

U.S. 2022 ECONOMIC OUTLOOK: TOWARDS A POST PANDEMIC ECONOMY

December 2021

With you today



Laura Dietzel

Partner, Real Estate Industry Analyst

 Laura.Dietzel@rsmus.com

 [@Laura Dietzel](#)

 [@Lauradietzel1](#)

US Economy: Towards a Post Pandemic Economy



2022 Themes

- **Pandemic:** End of pandemic key to baseline forecast
- **Growth:** Strong growth amid elevated inflation
- **Inflation:** Supply chain disruptions to continue through mid-year
- **Employment:** Falling unemployment rate and rising incomes
- **Policy:** End of pandemic era rate policy and rising rates
- **Productivity:** Capital expenditures, infrastructure investment and rising productivity



US Growth Picture: Risk around slower growth

- Q1'22: RSM Forecast 4.6%
- Q2'22: RSM Forecast 4.2%
- Q3'22: RSM Forecast 3.4%
- Q4'22: RSM Forecast 2.2%
- 2021 Growth Rate of 5.5%, 2022 4.2%, 2023 2.5%



US Inflation Outlook: Risk around stubborn inflation

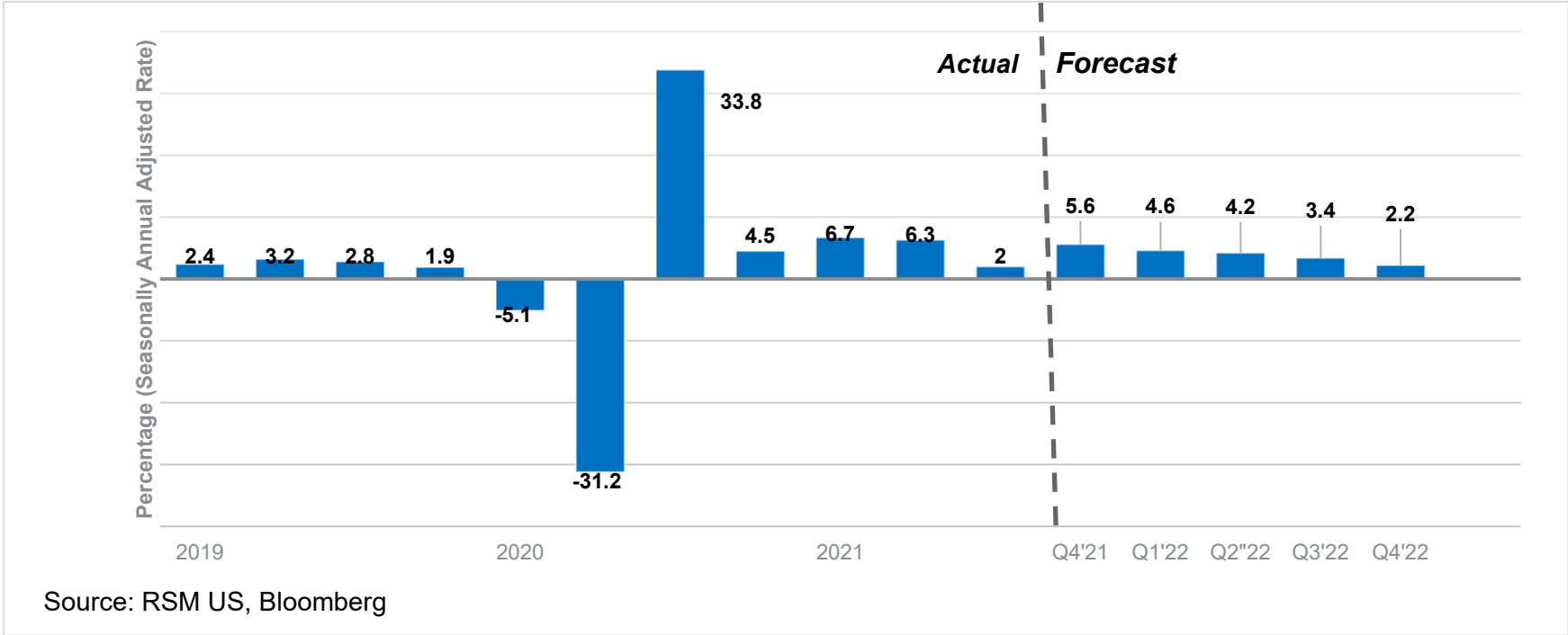
- Q1'22: RSM CPI Y/Y Forecast 6.0%, Core PCE Y/Y 4.1%
- Q2'22: RSM CPI Y/Y Forecast 4.5%, Core PCE Y/Y 3.2%
- Q3'22: RSM CPI Y/Y Forecast 3.9%, Core PCE Y/Y 2.8%
- Q4'22: RSM CPI Y/Y Forecast 2.9%, Core PCE Y/Y 2.5%



