

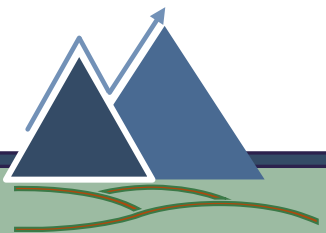
# Cutting Through the Economic Clutter

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2022 MID-YEAR OUTLOOK

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# Key Macro Themes

## U.S. Outlook

The near-term outlook has improved, as lower energy prices have bolstered real incomes and fueled a rebound in consumer spending. We look for real GDP to rise at a 2.4% pace in the third quarter and expect real GDP to be revised higher for the first half of this year, nullifying the “technical” recession. We still see a better-than-even chance of real GDP declining during the first half of 2023.

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## Inflation Has Accelerated

Inflation has likely peaked for the cycle but will remain uncomfortably higher for some time. Most of the recent improvement has come from lower energy prices. Commodity prices have fallen in general, however, which takes the worst case scenarios off the table. There is still plenty of stimulus on the sidelines, however, and geopolitical issues and the weather will likely continue to foster supply-chain concerns.

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## Affordability Migration

The affordability migration to the Mountain West and South has lost some momentum as economies reopen in California and New York. Affordability concerns and the drought have tempered growth in parts of the West. Most of the South is maintaining strong momentum, particularly Nashville, Miami, Atlanta, Dallas and Raleigh. Corporate headquarters are following workers to the Sunbelt.

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## Monetary and Fiscal Policies Tighten

While it is still too soon to call for a Fed pivot, we expect rate hikes to be less aggressive this fall and winter. The terminal federal funds rate is probably around 4%. The CHIPS Act, the Inflation Reduction Act and defense needs will boost federal outlays in the coming years, and have a modest positive impact on growth. There is no growth fairy, however. Inflation will also be slightly higher than it would be otherwise.

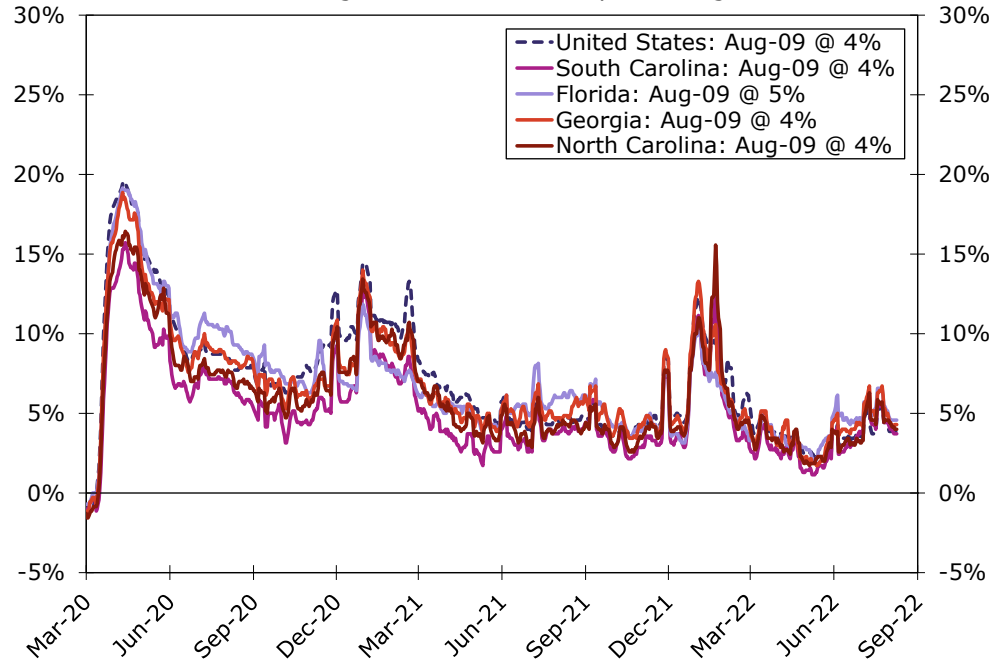
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# COVID Economic Impact

The resurgence in COVID case this summer led to an uptick in the amount of time workers spent at home. Visits to workplaces fell even more dramatically, as vacation travel surged this summer.

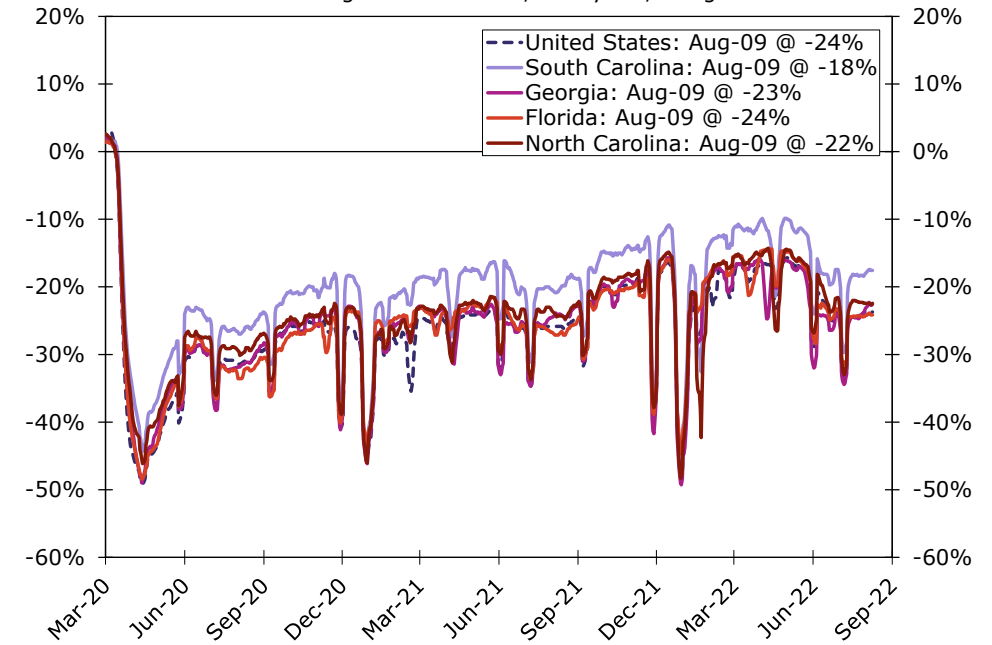
### Time Spent at Residential Locations

Percent Change from Baseline, 7-Day MA, Google Data



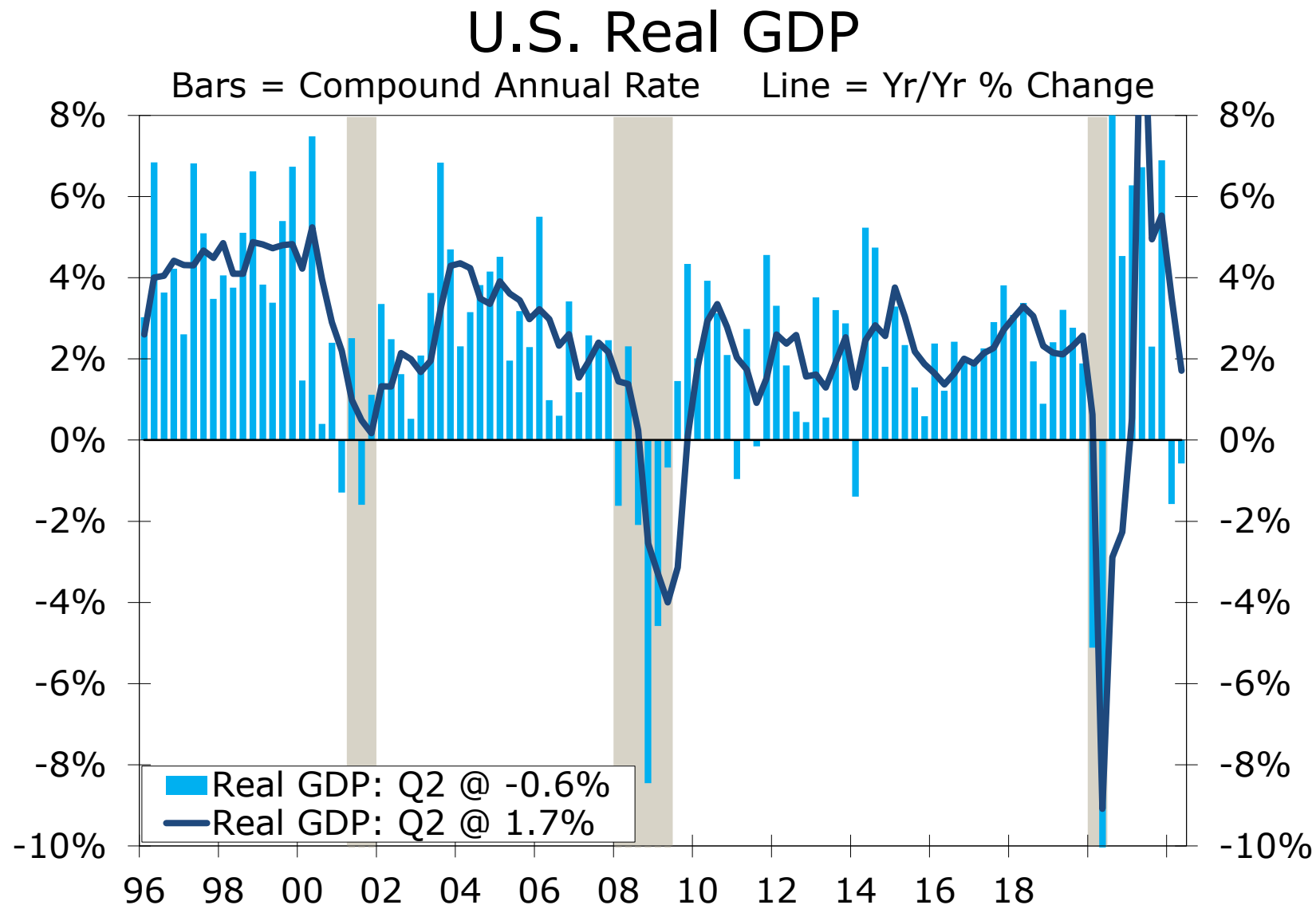
### Visits to Workplaces

Percent Change from Baseline, 7-Day MA, Google Data



Real GDP has declined during the past two quarters, which is widely thought to be the definition of a recession.

A recession is a pronounced, prolonged, widespread decline in economic activity. We do not yet see that and expect real GDP for Q1 and Q2 to revised back into positive territory on September 29.



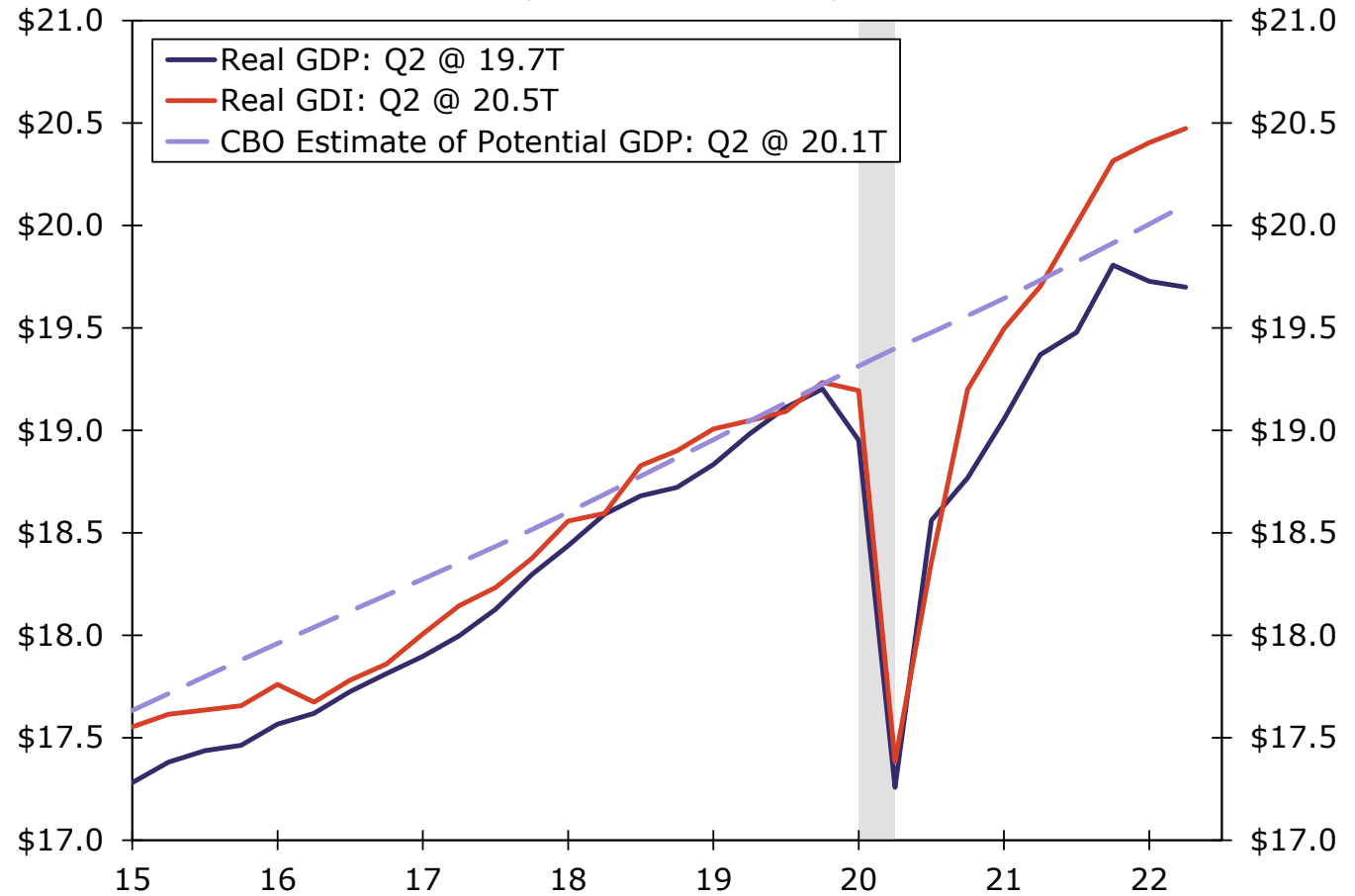
# U.S. GDP Growth

GDP declined in Q2 to mark two consecutive quarters of decline.

Broad activity measures are not yet consistent with a recessionary contraction.

## Real GDP vs. Real GDI

Trillions, Chained 2012 USD, SAAR

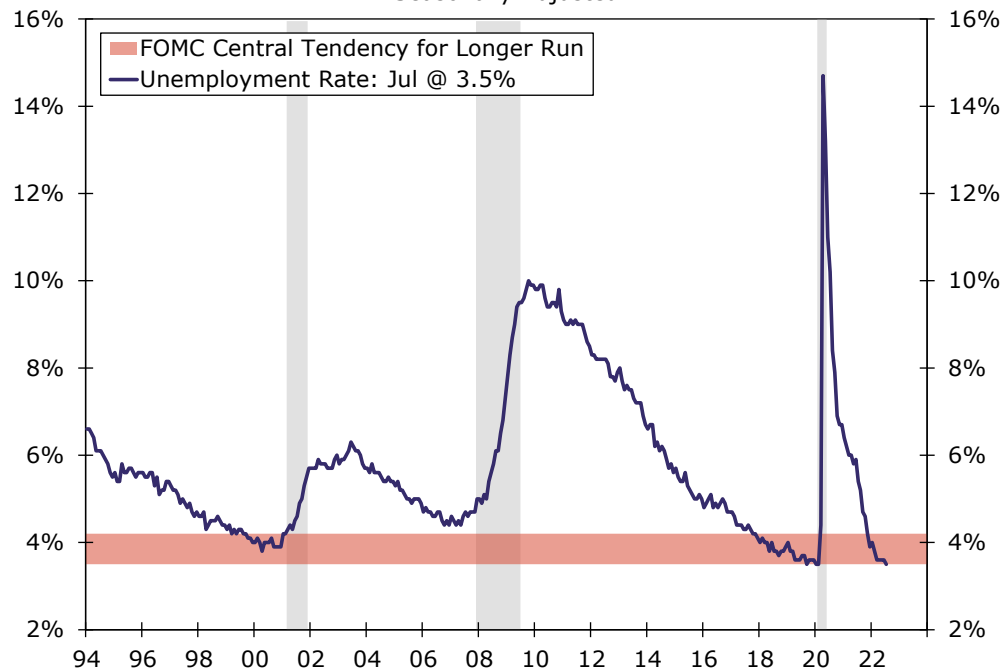


# Labor Market

The unemployment rate fell to its pre-pandemic level of 3.5% before rising to 3.8% in August. The jobless rate rose due to a surge in a labor force growth, which is a good thing. The labor force participation rate for prime working-age adults is back near its pre-pandemic peak, yet there are still nearly two job openings for every unemployed person.

