

June Hiring Poses Implications For Health Care and Retail Real Estate

Job creation supported by business-cycle-agnostic sectors. The creation of 206,000 jobs in June brings total net hiring for the second quarter to 532,000, the lowest three-month total for employment growth since January of 2021. Much of the recent hiring slowdown has come from industries tied to the business cycle, including net job losses recorded during June in both the professional and business services sector as well as retail trade. Year-to-date job creation has been stronger in more cyclically agnostic fields such as government, education and health care, a bolstering force for the economy as long as private and public sources of funding for such endeavors hold out. As of 2022, more than 50 of the 75 most populous cities reported budget deficits. Over time, more municipalities could curtail hiring in public sector roles, including education, as budgets are balanced.

Demographics warrant health care hiring, aiding related properties. The need for medical personnel is underpinned by an aging population. Over the next decade, the number of U.S. residents over the age of 74 will swell by 11 million, nearly double that of the prior 10 years. This in turn bolsters the long-run demand for medical office space, senior housing facilities and other types of health care real estate. The challenge instead will be in recruiting, training and retaining qualified personnel, with the cost of care a limiting factor for both patients and businesses. Approximately 49,000 health care positions were created in June, below the trailing 12-month average of 64,000.

Retail real estate bolstered against dip in tenants' staff counts. Last month's 9,000-person contraction in retail trade was driven by fewer personnel at furniture, electronics and appliance retailers. This aligns with overall consumer spending data, where such sales declined year over year in May. Total core retail sales were up a nominal 2.6 percent in May from 12 months prior, a growth rate that evaporates after factoring in inflation. Fewer receipts and less hiring may signal quieter near-term discretionary spending even as the pace of price increases slows. Retail real estate is well-positioned to weather these possible headwinds, however. National retail vacancy was at a multi-decade low of 4.5 percent in March, with modest 0.4 percent supply growth expected this year. The lack of available space continues to lead retailers to seize opportunities when floorplans do open.

Economic & Financial Market Implications

Positive context found in latest joblessness measure. While the unemployment rate rose by 10 basis points last month to 4.1 percent, the increase was due to labor force growth instead of job loss. The labor pool expanded by 277,000 people in June, outpacing job creation, translating into the higher unemployment count. This is a more positive outcome than unemployment rising due to net job loss. The measure is also still low by historical standards. Less than a quarter of the past 24 years has been spent with an unemployment rate under 4.1 percent.

Employment data lend credence to 2024 rate cut possibility. The tapering pace of employment growth, paired with a 38-month-low level of core PCE inflation, align with the Federal Reserve's goal of improving price stability without tipping the economy into a recession. Wall Street participants currently anticipate a roughly 70 percent likelihood that the Fed will lower its benchmark rate by at least 25 basis points by the end of December. While this provides a modicum of relief for borrowers, costs to obtain financing will likely not meaningfully move until there is a clear pattern of rate decreases. This dynamic will play a key role in commercial real estate investment activity as buyers and sellers keep a close eye on debt costs.

