RESEARCH BRIEF
EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS

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Return of Services Uplifts Job Count, Highlights Strength of Retail Sector

Employment gain hits highest point in nearly a year. Job growth surged in January, as a net 517,000 positions were created on a seasonally-adjusted basis. January's employment gain not only surpasses last year's monthly average of 401,000 jobs, but it was also the most active period for hiring since February 2022. While the end to a California education labor dispute contributed to a jump in government onboarding, most of the job additions were in the private sector, led by the leisure, hospitality, private education and health services segments.

January hiring reflects a return of services. Industries providing services demonstrably led employment growth last month over goods-producing fields, with a job tally of 397,000 to 46,000. Retail trade welcomed a net 30,000 new employees, well above the 2022 monthly average of 7,000. That gain was overshadowed, however, by the 98,600 new positions at bars and restaurants. These figures, in part, reflect a shift away from lockdown-induced shopping habits, as well as the ongoing effects of high inflation on household budgets. Fast food can be an appealing low-cost option in a climbing price environment, while a third of the retail trade hiring was at club warehouses and supercenters, where price tags are generally lower. These factors backstop a generally favorable outlook for the retail sector at large, where vacancy nationally returned to the pre-pandemic mark before entering this year.

Against a broader trend, some sectors shed roles. While last month's job tally was overall very positive, there were some points of potential concern. The number of positions at consulting firms rose by 17,900. This could signal client companies are willing to spend more on outside help, or it could be the initial step in an exercise to trim operations and cut costs long term. Some sectors also retreated. Most notably, employers in the information sector shed a net 5,000 jobs. This aligns with recent layoff news, as some companies that saw increased adoption during the pandemic are now having to adjust to normalizing demand.

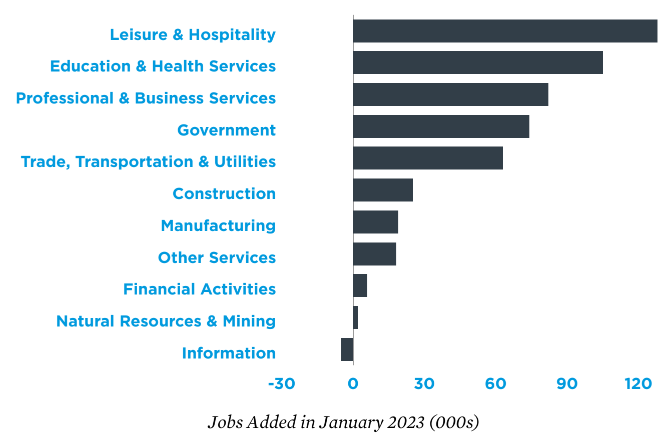
Additional Implications

Slowing wage growth key takeaway for the Fed. January's unexpectedly strong employment growth may prompt the Federal Reserve to consider additional rate hikes. The Fed recently raised the overnight lending rate by 25 basis points on Feb. 1, with the market penciling in two similar increases by May. That plan could accelerate now. At the same time, wage growth has continued to slow, despite low unemployment. If this trend continues, it is possible the Fed could achieve its goals without notable job loss.

Demographics point to long-term labor dilemma. Unemployment fell to 3.4 percent last month, a 53-year low. While the drop was mostly due to a change in the population estimate, it nevertheless underscores how tight the labor market is. One factor contributing to this is demographics. While the total number of jobs has increased 42 percent since 1990, the prime working age cohort of 25 to 54 year olds has only expanded by 22 percent. Over the next 30 years, that age group is only expected to grow by 2.6 percent. A stagnant number of prime-age workers points to a persistent, structural labor shortage.

517,000	401,000
Jobs Added in January 2023	*Average Number of Positions Created per Month in 2022*

Hiring Surges Across Broad Swath of the Economy



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