RESEARCH REPORT

WEEKLY ECONOMIC UPDATE: EMPLOYMENT GROWTH MOVING ABOVE TREND

A Cushman & Wakefield Research Publication

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FINALLY A BREAKOUT

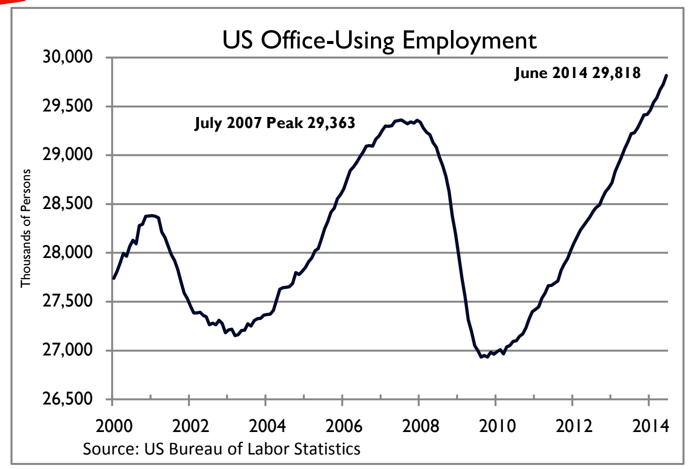
The economic data for June released thus far indicate that the U.S. economy has finally broken out of the 2.0% growth malaise that has characterized this recovery since it began five years ago. We have been expecting the economy to accelerate to a stronger growth trajectory for more than a year and we are now there. The June economic data released this week included:

- U.S. motor vehicle sales increased to a 17.0 million-unit annual rate, the best sales pace since mid-2006. Auto sales are an important indicator of consumer confidence as they indicate buyers are optimistic enough to make a long-term financial commitment. It appears that households are ready to spend at a stronger pace than we saw earlier this year.

- The Institute for Supply Management's Purchasing Manager's Index remained at a high level of 55.3, although it fell slightly from its May reading. This index is a good indicator of activity in the manufacturing sector and a reading above 50 points to faster growth in production.

- Most importantly, the economy added 288,000 jobs in June. Payroll employment is the broadest measure of the health of the economy and job growth is critical to the real estate sector. It drives demand for office space, boosts income and retail sales along with the output and shipment of goods across the nation.

The jobs report was positive across the board. Not only was the June increase strong, the number of jobs added in both April and May was revised upward. In April, the Labor Department now estimates the economy added 304,000 jobs and in May job growth totaled 224,000. In all, the revisions added approximately 30,000 jobs to the employment rolls. Employment growth was widespread across many industries including: manufacturing (+16,000), retail (+40,200), Professional and Business Services (+67,000), Education & Health (+38,000) and Leisure & Hospitality (+39,000). In the three sectors that make up office-using employment (Financial Services, Information and Professional and Business Services), the economy added 93,000 jobs, the strongest month in more than a year. Employment in office-using industries is now at an all-time high and more than 450,000 jobs above the pre-recession peak.



The unemployment rate fell to 6.1% in June, the lowest level since September 2008. Although the proportion of the population actively engaged in the labor force remains near the lowest level in 36 years at 62.8%, there were several other indicators showing improvement in labor markets.

Long term unemployment fell sharply. There were 3.0 million people unemployed for more than six months, the lowest level in five years.

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People are also readier to leave their jobs, a sign of confidence. The proportion of unemployed people who left their job (job leavers) rose to 9.0%, the highest level since October 2008.

This report will raise some questions about Federal Reserve policy in the financial markets. The Fed has been taking two positions in public statements that now appear to be at odds. On one hand the Federal Open Market Committee has consistently indicated that it will hold down interest rates for "a considerable time". But Fed officials have also pointed to the slow recovery in labor markets as an important reason for this policy.

If labor markets are improving faster than the Fed had anticipated, they may have to shift monetary policy earlier than currently expected. Fed officials have indicated that they monitor many indicators of labor market conditions, including the unemployment rate, employment growth and wage growth and will likely wait until they see several more months of data before making any decisions.

Nevertheless, it does appear that the economy may be getting healthy faster than the Fed had anticipated. If this trend continues, interest rates are likely to rise earlier and faster than is now expected.

This report is unambiguously positive for the commercial real estate industry. The continuing strong employment growth is boosting demand for office space. Faster employment growth boosts income and consumer's ability to raise spending, adding to demand for both retail and industrial space as well as increasing business and leisure travel supporting the hotel sector. As job growth accelerates, it will lead to faster household formation and boost demand for multifamily space.

We believe the economy has just shifted into a higher growth mode. In every recovery there is a period of a year or more in which growth accelerates well above the long term trend. We have been anticipating that shift would occur in 2014 and, while it was delayed by a few months, it now appears to be upon us. If we are right, the next 12 to 18 months are going to be great for the economy and great for the commercial real estate sector. Finally, the economy appears to be running on all cylinders.