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The 2024 Economic Outlook: *Recession, Soft Landing or Reboot?*

2024 ECONOMIC OUTLOOK

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After spending the past 30 years as managing director and senior economist at Wells Fargo's Corporate and Investment Bank, Mark Vitner founded Piedmont Crescent Capital this past year. At his new firm, Mark provides analysis of the macro economy to clients located throughout the country and writes a series of reports on the US economy, local economies, small business, and residential and commercial real estate. He also provides economic content for CAVU Securities, writing their monthly newsletter, The CAVU Compass.

Originally from Atlanta, Mark earned a BBA in economics from the University of Georgia, an MBA from the University of North Florida and completed further graduate work in economics at the University of Florida. Mark is a member of the National Association of Business Economics and completed the NABE Advanced Training in Economics Program at Carnegie Mellon University. He is also a member of NABE's inaugural Certified Business Economist (CBE) class.

Mark is active in the community, co-founding the Charlotte NABE chapter and serving as board chair for the Foundation for the Charlotte Jewish Community. Mark also chaired the Economic Advisory Council for the California Chamber of Commerce and currently serves on the Joint Advisory Board of Economists for the Commonwealth of Virginia. His commentary has been featured in The New York Times, The Wall Street Journal, Bloomberg, and many other publications. Mark also makes frequent guest appearances on CNBC and other major networks.

Higher Inflation Snuffs Out Economic Growth

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Something Softer Than a Soft Landing

The economic data are harder to read due to the extreme swings brought about by the pandemic. While many traditional business cycles measures, such as the Leading Economic Index and inverted yield curve, are giving off compelling warning signals, the lags between rising interest rates and economic growth appear to have lengthened. We only had two months of recession in the past 25 years, which is highly unusual.

The Inflation Fever Has Broken

Inflation peaked around the middle of 2022. Most of the improvement has come from lower energy prices and lower used car prices. Inflation is proving sticky in most other areas, particularly labor-intensive services. The Cleveland Fed's Median CPI remains around 4%. We expect inflation to remain above the Fed's 2% target through 2024, which will limit the Fed to three quarter-point rate cuts this year, or possibly less.

Low Housing Turnover

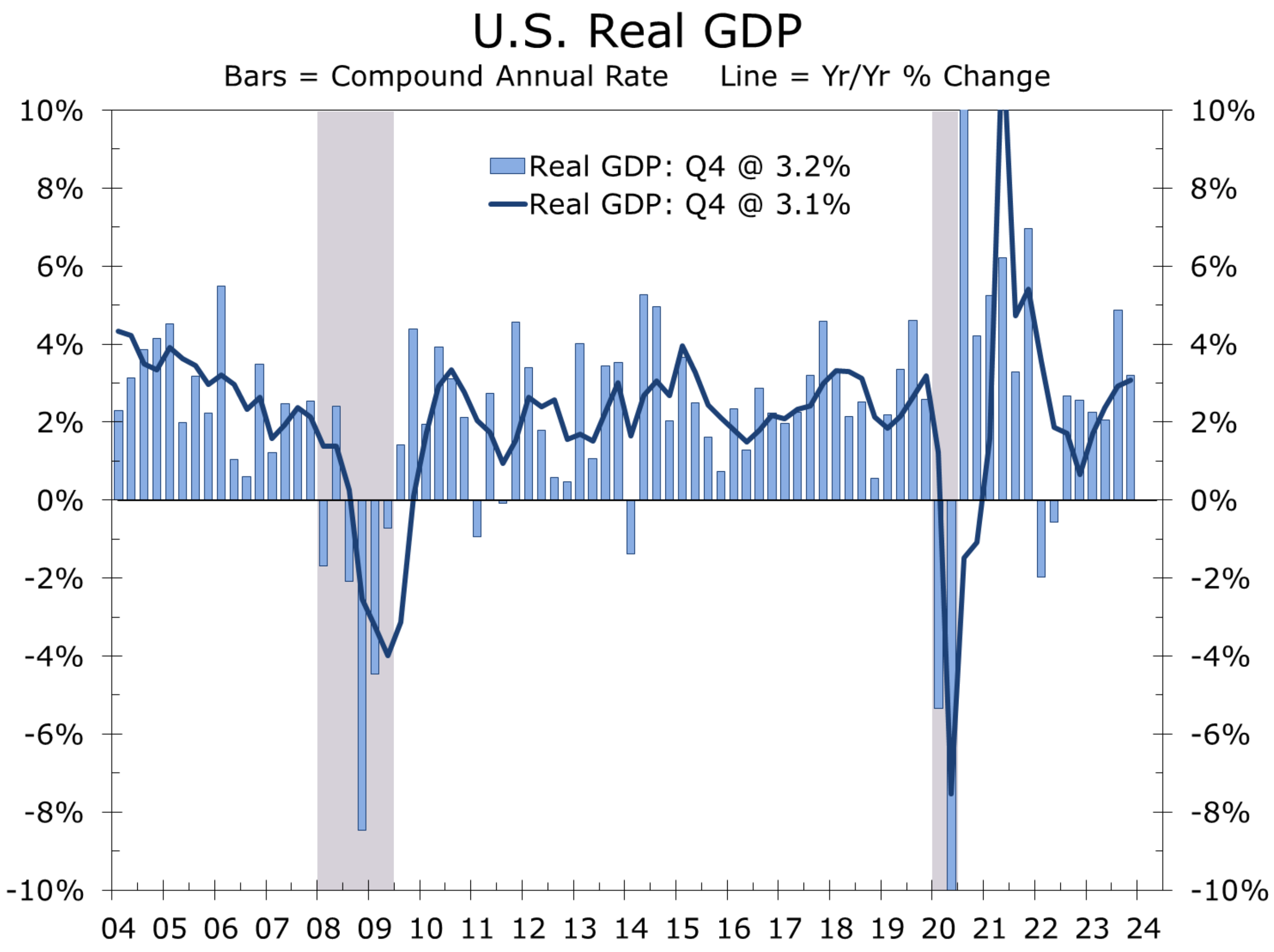
With many homeowners either owning their homes outright or locked in at rates below 4%, fewer homeowners are looking to sell their current homes. The lack of inventory comes as Millennials are forming families, which has driven prices higher. The resulting affordability migration is driving population growth across the Sun Belt and Charlotte is one of the fastest growing markets. Outlying areas are seeing the fastest growth.

Regional Outlook

The greater Charlotte region has added 145,000 residents since 2020, with most of that gain coming in the MSA. Mecklenburg County accounts for about one third of this growth. The outlying suburbs have seen growth accelerate during the past 2 years, with industrial and commercial development following housholds.

Economic Growth Has Shown Surprising Resiliency

- Economic growth re-accelerated during the second half of 2023.
- Growth was driven by strength in consumer spending, construction, health care, government spending and inventory building.
- Early estimates for the first quarter call for growth at around a 2% pace.



Source: Bureau of Economic Analysis

Job Growth Is Showing Signs of Moderating

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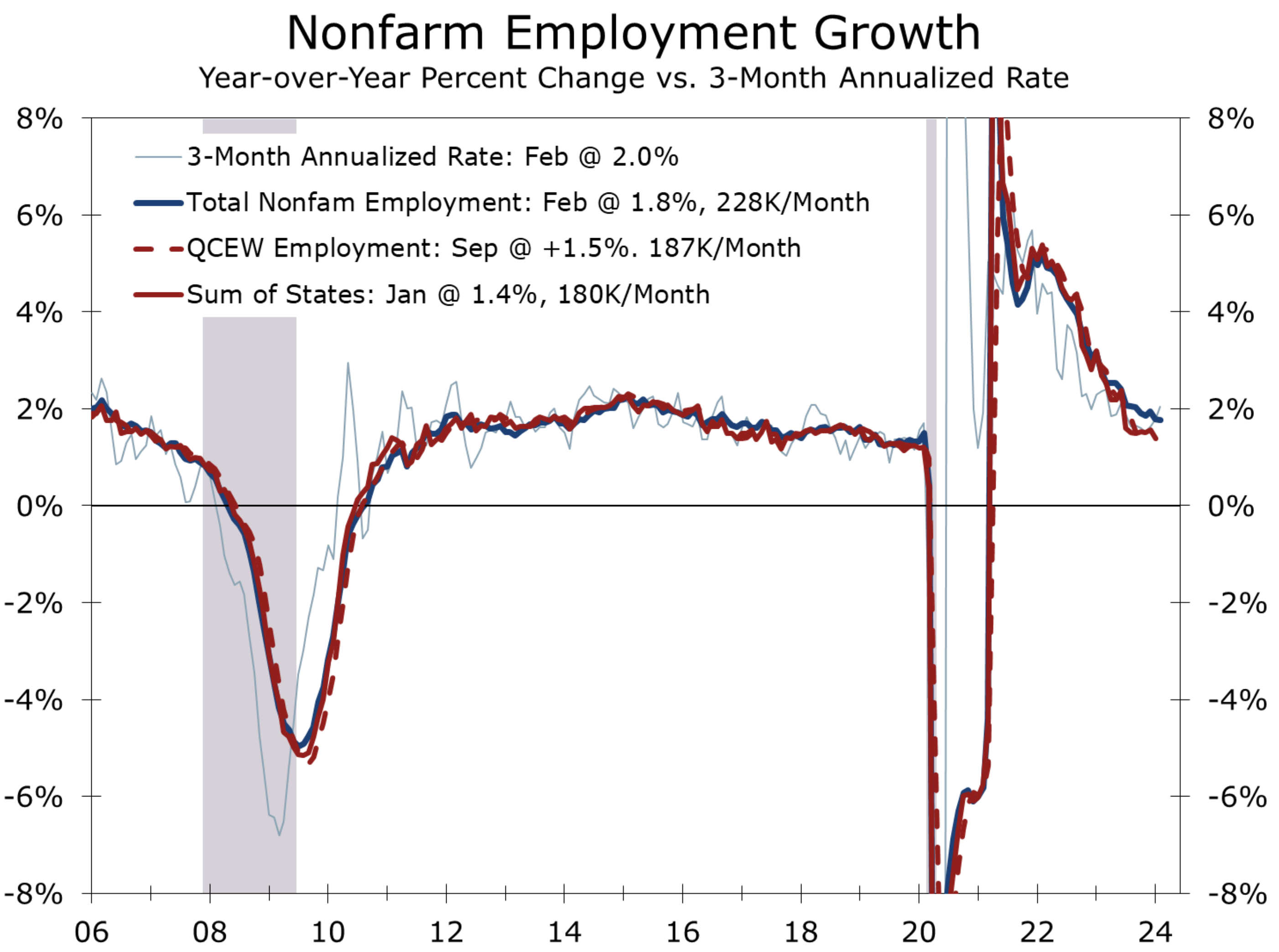
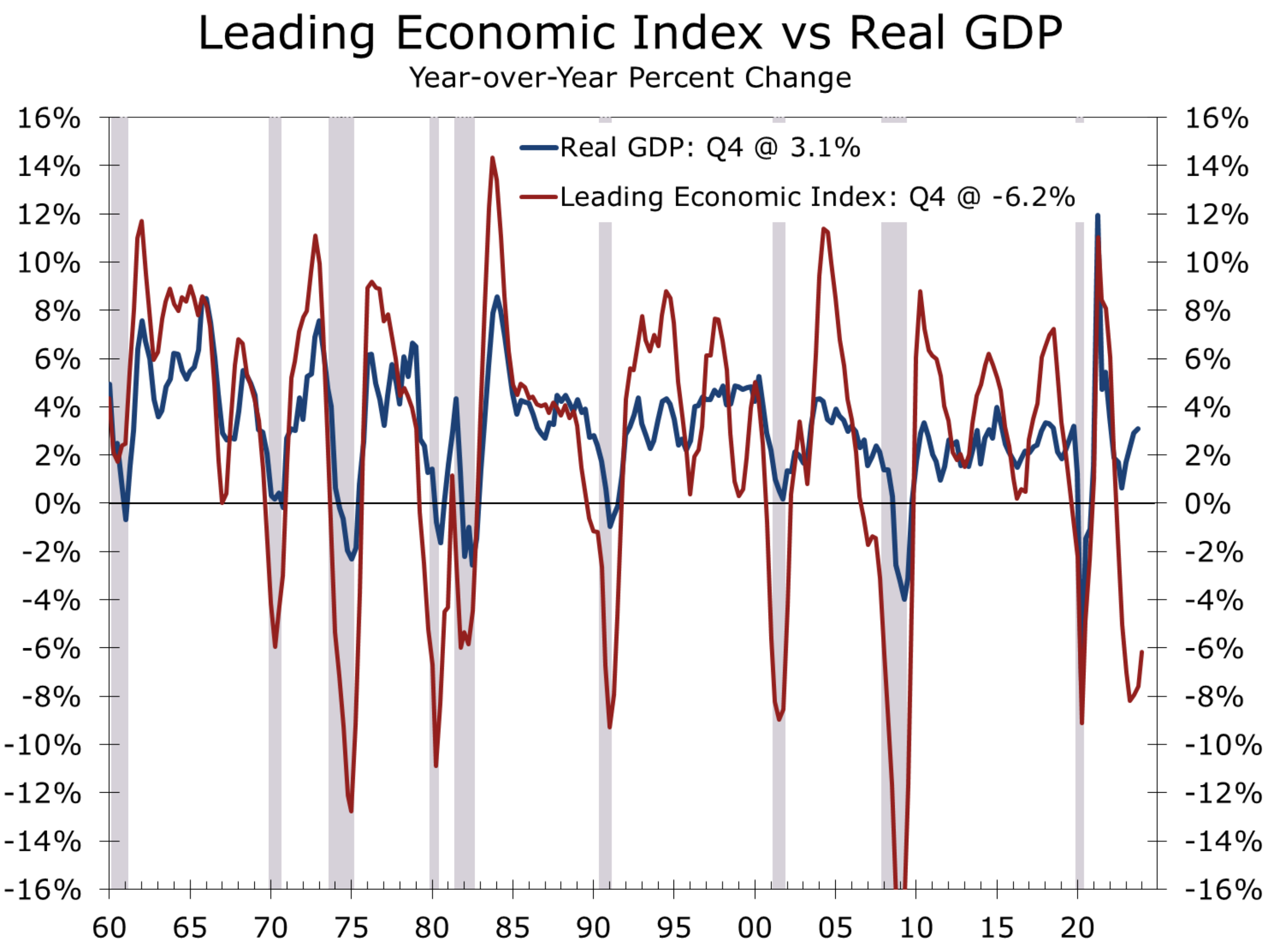
- Job growth came in surprisingly strong the past three months.
- We suspect that payrolls are being overstated by about 800K jobs.
- February job growth was weaker than the headlines suggest.
- We look for job growth to slow to a 160K pace by mid-2024.



The Leading Economic Index Is Pointing Toward Recession

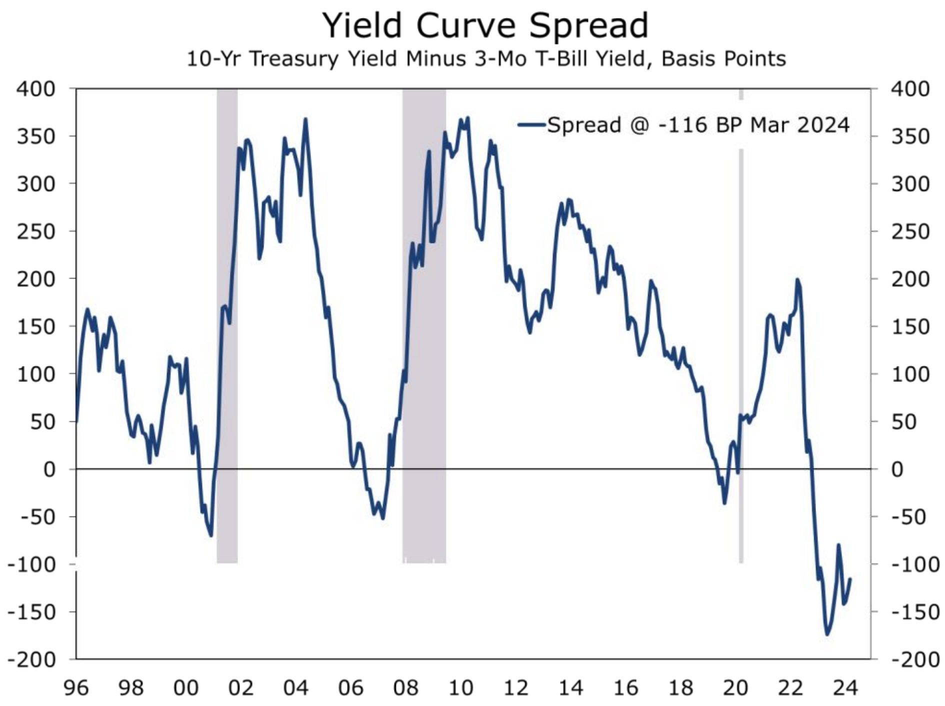
- The Leading Economic Index has reliably predicted past recessions.
- The index has been depressed by normalizing supply chains and the ending of the Fed's previous extraordinary easy monetary policy.
- The LEI increased 0.1 point in February – the first increase in nearly two years.