US GROWTH PICTURE

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US Economic Outlook: Pandemic Era US GDP

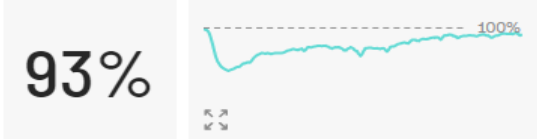


US Economic Outlook: 93% Capacity

The Back-to-Normal Index

The pandemic economy is far from normal. So Moody's Analytics and CNN Business have partnered to create a proprietary Back-to-Normal Index, comprised of 37 national and seven state-level indicators. The index ranges from zero, representing no economic activity, to 100%, representing the economy returning to its pre-pandemic level in March 2020.

United States



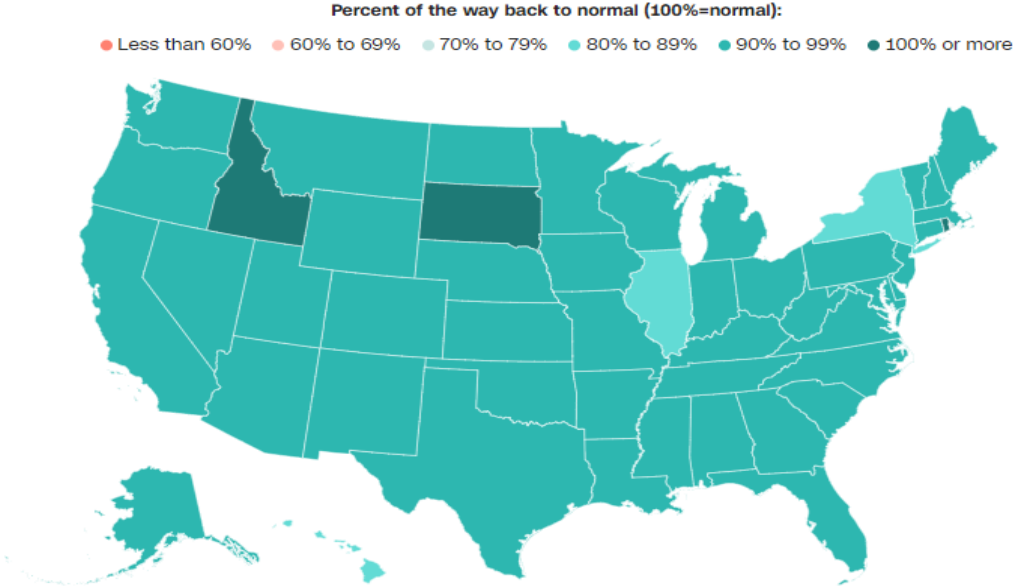
The economy in the United States is operating at 93% of where it was in early March.

