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Witten addresses recent job market data: Signals loss of economic momentum - recession unlikely

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Since recent data on job growth was well below expectations, we decided to address the issue in this month's article. Employers have responded to favorable economic trends, adding 2.1 million private-sector jobs since turning positive 15 months ago, including 83,000 positions in May. Despite this steady growth, job creation in May came in well below expectations, potentially foretelling a broader economic slowdown. Combined with recent reports on slower manufacturing and an emerging double dip in housing, the pace of the economic recovery has begun to lose momentum, raising the possibility that employers will hire only modestly in the months ahead. Although corporate caution and constraints on consumers will linger through the months ahead, making the economy more vulnerable, fundamentals are healthier than a year ago and an impending recession remains unlikely.

Seven of 10 private-employment sectors added jobs last month, although poor weather in many parts of the country, high fuel costs and ongoing disruptions in goods imported from Japan likely suppressed hiring. Professional and business services, and education and health services added a combined 78,000 jobs in May, but other sectors languished. Manufacturers cut 5,000 jobs last month, the first loss since last October, led by a reduction of 3,400 positions in automobile manufacturing, a sector with extensive ties to Japan. Retailers trimmed 8,500 positions, while leisure and hospitality employers reduced head counts by 6,000 workers as hotels in some parts of the country prepared for the offseason.

The government sector continues to act as a drag on the economy, as 29,000 positions were cut last month, yielding a net gain in total employment of 54,000 jobs. Nearly all of the jobs lost were at the local level, as counties and municipalities continue to adjust staff levels to compensate for diminished revenues. Over the past 19 months, 368,000 local government jobs have been eliminated. The ongoing slump in existing home sales and home construction, and diminished payroll taxes will intensify budget pressures, leading to additional layoffs in the months ahead.

The general strengthening of the economy over the last few quarters, combined with increased investor activity, has placed substantial upward pressure on investment property prices in many markets. Top-tier assets, in particular, have experienced significant cap-rate recompression. As economic growth slows in the coming months, investors must utilize realistic space demand and rent growth assumptions to ensure prices paid remain in alignment with reasonable performance standards.
Positive trends continue to develop for the office property sector as full-time office-using

employment rose for the eighth consecutive month. More than 282,000 workers were hired during that period, including 47,200 positions in May. Office tenants continue to steadily backfill empty cubicles, setting the stage for expansion in the next 12 to 18 months. This year, minimal construction and a modest pace of hiring will reduce the nationwide vacancy rate by 60 basis points to 17% and support gains in asking and effective rents of 1.1% and 1.8%, respectively.

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