Strong Jobs Numbers Could Be Good News/Bad News for CRE
The employment scene has officially returned to pre-pandemic levels.

By Erik Sherman

The jobs report for July showed a jump of 528,000 jobs with the unemployment rate dropping to 3.5%, according to the Bureau of Labor Statistics. The agency said that both total non-farm employment and the unemployment rate are back to pre-pandemic levels of February 2020.

Employment keeps surprising to the upside. The June report, which came out in early July, showed a number of new jobs that was 49% higher than expectations. This new report made that look like people were sitting around on their hands.

The July report "was twice consensus expectations," John Lynch, chief investment officer for Comerica Wealth Management, said in written remarks.

"With the strength of the labor market, spending power remains intact, and retail sales, while slowing, could pick up steam with gasoline prices continuing to ease, and food prices showing signs of leveling off," wrote Quincy Krosby, chief global strategist of LPL Financial. "Even rents, a large component of the Consumer Price Index (CPI) is indicating that pockets of the country are seeing rents beginning to soften."

Some of the largest contributors were leisure and hospitality (96,000 jobs but with a total still below February 2020 by 7.1%), professional and business services (89,000 and 986,000 higher than February 2020), and healthcare (up by 70,000 and 0.5% below pre-pandemic levels). On the other hand, retail trade, adding 21,000 jobs, has seen no net change since March 2022.

What does all this mean for CRE? It's hard to know. Seeing consumers continuing to find jobs is good on one hand. People with money can spend to keep the economy going. That's good for multifamily, retail, and other sectors that look to consumers. Additional hiring also is expansion of businesses, and that could mean a need for additional space.

That's all on the plus side. But there's a minus as well, which is questions about inflation and recession. Continued job growth, especially at high level, is seen as a sign of economic growth, which is the wrong direction in existing theory to slow inflation. As Olivier Blanchard, an MIT professor emeritus of economics and a senior fellow at the Peterson Institute for International Economics, predicted (with a lot of uncertainty) on Twitter, inflation will slow because of falling commodity prices and supply chain improvements but nowhere near the Fed's target level of 2%.

That means the Fed will continue increasing the benchmark rate, driving up other financing costs, because "There is no such thing as a slowdown without an increase in unemployment." If inflation slows, perhaps the Fed can "go slow and try to achieve lower but positive growth."

However, it would seem for now at least, don't expect an actual reversal in the Fed's strategy. Higher financing is likely here to stay for a while.