

Economic Update

 **SVN | Research**

JUNE 10, 2022

1. CONSUMER PRICE INDEX

- Consumer prices rose 8.6% year-over-year through May, according to the Bureau of Labor Statistics' Consumer Price Index (CPI). May's reading brings inflation back up to its forty-year high last reached in March, reversing what appeared to be declining price pressures in April.
- Prices rose 1.0% month-over-month, jumping from a more modest 0.3% monthly growth rate the month prior. If prices grew at this rate over the course of one year, the annual inflation rate would reach 12.3%.
- Core CPI, which excludes food and energy prices, again accelerated on a month-over-month basis, rising from 0.56% in April to 0.63% in May.
- Energy prices continued their climb in May after moderating slightly in April. Month-over-month, energy prices are up 3.9%. Measured year-over-year, energy prices are up by 34.4% — the worst reading since 2005.

2. CONSUMER SENTIMENT

- According to the University of Michigan, preliminary results for consumer sentiment dipped to their all-time low in June, declining to an index reading of just 50.2. Measured month-over-month, the index is down 14.0%. Year-over-year, the index has fallen by an abysmal 41.3%.
- June 2022's preliminary consumer sentiment index reading is 21.6 index points off from where it sat in April 2020 and 50.8 index points off where it entered the pandemic in February 2020.
- As noted by the University of Michigan researchers conducting the survey, half of the respondents spontaneously mentioned high gas prices during their interviews — up from 30% in May and 13% one year ago.
- The median consumer surveyed expects gas prices to rise by 25 cents per gallon over the next year — more than doubling the median expectation in May and coming in as the second-highest reading since 2005.

3. LOGISTICS MANAGERS INDEX

- The Logistics Managers' Index (LMI), a diffusion index where above 50 signals expansion and below is contraction, declined for the second straight month in May to 67.1, its lowest reading since December 2020 and just two months after reaching an all-time high of 76.2 in March.
- Transportation capacity grew significantly over the month, jumping to 64.7, the highest since October of 2019. This is helping ease supply pressures but is also causing utilization rates to fall, placing downward pressure on transportation prices. The growth rate for transportation prices decelerated from an index mark of 73.9 to 64.3.

Economic Update



- Inventories remain high while warehouses enter their 21 consecutive months of falling capacity rates — mainly due to stalled shipping containers unable to undock goods because of an available space shortage.

4. MBA MORTGAGE APPLICATIONS

- According to the Mortgage Bankers Association's (MBA) Market Composite Index, mortgage applications in the US saw further declines in the week ending on June 3rd, which fell 6.5% from the previous week, according to the Mortgage Bankers Association's (MBA) Market Composite Index.
- Rising mortgage rates alongside high buying prices appear to be steadily weakening demand. Mortgage applications have now fallen for four consecutive weeks and have only registered six week-over-week increases since the start of the year. The volume of both purchase and refinance applications sank this week.
- The average contract rate on a 30-year mortgage rose to 5.4% from 5.33%.

5. WORKPLACE OCCUPANCY

- Workplace occupancy fell by 1.7% during the week ending on June 1st to a rate of 41.2%, according to Kastle Data Systems' Back to Work Barometer. Much of this was due to the Memorial Day holiday, but attendance has fallen for four consecutive weeks.
- Of the top metros tracked, Chicago saw the steepest one-week change, falling by 2.7%. Followed by Austin (-2.4%) and Houston (-2.1%). No major metros tracked saw an increase in attendance from the week before.
- Compared to other in-person activities impacted by the pandemic, office occupancy remains far behind 2019 levels. Dinner reservations via Open Table data have recovered to 86.6% of 2019 levels, while TSA checkpoints have recovered to 90.7% of 2019 levels.

6. TECH WORKERS AND REMOTE WORK

- A study by Morning Consult of about 750 tech workers shows that about 48% say they are now fully remote, well above the 22% observed before the onset of the pandemic.
- 85% of tech workers say that they are either fully remote or are in a hybrid setup. Roughly 3 in 5 tech workers say they are not interested in returning to the office full time, while separate 2 in 5 are more open to in-person work.
- Just a third of tech workers said they have “never” considered resigning — roughly in line with pre-covid trends.