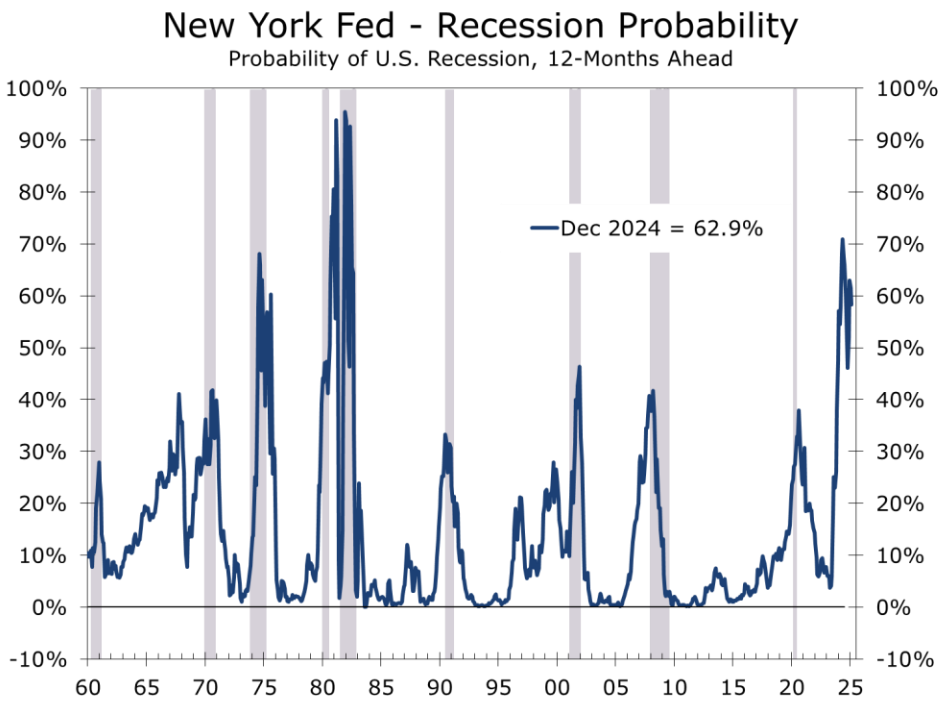


Source: The Conference Board & Bureau of Economic Analysis

Skepticism About A Soft Landing

The yield curve has been inverted for the past year. The Fed has never achieved a soft landing when it has had to bring inflation down from the highs reached in 2022 or push unemployment marginally higher from the lows reached in this cycle. The New York Fed Recession Probability Model puts the odds of a recession by mid-2024 at 70% but declines modestly during the second half of the year.





Source: Refinitiv, Federal Reserve Bank of New York

Inflation Has Rolled Over But Remains Persistent and High

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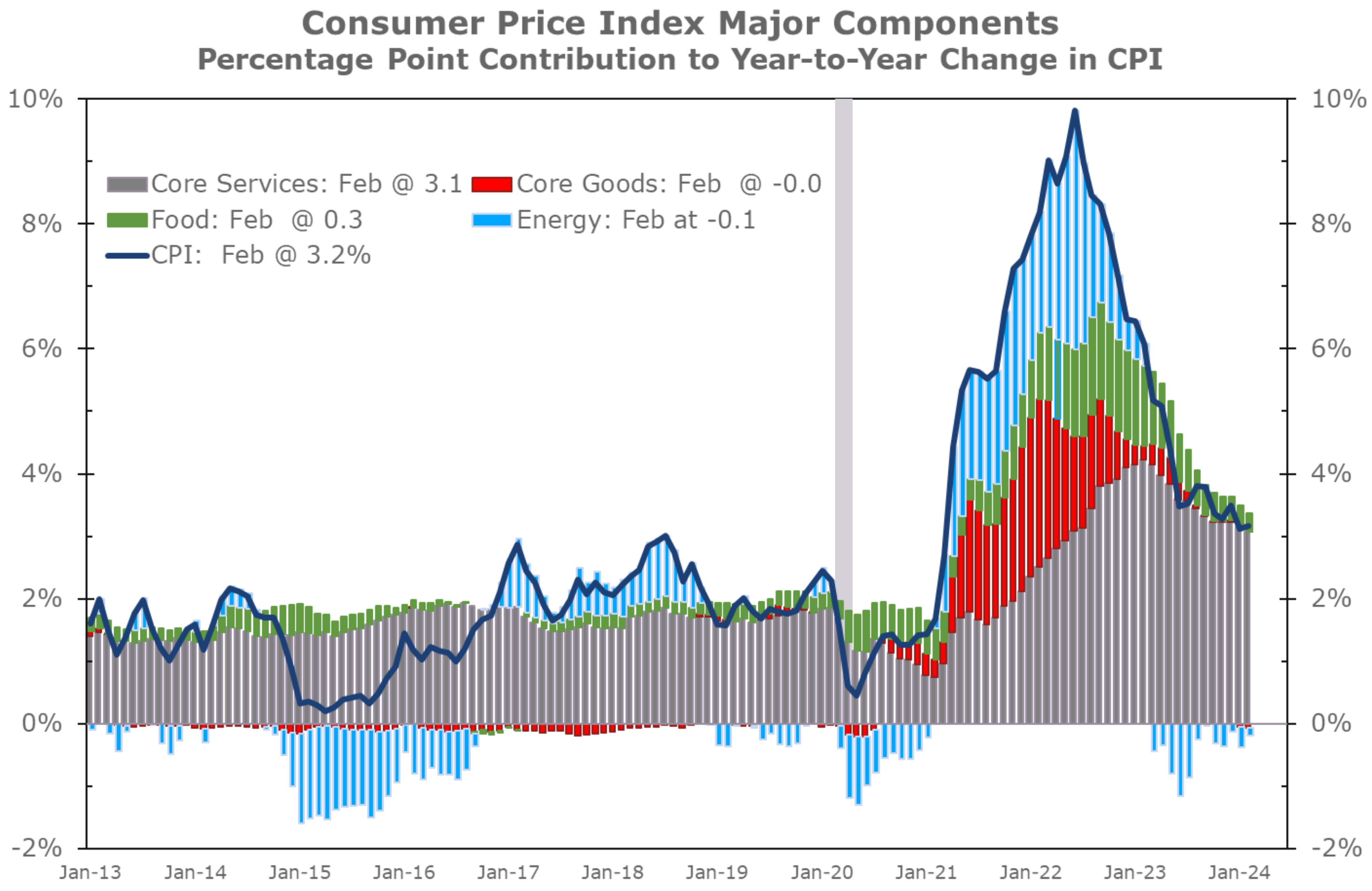
- Headline inflation moderated after the middle of last year, as gasoline prices declined and used car prices moderated.
- Core inflation remains persistent, particularly in labor-intensive parts of the service sector.
- Healthcare costs were understated during the second half of 2023 and are now rebounding.
- An upside surprise remains a risk for the first half of 2024.



Source: Bureau of Labor Statistics

Inflation Has Not Eased as Much as the Headlines Suggest

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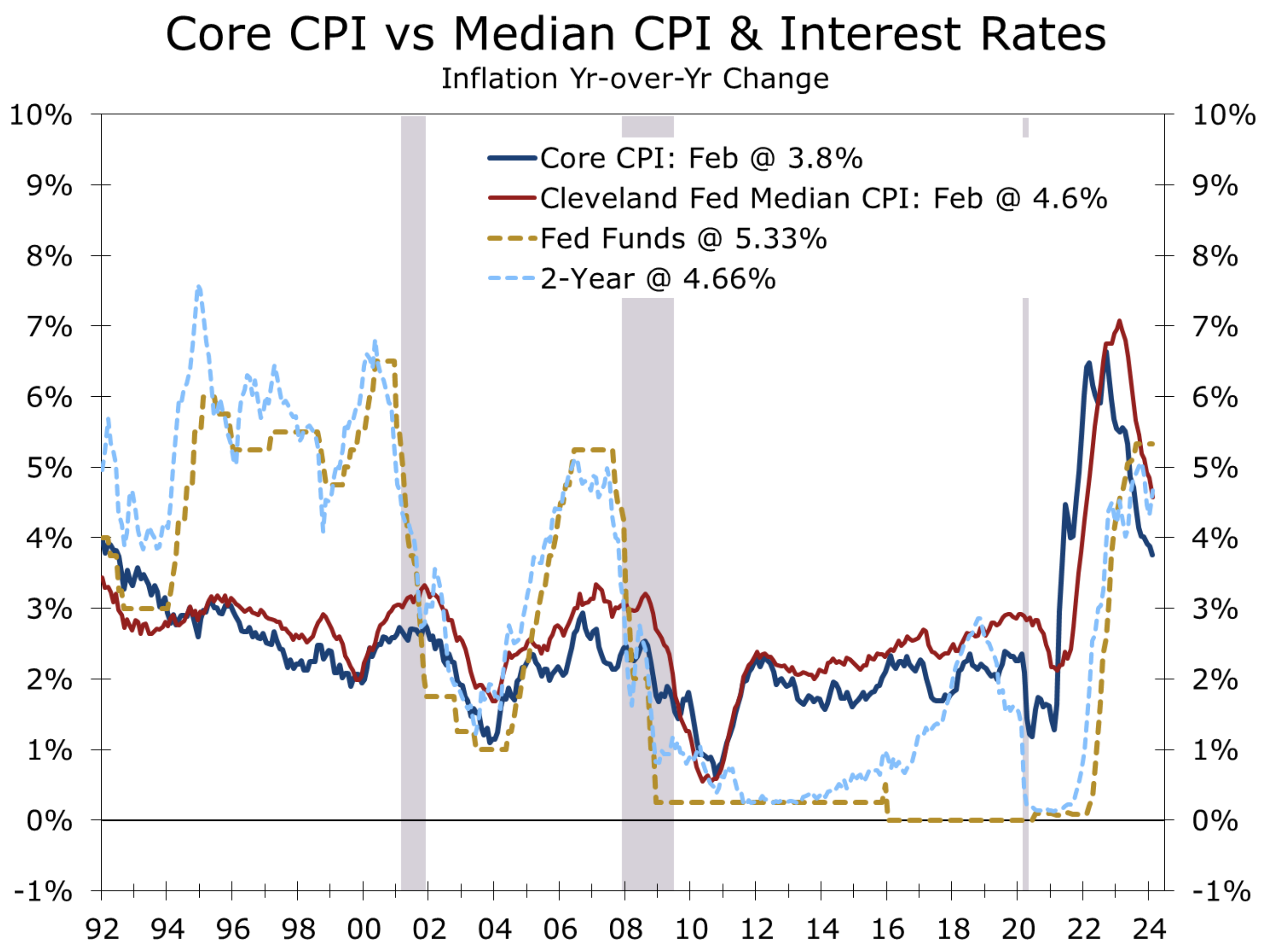
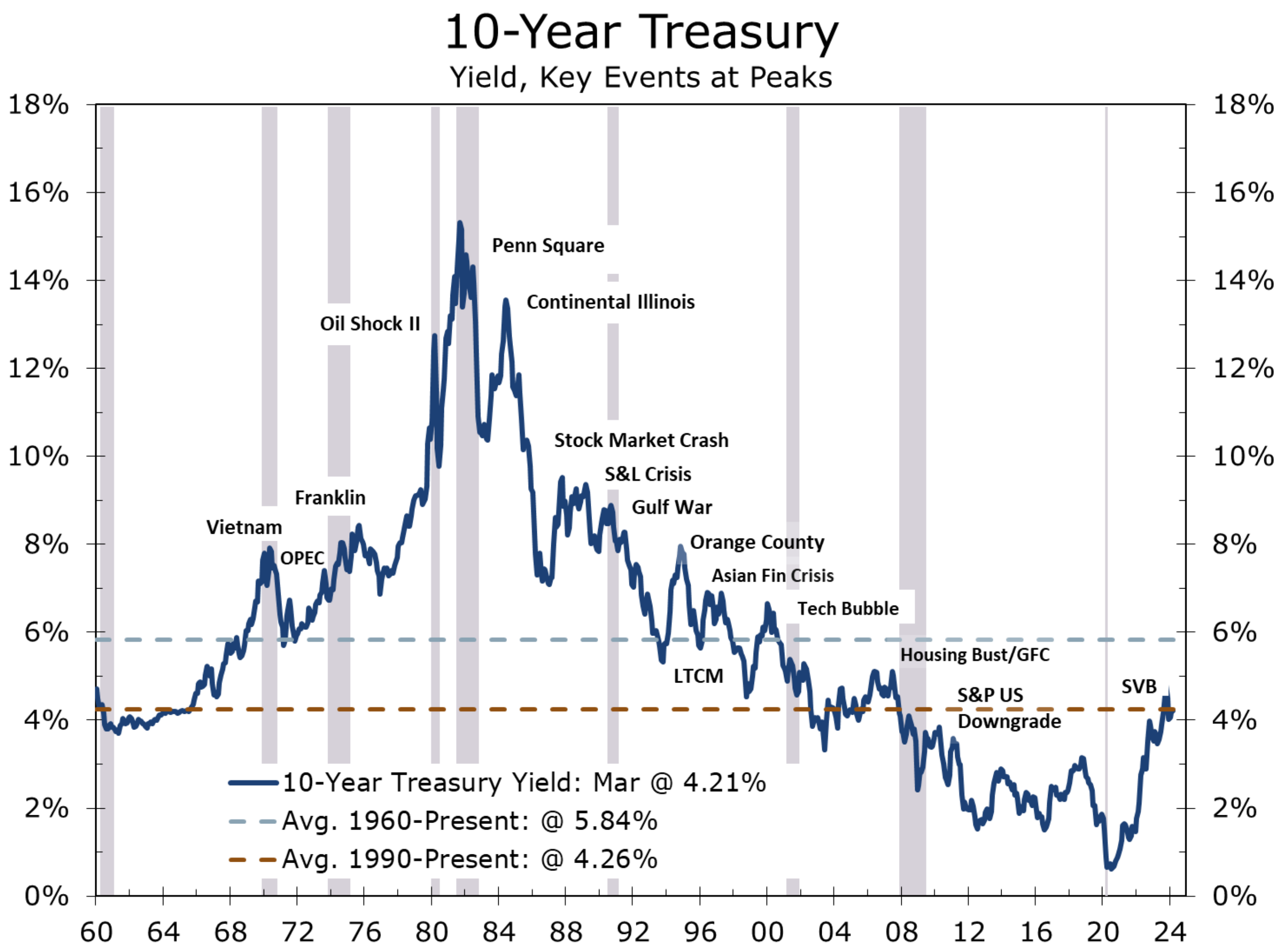
- A sharp reversal in used car prices has exaggerated the improvement in the core CPI.
- A better measure is the Cleveland Fed's Median CPI, which closely tracks core services prices, which are only slowly moderating.
- The implication is the Fed will likely ease more slowly.



Source: Bureau of Labor Statistics, Cleveland Fed & Federal Reserve Board

Concerns About Higher Inflation Are Pulling Interest Rates Higher

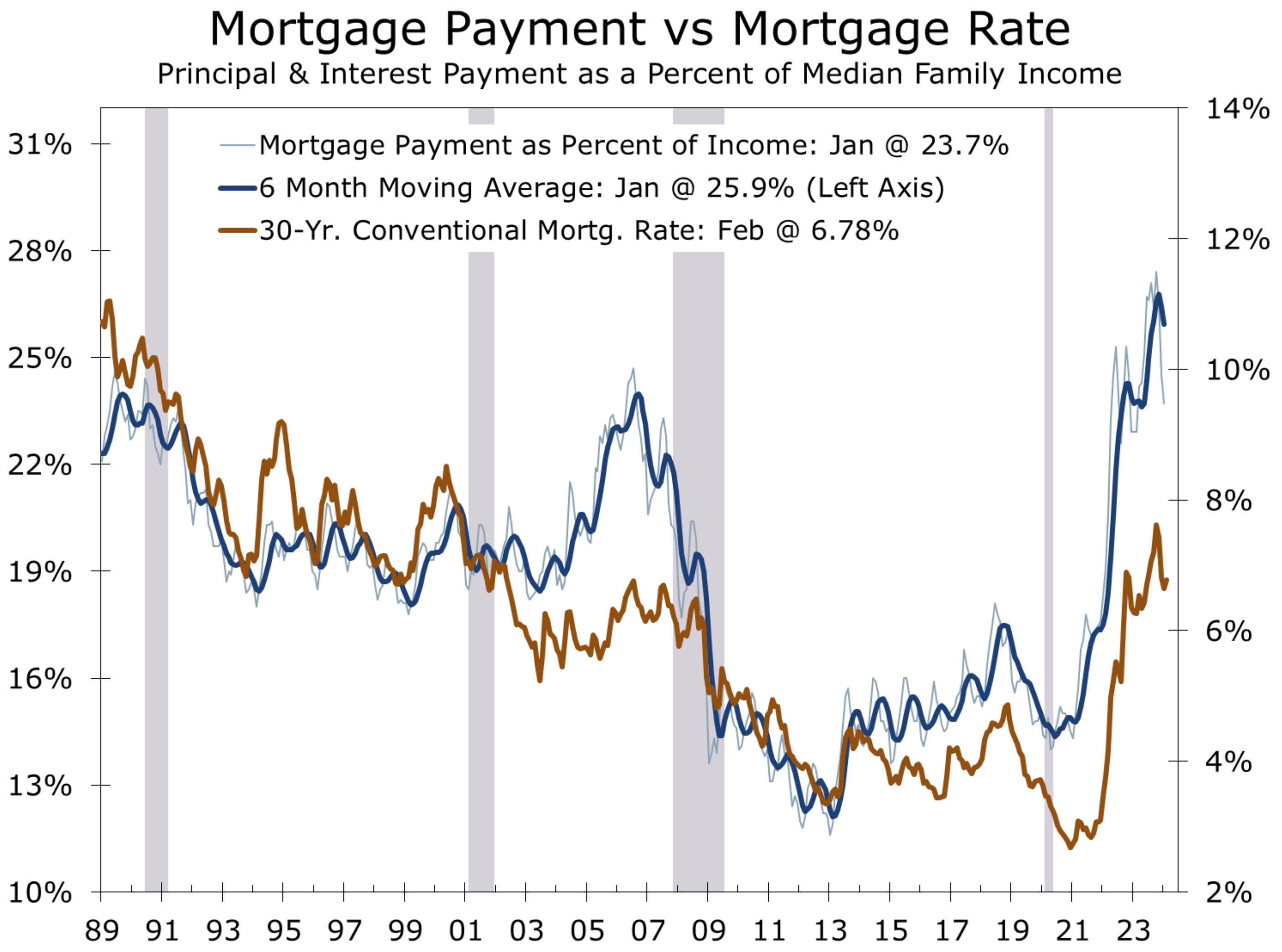
- Long-term rates have firmed since the January CPI report.
- The 10-Year Treasury remains historically low and is slightly below the average for the past 30+ years.
- Mortgage Rates are usually 170 bp above the 10-Yr Treasury Yield but the spread is currently 260 bp.



