RESEARCH BRIEF
EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS

NOVEMBER 2022

Employment Growth Held Strong in October, but Signs of Softening Sighted

Job creation robust in October. Hiring continued at a strong clip last month with the creation of 261,000 jobs, although the pace is decelerating. Employment growth averaged 562,000 positions per month in 2021 and 457,000 in the first seven months of this year. Since July, that tempo has moderated to 289,000, which is nevertheless about 60 percent above the 2010-2019 mean. Notable October onboarding occurred in professional and technical services, manufacturing and accommodation. The most staff additions were in the health care and social assistance sector, now surpassing the pre-pandemic high. As more industries pass this threshold, job growth is expected to slow overall, even as labor demand for certain professions stays high.

Demand for industrial properties still at a high level. The manufacturing sector has actually added more personnel on average each month of 2022 than in 2021, a contrast to most other industries. A renewed focus on reshoring from both the public and private sectors are helpful factors, although fewer shortages of raw materials and the grass-roots growth of the domestic electric vehicle industry deserve more of the immediate credit. Employment in transportation and warehousing also improved in October, reflecting higher overall demand for industrial space. The national vacancy rate for the property type has held under 4 percent for a year now, a record achievement, pushing asking rents up by an average of 16.4 percent in that same span. While the manufacturing outlook is bright, warehouse and distribution demand is set to taper as retailers shed excess inventory and consumer sentiment cools.

Fewer residential deliveries likely after 2023. Construction payrolls shifted by a negligible 1,000 roles in October, as jobs in specialty contracting fields were shed. This trend could spread more generally, as more difficult financing and a softer economic outlook are contributing to a recent slowdown in residential construction starts. While this is most pronounced in the single-family market, multifamily development is starting to follow. Although the current pipeline is potent, a drop at some point in 2024 is anticipated.

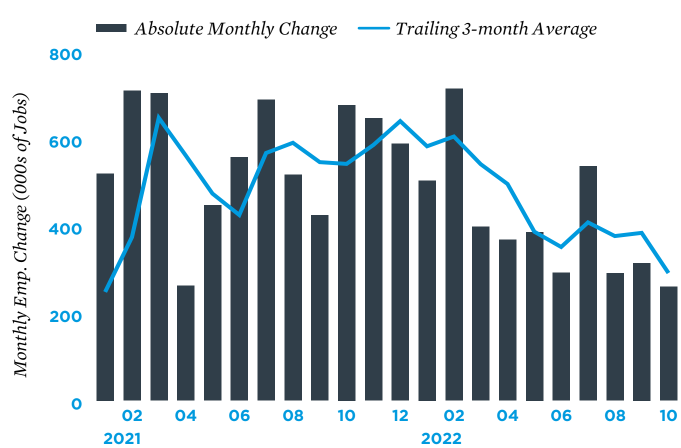
Developing Trends

Higher unemployment part of Fed plan. October's tempered hiring pace was not quite enough to match the growing labor pool, translating into a 20-basis-point increase in the unemployment rate to 3.7 percent. While still over 100 basis points below the average of the past two decades, last month's slight increase in joblessness may nevertheless be a first step toward a softer labor market. This is the intended outcome for the Federal Reserve, which hopes to temper wage growth, and by extension inflation, by raising companies' capital costs via higher interest rates. The Fed has raised the federal funds rate by 375 basis points so far this year, with additional hikes expected in the coming months.

Tech sector first to show signs of weakness. A series of high-profile hiring freezes and layoffs have come to light in the technology sector. While some of these decisions are related to ownership changes and not the business cycle, user engagement in many online services is normalizing, following greater pandemic adoption. Whether these actions foreshadow a broader slowdown is as yet unclear.

261,000	3.7%
Jobs Added in October 2022	*Unemployment Rate as of October 2022*

Job Growth High, but Slowing



Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve; Moody's Analytics; RealPage, Inc; U.S. Census Bureau

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