Economic Update

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1. DECEMBER JOBS REPORT

- US nonfarm payrolls increased by 216,000 in December, above November's growth of 173,000 jobs and exceeding the consensus estimate of 170,000 according to the Census Bureau's latest employment report.
- Meanwhile, initial jobless claims fell during the final week of 2023, indicating that the US labor market remains tighter than some projected. Still, claims data in the upcoming weeks will help us understand how much of an impact holiday season hiring is having on current performance.
- Government jobs grew by 52,000 during the month, while the Leisure and hospitality sector continues to lead private employment growth, adding 59,000 jobs in December, followed by Education and Health Services (+42,000), and construction (+24,000)

2. FOMC MEETING MINUTES

- Minutes from the FOMC's December meeting show that officials have reached consensus that rate-cuts are likely to come in 2024 but refrained from providing a more specific window for them to occur.
- Officials held the federal funds rate steady at 5.25 to 5.50% at their December policy meeting and indicated that they expect three 25 basis-point cuts by the end of 2024 in their most recent economic projections.
- While on average, FOMC members have a sense that the Fed's tightening cycle has reached its peak, they continue to stress that their actual policy path forward will depend on how the economy continues to evolve.
- Officials noted an "unusually elevated degree of uncertainty" about the upcoming policy path, with some indicating that it may be necessary to keep the benchmark federal funds rate elevated if inflation doesn't decelerate as expected, while others haft left the door open for additional hikes if conditions call for them.

3. HOMEBUYERS' MONTHLY PAYMENTS DROP

- The median housing payment in the US is down by roughly $400 (-14%) from its October 2023 peak, enticing some would-be buyers back into the fray, according to a recent analysis by Redfin.
- The decline in payments coincides with a slow but steady drop in the weekly average mortgage rate, which propelled Redfin's Demand Index up by 10% between November and December.

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185 Devonshire St, M102
Boston, MA 02110

- New listings also finished 2023 up by 10% over the end of 2022. The report notes that as mortgage rates thaw, homebuying demand should rise as buyers take advantage of more choices alongside better financial conditions. Meanwhile, pending sales dropped by 3% annually to close 2023, its slowest decline in two years.

4. SFR INVESTMENT TRENDS

- According to latest data from Arbor Realty Trust/Chandan Economics, SFR/BTR construction starts reached a new record high in Q2 2023 as cap rates compress, accounting for 7.7% of all single-family starts.
- SFR cap rates fell to 6.1% during Q3 2023, the latest data available, as home prices climbed. Concurrently, SFR rents remained strong.
- SFR occupancy levels averaged 94.4% in Q3, dropping by 10 basis points from the previous quarter. Rent growth has continued to slow, dropping to 4.5% year-over-year through July, the latest data tracked in the report. It was the slowest annual rent growth tracked since April 2020, however, while rent growth has decelerated from its pandemic levels, it currently stands above its 2015-2019 average by a full percentage point.
- Investor purchases of single-family properties continued to decline in 2023, though at a slower pace than the year before, declining by -34.1% in Q2.

5. NON-RESIDENTIAL CONSTRUCTION MOMENTUM

- According to a recent analysis of Census Bureau data by the Associated Builders and Contractors (ABC), a national wave of non-residential construction spending should continue into 2024 despite a downtick in November.
- The analysis showed that non-residential construction spending fell by 0.1% in November due to a drop in public-sector activity, which dropped sharply during the month at a rate of -0.6% month-over-month. Meanwhile, private non-residential spending rose by 0.2% monthly.
- Spending is up by 18.1% over the past year, according to the ABC, while manufacturing-related construction

spending continues to surge, according for roughly 45% of the increase in spending over the past 12 months.

6. INFLATION OUTLOOK

- Inflation is expected to continue to fall throughout 2024 driven by the unwinding of supply-chain driven price spikes and falling economic growth, according to a recent analysis by Morningstar.
- The report's analysts forecast that durable goods will see the greatest drop in inflation or potential deflation as major supply constraints have faded and the global semiconductor market trends towards market surplus. Food and energy price pressures will also likely subside, as the market adjusts to the challenges brought on by the Russia-Ukraine War. Housing price pressures should also reduce as new supply comes online.
- The PCE price index has fallen from a peak of 7% annually in June of 2022 to 2.6% year-over-year through November 2023. Core PCE inflation, the FOMC's preferred measure, has similarly declined but less steeply.
- The analysts expect average US prices to climb by 1.8% per year between 2024 and 2027, below the Fed's 2.0% PCE target rate. However, if price pressures continue to exceed 2.0% as the Fed's tightening cycle unwinds, officials may be ready to induce a recession in 2024 to achieve its goals.

7. CMBS DELINQUENCIES

- CMBS delinquencies fell seven basis points in December, according to recent data by Trepp. Moreover, December's CMBS activity reverses several months of rising Office delinquencies, with the sector's rate declining by 26 basis points to 5.82%.
- Annually, the overall CMBS delinquency rate up 147 basis points from the end of 2022 to 4.51% in December 2023, led by the Retail sector with a 6.47% rate. The delinquency rate for Office is a close second at 5.82%.
- Industrial and Lodging were the only sectors tracked that saw a monthly in delinquencies during December, each climbing by 19 bps to 0.57% and 5.40%, respectively. Nonetheless, Industrial delinquencies are negligible compared to the overall market.

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8. RETAIL INVENTORIES

- Retail inventories, excluding autos, dropped by 0.8% month-over-month in November, its third consecutive monthly decline, in part reflecting the seasonality factor of relatively high sales activity during the holidays.
- Monthly inventory growth during 2023 reached a high of 3.8% month-over-month during February and as low as -1.1% month-over-month in October. The historical monthly average for retail inventory growth, which has been tracked since 1992, is 0.3%.
- Including autos, annual retail growth charted in at 5.1% during November, reflecting the outsized impact that vehicle sales have on retail inventories. Nonetheless, retail inventories including autos also ticked down on a month-over-month basis, falling -0.1% month-over-month.

9. WHOLESALE INVENTORIES

- US wholesale inventories fell by 0.2% month-over-month through November, its second straight monthly decline, according to Census Bureau data. Besides a flat reading in February and a slight uptick in September, monthly wholesale inventories fell consistently throughout 2023.
- Inventory declines follow a dop in non-durable goods, which dropped -9.6% in November following a 0.9% in October. Meanwhile, inventories of durable goods rose in November by 1.2% following a flat October.
- Inventories fell 3.1% year-over-year through November, with December's holiday activity likely adding downward pressure to wholesale levels.

10. REDBOOK INDEX

- The Redbook Index, a weekly sales-weighted index of year-over-year same-store sales growth of large US retailers, finished 2023 with a 5.6% increase over the same week in 2022, according to Redbook Research, Inc.
- Between 2005, when the index was created, and the end of 2023, the US Redbook Index has averaged 3.58%. The index's all-time low was -12.6% reached during the initial pandemic shutdown in May 2020, while its all-time high of 21.9% was reached in November 2021.
- After reaching its November 2021 peak, the US Redbook spent all of 2022 in decline before rebounding in

2023. Index growth is unlikely to return to record growth seen during the pandemic's economic rebound, but merchandise sales have maintained a healthy level in the face of increased economic uncertainty over the past year.

SUMMARY OF SOURCES

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