

Still expecting the unexpected

Weekly economic insights with JLL's Chief Economist Ryan Severino

Despite thoroughly grappling with the unexpected over the last year, the maxim “expect the unexpected” still resounds, possibly more loudly than ever. Recent occurrences simply reinforce that perspective. Last week (and the last few weeks) brought some genuinely surprising things because they fell outside the realm of reasonable expectations as well as some things that feel surprising because few people paid attention to them.

Genuinely unexpected

In the first camp, several occurrences really stand out. First, the widespread inclement weather and its impact on locations that typically experience milder winter, key among them Texas, served as a disruption last week. While undoubtedly troubling, we see its impact as more transient than permanent, like what we observed with unusual winter weather patterns at times during the last decade. Though the weather stymied vaccination (critical to both the pandemic and the economy) over the last week, that should largely self-correct as appointments get rescheduled. Any disruption to broader economic activity should prove ephemeral as locations dig out and warmer weather returns – we have observed this pattern in some previous winters.

Meanwhile, COVID-19 case levels declined precipitously in recent weeks. While most epidemiologists expected a decline, the pace of decline has exceeded many expectations. The modification of behaviors in the wake of the holiday-season surge has produced rapid results. In the U.S., the 7-day rolling average of new cases peaked on January 8. On February 21 that metric reached its lowest point since October 23.

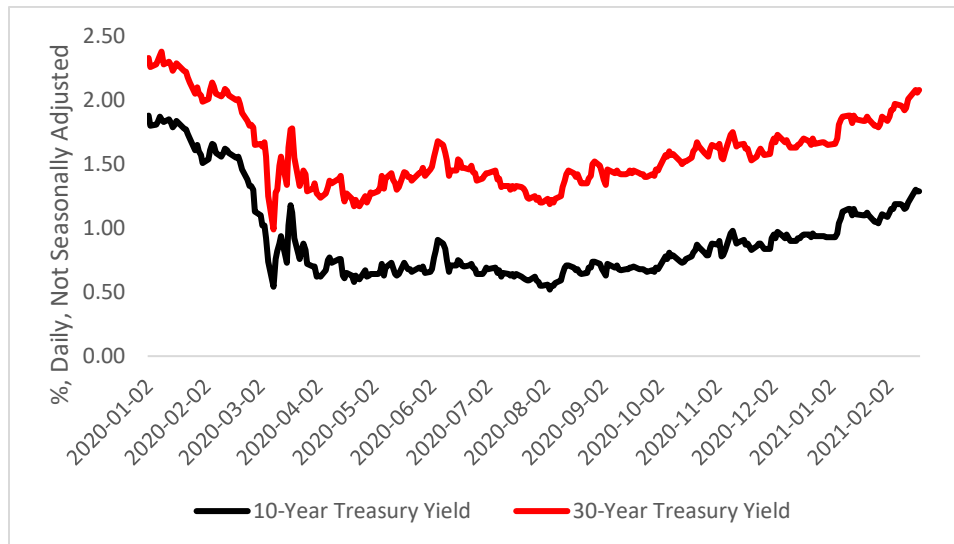
Next, momentum surged for the passage of a large fiscal package. Most objective prognosticators, including us, expected a smaller package, closer to \$1 trillion than \$2 trillion as a compromise between the major parties. But it appears as if Congress is moving forward with a large, \$1.9 trillion bill. Congress apparently felt a sense of urgency, eschewing compromise that could slow the process, aiming to get the legislation passed by the expiration of extended unemployment insurance benefits on March 14.

Lastly, retail sales for January showed the power of two factors we just discussed and that we have repeatedly emphasized as the surest and fastest way through and out of this economic crisis: fiscal stimulus to support the economy until the pandemic ends and controlling (and ultimately ending) the pandemic. **Retail sales for January greatly exceeded forecasts and grew by 5.3%, far beyond forecasts and breaking a three-month streak of declining retail sales.** Fiscal stimulus passed in late December (including support to lower-income households and extended unemployment benefits), coupled with an improving health situation (which enabled more consumer to feel safe when engaging in certain economic activities), provided a boost to consumers. This highlights the immense economic benefit from bringing the pandemic under control. Though just one month's data, sales for January validates our thesis: support those in need until widespread immunity occurs.

Quietly going unnoticed

We would also highlight one thing that has somewhat quietly gone unnoticed – the rise in longer-term interest rates. Although they have generally been rising since early August, they

have quietly gone unnoticed by many and their increase has accelerated in recent weeks. Long-dated Treasury yields have effectively returned to where they were a year ago, give or take a few basis points. This occurred because of the positive changes that have occurred – initiation and acceleration of vaccination, reduction in COVID-19 case levels, positive benefit from fiscal stimulus, and hard data outperformance including a recovery in inflation. More succinctly, we would argue that the improving outlook, including its impact on inflation expectations, is pushing rates higher. Increasingly, the world is tacking toward our more hopeful view, which we discussed in our U.S. quarterly economic outlook last week. While we are not discounting downside risks, such as the impacts of variants of the virus, recent events reinforce our position.



What else happened last week

In another positive sign, both the headline and core producer price indexes (PPI) for January also greatly exceeded expectations. Although some of this stems from supply disruption, some stems from the rebound in demand, a hopeful sign. Existing home sales for January increased slightly, slightly exceeding the pace seen during the latter stages of 2020. And one cautionary sign that serves as evidence in favor of continued fiscal support: initial weekly jobless claims ticked up and remain at highly elevated levels, reflecting continued problems in certain corners of the labor market, namely discretionary services like food and beverage places and hospitality.

What we are watching this week

Consumer confidence and sentiment for February should hold steady with positive developments offset by labor-market challenges. New home sales for January should also change little, with slight upside risk due to a rise in mortgage applications. Fourth quarter GDP should improve slightly with the second estimate. Finally, personal income and personal spending for January should both leap, buoyed by fiscal stimulus and the improved pandemic situation.

What it means for CRE

For commercial real estate (CRE), we continue to emphasize that the sector lags the macroeconomy. But the more this rebound in the economy resembles a more typical, relatively

rapid recovery than a rarer but more tentative, prolonged rebound, the better CRE will fare. Last year we emphasized that despite the severe depth of this downturn, the turnaround and resumption of growth occurred quickly, more akin to a typical post-war recession than a prolonged, crisis-caliber recession. Recent events have only further supported that thesis. Therefore, we consequently see a more typical CRE recovery and not an atypical, prolonged CRE-market recovery. We remind CRE market participants to at least think about making key decisions if they remain hesitant about making them yet. Those in the vanguard will certainly capitalize on the best opportunities, but even those who are not should prepare themselves to make those decisions within a relatively quick timeframe.

Thought of the week

During the second quarter of 2020 ecommerce retail sales, as a percentage of total retail sales, reached a record high of 16.1% before declining to 14% during the fourth quarter.