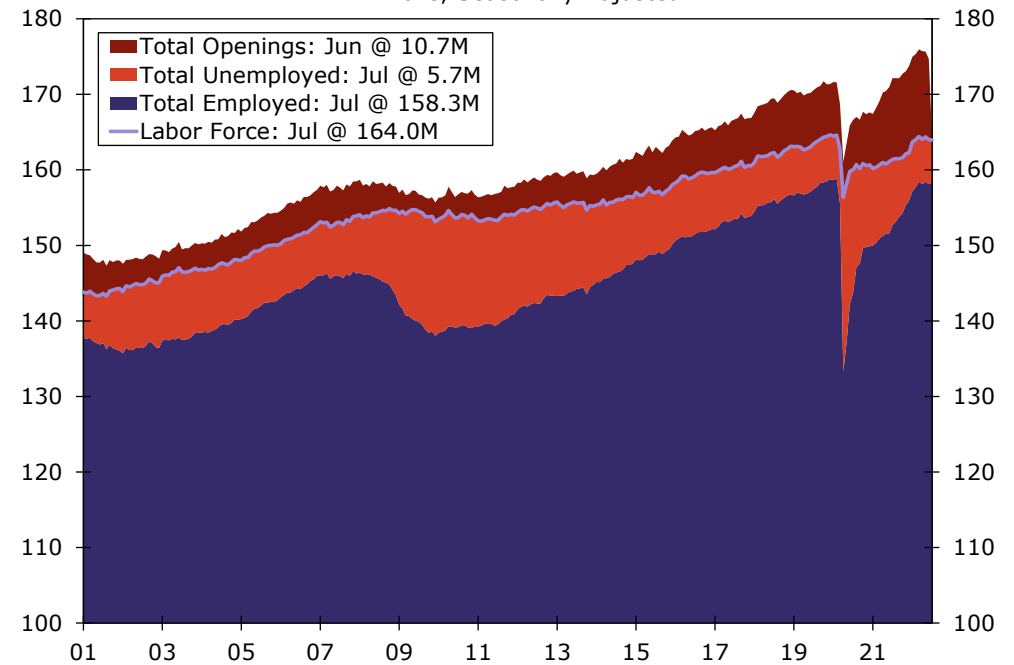
## U.S. Unemployment Rate

Seasonally Adjusted



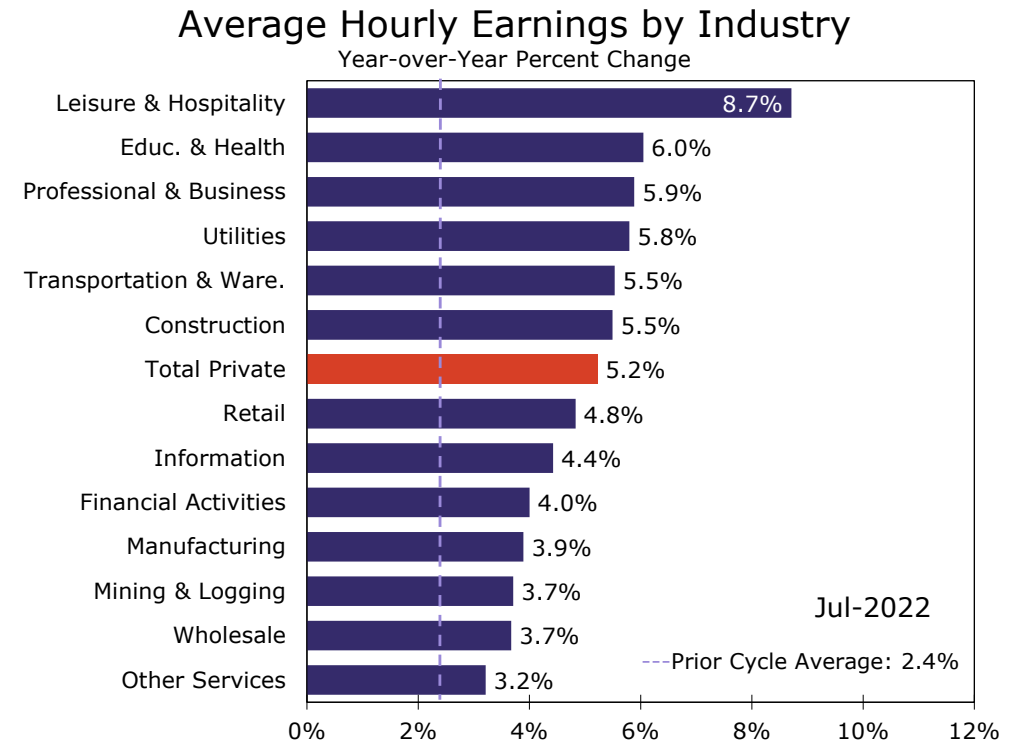
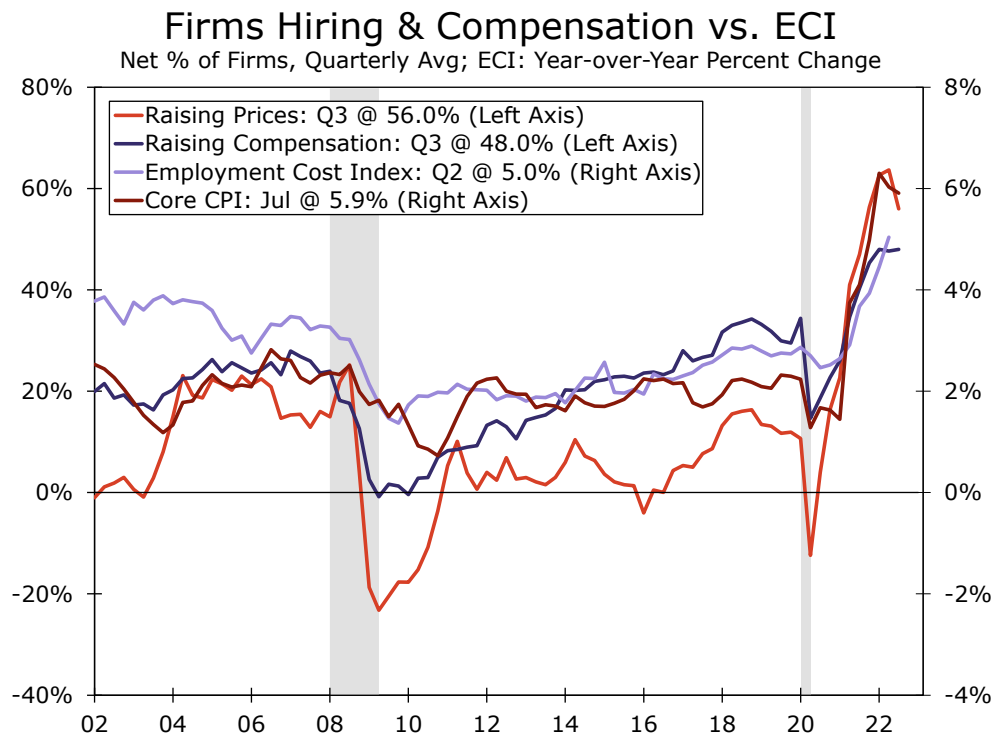
## U.S. Labor Force Dynamics

In Millions, Seasonally Adjusted



# Labor Costs

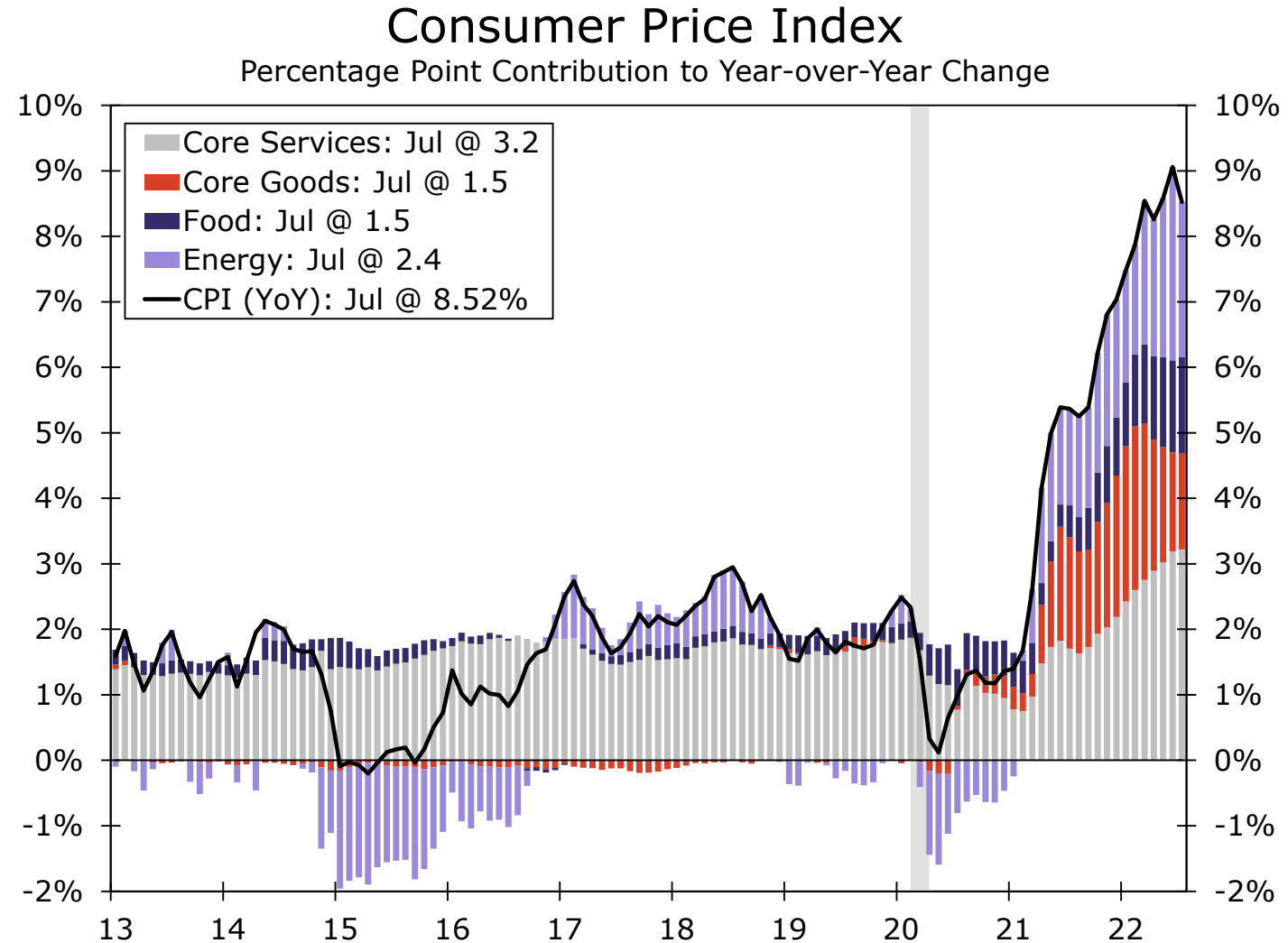
Wage growth has picked up, particularly in lower-paying industries that are struggling the most to get workers back to the job site. At the same time, firms are raising prices in tandem with rising wages, which raises the prospect of a self-reinforcing wage-price spiral.



# Consumer Price Inflation

Inflation came in slightly below expectations in July, on the back of falling prices for fuel and transportation.

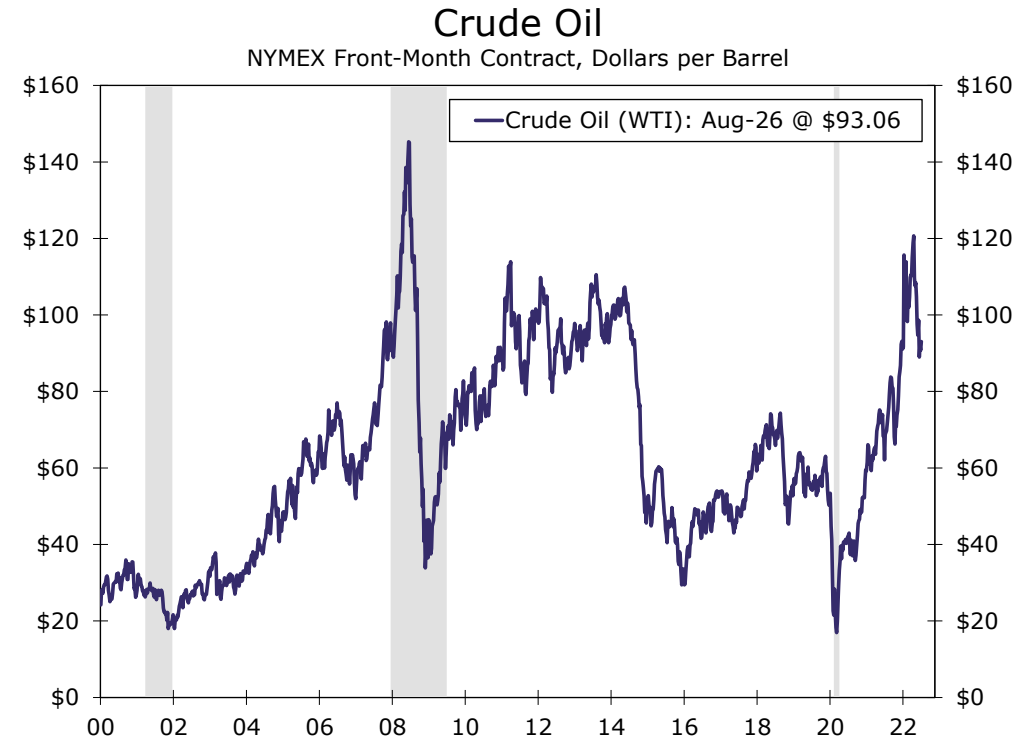
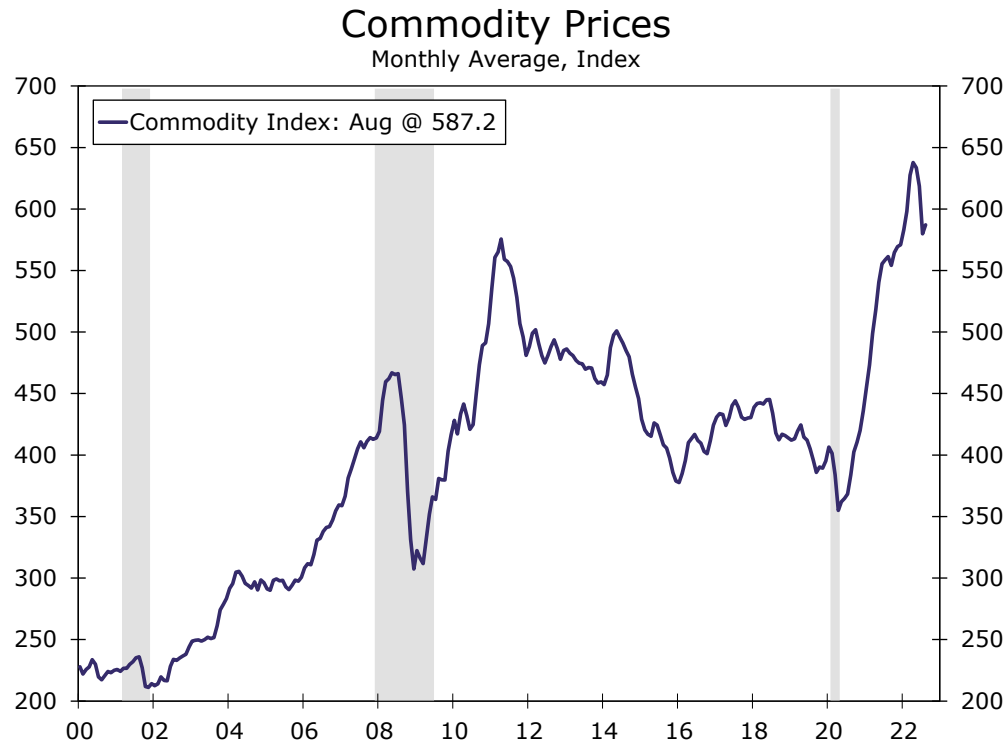
In our view, it will take several more soft inflation prints before the FOMC begins to feel confident that it is getting price pressures in check





