TRANSWESTERN'S TAKE ON THE ECONOMY

# the BRIEFING

NOVEMBER 2018

## THE GIFT OF GRIDLOCK

Congressional gridlock following the November elections reduced the likelihood of political or economic policy changes for the next two years. This leaves the door open for continued, albeit slowing, GDP growth of about 2.0% in the coming year. Federal budget cuts also became unlikely, so the deficit (around $985 billion for fiscal 2019) will remain high.

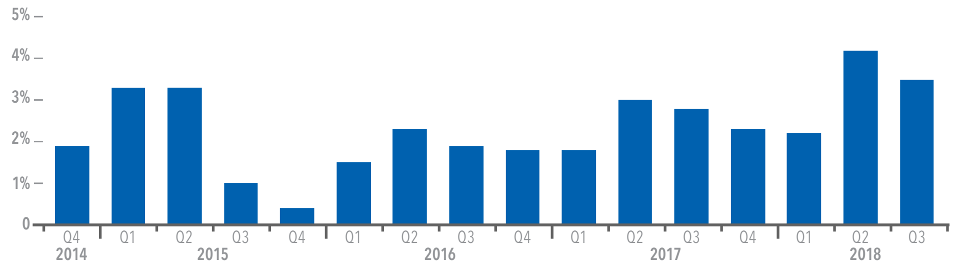
We expect deficit funding and the Fed's restrictive monetary policy will combine to increase bond auctions and pressure up long-term government bond rates, reducing the near-term prospect of a yield-curve inversion. We also expect the Fed to raise short-term rates in December and at least twice in 2019, then hold the fed rate within its "neutral zone" of 2.75-3.00%. Interest rates at this level are unlikely to choke off the economy. However, we have already seen signs of a slowdown in single-family home sales, which is perhaps the most interest rate-sensitive sector.

Household net worth increased to a record $107T in the second quarter. Real wage growth of 3.1% has combined with continued employment gains to fuel retail and food sales, which rose 6.1% year-over-year in the third quarter. Business profits have also surged with the dual stimulus of lower taxes and healthy consumption. Strong consumer and business confidence and a record 97-month streak of job growth is contributing to healthy commercial real estate conditions across nearly every property type. Combined with attractive relative returns, fundamentals are fueling strong demand for both debt and equity from institutions and from foreign and individual investors.

October's 3.7% jobless rate signaled full employment by historical standards. We expect recent retirees and others not counted as unemployed to re-enter the workforce, raising the household participation rate to sustain employment gains through 2019. With dim prospects for increased immigration, however, look for a labor shortage to begin challenging economic growth by early 2020.

### REAL GDP

PERCENT CHANGE FROM PRECEDING QUARTER



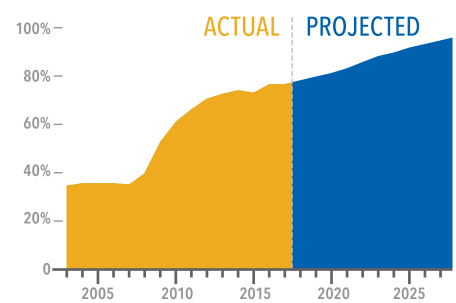

Source: U.S. Bureau of Economic Analysis. Annualized and seasonally adjusted

## SIGNS AND SIGNALS

- The average annual premium for employer-sponsored family healthcare has tripled since 2008 to almost $20,000, a Kaiser Family Foundation survey found.
- A 2.2% increase in total hours worked, when added to 3.1% wage growth over the past year, equates to a 5.0% increase in total cash earnings.
- The Consumer Price Index rose 0.3% in October, the largest gain in nine months and evidence of steadily rising inflation.
- Harvard University's endowment fund – the world's largest college fund – posted a 10% increase to a record $39.2B in the year ended June 30, up from the previous year's 8.1% return and 2% loss in 2016. Princeton University led returns at 14.2%.
- Although average target CRE allocations in institutional portfolios have increased to 10.4% in 2018, the typical investor is underinvested in the sector by about 90 basis points below that average target, according to the 2018 Institutional Real Estate Allocations Monitor.
- *Institutional Real Estate FundTracker* shows $97.7B in institutional fundraising year-to-date through the third quarter.
- The U.S. industrial market remains red-hot with record-high port volumes, positive absorption and a vacancy rate that remained below 5.0% in the third quarter despite the addition of new inventory.

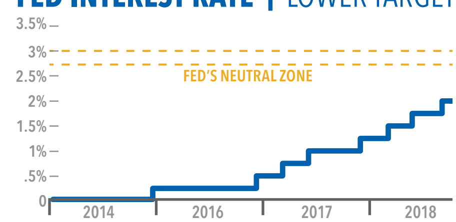
### FEDERAL DEBT

PERCENTAGE OF GDP




Source: cbo.gov

### FED INTEREST RATE | LOWER TARGET



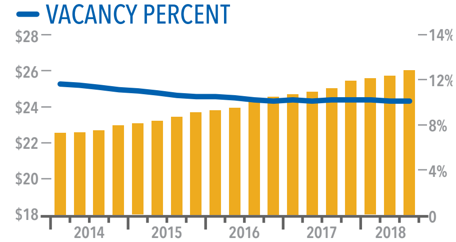

Source: fred.stlouisfed.org

### VACANCY VS ASKING RENT

U.S. OFFICE MARKET

AVERAGE ASKING GROSS RENT (PSF)

VACANCY PERCENT




Source: Transwestern, CoStar