THE JOBS ENGINE IS RUNNING ON ALL CYLINDERS

RESEARCH REPORT - WEEKLY ECONOMIC UPDATE

A Cushman & Wakefield Research Publication

MARCH 9, 2015

- The U.S. economy added 295,000 jobs in February, well above the consensus expectation of about 240,000.
- During the last 12 months, the economy has added 3.3 million jobs, the largest increase over 12 months since March 2000.
- The unemployment rate continues to decline and currently stands at 5.5%, the lowest level since May 2008.
- Average hourly earnings increased only 0.1% for the month and stood 2.0% above the level of a year ago. Earnings growth remains sluggish.

The U.S. economy's job creation engine is in overdrive. Over the past six months, nonfarm payroll employment has increased an average of 293,000 jobs per month, the fastest sustained job growth in nearly 15 years. February marked the fourth time in the past six months that the economy added more than 250,000 jobs.

Today's report had very little in the way of revisions. Job growth in January was revised down slightly (from +257,000 to +239,000) and there was no revision to the December data. Job growth was broad based, with more than 65% of the industries tracked by the Bureau of Labor Statistics showing higher employment in February than in January. The fastest growth was in the leisure and hospitality sector (+66,000 jobs) followed by education and health (+54,000) and professional and business services (+51,000).

CUSHMAN & WAKEFIELD®

Cushman & Wakefield, Inc.
1290 Avenue of the Americas
New York, NY 10104
www.cushmanwakefield.com

FOR MORE INFORMATION, CONTACT:

Ken McCarthy
Senior Managing Director
Economic Analysis and Forecasting
(212) 698 2502
ken.mccarthy@cushwake.com

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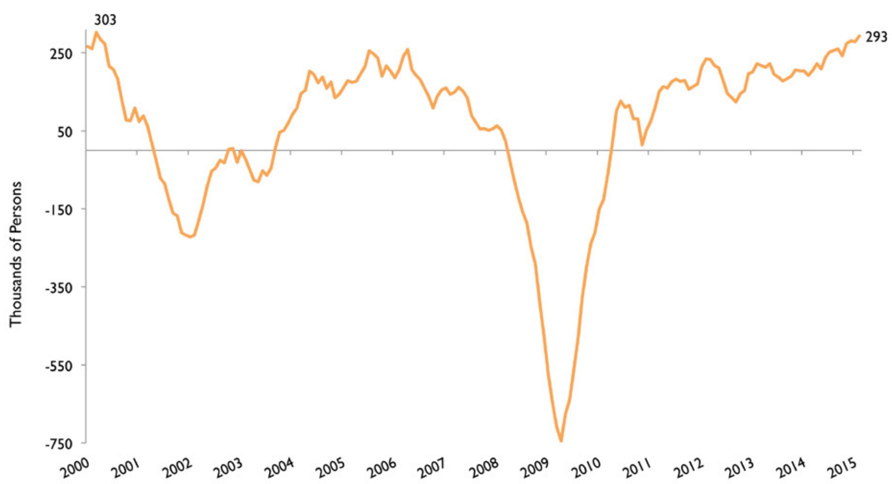
U.S. JOB GROWTH TAKES OFF

Average monthly job growth over the preceding six months



Source: US Bureau of Labor Statistics

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The unemployment rate continues to decline and currently stands at 5.5%, the lowest level since May 2008.

The continuing slow growth in wages remains one of the weak spots in the economy. This sluggishness is partially a consequence of the mix of jobs being added. In February, about 35% of the jobs created were in two relatively low paying industries: food services and drinking places (+58,700 jobs) and retail trade (+32,000). Ideally, we would like to see more jobs added in higher paying sectors like financial services and information, which together added 17,000 jobs in February. We do anticipate that wages, even in lower paying industries, will increase more rapidly as the year goes on due to tightening labor markets. In addition, low inflation means that even these modest wage gains go further today than they did in the past. Nevertheless, until we see sustained earnings growth above 2.0% per year, consumer spending growth will not be as strong as it could be in an economy with strong job growth.

One sign suggesting that the job market is tightening and, therefore, wage growth should accelerate is the continuing decline in the unemployment rate to 5.5%, the lowest level in almost seven years. In addition, the Labor Department's broader unemployment measure (including those working part time who want full time work and those who are marginally attached to the labor force) was at 11.0% in February, the lowest level since September 2008. The last time these unemployment measures were this low, average hourly earnings were increasing at more than a 3.0% annual rate. While this does not mean wage growth is immediately going to pick up, it does indicate that tighter labor markets usually lead to faster wage growth, and we expect that to be the case again in 2015.

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This report is very good news for the commercial real estate sector. Employment in office-using industries (the sum of financial services, information and professional and business services) increased by 68,000 jobs in February and stands 869,000 above year-earlier levels. Demand for office space is now at an all-time high and should lead to further declines in office vacancy rates across the U.S. In 2014, the national office vacancy rate fell by 110 basis points, from 15.9% to 14.8%. Given the strong job growth so far in 2015, we would anticipate further improvement in the first quarter. Of course, performance will vary by region, but overall the strong national environment should lead to rising demand for office space.

For the retail, industrial and hotel sectors, the key will be income growth. Faster employment growth alone boosts income as more people are working and earning money, which should lead to rising demand for goods, boosting the need for stores and industrial space to produce and ship the goods. Strong income growth will also likely lead to more travel and tourism. However, for sustained strong growth in consumer spending and travel, wages need to be rising more rapidly. If, as we expect, the pace of earnings growth increases as the year progresses, we should see even more rapid growth in spending leading to stronger retail, industrial and hotel demand.

The U.S. economy appears to have transitioned to a stronger growth trend since mid-2014, although bad weather may cause some temporary choppiness in the data in early 2015. We expect the economy to remain strong throughout the coming year leading to one of the best years for commercial real estate in the past decade.

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