South: Federal Reserve Board

Affordability Deteriorated Quickly Following the Pandemic

- Housing affordability remains stretched. Principal and interest payments rose to 6.5% of median family income. The norm is around 19%.
- At $1,984/Month, principal and interest payments now account for a larger share of median family income than they did at the peak of the housing bubble.



Source: National Association of Realtors

Affordability Remains A Formidable Hurdle to Home Buyers

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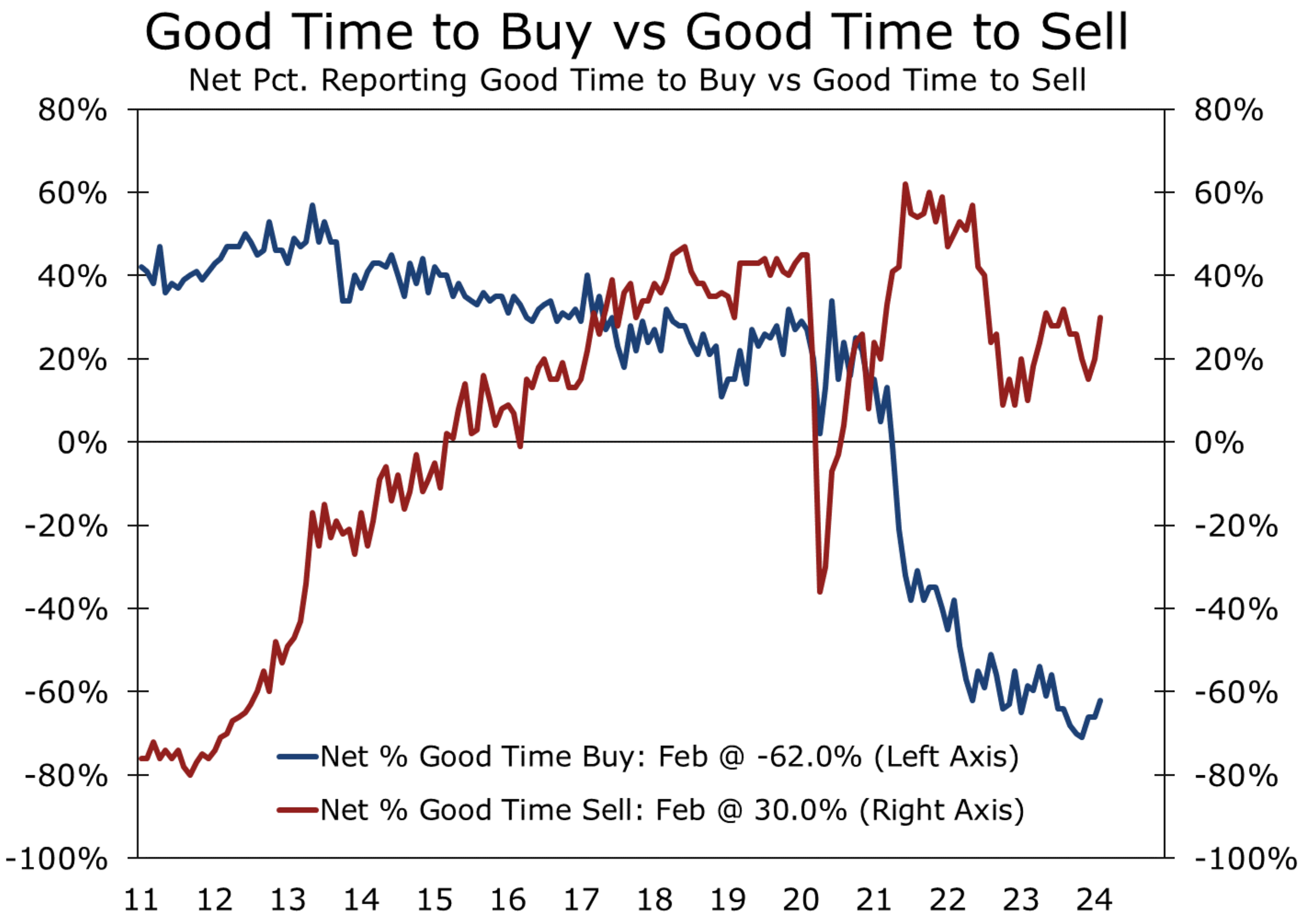
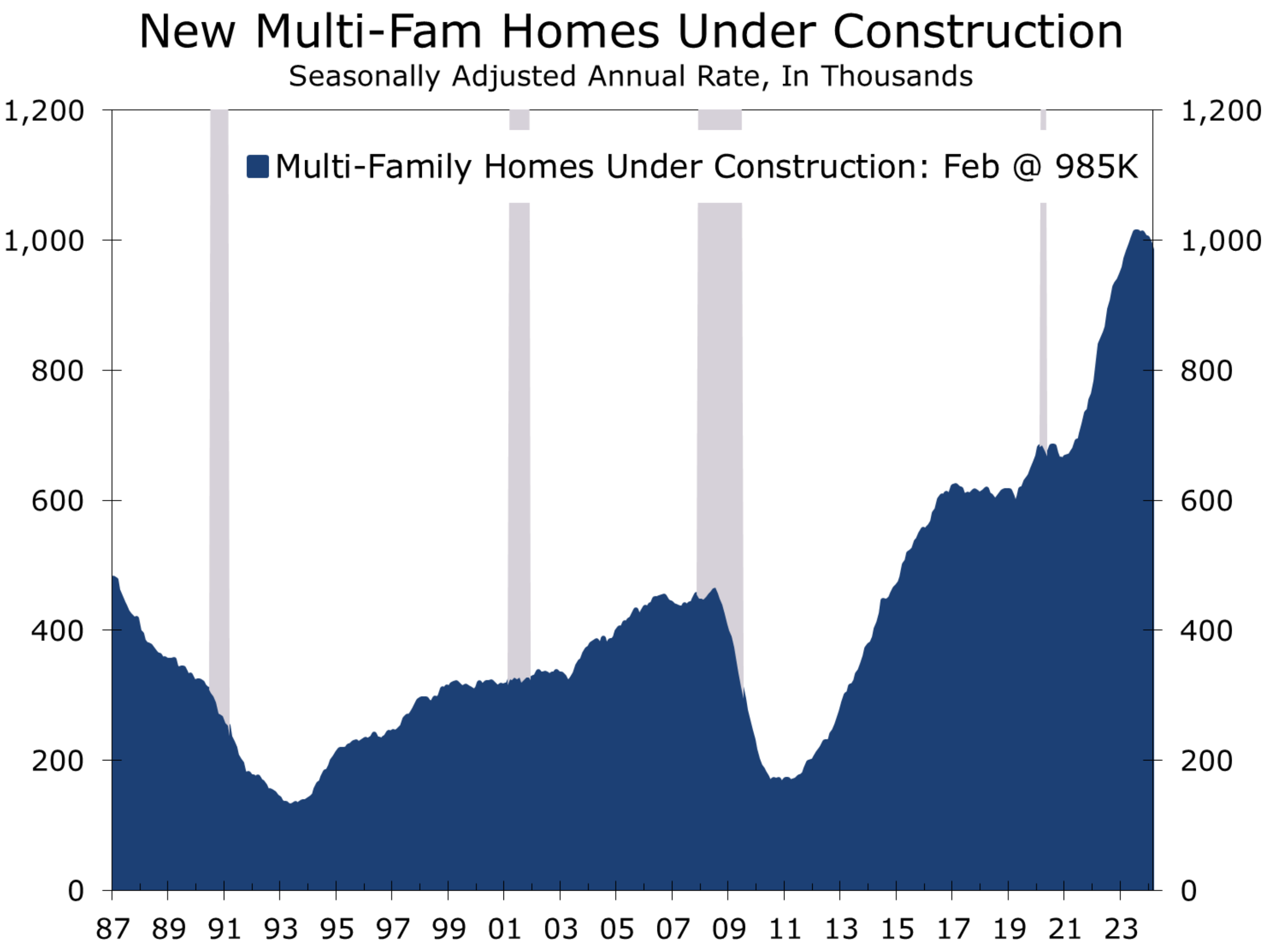
- The net proportion of consumers that feel now is a good time to buy a home remains near a record low, reflecting the general lack of affordable homes.
- There has been a slight uptick in the proportion of consumers that feel now is a good time to sell, likely reflecting the resurgence in home prices.



Source: Fannie Mae

The Are Just Over 1 Million Apartments Under Construction

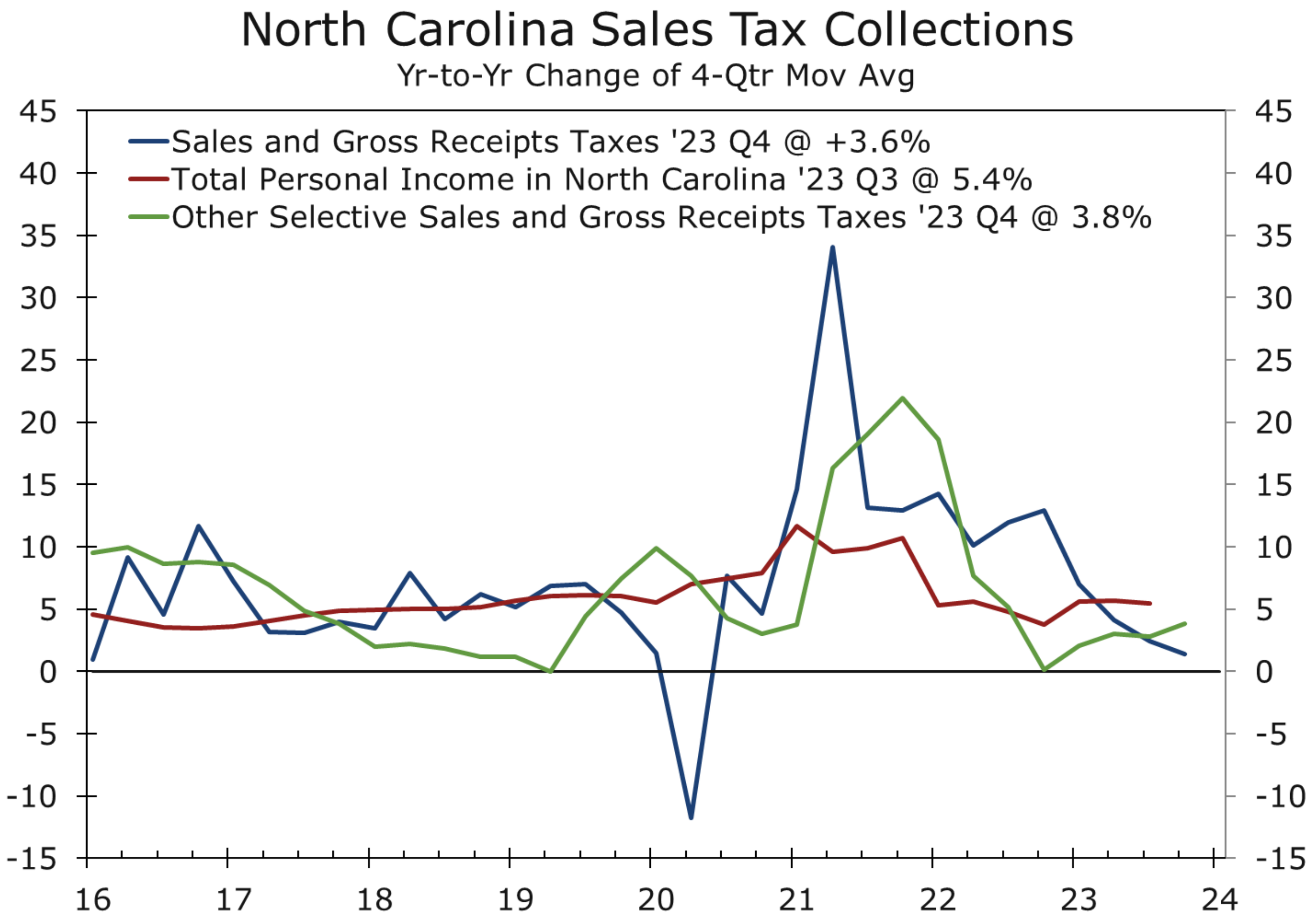
- The number of apartments under construction has continued to rise, as cycle-times remain unusually long.
- There has also been a rush to start new projects ahead of tightening credit.
- Despite the surge in construction, the overall housing supply remains relatively tight.



Source: Census Bureau

Sales Tax Collections Have Slowed As Spending Shifted To Services

- Tax collections have moderated, as spending has shifted from goods to services.
- Higher grocery store prices are also leaving consumers with less to spend on other items.
- Travel and leisure is a bright spot, with higher hotel and restaurant prices boosted receipts. Business travel is soft, however.



Source: Census Bureau & Bureau of Economic Analysis

Rapidly Growing Markets Are Seeing the Largest Supply Increases

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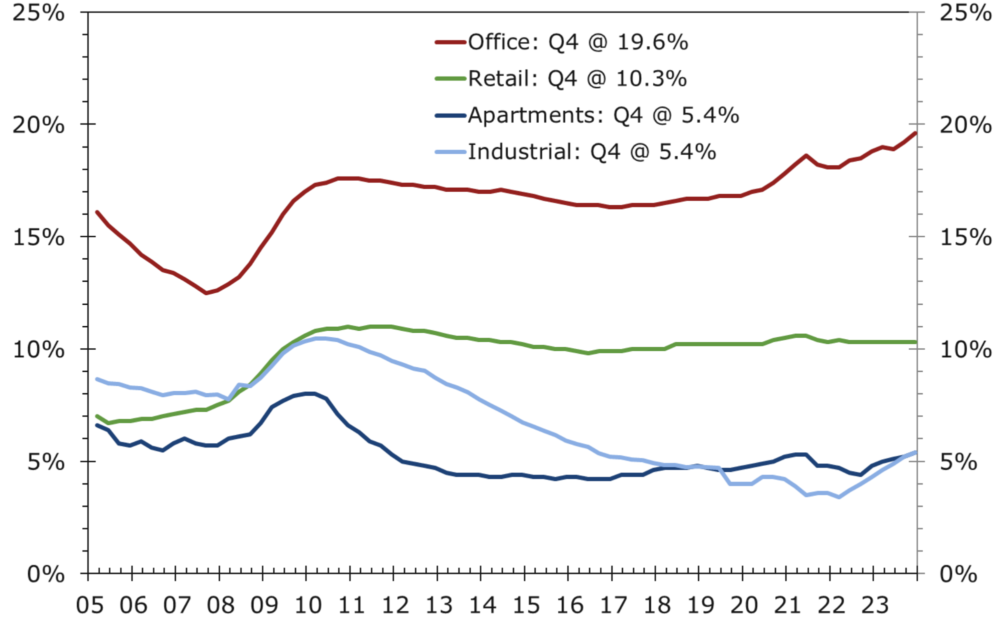
- The bulk of the new apartments being delivered this year will be in the South.
- Austin has long been the nation's fastest growing metro area but has slowed recently.
- Charlotte, Raleigh, South Florida & Nashville are adding considerable inventory and vacancy rates are headed higher.

Source: Yardi Matrix

The commercial real estate market peaked in late 2021. Vacancy rates have risen only modestly for most property types. The office market is the notable exception. Vacancy rates have risen sharply in large urban markets, particularly in older class B and C buildings. Retail space has benefitted from the shift toward remote work and apartment and industrial vacancy rates have risen modestly overall.

