth will continue to slow is suggested by the declining rate of job openings *(blue line in chart below on left)*. After peaking in late 2018 at its highest level since the BLS began publishing this data in 2000, the job openings rate (as a share of total jobs) has been falling and the drop-off has been especially sharp over the last two months. These figures track closely with business sentiment surveys that show declining hiring intentions. In all, the job openings rate is down 17% from a year ago.

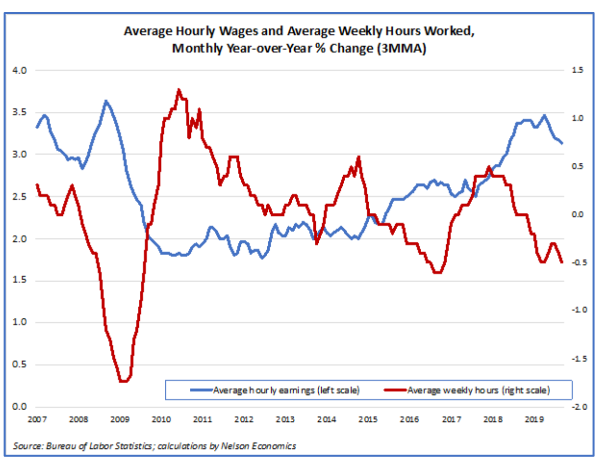
Third, though absolute job gains in January did jump above both its 3- and 12-month moving averages, the rate of job growth is still almost 20% below its average for this cycle and more than a third below the peak job generation rates reached in 2015 *(chart below on right)*. Despite a modest temporary pickup in 2018 following the passage of the federal tax cuts and stimulus spending, the job growth rate never rose to its pre-2017 cycle average. Manufacturing jobs have been especially weak.

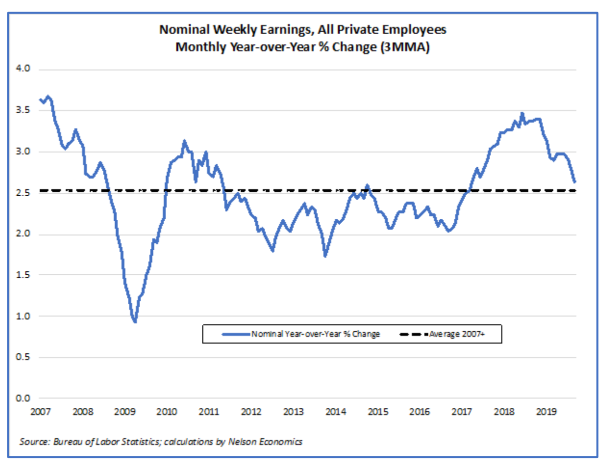




Similarly, while the growth in the work force has been positive for the economy and the labor market, the LFPR had barely edged since bottoming in 2015, and it's still [well below where we were 20 years ago](), and even further [below other leading industrialized nations](). Blame drug dependency and disabilities, criminal records, automation eliminating low-skilled routine jobs, among other reasons.

Finally, while the uptick increase in hourly wages last month was a small step in the right direction, the longer-term trends have been less positive. Hourly wage growth has been falling since August *(blue line in chart below on left)*, while the average weekly hours worked has been declining for almost a year *(red line).* Putting these two trends together, growth in average weekly earnings has been declining since late 2018 *(chart below on right).* Moreover, wage growth in this cycle never did reach the levels achieved in prior economic expansions.





In summary, while we can applaud the modest improvement in the job picture last month, it does not negate the weakening labor market overall. Despite the stimulus-fueled pickup in hiring in 2018, job growth never reached the rates achieved earlier in the cycle, and wage growth never reached the reached the levels achieved in prior economic expansions. Lastly, all indications suggest that conditions are likely to weaken further this year. Based on these trends, we can therefore expect CRE leasing to further slow in 2020.