

# Economic Update



APRIL 14, 2023

## 1. CPI INFLATION

- The Consumer Price Index (CPI) rose 0.1% month-over-month and 5.0% year-over-year through March, according to the Bureau of Labor Statistics' latest release. It was the slowest monthly climb for prices since December.
- Energy prices are down 6.4% year-over-year, with declines accelerating in March, falling 3.5% in March compared to a more tepid decline of 0.6% in February.
- Food prices were unchanged between February and March. It was the first time that food prices were unchanged or in decline since August 2020.
- Core prices have risen by 5.6% over the past 12 months, a ten basis points rise from last month, reversing a five-month downtrend. Shelter cost increases explained the bulk of core-CPI's uptick, which remains up by 8.2% year-over-year despite decelerating on a monthly basis from February. Conversely, used car prices continued to decline, falling by 11.2% year-over-year.
- Stocks fell following Tuesday's CPI release as markets priced in the likelihood that the Fed will maintain its aggressive policy stance at its upcoming May meeting. According to the Chicago Mercantile Exchange's Fed Watch Tool, futures markets now expect a 25 basis points hike in the coming decision.

## 2. INFLATION FOR RENTERS VS. HOMEOWNERS

- Personal inflation rates can differ widely depending on whether someone rents or owns their home. According to Chandan Economics' latest calculations, the adjusted CPI for renters was 5.1% year-over-year in March, slightly above the headline 5.0% year-over-year but was at its slowest annual pace since April 2021.
- Meanwhile, the adjusted CPI for homeowners fell to 2.4% year-over-year in March, down a full percentage point from February.
- Inflation rates are adjusted for each group based on the assumption that current homeowners would not feel the impact of higher shelter costs, given that they have already locked in their monthly expenses. Meanwhile, housing costs for most renters reset once per year, leading to a more inflation exposure.
- The inflation spread between these two groups has continued to widen. Through March 2023, the difference between renter and fixed-rate homeowner personal inflation rates have reached another all-time high, hitting 2.6 percentage points.

## 3. 2023 SFR OUTLOOK

- According to ATTOM's Q1 2023 Single-Family Rental Market Report, the average gross rental yield on SFR properties is projected to be 7.5% in 2023, up from an average of 6.7% in 2022. If forecasts hold, it would be the first increase annual in SFR rental yield since 2019.

# Economic Update



- The report relies on data surveyed across 212 counties nationwide. In 2022, 72% of counties saw yields decline compared to the year prior. In 2023, ATTOM expects 91% of counties to experience increased yield.
- According to the analysis, as home prices hit a wall and demand stalls from recent highs, it appears to benefit SFR investors who have seen rental yields increase as housing demand tilts in their direction.
- The counties with the highest projected gains in 2023 include Indian River County, FL; Collier County, FL; Wayne County, MI; Mercy County, NJ; and Charlotte County, FL.

## 4. FOMC MEETING MINUTES

- The latest Fed meeting minutes show that officials considered a pause in rate hikes following last month's banking-sector distress but ultimately concluded that inflation remained a higher priority, particularly as broader financial market stress appeared to have been avoided.
- At the meeting, officials noted the recent sharp reductions in treasury yields and poor liquidity but concluded that markets appeared to be functional while trading activity remained substantial.
- Inflation compensation measures rose in the early part of the inter-meeting period, but banking sector stress appeared to have retraced much of this as the March meeting grew closer. Forward-looking inflation expectations moved higher in the short-term but were little changed in longer-term forecasts.
- According to the meeting minutes, some officials even considered a 50-basis-point increase in March in the absence of recent financial stress, concerned that price pressures remained higher than desired.
- The minutes suggest that most officials remain committed to increasing rates if inflation continues to chart above target but are proceeding with increased caution and attention to financial market contagion.

## 5. CONSTRUCTION BACKLOGS

- According to recent data from Associated Builders and Contractors (ABC), US construction backlogs declined in March to their lowest level since August 2022.
- The construction backlog indicator measures the amount of time, in months, backlogs in projects should be expected. The measure fell to 8.7 months in March, down from 9.2 months in February. Still, the backlog measure remained up by 0.4 months from the same point last year.
- Month-over-month declines were seen across all tracked industries, which include Commercial & Institutional, Heavy Industrial, and Infrastructure. Backlogs for all three sectors remain up year-over-year.
- Regionally, the middle US states are experiencing the least backlog time at 7.3 months. The West follows close behind at 7.9 months, followed by the Northeast at 8.0 months. The South is experiencing the longest backlogs, at 11.4 months on average.
- Expectations for sales rose in March, while readings for profit margins and staffing declined. The indicators

# Economic Update



for all three remain in “growth” territory. Still, the declines indicate decision makers’ increased attention on cost containment as recession fears rise and credit conditions tighten.

## 6. CONSUMER BEHAVIOR: MALLS

- A report by Placer AI analyzed the changes in malls and shopping center visiting activity in recent years and found that, despite generational shifts in consumer activity, malls are maintaining their relevance.
- Indoor malls (-6.6%), open-air lifestyle centers (-5.6%), and outlet malls (-8.4%) all have lower visitor activity compared to their pre-pandemic levels but have performed better than many had expected. Since 2021, Indoor malls (+5.5%) and open-air lifestyle centers (+4.6%) have seen annual visits rise, while outlet malls (-2.9%) continue to be on the decline.
- Grocery-anchored shopping centers avoided a decline during the pandemic, up 0.8% in 2022 compared to 2019. Compared to 2021, grocery-anchored shopping centers have seen visits climb by 1.7%.
- Seasonality is another factor assumed to be reduced by pandemic changes to consumer behavior. While activity has fallen during popular times such as the Black Friday weekend compared to pre-pandemic years, malls still see a boost. Outlet malls see the most significant boost, seeing 68.9% more visits on Black Friday compared to their weekly average but well below the 97.3% boost experienced in 2019. Grocery-anchored shopping centers see the smallest boost, with a 9.3% uptick on Black Friday compared to a 16.2% uptick in 2019.

