Economic Update

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1. GROSS DOMESTIC PRODUCT

- Real GDP rose by 4.9% during the third quarter of 2023, its fastest pace since the fourth quarter of 2021, according to the advanced estimate from the Bureau of Economic Analysis (BEA).
- Continuing the post-pandemic storyline, robust consumer spending largely drove the increase in output but was also accompanied by increases in the other key components: net exports, residential investment, and government spending.
- Consumer spending rose 4.0% during the third quarter, following a tepid 0.8% in Q2. According to the BEA report, consumption accounted for 55% of the total increase in GDP.
- Stocks reacted little to the news, as markets forecasted an increase of 4.7% during the quarter — not far off from the eventual tally. Still, the substantial GDP numbers, alongside a continued decline in core-inflation prices, further complicate the Federal Reserve's next steps as they try to tame inflation while keeping the US economy afloat.

2. CPI INFLATION

- According to the Bureau of Labor Statistics, the Consumer Price Index rose by 0.4% month-over-month in September, following a 0.6% increase in August. The index is up by 3.7% over the past 12 months.
- Prices rose more than the consensus expectations as shelter continued to place upward pressure on overall prices, accounting for over half of the total increase. Still, several items in the index saw prices climb at their slowest pace in years, including food, which is at its lowest rate since March 2021.
- Gasoline prices also played a significant role in the monthly rise in CPI, with the energy index increasing by 1.5% in September.
- The indices for used cars and trucks, as well as apparel, decreased during the month.
- Excluding food and energy, core-CPI cooled for six consecutive months to 4.1% annually and just 0.3% month-over-month. The slowdown in core inflation rates signals what Fed policymakers may do moving forward, considering their emphasis on these items in their rate-setting strategy.

3. 2024 COMMERCIAL REAL ESTATE OUTLOOK

- In a recent survey of industry stakeholders for their 2024 Commercial Real Estate Outlook Report, Deloitte highlights expense mitigation as the top priority for respondents as their focus shifts to managing industry headwinds as transactions and rents slow.
- According to the report, respondents pointed to capital availability and costs as the most concerning industry fundamentals, with half expecting both measures to worsen in 2024.
- 60% of firms also indicated a concern about meeting environmental, social, and governance (ESG) compliance, while many are looking to outsource to drive overall efficiency.
- 61% of firms say their core tech infrastructure relies on legacy programs. Still, roughly half are making efforts to modernize as attention shifts to efficiency and technological ways to gain a competitive edge.

4. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- On-time rental payment rates in independently operated rental units improved marginally in October 2023, rising to 82.6%, according to the latest reporting from Chandan Economics and RentRedi.
- The on-time payment rate is up by 21 bps from the month prior and 102 bps from the same time last year. Encouragingly, on-time payment rates have now held above 82% in eight of this year's ten months — a threshold only surpassed once in all of 2022.
- October's forecast full-payment rate, which takes on-time payments, late payments, and expected late payments based on historical trends, came in at 92.8% — remaining unchanged from the month prior and matching the sector's post-pandemic high watermark.
- Western states continue to hold the highest on-time payment rates in the country, led by Utah (93.8%), Idaho (91.7%), Colorado (90.6%), Washington (89.9%), Oregon (89.5%), Arizona (89.1%), and North Dakota (88.7%).
- In October, small multifamily (5-49 units) rental properties held the highest on-time payment rates of all sub-property types, at 83.2%.

5. MORTGAGE APPLICATIONS

- US mortgage applications fell by 1% during the week ending October 20th, following a substantial 6.9%

decline in the previous week, according to data from the Mortgage Bankers Association.

- The index that tracks application volume has fallen to its lowest level in 1995 as higher interest rates convince many would-buyers to remain on the sideline, while sellers are deterred from slowing or declining prices, stifling transaction volume.
- New purchase applications fell by 2.2% from the previous week, offsetting the more tepid 1.8% increase in applications to refinance a home.
- The average rate on a 30-year fixed mortgage climbed by 20 bps during the week to 7.9%, the highest mark for mortgage rates since September 2000.

