CoStar™ ECONOMY

February 1, 2021
INSIGHTS ON DATA POINTS AND ECONOMIC POLICY

Why the Return to Normal May Take Some Time

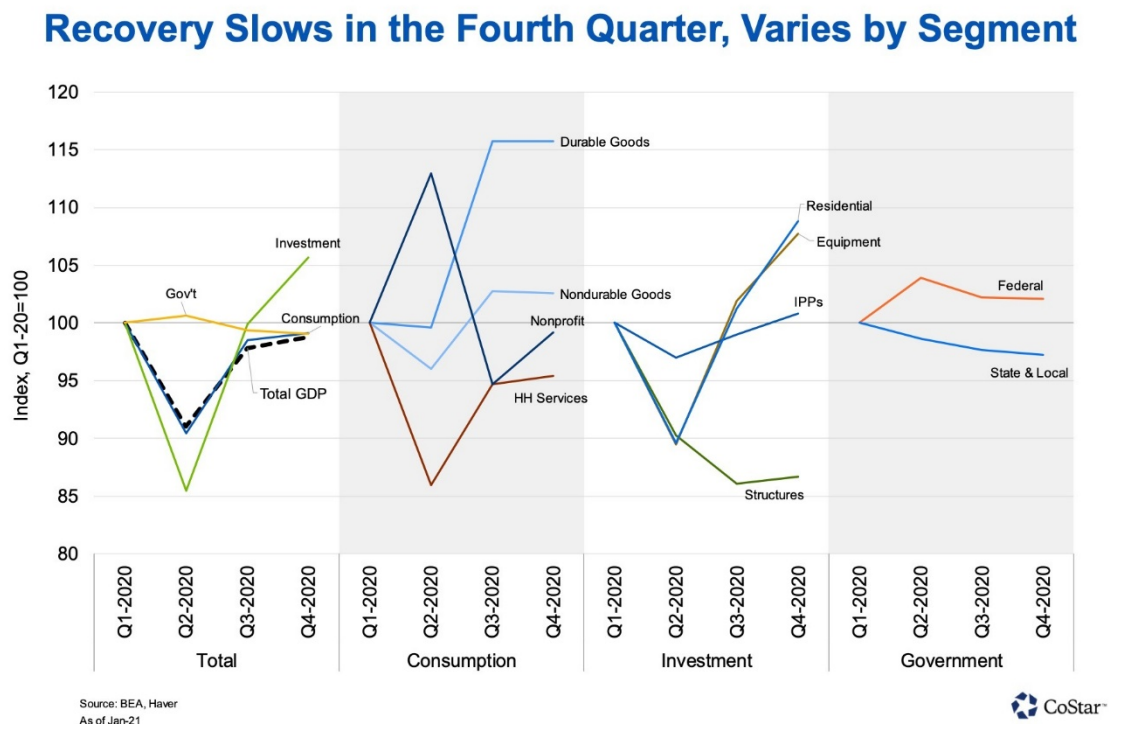
"If you're offered a seat on a rocket ship, don't ask what seat! Just get on."
-Sheryl Sandberg, Facebook chief operating officer

You wouldn't know it from media commentary and market swings, but last week included plenty of economic data releases.

Granted, the release of fourth-quarter gross domestic product figures surely isn't as interesting as Redditors taking on hedge funds via a struggling video game and consumer electronics

retailer. For the most part, we will continue to stay in our economic and real estate data lane, but for readers who stick around to the end, there might just be a GameStop chart in it for you.

For now, let's refresh some graphs we featured after the last year's third-quarter GDP release, showing where the recovery is and isn't concentrated. The recovery slowed to close the year, as seen in the flattening out of the dotted total GDP line below. But the divergences under the surface grew.



