Economic Update

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NOVEMBER 24, 2023

1. CPI INFLATION

- The Consumer Price Index (CPI) fell to 3.2% year-over-year in October, 50 basis points below the September reading, and follows two consecutive increases in annual CPI.
- Monthly CPI was flat, marking the first time the economy has experienced no month-over-month inflation since July 2022. Further, the annual increase in CPI in October was its lowest for the CPI since March 2021.
- Energy prices dropped sharply in October; however, the declines were offset by the rise in shelter costs. Still, shelter costs, which have been the key culprit behind upward price pressure in recent months, increased by just 0.3% monthly in October, 30 basis points below September's reading.
- Markets responded positively to the news after the annual reading came in 10 basis points below economists' consensus forecast for October. The Dow jumped 1.5% on the day of the release as investors renewed hopes that falling pressures could boost consumer confidence and provide room for the Fed to halt its interest rate tightening cycle.

2. THANKSGIVING INFLATION

- As Americans sit down to this year's Thanksgiving feast, the inflation on their plates has — thankfully — improved since last year.
- According to the BLS Consumer Price Index, the bulk of this year's inflation is stuffed into the turkey, which has seen average prices rise by 7.2% in the past year. Meanwhile, Ham — the proverbial silver medalist of the Thanksgiving feast — is up by only 0.5% year-over-year.
- Fresh fruits and vegetables are serving up a healthy side of savings, with average prices down 0.1% from last year. Staples such as eggs (-22.2%), butter (-3.7%), and milk (-1.6%) are also seeing prices fall from a year earlier.
- Looking ahead to Black Friday, while conclusive data are unavailable from the BLS, the Analysts at Chandan Economics forecast that negative rates of inflation are highly probabilistic for the New York Jets offense as well.

3. COMMERCIAL PROPERTY PRICES

- According to the MSCI Real Assets Commercial Property Price Index (CPPI), CRE valuations are down 8.0% year-over-year through October 2023. Apartment prices have seen the most severe declines in the past year, falling 13.7%.
- Office (-9.5%) and retail (-7.2%) also posted sizable year-over-year declines. The only core-property type to still see price growth over the past twelve months is industrial, which saw valuations grow a meager 1.2%.
- Tertiary markets are, on average, seeing more pricing pain than major markets. CRE prices in non-major markets are down 9.0% year-over-year through October, while major market CRE prices are down by slightly less (-4.6%).

4. GOVERNMENT SHUTDOWN AVERTED

- On November 16th, President Biden signed Congress' recently passed continuing resolution (CR) that extends current federal funding levels until early 2024, averting an imminent government shutdown and freezing congressional spending battles until the new year.
- The CR was the second short-term funding bill advanced by the House since September, reflecting persistent legislative deadlock in D.C. as legislators debate spending cuts, aid for Ukraine, and other hotbed items.
- The new CR is multi-tiered. The package funds part of the government, including the Department of Agriculture, HUD, and Transportation, through January 19th but funds the Defense Department through February 2nd. The CR also excludes supplemental packages covering items such as aid for Ukraine, Israel, and border security — punting those debates into later.

5. FHFA CUTS GSE LENDING CAPS

- The Federal Housing Finance Agency (FHFA) recently announced that it has cut the lending caps for Fannie and Freddie to $70 billion each in 2024, in line with 2021 levels.
- In 2023, the FHFA lowered its lending caps for government-sponsored entities (GSE) to $75 billion each,

down from $78 billion in 2022. While the 2024 levels will be the lowest in 3 years, they remain well above pre-pandemic levels as the agency straddles the line between assisting housing supply amid an affordability crisis and reigning in inflationary demand.

- Keeping in line with 2023 mission funding goals, the FHFA will require that at least 50% of Fannie and Freddie's multifamily business be mission-driven affordable housing. Further, loans classified as supporting workforce housing will be exempt from volume caps.

6. EMERGING TRENDS IN REAL ESTATE: 2024 ISSUES TO WATCH

- As part of the 2024 ULI-PwC Emerging Trends in Real Estate (ETRE) Report, a broad survey of CRE professionals weigh in on the most salient factors presenting challenges for the industry in the year ahead. Among economic and financial issues, on a scale of 1-to-5 (1 = no importance, 5 = great importance), respondents consider interest rate costs (4.70), capital availability (4.30), and income growth (4.08) as the most pressing issues.
- Among social and political factors, housing costs and availability top the rest of the field (4.21). Following at the top of the list are concerns about immigration policy (3.56) and political extremism (3.39).
- Construction labor costs (4.46) are a primary concern among development factors. Other issues raising concerns are material costs (4.31) and construction labor availability (4.30).

7. EMERGING TRENDS IN REAL ESTATE: 2024 PROPERTY TYPE OUTLOOK

- According to the respondents of the Emerging Trends in Real Estate (ETRE) survey, multifamily properties maintain the best investment prospects in 2024 of any core-property type. On a scale of 1-to-5 (1 = abysmal, 5 = excellent), multifamily scored 3.70 in the 2024 ETRE survey.
- Following closely behind are single-family housing (3.68) and industrial (3.63). Hotel (3.33) and retail (3.27) follow next and remain on the positive end of the scoring spectrum. Trailing behind is, predictably, office, which holds a score of 2.60 in the 2024 survey.
- Compared to last year's results, the investment outlook improved for multifamily, single-family, and retail

assets. The outlook remains unchanged for hotels and worsened for industrial and office assets.

8. HOUSEHOLD DEBT TRENDS

- Nationally, 26% of all Americans have debt in collections, according to data from the Urban Institute.
- The data tool, which highlights the geography of debt in America by debt type and observes differences by age and race, among other factors, shows that debt collection affects 22% of households in White communities and 35% of households in communities of color.
- Young adults aged 18 to 24 are also vulnerable to certain debt types, such as student loans. Still, despite just 3% of young adults having student loan debt in default, a staggering 20% have some form of debt in collections. Medical debt arises as a key culprit, with 10% of adults ages 18 to 24 having some medical debt in collections.

9. SMALL BUSINESS OPTIMISM

- According to the NFIB Small Business Optimism Index, sentiment fell for a third consecutive month in October, its lowest level since May. Data from the report suggests that a lower share of businesses reporting nominal sales growth and positive profit trends help explain the declining sentiment.
- A net negative 17% of all small business owners reported higher nominal sales in the past three months, the lowest share since July 2020. While the net share of owners expecting higher real sales volume improved from September, it remained a net negative 10%.
- 21% of owners cited inflation as their single most important problem, a one-point drop from September. A net positive 30% of owners reported having raised average sales prices in October, while the frequency of positive profit trend reports was a net negative 32% during the month.
- 43% of owners report having job openings that are hard to fill, unchanged from September but close to historical highs. A net 24% of owners plan to raise compensation levels in the next three months, a slight uptick from last month.

10. NAHB HOUSING MARKET INDEX

- According to the Wells Fargo NAHB Housing Market Index — a monthly gauge of homebuilder sentiment

— conditions continue to worsen through November 2023.

- The HMI, which describes conditions above an index reading of 50 as improving and below as worsening, fell to 34 in November, marking the lowest point in 2023 to date. Moreover, driven by entrenched high prices and a recent surge of interest rates, the HMI has now slid for six consecutive months and has held at or below 50 since August.
- Regionally, the Northeast housing market is faring better than the rest of the country, holding an index reading of 53 in November. The South (35) follows in second, with the Midwest (32) and the West (28) trailing further behind.

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SUMMARY OF SOURCES

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