The labor market: the good, the bad and the ugly

Last month’s employment situation release presented something for everyone, from optimists to pessimists. As the labor market continues to claw its way out of a deep hole, it is presenting a mixture of good and bad that make overarching statements incomplete and often misleading. A more nuanced analysis provides both signs of hope and cause for concern.

First the good news: the economy created roughly 661,000 net new jobs in September. While the pace of job growth continued to slow, net gains over the last five months total 11.4 million jobs. Gains occurred across a broad swath of the labor market with the largest increases occurring in leisure and hospitality, retail trade, and business and professional services. Meanwhile, the unemployment rate declined to 7.9 percent, down from the record high of 14.7 percent in April (with neither figure adjusted for survey-methodology issues). The unemployment rate declined across most broad cohorts – by age, by race and by level of education. The number of people on temporary employment continued to decline, reaching 4.6 million.

The bad news? The data sounded alarms over not just the slowing in the rate of improvement, but underlying deterioration. The number of people employed remains 10.7 million lower than February’s peak level. The number of permanent job losses continued to increase at an unprecedented pace, increasing by 400,000 during the month to reach 3.8 million. Meanwhile the number of people out of work after completing temporary employment held steady at 742,000. Additionally, the number of people unemployed for 27 weeks or longer continued to increase, reaching 2.4 million. Ongoing business failures, coupled with businesses operating at a limited capacity, are creating impediments to improvement. Moreover, the employment provisions attached to funding from the CARES act expired, enabling firms that received financial support to lay off workers without needing to repay the funds. Already several large companies including those in the air transportation and amusements, gambling and recreation industries are warning of tens of thousands of additional layoffs if additional fiscal stimulus funding fails to gain approval by the government.

On the ugly side, 617,000 women dropped out of the labor force in September, roughly half of them in the 35-44 age cohort. That coincides with children returning to school across much of
the country. With virtual learning still prevalent, mothers are likely remaining at home to supervise education. For benchmark purposes, roughly 78,000 men dropped out during the same time period. This departure of women from the labor force coincides with significant job losses in education during the month. Employment in local-government education declined by 231,000 while private employment in educational services declined by 69,000.

**Is the labor market impacting sentiment?**

The recovery in the labor market could be impacting consumer sentiment. Both consumer confidence and consumer sentiment increased by more than anticipated in September. But with the potential for increasing layoffs, the consumer mood could swing negative in October. Additionally, personal income declined by 2.7 percent during August, reflecting the expiration of federal benefits. Consumers turned to their savings to make up the shortfall, with the savings rate declining to 14.1 percent.

**What does it mean for CRE?**

*For commercial real estate (CRE), the trajectory of the labor market always holds great importance. But we have reached a critical juncture. While tough times remain ahead, the exact path forward for CRE will depend heavily on the performance of the labor market, more so than during a typical recovery. Our proprietary scenario forecasting shows a wide range of possibilities across property types and geographies. We still believe (apolitically) in the importance of another fiscal stimulus package and will be closely watching Washington for signs of progress. The trajectory of the pandemic during the winter will also play an important role. We will have more transparency on these two key factors over the next few months, but for now we remain cautiously optimistic about the path forward for the labor market. Though no panacea for the CRE market, it remains of paramount importance.*

**Thought of the week**

The percentage of employed people who teleworked declined in September to 22.7 percent, down from a COVID-era high of 35.4 percent, indicating a continued return to physical workplaces.