RESEARCH BRIEF
EMPLOYMENT

IPA INSTITUTIONAL PROPERTY ADVISORS

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New Year Begins on High Note With Hiring Surge in Construction Sector

Better-than-expected job additions do not sway forecasts. Employers added 225,000 positions to payrolls in the first month of 2020, starting the year off on a strong foot after an average of 176,000 roles were created per month in 2019. Investors should not assume, however, that January's more positive figures will herald accelerated growth in 2020. Both 2018 and 2019 began with elevated job creation, only for the pace of employment growth to moderate as time progressed. While last month's figures illustrate that there is still upward momentum left in the labor market, the overall pace of hiring is continuing to slow, falling in line with current projections for 1.5 million new jobs in 2020.

Increased real estate development adds construction jobs. The construction sector reported particularly strong employment growth last month with 44,000 new roles, well above the 12,000 positions added monthly in 2019. Elevated commercial and residential development is likely driving this gain. Both multifamily and office openings in 2020 will be near or at cycle highs, while single-family home starts recently hit their highest level since the beginning of the last recession. A national housing shortage supports the greater number of single- and multifamily deliveries, although a focus on higher-tier products could create pockets of saturation in some areas. Increased office construction is also a positive byproduct of steady hiring in the professional services and technology sectors, although the pace of arrivals may modestly weigh on fundamentals in the short term.

Health concerns in China to impact U.S. real estate. The spread of the coronavirus could notably disrupt global supply chains and create issues for United States retailers. The most immediate impact of the virus on real estate, however, will be in the hospitality sector. Travel bans and other issues will decrease the number of visitors from China, pulling down on hotel room demand during a time of subdued revenue growth. Despite these trends, hotel occupancy and RevPAR are near historical highs, giving hotels the ability to maneuver around the current health crisis.

Developing Trends

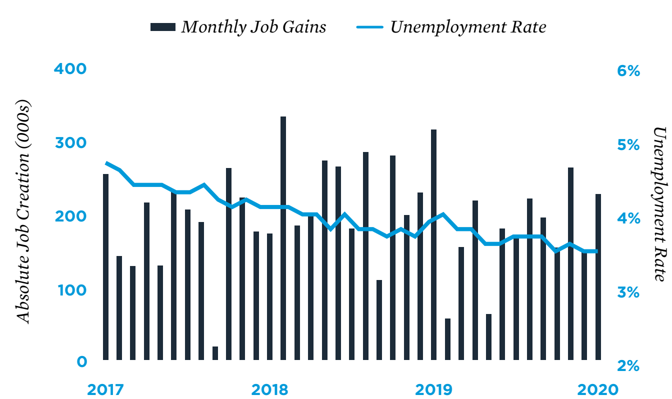
Low unemployment bringing people back to work. The unemployment rate inched up 10 basis points from a 49-year low to 3.6 percent in January as 183,000 people reentered the workforce after a long absence. Employers' staffing needs amid low joblessness are encouraging more people to come back to work. This dynamic is also reflected in the labor force participation rate, which increased to 63.4 percent, its highest level since June 2013.

Wages advance faster in January. Growth in average hourly earnings improved to an annual rate of 3.1 percent in January, led by above-average gains in the mining, logging, retail trade, and financial activities sectors. The increase was partly due to higher minimum wages that took effect at the start of the year, as well as from an acute need for labor in both low- and high-skill positions. As inflation remains below 2 percent, the real value of wages is rising, adding to consumers' discretionary incomes and bolstering spending at retailers and for other services.

225,000 *Jobs Added in January 2020*

3.6% *Unemployment Rate in January 2020*

New Year Starts With Strong Job Growth



Sources: IPA Research Services; Bureau of Labor Statistics