Economic Update



- Tech companies stood out both early in the pandemic as well as into the reopening period, largely embracing remote work policies, but many are seeking a more robust return to the office in 2022.

7. CONSTRUCTION SPENDING

- US Construction spending rose by 0.2 percent month-over-month between March and April to a seasonally adjusted annual rate of \$1.745 trillion. This followed a 0.3 percent jump in March but comes in 30 basis points below market expectations.
- Private construction spending rose 0.5% in the month, fueled by increases in manufacturing spending (1.6%), single-family home construction (0.5%) and office infrastructure (0.1%). Spending on power (-1.5%) and commercial construction (-0.2%) fell during the month.
- Construction spending has now fallen for three consecutive months and in four of the last five months.

8. YIELD CURVE AND PREDICTED GDP GROWTH

- The yield curve (in this example, the spread between the 10-year and 3-month Treasury bill rates), a popular barometer for recession risk, saw its slope begin to normalize in May after a flattening in April, according to an analysis by the Cleveland Federal Reserve. A flattening or an inversion of the yield curve is often read as an increase in recession risk.
- The Cleveland Fed's Predicted GDP growth metric for the year was unchanged at 4.9%, while the probability of a recession within one year dropped 10 basis points to 2.6%.
- The calculated metric uses past values of the yield curve slope and GDP growth to provide forecasts of future GDP growth recession probabilities. A number of banks and economist surveys have begun to warn in recent weeks of a heightened probability of a recession as the Fed hikes interest rates to try and cool inflation.

9. SPECIAL SERVICING RATES

- The CMBS Special Servicing Rate, a barometer for levels of stress among borrowers, fell 18 basis points in May to 5.12%. The rate has fallen from a pandemic high of 8.65% just 12-months ago.
- The lodging sector saw the largest month-over-month improvement, falling by 56 basis points to 8.42% in May. Both Retail and Multifamily fell 20 basis points over the month, but Retail continues to have the highest special servicing rates by sector at 10.86%, while Multifamily enjoys one of the lowest at 1.29%. Industrial fell by 7 basis points to 0.46% and remains the lowest distressed sector. Meanwhile, Office ticked up by 1 basis point in May to 3.36%.
- The percentage of loans on the special servicer watchlist fell to 22.35%, its eighth consecutive monthly decline.

Economic Update



10. CMBS DELINQUENCIES

- CMBS delinquencies fell 37 bps to 3.14% in May from the month before, according to Trepp. It was the biggest one-month decline since January. The delinquency rate has now fallen in 22 of the last 23 months.
- The CMBS delinquency rate climbed as high as 10.32% during the thick of pandemic-related headwinds in June 2020. This was only 2 bps short of the all-time high rate of 10.34% reached in July 2012.
- By sector, Retail delinquencies fell the most from last month, dropping 79 bps to 6.57% in May. Lodging dropped by 51 bps to 5.83% during the month. Multifamily delinquencies fell by 18 bps to 1.01%. The Industrial delinquency rate declined 13 bps to 0.38%, while Office fell just 8 bps to a rate of 1.83%.

Economic Update



SUMMARY OF SOURCES

- (1) <https://www.bls.gov/cpi/>
- (2) <http://www.sca.isr.umich.edu>
- (3) <https://www.the-lmi.com/>
- (4) <https://www.mba.org/>
- (5) <https://www.kastle.com/safety-wellness/getting-america-back-to-work/#workplace-barometer>
- (6) <https://morningconsult.com/2022/05/31/tech-workers-survey-office-hybrid-remote-work/>
- (7) <https://www.census.gov/construction/c30/c30index.html>
- (8) <https://www.clevelandfed.org/en/our-research/indicators-and-data/yield-curve-and-gdp-growth/background-and-resources.aspx>
- (9) <https://www.trepp.com/hubfs/Trepp%20CMBS%20Special%20Servicing%20Report%20May%202022.pdf?hsCtaTracking=66cab05f-96c0-43f6-be25-e715a6b765e0%7Cce07558c-1801-4b1d-8b92-a8aa565a47f2>
- (10) <https://www.trepp.com/hubfs/Trepp%20Delinquency%20Report%20May%202022.pdf?hsCtaTracking=cd011a9d-0cd0-46bb-a0ed-006398f7148e%7Cdef0f2d1-7a5c-4bb7-a444-688182e66081>