Economic Update

SVN | Research

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1. SEPTEMBER JOBS REPORT

- The Bureau of Labor Statistics (BLS) reported that the US added 254k jobs in September, drastically defying expectations following a summer of worsening labor market conditions.
- The consensus forecast from economists heading into the data release was that the economy would add just 142,500 payrolls in September following massive downward revisions of previous months' jobs data and anecdotal signs of labor market deterioration.
- Contrarily, the pace of job growth skyrocketed in September to its highest monthly level since March, while the July and August jobs reports were revised upward.
- The unemployment rate was little changed at 4.1%, while employment continued to rise in food and drinking places, the health care sector, government, social assistance, and construction.
- Wage growth rose by an impressive 0.4% month-over-month and 4.0% year-over-year.

2. FOMC MEETING MINUTES

- Key points from the minutes of the FOMC's September meeting reveal where and how consensus was formed as the committee decided to move forward with a 50-basis point (bp) interest rate cut in September.
- According to the minutes, a "substantial majority" of voting members backed a 50 bp cut rather than a 25 bp cut as the committee pivoted to looser monetary policy. Further, there was a broader consensus that such a decision would not lock officials into future rate-cut decisions.
- As the minutes reveal, officials coalesced around a 50 bp cut as many believed it would align with the recent loosening of labor market conditions and signal a re-anchoring to the Fed's commitment to both sides of the dual mandate.
- It was also crucial to some officials to move in a way that, on the one hand, signaled to markets their attention to labor market loosening but did not indicate that the central bank was anticipating a more negative economic outlook.

3. "SOFT LANDING" IMPACT ON CRE

- Results from Altus Group's Q3 US CRE Industry Conditions and Sentiment Survey (ICSS) show overall greater optimism surrounding commercial real estate compared to last quarter, including a higher share of respondents indicating an intent to deploy capital in the short term.
- Survey respondents remain evenly split on the likelihood of a recession within the next six months, while most respondents will focus on managing their existing portfolio over the next six months rather than seek expansion opportunities.
- Still, 31% of participants said their primary focus for the next six months will be deploying capital—a significant jump from 20% in the Q2 survey.
- While it's too soon to conclude that the Fed has executed a "soft landing" for the US economy following its two-plus year battle against inflation, the labor market has remained remarkably resilient as prices have gradually decelerated, boosting optimism in the economy's short-term health.
- Further, most ICSS respondents expect that if a recession arises, it will be "shallow and short-lived."

4. DISASTER RISK AND RISING HOME INSURANCE PREMIUMS

- A recent working paper by the National Bureau of Economic Research shows that average property insurance premiums have climbed more than 30% since 2020 with large location-based variation.
- Intuitively, premiums have risen fastest for homeowners in areas with a higher risk of natural disasters such as hurricanes or wildfires. Still, the relationship between disaster risk and premiums has grown stronger over time as the rate of natural disasters rises and long-term trends become less predictable.
- Analyzing data on escrow payments, the researchers built a dataset of roughly 47 million observations of insurance costs in the US between 2014 and 2023. The analysis found that between 2020 and 2023, average home insurance costs rose by an inflation-adjusted 13%.
- Moreover, increases in the ZIP codes with the highest disaster risks were significantly larger, with neither change in home values nor changes in state-specific regulations accounting for such variation.
- Digging further, the researchers find that the rise in risk premiums between 2018 and 2023 coincides with a doubling of US property and casualty reinsurance costs. They point to several reasons for this "reinsurance shock," including an uptick in migration of the US population towards increasingly risky

areas, rising interest rates, and an overall reassessment of climate risks by re-insurers.

5. CPI INFLATION

- According to the Bureau of Labor Statistics, the Consumer Price Index rose by 2.4% year-over-year in September, exceeding expectations but registering a two and a half year low.
- The headline CPI metric rose 0.2% from August, with the shelter index – a key contributor to overall price pressures, rising by the same amount. food prices rose 0.4% month-over-month in September, which, combined with the shelter metric, accounted roughly 75% of the increase in overall inflation.
- Core-CPI, which excludes volatile food and energy prices, rose 3.3% annually and 0.3% month-over-month in September, also slightly above the consensus forecast. The elevated core-inflation numbers over headline inflation is largely contributed to a fall in energy prices, which fell by 1.9% month-over-month in September following a 0.8% decline in August.

6. HAS OFFICE HIT ITS BOTTOM?

- The Q2 2024 results of MSCI RCA's Commercial Property Price Index showed that US Office market prices had declined by 12.5% year-over-year through the quarter. While distress in the sector remains palpable, price declines have decelerated from late 2023 levels.
- In late 2023 and early 2024, many developers opted to extend maturing loans rather than sell at major losses, hoping to hold onto their assets until prices recovered.
- However, a recent Reuters article found that some market analysts are seeing signs of a pickup in sales of stressed office properties as expectations of financial condition loosening take shape.
- An August report by Moody's also showed an uptick in office prices sold at a discount during Q2—seven sold at a discount of $100 million or more compared to just one sold with such a discount in Q1. Only two such sales took place during the whole of 2023.
- While $100 million discounts may sound daunting, the uptick in Office transactions suggests that activity in the sector is thawing. Even as prices are unlikely to climb anytime soon, the pace of price declines appears to be turning a corner.

