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Economic Update

NOVEMBER 13, 2020

CHANDAN ECONOMICS

1. GDP

- According to the Bureau of Economic Analysis, the U.S. economy grew at an annualized rate of 33.1% in the third quarter of 2020, the highest reading on record. Of course, the third quarter rebound follows the worst single quarter contraction on record, as annualized total output fell by 31.4% in Q2.
- Between Q4 2019 and Q2 2020, annualized Real GDP fell by a total of $2.0 Trillion. The third quarter's reignition of activity recovered roughly two-thirds of the ground lost, gaining back $1.3 Trillion.
- Personal Consumption Expenditures, the single largest GDP component, bounced back from an annualized -33.2% contraction in Q2, posting a favorable 40.7% growth rate in Q3.
- Looking ahead, economists polled in the Wall Street Journal's monthly forecasting survey expect that the economy will expand at a more pedestrian 3.8% annualized rate in Q4.

2. UNEMPLOYMENT RATE

- The Civilian Unemployment Rate, the most widely cited measurement of labor market slack, fell to 6.9% in October, down a full percentage point from September.
- The unemployment rate has now fallen for six consecutive months as the economy attempts to recover from the Spring's unprecedented labor market shock.
- Moreover, the labor force participation rate ticked up 30 bps to 61.7%, signaling that October's improving unemployment figures are more a symptom of people returning to work rather than dropping out of the labor force.
- On balance, the labor market is continuing its recovery, though the pace of improvement will likely slow further unless the steady pace of new job losses markedly improves. Initial unemployment insurance claims totaled 751k for the week ending October 31st– well above the one-week GFC-high of 665k.
- According to the Wall Street Journal's Economic Forecasting Survey, most economists do not expect a return to pre-pandemic levels of nonfarm payrolls until 2022 or 2023.

3. JOB OPENINGS LABOR TURNOVER SURVEY

- The number of job openings available through September totaled 6.46 Million, improving by just 84k from August.
- In February, there were 1.21 job openings available for every unemployed American worker. The openings-to-unemployed ratio then sank as low 0.22 in April and has since recovered to 0.51.
- The number of Total Nonfarm Quits, a figure that reflects worker confidence in labor market conditions, continues to make up lost ground at a steady clip. Monthly quits fell by 1.6 million between February and

April, declining from 3.44 Million to 1.88 Million.
- Since April, quits have recovered by more than 73%, jumping by 1.14 Million per month.

4. ULI / PwC EMERGING TRENDS IN REAL ESTATE

- The ETRE report, which annually offers the most comprehensive cross-section of sentiments in commercial real estate, recently released its 2021 edition. As might be expected, the COVID-pandemic, job growth, the political landscape, housing costs, state and local budgets, and capital availability all rank near the top of the list of factors that investors anticipate being disruptive in the year ahead.
- An overwhelming majority of respondents, 94.3%, either agree or strongly agree that more companies will offer work from home flexibility in the future.
- A slightly less robust consensus (63.1%) of respondents either agree or strongly agree that increased social distancing will lead to a higher office space square footage per employee.
- Among the report's other key findings, 53.9% of respondents expect that firm profitability will be down in 2021, and 81.9% believe that COVID will hasten the need for an increased focus on supply chain resilience.

5. SENIOR LOAN OFFICER OPINION SURVEY

- According to the Federal Reserve's Senior Loan Officer Opinion Survey, underwriting across all commercial real estate cross-sections remains tight.
- As of the fourth quarter survey, a net 55.1% and 44.9% of respondents report tightening underwriting for commercial and multifamily loans, respectively.
- These data reflected an improvement from Q3 when a net 77.5% of respondents reported tightening for CRE loans, and a net 64.3% reported tightening for multifamily.
- Trends are similar for construction loans as the net share of respondents reporting tightening shifted from 80.9% in Q3 to 56.7% in Q4.

6. NMHC CONSTRUCTION SURVEY

- A majority of developers continue to face construction delays. This is according to the latest release of NMHC's Construction Survey, which had a response window between October 6th and October 27th, 2020.
- Moreover, construction delays have persisted since the onset of the COVID shutdown without reprieve. In the first round of the survey, which spanned from March 27th through April 1st, 2020, 55% of respondents reported experiencing delays. In the latest release, this share remains at a COVID-high of 57%.
- The two biggest reasons cited for causing persistent delays are economic uncertainty and restricted access to permitting, entitlements, or professional services.

7. FOMC MEETING

- In its October meeting, the Federal Open Market Committee (FOMC), the Federal Reserve's policy-setting arm, reaffirmed its previous commitment to using its full range of monetary policy tools to support the ongoing economic recovery.
- Citing earlier declines in oil prices and weaker demand that is symptomatic of the ongoing pandemic, consumer price inflation pressures have remained quiet this year.
- The committee further emphasized the recovery's dependence on the course of the virus, believing that the health crisis will continue to dampen economic activity, employment, and inflation in the near-term. The FOMC aims to keep monetary policy accommodative until inflation surpasses its 2% target.
- They have also committed to remaining expansionary for a short period once meeting their inflation target. Tolerating a window of continued expansionary policy despite having inflation above 2% creates an offsetting symmetry to the current protracted period of inflation running below target and should help the FOMC anchor expectation near its stated goal. Additionally, the Fed plans to increase its holdings of Treasury and MBS in the coming months, either at or above their current pace.
- The committee intends to assess a range of future indicators to guide its ongoing policy goals, including public health readings, labor market conditions, inflation pressures, and financial and international developments.

8. ISM MANUFACTURING

- The ISM Purchasing Managers Index (PMI), a measure of manufacturing sentiment where a reading above 50 indicates expansionary expectations, rose to 59.3 in October, up from 55.4 in September, beating market forecasts.
- The most recent reading is the most robust month-over-month growth in factory activity since September of 2018. It comes amid a combination of increased orders and production and a rebound in employment and inventories.
- Several survey respondents noted the difficulties of continued operations in reconfigured factories due to COVID, though proficiency is improving. The Manufacturing PMI has now registered increases in five of the past six months. The previous 131-month streak above 50% came to a COVID-induced end in April.

9. SMALL BUSINESS OPTIMISM

- The National Federation of Independent Business Owners' (NFIB) Small Business Optimism Index remained unchanged in October from the month prior.
- October's composite reading of 104.0 stands well above April lows (90.9) and is only a hair below where it

began the year in January (104.3).
- According to the NFIB's survey, only 13% of small business owners report plans to expand their business over the next three months. The two most common reasons small business owners cited for not pursuing business expansion were current economic conditions and the political climate.

10. TREPP

- CMBS delinquency rates measured across all property types, as reported by Trepp, averaged 8.28% in October, dropping 64 bps from the month prior.
- Average delinquencies have now declined for four consecutive months after jumping in both May and June. However, the wide-scale use of forbearance by struggling borrowers is likely distorting these figures, masking distress.
- Trepp estimates that upwards of $30 Billion in private CRE loans are in forbearance to date.
- Across different property types, unsurprisingly, distressed debt is most commonly found in the retail and lodging sectors.
- Through October, the delinquency rate for retail loans held in CMBS deals averaged 14.33%, and for hotel loans, it averaged 19.43%. For Multifamily, Office, and Industrial, delinquency rates are all below 3% and within one percentage point of where the measure stood one year ago, respectively.

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SUMMARY OF SOURCES

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