# Economic Update

SVN | Research

AUGUST 15, 2024

## 1. INFLATION

- According to the BLS, the US Consumer Price Index (CPI) reaccelerated on a monthly basis in July but continued to decelerate annually. Prices rose by 0.2% between June and July, following a decline of 0.1% the previous month. Prices decelerated to 2.9% year-over-year before seasonal adjustment.
- The monthly uptick in Core-CPI, which excludes volatile food and energy prices, mirrored that of headline CPI, with core prices up 0.2% in July compared to 0.1% the previous month. Core prices climbed 3.2% year-over-year— ten (10) basis points below the June pace.
- The uptick will unlikely throw the Fed off an anticipated rate cut at their upcoming September meeting. Recent cooling in the labor market, alongside the downward trend of inflation this year, will encourage the Fed to refocus its efforts to fulfill its dual mandate toward maximum employment compared to price stability. As of Wednesday, August 14th, futures markets price in a 100% chance of a rate cut in September.

## 2. EMERGENCY RATE CUT, INTEREST RATE PROJECTIONS

- As panic settled into markets earlier this month when emerging economic data pointed to a rising chance of a US recession, some experts and observers floated the idea that the FOMC could produce an emergency inter-meeting rate cut to shore up market certainty.
- The potential for the move, which is uncommon and is primarily deployed in response to sudden shocks in the economy, has largely evaporated in recent days as the futures market grounds itself in the likely reality that policymakers will stick with a previously anticipated September timeline for an initial rate cut.
- The CME Group's FedWatch tool, which tracks market-based interest rate forecasts, has experienced notable fluctuations in the past week as markets digest the flurry of data and developments hitting the news cycle in early August.
- Markets priced in an 85% probability of a 50-basis point cut at the September meeting by Monday, August 5th, its most dovish signal yet, but it receded to a 47.5% probability by Monday, August 12th. Meanwhile, expectations of a 25 basis-point cut—which had dominated forecasts coming into the month—fell as low



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as 15% one week ago before climbing back to 52.5% as of August 12th.

- This volatility shows how uncertainty has dominated the economic outlook in the past couple of weeks. Still, the falling likelihood of an inter-meeting cut and the coalescing of expectations around a 25-basis point cut in September appear to show that the fog has begun to clear.

## 3. JULY JOBS REPORT

- According to the Bureau of Labor Statistics (BLS), US job growth slowed to 114,000 added payrolls in July, well below estimates. Meanwhile, the unemployment rate edged up to 4.3% — its highest level since October 2021.
- On the one hand, some cooling in the labor market affirmed the market's expectation of an anticipated September rate cut by Fed policymakers. Still, these data, combined with falling corporate earnings and a sharp uptick in initial unemployment claims during the final week of July, sent a chill throughout markets, fearing that the Fed has waited too long to pivot.
- Notably, July's jobs report triggered the Sahm Rule, which is considered in play when the three-month unemployment rate average reaches 0.5% or more than its 12-month low and signals that the economy is in recession.
- However, several observers of the Sahm Rule, including the namesake economist Dr. Claudia Sahm, caution that like other recession indicators that have seemingly been triggered in the past couple of years, the Sahm Rule's emergence may be a false signal that is more indicative of the unusual disruptions in the post-pandemic economy.
- Digging deeper, the number of Americans working part-time for economic reasons rose to its highest level since June 2021, while those reporting being out of work for 27 weeks or more rose to its highest level in 2022.

## 4. INITIAL CLAIMS

- After reaching their highest level in a year (250k) during the previous week, initial unemployment claims fell by 17k to 230k during the week ending on August 3rd, based on the latest data from the US

Department of Labor.

- While the release should calm fears of inevitable labor market deterioration, the latest count remains above the year-to-date average and confirms emerging weakness in the job market.
- The four-week moving average for initial claims also climbed to its highest level in a year, while continuing unemployment claims increased to its highest level since November 2021.

## 5. RECESSION CHANCES

- Some Wall Street analysts, including Goldman Sachs, have recently increased the probability of a US recession in 2025 in light of recent signs of a labor market and corporate earnings slowdown. However, most continue to stress that while the odds have increased, it remains the more unlikely scenario.
- Shortly before the July Jobs report was released, Goldman Sachs raised its odds for a recession in 2025 from 15% to 25%, notably in anticipation of a not-so-bad July Jobs report. Goldman analysts have noted that risks remain limited partly because economic data has moderated but not spiraled out of control, and Fed policymakers appear poised to adjust their sails accordingly.
- Conversely, UBS, who released their forecast following the employment update, cut their odds of a US recession, albeit from a significantly higher probability of 60% down to 53%.
- UBS' forecast diverges from those of other investment bank heavyweights, with Goldman Sachs and JP Morgan trending in the opposite direction.
- The origin of the divergence is likely related to the focal points of each bank's modeling. Goldman and JP Morgan's models have digested recent data as signs of deterioration that raise the chance of a recession. Meanwhile, the UBS model likely weighs this deterioration as an increasing likelihood that the Fed's rate cut schedule will speed up, increasing the chance that we will avoid recession.

