

Economic Update



DECEMBER 5, 2024

1. BLACK FRIDAY ACTIVITY

- According to data from Mastercard's SpendingPulse indicator, US Black Friday sales (excluding automotive sales) were up 3.4% this year compared to 2023.
- Online retail sales rose 14.6%, while brick-and-mortar stores rose by a more modest 0.7% year-over-year.
- Jewelry, electronics, and apparel remained atop the list of goods most sold throughout the black-weekend discount window.
- Diving deeper, SpendingPulse points out notable themes throughout the black-week period. Apparel stores saw an uptick in in-store activity this year, which could be in part due to a warmer fall that delayed many seasonal purchases, while online sales maintained their post-pandemic strength. Meanwhile, footwear sales were stronger compared to 2023.

2. HOLIDAY SPENDING PROJECTED TO BOOST CRE

- According to recent reporting by Globe Street, several industry analysts expect this year's holiday spending to grow, potentially boosting the retail, industrial, self-storage, and multifamily real estate sectors. Still, looking ahead, questions over consumer confidence remain a concern.
- The reporting notes that consumer savings are up 20% in real terms compared to 2019, while forecasts from the National Retail Federation ICSC expect retail sales growth to finish 2024 at roughly 2.5% to 3.5% above last year's level.
- Meanwhile, this year's uptick in Black Friday sales and resurging logistics activity represent bullish signals for retail and interrelated sectors.
- Nonetheless, while consumer sentiment, as measured by the University of Michigan, has recovered from the lows experienced two years ago, it remains below pre-pandemic levels, which could limit the ceilings of related CRE sectors until the clouds of uncertainty clear.

3. LOGISTICS MANAGERS INDEX

- The US Logistics Managers' Index (LMI) came in at 58.4 in November, a slight downtick from October's level but marking the 12th consecutive month of growth for the logistics industry. Logistics activity is a

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leading indicator of Industrial Real Estate demand.

- Inventory levels were down, in line with seasonal patterns, which saw warehouse utilization fall and capacity rise. The drop off in inventory also caused transportation capacity to expand and prices to fall.
- According to the reporting, inventory costs and warehousing prices saw the fastest growth, reflecting higher costs as more inventory is now held closer to consumers.

4. THANKSGIVING INFLATION

- According to Chandan Economics ' annual Thanksgiving Inflation reporting, some of the major staples of the Thanksgiving feast saw their prices decline compared to last year. Nonetheless, cumulative post-pandemic price increases mean the feast has inflated more than just our waistlines in recent years.
- Turkey prices were down 3.9% year-over-year heading into the Thanksgiving holiday, while ham prices were down by an average of 2.0%. Potatoes fell by 1.5%. Meanwhile, eggs, a key input for baked desserts during Thanksgiving, saw a significant price increase, up by an average of 30.4%.
- Since 2020, the prices of Thanksgiving staples have cumulatively skyrocketed. Eggs are up 61.9% over the past four years, while flour and prepared flour mixed are up 35.6%. This is followed by bakery products (+27.0%), sauces and gravies (+25.4%), and turkey (+22.5%).

5. BEIGE BOOK

- According to Federal Reserve's latest Beige Book summary, economic activity rose across most districts during the six weeks ending on November 22nd.
- National growth in economic activity was relatively small over the past six weeks, but expectations for growth rose across most regions and sectors as businesses expressed optimism that demand would rise in the coming months.
- Commercial real estate lending fell, but respondents to the beige book reported that financing remained generally available. Capital spending and materials purchases were flat or down in most districts.
- Demand for mortgages was low, but more recent indicators tells a more mixed picture, with mortgage applications increasing in recent weeks.
- Consumer spending was stable while many consumer-oriented businesses reported higher price and

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quality sensitivity from consumers.

- Electricity generation demand continues to grow at a robust rate as rapid expansions in data centers increase consumption.

