

April's Cooler Inflation Readings Mitigate Economy's Re-Acceleration Concerns

Key CPI measures resume descent. Annual growth in the headline and core consumer price indices — the latter of which omits food and energy — lowered to 3.4 and 3.6 percent in April, respectively. While bumpy inflation over the last few months curbed Wall Street expectations for near-term overnight lending rate cuts by the Federal Reserve, April's cooler readings suggest the Fed is still making meaningful progress in bringing pricing pressures down. Further stripping out housing expenses from core CPI, inflation was only 2.1 percent over the year ended in April. Easing in May's core PCE measure, a separate inflation metric that is closely watched by the Fed and will be released on the 31, as well as continued disinflation across key CPI readings over the coming months, should help facilitate the conditions needed for at least one rate cut in the remainder of 2024.

Rental rates continue to taper. The CPI measure for rent inflation slowed to 5.5 percent year-over-year in April, the lowest level since May 2022. This pullback reflects some of the slowdown already being observed in market apartment effective rents, as concessions are becoming more common for new leases. More than one in every five apartments was offering a rent discount in the first quarter. These incentives helped drive leasing activity, with net absorption surpassing 100,000 units for the first three-month span since late 2021. The persistence of record single-family home prices will further increase the incidence of renting, adding fuel to apartment absorption trends.

Periodic payments weigh on discretionary spending. The cost for vehicle insurance, electricity and medical care all jumped annually in April by the fastest paces in at least nine months for each category. As these expenses typically represent recurring payments, the rapid cost jumps are causing some consumers to adjust discretionary budgets. Retail spending on several non-essential goods, like furniture and sporting goods, fell by over 4 percent in the last 12 months. This contributed to the price index for commodities, less food and energy, dropping 1.2 percent in the span. While shifts in spending may challenge some retailers' performance in the near-term, the overall landscape is equipped to weather such headwinds. National retail vacancy held at a record low of 4.5 percent for three straight quarters through March, while 2024's delivery total is slated to remain well-below the trailing decade-long mean of 60 million square feet per year.

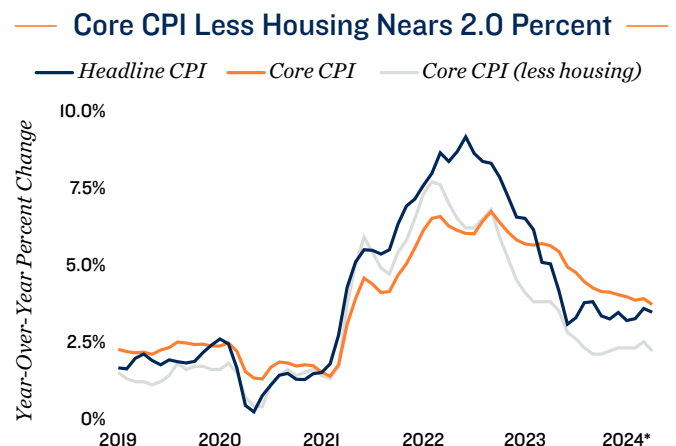
Climbing restaurant prices emphasize groceries for consumers.

The food-away-from-home index rose 4.1 percent over the year ended in April, nearly four times the pace of the grocery segment. As higher wages add pricing pressure to restaurants, and with consumers trimming discretionary budgets, spending at supermarkets reached a record in April. This trend is motivating several grocers — such as Aldi, Sprouts Farmers Market and Trader Joe's — to expand footprints. The three alone are collectively slated to occupy an additional 1.1 million square feet of supermarket spaces nationwide in 2024, tightening vacancy in a sector already reporting a rate under 3.0 percent in March.

Falling car prices may curb manufacturing volumes. The new vehicle price index dipped 0.4 percent annually in April, its first drop in 45 months. Higher lending rates and insurance costs led to vehicle sales flattening in the span. Stock surpluses may weigh on U.S. manufacturing production near-term, potentially softening demand for these facilities. Still, a sub-4 percent national vacancy rate for manufacturing spaces in May, as well as a limited speculative pipeline, should mitigate impacts of near-term production volatility on property metrics.

3.4% Increase in Headline CPI Year-Over-Year

3.6% Increase in Core CPI Year-Over-Year



* Through April

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CME Group; Federal Reserve; RealPage, Inc.; Census Bureau; Bureau of Economic Analysis; CoStar Group, Inc



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