7. CONSTRUCTION SPENDING

- US construction fell in August by a monthly rate of 0.1%, following a revised 0.5% decline in July, according to the latest data from the US Census Bureau.
- August was the third consecutive monthly decline in construction spending, with private spending down 0.2%, driven by a 0.3% decline in the residential segment.
- Within residential, single-family projects saw the most significant slowdown in August, with construction activity in the space falling by 1.5% month-over-month.
- Activity in the non-residential segment also slowed in August, shrinking by 0.1%. Declines in the non-residential segment were primarily driven by declines in educational (-1.1%) and healthcare (-0.8%) related construction.
- Contrary to the trend, public spending rose by 0.3% in August, driven by a 1.6% increase in public residential construction and a 0.3% rise in non-residential construction.

8. GEOPOLITICAL RISKS

- Blackrock's recent quarterly Geopolitical Risk Dashboard indicates that geopolitical risks remain structurally elevated, driven by deeper fragmentation between global economic blocks, a less predictable world order and accelerating changes in globalization norms.
- The dashboard highlights risk of a Middle East Regional War as key emerging risk as the conflict between Israel, Iran, and its proxies in the middle east heat up with tensions forecasted to remain high well into next year.
- US-China strategic competition remains a high-level risk according to Blackrock. The report notes that as the US gears up for the 2024 election and China looks to stimulate stagnant domestic markets, both countries have favored stability, but intense competition continues in the background, particularly in the South China Sea. Global technology decoupling also shows little sign of slowing down.
- Russia-NATO conflict risk also remains high in the eyes of the analysts. Ukraine's recent advance into Russian territory and Russia's military ramp up in response to it has lowered the likelihood of a ceasefire

or diplomatic solution to the conflict in the short term.

- A cascading of global risks could have serious implications on the global economy, which could arise from several channels such as energy markets, supply chains, migration patterns, and market confidence.

9. LOGISTICS MANAGERS' INDEX

- The Logistics Manager's Index experienced its highest monthly uptick in two years during September, signaling that demand in the logistics sector is picking up.
- The index has climbed for ten consecutive months through September — though it appears to have ramped up in anticipation and response to the September interest rate cut and the consumer activity that looser financial conditions could induce.
- Inventory levels increased during September, primarily due to restocking activity by downstream retailers. Growth in inventory levels also caused inventory costs to rise during the month.
- Transportation capacity declined in September, hitting 50 for the second time this year. An Index level of 50 indicates that transportation capacity is neutral, neither expanding nor contracting.
- Warehousing capacity slowed, while transportation utilization and prices expanded at slower rates than the previous month.
- Meanwhile, warehousing utilization and prices are expanding more quickly than in August.

10. JOB OPENINGS AND LABOR TURNOVER

- According to the BLS, job openings rose to 8.04 million in August, rising 329k from an upwardly revised 7.71 million in July and exceeding the consensus expectation of 7.66 million.
- Signals from the US labor market appear to be taking a U-turn following a summer of deterioration. The rebound in job openings in August and upward revisions in July coincides with an unexpectedly strong jobs report in September and upward revisions in payroll numbers from July and August.
- The largest increases in job openings were in construction (+138k) and state and local government, excluding education (+78k).
- Both the number of hires and total separations were little changed at 5.3 million and 5.0 million, respectively. Within separations, quits declined to 3.08 million, its lowest since August 2020.

SVN COMMERCIAL REAL ESTATE ADVISORS
svn.com
1309 Beacon St, Suite 300
Brookline, MA 02446

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SUMMARY OF SOURCES

- (1) https://www.bls.gov/news.release/pdf/empsit.pdf
- (3) https://www.altusgroup.com/insights/how-a-soft-landing-could-impact-us-commercial-real-estate/?utm_source=google&utm_medium=organic
- (4) https://www.nber.org/papers/w32579
- (5) https://www.bls.gov/news.release/cpi.nr0.htm
- (6) https://www.reuters.com/markets/us/us-office-market-shows-signs-bottoming-after-big-discount-sales-2024-10-03/
- (7) https://www.census.gov/construction/c30/current/index.html
- (8) https://www.blackrock.com/corporate/literature/whitepaper/geopolitical-risk-dashboard-september-2024.pdf
- (9) https://www.the-lmi.com/
- (10) https://www.bls.gov/jlt/

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1309 Beacon St, Suite 300
Brookline, MA 02446