RESEARCH BRIEF

Marcus & Millichap

EMPLOYMENT

MARCH 2023

February Hiring Reflects Strong Labor Market, but Complicates Fed Outlook

Job growth continues at generally swift pace. Employers added a net 311,000 personnel to payrolls in February, down from January's robust 504,000-position gain, but still above the long-term monthly average. Hiring was likely aided by an expansion to the labor pool last month, leading to a 10-basis-point uptick in the unemployment rate to 3.6 percent. Despite this slight increase to unemployment and a slowdown in job growth, the labor market is still showing remarkable strength, with multiple sectors continuing to demand additional labor.

Recent employment metrics reflect diversifying travel. Hiring last month was led by the leisure and hospitality sector, with the creation of 105,000 jobs. The total headcount has now climbed within 3 percent of the February 2020 level, a marked improvement after the pandemic effectively cut the sector in half. Employment growth in these fields in part reflects greater travel. Hotel occupancy through the opening two months of 2023 outperformed the same spans in 2021 and 2022. This performance was driven predominantly by more weekday bookings, with Tuesday-Thursday occupancy averaging above 60 percent in February for the first time since before the health crisis. This trend speaks well of business and international travel, building upon already strong weekend-centric domestic vacationing to help hotel performance advance further.

Mounting costs to play into construction post-2023. The creation of 24,000 construction jobs last month is a positive sign for a field that historically contracts early in recessionary periods. Future sector hiring could face headwinds, however, as higher financing and material costs dissuade some developers from starting new projects. While the current pipeline is robust — particularly in the multifamily and industrial sectors — looking past this year, building activity is likely to slow. One factor that could help preserve construction payrolls, however, is the ample government support for new infrastructure projects. Personnel wrapping up private buildings could be pulled onto some of these projects, stabilizing staffing and benefiting nearby real estate.

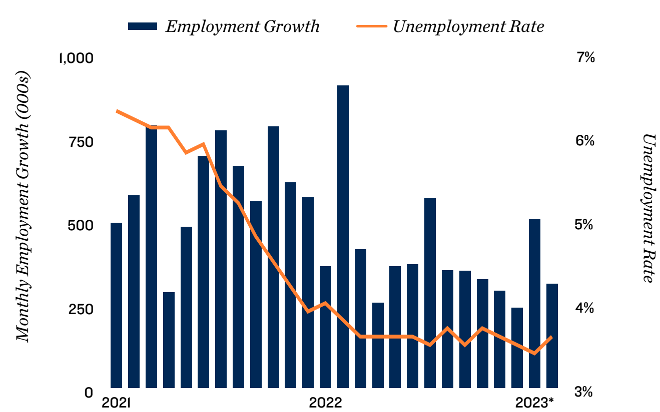
Implications for the Federal Reserve

Prime-age labor participation restored. Participation in the labor force by people ages 25 to 54 returned to a pre-pandemic rate of 83.1 percent last month. While an important milestone for the prime working age cohort that potentially releases some pressure from the labor market, improving participation among other age groups will be more challenging. Many older individuals retired early, and are less likely to return. Increasing staff counts will ultimately require backfilling with new entry-level positions staffed by younger workers, a process limited by both experience and population size.

Recent events shift Fed meeting prospects. Last month's expansion to the labor force was joined by a slowdown in wage growth. Both trends could point to a softening labor market, something the Federal Reserve is looking for as the organization considers how much to adjust the overnight lending rate later this month. Given the recent and sudden closure of Silicon Valley Bank and Signature Bank, market participants expect the most likely outcome of the Fed's March 22 meeting to be a 25-basis-point hike.

815,000 *Jobs Added Year-to-Date*	2.97 *Million Jobs Above the February 2020 Level*

Unemployment Fluctuates Amid Less-Robust Job Gain



** Through February*
Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Federal Reserve

Follow Us on Twitter @MMReis