

# Economic Update



DECEMBER 19, 2024

## 1. INTEREST RATE DECISION

- The Federal Reserve cut rates by another 25 basis points in December, its third consecutive rate cut as policymakers move into a more accommodative monetary stance as inflation cools and labor market performance comes more into focus.
- The federal funds rate now sits at 4.25%-4.50%, while the “dot-plot”, which indicates FOMC members’ expected policy path, shows that, on average, members anticipate two additional rate cuts in 2025.
- The latest dot plot suggests that markets will see fewer rate cuts in 2025 than previously expected. Equities and stock futures fell following the decision.
- According to Fed Chair Jerome Powell, this month’s policy decision was a closer debate than in recent sessions, while the slower pace of rate cuts in 2025 indicates the persistence of higher inflation readings this year.

## 2. SUMMARY OF ECONOMIC PROJECTIONS

- According to the Federal Reserve’s updated Summary of Economic Projections, FOMC members, on average, anticipate two additional rate cuts in 2025 and for the fed funds rate to fall to 3.9% by the end of 2025.
- Members also revised their GDP growth projections upward for 2024, from 2.0% in the September projection to a forecast of 2.5% in the latest projection. GDP growth is expected to then fall to 2.1% in 2025.
- Nonetheless, PCE inflation projections were also adjusted higher. The year-end 2024 forecast is up from 2.3% in September to 2.4% as of the latest reading. For 2025, the PCE forecast is up from 2.1% to 2.5%.
- Meanwhile, the projection for the 2024 year-end unemployment rate was revised lower, from 4.4% to 4.2%, where it currently stands.

## 3. CPI INFLATION

- According to the Bureau of Labor Statistics, the Consumer Price Index (CPI) rose by 0.3% month-over-month and 2.7% over the past 12 months. The monthly gain was its highest since April and followed four

# Economic Update



consecutive monthly increases of 0.2%.

- Core inflation, which removed food and energy components, rose 0.3% in November, matching the last four months of increases.
- Notably, shelter costs, which have been the most substantial contributor to core inflation in recent years, showed some reprieve in November, rising just 0.3% from October.
- Roughly 40% of this month's increase in shelter costs came from hotel and motel rooms. Moreover, the cost of lodging away from home rose by 3.7% during the month, the biggest increase since October 2022.

## 4. NOVEMBER JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 227,000 jobs in November, bouncing back from an upwardly revised 36,000 in October. Meanwhile, the unemployment rate rose from 4.1% to 4.2%.
- October's steep decline was heavily influenced by labor strikes at Boeing and the effects of Hurricanes Helene and Milton. In turn, November's forecasts proved too conservative, with the economy adding 27,000 jobs above the average estimates coming into the report.
- Employment adds were greatest in healthcare (54k), (leisure and hospitality (53k), government (33k), and social assistance (19k). Meanwhile, the end of the Boeing strike coincided with a 32,000 uptick in transportation equipment manufacturing jobs.
- Meanwhile, retail trade jobs fell by 28,000 while there was little change in employment in construction, wholesale trade, transportation and warehousing, and professional and business services.

## 5. CA INDUSTRIAL REGULATION

- California recently passed AB 98, a law that will restrict industrial development and have implications for the state's booming industrial real estate sector.
- California's industrial sector is credited with being a key economic driver in the state in recent years, but the recently passed bill is in response to what some consider an overdeveloping warehouse surge in the state and its external effects, such as noise, traffic, and emissions.

# Economic Update



- The law attempts to push new development away from the state's most populated areas by requiring that projects be built on major roads instead of residential streets. It also introduces stricter requirements on large projects near "sensitive receptors" such as homes, hospitals, daycares, and schools.
- The issue has become most salient in the Inland Empire area, which is the United States' largest market for warehousing and logistics. During the COVID-19 pandemic, industrial development in the region has been surging. California's recent regulator push could foreshadow other state-wide initiatives as growth in the sector continues to lead all of Commercial Real Estate.