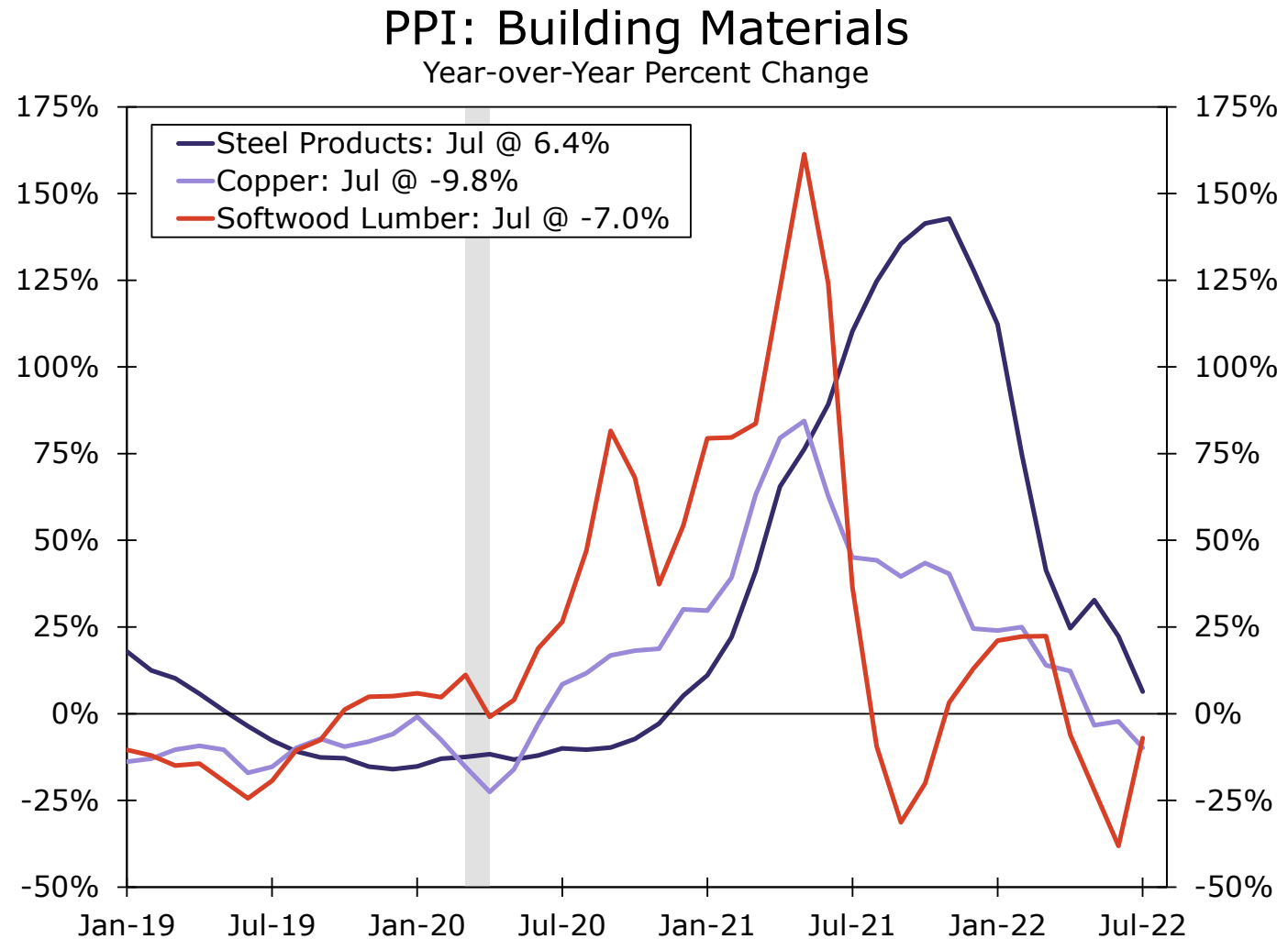
# Commodity Prices

Commodity prices rolled over earlier this summer, as the worst fears about the fallout from Russia's war with Ukraine failed to materialize. Grain prices have also eased, as much of the Midwest had adequate rain. The drought did wipe out much of the cotton crop. Cattle ranchers also culled their herds. Food prices will remain high. Oil prices have fallen on China's struggles and increased US output.



# Materials Inflation

Construction material prices have fallen or at least moderated over the past few months. Prices remain well above their pre-pandemic levels, however.

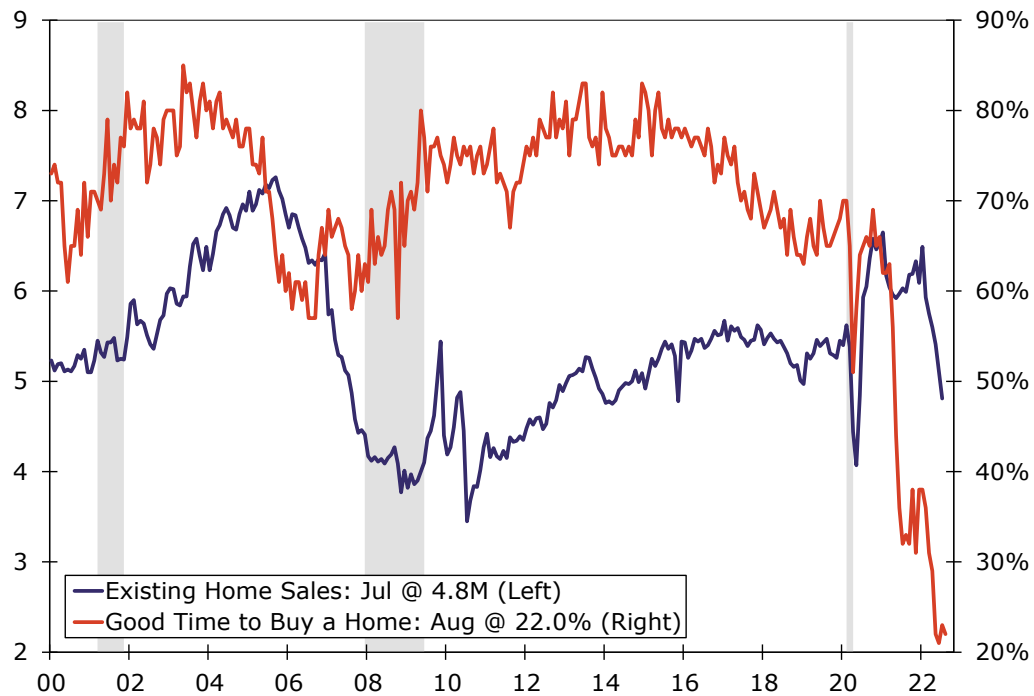


# Housing Market

Intense competition from investor buyers, tight inventories and fast-rising home prices have put homes out of reach for many prospective home buyers. The share of consumers that feel now is a good time to buy a home is probing all-time lows. We feel home prices have peaked, however, and look for declines in the second half of 2022.

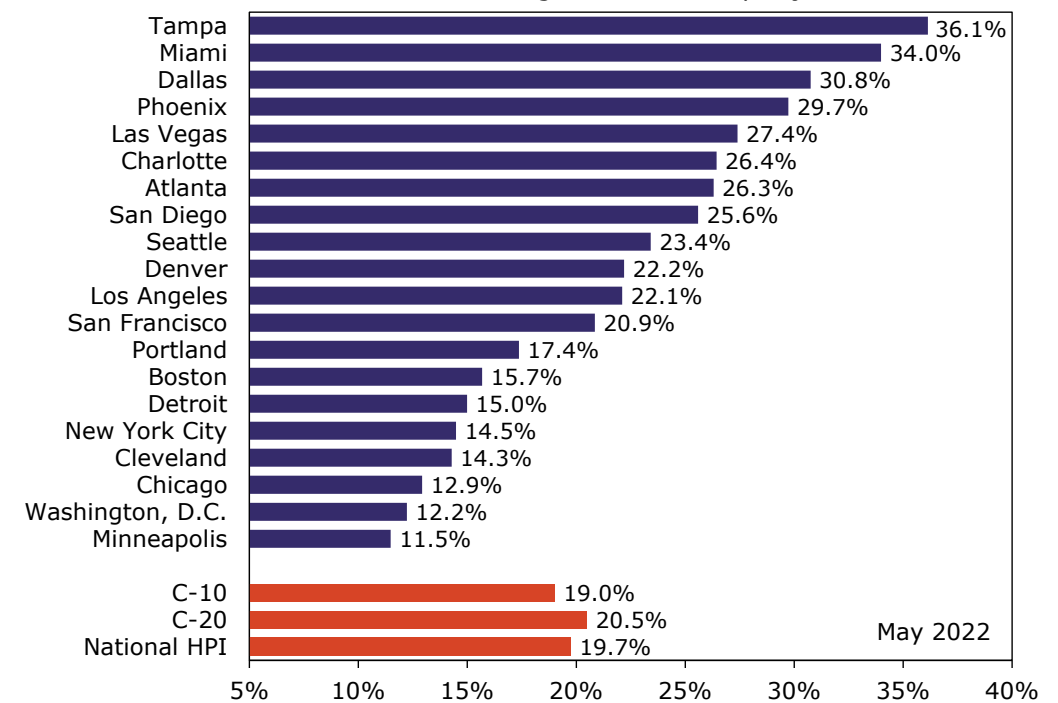
### Homebuying Sentiment vs. Existing Home Sales

Sales in Millions, SAAR



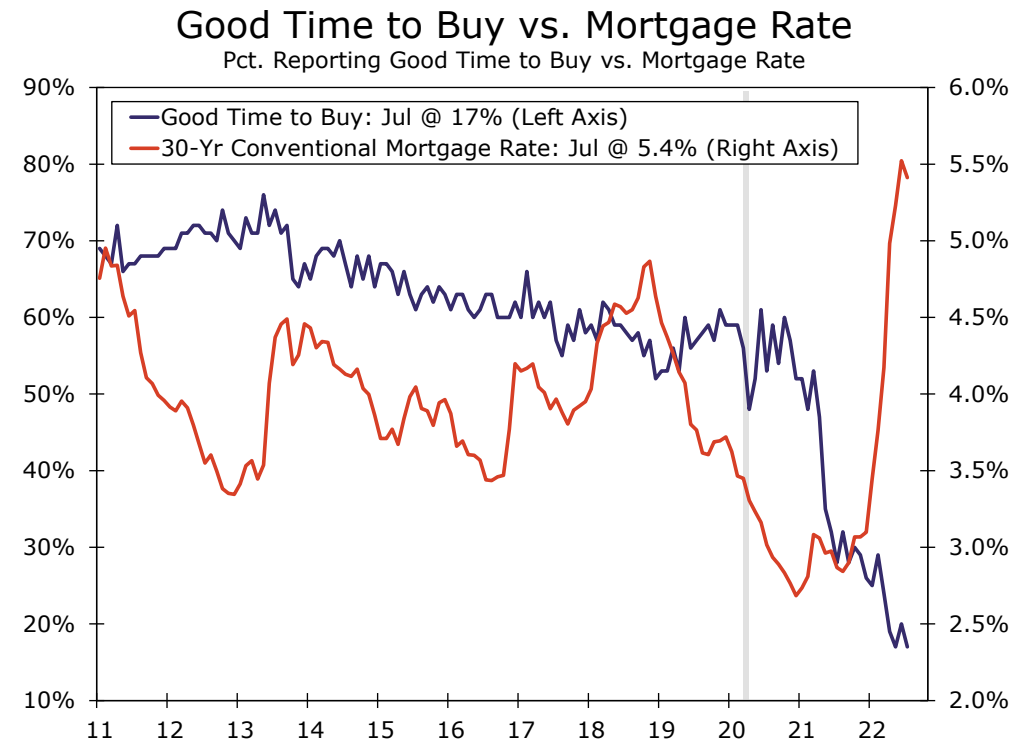
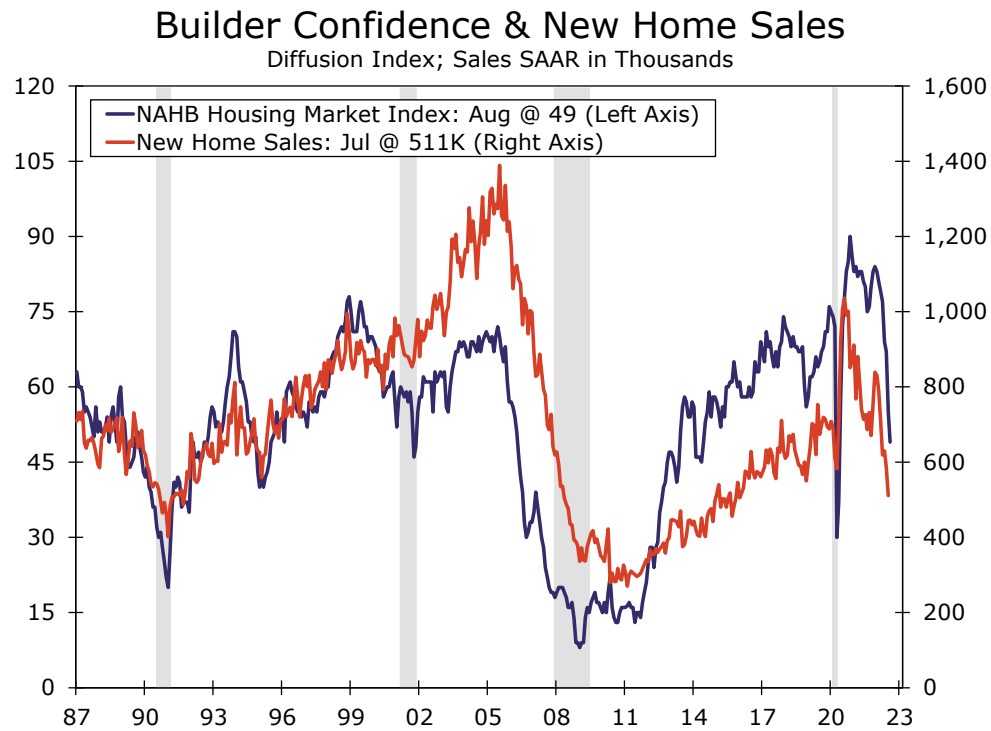
### S&P CoreLogic Case-Shiller Home Prices

Year-over-Year Percent Change, Not Seasonally Adjusted



# Housing Market

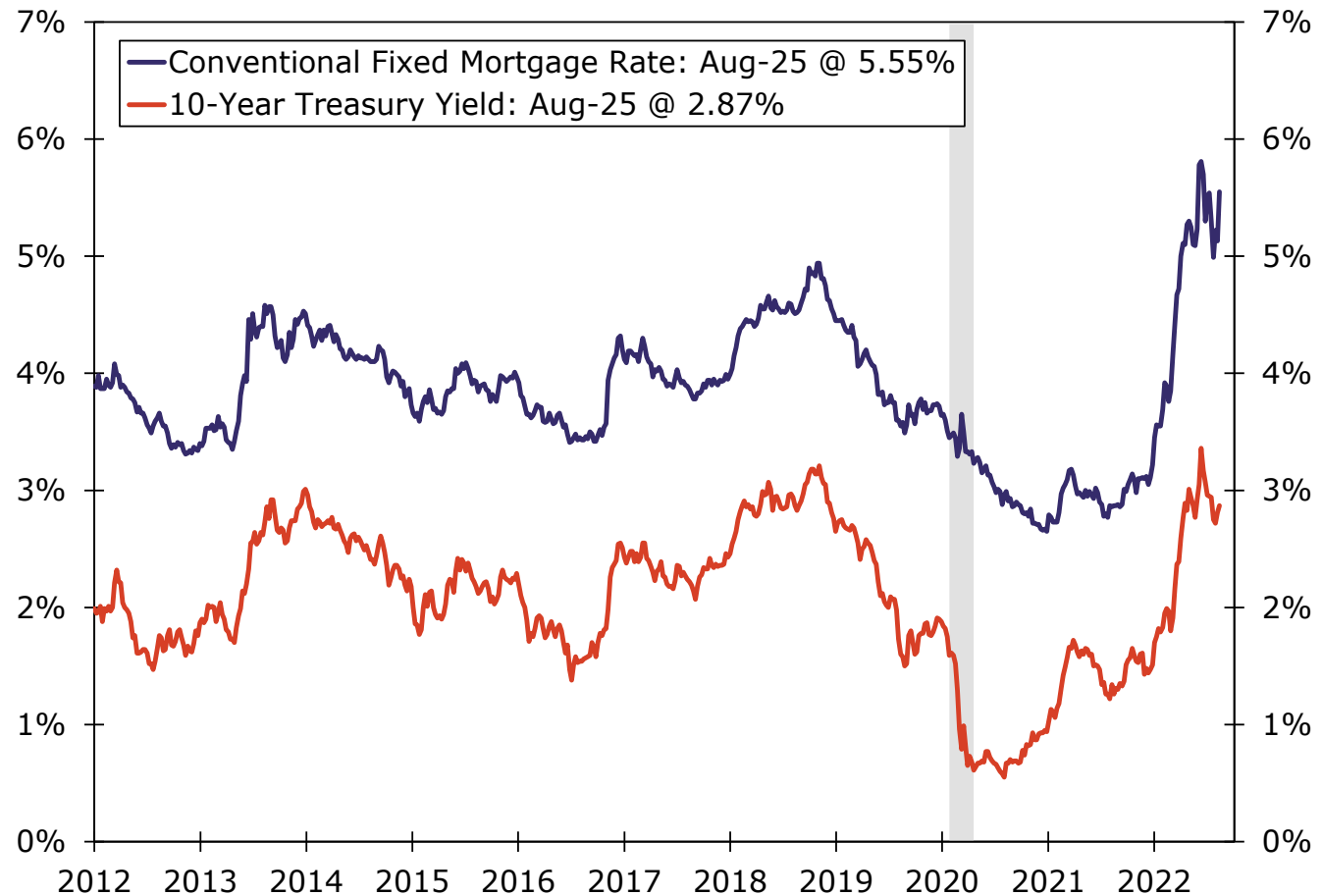
Rising mortgage rates and tight inventories have taken a toll on both potential homebuyers and builders. Builder sentiment in May dropped to its lowest level since the early days of the pandemic.