New coronavirus cases in the last 7 days
819,571

Number of states with improved index since last week
2

[Learn how](#) we created the Back-to-Normal Index

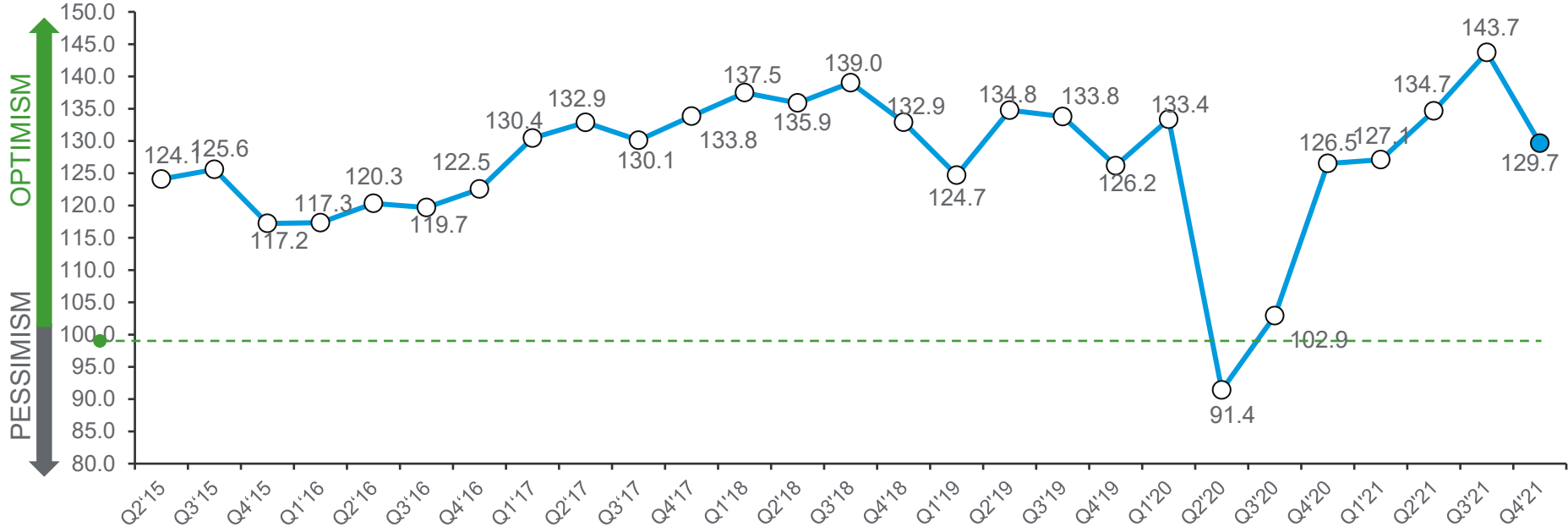
Source: [Moody's Analytics](#), [JHU CSSE COVID-19 Data](#)



Data as of November 12, 2021

The RSM US Middle Market Business Index Eases to 129.7

MIDDLE MARKET BUSINESS INDEX
(seasonally adjusted)

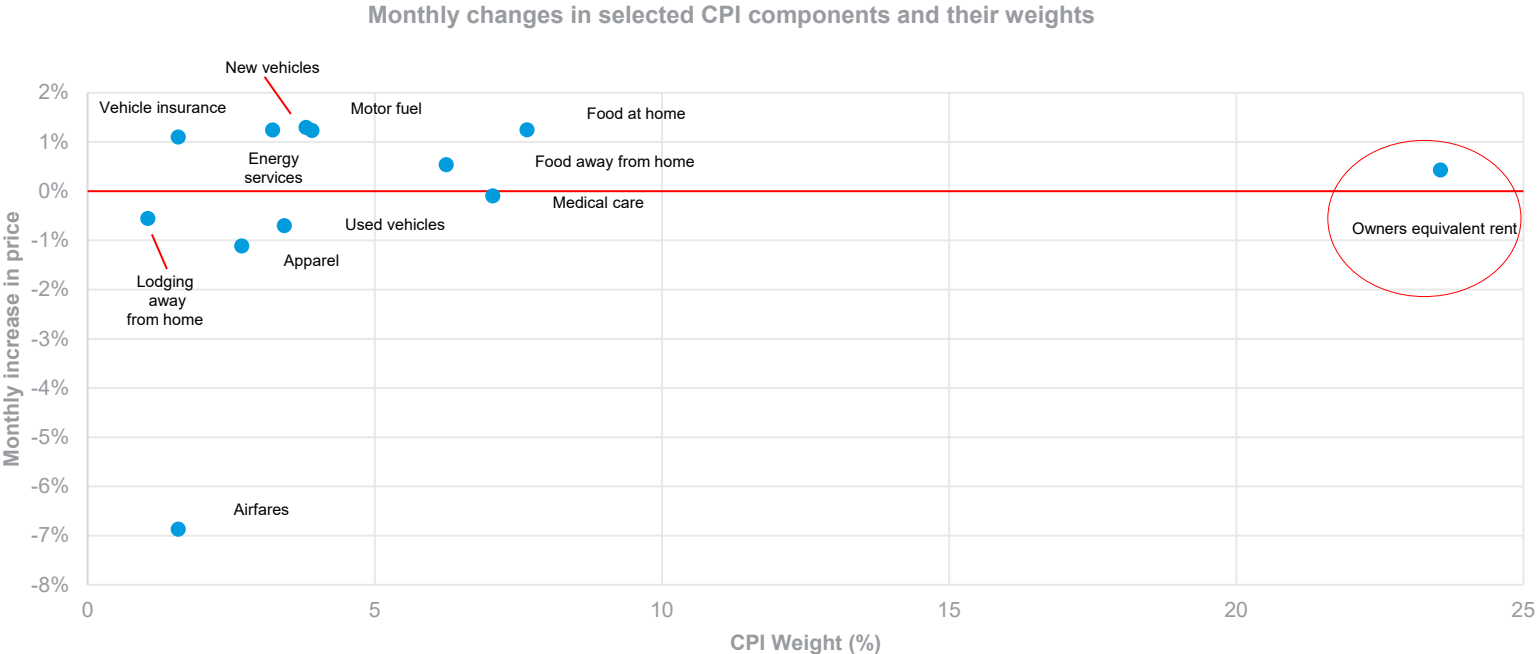




INFLATION

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Inflation: 62% Clustered in 30% of Index



