

February 2018

### Rising Wages Set the Stage for Economic Acceleration, Expanding Commercial Real Estate Demand

#### Developing Trends

**January was the 88th consecutive month of job gains**, the longest on record with 200,000 jobs created. Unemployment remained at 4.1 percent, the lowest since 1999.

**Retail spending poised to increase during 2018.** Rising wages and income tax cuts will combine to raise consumer spending this year and maintain tight retail vacancy. Declining during 2017, vacancy reached 5.1 percent in the fourth quarter, the lowest rate on record, and rents expanded 4.1 percent.

**Solid employment gains encourage housing demand.** Employment additions of 2 million jobs per year plus escalating wages set the stage for further releasing of pent-up households. Many will opt to rent given the high costs of single-family ownership, maintaining apartment vacancy below 5 percent.

**Labor market at turning point as wage growth hits recovery high.** Meaningful wage growth has been a missing ingredient in the expansion for the past eight years. Yet now, with unemployment holding steady at 4.1 percent, employers are finally feeling the pressure to increase wage hikes to attract and maintain their human capital. Further evidence of tight labor conditions can be found in job openings at or near record levels of 6 million positions over the past 12 months.

**Rising wages pulling workers back into the labor force.** Despite the low unemployment rate, some slack remains in the employment market and quickening wage growth appears to be drawing back workers who dropped out of the labor pool during the recession. Monthly job gains continue to average close to 175,000, surpassing the 100,000 per

month needed to accommodate the expanding population and pointing to labor force gains. The workforce participation rate could increase by 50 basis points, which would add almost 2.5 million potential employees to the job market. Given the possibility for additional labor force expansion, the economy has room to accelerate further as wage growth and inflation remain below levels witnessed in previous expansions.

**Federal Reserve will closely monitor the economy for signs of overheating.** A quickening pace of economic growth could prompt additional monetary policy tightening this year. Current policy has the fed funds rate rising three times in 2018, but if indications point to wage or inflation expansion getting out of hand, a more aggressive raising of short-term rates could result.

200,000 Job Gain  
January 2017

4.1% Unemployment Rate  
in January 2017

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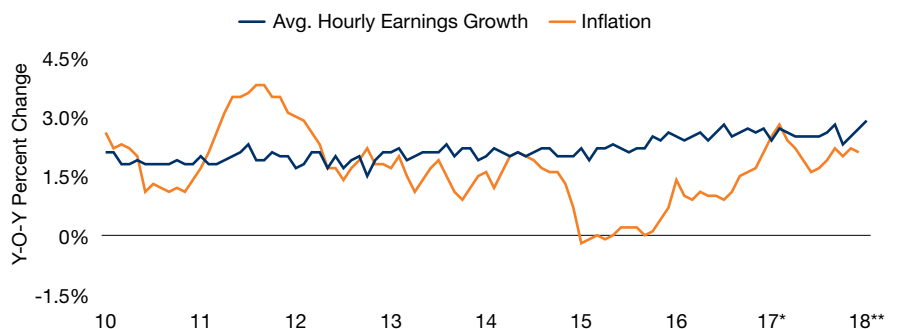
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#### Rising Wage Growth Sparks Inflation Concerns



\* Inflation through December

\*\* Average hourly earnings through January

Sources: Marcus & Millichap Research Services; BLS