# Rising Mortgage Rates

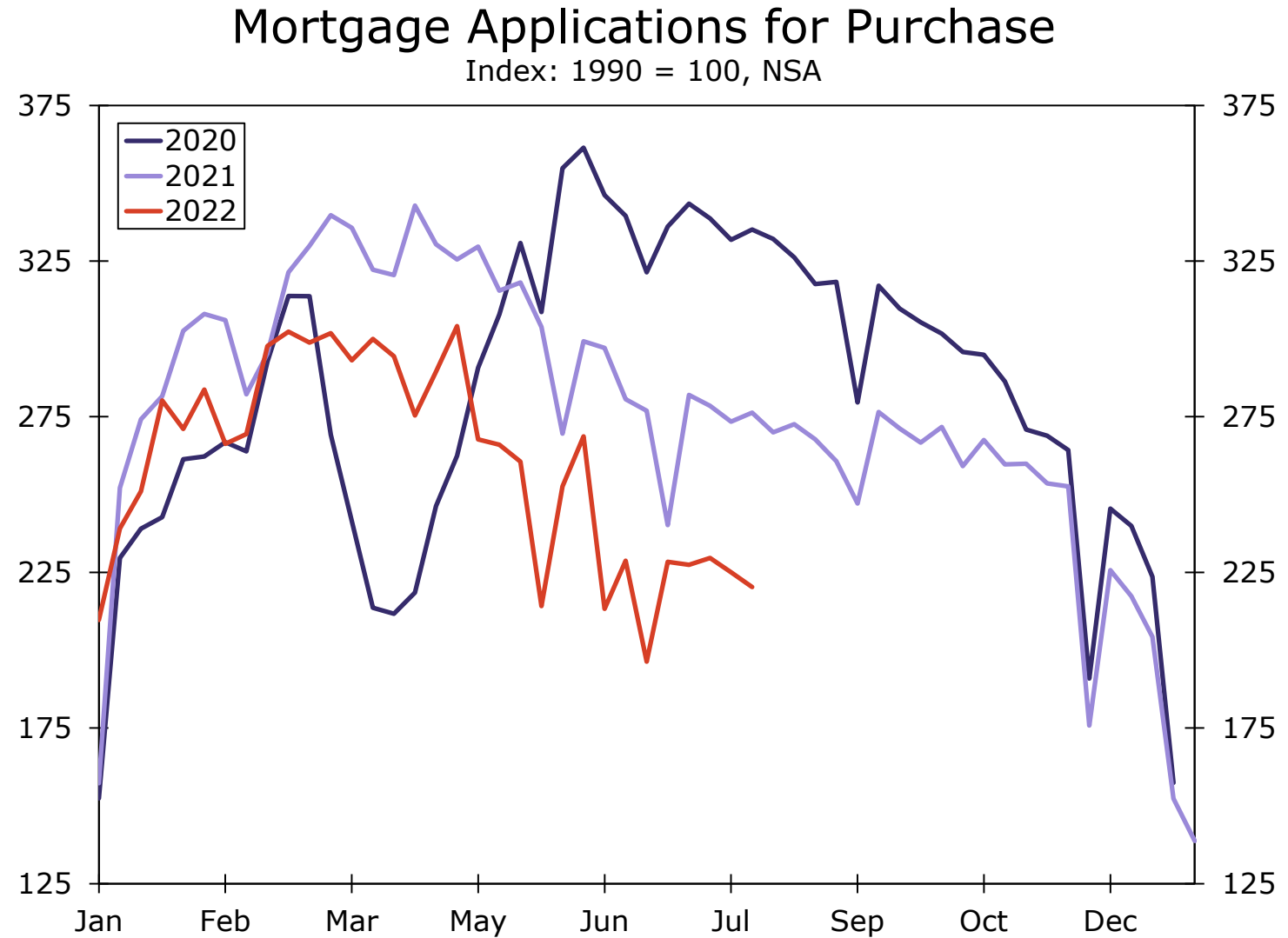
Mortgage rates have shot higher in the first half of 2022. Rates have partially retraced after peaking in mid-June at 5.80%.

## 30-Year Mortgage Rate vs. 10-Year Treasury



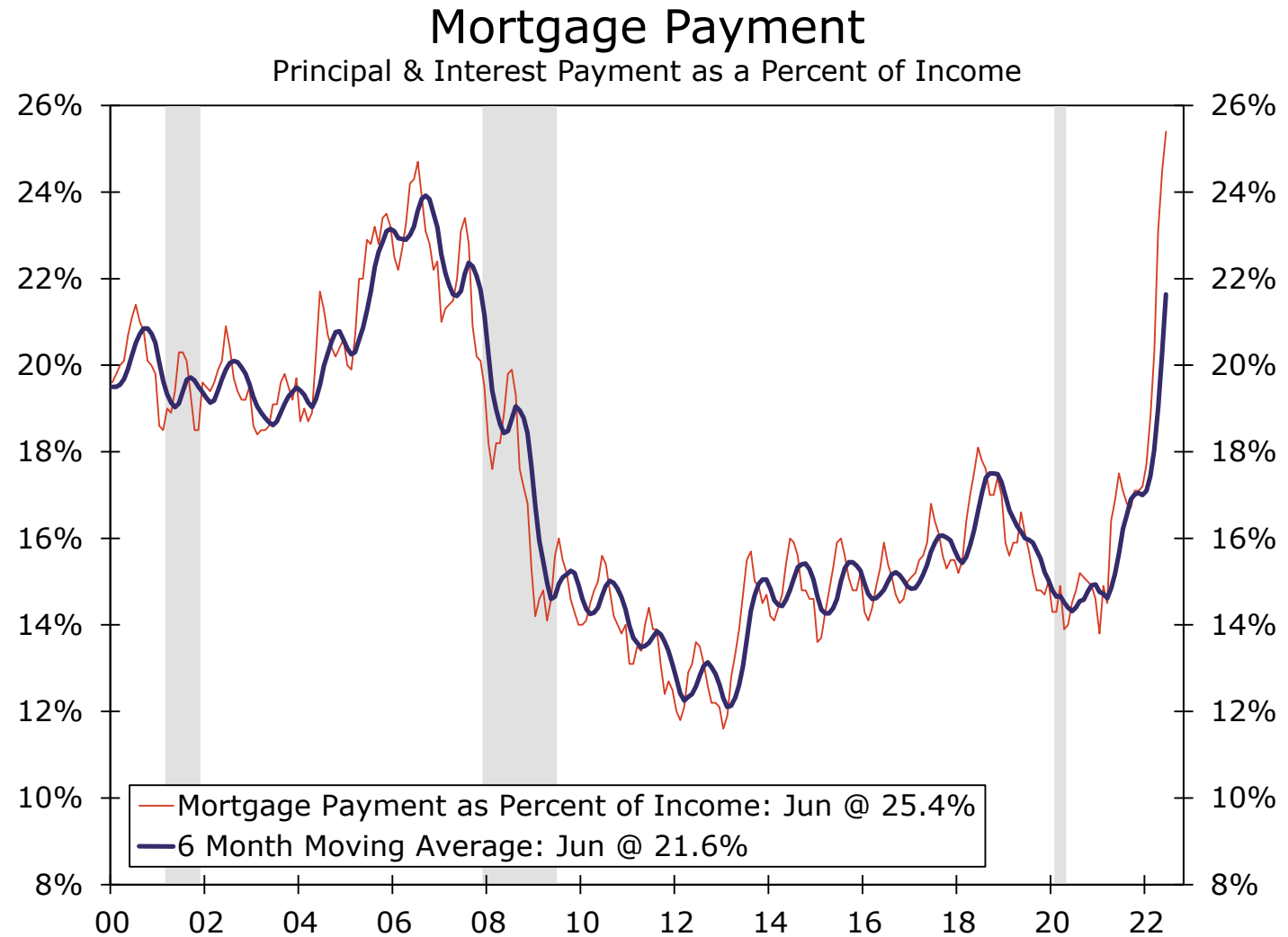
# Purchase Applications Trending Lower

Mortgage purchase applications held up relatively well as mortgage rates jumped but have pulled back more recently.



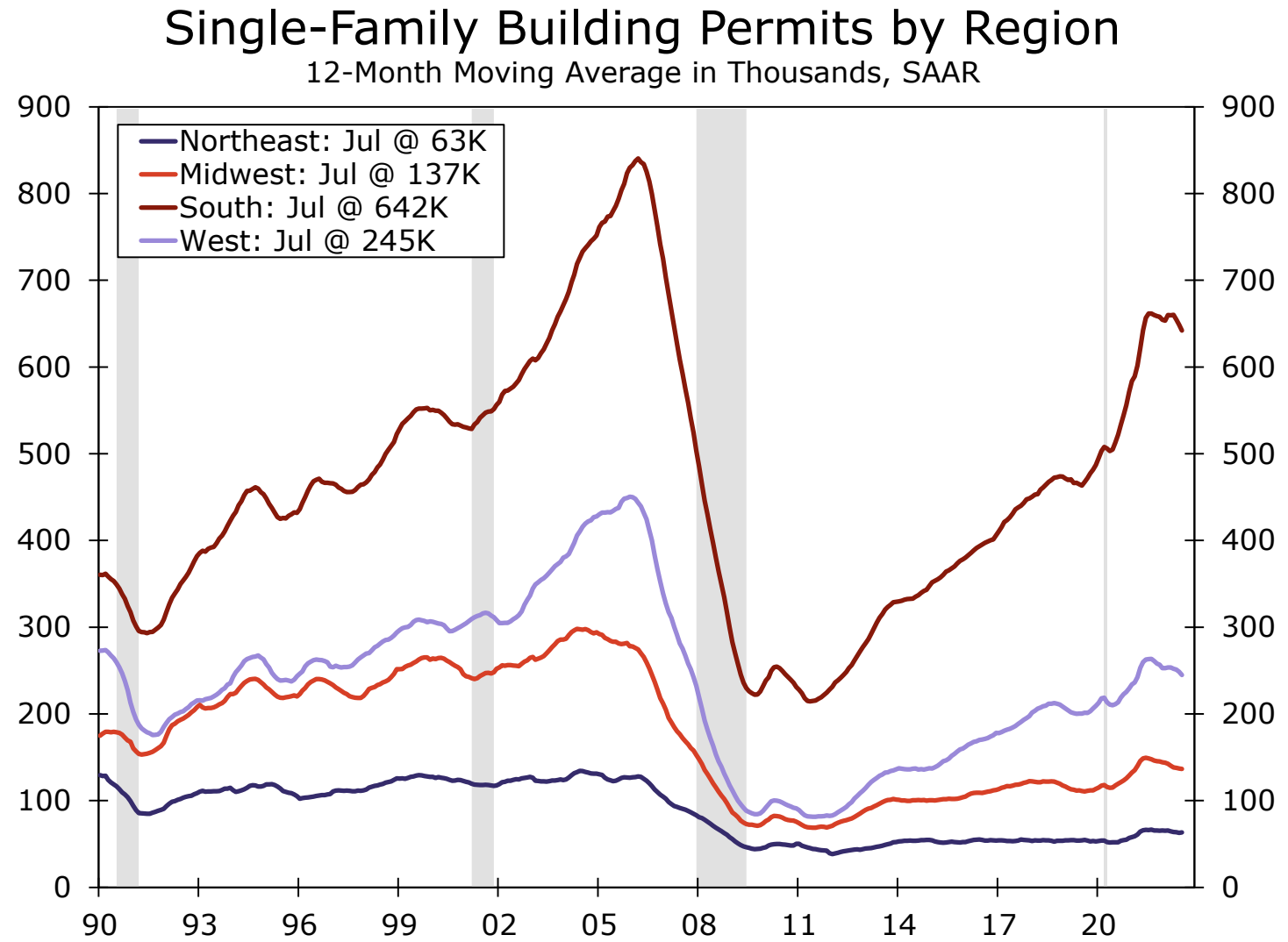
# Mortgage Payments

Rising incomes have provided some offset to higher borrowing costs. However, as a share of income, average mortgage payments are now the highest since the early 1980s.



# Residential Construction Booms in the South

Single-family home construction has ramped up considerably in the South, where population and employment growth has been the strongest.