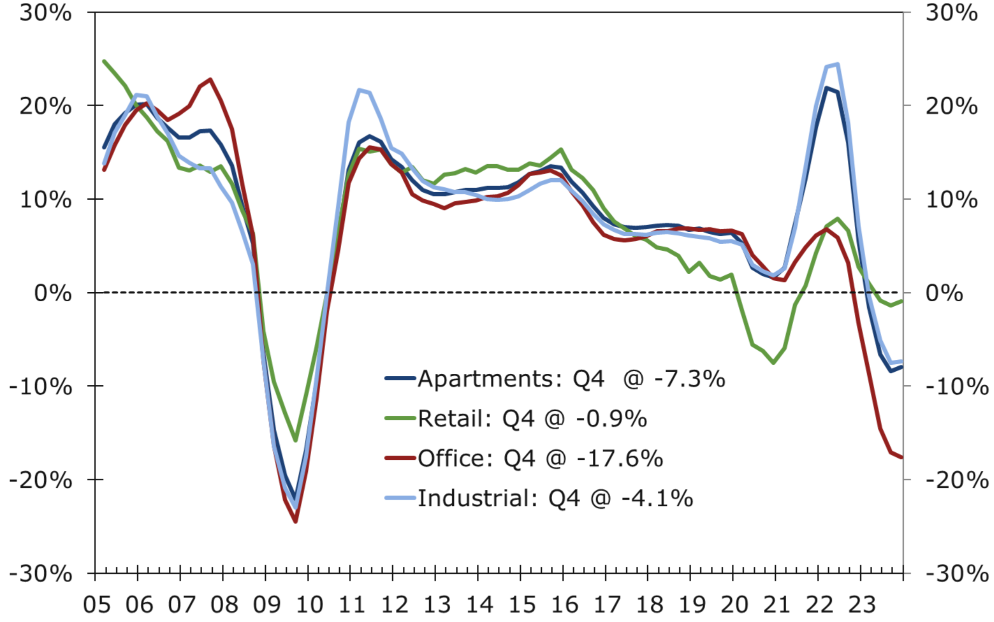
Commercial Real Estate - Major Property Types

Vacancy Rates



Commercial Property Price Index

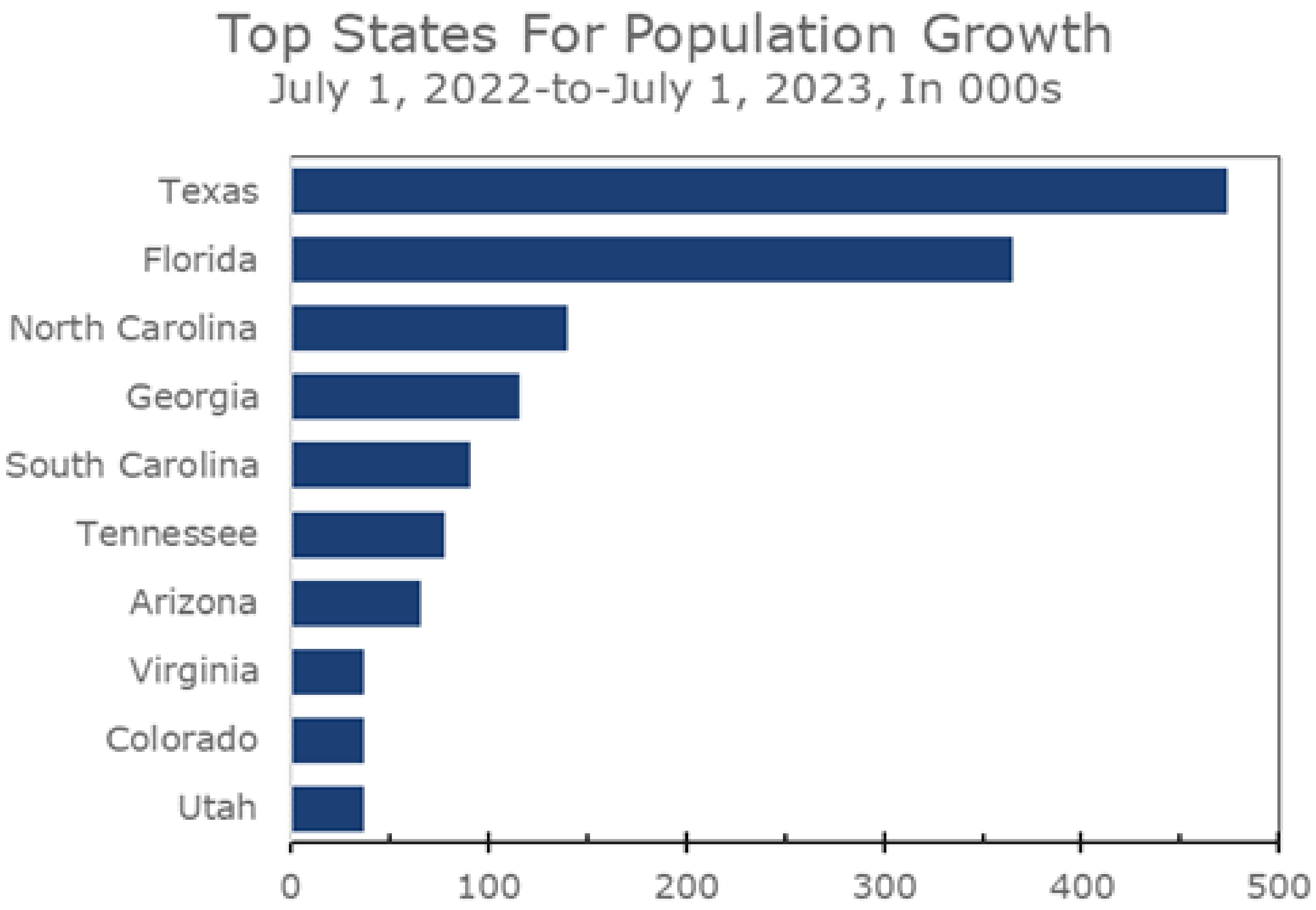
Year-over-Year Percent Change, by Sector



Source: Refinitiv, Moody's REIS, NCREIF, Piedmont Crescent Capital

The South Dominates The List of Fastest Growing States

- North Carolina posted the third largest population gain this past year.
- Net in-migration from other states accounted for the bulk of the increase, with most newcomers arriving from the Northeast and South.
- Texas led the nation on an overall basis.
- Florida led the nation in net domestic migration, followed by Texas, the Carolinas, and Tennessee



Source: Census Bureau

North Carolina Population Growth

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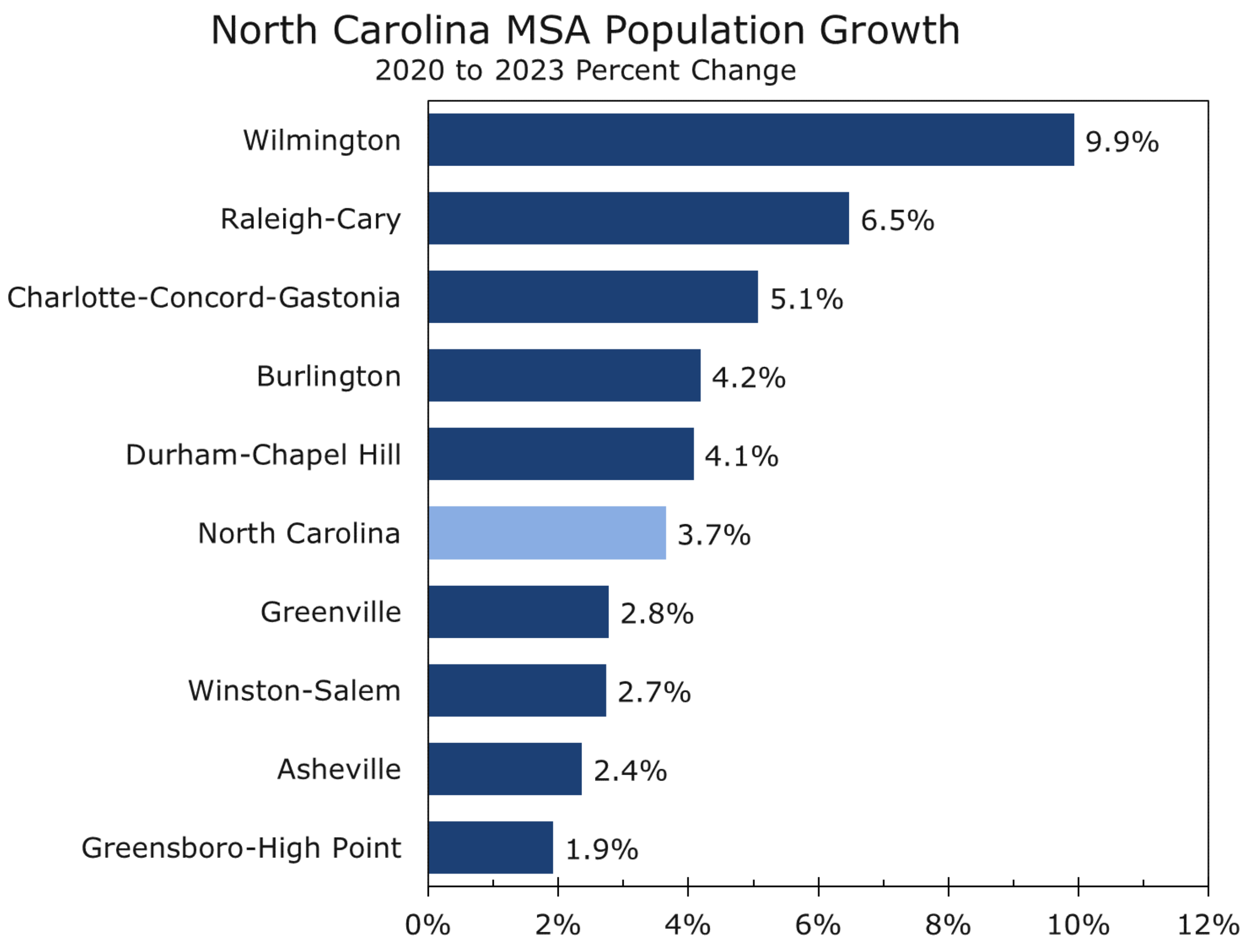
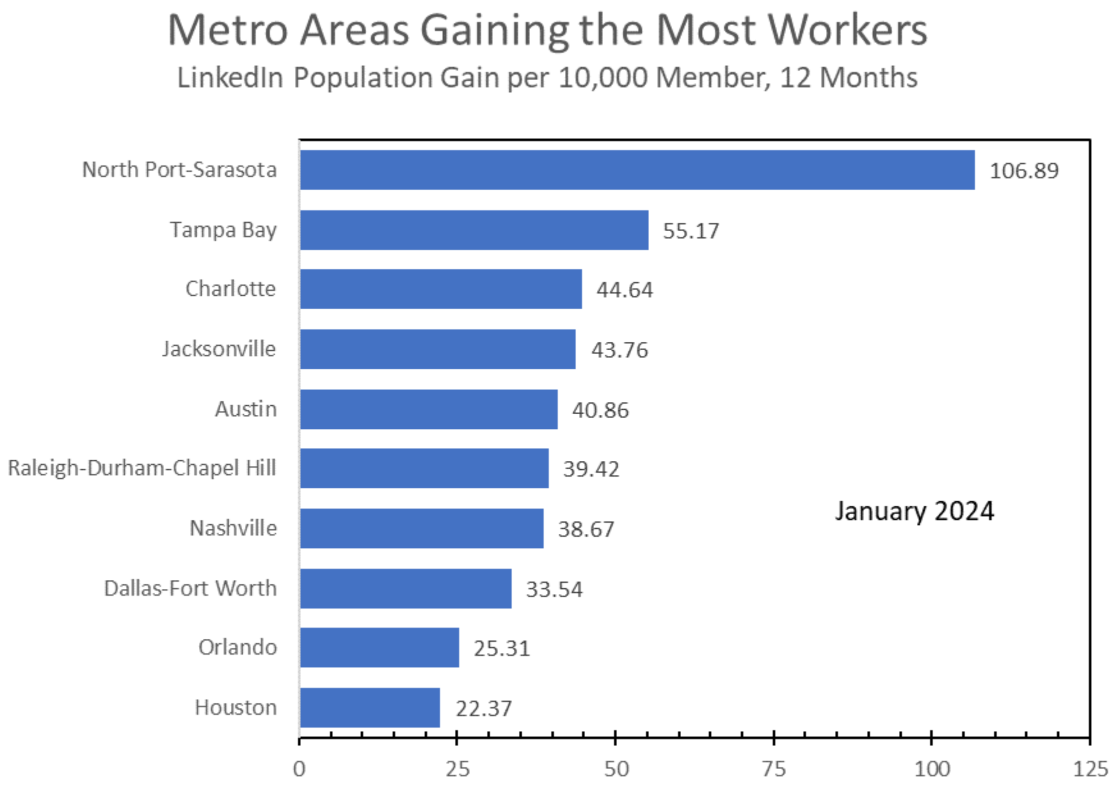
- North Carolina's major metro areas remain a top destination for young college educated workers.
- Retirees are bolstering population growth along the coast.
- Population growth is accelerating in outlying areas of major metros.
- Asheville has seen growth moderate due to higher housing cost.



Source: Census Bureau

Workers Are Continuing to Migrate to the South

- The LinkedIn data suggest many of the people relocating to Charlotte and Raleigh are doing for work reasons.
- Workers are moving less than they have in recent years.
- Florida consistently ranks near the top in overall net in-migration, most of which are working age adults.
- Austin and Nashville have fallen back from their long-held spots at the top of the list.



Source: LinkedIn

Stronger Demographics is Helping Charlotte Offset Adverse Shifts

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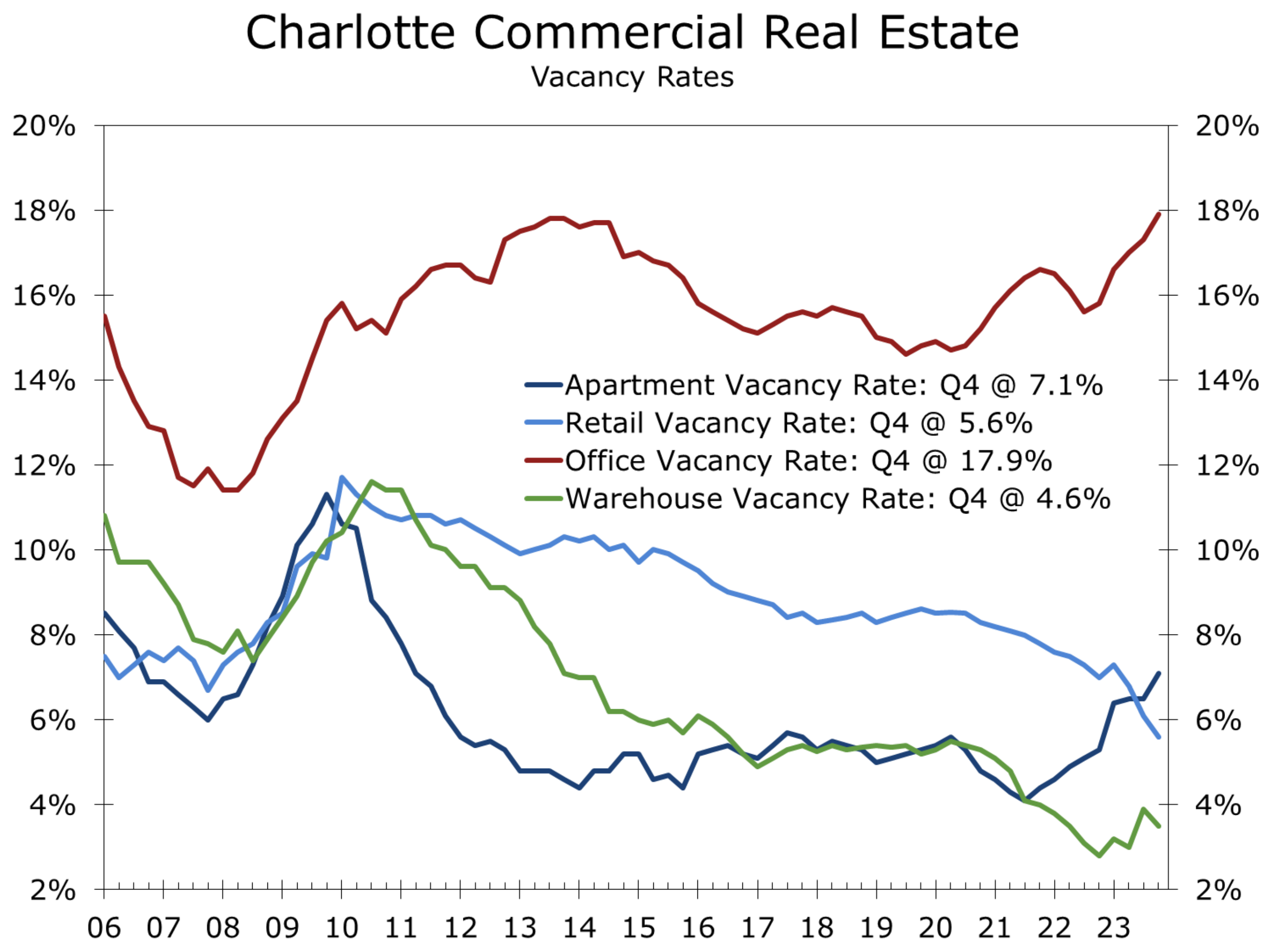
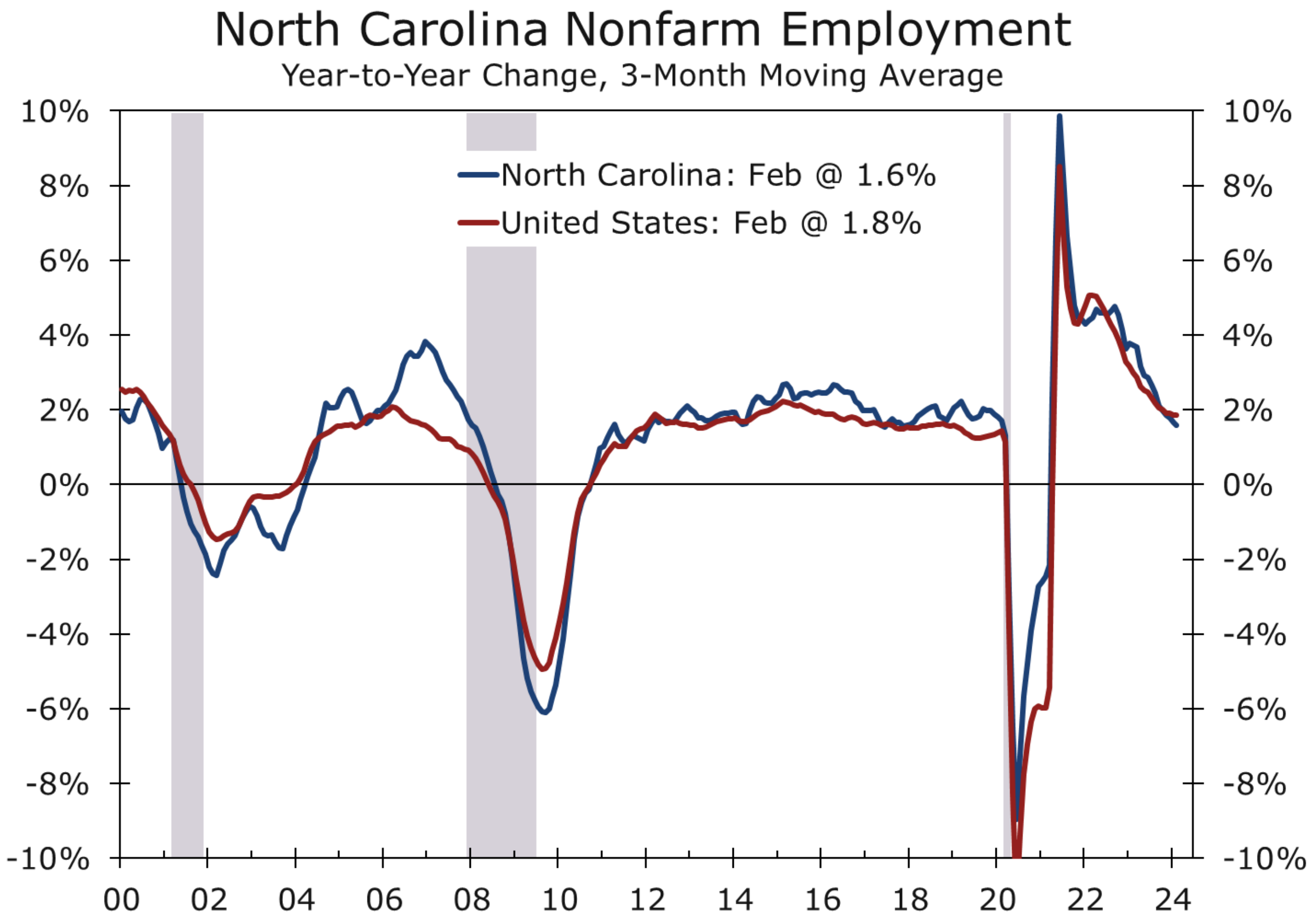
- Charlotte has seen a spike in office vacancy rates, just like most other major metro areas.
- New supply is mostly in rapidly growing markets.
- Apartment demand remains strong amidst a wave of new supply.
- Quality retail space remains in short supply.



