

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

1. LABOR DAY DEADLINE

- U.S. companies are increasingly looking to lure workers back to the office, with many now setting Labor Day as the deadline for their employees to return to the office.
- While many employers have lauded remote work as a success, increasingly, company executives are making the push as concerns arise about the long-term impact of remote work on products and services.
- According to the BLS, worker output increased in 2020, with labor productivity rising in 45 states and the District of Columbia. However, these data may be misleading, as both economic output and the number of hours worked fell during the pandemic, causing a “double-negative” effect in productivity metrics, showing a notable rise.
- According to USA Today’s Harris Poll of full-time employees, 40% of respondents in May indicated that they prefer to remain working from home full time, while 35% favor a hybrid setup, with the other 25% favoring a full return to the office.

2. FANNIE/FREDDIE

- On June 23rd, the U.S. Supreme Court ruled against Fannie Mae and Freddie Mac investors’ claims that the federal government exceeded its authority by collecting \$100B in company profits. Both entities have been under the conservatorship of the FHFA since 2008. Shares of both tumbled more than 30% following the ruling.
- For several years, many investors and experts have sought to convince the federal government to release the GSEs from government control, but June 23rd’s ruling will be a setback for the effort.
- While the court dismissed questions about the FHFA’s statutory authority, Justice Samuel Alito, through an opinion that he wrote, left room for a future challenge on the constitutionality of the FHFA’s structure. He opined that “the possibility that the unconstitutional restriction on the President’s power to remove a director of the FHFA could have such an effect cannot be ruled out.”

3. EXISTING-HOME SALES & PRICES

- According to the most recent report by the National Association of Realtors, existing-home sales climbed by a robust 44.6% between May 2020 and May 2021. On the other hand, sales decreased by 90 basis points month-over-month to an annualized rate of 5.8M units, the fourth consecutive monthly decline. However, the fall was modest compared to recent months, and it continues a post-February trend of declining albeit by a lesser rate.
- Regionally, the South continues to dominate transaction volume, accounting for 45% of all sales, followed by the Midwest at 23%, the West at 20%, and the Northeast at 12%.

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

- Median existing-home prices are up a record 23.6% since May 2020 and have now recorded 111 consecutive months of year-over-year increases.
- Available housing inventory rose 7.0% from April but remains down 20.6% year-over-year.

4. SINGLE-FAMILY HOMES

- Construction permits for single-family homes totaled a seasonally adjusted annualized rate of 1.13M in May, a 1.6% drop from the previous month but up 50.6% year-over-year, according to the Census Bureau's latest report.
- Single-family starts were at a rate of 1.10M units in May, a 4.2% increase above the April rate of 1.05M units.
- Completions of single-family homes came in at an annual rate of 978K in May, a 2.6% drop below the April rate of 1M.
- According to the National Association of Realtors, sales of existing single-family homes climbed by a seasonally adjusted 39.2% year-over-year through May, led by the West region, which saw volume rise by 58.5%. The South region climbed by 40.3% year-over-year, while the Northeast region rose by 39.5%, followed by the Midwest region, which rose by 24.5%.
- The Median sales price of an existing single-family home climbed by a seasonally adjusted 24.4% year-over-year through May. The West region led with an average home-price increase of 24.6%, followed by the South at 24.1%, the Midwest at 18.5%, and the Northeast at 17.0%.

5. URBAN MIGRATION PATTERNS: "THE DONUT EFFECT"

- A recent paper by the National Bureau of Economic Research attempted to quantify the effect of COVID-19 on migration patterns and real estate markets in the U.S.. Using data from the U.S. Postal Service and Zillow, the study found that demand has shifted away from central business districts and towards lower density suburban areas, a phenomenon the study's authors coin as the "Donut Effect."
- The paper challenges some of the prevalent migration pattern assumptions of 2020. Initially, many had forecasted the movement of people out of large U.S. metros and into smaller cities and towns. Instead, the findings rely on the hypothesis that post-pandemic working norms will likely favor hybrid setups, incentivizing some employees to lower commuting and rent costs while limiting how far most are willing to relocate away from company offices.
- According to the report's findings, the so-called donut effect is mostly a big-city phenomenon. The top 12 cities, which saw a net population decrease of 15% in their central business districts during the pandemic, have seen the strongest effect. The next 13-50 largest cities observed modest effects, while the remaining 51 to 365 saw little to no effect.

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

6. OFFICE DEMAND

- Demand for office space hit a modest lull in May, with the VTS Office Demand Index (VODI) declining for the first time in five months. Office demand remains 25% below its 2018-2019 average benchmark. Still, office demand has improved considerably from its post-shutdown lows when VODI dropped a vertical 85% below its pre-pandemic benchmark.
- More than half of all markets are within at least 25% of their pre-pandemic averages through May. Chicago leads all cities in its path back to pre-pandemic office demand levels, sitting just 14% below its 2018-2019 average.
- Chicago and Los Angeles were the only two metros that did not see a decline in demand during May, with the Chicago VODI climbing by 5% month-over-month, while the LA VODI remained flat.
- Seattle saw the steepest decline during the month, falling by 24%. According to the report, Seattle maintains a relatively high share of remote-friendly jobs compared to most cities, limiting the speed of its office recovery. Office demand in the 'Emerald City' remains 39% below its 2018-2019 average.