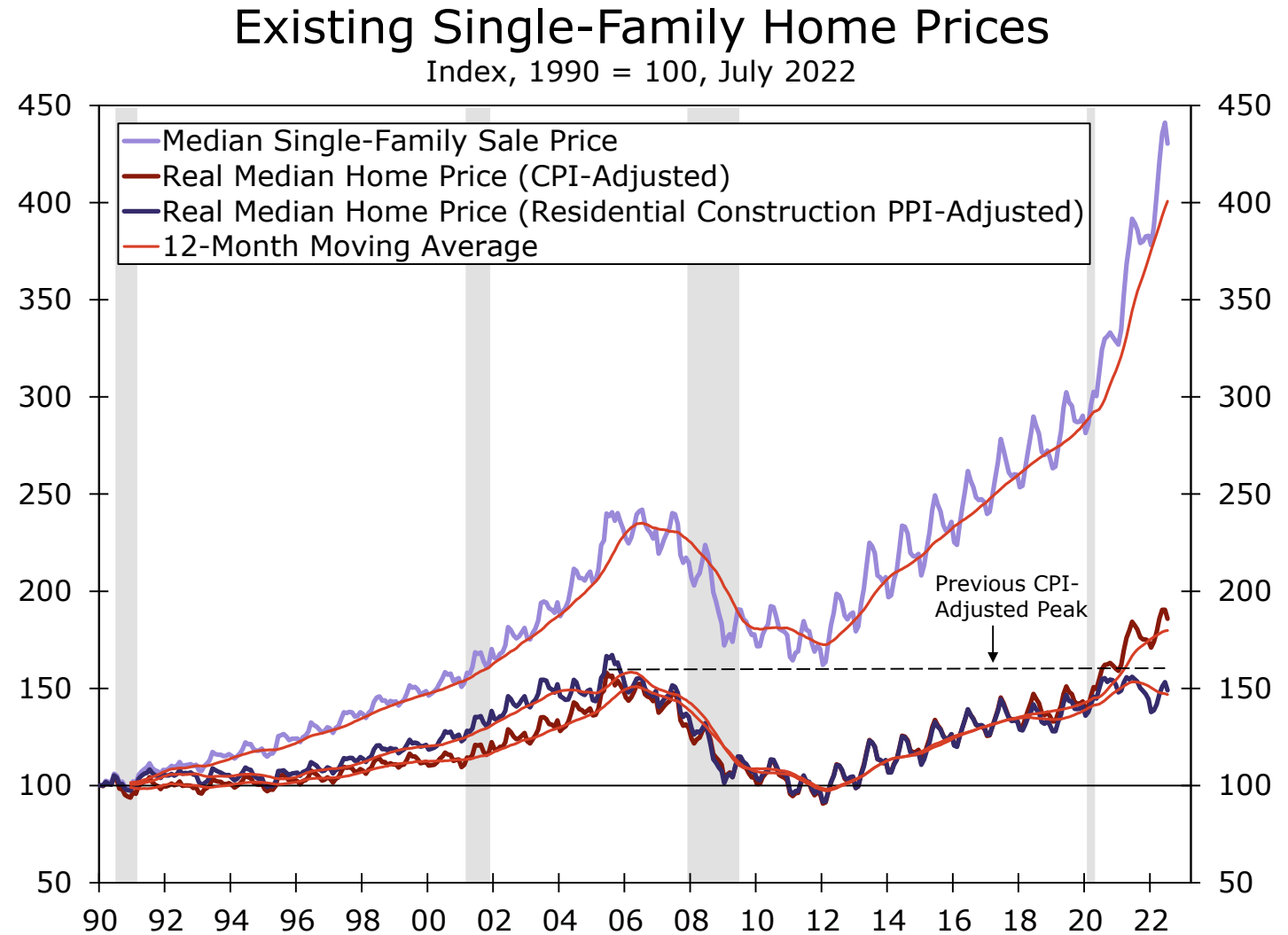




# Home Prices

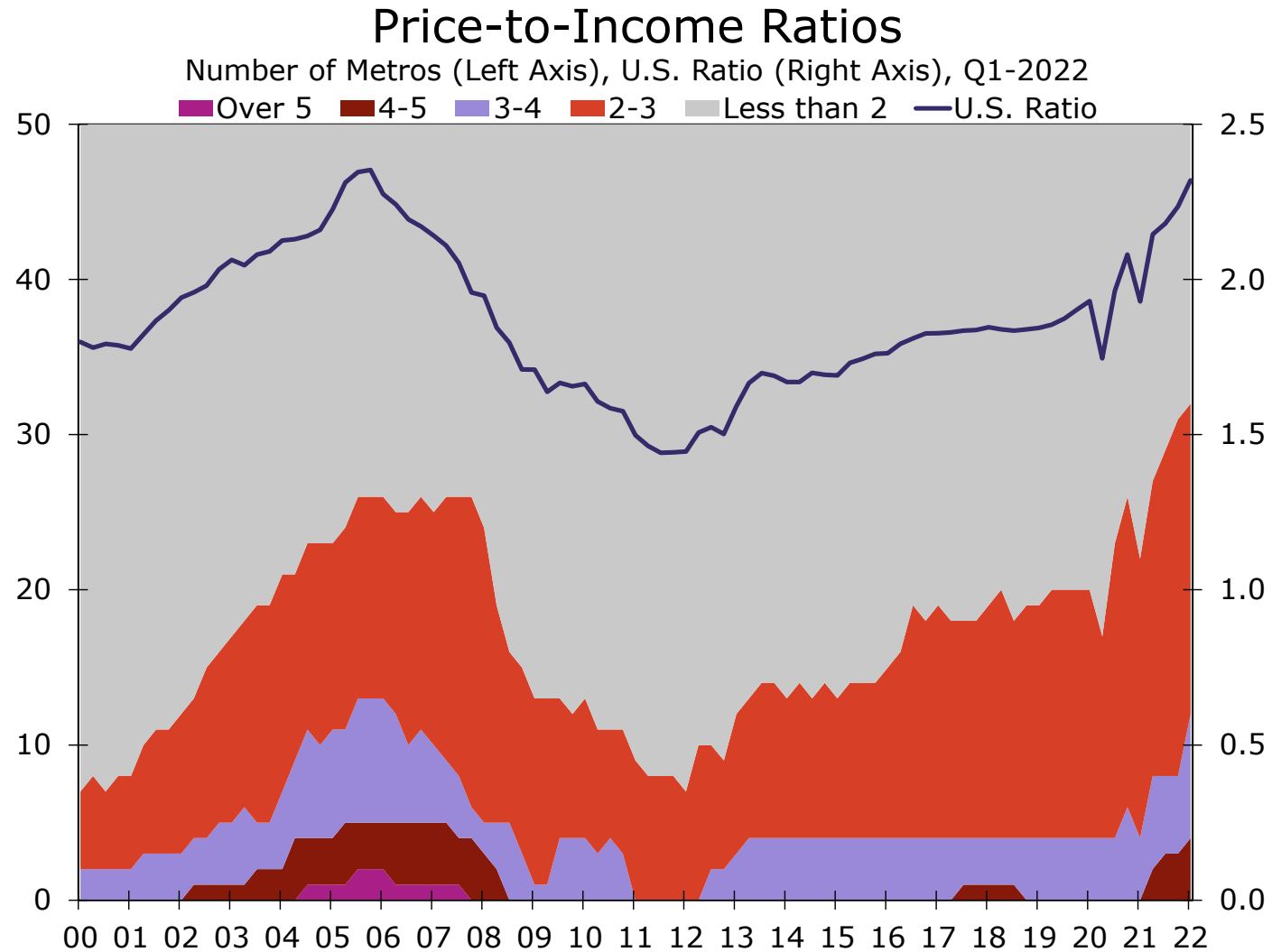
The median nominal sale price for a home fell to \$410,600 in July, \$10,300 less than the all-time high set in June.

Real prices have trended upwards at a slower pace but CPI-adjusted prices have climbed to a record high in 2022.



# Home Prices Relative to Income

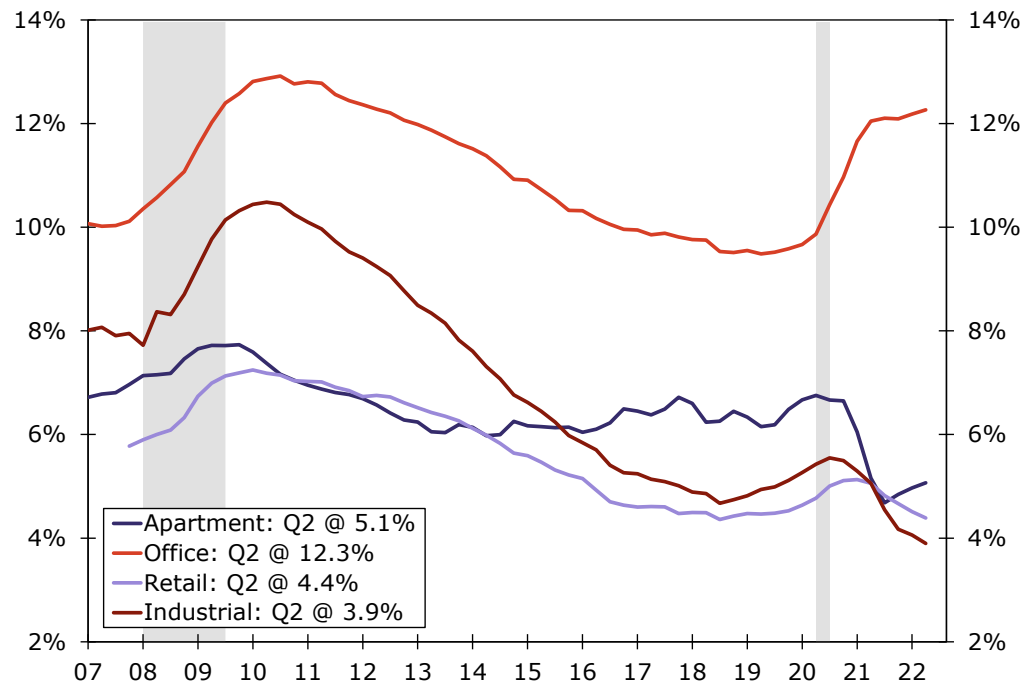
Home price-to-income ratios are trending towards mid-2000 levels.



# Commercial Real Estate Fundamentals

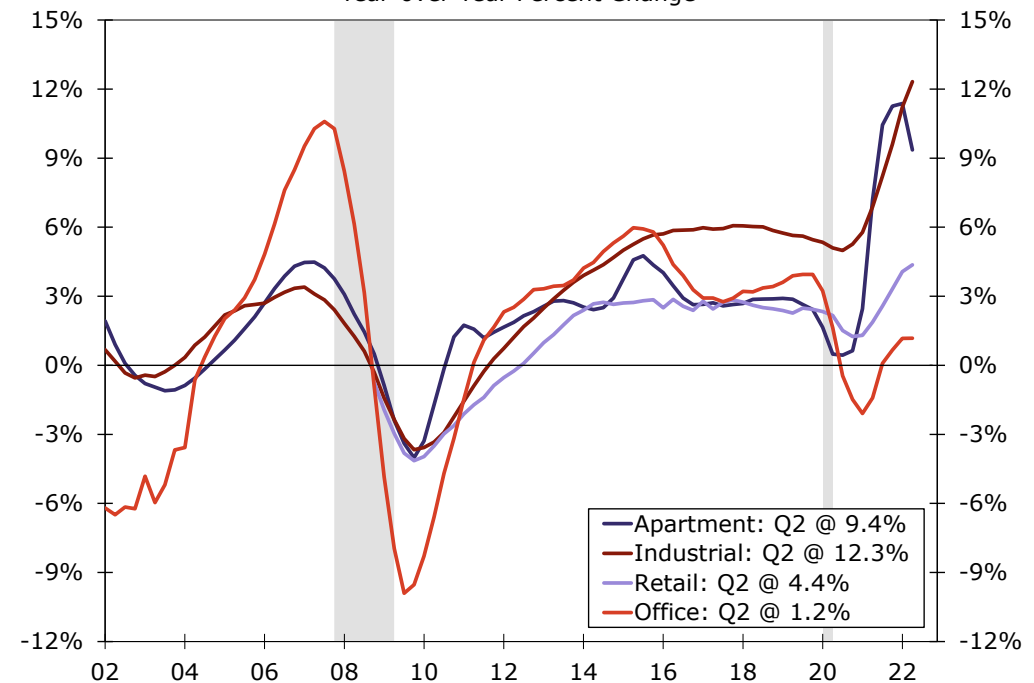
The office market continues to lag as Return-to-Office plans remain in flux. Stronger economic demand has translated to rising occupancy and rents for most other property classes.

### CRE Vacancy Rates



### CRE Asking Rents

Year-over-Year Percent Change

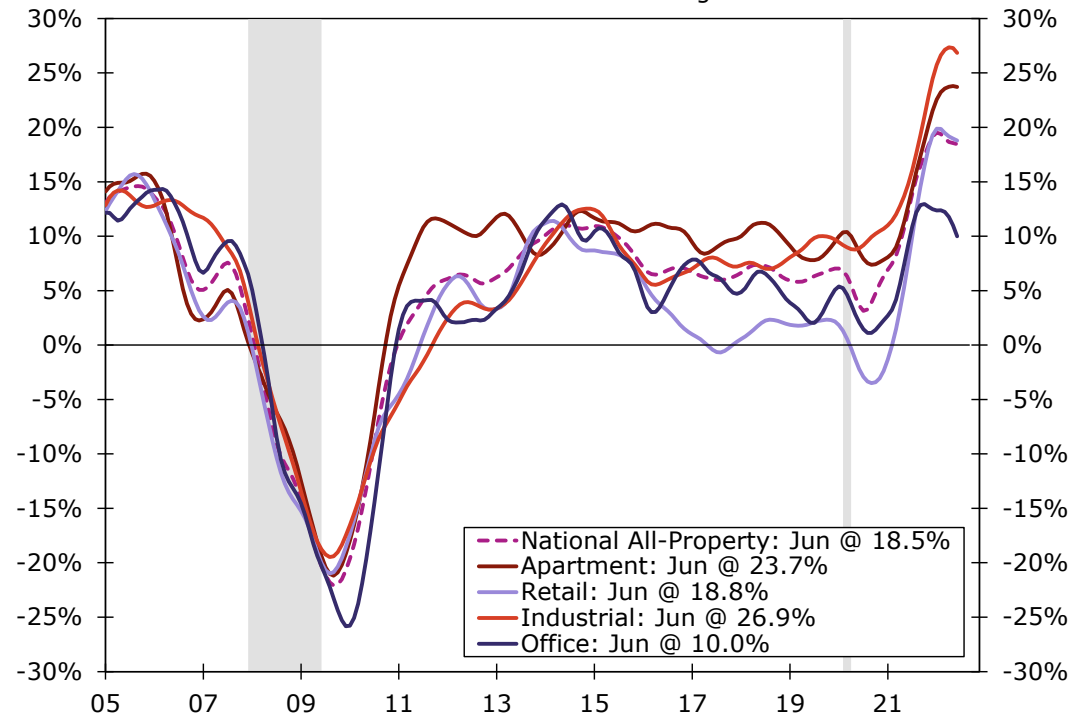


# Commercial Real Estate Fundamentals

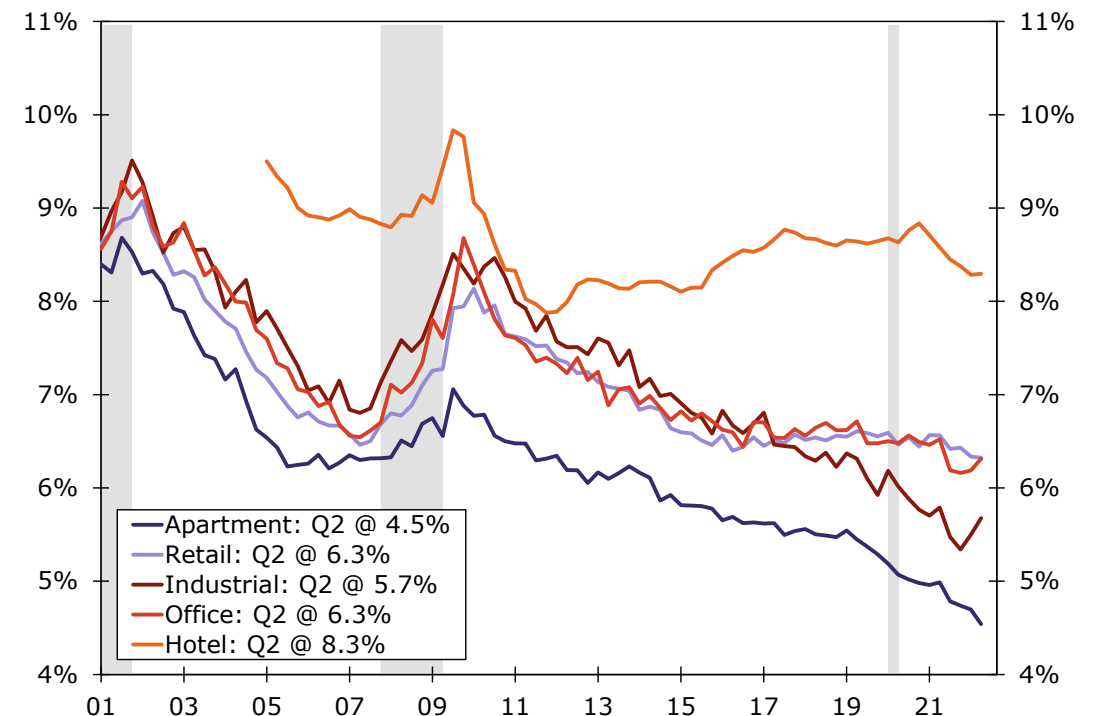
Property prices climbed rapidly in 2021, led by sturdy gains in retail, apartment and industrial properties. While the hard-hit office and hotel markets face a longer road to recovery, their path of recovery is coming into better focus.

## Commercial Property Price Index

Year-over-Year Percent Change

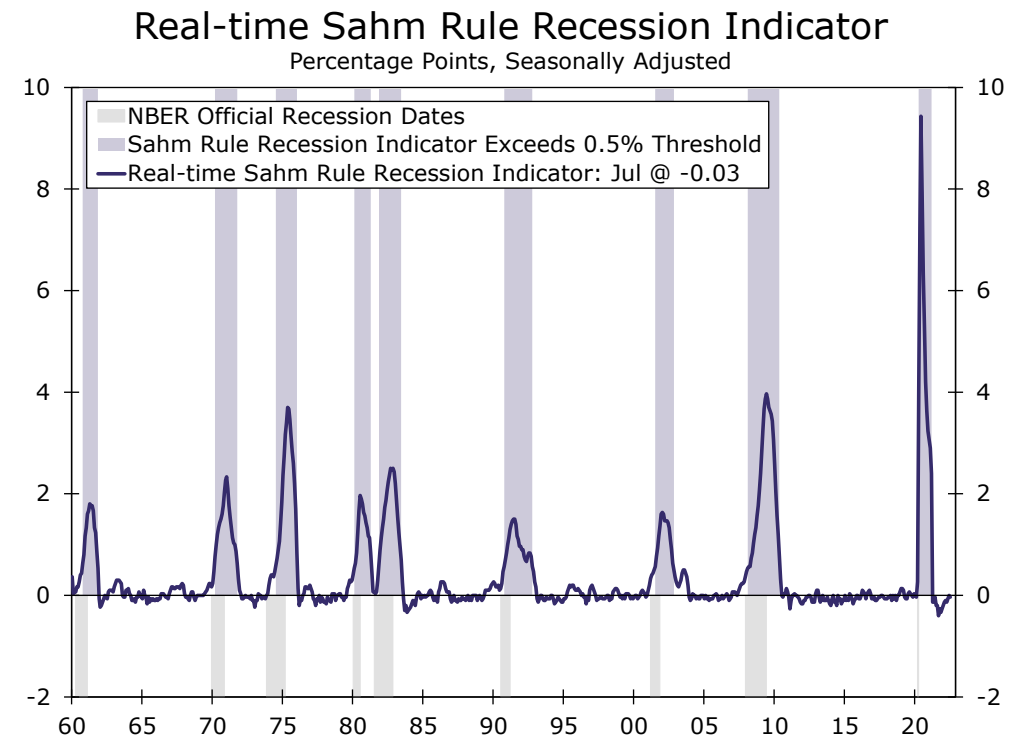
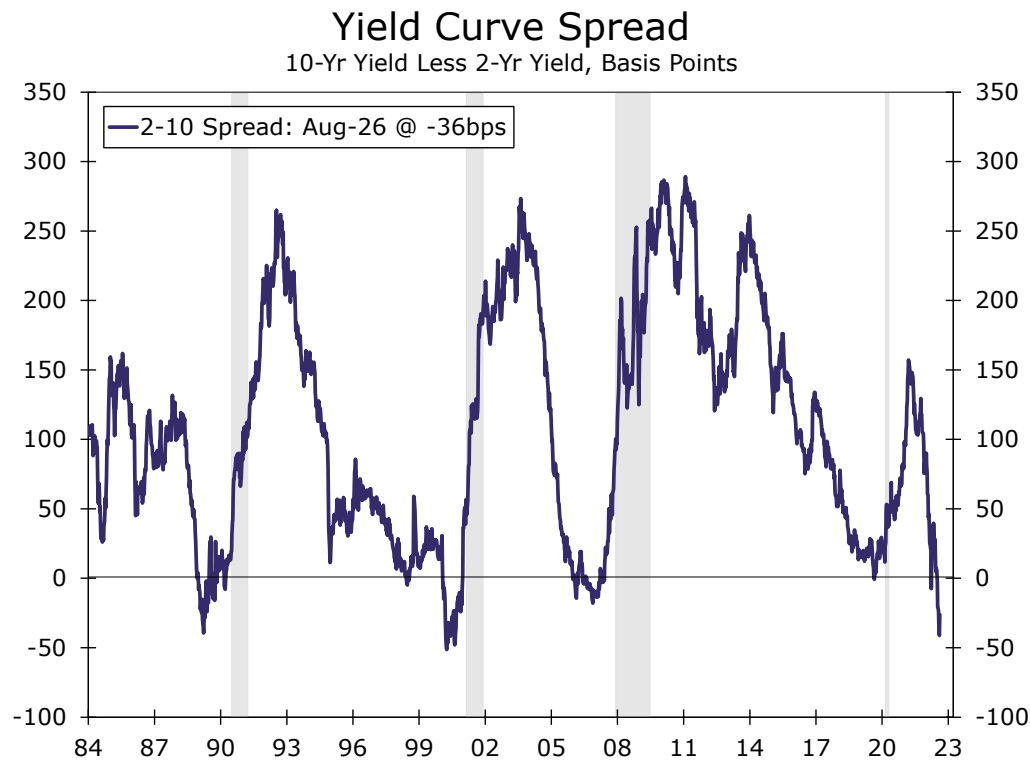