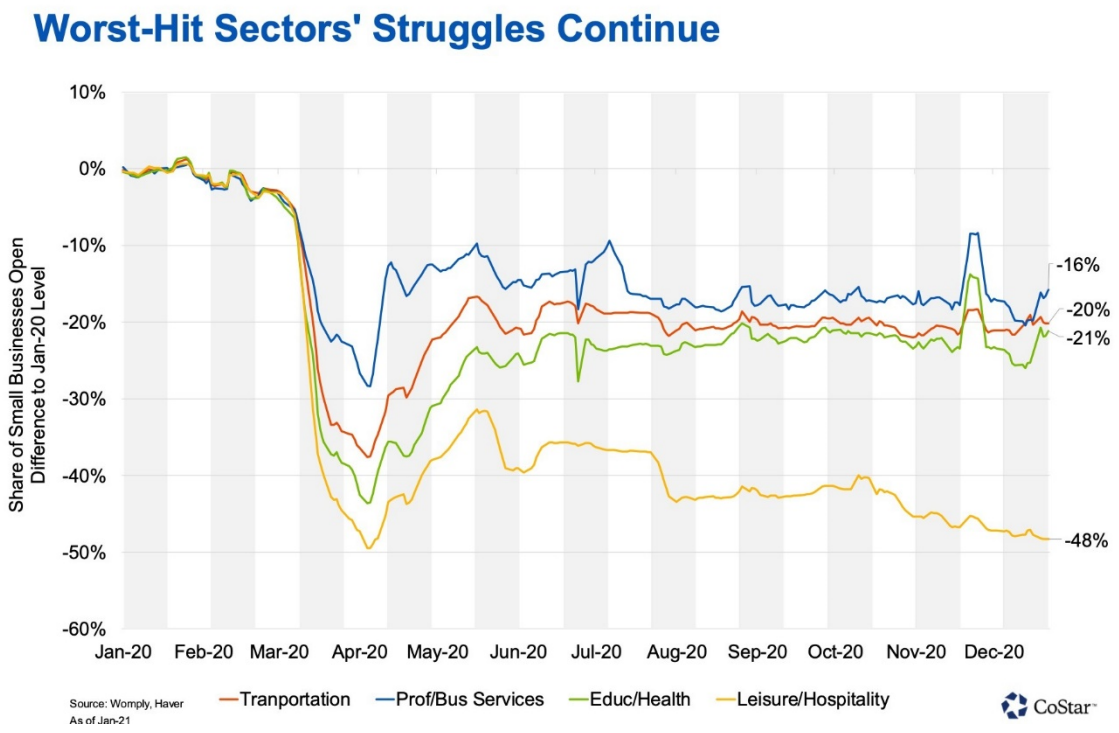
Investments in residential properties grew yet again, as the housing market remained on fire amid low rates and largely recovered incomes from higher-income households. Relatedly, purchases of durable goods and nonresidential equipment continued to show major growth above pre-pandemic levels. These two series were mostly boosted by auto and computer purchases, again durable purchases for those likely able to work from home through the pandemic.

Going the wrong direction, meanwhile, are household service purchases as well as nonresidential structure investment. The former flattened out as social distancing efforts redoubled with a surge in COVID-19 cases to close the year. The latter — essentially new

commercial construction — is likely familiar to anyone reading this. New starts of commercial property continue to decline, apart from the industrial sector.

The GDP segments outperforming, notably the surge in new home, auto and computer purchases, are unlikely to be sustained at these levels in coming years. In fact, new home sales have already declined 14% from July's peak, according to December data released last week, and monthly personal consumption has declined nearly 1% from October to December alone. But the two segments consistently underperforming, consumer services and commercial construction, are more interesting case studies.

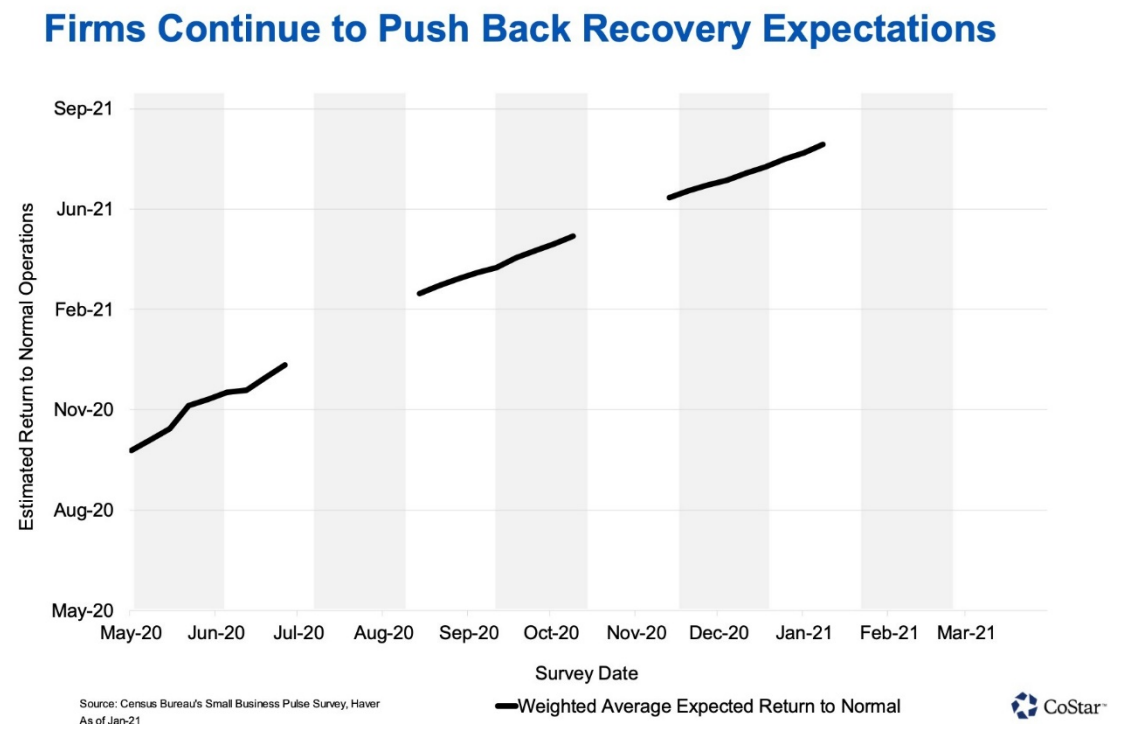
Let's dig into other series which may shed some light on the state of consumer services spending. The small business-focused software company Womply has been tracking the share of businesses open on a daily basis since the recession began. Its recent data shows a disturbing trend: Only about half of leisure and hospitality businesses are currently open, just about the same share as the worst point in April.