Source: Moody's REIS & Piedmont Crescent Capital

North Carolina Job Growth Has Moderated Along With the Nation

- Job growth has moderated across the country and across North Carolina this past year.
- Hiring has slowed the most in manufacturing, distribution and construction.
- Job growth remains strong in industries still striving to replace workers lost during the pandemic (health care, travel & leisure and government).



Source: Bureau of Labor Statistics

Preliminary Employment Data Show Bifurcated Job Growth

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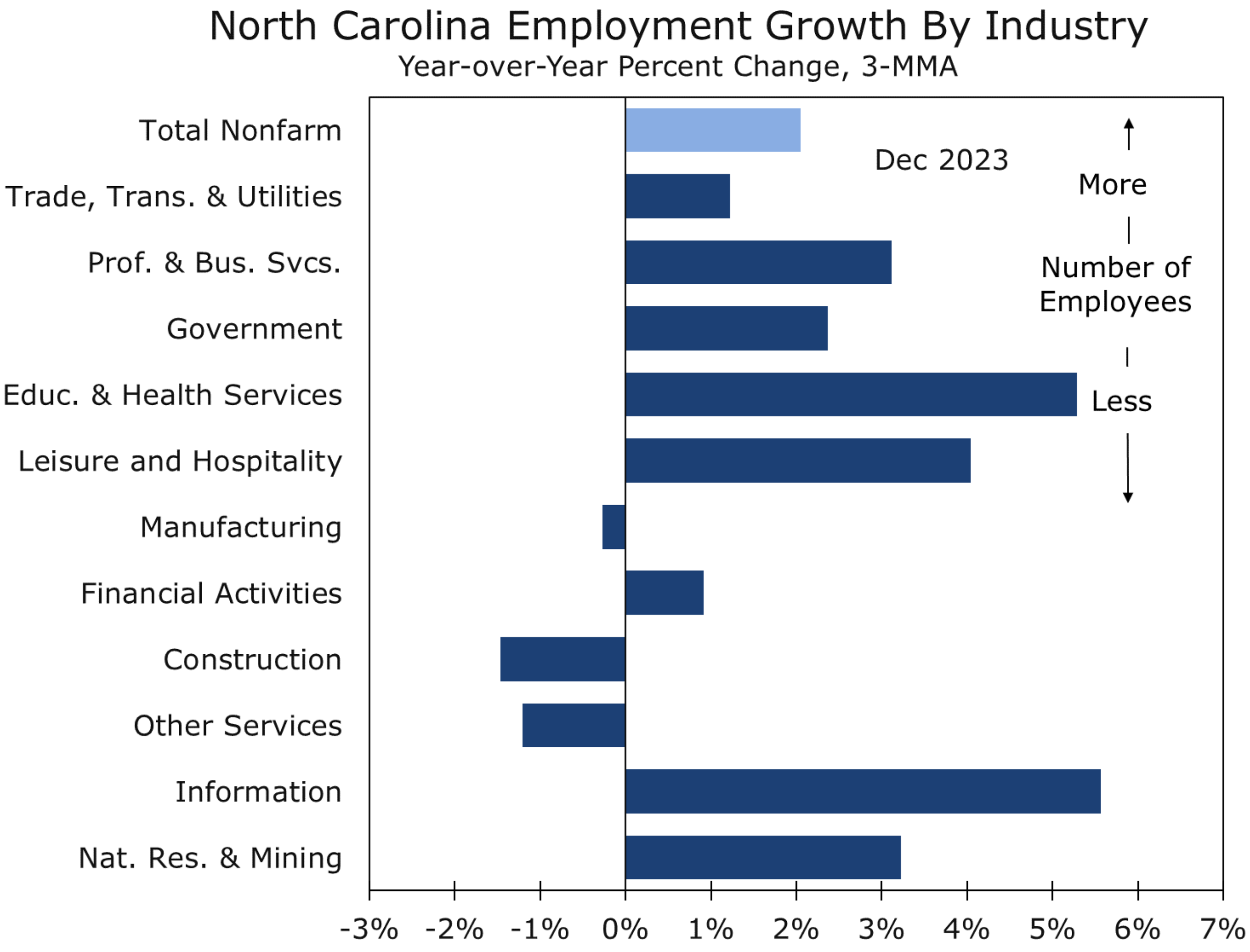
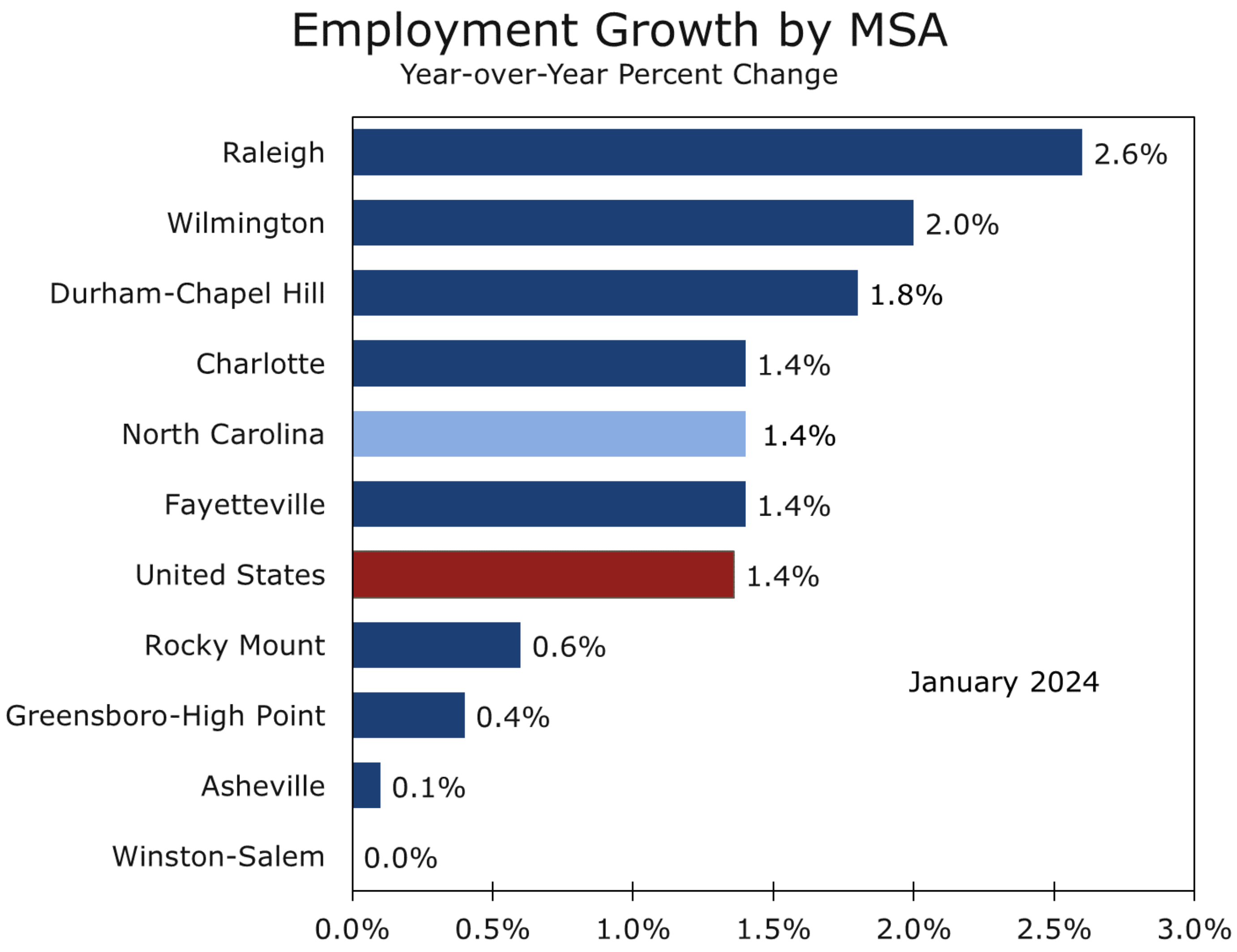
- Private education and health care, the hospitality sector and professional services accounted for the bulk of job growth.
- Manufacturing has struggled this past year but remains well short of workers.
- The technology sector is growing rapidly, albeit on a small base



Source: Bureau of Labor Statistics

Job Growth Is Strongest in Areas With A Large Health Care Presence

- The Triangle and Wilmington led the state in job growth this past year, driven by tech, life sciences and tourism.
- Charlotte saw job growth moderate during the second half of last year.
- Manufacturing struggled this past year, limiting job growth in the Triad and Hickory.



Source: Bureau of Labor Statistics

Unemployment Remains Low Across Much of the State

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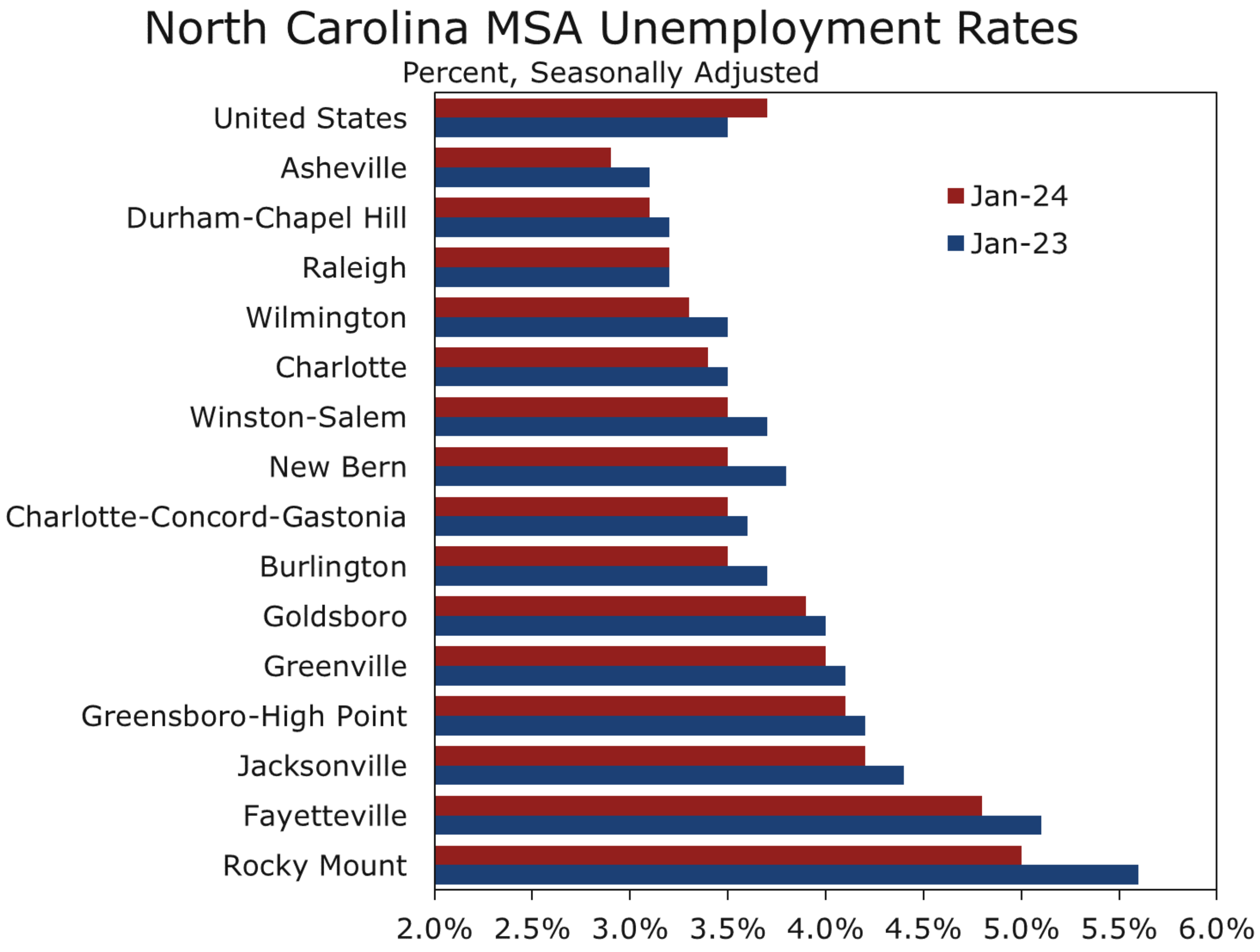
- Asheville consistently maintains one of the lowest unemployment rates in the state.
- The highest unemployment rates are generally in the Eastern part of the state and in manufacturing centered MSAs.
- The Triangle also consistently maintains low unemployment.



