Economic Update

SVN | Research

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1. END-OF-YEAR LOGISTICS ACTIVITY

- The Logistics Managers' Index (LMI) fell to 57.3 in December, its lowest level in four months.
- According to the LMI report, a seasonal slowdown in inventory levels mostly drove the monthly decline. Still, underlying trends show that upstream firms, such as manufacturers and wholesalers, experienced an import-driven uptick in inventory levels, while downstream retailers saw inventory fall.
- The import spike is partly due to North American manufacturers ramping up buying activity before potential tariffs. According to GEP & S&P market data cited in the report, purchases by these firms hit their highest level in December of more than a year.
- Activity from Chinese firms supports this further, with the country's customs authority reporting a 15.6% year-over-year increase in exports to the United States through December.
- Falling overall inventory also led to slowing growth in warehouse capacity compared to the previous month.
- Meanwhile, transportation prices accelerated by their fastest pace since April 2022 due to strong consumer demand and higher transportation needs as the holiday shopping season ramped up.

2. OUTDOOR SHOPPING VACANCIES HIT TWO-DECADE LOW

- Recent reporting by the Financial Times, utilizing data from Co-Star, details how vacancies at open-air shopping centers have recently fallen to historic lows, contradicting long-held concerns about the Retail real estate sector becoming saturated and sluggish.
- According to the data cited, just 6.2% of open-air shopping centers are available for rent, the lowest level since vacancy tracking began in 2006.
- Booming occupancy in outdoor retail spaces contrasts with trends in indoor mall space, which have seen vacancies rise in recent years as a rise in e-commerce dampens foot traffic at malls.
- It appears that falling mall activity does not imply similar shifts in consumer activity in outdoor spaces. According to Visa's tracking of the holiday shopping season, despite the pandemic-era shift in online purchasing during the holidays, physical stores still accounted for 77% of all sales in 2024.
- Several retailers, particularly discount stores, are planning expansions in 2025. New demand generated

from these plans will continue to place downward pressure on vacancies and upward pressure on pricing in tight markets.

3. TREPP YEAR-END ANALYSIS

- According to Trepp's 2024 year-end commercial real estate report, market liquidity appears to have reached its inflection point last year. While risks remain, lenders continue to gradually pour back into capital markets.
- The report notes that the private-label CMBS loan market jumped nearly 165% to $103.6 billion in 2024, roughly three times the increase from 2023 and the third largest annual increase in issuance on record, behind just 2010 and 2011.
- Refinancing accounted for much of the activity. Property sales remained relatively slumped while maturing deals require new financing. $96.83 billion of them will mature by the end of 2026.

4. TOP INBOUND MIGRATION STATES IN 2024

- According to rental van tracking by U-Haul, the Carolinas, and Arizona, among other key standouts, saw increases in their inbound migration rates in 2024.
- Texas and Florida, which have attracted large inflows of new residents from out-of-state since 2020, were knocked from the top but remain high on the list. The top 5 include South Carolina, Texas, North Carolina, Florida, and Tennessee.
- Rounding out U-Haul's top ten rankings are Arizona, Washington, Indiana, Utah, and Idaho.
- Dallas topped all other metro areas for incoming Uhauls in 2024. Zooming in on the Carolinas, Charlotte carried much of the weight, experiencing the second-largest increase of incoming movers compared to any other US metro in 2024.
- Rounding out the top 5 metros for incoming movers were Phoenix, Lakeland (FL), and Austin.

5. CPI INFLATION

- Consumer prices rose 0.4% month-over-month in December and 2.9% over the past 12 months, according to the latest release by the Bureau of Labor Statistics.

- Both headline and core CPI prices experienced month-over-month disinflation in December, each falling 10 basis points from November.
- Core-CPI grew 0.2% during the month, down from 0.3% in November, the first month-over-month disinflation in core prices since July. Core-CPI is up 3.2% year-over-year.
- Wednesday's CPI report is the final key inflation indicator released before the FOMC's January policy meeting. Meetings from their December meeting showed that officials discussed the above-expectations inflation pressures of recent months but continue to expect price pressures to trend downward overall.
- Stock futures surged in response to the release, which followed producer price data that also arrived under expectations. Treasury yields tumbled as bond markets recalibrate rate cuts and inflation expectations.

