Economic Update

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OCTOBER 14, 2022

1. INFLATION

- The Consumer Price Index (CPI) rose by 8.2% year-over-year through September and 0.4% month-over-month, according to the Bureau of Labor Statistics. This month's 40 basis point increase comes after just a 10-bps increase in August.
- Shelter, food, and medical costs were the largest contributors to the seasonally adjusted monthly numbers and were partially offset by a 4.9% decline in gasoline prices. The food index rose 0.8% month-over-month, while the overall energy index fell 2.1% month-over-month, as natural gas and electricity increases moderated the decline in gas prices.
- Core CPI, which removes food and energy prices from the calculation, is up 6.6% over the last 12 months and 0.6% month-over-month.

2. WINTER ENERGY OUTLOOK

- On October 12th the U.S. Energy Information Administration (EIA) released its Winter Fuels Outlook, forecasting that household energy expenditures will increase across the US in Winter 2022-23 relative to recent years.
- The highest average increase at the analysis' base-case (which assumes no change in the season's average daily temperature) is expected to be for natural gas consumers, who will see 28% in costs over a six-month period stretching from October through March. If temperatures are 10% colder this winter, natural gas consumers could spend over 50% more than in 2021-22. Still, natural gas will remain the cheapest source of fuel for households, with an average household expenditure of $931 over a six-month period.
- Heating oil expenditures are expected to increase by 27% in its base-case and maintain the highest average household total of $2,354 over a six-month period.
- Electricity expenditures are expected to climb by 10% in the base-case, with an average six-month total expense of $1,359.
- Households using propane are expected to spend just 5% more, and in the case that winter temperatures are 10% warmer, could spend up to 12% less on energy. However, if average temperatures fall by 10%, propane-using households could spend up to 36% more on energy.

3. VEHICLE PRICES FALL

- The average new-vehicle transaction price fell for the first time in five months, according to data tracked by Kelly Blue Book. The decrease comes after average prices hit a record-high in August.
- The average price paid for a new vehicle fell by 0.3% month-over-month but remains close to all-time highs, sitting at $48,094 in September, $146 cheaper than August. Prices are up 6.1% ($2,775) year-over-year.

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- According to Kelly Blue Book's reporting, September was the 16th consecutive month that average transaction prices were higher than the average manufacturer's suggested retail price.
- Luxury vehicles sales are a large reason for elevated prices. The luxury vehicle share of total sales have sit at historical highs recently, increasing to 18% of all transactions in September, up from 17.6% in August.
- Non-luxury vehicles saw a slight decline in prices, falling $256 month-over-month to $44,215.
- EV prices also declined in the month, down 1.8% in August but remain up 9.7% compared to one year ago. The average new EV price was $65,291 in September.

4. MORTGAGE RATES

- Mortgage rates resumed their rise during the week ending on October 13th after seeing their first weekly decline in seven weeks, according to data from Freddie Mac. The average 30-year fixed rate mortgage rose 26 bps to 6.92%, its highest level since April.
- According to a Freddie Mac analysis of the data, the activity reflects a "tale of two economies", where a robust labor market is keeping consumer balance sheet afloat, while a combination of lingering inflation, recession fears, and affordability strains are signifcantly slowing homebuying demand.
- The 5/1 adjustable-rate mortgage climbed the highest during the week, jumping 45 bps to 5.81%.

5. TOP MARKETS FOR LARGE MULTIFAMILY INVESTMENT

- A recent report by Arbor Realty Trust and Chandan Economics looked at a comprehensive matrix of factors to predict which metro markets have the best investment prospects for large-scale multifamily projects heading into the end of 2022. Included in the analysis were evergreen factors such as labor market health, multifamily liquidity, demographics, and population growth. The 2022 analysis also focused on topical factors, including a look at WFH importing vs. exporting markets.
- San Antonio was the top ranked market in the 2022 investment opportunity matrix, benefiting from a surge in population growth over the past decade. San Antonio, which the report dubs the "rising star of the Lone Star State," also appears to be gaining from its proximity to Austin, with the two metros forming a tech-centric metroplex.
- Kansas City and Las Vegas ranked second and third, respectively. Kansas City performed well along measures of affordability and livability, while Las Vegas was a notable WFH importer in the sample. According to the analysis, Orlando (11th in the overall rankings) was the top-WFH importing metro in the country.