## CRE Cap Rates by Property Type



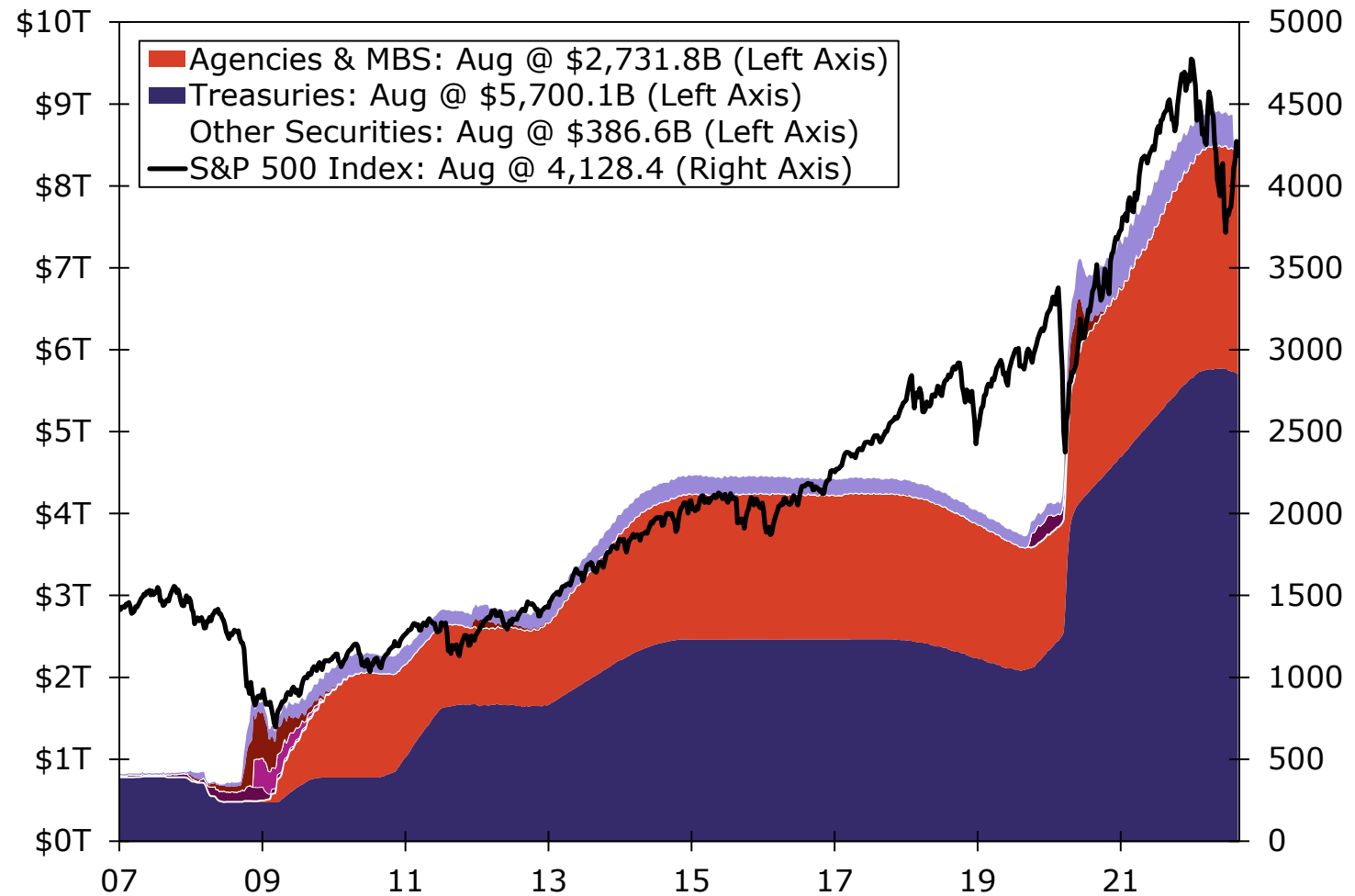
# Possibility of “Soft Landing”

The yield curve has inverted, signaling a recession is likely within a year to 18 months. The Fed has never achieved a soft landing when it has had to bring inflation down from its current height or push unemployment marginally higher from its current lows.



The massive expansion of the Fed's balance sheet propelled asset prices during the pandemic.

## Federal Reserve Balance Sheet vs. S&P 500 Index



# Key Macro Themes – North Carolina

## NC Outlook

North Carolina's economy recovered relatively quickly from the pandemic, thanks to the accelerated migration of businesses and residents from higher costs states in the Northeast and West. Relocations and expansions have bolstered commercial development in Raleigh and Charlotte, while large inflows of retirees and remote workers have lifted economies around Asheville and along the coast.

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## Flexible Work Has Bolstered the distant Suburbs

The influx of remote workers has bolstered home sales in the more distant suburbs surrounding Charlotte, Raleigh and Durham. The surge of equity-rich buyers has fueled demand for pricier large homes in more distant suburbs, which has pulled in waves of commercial development. Congestion issues have worsened in Charlotte and the Triangle, which will help support urban development in both areas.

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## Capital Continues to Fuel Development

With the South easily outpacing the rest of the country, capital is flowing into rapidly growing markets like Charlotte, Raleigh and Durham, helping fuel development. There is an awful lot of office construction at a time when the future of the office is still widely debated. Demand for apartments remains exceptionally strong, but the prices paid for apartments assume rents will continue to rise rapidly.

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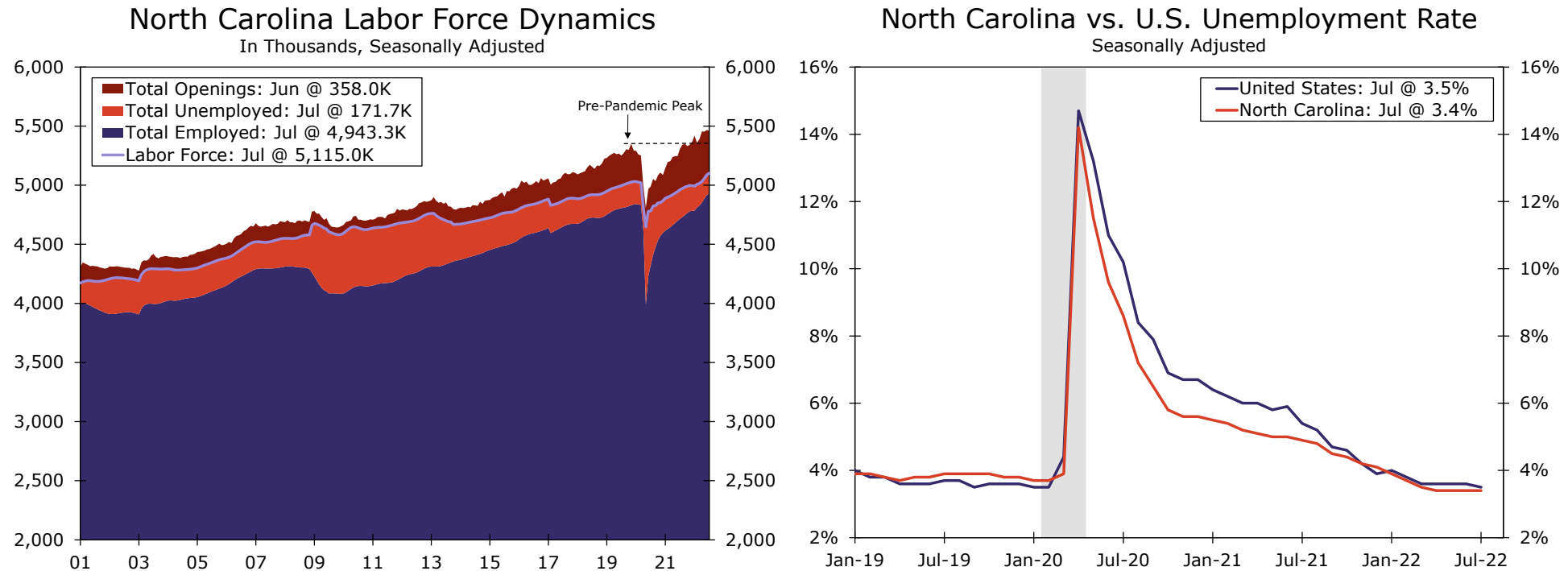
## How Will the Recession Impact North Carolina?

We continue to look for a modest-to-average recession in 2023. Overall GDP will decline between 1.5% and 2%, and employment should decline by about the same magnitude. Some of the state's record haul of capital investment projects will likely be scaled back or stretched out and a few may be canceled.

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# North Carolina Labor Market

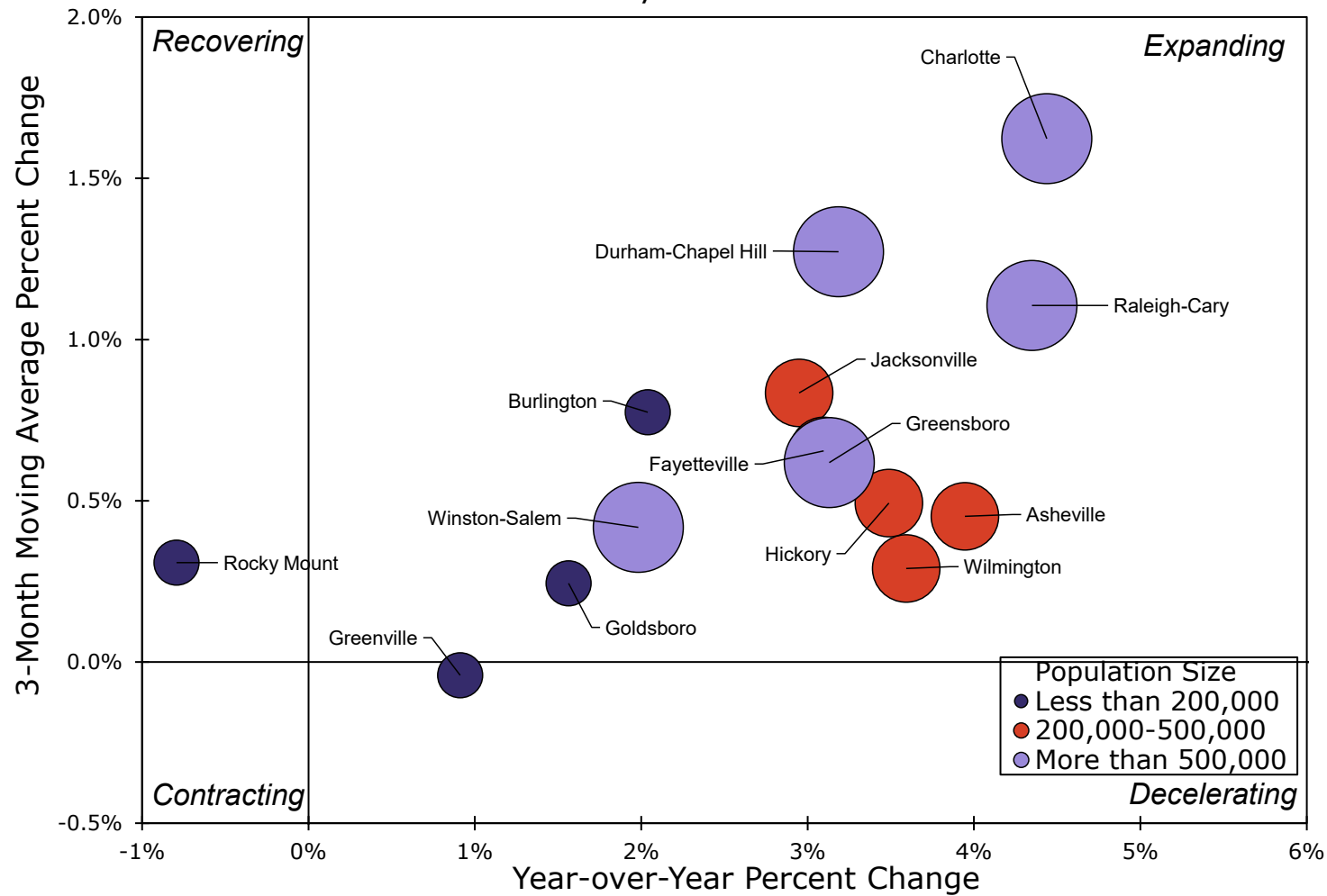
North Carolina has recouped all the roughly 575,000 jobs lost at the start of the pandemic in 2020. Strong population growth has helped bring the labor force back above its pre-pandemic peak. The labor force participation rate remains below its pre-pandemic level, however, as workers in rural parts of the state have been slow to return to the workforce. Leisure and hospitality, personal services and manufacturing have large numbers of job openings.





# North Carolina Employment by MSA

## North Carolina Employment Growth July 2022



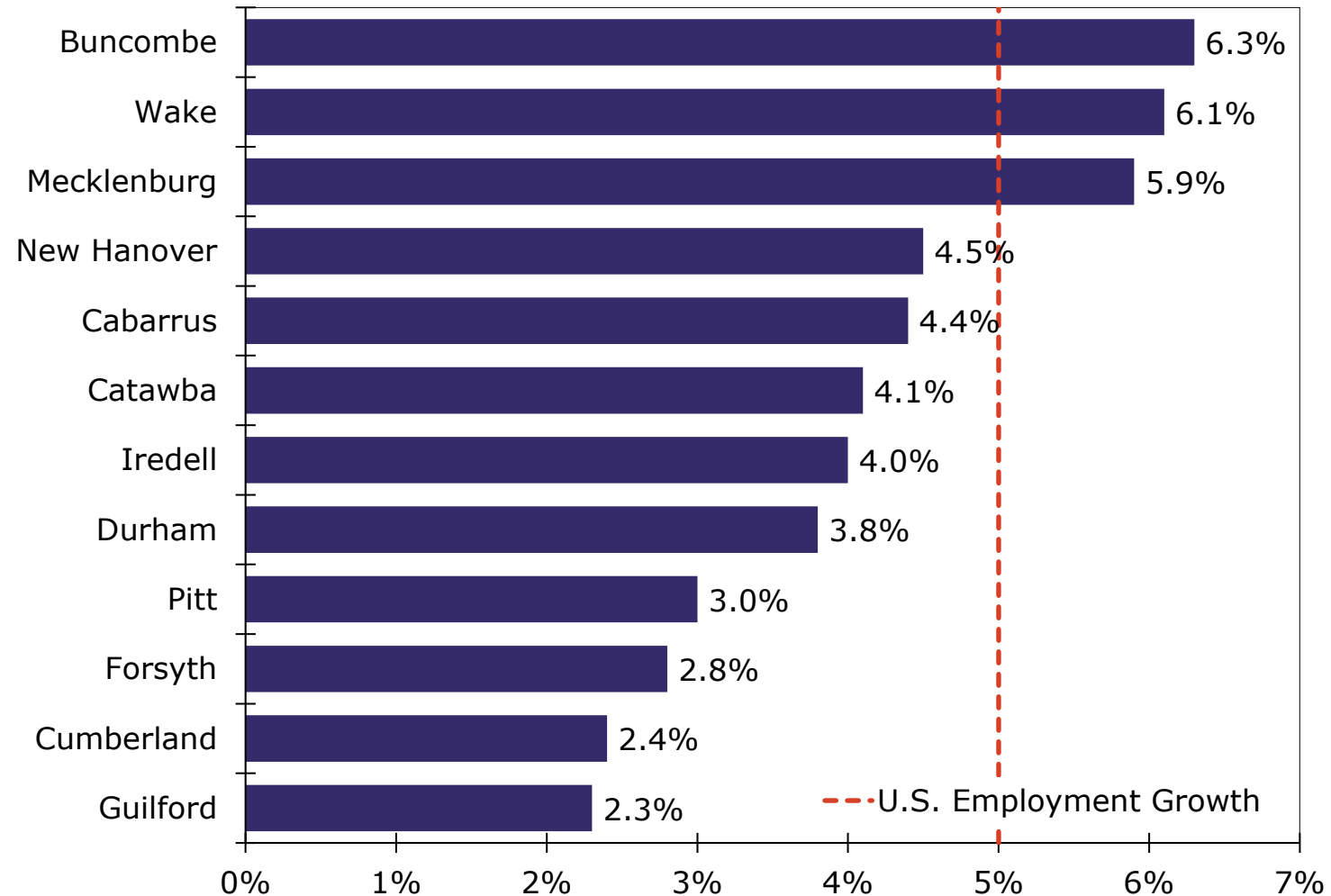
# North Carolina Employment by County

North Carolina's job growth will likely be revised higher early next year. Job growth in the Triangle and Charlotte areas has probably been a full percentage point stronger.

