

# Economic Update

APRIL 2, 2021

CHANDAN ECONOMICS

## 1. NEW BUSINESS APPLICATIONS

- According to the Census Bureau, new business applications totaled a seasonally adjusted 423k in February, falling 13.4% month-over-month. Of the 423k applications, the Census Bureau estimates that 31k new business will eventually form over the next twelve months— a 13.2% drop off in absolute terms from January, though the forecasted application-to-conversion rate rose from 7.3% to 7.4%.
- Regionally, the Northeast saw the steepest month-over-month decline in applications, falling by 16.3% from January. The Midwest region followed, falling by 15.3%. The West and South posted the best results, though still recorded sizable declines, dipping by 11.9% and 13.0%, respectively.
- In February 2020, before the pain from the pandemic hit markets, new applications read just above 298k, slightly above its 2019 average of 292k. After initially falling for consecutive months in March and April 2020, new business applications soared at end the Q2 2020, reaching as high as 551.7k in June. New applications began to taper in the 3rd and 4th quarters but still finished the year well ahead of its 2019 average, charting 362.6k new applications per month in 2020.

## 2. MANUFACTURING BUSINESS OUTLOOK SURVEY

- In March, manufacturing activity in the Mid-Atlantic region reached its highest level in 50 years, according to the index generated by the Federal Reserve Bank of Philadelphia. While the survey, conducted monthly, focuses on firms in the Mid-Atlantic region, it is often used as a forecast for nationwide manufacturing activity, as conditions tend to be similar across geographic regions.
- Notably, many respondents have reported increased price pressures from inputs as of late. The prices paid index, a subset of the survey, reached its highest level since 1980 during the month of March. 77% of firms reported higher input prices in the past month, up from 55% in February. Another 35% of firms reported an increase in the price of goods sold, up from 18% in the previous month.
- The recent survey results add fuel to the ongoing inflation debate, with some economists and market participants cautioning the potential for persistent price pressures in the months ahead.

## 3. RESTAURANT BOOKINGS

- According to restaurant booking data reported by OpenTable, reservations as of Monday, March 29th remained down 19.3% from the same day in 2019.
- After falling as low as 100% year-over-year during the shutdown, bookings improved through 2020's late-Spring and Summer, recovering to 14.0% below year prior levels in September. After a Winter slump where bookings again fell as low as 85% below pre-COVID benchmarks, they have started to recover, rising to just 20% below pre-COVID benchmarks as of March 29th.

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- The positive momentum is primarily a result of a recent relaxing of restrictions in several States. However, improving weather and the spring break rush across several Sunbelt metros have led to a recent sharp increase. As of March 29th, only seven metro areas had more bookings this year than they did two years ago: Naples, Tampa, Fort Lauderdale, Scottsdale, Las Vegas, Miami, and Miami Beach. Whether or not most patrons made it past the cocktail menu in these metros is a topic open to speculation.

## 4. TSA CHECKPOINT THROUGHPUT

- According to TSA screening data, air travel volume has now risen above 1M daily passengers for nineteen straight days through March 29th. The current stretch marks the first-time post-shutdown that travel volume has surpassed the 1M passenger mark for more than five days in a row.
- Daily airport screenings averaged 594k per day between March 17th, 2020– a day after the US issued travel bans on the UK and Ireland– and year's end. Daily volume surpassed 1M only a handful of times throughout the year, mostly on and around Thanksgiving and the December holidays.
- Despite the recent uptick, daily travel remains well below pre-pandemic levels. On March 29th, domestic airports reported a total of 1.4M travelers, roughly 40% below the 2.4M tracked on the same reference day in 2019.
- Health experts caution that the recent increase in travel may foreshadow a new wave of COVID-19 cases in the US in the coming weeks. After the holiday travel surge in December, daily new infections in the US rose to their highest pandemic levels.

## 5. SOFR/LIBOR

- The Intercontinental Exchange and the Financial Conduct Authority recently announced an extension of the phase-out for LIBOR, the benchmark interest rate in which global banks lend to one another. The phase-out, which was initially slated for December 2021, will be pushed to June of 2023.
- The Secured Overnight Funding Rate, or SOFR, is the favorite to replace LIBOR as the new primary reference rate. SOFR is based on a volume-weighted mean of US Treasury repurchase agreements at the transaction level.
- The Alternative Reference Rates Committee, a division created by the Federal Reserve to study and develop proposals on a replacement for LIBOR, estimates that over \$200T in outstanding US Dollar LIBOR contracts remain in circulation.