## 7. MARCH JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 236,000 jobs in February while the unemployment rate ticked down ten basis points to 3.5%.
- US job growth remained strong in February, leading futures markets to price in a higher chance of a Fed rate hike at its upcoming April meeting. In recent weeks, the majority of the market had priced in the likelihood of no rate hike in April as inflation slows, jobless claims increase, and financial market stress remains a top-of-mind concern among regulators. Still, the robustness of March’s jobs gains signal that, despite recent layoffs, most of the economy remains in growth mode and may continue to place upward pressures on prices in the short term.
- The largest employment growth was in leisure and hospitality, government, professional and business services, and healthcare. Employment was little changed in transportation and warehousing, while declines were seen in retail trade.
- The labor force participation rate continued to trend up in March, standing at 62.2%. Notably, unemployment among Black Americans declined to its lowest rate since tracking began in 1972. Historically, Black unemployment has hovered around twice the rate of White unemployment, but an overall increase in

# Economic Update



labor demand during the pandemic has pulled millions of Americans into the labor force, widening employment opportunities for historically underrepresented communities.

## 8. REMOTE WORK SENTIMENT

- A new survey by Morning Consult reports that many workers are beginning to lose some interest in remote work, though more than half of those employed remain in favor of it in some form.
- According to the findings, 27% of employed US adults prefer to do most of their work remotely, down two percentage points from a year ago. Declines were noted among almost all gender, age, and household income groups.
- 25% of employees indicate that hybrid work is their preferred setup, also down two percentage points from one year ago.
- Sentiment for in-person work has risen, with 46% of employees indicating that they prefer to work in person, up three percentage points year-over-year.
- Among respondents, Women and baby boomers led the declining sentiment, with each group seeing the remote-work preference drop by five percentage points in the past year. The decline was steeper for those with annual household incomes between \$50,000 and \$100,000.

## 9. CMBS DELINQUENCIES

- According to Trepp, CMBS delinquencies fell in March despite recent financial sector stress and liquidity concerns. Still, future performance remains a concern as higher borrowing costs place pressure on looming maturing loans whose assets will need refinancing.
- The 30-day delinquency rate fell from 3.12% to 3.09% in March and is well below the 3.73% seen in March 2022. The pandemic-era high for overall delinquencies was 10.32% in June 2020. Still, the rate is up five basis points from the start of 2023.
- Industrial delinquencies, consistently the lowest of all major property types, fell by three basis points to 0.37% in March. Lodging also saw its rate fall, dropping four basis points to 4.41%. Retail delinquencies also fell in the month, dropping 52 basis points to 6.23%. Retail continues to experience the highest level of delinquencies despite the decline.
- Multifamily delinquencies rose by eight basis points to 1.91% but remain the second lowest among major property types. Office delinquencies rose 23 basis points to 2.61%.

## 10. WHOLESALE INVENTORIES

- According to the US Census Bureau, wholesale inventories rose 0.1% in February from a month earlier, slightly below the first estimate of 0.2% but a recovery from the 0.6% decline experienced in January.

# Economic Update



- Durable goods inventory is up 0.5% from January, primarily a result of rising inventories of automotive assets, electrical, machinery, and hardware.
- Non-durable goods saw inventories fall during February, dropping by 0.5%. The fall was mainly a result of declines in farm products, petroleum, chemicals, and drugs.
- Wholesale inventories are up 12% year-over-year.
- slightly below the first estimate of 0.2% but a recovery from the 0.6% decline experienced in January.
- Durable goods inventory is up 0.5% from January, primarily a result of rising inventories of automotive assets, electrical, machinery, and hardware.
- Non-durable goods saw inventories fall during February, dropping by 0.5%. The fall was mainly a result of declines in farm products, petroleum, chemicals, and drugs.
- Wholesale inventories are up 12% year-over-year.

# Economic Update



## SUMMARY OF SOURCES

- (1) <https://www.bls.gov/news.release/cpi.nr0.htm>
- (2) <https://www.chandan.com/post/adjusted-cpi-inflation-falls-to-2-4-for-homeowners-5-1-for-renters>
- (3) <https://www.attomdata.com/news/market-trends/attom-2023-single-family-rental-market-report/>
- (4) <https://www.federalreserve.gov/monetarypolicy/fomcminutes20230322.htm>
- (5) <https://www.abc.org/News-Media/News-Releases/entryid/19892/abcs-march-construction-backlog-indicator-down-to-lowest-level-since-august-2022>
- (6) <https://go.placer.ai/library/navigating-a-changing-mall-analyzing-consumer-behavior?submissionGuid=3a90df3b-6402-41f2-8001-1e435ea5f4b7>
- (7) <https://www.dol.gov/ui/data.pdf>
- (8) <https://morningconsult.com/2023/04/10/remote-work-data-trends/>
- (9) <https://www.bea.gov/news/2023/gross-domestic-product-fourth-quarter-and-year-2022-third-estimate-gdp-industry-and>
- (10) <https://tradingeconomics.com/united-states/wholesale-inventories>