RESEARCH BRIEF
EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS

MAY 2022

Labor Slack Tightens to Pre-Pandemic Norms as Job Growth Sustains Steady Pace

Hiring continues amid low unemployment. Employers added 428,000 new jobs in April, on par with the previous month. While the employment base remains about 1.2 million positions short of the February 2020 headcount, multiple signs point to a recovered labor market. Last month 5.9 million people were unemployed, only 200,000 above the pre-pandemic mark. The underemployment rate also fell to 7.0 percent in April, matching the February 2020 level. This measure takes into account part-time workers seeking full-time roles and people who want a job but stopped looking. The shortfall in staffing is largely attributed to people who left the workforce entirely when the pandemic began, including early retirement. Even so, ongoing inflation may prompt some to return, especially as many companies are augmenting pay in order to fill some of the 11.5 million jobs that are currently open.

Job gains bolster housing needs. Employment growth was widespread last month, ranging from leisure and hospitality to manufacturing, logistics and health care. The broad-based hiring is benefiting household formations across incomes, driving demand for all types of apartments. Class A vacancy fell 250 basis points year-over-year to 3.0 percent in March, a record low. Availability for Class B and C units fell by 200 basis points to 2.4 percent and 2.0 percent, respectively. Absorption is occurring in both the suburbs, as some households seek larger living spaces, and in urban cores, with many employees returning to workplaces. Low vacancy is, in turn, sustaining double-digit Class A and B rent growth.

Sales, hiring demonstrate retail strength. Retail vacancy continued to contract in the first quarter, falling to 5 percent as more consumers ventured out. Reflecting the added shopping activity, inflation-adjusted core retail sales are up 15.6 percent compared to pre-pandemic. About 29,000 roles were created in retail trade last month to help meet the demand. So far, operations have recovered most in suburban settings, but as more offices reopen and business events are held, foot traffic to downtown stores should improve. Rent growth is expected to exceed historical averages this year.

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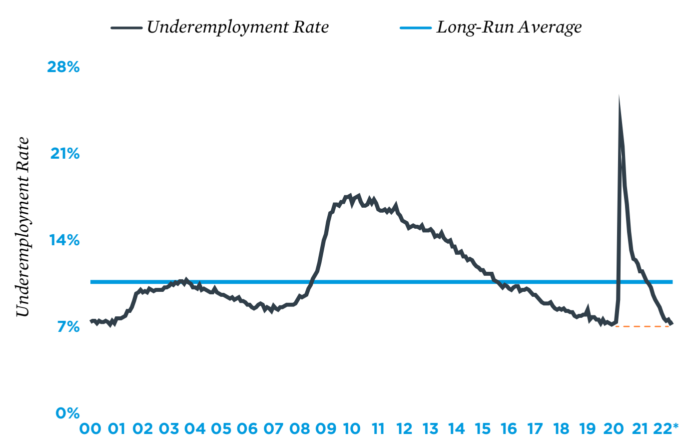
Fed continues to tighten monetary policy. The Federal Reserve executed its second of seven planned rate hikes for this year, raising the Federal Funds rate by 50 basis points to a target range of 0.75 percent to 1.00 percent. While this action should lift interest rates more broadly, cap rates remain low. Strong underlying performance fundamentals across many commercial property types and expectations for above average rent growth continue to support elevated trading volumes. Narrowing margins may prompt buyers to further widen selection criteria, including looking to tertiary metros. This aligns with current, favorable demographic projections.

Pace of future job gains reliant on labor participation. Acute demand for labor will continue to support employment growth despite tight unemployment, although the pace of hiring may slow further. During 2018 and 2019, when unemployment was often below 4 percent, job creation averaged under 200,000 per month. That may not be the case here, especially if labor participation increases. Some evidence points to recent retirees returning to the workforce.

7.0% *Underemployment Rate for April 2022*

10.2% *Average Underemployment Rate: 1955-2022*

Broadest Measure of Unemployment Normalizes



** Through April, all measures seasonally adjusted*
Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; RealPage, Inc.