Economic Update

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SEPTEMBER 29, 2023

1. INTEREST RATE DECISION/ECONOMIC PROJECTIONS

- At its September 20th meeting, FOMC officials left their benchmark interest rate unchanged, just their second pause since they began tightening rates in March 2022.
- Markets and onlookers were well-prepared for the decision, with futures markets pricing in a no-hike scenario in September for the past several weeks. Like their recent pause in June, officials leaned their decision on recent data, expressing a need to "proceed carefully" in determining the direction and magnitude of the policy decisions moving forward.
- Key officials have signaled their expectation that at least one more rate increase will occur before the year's end. In its accompanying Summary of Economic Projections, the Fed's dot-plot forecasts an additional 25 bps hike in 2023 before two cuts in 2024. Notably, this month's projections indicate two fewer rate cuts in 2024 compared to their last projections released in June.
- The Fed's projections also revised up expectations for 2023 end-of-year economic growth, forecasting GDP to rise 2.1% this year.

2. CONSUMER CONFIDENCE

- US consumer confidence fell to a four-month low in September, eroded by resurging concerns around inflation and a potential US recession, according to the latest data from the Conference Board.
- Consumers continue to shift towards a more pessimistic outlook despite relatively upbeat views about the present day. One of the components of the Conference Board's index—the present situations index—which assesses consumers' opinions on current business and labor market conditions, rose slightly during the month. Meanwhile, the expectations index, based on consumers' short-term forward outlook on those same conditions, has fallen for back-to-back months.
- After recession fears reduced throughout the summer, they are evidently on the rise again. According to the report, consumer fears of an "impending recession" ticked up slightly during the month.

3. HOME SALES & PRICES

- Sales of new single-family houses in the US fell 8.7% to a seasonally adjusted annualized rate of 675,000

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properties in August, according to the latest data from the US Census Bureau.

- The decline in August is in line with recent mortgage rate movements, which have continued to rise in September and could signal further downside effects to demand on the horizon.
- The Midwest witnessed the most significant decline in sales on a percentage basis, dropping -17.2%, while the South saw the steepest rise, climbing by 7.5%.
- The median price of a new single-family home sold was $430,300 in August, down from $440,300 one year ago.

4. INDEPENDENT LANDLORD RENTAL PERFORMANCE

- On-time rental payments in units operated by independent landlords remained robust in September 2023, with 82.6% of tenants completing their monthly payments on time, according to the latest data from Chandan Economics.
- Despite sliding slightly from August, September's national on-time payment rate remains above its 12-month average (82.4%). Currently, it stands 241 bps higher than September 2022 — reflecting the sector's arch of continued improvement.
- September's forecast full-payment rate, which takes on-time payments, late payments, and expected late payments based on historical trends, came in at 92.7% — decreasing by a marginal 19 bps month-over-month.
- Western states continue to hold the highest on-time payment rates in the country, led by Colorado (92.6%), Utah (91.5%), Arizona (88.3%), North Dakota (88.1%), Washington (87.7%), and California (87.1%).
- Small multifamily (5-49 units) rental properties held the highest on-time payment rates of all sub-property types in September, coming in at 83.2%.

5. DALLAS FED MANUFACTURING INDEX

- According to the latest data from the Dallas Fed's manufacturing Index, manufacturing activity—which has fallen consistently over the past year— accelerated its decline in September.
- The Dallas Fed index serves as a helpful barometer for nationwide manufacturing activity. September was

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the first month since May that the decline in activity has accelerated and signals a continued deterioration in business activity even as recession fears have reduced in recent months.

- Meanwhile, the production subindex of the report rebounded by nearly 20 points in September and climbed to its highest index reading of 2023. The New orders subindex of the report also rose during the month but remained in contraction as consumer demand continues to soften, but at a slower rate compared to earlier this year.
- The shipment subindex also moved higher and close to zero— a level consistent with neither expansion nor contraction.
- An uncertainty gauge of the index also saw a notable increase, in line with recent sentiment movements in small business optimism and consumer inflation expectations.

