

## Hiring Undeterred by High Interest Rates; Office and Restaurant Spaces Benefit

**Labor market moving closer to equilibrium even amid strong hiring.** Total employment increased by 272,000 in May, coming in above the average monthly gain year-to-date. Despite this uptick in job creation, there are several signs that overall labor demand is cooling and moving closer in line with labor supply. Nearly half of last month's hiring was concentrated in just two main employment sectors, which includes roles in government. It is likely that public sector staffing needs will ebb in the months ahead as budget shortfalls are addressed. The unemployment rate also inched up 10 basis points from April to 4.0 percent in May, its highest mark since January 2022. This shift followed an April decline in the number of available positions to 8.06 million open jobs, the lowest level since February 2021. Equating to 1.2 available roles for every job seeker, this is the closest the margin has been since June 2021.

**Office, lab space could benefit from high-skilled job growth.** In May, the professional, scientific and technical services industry added 32,000 jobs, well above the trailing year's monthly average of 19,000. Most of these additions were in accounting, tax preparation, bookkeeping and payroll services, in addition to architectural, engineering, and various consulting services, which are traditionally office-using positions. Roles in architecture, engineering and management, as well as in life, physical and social science, are less prone to telework, with 60 percent of staff in office as of the May 2024 survey. Increased hiring in these sectors may indicate companies intend to hold onto, or even grow, their office or lab space in the near future. While net absorption activity will be variable until most pre-2020 leases turn over or are renewed, the metric has improved over the past four quarters ended March.

**Rising hospitality staff counts reflect restaurant performance.** The leisure and hospitality sector added 42,000 roles in May, including 25,000 positions at food service and drinking places, displaying restaurateurs' confidence in current consumer demand. While some popular restaurant chains have announced recent store closings, the sector is in a strong position overall. Bars and restaurants recorded greater year-over-year retail consumer spending increases than the retail sector overall in April, and vacancy at such establishments nationally has held at a low 3.7 percent rate for 18 straight months through March.

## Financial Market Implications

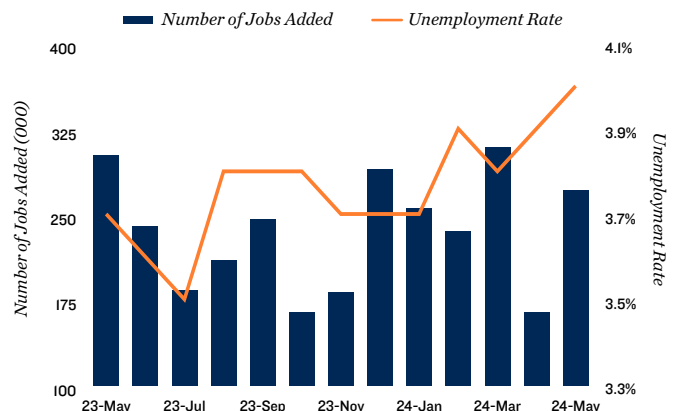
**June or September interest rate cut unlikely.** In the wake of strong employment data, market expectations lowered for both a June or September interest rate cut. Still, there are other signs that conditions are nearing the Fed's goals, including falling job openings, sub-3 percent year-over-year Core PCE inflation and slower economic growth in the first quarter. The Sahm Rule, a potential recession indicator, could also come into play. According to this, the early stages of a recession occur when the three-month mean unemployment rate rises above its 12-month low by at least 50 basis points. While not true in May, if unemployment were to rise again next month, it would meet the technical definition of the rule.

**Global policy shifts.** The Canadian and European Central Banks confirmed interest rate cuts in June, while Sweden and Switzerland announced their own reductions this year. This puts the Fed on a differing path than other western economies, distinguishing its commitment to fully rein in inflation before cutting rates. As long as the labor market remains undeterred and a soft landing is possible, the Fed is likely to hold rates steady. Still, the U.S. 30-year fixed mortgage rate has insulated many borrowers from the impact of higher interest rates, unlike countries where the mortgage terms are shorter.

247,800 Average Number of Jobs Created per Month in 2024

272,000 Number of Positions Created in May 2024

### Unemployment Rate Elevates, Hiring Stays Strong



Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; CME Group; Federal Reserve; Moody's Analytics; Real Capital Analytics