Source: Bureau of Labor Statistics

Home Building Remains in Line With Population Growth

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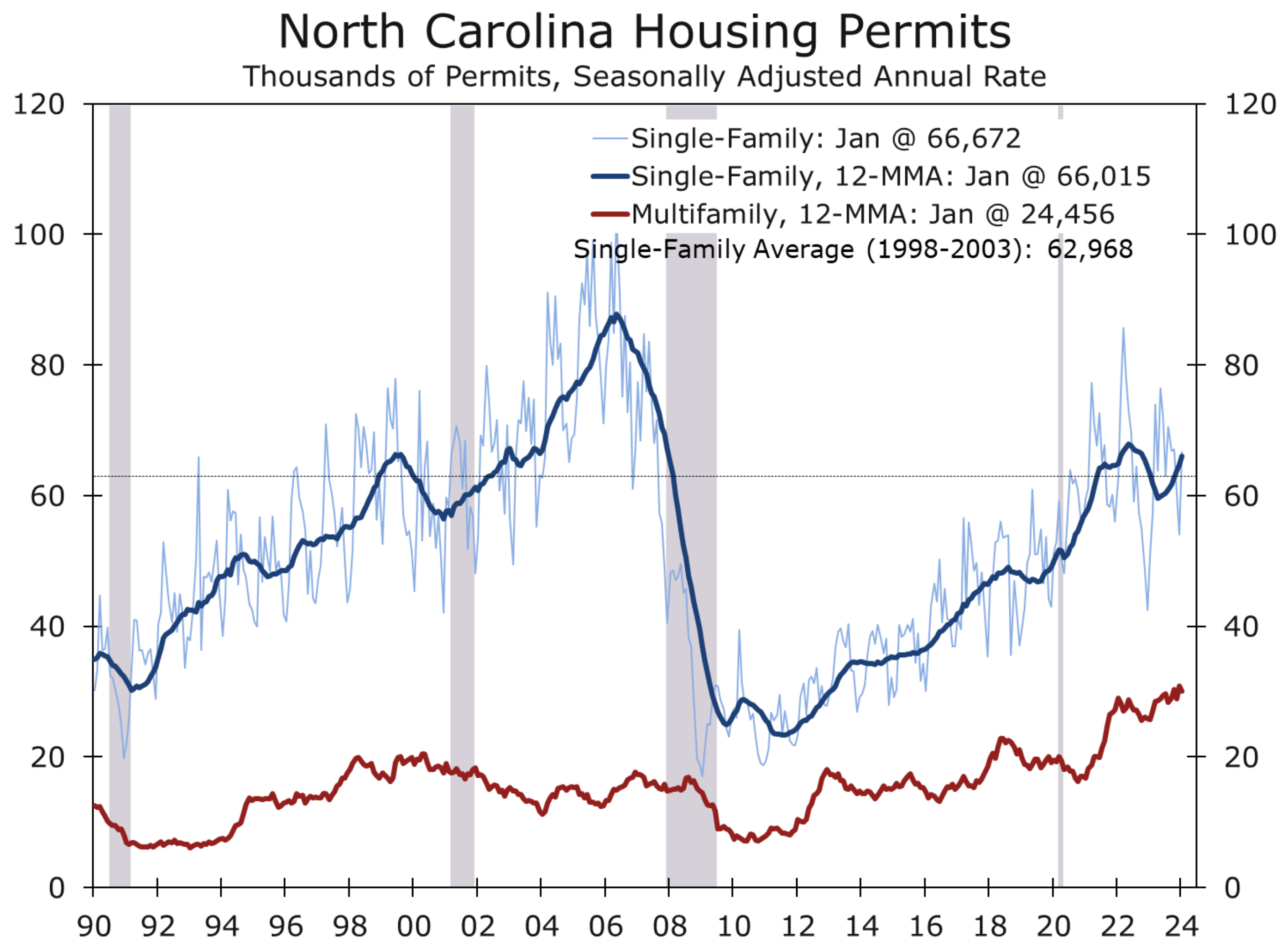
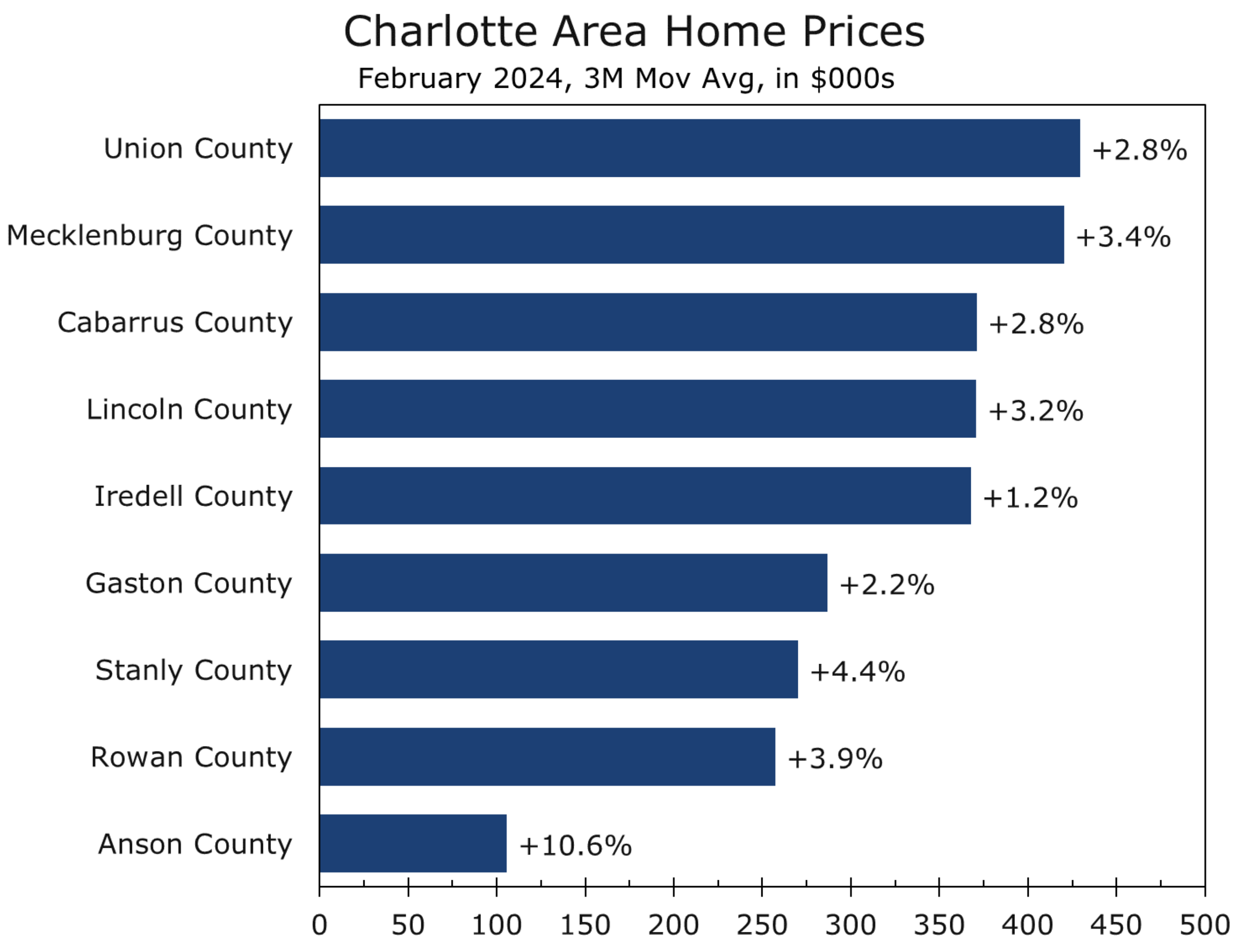
- The persistent lack of existing homes continues to stoke demand for new homes.
- Single-family permits are in line with historic norms.
- Apartment construction is running at an all time high, which will push vacancy rates higher in Charlotte and Raleigh.



Source: Census Bureau

Home Price Appreciation Moderates Across Charlotte

- Home price appreciation has moderated following strong gains in 2022.
- The highest priced housing markets are close to major employment centers.
- Charlotte is seeing an affordability migration to lower cost outlying areas.
- Anson County has seen large percentage gains in prices off a low base.



Source: Zillow

South Charlotte & Lake Norman Are The Priciest Areas

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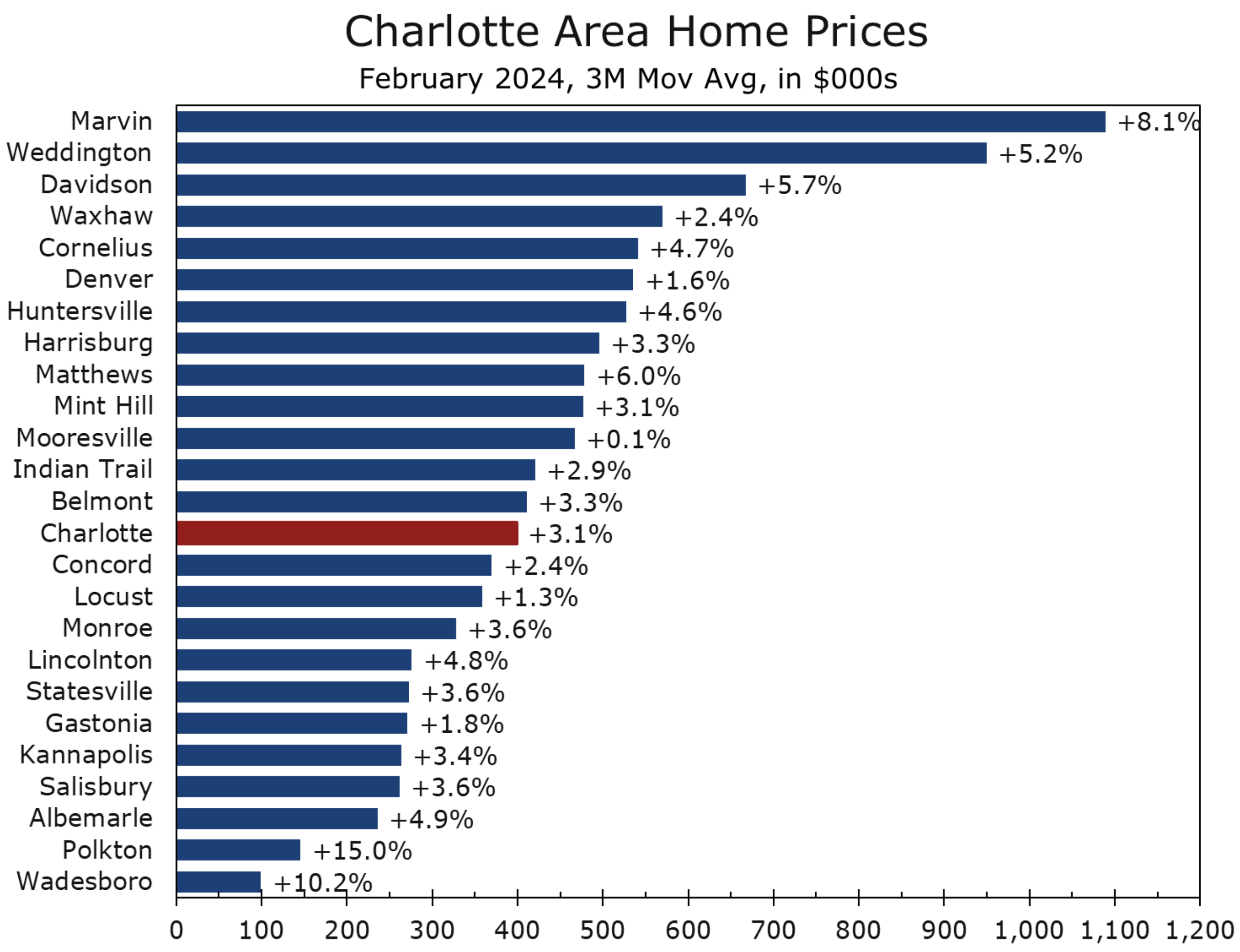
- Suburbs adjacent to major employment centers have the region's highest priced homes.
- Lake Norman continues to see strong price appreciation.
- Some of the fastest gains in home prices are in distant suburbs, with relatively low home prices/



Source: Zillow

Charlotte Has Enjoyed Strong Job Growth Since the Pandemic

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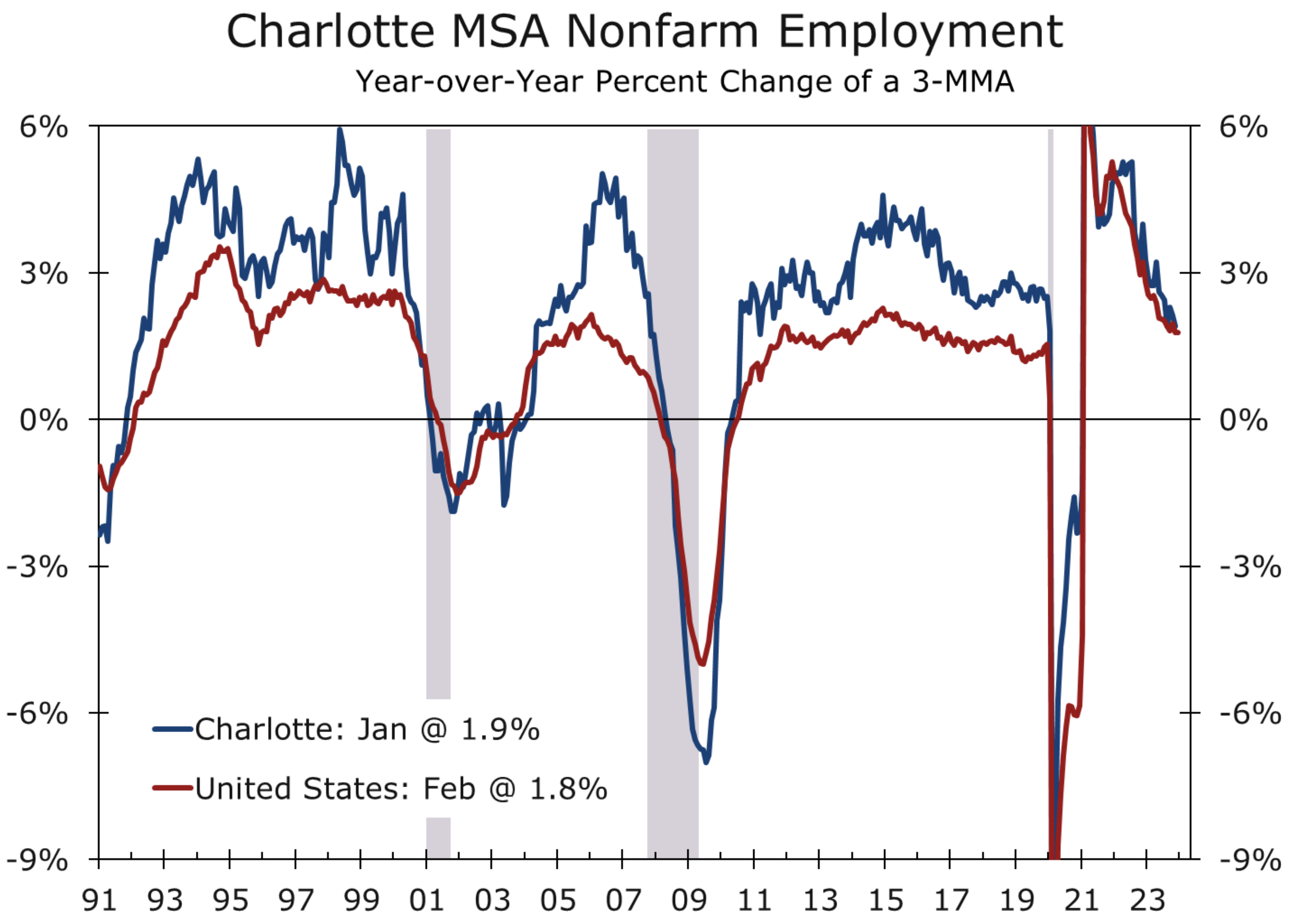
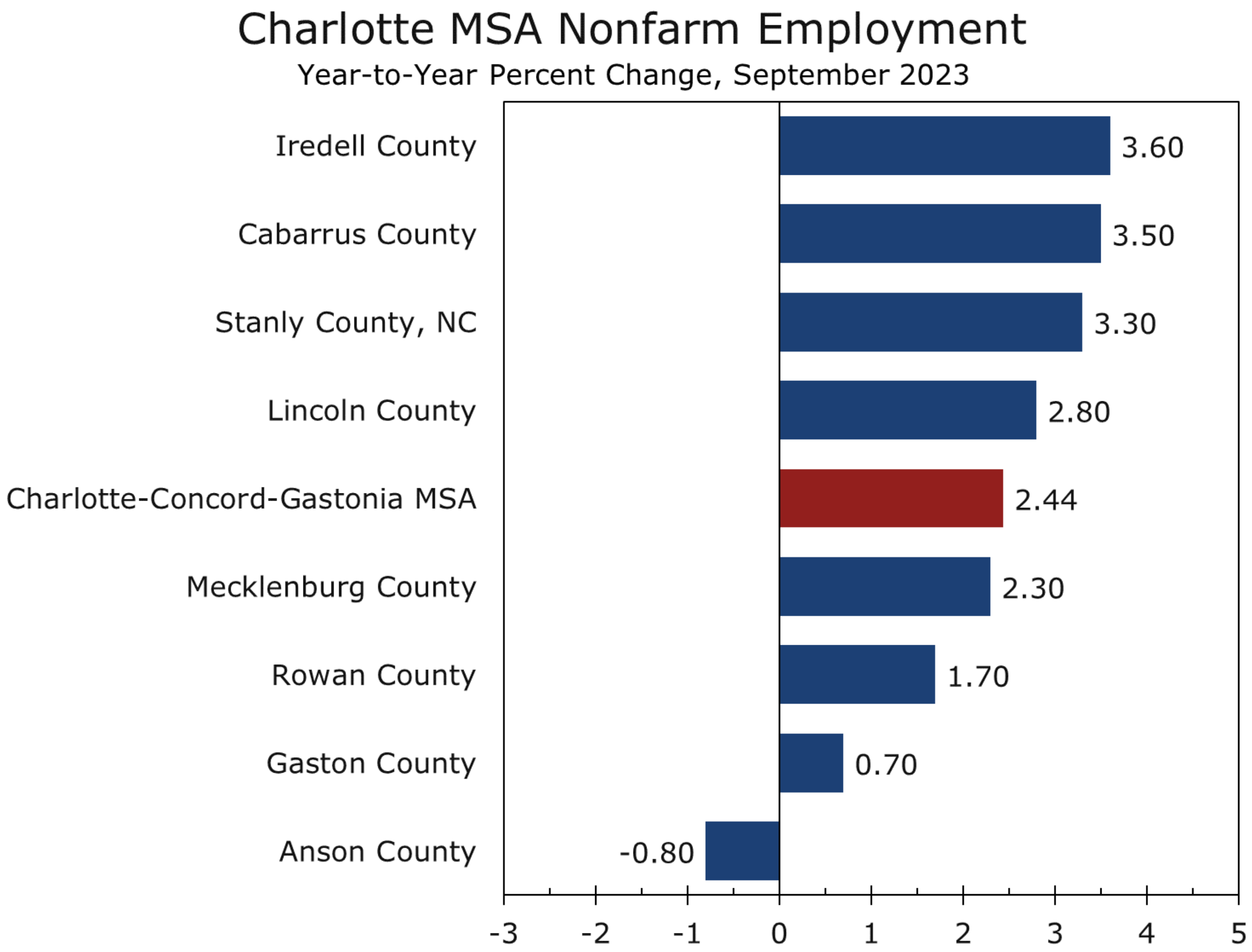
- Job growth decelerated this past year, and we suspect data will be revised slightly lower in coming weeks.
- Job growth has been more heavily weighted toward leisure and hospitality and government.
- Mecklenburg shows job growth up 2.3% over the past year. Iredell and Cabarrus are up 3.5% and 3.7%, respectively.