6. BEIGE BOOK SUMMARY

- According to the Federal Reserve's most recent Beige Book summary, contacts from most bank districts reported modest economic growth to end the summer.
- Consumer spending on tourism was stronger than expected, though many expect the surge to trail off as the fall begins and consumer savings rates seemingly dwindle.
- Retail spending continued to slow, especially on non-essential items. New auto sales expanded in many districts, but this was more linked to increased inventory and availability rather than increased demand. The next edition of the Beige Book, due out in mid-October, will better reflect the impact of the recent United Auto Workers (UAW) strike, which began on September 15th.
- Manufacturing contacts across several districts noted improved supply chain activity and a better ability to meet existing orders, but most districts saw a decline in new orders over this period.
- Single-family homes were the one sector where supply did not increase, indicative of the significant inventory constraints the housing market has felt following its pandemic-era boom. Construction activity has risen in recent months, but several districts note that the construction of affordable housing units remains underwhelming relative to demand.

7. POTENTIAL ECONOMIC IMPACT OF UAW STRIKE

- On September 15th, the United Auto Workers initiated a strike against the three major unionized US car manufacturers, GM, Ford, and Stellatis—striking all three for the first time in history, with potentially significant short-term implications for the US economy.
- Beyond the implications for the manufacturers and their workers, downstream effects from the strike include potential car dealer shutdowns, exacerbating existing car inventory shortages, increased vehicle prices, and potentially widening bond market credit spreads.
- If prolonged, the strike could even influence mortgage rates, particularly in regions of Michigan and Ohio, where closed plants may result in a regional recession. Slower growth in these regions could send rates lower, benefiting homebuyers but potentially stoking inflation further. Income loss among workers may also affect local spending and home-price trends.

8. GOVERNMENT SHUTDOWN

- The prospects of a fourth Federal government shutdown in the last ten years were raised this week after Congress failed to agree on either a stopgap or permanent spending bill with an October 1st deadline swiftly approaching.
- The immediate impact of a government shutdown is mainly felt by Federal workers, who are often furloughed as a result, while others work with delayed pay, which can seep into local economic fundamentals.
- According to an analysis done by Pew Research, since the passing of the 1974 Congressional Budget Act—which outlined the modern structure of the appropriations process— Congress has only passed all its required appropriation measures on time four times. Further, there have been five government shutdowns since 1995.
- Typically, Congress relies on continuing resolutions (CR) to buy itself time to address legislative budget gridlocks, which usually extend funding levels from the prior year for existing programs. However, it is unclear if Congress can rely on a CR this time, as the current difficulty preventing an agreement surrounds a push by some House members to enact deep spending cuts to existing programs.

9. CRE OFFICE LOAN MATURITIES

- Out of roughly $1.1 billion in office loan balances that had original maturity dates in August, only 7.7% were reportedly paid off, according to a recent analysis by Moody's Analytics.
- The analysis notes that declining payoff rates are explained mainly by the underlying performance of maturing loans rather than a deterioration in the ability of stronger-performing loans to complete payoffs. According to Moody's Analytics data, 70% of the August loan maturities had "significant lease rollover" and debt yields below 8%.
- Looking at the payment status of loans set to mature in 2023 but did not pay off, 40% continue to make monthly payments, while 60% are non-performing.

10. PRODUCER PRICE INDEX: IMPLICATIONS FOR RETAIL

- A new analysis by Trepp notes that a significant surge in the Producer Price Index (PPI) in August may add pressure to consumers whose spending has kept retail margins afloat in the face of rising interest rates.
- According to the BLS, the PPI for final demand goods rose by a seasonally adjusted 0.7% in August — 30 basis points above its July rise and the largest month-over-month increase since June 2022.
- The increase in wholesale prices significantly outpaced advanced forecasts by WSJ economists and signaled a persistence of production cost pressures on manufacturers. According to Trepp's analysis, this may further increase acquisition and sell costs for sellers, resulting in compressed Retail NOI and revenues.

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SUMMARY OF SOURCES

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