Why doesn’t it feel right? What is going on out there? Read the tea leaves - by Bill Pastuszek

July 29, 2022 - Spotlights

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Beige Book, June 2022. Economic activity in the First District increased slightly amid robust wage and price growth. Labor scarcity remained a widespread problem as headcounts increased only slightly. Restaurant profits fell on steep input price increases. The outlook for summer tourism was bright, but many contacts' optimism was tainted by growing fears of recession.

Employment (BLS.gov). Total nonfarm payroll employment rose by 372,000 in June, and the unemployment rate remained at 3.6%. Notable job gains occurred in professional and business services, leisure and hospitality, and health care. For households, the unemployment rate was 3.6% for the fourth month in a row, and the number of unemployed persons was essentially unchanged at 5.9 million in June. These measures are little different from their values in February 2020 prior to the coronavirus.

Consumer Confidence. The Conference Board Consumer Confidence Index® decreased in June, following a decline in May. The Index now stands at its lowest level since February 2021 The Present Situation Index—based on consumers' assessment of current business and labor market conditions—declined marginally … The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions…Expectations have now fallen well below a reading of 80, suggesting weaker growth in the second half of 2022 as well as growing risk of recession by year end…"Purchasing intentions for cars, homes, and major appliances held relatively steady.

Oil Prices/Interest Rates. Some relief has occurred in the price of gas, coinciding with the summer travel season. Interest rates, not so much. Watch out for further increases. Not a bad thing for bond-like investments, not so good for things like mortgage rates.

Multi-family. CoStar notes: "The rebound in U.S. apartment and condominium construction, a sign of strength for the nation's multifamily sector, is projected by one of the nation's biggest mortgage lenders to slow through the rest of the year…The Commerce Department reported Tuesday that multifamily construction starts rose 15% in June from May, when they had declined from the previous month, and were up 16.4% from a year earlier."

The National Association of Homebuilders tells us: "Builder confidence plunged in July as high inflation and increased interest rates stalled the housing market by dramatically slowing sales and buyer traffic." "Increased interest rates, building material supply chain bottlenecks and elevated construction costs continue to put a damper on the single-family housing market. For the first time since June 2020, both single-family starts and permits fell below a one million annual pace." Permits in the Northeas are 5.1% lower in the Northeast but marginally higher elsewhere. Affordability is noted as an issue.

Warren Group. In June, it was reported that the "median sale price for both single-family homes and condominiums continued to set records in May… the number of Mass. single-family home sales decreased 7+%… Meanwhile, the median single-family sale price increased 12.4% on a year-over-year basis.

Stock Market. The S&P, while below the peak reached in early 2022, pre-Ukraine War, is still quite a bit above the pre-pandemic peak in January 2020.

Major League Baseball attendance. Entering the MLB All-Star break is down for 23 of 30 teams compared to the same time frame in 2019, representing a league-wide decrease of 6.4%.

So why do we feel so out of balance? Expectations? Over reliance on short-term emotions? Are we talking ourselves into a recession? True, inflation is at a 40-year high: much of that inflation is due to short-term spikes in commodities. The labor market is strong. Real estate continues to be positive. While interest rates have skyrocketed, that negative factor must be balanced with the good that higher rates can do in tamping down inflation.

Amateur economic analysis aside, what can be expected from commercial real estate. Some cooling of passions as interest rates takes some bite out of cash flow, commodity prices affect expenses, but sectors like self-storage and multi-family can digest higher costs as rental demand continues to trend positive. The common wisdom is that the apartment rental market will benefit from those potential homebuyers closed out from home ownership.

These are clearly uncertain times. I am not making any predictions. Some of these issues raised some interesting lines of thought. Pursue them. Take some time to enjoy summer, family and friends, and life!

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