6.WORK FROM HOME ADOPTION

- According to the U.S. Survey of Working Arrangements and Attitudes, the fully onsite share of American

workers stood at 57.0% in September. Meanwhile, hybrid and fully remote workers accounted for 30.2% and 12.8% shares, respectively.
- Compared to six months ago, the fully remote share has fallen by 2.6 percentage points. Surprisingly, the full onsite share also fell, declining a marginal 0.3 percentage points. Hybrid workers were the only group to see growth with their share rising by 2.9 percentage points.
- Still, employers have appeared to reach their WFH-tolerance peak. The average post-pandemic number of workdays that employers plan to let their employees work from home per week stood at 1.05 in July 2020 and steadily rose to 1.61 through June 2022. Through September 2022, this expected total has now dropped for three consecutive months, reaching back down to 1.51 days.

7. 2022 WMRE MULTIFAMILY INVESTMENT SURVEY

- According to a new report published by WMRE and Think Wood, multifamily investors are still looking to spend on new assets in 2022, even as interest rates a rise and macroeconomic headwinds continue to mount. When asked about their plans to buy, hold, or sell assets, 40.3% reported being in buying mode—4.6 percentage points higher than last year and the highest response since 2018.
- A consensus (65.9%) of those surveyed believe that multifamily occupancy rates still have some room to grow over the next year. However, this optimistic share did drop by 4.2 percentage points from 2021— a reflection of the sector is strong recent track record and limited room for continued occupancy growth.
- A strong majority of respondents (87.7%) remain confident that multifamily rents will continue to rise over the next year. This share is virtually unchanged from 2021 mark of 87.9%. Notably, these are the two highest positive responses on record going back to 2014.

8. JOBS REPORT

- The US economy added 263,000 jobs in September while the unemployment rate ticked down to 3.5%, according to the Bureau of Labor Statistics.
- This month's jobs add was the lowest monthly total since April 2021, but still signals a robust labor market that continues to grow despite higher interest rates and growing fears of an impending US recession.
- The slight fall in the unemployment rate comes after modest uptick in August, with the headline unemployment rate returning to its July 2022 level. The total number of unemployed persons ticked down to 5.8 million.
- Notably, the total number of people working remotely "due to the coronavirus pandemic" fell to 5.2% in September from 6.5% in August. At its height in May of 2020, 35.4% of employed persons were working from home due to the pandemic.

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9. FED MEETING MINUTES

- Fed officials expected higher rates to remain in place for some time, according to the meeting minutes from their September meeting, released on October 12th.
- The committee assess that due to faint signs of inflation slowing down, they would raise their forecast on the near-term federal funds rate. Still, stocks gained slightly following the release, as the minutes alluded to the need to balance monetary tightening with mitigating significant adverse effects on economy.
- The Fed continues to note their view that inflation was being driven primarily by supply chain issues that include both a shortage of goods and their material inputs as well as labor. The committee believes that higher rates will help loosen labor markets and alleviate price and wage pressures.
- Officials noted that an eventual deceleration of rate-hikes will inevitably take place, but declined to place a projected timeline on it.

10. OFFICE MARKET PREDICTIONS

- At a recent CRE conference, Kastle Data Systems Chairman Mark Ein, a panelist at the event, forecasted the US office occupancy levels could return to 60%.
- Interestingly, Ein's forecast is based on the pattern he sees in hybrid-work adoption. The logic being that many firms and their employees are coalescing around working at the office for three days out of the week, amounting to 60% of the time. While simplistic, Kastle points to evidence of this across some its tracked cities. In New York, for example, registered an average occupancy of 43.5% during the week of October 4th, but hovered close to 60% on the Wednesday of that week. Kastle's barometer measures the percentage of office tenants that use the space in a given week, rather than a simple measure of space usage.
- According to Kastle's workplace barometer index, its 10-city average looms around 47% as of their most recent estimates, a modest uptick from the previous six months, where occupancy has stalled around 43%. The recent uptick follows another back-to-office push by some firms following the Labor Day holiday.

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SUMMARY OF SOURCES

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