Asheville, Wilmington and Hickory have also seen outsized job gains, while the Triad continues to see more modest growth.

## NC County Employment Growth

Year-over-Year Percent Change, QCEW, March 2022

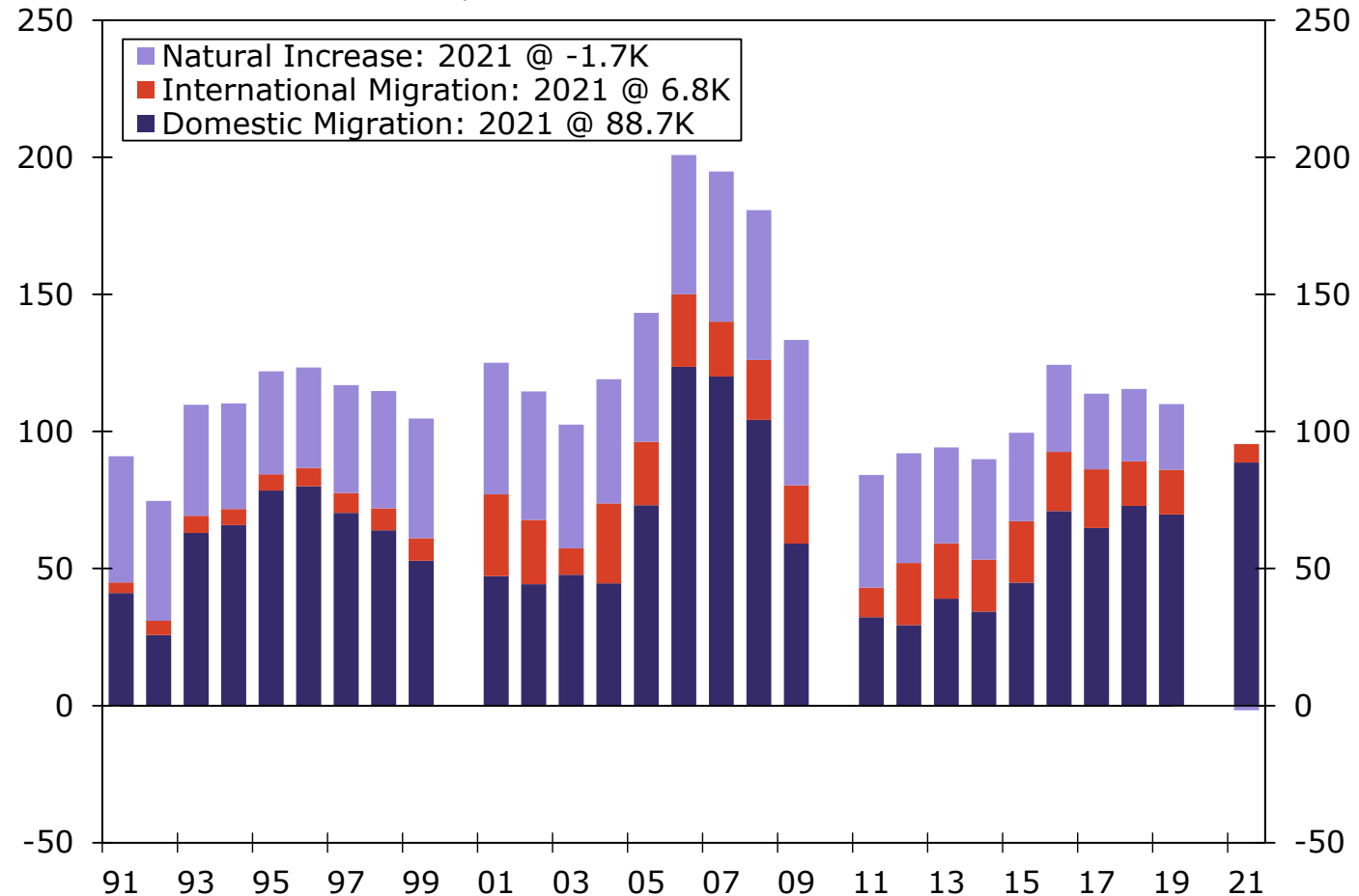


# North Carolina Population Change

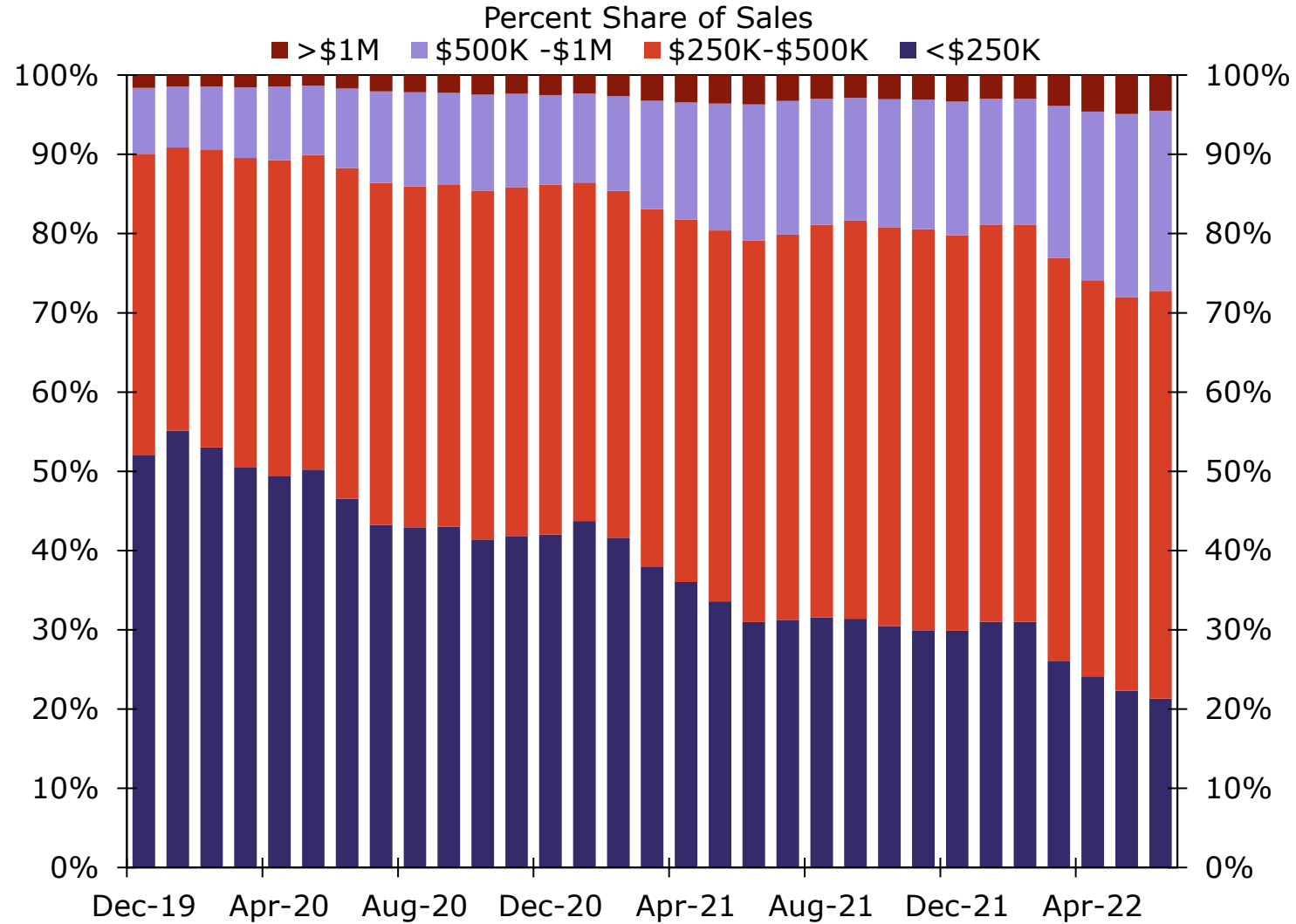
North Carolina saw strong domestic migration last year.

## Components of Population Change: N.C.

In Thousands, Series Breaks on Decennial Census Years

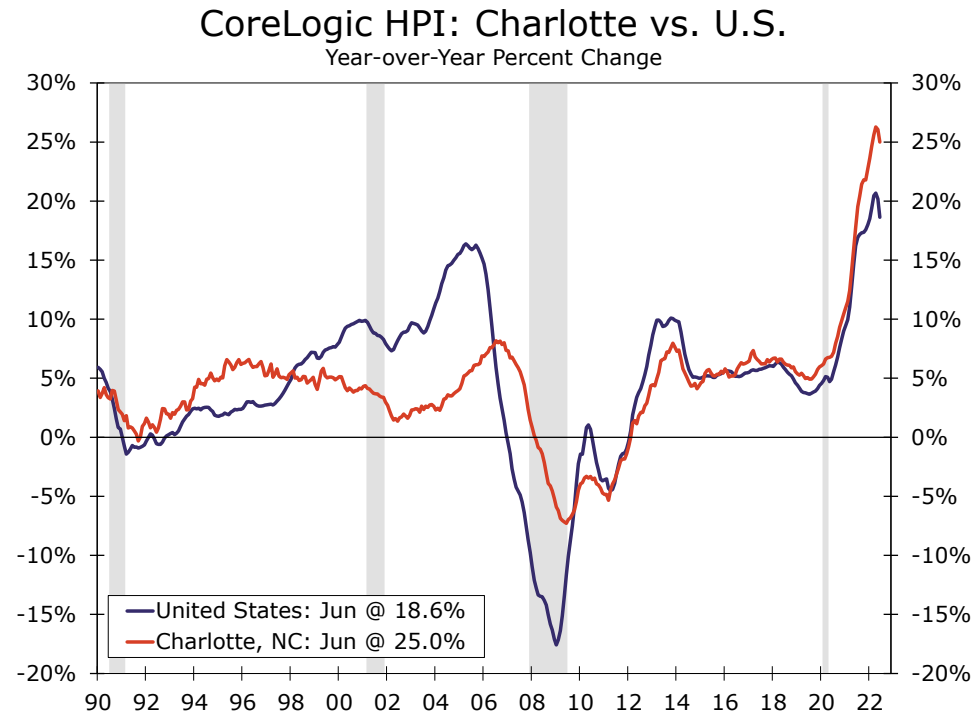
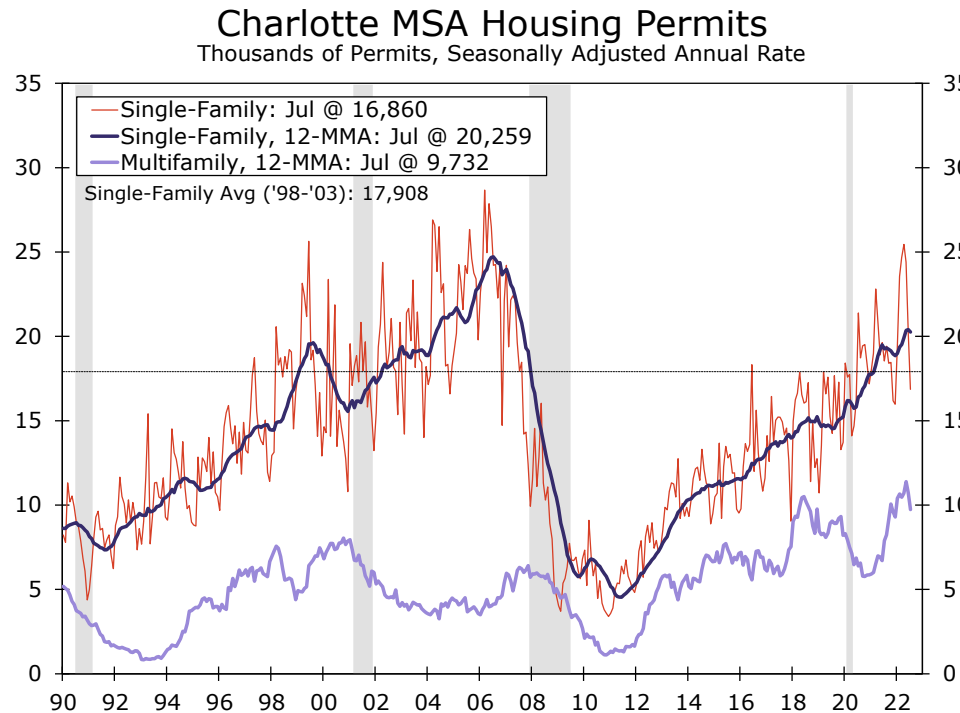


## Southern Home Sales Distribution by Price



# Charlotte Home Building

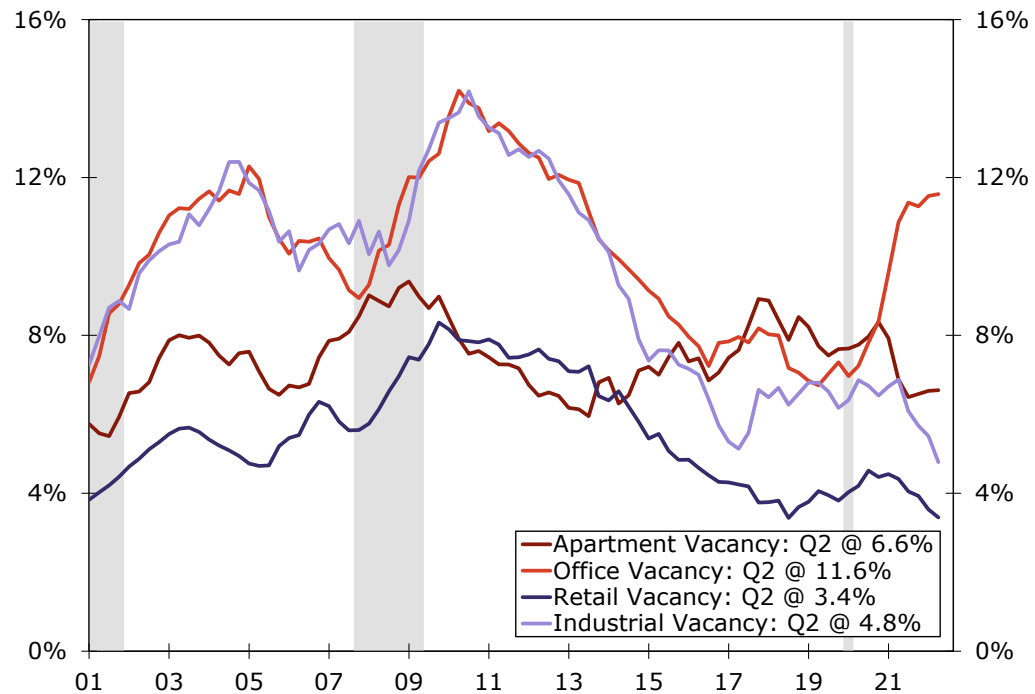
Strong economic and demographic fundamentals has supported a continuous upward trend in home building. Counties surrounding the city's urban core have seen the greatest pickup in housing permits.