Source: Bureau of Labor Statistics

Charlotte's Suburbs Led Job Growth This Past Year

- Hiring slowed abruptly in the banking and technology sectors during the second half of last year, restraining Charlotte.
- Outlying areas saw job growth accelerate, reflecting major industrial projects and population-driven hiring.



Source: Bureau of Labor Statistics

Most Counties Have Seen Employment Surpass Pre-pandemic Levels

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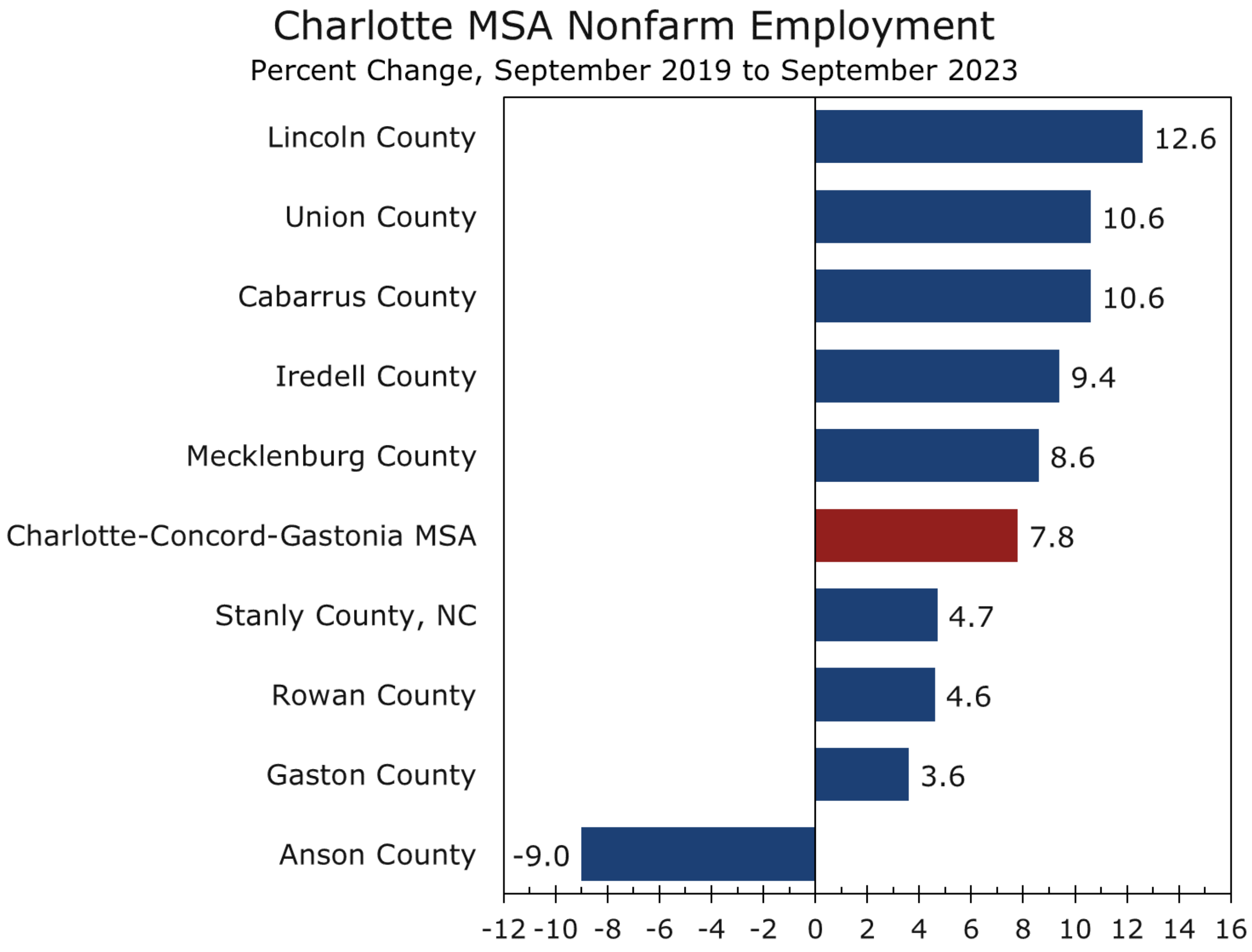
- Charlotte's suburbs have also seen the strongest job gains since the Pandemic.
- Stronger population growth has fueled much of the new hiring, driving retail, leisure & hospitality, and health care.
- Mecklenburg has also been a growth leader.
- Hiring has been slower to get back on track in manufacturing driven parts of the metro area.



Source: Bureau of Labor Statistics

Unemployment Has Remained Persistently Low

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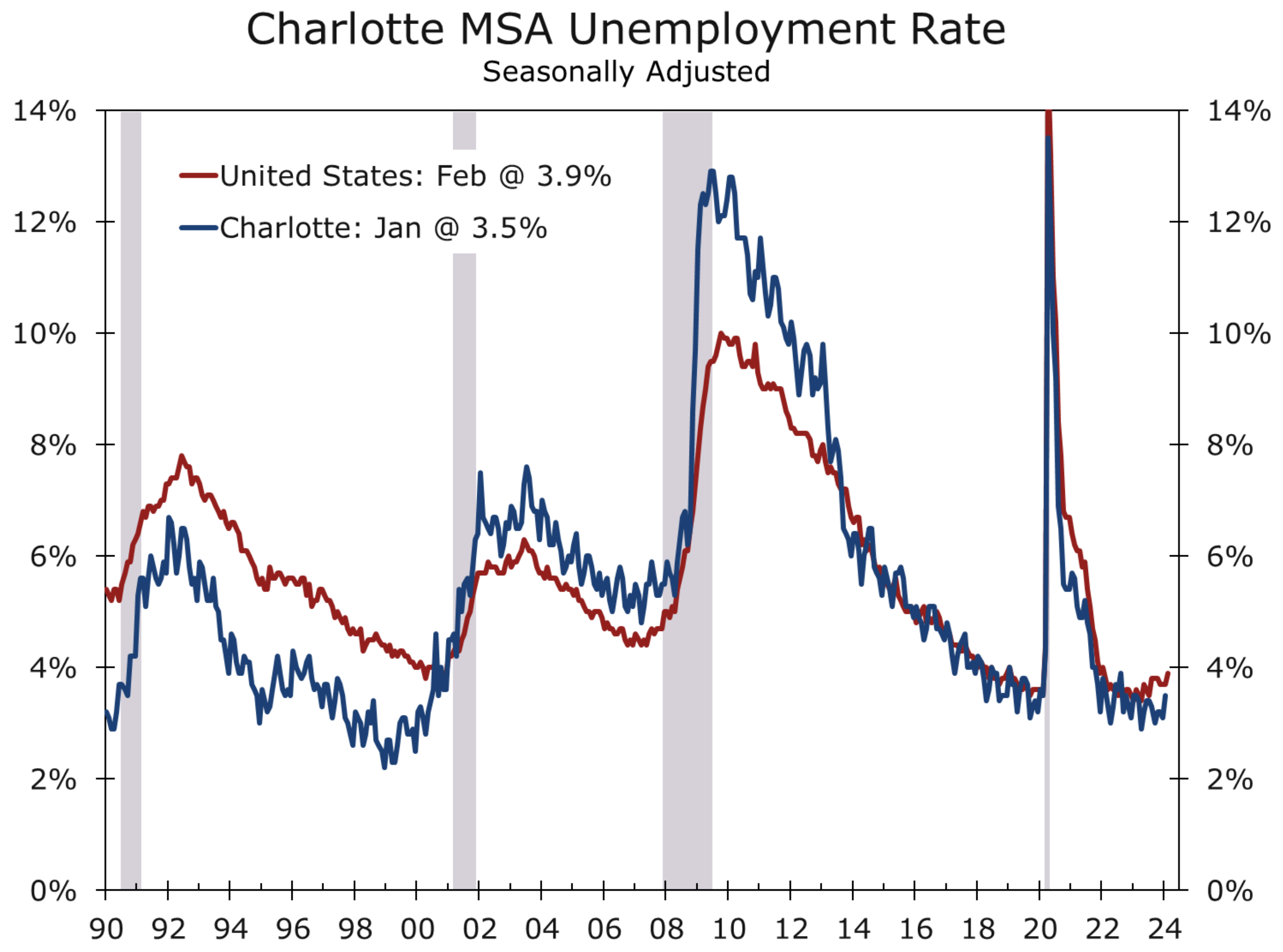
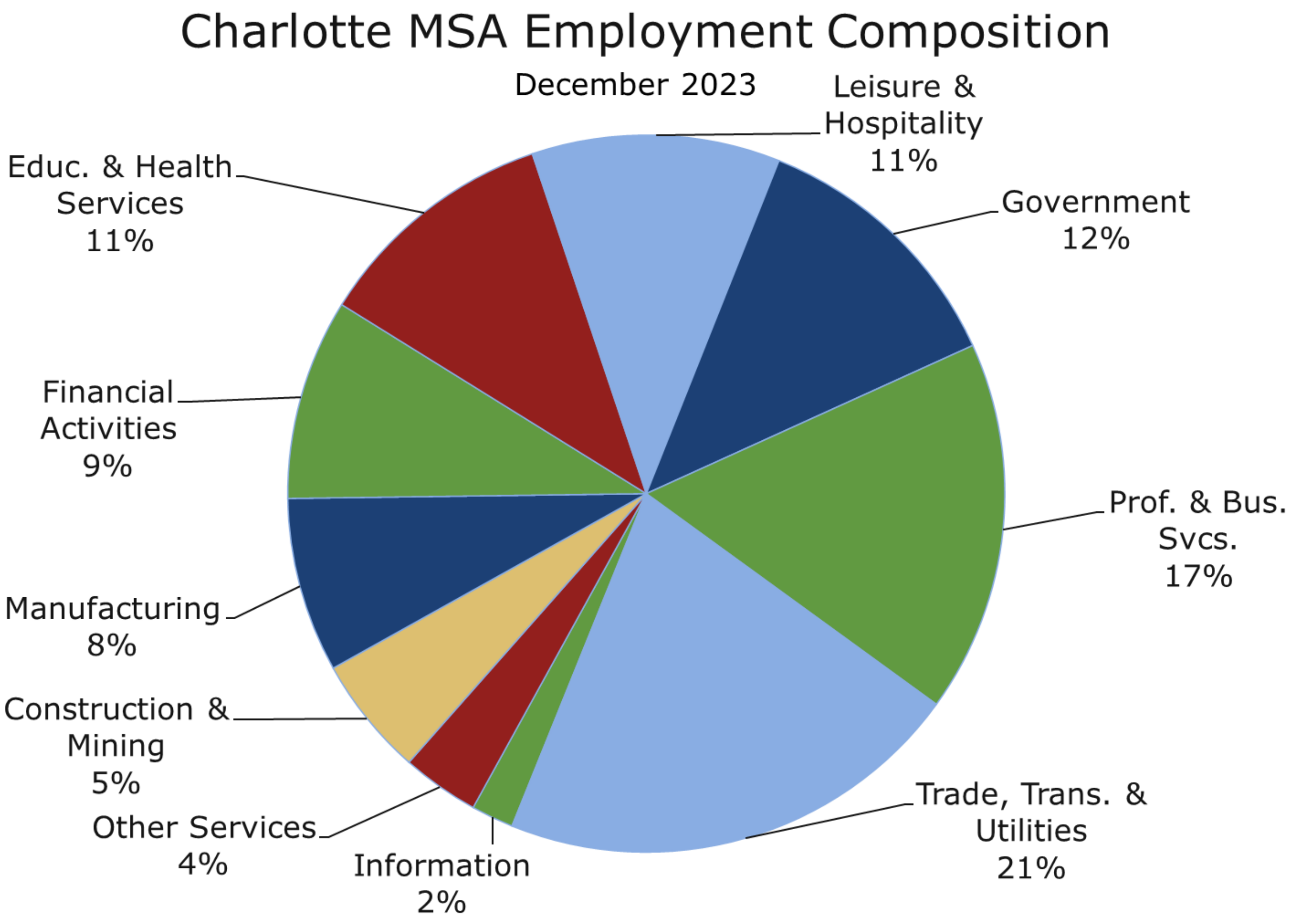
- Charlotte's unemployment rate has persistently remained slightly below the national rate.
- Job openings remain historically high, although they have come declined in recent month.
- Charlotte has a high degree of job turnover, reflecting strong in-migration of younger workers.



Source: Bureau of Labor Statistics

Charlotte's employment base is weighted toward office workers

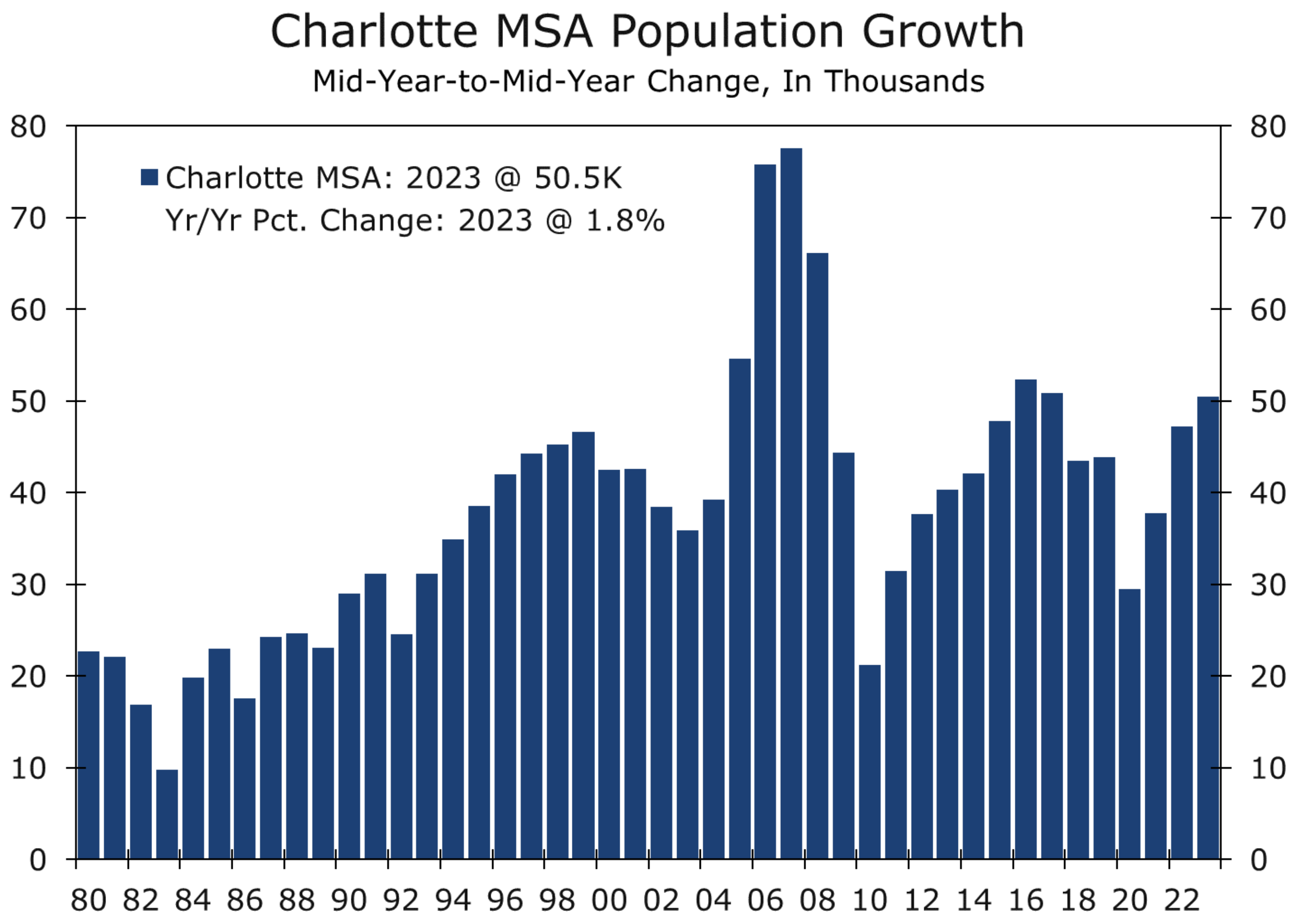
- Financial services, professional and technical services and utilities account for a disproportionate share of employment.
- Education and health care are undersized and will see strong growth with the addition of Atrium/Wake Forest.
- Leisure & hospitality is another growth area..



