Economic Update

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JUNE 24, 2022

1. FED POLICY MEETING

- At its latest policy meeting on June 15th, the FOMC raised the Federal Funds rate by 75 bps to a range of 1.5%-1.75%, its steepest rate hike since 1994. The move follows a May inflation rate of 8.5%.
- The yield on the 10-year Treasury note fell during the week out of fears that an increasingly aggressive Fed could tip the US economy into recession.
- The most recent Summary of Economic Projections forecasts a 3.4% year-end Fed-funds rate, a 150 bps increase from the March-meeting forecast. Officials also cut their 2022 GDP growth outlook to 1.7% from 2.8% in March. Officials see inflation easing in 2023, with an average forecast of 2.7% core PCE, but this forecast has remained unchanged since the initial March rate hike.
- The stock market initially rose after the policy release but fell later in the week as pessimism around tightening's impact on growth rattled investor sentiment. The S&P 500 finished up 0.2% on Friday but fell 5.8% over the week.

2. MSCI REAL CAPITAL ANALYTICS

- The US National All-Property Price Index, which produces a weighted measure of commercial real estate prices, rose by 18.6% over the year ending May 2022, according to MSCI Real Capital Analytics (MSCI RCA). Month-over-month, prices rose 1.1%, which would convert to a 9.7% annualized growth rate— the fastest observed growth rate in the past four months.
- Industrial retained the accolade of the sector seeing the fastest annual rise, climbing by 28.6% year-over-year. Industrial also saw the most rapid month-over-month appreciation in May, rising 1.3% (24.4% annualized growth rate).
- Apartment prices were close behind, growing 23.3% year-over-year. Month-over-month, apartment prices rose by about 1.5% in May (19.2% annualized growth rate)
- Retail and Office asset prices are up 18.8% and 12.2% year-over-year, respectively. Notably, Central Business District Office prices are outpacing Suburban Office prices, measured both year-over-year (13.4% vs. 10.5%) and month-over-month (0.9% vs. 0.6%).

3. APARTMENT INVESTMENT MARKET INDEX

- Freddie Mac's Apartment Investment Market Index (AIMI) fell for the second consecutive quarter, registering a 5.3% quarter-over-quarter decline in Q1 2022. AIMI is down -6.1% from Q1 2021.
- While net operating incomes (NOI) have continued to rise, an increase in mortgage rates and property prices have offset NOI's impact. NOI is up 19.8% year-over-year, while property prices and mortgages are up 21.1% and 41 basis points, respectively, over the same period.

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- AIMI fell in all 25 tracked metros, but each metro also recorded increases in NOI from Q4 2021. NOI growth was 2.5% quarter-over-quarter, with the fastest growth in Miami, which grew 5.6% from Q4 2021. Portland grew the slowest, at just 0.9%.
- Mortgage rates grew 29 bps from the previous quarter, its most significant single quarter gain since Q2 2018. Mortgage rates are 41 bps above their average one year ago.

4. GLOBAL SUPPLY CHAIN PRESSURE INDEX

- According to the New York Federal Reserve's Global Supply Chain Pressure Index (GSCPI), global supply chain pressures fell in May. Still, supply chain pressures remain at historically high levels. The index fell from 3.4 in April to 2.9 in May. The index value represents how many standard deviations from the historical mean current supply chain conditions reside.
- Most GSCPI components—which include commonly used metrics such as the Baltic Dry Index, the Harper Index, airfreight cost indices, and sub-components of the Purchasing Managers' Index— decreased.
- The recent movement in the GSCPI signals a potential stabilization of global supply chain pressures at historically high levels.

5. CONSUMERS CUT BACK ON DINING

- A recent study by Morning Consult reports that 53% of adults in the US have adjusted their eating and drinking spending because of high inflation. 72% of consumers say that they have intentionally taken steps to save money due to inflationary pressures.
- In addition to the price inflation seen at restaurants and eating establishments, the CPI sub-component measuring food at home is up 11.9% over the past year, adding pressure to consumers' wallets.
- Regionally, 56% of consumers in the Midwest report changing spending behavior due to inflation. The South was a close second with 55% of consumers changing spending behavior, while the West saw 53% of consumers adjusting spending. The Northeast saw a significantly less impact, with 46% of consumers adjusting spending habits.
- Of respondents that say they have made adjustments, 8-in-10 report eating at restaurants less often, while 3-in-4 report going to bars left often.
- Women were 13 percent more likely than men to have adapted their spending.

