

OFFICE SECTOR

In spite of weak job growth, the US office vacancy rate fell slightly in Q2'11. Outpacing the national trends, leasing accelerated sharply in Manhattan, pushing rents higher as the vacancy rate fell below 10%.

- New lease-signings spiked in Q2'11, rising to their highest quarterly levels since before the recession. With tighter availability and significantly higher rents in the most coveted submarkets, absorption picked up across a broader range of office properties.
- Office sector trends are improving slowly, even as office-using employment has floundered. Private businesses added 420,000 jobs in Q2'11, a 27% decline from the 574,000 jobs added in the prior quarter. For key drivers of office demand, the trends are weaker. Financial services firms shed 4,000 employees in the Q2'11. Professional and business services firms added 93,000 jobs, but a large share of this increase has been in temporary and administrative workers.
- Manhattan continues to stand head and shoulders above other major metro's employment and office recoveries. Across the boroughs, New York City has recovered all but 50,000 of the private jobs lost during the recession. Both financial services and professional and business service employment are rebounding at a pace not observed in peer markets.
- Following several quarters of rising demand for space in Midtown, large blocks of contiguous space in the most desirable properties have grown increasingly scarce. Midtown's falling vacancy and rising rents are pushing some prospective tenants further Downtown. Several large trophy projects are on the drawing board, but none will come to market for several years.

RETAIL SECTOR

Consumer spending falls flat as confidence in the economic recovery slips. Regional mall and strip center occupancy rates remain under pressure even as High Street occupancy and rents rise further.

- After falling by 0.2% in May, retail spending fell flat in June. While spending increases earlier in the year were attributable in part to higher gas prices, modest improvements in June were concentrated in department stores. The department store category has struggled up to now, with sales in June just 0.8% higher than a year earlier.
- Apart from falling confidence, consumers remain constrained by middling growth in income. After rising by 0.4% in March and again in April, personal income growth slowed to 0.2% in May and 0.1% in June. Wages and salaries actually fell between May and June, but the decline was offset by higher government transfers in areas including unemployment insurance and veterans' benefits. The trajectory of wages is not projected to accelerate until the unemployment rate falls further, reducing the slack in the labor market.
- In contrast with regional malls and strip centers, Manhattan's most desirable retail corridors have recorded substantial increases in rents, owing in part to stronger tourism and the relatively robust local labor market. However, absent any headline retail condo transactions, the volume of investment activity slowed from the first to the second quarter.

INTERNATIONAL MARKETS

Europe's sovereign debt crisis shows no signs of letting up, weighing on the region's economies and global stability.

- European leaders' plan to stave off a crisis in Greece has failed to mollify nervous bond investors. The resulting threats to financial stability are exerting significant drags on the region's economies. The Euro Area is currently projected to grow by 1.6% in 2011, reflecting a downward revision for a 1.9% growth projection in May. Europe's anchor up to now, the German economy is also showing signs of strain. German growth is projected to slow from 2.8% in 2011 to 2.1% in 2012, only slightly outpacing growth of 2.0% in Britain.
- European consumers have pulled back sharply in recent months. In June, retail spending in the Euro Area fell by 0.4%. In Britain, however, consumers have been supported by stronger wage-income growth, pushing spending 0.6% higher during June. Sales are also higher in Germany, France, Norway and Sweden. At the other extreme, June retail sales fell by 8.3% in Spain; May retail sales fell by 10.9% in Greece.

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COMMERCIAL

OFFICE

RETAIL

GLOBAL

MARKET GAUGES TEAR SHEET

Selected Office Sector Indicators

Indicator	Current	Date	Previous	Date
Professional & Business Services Employment Change	+34,000	Jul 2011	+4,000	Jun 2011
Financial Activities Employment Change	-4,000	Jul 2011	-18,000	Jun 2011
Unemployment Rate	9.1%	Jul 2011	9.2%	Jun 2011
<i>For Full Time Workers</i>	9.8%	Jul 2011	9.8%	Jun 2011
<i>In New York City</i>	8.7%	Jun 2011	8.6%	May 2011
Office Construction Spending (Compared to Previous Year)	-10.1%	Jun 2011	-11.8%	May 2011

Selected Retail Sector Indicators

Indicator	Current	Date	Previous	Date
Personal Income	+0.1%	Jun 2011	+0.2%	May 2011
Inflation (Consumer Prices, Compared to Previous Year)	-0.2%	Jun 2011	+0.2%	May 2011
Retail Spending (On All Products)	0.0%	Jun 2011	-0.1%	May 2011
Retail Spending (Excluding Spending on Cars and Food)	0.0%	Jun 2011	+0.2%	May 2011
Savings Rate of American Households	+5.4%	Jun 2011	+5.0%	May 2011
Retail Employment Change (Jobs Gained or Lost)	+25,900	Jul 2011	+11,200	Jun 2011
Retail Employment Change (Excluding Auto Sales)	+20,900	Jul 2011	+10,700	Jun 2011

Selected International Indicators

Indicator	Current	Date	Previous	Date
Britain				
Exchange: Dollars Per British Pound	\$1.64	Aug 2011	\$1.59	Year Earlier
Unemployment Rate	7.7%	May 2011	7.7%	Apr 2011
GDP Change (Annual Rate)	+0.7%	Q2 2011	+1.9%	Q1 2011
Inflation (Consumer Prices)	+4.2%	Jun 2011	+3.2%	Year Earlier
Retail Spending	+0.6%	Jun 2011		
Euro Area				
Exchange: Dollars Per Euro	\$1.43	Aug 2011	\$1.32	Year Earlier
Unemployment Rate	9.9%	Jun 2011	9.9%	May 2011
GDP Change (Annual Rate)	+3.4%	Q1 2011	+1.1%	Q4 2010
Inflation (Consumer Prices)	+2.5%	Jul 2011	+1.7%	Year Earlier
Retail Spending	-0.4%	Jun 2011		

Sources: U.K. National Statistics Bureau, Bureau of Labor Statistics, Bureau of Economic Analysis, Census Bureau, Economist Intelligence Unit, Bloomberg