THE GOLDILOCKS LABOR MARKET?

RESEARCH REPORT - WEEKLY ECONOMIC UPDATE

A Cushman & Wakefield Research Publication

JULY 6, 2015

- The U.S. economy added 223,000 jobs in June, a solid gain, roughly in line with expectations.
- The job growth was almost completely in service-producing industries. Employment in the goods-producing sectors of the economy (energy, construction and manufacturing) added only 1,000 jobs.
- For the commercial real estate sector, the job growth points to stronger demand as office-using industries, retail and transportation and warehousing all added jobs at a healthy pace.
- The unemployment rate fell to 5.3%, the lowest since April 2008 as the number of unemployed fell substantially. Unfortunately, this apparent tightening of labor markets has not led to faster wage growth. Average hourly earnings were unchanged in the month and up only 2.0% from a year ago.
- This report is unlikely to have any material impact on Federal Reserve monetary policy. It suggests that the U.S. economy remains on the healthy growth path that it has been on since early 2014. So a move to raise interest rates during the second half remains likely with September the possible date for the first increase.
- June job growth was strong enough to keep the economy growing at a healthy pace, but we would like to see it a bit stronger to generate faster wage growth. We don't think labor markets are in Goldilocks territory quite yet.

THE U.S. ECONOMY ADDED 223,000 JOBS IN JUNE

Payroll employment in the U.S. increased by 223,000 jobs in June, roughly in line with forecasts. However, the details were a little less positive. The growth in employment in both April and May was revised downward. In May, the economy is now estimated to have added 254,000 jobs, not the 280,000 reported a month ago. There was a similar downward revision in April's job totals from 221,000 to 187,000. This brings the monthly average job growth for 2015 to 208,000, slower than the 260,000 average of 2014, but still the second-best average since the current economic expansion began in 2010.

The mix of jobs added in June was favorable for the commercial real estate sector and suggests that demand for all kinds of space continues to grow.

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- The three office-using sectors (financial, professional and business services and information) added 91,000 jobs in total in June, the largest increase in eight months. All three sectors recorded solid increases: professional and business services added 64,000 jobs, financial +20,000 and information +7,000.
- Employment in the transportation and warehousing industries increased by 17,100 jobs to a record high, suggesting continued growth in demand for warehouse space. Since the expansion began, employment in this sector has increased 16.0%, almost double the 9.4% increase in total employment. This reflects the rapid growth of the warehouse sector as internet shopping continues to grow.
- Employment in retail increased by 32,900 jobs. U.S. retail sales are at a record high and continue to increase at a strong rate, boosting demand for retail space across the U.S.

JOBS ADDED IN JUNE

THREE OFFICE-USING SECTORS *

91,000

* FINANCIAL, PROFESSIONAL AND BUSINESS SERVICES AND INFORMATION

ALL THREE SECTORS RECORDED SOLID INCREASES

TRANSPORTATION & WAREHOUSING

17,100

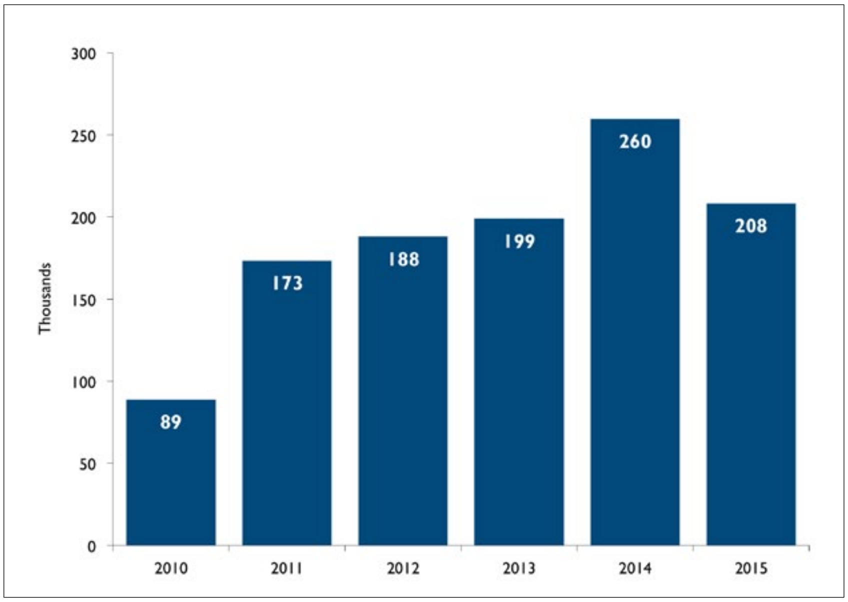
CONTINUED GROWTH IN DEMAND FOR WAREHOUSE SPACE

RETAIL

32,900

U.S. RETAIL SALES ARE AT A RECORD HIGH BOOSTING DEMAND FOR RETAIL SPACE ACROSS THE U.S.

MONTHLY AVERAGE JOB GROWTH



Source: U.S. Bureau of Labor Statistics

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The biggest disappointment in the jobs report was the lack of growth of average hourly earnings, which were flat in June and up only 2.0% from a year ago. With the unemployment rate at 5.3% and falling, and other labor market indicators pointing to wage growth, the lack of evidence in this report is a concern. Part of the reason is the mix of jobs created in June, as a large number of jobs were in lower wage sectors such as retail and food services and drinking places (+29,900 jobs). This report also offset some of the positive signs on the wage front this year. Over the first six months of the year, average hourly earnings have increased at a 2.7% annual rate, the best six months since early 2009. Wage growth is edging higher, but is not as strong as would be expected with unemployment this low and solid job growth. Larger increase in wages will be an important driver of growth in the second half of the year. Wages are edging higher, but we would like to see more improvement in this key driver of consumer spending.

From the Federal Reserve's perspective, this report will have little impact on monetary policy decision making. Job growth continues at a healthy, but not excessive pace, in line with Fed policy makers expectations. So there is no reason to either accelerate or slow the planned shift to a tighter monetary policy with rising interest rates. This report reinforces the view that the Fed will begin raising interest rates in the second half of the year, possibly beginning in September.

Is it the Goldilocks labor market right now? Not too hot, not too cold? Just right? We don't think so. The economy could use stronger job growth for several months to start to push wages up more rapidly. In the end, it will be the pace of wage growth that will determine economic performance for the balance of this year and next year. We aren't quite there yet, but the U.S. is close to having labor markets that are "just right".

> [June job growth was strong enough to keep the economy growing at a healthy pace, but we would like to see it a bit stronger to generate faster wage growth. We don't think labor markets are in Goldilocks territory quite yet.]

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