6. NAIOP OFFICE SPACE DEMAND FORECAST

- According to NAIOP, the US office market absorbed 21.6 million square feet of supply over the final quarter of 2021 and the first quarter of 2022. Still, vacancy rates rose for the tenth consecutive quarter,

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though NAIOP notes that a wave of new product deliveries is at least partially to blame.
- For the year, net absorption totaled -23.7 million square feet, slightly better than the -30.9 million that NAIOP had forecasted. Further, 2021's net absorption total was an improvement from 2020's total of -73.3 million square feet.
- NAIOP forecasts that net office space absorption will total 46.9 million square feet between Q2 2022 and the end of the year, reflecting slowing, though still growing, economic growth and an uptick in office space utilization.

7. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- Research by Chandan Economics indicates that the on-time collection rate for independently operated residential properties improved by 129 bps between May and June, rising to 81.5%. May's month-end on-time payment rate was revised up 214 basis points (bps) from the preliminary estimate of 80.2%.
- Gateway markets have maintained higher on-time payment rates than units located elsewhere for six-consecutive months through June 2022. The June on-time rate for Gateway markets stands at 83.0%, while non-gateway markets registered an on-time rate of 81.3%.
- Sun Belt rentals have underperformed the rest of the US for three consecutive months, registering a gap of 65 bps in June 2022. The Sun Belt's growing success has seen some affordability issues arise, as markets re-price more quickly than some existing residents can handle.
- 2-4 Family rentals maintained the highest on-time payment rate of all sub-property types in June, coming in at 82.0%.
- Mid-priced rentals ($1,500-$2,499) continue to outperform all other price points, recording an on-time rent payment rate of 85.0% in June. Units with monthly rents below $1,000 continue to perform the worst, with just 80% paying on time.

8. NFIB SMALL BUSINESS SURVEY

- The National Federation of Independent Businesses Small Business Optimism Index fell 0.1 points to 93.1 in May, a nearly five-decade low for the index.
- A net negative 54% of owners expect business conditions to improve over the next six months. Future expectations have now fallen consecutively since January.
- 28% of respondents report inflation as their more pressing issue for operating their businesses, dropping four points from April. A net 72% of owners are raising prices, two percentage points from April.
- 51% of owners reported job openings they could not fill, rising from April. Meanwhile, a net positive 46% of owners reported raising compensation, a three-percentage point drop from April.
- 39% of owners cite supply chain issues as a significant hindrance to their business, up three percentage

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points from April. A separate 31% report a moderate impact from supply chain issues, while 22% report a mild one. Only 8% of owners say there is no impact from supply chain disruptions on their business.

9. CHICAGO FED NATIONAL ACTIVITY INDEX

- The Chicago Fed National Activity Index (CFNAI), which boils down 85 separate indicators of national economic growth into a single index, stood at 0.01 in May, down from 0.4 in April.
- Two of the four major categories of the index—personal consumption and housing (1) and production and income (2), made negative contributions during the month as activity contracted. The other two categories, employment, unemployment, and hours (1) and sales, orders, and inventories (2), increased activity.
- Within production and income, manufacturing production fell 0.1% in May after a 0.8% increase in April.
- Employment-related indicators contributed +0.08 to the CFNAI this month, up slightly from April. Personal consumption and housing contributed a -0.11 decrease to the CFNAI to –0.11 in May, down from +0.10 in April.

10. CMBS DELINQUENCIES

- New reporting from Real Page shows retention rates are in line with the US average. Through Q1 2022, the US and the Southeast saw average retention rates of 58.5%.
- Historically, retention rates in the Southeast have trended consistently below the national average, and the current convergence is a departure from pre-pandemic patterns.
- Lower historical Southeast retention rates were primarily attributed to consistently lower regional apartment occupancy rates. Notably, retention rates have converged even as national occupancy rates have risen above levels observed in the Southeast.

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SUMMARY OF SOURCES

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