

# Economic Update



JANUARY 13, 2023

## 1. CPI INFLATION

- The Consumer Price Index (CPI) rose 6.5% year-over-year and just 0.1% month-over-month, according to the latest numbers from the Bureau of Labor Statistics — relatively in line with most industry estimates. The annual inflation rate has now fallen for six consecutive months.
- Core CPI, which removes food and energy prices from the calculation and is more closely tied to monetary policy decisions, rose 5.7% over the past 12 months and 0.3% between November and December.
- Gasoline led all price declines, dropping -9.4% month-over-month and -1.5% year-over-year. Used cars and trucks also saw significant cooling, falling -2.5% month-over-month and -8.8% year-over-year.
- Food and shelter costs continue to rise, with the former appearing to decelerate from 2022 price pressures. The food index has risen 10.4% year-over-year, but after reaching a 1.1% monthly increase in July 2022, food costs inflation has steadily slowed, registering a 0.3% increase in December.
- Stocks rose following the news, as markets hope these data signal a peaking of US inflation and a potential upcoming slowdown in the Fed's interest rate hikes.

## 2. INFLATION EXPECTATIONS

- Results from the New York Fed's latest Survey of Consumer Expectations, taken in December, show consumers are growing more optimistic about the inflation outlook. Respondents expect one-year inflation to grow at 5.0% in the 12 months ahead, down 0.2% from the November survey and the lowest survey result since July 2021.
- Economists view consumer expectations as essential in actual inflation's outcome, as they influence consumer behavior that may self-fulfill the economic effect they predict. The New York Fed's meter reached a record high of 6.8% in June 2022 amid a 40-year high in inflation.
- Consumers expect gas prices to rise 4.1% over the next 12 months while projecting food prices will grow 7.6% over the same period. Projections for both figures declined month-over-month.
- Longer-term inflation expectations were little changed.

## 3. U-HAUL MOVING DATA

- End-of-year transaction data from U-Haul showed a continuation of migration towards the southeast and southwest United States in 2022 — a continuation of trends that were present before but accelerated during the pandemic.
- U-Haul's index calculates its rankings based on a net gain of one-way truck arrivals in each state or city. Texas ranked #1 for the second year in a row and the fifth time since 2016. Florida ranked second — its seventh consecutive year in the top 3. South Carolina was ranked 3rd.

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- California and Illinois ranked the lowest on the index for the third consecutive year. In addition to New York, California and Illinois ranked the highest in truck demand, as more people leave areas on the west coast, midwest, and northeast.

## 4. ATTOM 2023 STATE OF REAL ESTATE INVESTING

- In their look-ahead report for 2023, ATTOM signals caution in specific sectors while taking note of the shifting strategies taking place among investors that are leading to new opportunities.
- Focusing on “fix-and-flip” investors, the report notes that as higher financing, labor, and material costs cause these investors’ profit margins to compress, some are shifting to wholesales of properties to rental property buyers or a shift to “fix-and-hold” until market conditions improve.
- The report notes that as consumers enter their own holding pattern, opting to rent instead of buy as home prices and mortgage rates strain affordability, shifting to “fix-and-hold” strategies is likely a sensible approach.
- ATTOM also projects foreclosures to remain below pre-pandemic levels throughout most of 2023, preventing an influx of distressed properties from hitting the market and pushing downward on prices.

## 5. NEW TRENDS IN INDUSTRIAL REAL ESTATE

- Breaking down Industrial’s newest trends, Moody’s recently analyzed data showing a shift from location-centric to labor-centric capital spending.
- The analysis notes that as labor market tightness and inflationary pressures hold, it is becoming increasingly crucial for warehouse and distribution properties to be near qualified labor.
- Furthermore, prospective tenants of Industrial properties are also becoming more concerned about the physical makeup of the property, reflecting the higher-implied cost of employee retention. Moody’s suggests that at current wage rates for warehouse and distribution jobs, employees generally tolerate a 20-minute commute time before there is a greater demand for pay and benefits. To balance this trade-off, firms seek spaces large enough to accommodate added amenities for workers, including outdoor spaces for breaks.
- Of course, location still matters outside of the context of labor. Proximity to population centers remains among firms’ most critical factors when seeking new space. Other key factors include ceiling height, power supply, and buildings that account for ESG concerns.