## 6. MORTGAGE REFINANCING CLIMBS

- Adding to the inflection point characterization of recent economic data trends, mortgage refinancing activity surged by 35% in the past week as average mortgage rates fell to their lowest levels in close to 2 years by some measures.

- According to Fannie Mae, the average contract interest rate on a typical 30-year fixed-rate mortgage fell from 6.72% to 6.47% during the week ending August 7th, its lowest level since September 2022.
- The Mortgage Bankers Association reports that the refinance share of mortgage activity increased from 41.7% to 48.6% of applications across a similar period. As interest rates have tightened over the past few years, new mortgage applications took up an increasing share of overall mortgage activity as refinances fell steeply. The recent uptick in the refinancing share of mortgage activity points to some thawing in the housing market as markets eye a monetary policy pivot.

## 7. LOGISTICS ACTIVITY AND INDUSTRIAL DEVELOPMENT

- The US logistics sector rose to its highest activity level in four months in June, according to the latest data from the Logistics Managers' Index. Transportation prices rose to their highest since May 2022, while transportation capacity also expanded.
- Both warehousing utilization and prices rose in June from the previous month, while inventory levels contracted for a third consecutive month as retailers moderated stock levels. Conversely, manufacturers, wholesalers, and distributors have built up their inventories in recent months out of anticipation of an uptick in demand as the holiday season approaches.
- Industrial vacancies have been on the rise for six straight quarters, a cyclical consequence of the large volumes of new supply that have come online to meet the burgeoning demand of the past decade. However, the recent positive trend in the logistics sector may signal a turning point.
- Still, uncertainties lie ahead. GlobeSt reports in a recent article that several manufacturing projects envisioned under the Inflation Reduction and CHIPS and Science Acts have stalled and have created a cloud of uncertainty around sector demand.
- How consumer dynamics evolve in the coming months and whether interest rate policy shifts toward a more accommodative financing environment will have important implications for the Industrial sectors' medium-term outlook.





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## 8. NET LEASE VOLUME FALLS

- According to a recent report by Newmark, net lease transactions plummeted in Q2 2024, down 14.71% from the same period last year.
- Utilizing data from Real Capital Analytics, the report notes that the dollar volume of net lease transactions dropped from $10.71 in Q2 2023 to $8.93 billion in Q2 2024.
- Ignoring dollar volume and focusing solely on transaction volume, activity is down a much less pronounced 6.49%, suggesting that deal prices are falling faster than overall deal volume.
- Revisiting dollar volume but on a property type level, Office transaction value is down 20.47%, Retail is down 18.22%, and Industrial is down 10.74%. However, while Office has seen the steepest fall, it transacted $2.02 billion in Net Lease deals in the second quarter, while Retail charted the lowest with just $1.84 billion in deals.

## 9. HOMEOWNERSHIP CLIMBS FOR LOW-INCOME HOUSEHOLDS

- A recent analysis by the Federal Reserve of Minneapolis shows that despite high mortgage rates and record house prices, US homeownership is rising, particularly among America's lowest-income households.
- According to the analysis, in 2023, 47.1% of households in the bottom 1/5th of the income distribution were homeowners, approaching the all-time high of 47.7% reached in 2005.
- Homeownership rates among the lower-income cohort fell relatively consistently from 2005 to 2015, but they rose by six percentage points between 2015 and 2023, which analysts point out mirrors a similar expansion that occurred between the mid-1990s and mid-2000s.
- Age is a key factor in the trend. Between 2015 and 2023, the average age of a head of household in a lower-income home, regardless of ownership, increased by three years. In other words, the trend may be more indicative of an aging US population staying in their homes for longer rather than younger Americans increasingly owning homes.

## 10. GLOBAL REIT RETURNS

- According to Nareit's Mid-Year report released in July, global REIT returns were down 3.8% year-to-date through June 30th — an improvement from the -9.4% pace that emerged through the middle of April.

- Healthcare, residential, and data center-focused REITs have outperformed the rest in 2024 and may reflect where investors see the most significant upside as CRE looks to turn the page from today's high-rate environment. Healthcare REIT returns are up 8.6% year to date, residential REITs are up 3.7%, and data centers REITS are up 1.8%.
- Other key sectors, timberland, telecom, and industrial, which collectively account for about 38% of Nareit's index, have declined by 16.3%, 11.9%, and 11.7%, respectively.
- Zeroing in on North America, REITs on this continent outpace average global performance even as returns are down by 1.1% year-to-date.



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## SUMMARY OF SOURCES


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