Source: Bureau of Labor Statistics

Charlotte Continues to Attract New Residents

- The Charlotte MSA 50,500 residents in 2023, or 138/day.
- New residents largely hail from the Northeast and neighboring states.
- Young, college educated persons account for the bulk of new residents.
- Retirees are also a growing cohort, particularly in the South Carolina suburbs and around the region's lakes.



Source: Census Bureau

The Charlotte CSA Has Added 145,000 Residents Since 2000

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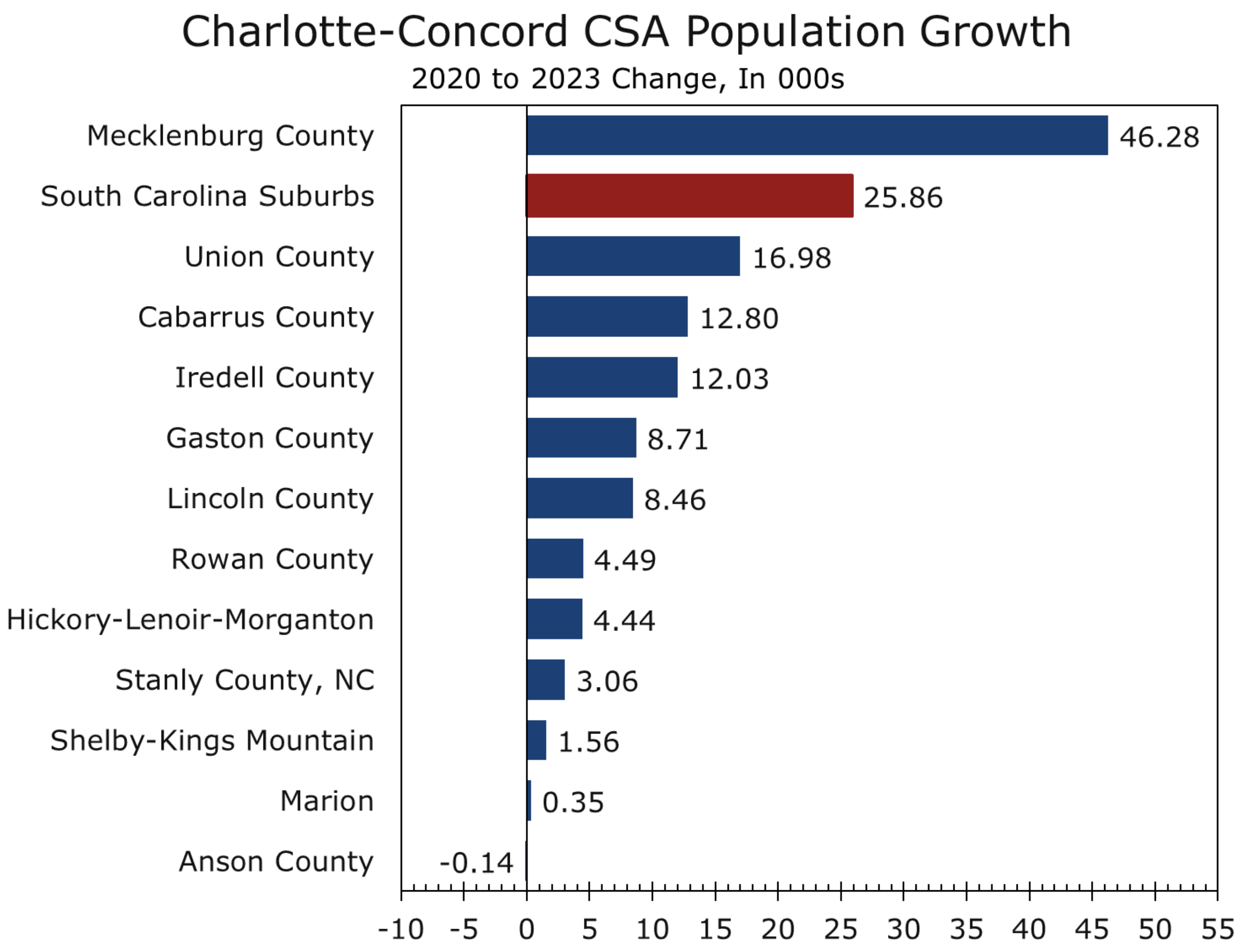
- The Charlotte CSA has added 145k new residents since 2000, lifting the population to 3.4 million.
- Just over 135K of that gain has been in the MSA.
- Two-thirds of the region's growth has been outside of Mecklenburg.
- The outlying areas have seen growth accelerate in recent year, as new residents chase affordability.



Source: Census Bureau

Suburban Areas Are Driving Charlotte's Growth

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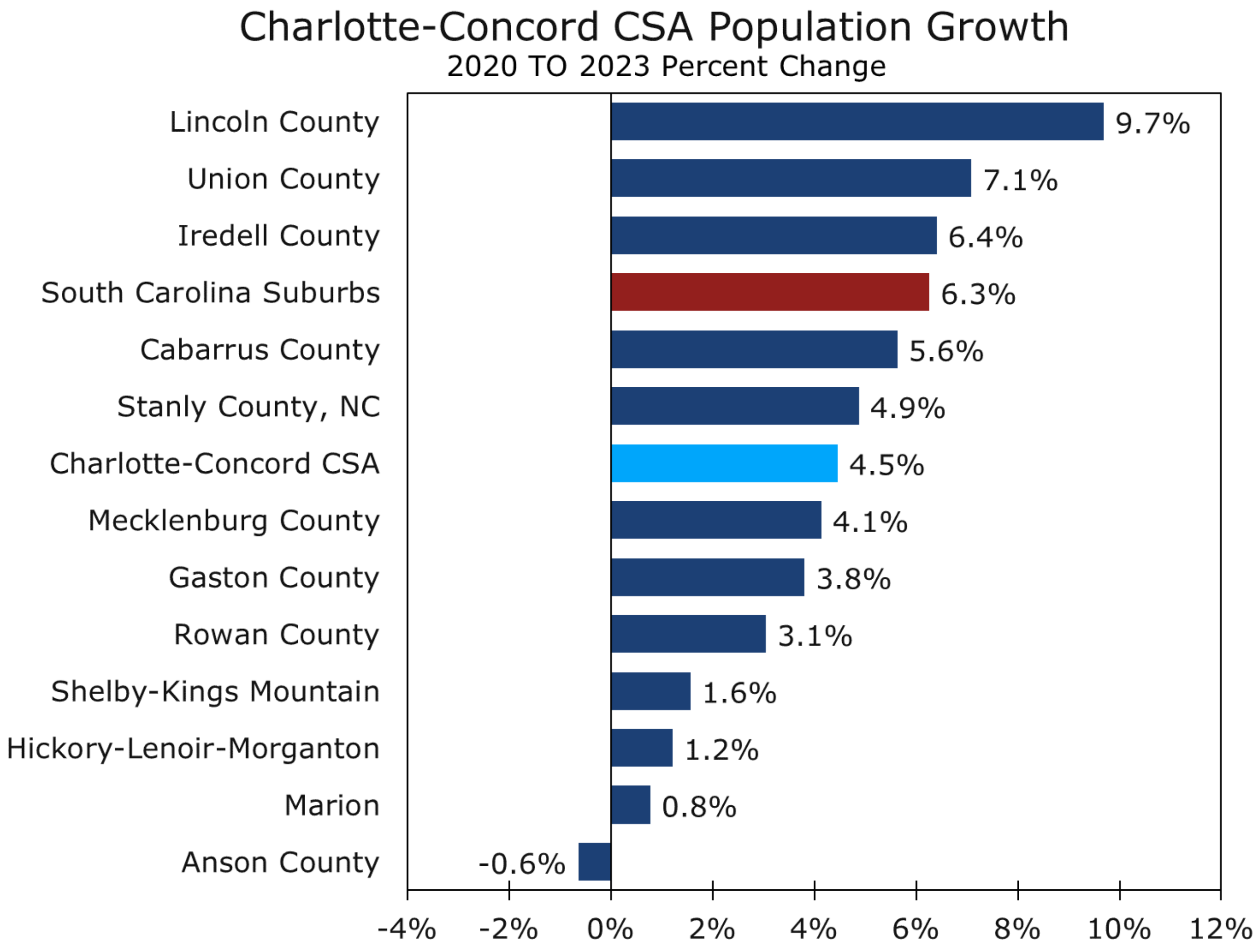
- Charlotte's suburbs saw population growth accelerate following the pandemic.
- Affordability concerns have driven new residents to Charlotte's outer reaches.
- Retirees are also a major force, particularly in South Carolina's suburbs.
- Mecklenburg is growing less rapidly but attracts the bulk of young workers.



Source: Census Bureau

Economic Outlook

US Economic and Financial Outlook

(% change on previous period, annualized, except where noted)

	2023				2024				2025				2022	2023	2024	2025	2026
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Actual	Forecast	Forecast	Forecast	Forecast
Output																	
Real GDP	2.2	2.1	4.9	3.2	2.1	1.8	1.8	1.9	1.6	1.8	1.8	2.0	2.1	2.5	2.5	1.8	2.2
Consumer Spending	3.8	0.8	3.1	3.0	2.2	1.5	1.4	1.6	1.8	2.0	2.2	2.1	2.8	1.8	1.7	1.4	1.9
Nonresidential Fixed Investment	5.7	7.4	1.4	2.4	2.8	2.1	2.4	2.9	3.0	3.2	3.4	3.5	3.8	4.9	2.6	2.3	2.0
Light Vehicle Sales	15.0	15.8	15.7	15.7	15.3	15.4	15.2	15.4	15.5	15.6	15.8	16.0	13.9	15.5	15.5	15.7	16.4
Industrial Production, Manufacturing	-0.4	1.1	(0.7)	(2.0)	(1.4)	1.1	1.4	1.8	1.9	2.3	3.0	3.2	4.3	(0.6)	0.7	2.6	3.0
Unemployment Rate (Qtrly Avg)	3.5	3.6	3.7	3.7	3.8	4.0	4.1	4.2	4.3	4.3	4.3	4.3	3.7	3.6	4.0	4.3	4.2
Housing Market																	
Housing Starts (Units, thous)	1,385	1,450	1,371	1,483	1,450	1,460	1,440	1,420	1,420	1,440	1,460	1,480	1,554	1,430	1,440	1,450	1,530
New Home Sales	638	691	693	643	690	710	730	740	740	760	760	770	637	666	720	760	780
Existing Home Sales	4,317	4,187	4,020	3,880	4,050	4,200	4,240	4,310	4,400	4,550	4,600	4,650	5,030	4,150	4,200	4,200	4,740
S&P/Case-Shiller Natl Home Prices (Yr/Yr % Change)	2.2	(0.1)	2.5	5.1	6.4	3.3	1.7	1.9	2.0	2.9	3.6	3.8	14.8	2.4	3.4	3.3	4.0
Inflation (Year-to-Year % Change)																	
Consumer Price Index (CPI)	5.7	4.0	3.6	3.2	3.1	3.0	2.8	2.8	2.7	2.6	2.5	2.4	6.7	4.1	2.9	2.6	2.3
Core CPI	5.5	5.2	4.4	4.0	3.8	3.3	3.3	3.2	3.0	2.9	2.8	2.7	6.1	4.8	3.4	2.9	2.2
Personal Consumption Deflator	5.0	3.9	3.3	2.8	2.8	2.8	2.6	2.6	2.6	2.5	2.5	2.4	5.8	3.8	2.7	2.5	2.2
Core PCE Deflator	4.8	4.6	3.8	3.2	2.8	2.7	2.6	2.5	2.5	2.4	2.4	2.3	4.7	4.1	2.7	2.4	2.1
Employment Cost Index	4.9	4.5	4.4	4.2	4.2	4.1	3.9	4.0	4.0	3.8	3.7	3.7	4.9	4.5	4.1	3.8	3.5
Interest Rates (Quarter End and Ann Avg)																	
Fed Funds Target Range	4.75-5.00	5-5.25	5.25-5.50	5.25-5.50	5.25-5.50	5-5.25	4.75-5	4.5-4.75	4.25-4.5	4-4.25	3.75-4	3.75-4	2.75	5.19	5.00	3.88	3.40
10-Year Treasury Note	3.48	3.84	4.59	3.88	4.30	4.30	4.20	4.20	4.20	4.20	4.10	4.10	2.95	3.95	4.25	4.10	4.00
Conventional Mortgage Rate (Freddie Mac)	6.32	6.71	7.31	6.61	6.90	6.80	6.60	6.50	6.30	6.30	6.10	6.00	5.34	6.80	6.70	6.18	5.80

Piedmont Crescent Capital - Updated March 20, 2024

Key Takeaways

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We are at an extremely unusual juncture in the Business Cycle	The economy is now about three years past the pandemic and the recession with it looks more like a short exogenous shock (earthquake or hurricane). The federal provided extraordinary stimulus that fueled a strong recovery but also drove inflation sharply higher. While some traditional measures still show the risk of recession is high, a downturn seems less likely. There is still enormous fiscal stimulus in the pipeline and innovation and immigration are boosting potential growth.
Inflation will likely remain above the Fed's target, which will cause the Fed to slow their interest rate cuts.	Inflation has been confounding, as prices have remained high as supply shortages have eased. The problem is excessive money growth and there is now easy or quick solution. Prices will continue to moderate but the costs of essentials (food, housing, transportation & health care) remain historically high, which is squeezing household budgets – particularly for middle- and lower-income households. Spending on discretionary goods remains sluggish, while higher-end households continue to spending on travel and leisure.
Home buyers are increasingly looking to outlying areas to find affordable housing	Sharply reduced housing turnover has led to a persistent shortage of existing homes, which has pushed home prices higher. A growing proportion of first-time buyers are now purchasing new homes, which are increasingly being built in the distant suburbs surround Charlotte and other major markets. The apartment market is expecting a wave of new supply this year, which should suppress rents and keep tenants in apartments for longer. CRE values are likely to fall from 'inflated' levels.
The shift to the suburbs likely marks a long-running trend that will pull in commercial development	The shift to the suburbs marks a partial reversal of the move back to the cities during the 25 years prior to the pandemic. Young people still prefer urban areas, but affordability concerns are driving residents further out. Commuting times have spike nationwide since the pandemic. Suburban areas are increasingly urbanizing by creating more interconnected and less car-dependent options. Free time remains a valuable asset, and the longer commuting times required to secure affordable housing make that asset more valuable

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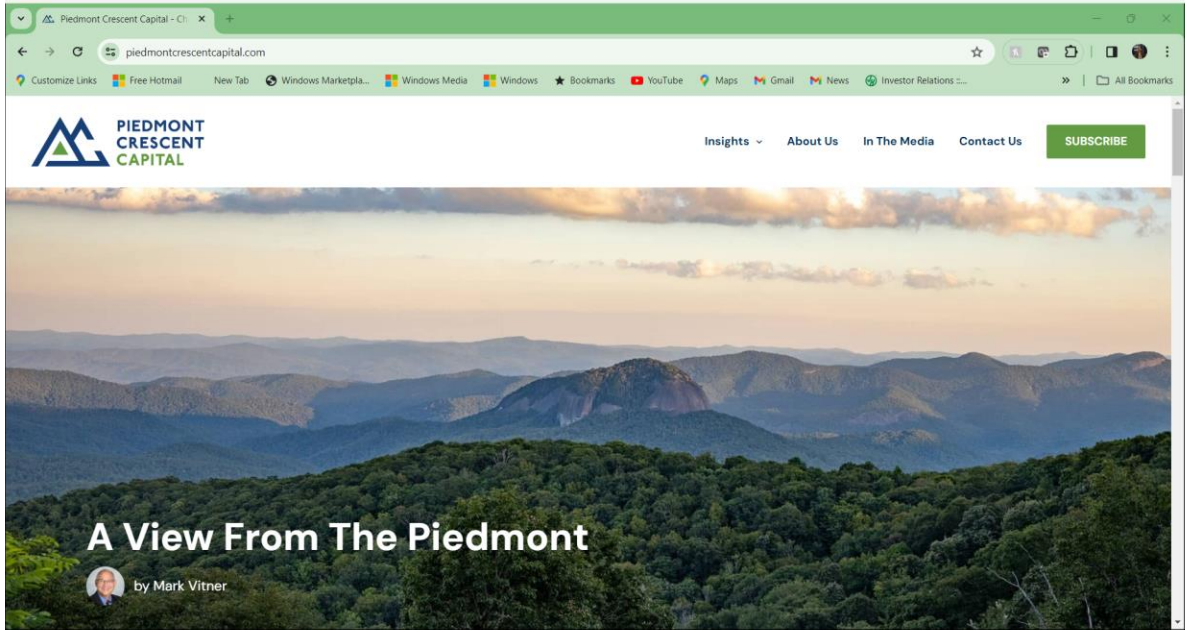

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