## 6. COMMERCIAL REAL ESTATE PRICES

- According to MSCI-RCA, commercial property prices fell 0.5% year-over-year in November but rose 0.3% month-over-month. Price growth is significantly higher than last year's when the index posted a 7.4% annual decline.
- Most property sectors saw negligible month-over-month growth, but this indicates a gradual turnaround in price direction following a period of declines. Both Industrial and Office prices were flat month-over-month, while Retail prices climbed 0.5% and Apartment prices fell 0.3%.
- Industrial properties continue to be the most resilient asset class, climbing 4.7% year-over-year, boosted by strong demand from e-commerce and shifts in the supply chain.
- Retail prices posted their first annual gain in two years, ticking up 0.7%. It arrives alongside a rise in hotel prices noted in this month's CPI report.

## 7. FEDERAL OFFICE EXPIRATIONS

- According to a report by the Commercial Observer, more than half of the federal government's office leases will either expire or have termination clauses that could be exercised by 2029.
- The federal government currently leases about 150 million square feet of office space across 7,000 separate leases. The contracts in question total roughly 77.7 million square feet, with 59.2 million set to expire and 18.2 million in termination options.
- Commercial Observer notes that the 7,000 leases total about \$5.5 billion annually, meaning that any

# Economic Update



expiration of contracts without renewal could free up significant sums of federal spending.

- While many of these leases will likely be renewed, the cost-cutting potential of lease expirations could remain relevant as the newly formed Department of Government Efficiency (DOGE) looks to reduce government costs in the incoming Trump administration.

## 8. RETAIL SALES

- US Retail Sales continue to see momentum as the holiday buying season heats up. According to the Census Bureau, retail sales rose 0.7% between October and November, which follows an upwardly revised 0.5% month-over-month uptick in October.
- The most significant increases were in sales of motor vehicles and part dealers (2.6%) and non-store retailers (1.8%). Other notable tallies include sporting goods, hobby, musical instruments, and bookstores (0.9%), building materials and garden equipment (0.4%), and furniture (0.3%).
- Sales fell the most at miscellaneous store retailers (-3.5%), food services and drinking places (-0.4%), and food and beverage stores (-0.2%)

## 9. CONSUMER SENTIMENT

- According to the University of Michigan, consumer sentiment in the US rose for a 5th consecutive month in December, climbing to its highest level since April.
- This month's sentiment data arrived above forecast and was led by an increase in the favorability of current conditions. The current conditions sub-index surged from an index level of 63.9 to 77.7, led by a sharp rise in the buying conditions for durable goods.
- Meanwhile, the expectations sub-index fell in December from 76.9 to 71.6.
- The average year-head inflation expectation rose to 2.9%, its highest reading in five months, while the average five-year ahead inflation outlook fell from 3.2% to 3.1%

## 10. SMALL BUSINESS OPTIMISM

- According to the National Federation of Independent Businesses (NFIB), small business optimism

# Economic Update



skyrocketed in November, with their benchmark index reaching its highest level since June 2021.

- The mark follows the results of the 2024 presidential election, which signals a major shift in economic policy, leading to a boost in forward-looking sentiment. Historically, the results from the NFIB index tend to show a Republican tilt.
- The election also helped dampen uncertainty, which improved the index's performance. November broke a nearly three-year streak of record-high uncertainty.
- Small business owners are particularly optimistic regarding potential changes to tax and regulatory policies that many operators predict will favor strong economic growth and an improved inflation outlook. Operators are also, on average, gearing up for an expansion in business operations.

# Economic Update



## SUMMARY OF SOURCES

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- (7) [https://commercialobserver.com/2024/12/federal-office-cuts-2028/?utm\\_source=linkedin&utm\\_medium=newsletter&utm\\_campaign=Federal+Office+Lease+Expirations&utm\\_content=SFR%2BA-OK](https://commercialobserver.com/2024/12/federal-office-cuts-2028/?utm_source=linkedin&utm_medium=newsletter&utm_campaign=Federal+Office+Lease+Expirations&utm_content=SFR%2BA-OK)
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