Additionally, there has been little change since the initial recovery in May for other sectors, remaining down 16% to 21% in less directly impacted industries shown above.

This trend shows the disconnect between vaccination news and business opening. Even with the stock market surging to all-time highs in recent months, the on-the-ground fundamentals are the same: The virus is preventing thousands of companies from operating.

Even with the news of multiple vaccines being on the way to approval for use, firms have continued pushing out their estimate of when their business will return to normal. Using the biweekly "Small Business Pulse Survey," a special Census Bureau survey launched after the pandemic hit, the chart below shows when the average company expects its operations to return to normal. Most notable is how it has changed over time, with the timeline for “back to normal” being pushed out every time a new survey was released.

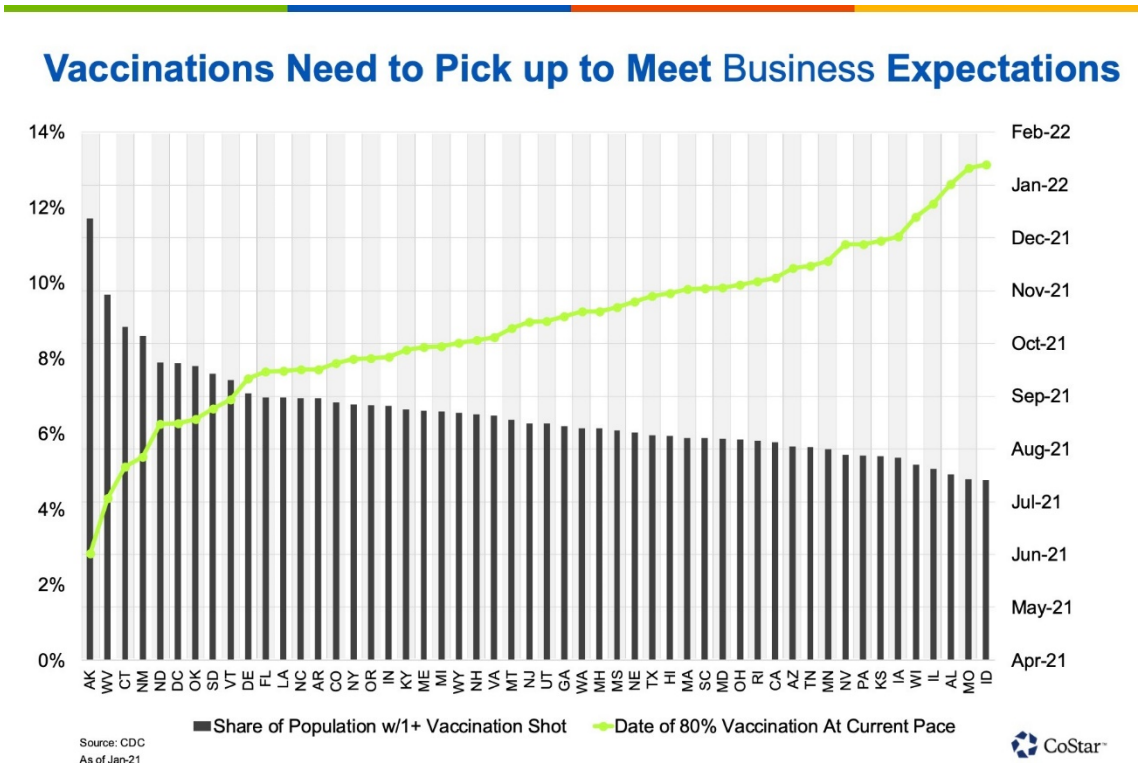


At the early stages of the pandemic in May 2020, the average firm expected operations would normalize by the end of the year. With the benefit of hindsight, we know now that this was

wishful thinking. Today, approaching the year ahead, firms are now expecting that date to be more likely the end of 2021, but with each survey, the date is pushed back.

