

U.S. EMPLOYMENT REPORT:

Downward revision to level of employment tops 500,000

February 2020

WHAT HAPPENED?

On February 7 2020, the U.S. Bureau of Labor Statistics released its monthly Employment Situation report along with its annual benchmark revision.

Here are findings from the final benchmark revision:

- The *level* of nonfarm payroll employment was revised downward by 507,000 jobs. Job *gains* for 2018 and 2019 were 2.3 and 2.1 million jobs respectively, 365,000 and 12,000 lower than prior estimates.
- Industries were impacted differently. Combined 2018-2019 job gains for leisure/hospitality, retail and professional and business services employment had the largest downward revisions (by 157,000, 149,000, and 146,000 jobs respectively). Transportation and financial services combined 2018-2019 job gains had the largest upward revisions, by 116,000 and 77,000 jobs respectively. Combined 2018-2019 warehouse job gains were revised downward by 8,300 jobs.
- Despite the nominal size of the revision, on a relative basis, it represented a -0.3% change to the level of nonfarm employment. The 10-year historical average revision is +/-0.1%.
- Given that the preliminary revisions (released in August 2019) suggested employment could be downgraded by 500,000 jobs, Chairman Powell stated that a weaker-than-reported labor market was among the Federal Open Market Committee's considerations when it voted to ease its target rate in 2019. Other reasons were a weaker global economy and downside risks associated with the trade war.
- The revision does *not* impact estimates of the unemployment rate, which was reported at 3.6%. By most measures, the labor market remains very healthy and tight.

WHAT IT MEANS FOR CRE:

- The unemployment rate remains near a 50-year low, and job gains (even after the revision) are sufficient to absorb new entrants to the labor market. This means that attraction and retention of talent will remain a key challenge for occupiers across most industries.
- With the downgrade to professional and business services job gains largely offset by upward revision to information and financial services job gains, office-using employment was essentially unchanged. The level and rate of office absorption (per new office job added) also appears unchanged in hindsight.
- Retail employment has been falling for three years as many companies right-size their real estate holdings, and the pace of job losses was revised to be more severe than prior estimates suggested. While competition for talent will be fierce for most industries, retail may be spared this particular challenge in the near-term.
- Even accounting for the net upward revision to overall industrial employment, trends in global industrial production and national shipment volumes have lowered its pace of growth. However, demand for industrial real estate remains very robust as structural forces buoy the sector.

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HOW TO PLAY IT

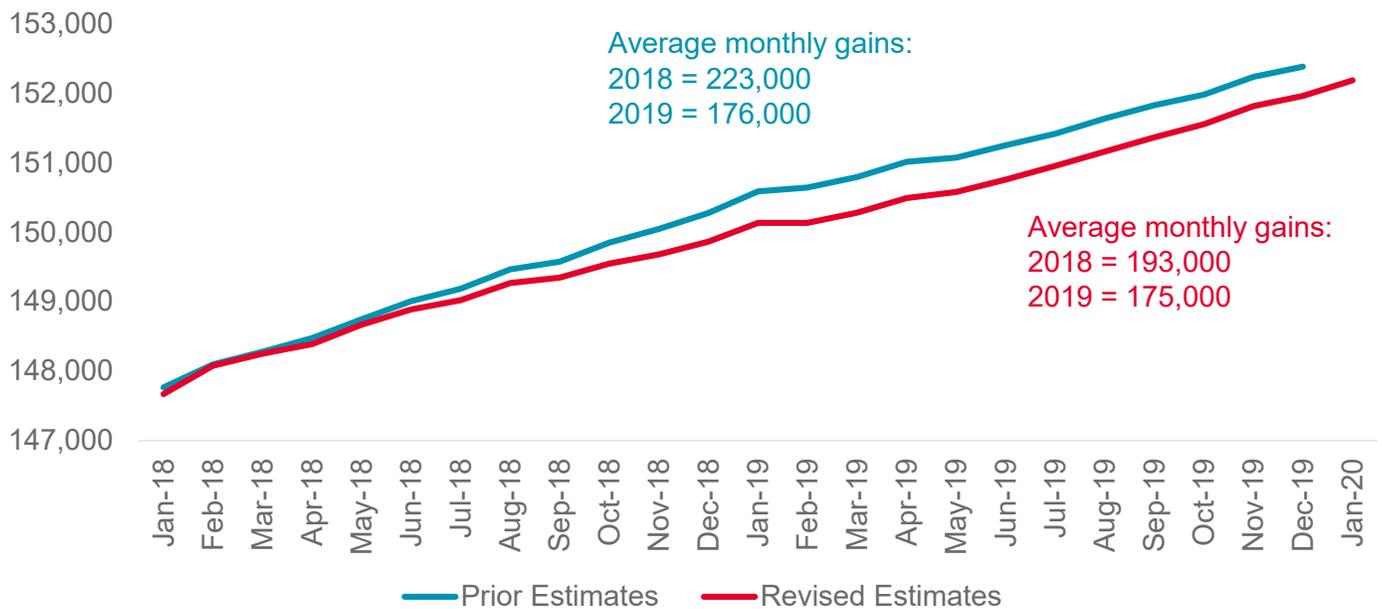
OCCUPIERS

Despite an historically sizable downward revision to the level of nonfarm and select industry employment, the unemployment rate remains near a 50-year low point. Competition for talent will remain a challenge in 2020.

INVESTORS

Accommodative monetary policy is supportive of liquidity in CRE investment sales. However, combined with downside risks, less robust national fundamentals make asset- and market-specific analysis even more important.

NONFARM EMPLOYMENT



Source: U.S. Bureau of Labor Statistics

Note: All annual statistics cited are based on monthly data from December to December (not the annual average).

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