6. JOB OPENINGS & LABOR TURNOVER

- According to the latest JOLTS report from the Bureau of Labor Statistics (BLS), the number of job openings in the United States changed little month-over-month through October, registering at 7.7 million on the last business day of the month.
- The hires rate ticked down in October while the quits rate rose slightly. Total hires were 5.3 million during the month, while quits ticked up to 3.3 million. Nonetheless, hires remained higher than quits across all sectors of the economy.
- Layoffs fell 169,000, the most in any month since April 2023. In aggregate, despite a slowdown in hiring, historically low layoffs are keeping the labor market anchored, stabilizing wages, and driving consumer spending.

7. FOMC MEETING MINUTES

- According to the minutes of the FOMC's November policy meeting, officials expressed confidence about the path of easing inflation and the prospect for more rate cuts — but with a steady labor market, they expect cuts to come gradually.
- The minutes state that “if the data came in about as expected,” which to officials is an indication of inflation moving toward 2% with the economy remaining near maximum employment, then “it would likely be appropriate to move gradually to a more neutral stance of policy over time.”
- As of the end of the trading day on December 3rd, futures markets are pricing in a 74% probability of a 25-basis point cut at the Fed's next meeting later this month.

8. CBD OFFICE VACANCIES

- According to recent data by Moody's, the national office vacancy rate declined slightly in Q3 2024, sliding ten basis points to 20.0%. While the decline was modest, it's a positive development for the

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sector as it works through systemic distress.

- Moody's forecasts that the path ahead for office vacancies is nonlinear, and they expect vacancies to peak in late 2025 or early 2026.
- Entering 2025, capital markets are signaling that we're nearing a bottom, but in addition to the evolving financing environment, other uncertainties such as inflation, geopolitics, and US federal policy will continue to produce downstream effects on the office market.

9. MORTGAGE APPLICATIONS

- Mortgage applications have now climbed for four consecutive weeks following a month and a half of declines, according to latest data from the Mortgage Bankers Association of America.
- During the week ending November 29th, US mortgage applications rose by 2.8% compared to the previous week and by 6.3% during the week before. The growth has been the result of resurging purchase activity in recent weeks.
- Meanwhile, refinancing activity fell for the second consecutive week and has declined in nine of the past ten weeks.
- The average rate for 30-year fixed-rate mortgages fell to 6.69% from 6.86%.

10. HOUSING AFFORDABILITY UPDATE

- According to Moody's Q3 2024 Housing Affordability Update, US median household incomes rose by an average of 3.6% over the year, which has eased the average rent-to-income (RTI) ratio for renters over the same period, which has declined to 26.7%.
- Migration-related population growth in the South and Sun Belt region has drastically changed income demographics and impacted local housing affordability. States with higher population churn reflect a stronger appeal to new residents and are where affordability challenges have emerged the most.
- Student housing is also experiencing steep cost increases. Nationally, rent growth in the student segment has outpaced multifamily rent growth over the past two years. Moreover, several universities are experiencing higher rents for campus housing relative to the local multifamily market, reflecting demand pressures specific to this segment.

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SUMMARY OF SOURCES

- (1) <https://www.mastercardservices.com/en/capabilities/spendingpulse>
- (2) <https://www.globest.com/2024/12/04/-holiday-spending-projected-to-boost-cre-but-consumer-confidence-remains-key-concern/>
- (3) <https://www.the-lmi.com/>
- (4) <https://www.chandan.com/post/the-inflation-on-your-plate-thanksgiving-staple-pricing-trends>
- (5) <https://www.federalreserve.gov/monetarypolicy/beigebook202411-summary.htm>
- (6) <https://www.bls.gov/news.release/cpi.nr0.htm>
- (7) <https://www.federalreserve.gov/monetarypolicy/fomcminutes20241107.htm>
- (8) <https://www.moodycre.com/insights/market-insights/cbd-office-vacancy-rates/>
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- (10) <https://www.moodycre.com/insights/cre-trends/q3-2024-housing-affordability-update/>