



Economic Weekly

Don't Stop Believin'

January 16, 2024

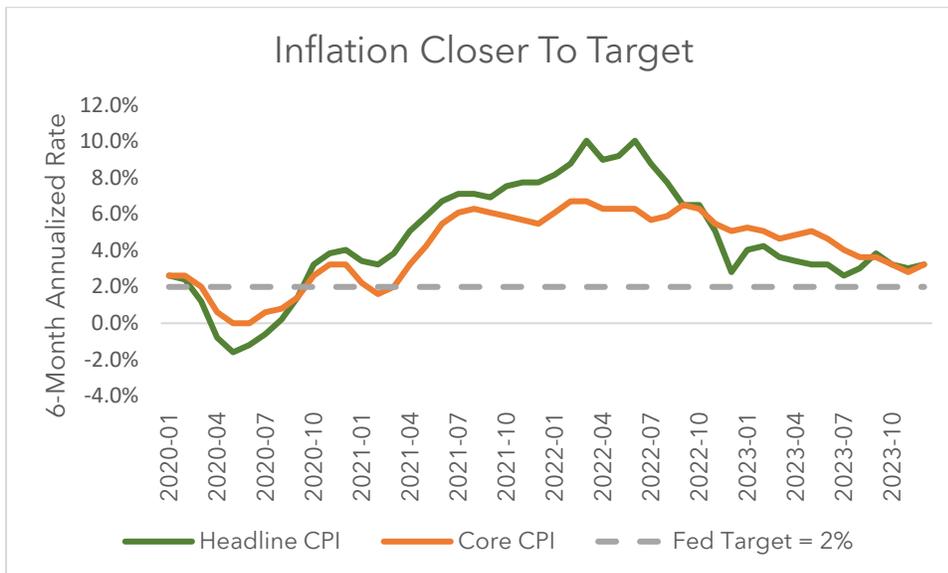
Highlights

- Economy carrying momentum.
- Inflation still slowing.
- Government deal looks viable.
- Housing still recovering.
- CRE market healing.

Have we reached the point when we have to stop saying, "Happy New Year?" If so, the economy didn't get the message. The inflation data for December (released thus far) still shows it slowing down despite the ongoing economic expansion. Market jitters from the first week of the year have largely reversed, with the S&P 500 approaching its record high while the 10-Year Treasury yield remains below 4%. Even Congress has jumped on board with a plan likely to keep the government open and avoid a January shut down. Though only two weeks into the new year, the recently released data and events reaffirm our belief in a resilient economy that should carry momentum from last year.

It Goes On And On And On And On

The slowdown in inflation that is. December's consumer price index (CPI) and producer price index (PPI) data showed continued deceleration, albeit somewhat inconsistently. The CPI data came in slightly above expectations. That pushed the yearly rate for headline CPI up slightly versus November, but the yearly core CPI reading edged downward. Meanwhile, the PPI data surprised to the downside, with prices falling during December. Recent disruptions in the Red Sea post some short-term risk, as shipping costs and times increase. But record-setting US oil and natural gas production should help present some offsetting downside risk. But as we have previously mentioned, shorter-term inflation measures are already moving near target, especially the core indexes which still drive Fed policy. And once the slowdown in housing inflation fully filters through, even the yearly measures should show inflation much closer to target.



Sources: BLS. BGO Research

Just One More Time

Well, at least one more time. While the recent increases in federal government debt have drawn attention to potential longer-term complications, in the short term the debt ceiling remains the most pressing and problematic issue. Congress looks as if it will once reach a budget deal and keep the government open, at least for a short period, under terms that abide by previous agreements about the debt ceiling. But the budget and the debt ceiling remain contentious issues and we could hear about them frequently during an election year, as nominal debt continues hitting record-high levels while budget deficits remain relatively large.

What To Watch This Week

The economic calendar gets busier this week. Retail sales for December should post another strong showing, especially the control group which feeds right into GDP calculations. Consumer sentiment for early January should change little versus December's somewhat upbeat reading. Import prices for December should post another strong decline, with energy prices still coming under pressure. And housing data will feature prominently. Existing home sales for December should change little, but the decline in mortgage rates should boost homebuilder sentiment for January and eventually boost home sales. Housing starts for December look set to decline after a strong reading in November while permits should change little.

CRE Implications

For commercial real estate (CRE) decelerating inflation can become the elixir that heals all wounds. Most obviously, it will allow the Fed to begin cutting rates which should support debt originations, transaction volumes, and returns. But it also returns real spending power to businesses and consumers, which boosts the economy and ultimately space market fundamentals. The next 6-12 months still contain some bumps in the road, with inflation likely to prove inconsistent on the way down and supply pipelines for favored property types still in the process of easing. The skies look brighter ahead, we just have to hold onto that feeling...for a while longer.

Thought Of The Week

Though heavily dependent on the weather, the US could spend roughly \$5 billion on snow removal in an average winter.

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Ryan Severino, CFA
Managing Director, Chief Economist & Head of US Research
BGO
ryan.severino@bgo.com