6. FOMC MEETING MINUTES

- The latest FOMC meeting minutes show that participants discussed the slowing pace of disinflation in 2024 and higher-than-expected readings to close the year. Nonetheless, the majority underscored the across-the-board progress in price pressures and an expectation that inflation will continue to move towards the committee's two-percent target.
- Some officials highlight that apart from housing, prices in core goods and market-based core services categories are now increasing at similar rates to those seen during previous periods of price stability.
- However, some observe recent positive sentiment in financial markets and economic momentum as potential risks to re-anchored price stability.
- Participants described the uncertainty around the scope and timing of changes to trade and immigration policies as elevated but are accounting for its effect to varying degrees, suggesting that as moves by the incoming Trump administration become clearer, FOMC projections will increasingly reflect their potential longer-term impact.

7. Q1 2025 ECONOMIC OUTLOOK

- A recent outlook produced by Capital Economics foresees relatively healthy global GDP growth during 2025, a lesser tariff effect than prevailing consensus, and geopolitical contours that's effects are more likely to be stretched over years rather than abruptly in 2025.

- The outlook expects soft landings to continue to be a central theme in 2025, with the world's major economies, including the United States, seeing slowing GDP growth, but private balance sheets projected to remain strong.
- The outlook forecasts a pick-up in growth in China during the first half of 2025 as fiscal and monetary support from the central government takes hold. Euro-zone GDP is expected to expand slowly in 2025 as inflation slows, opening room for further rate cuts.
- Demand is not expected to provoke new inflation pressures in 2025, but if labor markets remain tighter than previously projected, wage pressures could remain.
- President-elect Donald Trump's proposed tariff and immigration policies are expected to temporarily boost US inflation and limit the Fed's ability to cut interest rates, but recent reports that the incoming administration may gradually roll out tariffs could push some of its potential price impacts beyond 2025.

8. DECEMBER JOBS REPORT

- According to the Bureau of Labor Statistics, the US economy added 256k jobs in December, beyond consensus expectations and the largest monthly job gain since March 2024.
- The overall unemployment rate edged down to 4.1% from 4.2%, while wage growth charted at 3.9%, roughly in line with its readings over the past three months.
- Supplemental unemployment measures also improved. The U-6 measure, which includes discouraged or underemployed workers and those who are unemployed, fell 0.2 points to 7.5%.
- Markets declined in response to the report as investors reassess the interest rate outlook, with futures markets now pricing in fewer rate cuts for 2025 than before the employment report's release.

9. US ECONOMIC OPTIMISM

- US economic optimism declined in January following a large post-election bump, according to the RealClearMarkets/TIPP Economic Optimism Index.
- The index, which measures Americans' six-month outlook on the economy, opinions of their personal

financial outlook, and confidence in federal economic policies, rose from a contractionary 46.9 in October to 53.2 in November. This was followed by a reading of 54 in December, but the reading has since fallen to a more modest 51.9 in January.

- A reading above 50 indicates that, on balance, Americans remain optimistic in their outlook. The reduction may represent the fading effect of post-election optimism typically found around key issues for voters but may also show how concerns around tariffs and trade policies are beginning to feed into sentiment data.

10. SPECIAL SERVICING HITS FOUR-YEAR HIGH

- According to Trepp, the CMBS special servicing rate rose near 10% for the first time since November 2024, pushed higher in December by sizable increases in accommodations for loans in the mixed-use and multifamily sectors.
- Roughly $2.9 in loans entered special servicing in December. Loans of mixed-use properties saw the most significant monthly increase, climbing 182 basis points to 11.72%. It's the first time the sector had more than 11% of its loans in special servicing since 2013.
- Multifamily also saw a large monthly increase, rising 136 basis points to 8.72%. Office increased 15 basis points to 14.73% and could breach the 15% mark within a few months, a level the sector hasn't seen since the year 2000.
- Industrial experienced an uncharacteristically large bump in special servicing by 18 basis points to 0.56%, but the overall rate remains extremely low.
- The Retail special servicing rate fell 12 basis points to 11.67%, while the rate for lodging rose 14 basis points to 8.29%.

SUMMARY OF SOURCES

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