6. UNDERGRADUATE ENROLLMENT RISES FOLLOWING YEARS OF DECLINE

- After three consecutive years of declines, undergraduate enrollment at US colleges and universities this Fall increased for the first time since the onset of the COVID-19 pandemic, according to data from the National Student Clearinghouse Research Center.
- Enrollment is up 2.1% year-over-year and 1.2% from the Fall of 2021. Community colleges accounted for 59% of the undergraduate increase, while students of a Black, Latino, and Asian background accounted for most of the growth in both undergraduate and graduate enrollment.
- Before the pandemic, college enrollment had already been declining and was only accelerated further by the pandemic's social and economic impacts.

7. NEW HOME SALES

- New US single-family home sales climbed to a 19-month high in September, rising an impressive 12.3%, according to the latest data from the Census Bureau.
- Experts note that a chronic shortage of homes has pushed up construction activity in recent months, which is beginning to impact the transaction level as builders offer buyers interest-rate buydown incentives that funnel demand into newly built properties.
- According to Commerce Department data, most of the homes sold in September were in the $150,000-

$499,999 price range.

- Meanwhile, median home prices are also falling due to new supply coming online. The average price of a single-family home fell by 12.3% in September, its steepest drop since 2009.

8. CONSUMER SENTIMENT

- According to the University of Michigan's latest preliminary estimates, US consumer sentiment fell to its lowest level in September as concerns over personal finances, inflation, and short-term business conditions mounted.
- Both the current conditions and future expectations sub-indices similarly fell to a five-month low during the month, while year-ahead inflation expectations rose from an expected rate of 3.2% in August to 3.8%, its highest since May. Five-year ahead inflation expectations also rose, climbing from 2.8% to 3.0%.
- Expectations for long-run business conditions were little changed in September, signaling that while consumers are cautious in the face of short-term developments, they generally expect conditions to improve in the future.

9. INDUSTRIAL PRODUCTION

- US industrial production, a useful proxy measure for manufacturing demand and, by extension, a leading indicator for Industrial real estate, rose by 0.3% month-over-month in September, beating consensus expectations of a flat reading, according to Federal Reserve data. Total production is up by an annual rate of 2.5% in the third quarter.
- Manufacturing output, which accounts for 78% of industrial production, rose 0.4% during the month following a 0.1% decline in August.
- Mining output rose by 0.4%, its fourth consecutive month of growth, while utilities fell by 0.3%.
- In Manufacturing, the strongest gain on a percentage basis were wood products, primary metals, and plastics and rubber products. Meanwhile, apparel/leather, as well as printing and support, saw the steepest monthly declines.

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10. US RETAIL SALES

- US retail sales rose by 0.7% month-over-month in September, beating expectations by 40 basis points, according to the latest data from the Census Bureau.
- While slightly below the August rate of 0.8%, retail trade continues to post strong growth as US consumers continue their years-long post-pandemic spending spree.
- Miscellaneous retail sales showed the most strength, rising 3.0% month-over-month, but also experienced the most volatility after falling 3.6% monthly in August. Non-store retailers also had a strong month, climbing by 1.1%, likely boosted by the Labor Day weekend. Auto and parts also posted solid gains, rising by 1.0% during the month.

SUMMARY OF SOURCES

- (1) https://www.bea.gov/news/2023/gross-domestic-product-third-quarter-2023-advance-estimate
- (2) https://www.bea.gov/data/gdp/gross-domestic-product
- (3) https://www2.deloitte.com/us/en/insights/industry/financial-services/commercial-real-estate-outlook.html
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- (5) https://www.mba.org/
- (6) https://nscresearchcenter.org/stay-informed/
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- (10) https://www.census.gov/retail/marts/www/marts_current.pdf

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