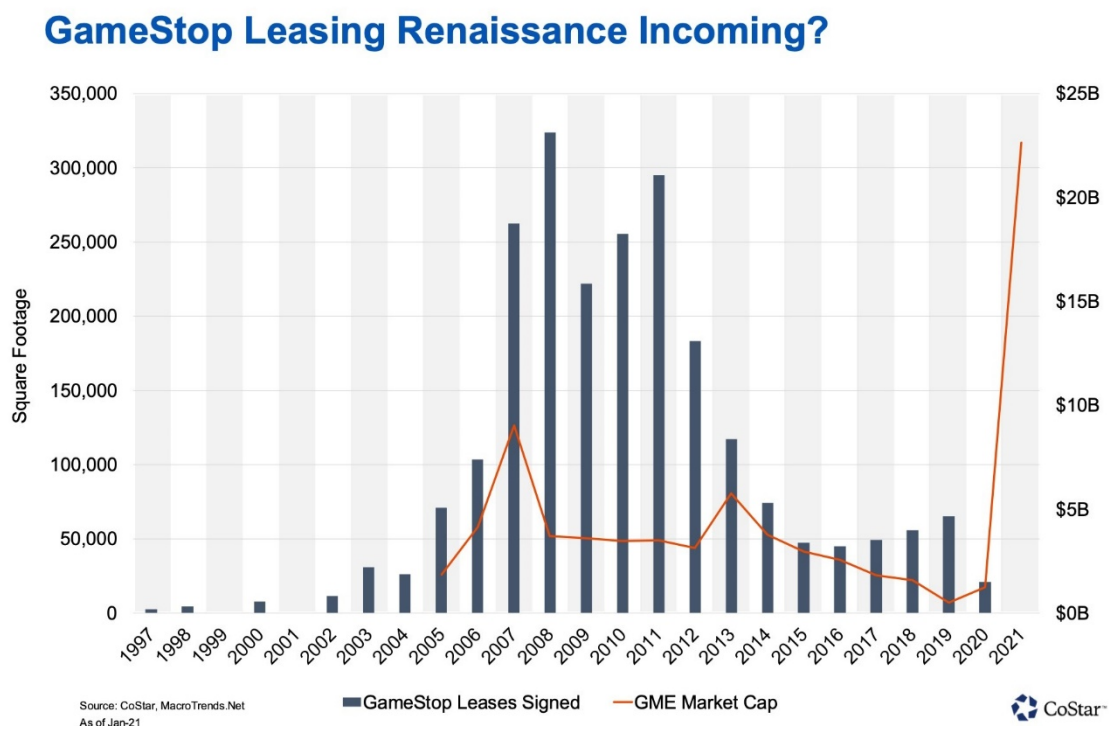
As we've constantly reiterated, the virus is the economy. (Are you sick of it yet?) That will continue to be true until we stop the spread. We remain optimistic about the back half of 2021, but that optimism is dependent on further progress in vaccinations.

With that said, progress there simply hasn't been good enough. Using data from the Centers for Disease Control and Prevention, projecting forward based on vaccination rates over the last month, only a small share of states would be fully vaccinated by September. As the chart below shows, there will be fewer than 10 states at 80% vaccinated by that date.



We're hoping the pace picks up — and assume it will, based on its prevalence in President Biden's 100-day agenda and the likely authorization of Johnson & Johnson, AstraZeneca and Novavax vaccines. However, a lot of work remains to be done on this front if we are to see the kind of booming economic recovery that many expect in late 2021.

On a lighter note, for those retail brokers and analysts, if GameStop's market capitalization is any leading indicator for the firm's leasing activity, you should prepare for millions of square feet of new leases over the coming years! Also, please forgive us if that market cap figure isn't precise by the time this column is published, it appears to be a fast-moving target.



The Week Ahead …

The week ahead will likely be highlighted by economy-watchers' favorite report: the monthly employment situation summary. January data will be released by the Bureau for Labor Statistics on Friday, expected to show a modest gain in employment after a negative print in December.

Business sentiment measures, via the Institute of Supply Management, are to be released next week as well. The manufacturing index, released Monday, and services index, to be released Wednesday, have both been showing upward momentum through the end of the year in spite of the surge in new cases. Data this week could show that trend turning in light of bottled-up winter activity.

Fiscal stimulus news is likely to continue to play in the background for the foreseeable future. Biden appears to be looking at a variety of options for bill passage, with uncertainty still high on what the final deal will look like, though we will continue to closely monitor progress.

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