Economic Update

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1. INFLATION AND FALLING ENERGY PRICES

- The latest PCE price index rose in line with consensus expectations in October, but the divergence between the core and headline numbers reflects the disinflationary impact of falling energy prices in recent months.
- According to the Bureau of Economic Analysis, the core inflation rate, which excludes food and energy costs from calculations and is the Federal Reserve's preferred measure for monetary policymaking, climbed 0.2% month-over-month and 3.5% over the past 12 months. However, headline inflation (including food and energy) remained flat for the month.
- Falling energy prices largely explain the static headline numbers even as core prices climb. In October, energy prices fell a massive 2.6% month-over-month, significantly dampening the inflationary impact of other goods, such as food and housing, that gained during the month.
- ·As the Fed's preferred measure rises while the more publicly visible headline data flattens, it compilates its short-term interest rate policy decisions. However, officials will likely be looking to see if falling energy prices dampen prices of core consumer goods and whether falling headline inflation helps shift future inflation expectations.

2. MORTGAGE RATES FALL

- The average rate on a 30-year fixed rate mortgage fell for the sixth consecutive week during the week of December 7th, charting at 7.03%, according to Freddie Mac data.
- The latest reading reflects a notable decline in Treasury yields that began toward the end of October as bond markets recalibrated for an increased likelihood of the Fed ending its interest rate tightening.
- Rates continue to sit close to multi-decade highs but have fallen off of a rent peak of 7.8% reached in late October. According to Freddie Mac's Chief Economist, while purchase activity initially increased in response to falling rates in early November, this improvement in demand has receded in the past week.

3. 2024 NATIONAL HOUSING MARKET OUTLOOK

- According to Bright MLS's 2024 National Housing Market Outlook, market watchers should expect a fall in mortgage rates next year that could lead to an uptick in home sales, while prices will likely remain relatively stable.

- The report's authors project that mortgage rates, which reached north of 7.0% in 2023, will settle between 6.0% and 6.5% in 2024 as the Federal Reserve appears poised to pause or loosen its interest rate policy in the near term.
- Many economists have noted resilient housing demand in 2023, but a financing environment that has dampened transaction volume as would-be buyers and sellers wait for each other to blink. According to the forecast, a downward shift in mortgage rates should also loosen pent-up demand for homeownership, resulting in higher home sales volume.
- Home prices are projected to remain stable in 2024 as several factors push and pull on market prices. Median home prices grew by roughly 13.7% annually between 2019 and 2022. Such growth rates are high by historical standards, so while increased activity next year may reinvigorate price growth, a continued higher-rate environment will likely moderate the housing market's growth ceiling.

4. CONSUMER CONFIDENCE

- Consumer confidence rose in November following three consecutive monthly declines, according to the latest data from the Conference Board.
- The increase was led by a rise in future optimism, as the expectations sub-index of the report, which measures the short-term outlook for income, business, and labor market conditions, rose during the month. The present situation index, where consumers assess current business and labor conditions, fell slightly.
- Despite the increase in the expectations index, the measure remains in the recessionary range, according to the report's analysis. Consumer recession fears have recently abated to their lowest levels of the year. However, roughly two-thirds of consumers still perceive a risk of recession over the next 12 months.

5. FED BEIGE BOOK

- Economic activity has slowed in the past several weeks, according to the Federal Reserve's latest Beige

Book, which summarizes recent anecdotal sentiments about US economic conditions.Four of the twelve Fed districts reported modest growth, two districts indicated flat conditions, while the six others cited overall declines.

- Retail and auto sales were reported as mixed across the country, while sales of discretionary items and durable goods declined as consumers expressed more price sensitivity in their spending decisions.
- According to respondents, travel and tourism activity remained robust, but demand for transportation services was sluggish overall.
- In other areas, manufacturing activity was mixed, demand for business loans declined, and consumer credit conditions remained healthy, according to servicers—despite an uptick in delinquencies.
- Commercial real estate activity continued to slow. Moreover, several districts reported a slight decrease in residential sales and inventory.

6. CONSTRUCTION SPENDING

- Construction spending rose by 0.6% between September and October, according to the latest readings from the US Census Bureau, roughly in line with economists' expectations.
- Private construction increased by 0.7% in October, primarily driven by a 1.3% rise in residential spending, specifically in the single-family segment. Multifamily construction decreased slightly during the month, declining by 0.1%.
- Non-residential construction rose by 0.1% in October. Meanwhile, spending on manufacturing projects fell by 0.4%, but factory construction continues to climb, partly reflecting the market effects of the White House's push to on-shore semiconductor manufacturing. Public construction spending rose by 0.2% in October.

7. JOB OPENINGS AND LABOR TURNOVER

- US job openings fell 6.6% month-over-month in October, according to the latest Job Openings and Labor Turnover Survey from the Labor Department.
- Current job openings stand at 8.73 million nationwide, the lowest total for the US since March 2021. The

current ratio of job openings to available workers declined between September and October from 1.3 to 1.0.

- The consensus forecast by economists leading up to the report was 9.4 million, well above the actual readings. Fed officials watch the report closely for signs of labor market slack or tightness, and the falling ratio between openings and workers may signal that the labor market is shifting towards a higher slack environment.

8. SINGLE-TENANT LEASE SUPPLY RISES

- Inventory in the single-tenant net lease (STNL) market jumped in Q3, according to recent Globe Street reporting of brokerage data. Properties on the market increased by nearly 19% quarter-over-quarter.
- While new supply could help dull inflationary pressures from consumer goods, newer properties are arriving at roughly double the rate of older stock falling off the market, limiting price growth.
- According to the analysis, the most significant contributor to the surge was big-box properties, which saw a 144% increase in retail space during the quarter.
- Distribution facility supply also rose, climbing by 19% between Q2 and Q3, partly reflecting the increased use of sale-leaseback within the industrial sector.

9. CRE LOAN COLLATERAL

- According to an analysis by MSCI Real Capital Analytics, the price of loan collateral has seen a significant drop-off over the past year; however, most loans remain above their origination value, dampening the effect of the market correction.
- 81.5% of loan collateral has experienced a price decline in the past 12 months, but only 40% have values below their origination amount.
- Still, roughly half have experienced price corrections that have pushed loan-to-value (LTV) ratios into a “danger zone” that could limit refinancing capabilities. Of those in the “danger zone,” 58% face loan maturities within the next five years, while 37% face maturity within three years. The recent activity signals that market risk could lessen as the macroeconomic environment evolves in the near future, but

that current levels warrant increased attention to market activity.

10. PENDING HOME SALES FALL

- Pending home sales, a useful leading indicator for future housing demand, fell by -1.5% in October, according to the National Association of Realtors.
- Declining activity was concentrated in the US's West, Midwest, and South regions. In contrast, the Northeast region saw an uptick. Transactions fell in all four regions on an annual basis.
- The West region experienced the steepest monthly decline, with activity falling a drastic 6.0% between September and October. The South region fell by 1.9% month-over-month, while the Midwest fell by a more modest 0.4%. The Northeast region climbed by 2.7% on the month.
- Notably, this year's continued slowing activity has produced new lows for the index, which originated in 2001. This reflects the impact of generationally high mortgage rates, which continues to dampen prospective homebuying.

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SUMMARY OF SOURCES

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