7. COVID & ENTREPRENEURSHIP

- A recent working paper produced by the National Bureau of Economic Research based on data from the Startup Cartography Project studied the effect of the COVID pandemic on Entrepreneurship in the United States. Leveraging data from eight U.S. states, the study found that state-level business registrations increased in each State.
- New filings increased from an average of 300k per year in 2019 to more than 500k in July of 2020, according to the paper's analysis of U.S. Census Business Formation Statistics.
- The report notes that the level of entrepreneurship growth differs both across state lines and within the micro-geography of cities. For example, according to findings, within New York City, the borough of Manhattan experienced a decline in new business formation in 2020 relative to 2019, while the boroughs of Brooklyn and the Bronx registered significant increases. This shift has had implications on the racial makeup of new business formations, with ZIP codes that include a higher proportion of Black residents—and particularly higher-median income Black neighborhoods—being associated with higher startup formation rates.

8. JOBLESS CLAIMS

- According to the latest release by the U.S. Training and Employment Administration, seasonal adjusted initial jobless claims fell by 7,000 to 411,000 during the week ending on June 19th. The four-week moving average moved up by 1,500 from the previous week to 397,750.

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

- While initial claims data has often been a helpful tool in tracking the health of the labor market, it has its limitations and should be contextualized as we assess the economic recovery. As explored in a recent article by Axios' Sam Ro, the phasing out of pandemic-era supplemental benefits by states at different times has clouded the metric's ability to gauge current market conditions. As of June 24th, 12 states have already ended extra benefits, with many of them reporting a notable drop in claims during the most recent month. An additional 14 states are slated to end their supplemental benefits by July 31st.
- Claims are likely to artificially decrease as a result and will not necessarily signify a stronger labor market, though the presence of a labor shortage could help steer workers back into employment.
- The risk of structural unemployment remains unclear, but a reprioritization of goods and services and the resulting changes to operations during the past year have likely caused some mismatches between workers' skills and the job openings available.

9. EVICTIONS

- The Biden Administration extended the pandemic-era eviction moratorium that was set to end on June 30th through the end of July. The moratorium has been seen as a significant safety net by tenant advocates but has recently drawn increased scrutiny by landlords who have been forced to absorb costs without compensation. Most of the nation's landlords are small investors who have had limited funding at their disposal to address the shortfall.
- In May, a U.S. District Court Judge halted the moratorium claiming the CDC had no such authority to impose the order, but then, shortly thereafter, granted a temporary stay at the request of the U.S. Justice Department.
- According to a Bloomberg analysis of the Census Bureau's Household Pulse Survey, the number of renters who aren't current on payments and fear eviction has decreased from a peak of 5.2M in December 2020 to 3.2M in the latest period.

10. BANK STRESS TESTS

- The nation's largest banks successfully passed The Federal Reserve Bank's "stress tests," allowing them to increase stock buyback and dividend payments to shareholders.
- As the COVID-19 pandemic halted the U.S. economy in 2020, the Federal Reserve, through its post-GFC regulatory powers, imposed temporary limits on shareholder payments to mitigate against potential loan losses that could have stalled the financial system. In March, the Fed's Board of Governors approved a plan to lift the restrictions on banks during Q2 2021 if eligible banks (those with \$100B in assets or more) passed their annual stress tests.
- The stress tests simulate dire financial predicaments that large U.S. banks may be subject to in the event

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

of a severe economic downturn. Luckily, lenders have weathered the storm well, with bank stocks climbing 20% since just the start of 2021. The accommodative fiscal response by the U.S. government to help provide liquidity to the economy in 2020 largely prevented such loan losses from occurring.

Economic Update

JUNE 30, 2021

CHANDAN ECONOMICS

SUMMARY OF SOURCES

- <https://www.usatoday.com/story/money/2021/06/25/return-work-labor-day-businesses-shift-mindset-employees/5310673001/> [1]
- https://www.supremecourt.gov/opinions/20pdf/19-422_k537.pdf [2]
- <https://www.barrons.com/articles/fannie-mae-and-freddie-mac-slide-as-the-supreme-court-rebuffs-on-traders-payout-hopes-51624468048> [2]
- <https://www.nar.realtor/newsroom/existing-home-sales-experience-slight-skid-of-0-9-in-may> [3]
- <https://www.census.gov/construction/nrc/pdf/newresconst.pdf> [4]
- <https://fred.stlouisfed.org/series/PERMIT1#0> [4]
- <https://fred.stlouisfed.org/series/HOUST1F> [4]
- <https://fred.stlouisfed.org/series/COMPU1USA> [4]
- <https://cdn.nar.realtor/sites/default/files/documents/ehs-05-2021-single-family-only-2021-06-22.pdf> [4]
- <https://www.nber.org/papers/w28876> [5]
- <https://www.vts.com/vts-office-demand-index-june-2021> [6]
- <https://vts.drift.click/june-vodi> [6]
- https://www.nber.org/system/files/working_papers/w28787/w28787.pdf [7]
- <https://www.dol.gov/ui/data.pdf> [8]
- <https://www.axios.com/jobless-claims-data-unreliable-827dd721-c8d7-4466-acf5-64f514eafb65.html> [8]
- <https://www.multiphasingnews.com/post/eviction-ban-extended-one-last-time/> [9]
- <https://www.bloomberg.com/news/articles/2021-06-17/fewer-americans-fear-eviction-or-foreclosure-as-moratoriums-end?sref=PC7IMsgj> [9]
- <https://www.census.gov/programs-surveys/household-pulse-survey/data.html> [9]
- <https://www.nytimes.com/2021/06/24/business/fed-bank-stress-tests.html> [10]