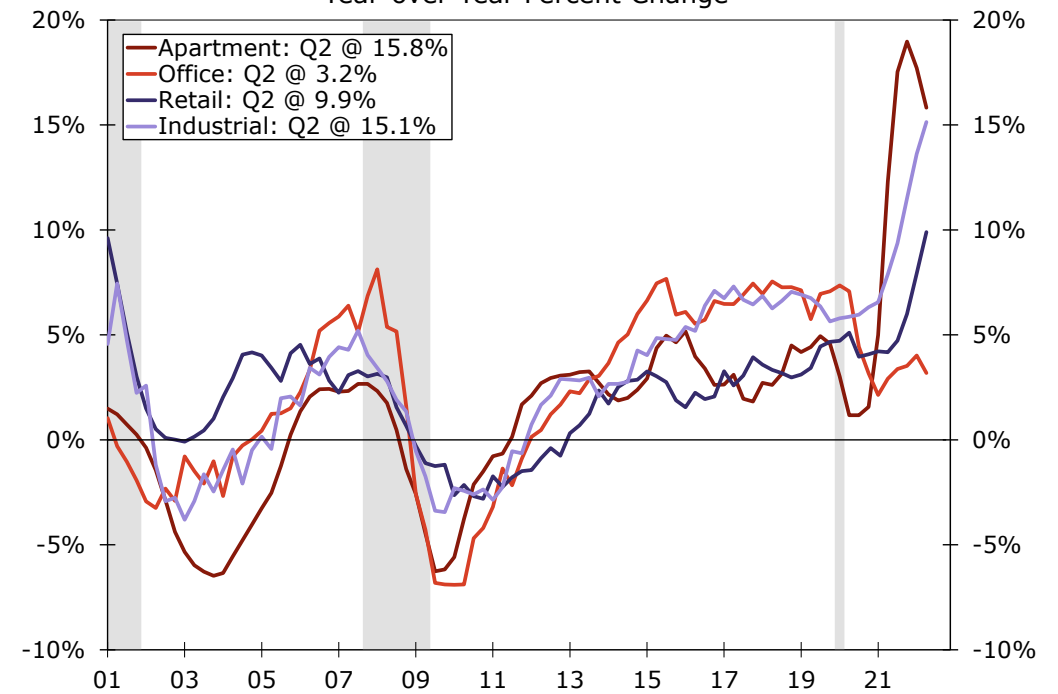
# Charlotte Commercial Real Estate

The city's strong population growth has underpinned strength in the metro's hot apartment market. Retail and industrial vacancies have fallen, but office vacancy rates have risen as many large firms are consolidating office space.

### Charlotte CRE Vacancy Rates



### Charlotte CRE Rent Growth Year-over-Year Percent Change

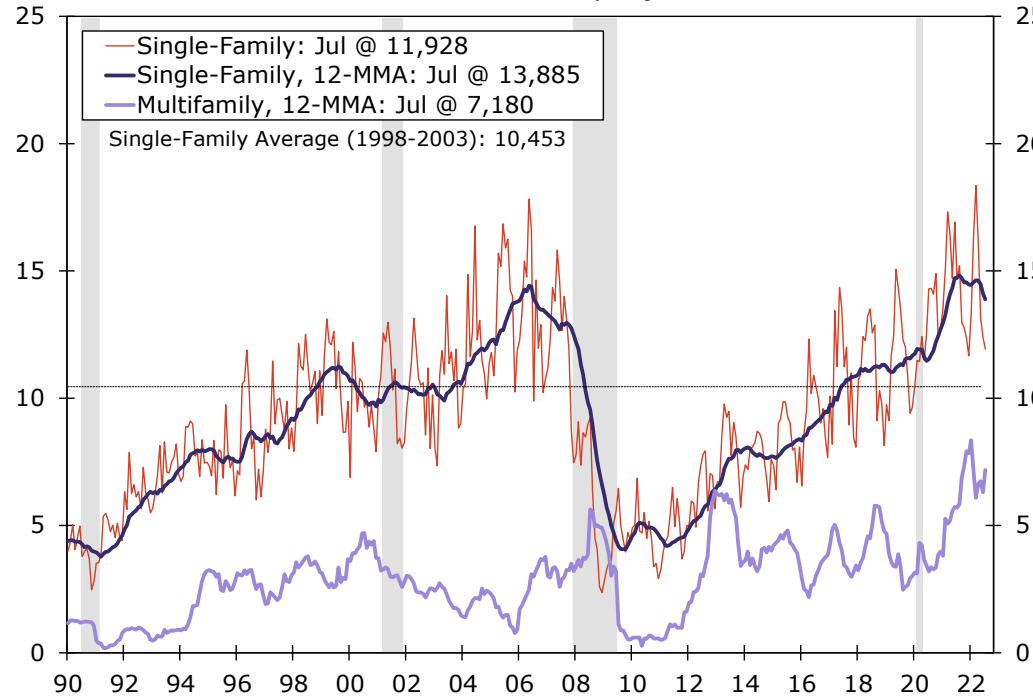


# Raleigh Home Building

The Raleigh-Durham area has been a popular relocation spot during the pandemic. As a result it is one of the hottest housing markets in the country with home price growth running well above the national average.

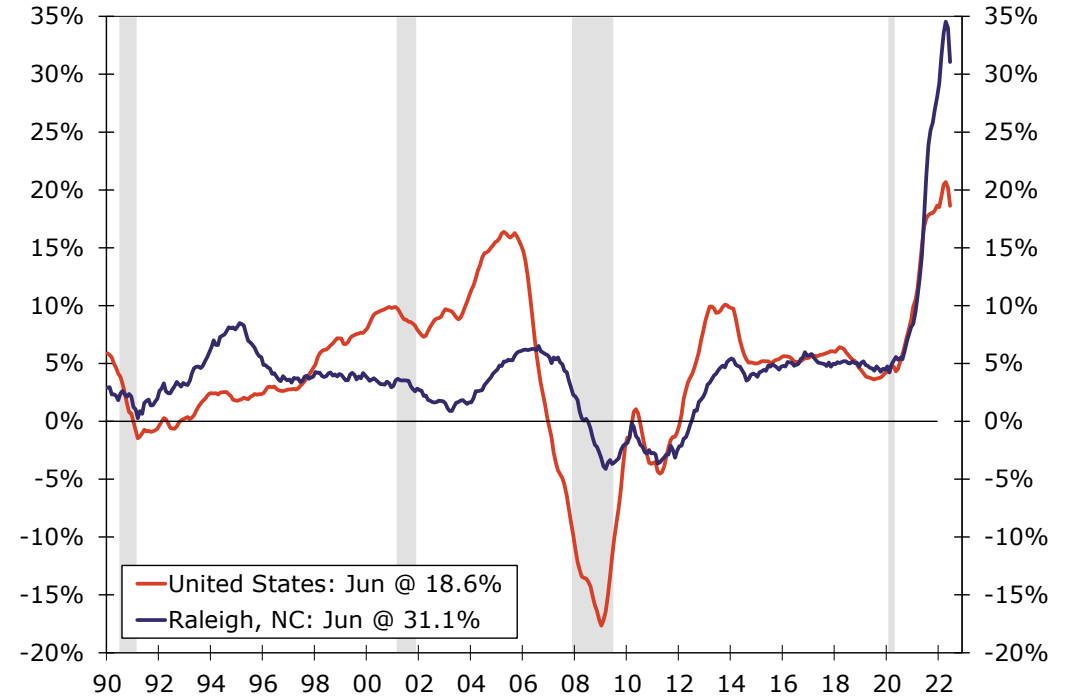
### Raleigh MSA Housing Permits

Thousands of Permits, Seasonally Adjusted Annual Rate



### CoreLogic HPI: Raleigh vs. U.S.

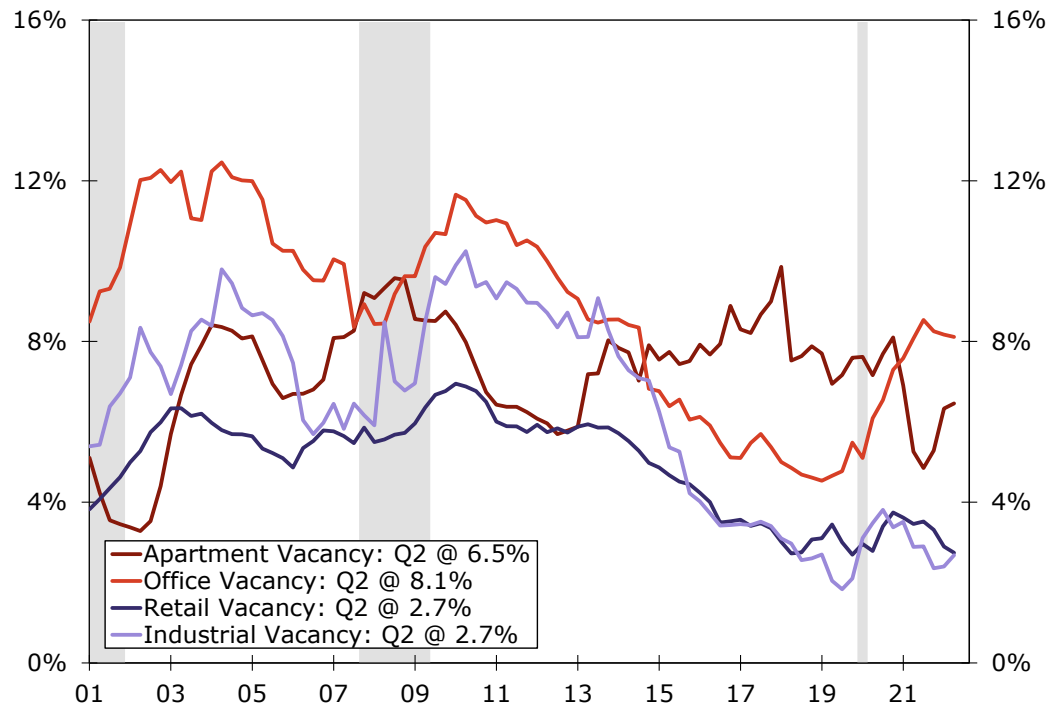
Year-over-Year Percent Change



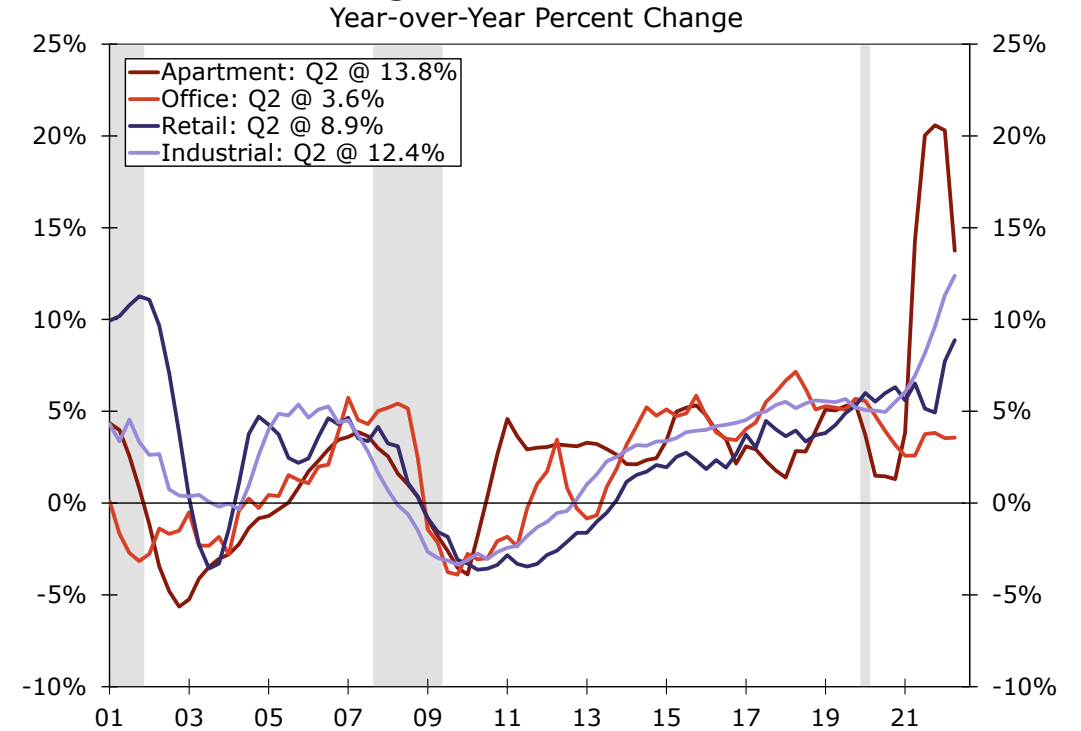
# Raleigh Commercial Real Estate

The previously red-hot apartment market has cooled off in 2022 but rent growth remains elevated. The exceptionally tight industrial and retail markets continue to see rent growth accelerate.

### Raleigh CRE Vacancy Rates



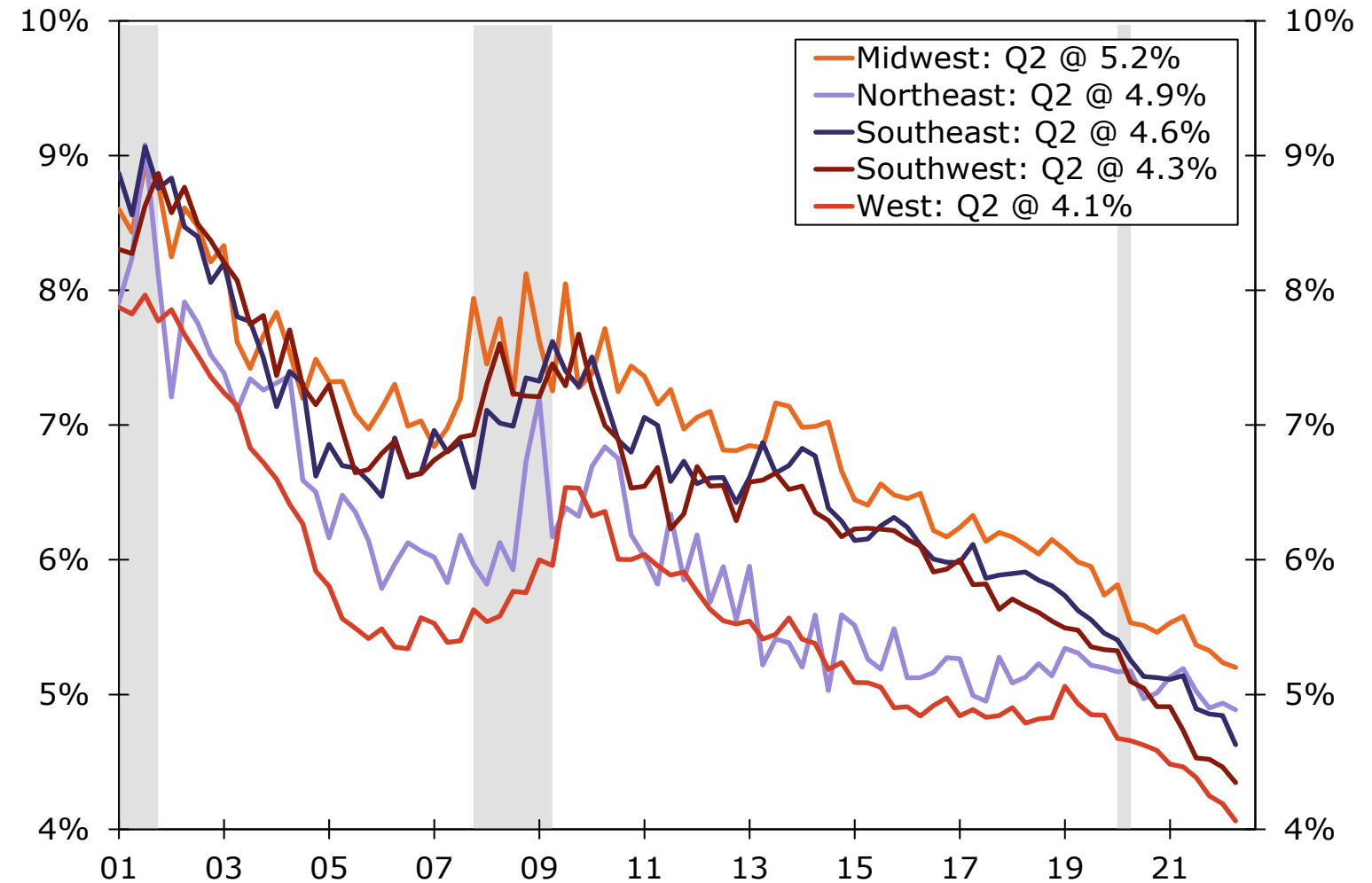
### Raleigh CRE Rent Growth





The long slide in cap rates may be coming to an end for some property types, but apartments continue to move lower.

## Apartment Cap Rates by Region



# Regional Migration Trends

There is a growing body of evidence of an affordability migration to traditionally smaller, secondary markets across the Sun Belt and South.

## Top 10 Metro Areas by Numeric Growth

July 2020 - July 2021

Rank	Metro Area	Growth
1.	Dallas-Fort Worth-Arlington, TX	97,290
2.	Phoenix-Mesa-Chandler, AZ	78,220
3.	Houston-The Woodlands-Sugar Land, TX	69,094
4.	Austin-Round Rock-Georgetown, TX	53,301
5.	Riverside-San Bernardino-Ontario, CA	47,601
6.	Atlanta-Sandy Springs-Alpharetta, GA	42,904
7.	Tampa-St. Petersburg-Clearwater, FL	36,129
8.	San Antonio-New Braunfels, TX	35,105
9.	Charlotte-Concord-Gastonia, NC-SC	31,381
10.	Raleigh-Cary, NC	28,186

## Cities that Gained the Most Workers

LinkedIn Population Gain per 10,000 Members, Over Past 12 Months