## 6. NFIB SMALL BUSINESS SURVEY

- The National Federation of Independent Businesses Small Business Optimism Index declined 2.1 points in December to 89.8. its twelfth consecutive month below the index’s 49-year average (88).

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- A net negative 51% of owners expect business conditions to improve over the next six months. Future expectations have now fallen consecutively since January.
- 32% of respondents report inflation as their more pressing issue for operating their businesses, with a 68% share of that group reporting input costs as the main culprit compared to the 34% who say labor costs as more pressing. Still, the net percent of owners who raised average product prices fell by 8 points in December to a net 43% (seasonally adjusted), the lowest since May 2021.
- 55% of small firms reported capital outlays in the previous six months, unchanged from the previous one. Within those who've spent capital in the past six months, just 11% improved or expanded facilities, down 1 point from November, while just 4% acquired new buildings or land for expansion, also down 1 point from November.

## 7. LOGISTICS MANAGERS INDEX

- The Logistics Managers' Index (LMI), a diffusion index where above 50 signals expansion and below is contraction, increased to 54.6 in December, up from 53.6 the month before, which had been the second-lowest reading on record. The uptick was in-line with the typical holiday season that necessitates expansion in the space by many retailers.
- Inventory levels are increasing (57.3), but at a slower rate than much of 2022. Inventory was higher for downstream firms (62.8) than upstream firms (53.3) in December, with the former holding more stock in warehousing in preparation for the holiday season.
- Transportation capacity fell in December to an index reading of 48.1, its first contraction since April 2020. Meanwhile, transportation prices fell to a reading of 36.9, representing the sharpest rate of contraction on record.

## 8. FY 2023 APPROPRIATIONS BILL

- At the end of 2022, Congress successfully passed its fiscal year 2023 spending bill, which included, among others, several provisions that may impact commercial real estate development.
- While absent of significant tax implications, the bill includes a 10.6% increase in funding for the Department of Housing and Urban Development, with much of the increase funding additional tenant-based rental assistance in the form of housing assistance and housing choice vouchers.
- The bill also provides funding to cover the renewal of all existing contracts utilizing its Project-Based Rental Assistance program and a massive 24.2% increase in the Community Development Fund (CDF).
- Within CDF funding includes \$85 million for a new program, "Yes In My Back Yard," which incentivizes housing development by reducing exclusionary policies, including zoning and density restrictions.

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## 9. WORLD BANK 2023 GLOBAL GROWTH FORECAST

- Global growth is expected to fall to its third-weakest pace in nearly three decades, dwarfed only by the 2009 (Great Financial Crisis) and 2020 (Covid-19 Pandemic) global recessions, according to the World Bank.
- Weakness within the three major centers of global growth — The US, the Euro area, and China — is expected to spread into major economies as foreign investment and import growth from those nations stall.
- Moreover, monetary policy tightening in advanced economies alongside a strong US dollar has led to large capital outflows from developing nations. The World Bank expects the US Federal Reserve's aggressive tightening to sharply slow domestic growth.
- According to the report, US consumers have enjoyed a 5% decline in brent crude oil prices between February and November 2022; however, due to the continued weakening of foreign currencies relative to the US dollar, brent crude has risen 7% in domestic currency terms, on average, in all other advanced economies.
- Global energy prices are expected to ease in 2023, with most of the new oil supply originating from US suppliers as Russia faces continued sanctions and OPEC+ remains subject to their multilateral production agreement.

## 10. DECEMBER JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 223,000 jobs in December while the unemployment rate declined slightly to 3.5%.
- In 2022, leisure and hospitality occupations, the most impacted by the pandemic, were added at an average of 79,000 per month, significantly lower than 2021's average of 196,000 per month. Employment in the industry remains 5.5% below pre-pandemic levels.
- Healthcare employment increased by 55,000 in December, construction employment increased by 28,000, and social assistance added 20,000 jobs in December.
- Employment in retail, manufacturing, professional and business services, government, and transportation/warehousing were little changed.
- Average hourly earnings for all private nonfarm payroll employees rose 0.3% month-over-month. Over the past 12 months, average hourly earnings have increased by 4.6%.

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## SUMMARY OF SOURCES

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- (4) <https://www.housingwire.com/articles/2023-real-estate-investing-approach-with-caution/>
- (5) <https://cre.moodyanalytics.com/insights/cre-trends/from-location-to-labor-industrials-newest-trends/>
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