## 6. SINGLE-FAMILY HOUSING

- According to the Census Bureau, authorized building permits for Single-Family housing units fell to a

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seasonally adjusted annualized rate of 1.14M units in February, 10.0% below January's reading. Still, the reading is up 15.3% year-over-year.

- Seasonally adjusted Single-Family housing starts also fell over the month, edging down 8.5% to an annualized rate of 1.04M in February. Single-family starts rose by a slight 0.58% year-over-year.
- Completions of Single-Family Housing units rose slightly to a seasonally adjusted annual rate of 1.04M in February, up by 28k in the previous month— a 2.9% increase. Single-family completions are up 3.2% year-over-year.

## 7. WFH & HOUSING DEMAND

- According to a recent paper by the National Bureau of Economic Research, employees who work remotely without an office available to them tend to consume more housing. On average, these WFH households have an additional 0.3-0.4 bedrooms per housing unit.
- The study, which analyzed the home buying preferences of remote employees from 2013 to 2017, found that remote workers spend between 6.5% and 7.4% more of their income per month on housing than non-WFH households.
- An estimated 3% of US workers reported working from home full-time before the pandemic. By May 2020, this number had swelled to 35% of all US workers, though this has since come down and should continue to settle into a post-COVID equilibrium as we move beyond the public health crisis.

## 8. APARTMENT INVESTMENT MARKET INDEX

- The Freddie Mac Multifamily Apartment Investment Market Index (AIMI), a measure of overall multifamily sector investment health that tracks asset prices, property-level incomes, and mortgage rates, rose to 131.5 in Q4 2020, a half-percentage point higher than the Q3 estimate.
- AIMI has steadily increased since 2010 and has continued to climb to new highs during the COVID-19 pandemic. The Q4 2020 level was up 3.4% from the same point one year ago.
- Persistently low mortgage rates have fueled the increase over the past year, attracting new demand into residential markets. Net operating income for multifamily properties remains below pre-pandemic levels, down 9 basis points from Q4 2019. However, property price increases have more than offset this, climbing by 3.0% over the same period.

## 9. OFFICE DEMAND

- According to the VTS Office Demand Index (VODI), a monthly measure of real-time tenant demand in the US Office leasing market, Office demand is on the rise. The index jumped by 29% month-over-month in

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February, which follows a strong single-period increase of 36% in January.

- The VODI fell by 85% between February and May of 2020 as COVID fears and restrictions sent Office demand plummeting nationwide. The sharp rise in early-2021 comes amid a shrinking scope of pandemic-related uncertainty, with both vaccination efforts and federal relief actions providing a boost to consumer and investment sentiment. Still, the index remains 38% below its pre-pandemic level.
- Since October of last year, February is the first month where Office demand rose in each of the core office markets, as defined by VTS. San Francisco leads all core metros in recovery from its recessionary trough, regaining 94.3% of its Office demand since May. In second was Los Angeles, at 79.8%, and Seattle, which has recovered 72.4% of Office demand.

## 10. HOUSING DEMAND

- Nearly one-in-three Americans are still considering moving in the 12-to-18 months, according to the recent BOXPoll conducted by Pitney Bowes.
- The survey, which details results both by the total adult population and by generation, reports that 17% of all adults are planning a move in the next year and a half, while another 15% remain undecided.
- Broken down by generation, Gen-Zers and Millennials tie for the highest proportion of residents with plans to move, each at 28%. However, accounting for those still undecided, Gen-Zers have the highest degree of residents considering a move at 54%. Millennials follow behind at 44%, while Gen-Xers and Baby Boomers come in at 27% and 20%, respectively. These data intuitively follow a graduated progression, where more mature households tend to be less transient than younger households.
- 42% of Urban residents are considering a move within the next 12-to-18 months, exceeding the overall average, suggesting a continuation of negative net-migration into large metros experienced across the US in 2020.

## SUMMARY OF SOURCES

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