

POSITIVE NOVEMBER EMPLOYMENT REPORT POINTS TO STRONG 2015

WEEKLY ECONOMIC UPDATE

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POSITIVE NOVEMBER EMPLOYMENT REPORT POINTS TO STRONG 2015

- The U.S. economy is off and running. Employment increased by 321,000 jobs in November, the largest increase since the beginning of 2012.
- Average hourly earnings, an indicator of wage growth, increased 0.4% in November, the largest increase in more than a year. Faster wage growth is a key to stronger economic growth in the coming year.
- The unemployment rate remained at 5.8%, but the number of unemployed rose slightly, suggesting that improving economic conditions may be pulling discouraged workers back into the labor force.
- Office-using employment increased by 110,000 jobs in the month, the largest increase in nearly two years. Over the past 12 months, the economy has added 812,000 office-using jobs, the most since June 2006.

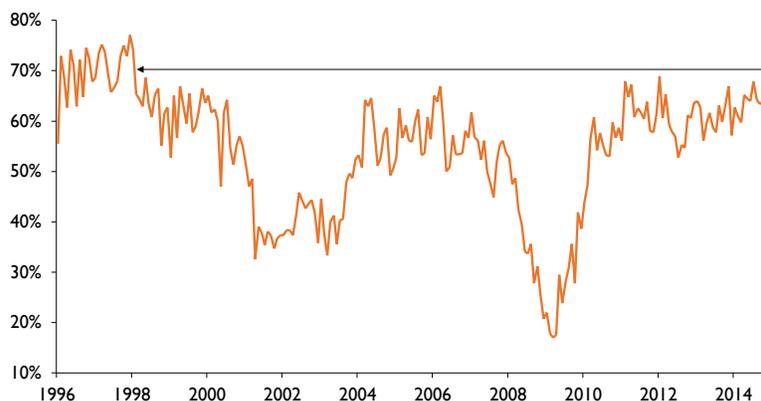
The U.S. economy is adding jobs at the fastest pace in years. In November, payroll employment increased by 321,000 jobs. In addition, employment

in both September and October was revised upward. September job growth, first estimated at 248,000 is now 271,000; October, first reported at 214,000 is now 243,000. As a result of these revisions, the average job growth over the last three months was 278,000, the highest since March 2006 (excluding a one-time jump during the 2010 census).

The job growth was broad-based across industries. Seventy percent of the industries tracked by the Bureau of Labor Statistics reported an increase in employment during November; the largest percentage reporting growth since January 1998. Professional & business services (+86,000) and financial services (+20,000) both added jobs at a healthy clip, as did retail (+50,000), education and health (+38,000), leisure and hospitality (+32,000), manufacturing (+28,000) and construction (+20,000).

One of the weak links in the current expansion has been wage growth. Since the recovery began, the rate of increase in wages has barely kept pace with inflation. Despite a declining unemployment rate, the annual increase in average hourly earnings has barely edged

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The key office-using sectors (financial services, professional and business services and information) added more than 100,000 jobs in November and are growing at the fastest pace in eight years.

above 2.0%. In November, average hourly earnings increased by 0.4%, the largest monthly increase since June 2013. That gain follows two weak months, and even with that increase, the growth from a year ago was a still sluggish 2.1%. With labor markets tightening, we are optimistic that wage growth will accelerate in 2015, but one month is not enough to conclude that this is occurring. Even with the moderate pace of wage growth, the acceleration in the number of jobs means that total income in the economy is rising, which will help boost spending.

The unemployment rate remained unchanged at 5.8% as the number of unemployed increased slightly. The labor force participation rate was flat at a low level, but it appears that it is no longer falling. This is important to the long term health of labor markets. As the economy improves, we would expect more workers who had decided to stop looking for work to reenter the labor force and look for jobs. As that process occurs, it will boost incomes at a faster pace and support stronger overall economic growth.

This report will likely draw attention in the Federal Reserve where the focus has been largely on labor markets and the lack of wage growth. If the economy continues to generate strong job growth and wages increase at a faster pace, as they did in November, the Fed is likely to enter a period of monetary tightening. Currently, the financial markets'

expectation is that the Fed will start to tighten sometime around mid-year 2015, but a continuation of this kind of job and wage growth would likely bring that date forward, possibly into the first quarter.

For the commercial real estate sector, this is a very positive report. The key office-using sectors (financial services, professional and business services and information) added more than 100,000 jobs in November and are growing at the fastest pace in eight years. The result is likely to be greater demand for office space across the U.S. We would expect this growth to be stronger in central business districts than suburbs, as we have seen throughout the recovery.

The increase in wages, if sustained and coupled with faster total employment growth, will boost incomes more rapidly in the months ahead, which will support stronger consumer spending. Faster spending growth will lead to stronger demand for both retail and industrial space.

This kind of economic growth, if sustained, will also raise activity in many industries across the U.S., including manufacturing, tourism and construction. It will support stronger activity in commercial real estate sectors including hotels, apartments and manufacturing space.

Overall, the economy is poised for a strong finish to 2014 and for strong growth in 2015.

