

Awaiting Trade Policy Shakeout, Labor Market Makes Steady Progress While Expectations Continue to Soften

Hiring proceeds despite changing U.S. trade outlook. Exceeding expectations, total employment rose by 177,000 positions last month, keeping gains on par with the monthly average for the past year. The health care and social assistance sectors contributed the most to this growth. Meanwhile, the federal workforce declined by 9,000 roles, bringing total reductions to 26,000 since January. This figure may rise in the future, as workers receiving severance are counted as employed. Unemployment held steady at 4.2 percent, while year-over-year wage growth remained at 3.8 percent, both positive signs for consumer spending potential. Amid shifting policy, many employers appeared hesitant to make drastic changes to their labor needs pending a longer-term perspective on the impact and permanence of current trade conditions, helping ease fears of a rapid fallout in hiring.

Expectation decline casts shadow on current conditions. April surveys from the Conference Board and University of Michigan both highlight a growing divergence between consumers' perception of current versus future economic conditions. April's hiring reflects the surveys' comparatively positive consumer sentiment for present conditions. Both of the forward-looking surveys, however, showed sharper drops in April than their present-situation counterparts, with the Conference Board's Expectations Index hitting its lowest figure since October 2011. Should future sentiment continue to drop, it could impact consumer spending and household formation in the coming months, carrying implications for both housing and retail.

Conservative spending shifts housing demand. April data showed that while listings of single-family homes were up just over 30 percent from a year prior, pending home sales declined 3.2 percent. Even with a multi-year high in the share of listings with price reductions, buyers remained hesitant due to elevated interest rates and possibly greater recession concerns. Though financial uncertainty may limit household formation in the short term, the comparative affordability of renting has the potential to offset that slowdown. As apartment construction starts decline and rising homeownership costs continue to outpace average rent growth, multifamily vacancy will stay structurally low. Exiting the first quarter, U.S. apartment vacancy rested at 5.0 percent — down 90 basis points from the first quarter of 2024.

Tariffs hit import volumes, altering supply routes. Based on preliminary estimates, U.S. GDP contracted 0.3 percent annualized in the first quarter, primarily driven by a rise in import volume while businesses attempted to get ahead of impending tariffs. Moving forward, elevated tariffs, particularly on China, are likely to subdue imports as companies postpone or cancel purchases, especially for low-margin products. As businesses attempt to shuffle product mixes or reroute supply chains, demand for warehouse space may move from West Coast ports to areas near land border crossings and East Coast ports. Overall, U.S. industrial properties exited the first quarter at 7.1 percent vacancy, just 20 basis points above the long-term average.

End of de minimis tariff exemption may aid traditional retailers. Small packages previously imported from China tariff-free under the de minimis exemption will now be subject to the full 145 percent tax rate. An estimated 48 percent of small packages arriving in the U.S. come from China. Facing higher costs, e-commerce stores may suspend small-goods deliveries to the U.S. or reduce U.S. advertising, potentially driving consumer demand for these goods to local producers. This may draw consumers to nearby retailers in search of alternative products, benefiting physical locations and contributing to demand for retail space. The U.S. retail sector entered April at 4.5 percent vacancy and is expected to match the record low this year.

Majority of Sectors Maintain Hiring Momentum