Source: BLS; Bloomberg; RSM US

US Economy: Towards a Post Pandemic Economy



Interest Rate Outlook

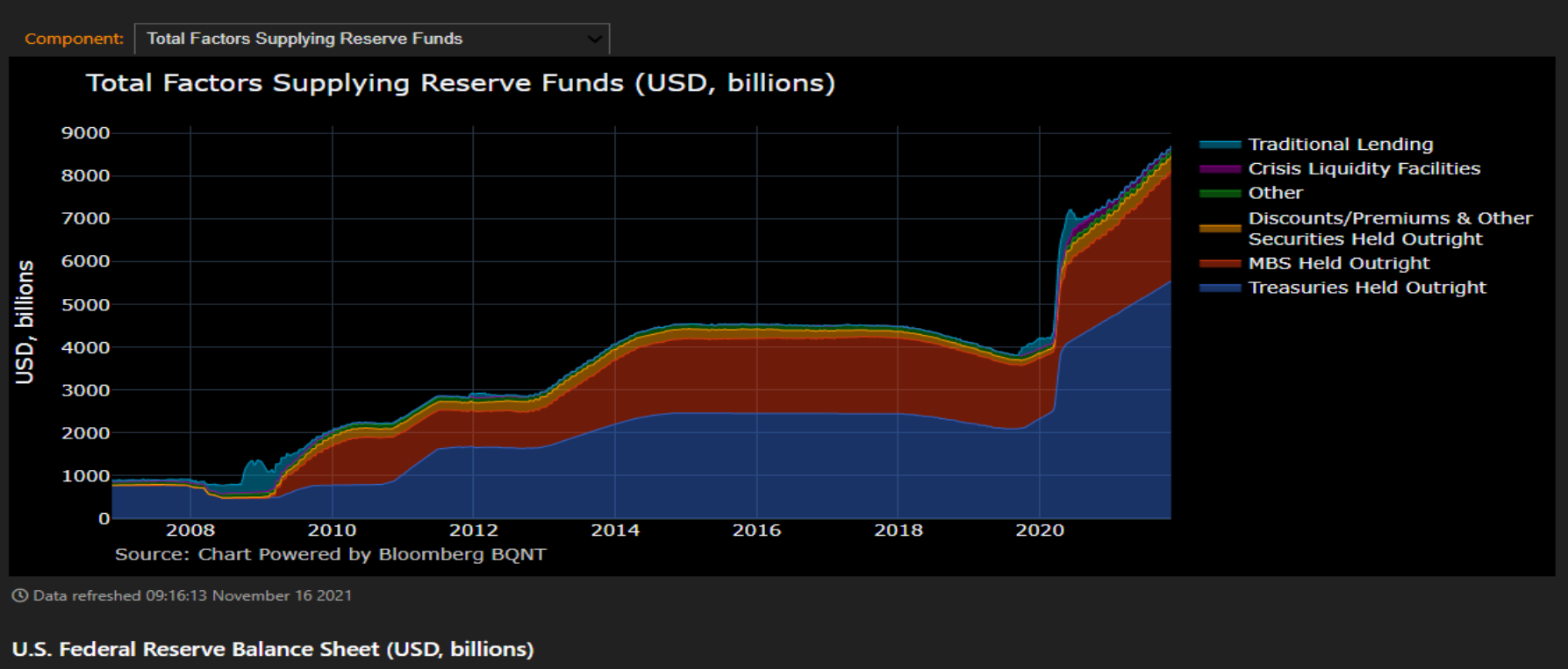
- Steeper yield curve with the 10-year yield rising to 2.25 by end of 2022 with risk of higher yields
- End of pandemic era policies as Fed prepares to hike rates at end of 2022
- Fed Taper Operations: Announced in November, start in December, complete March 2022.
- Strong financial conditions, lending and risk appetite



FEDERAL RESERVE

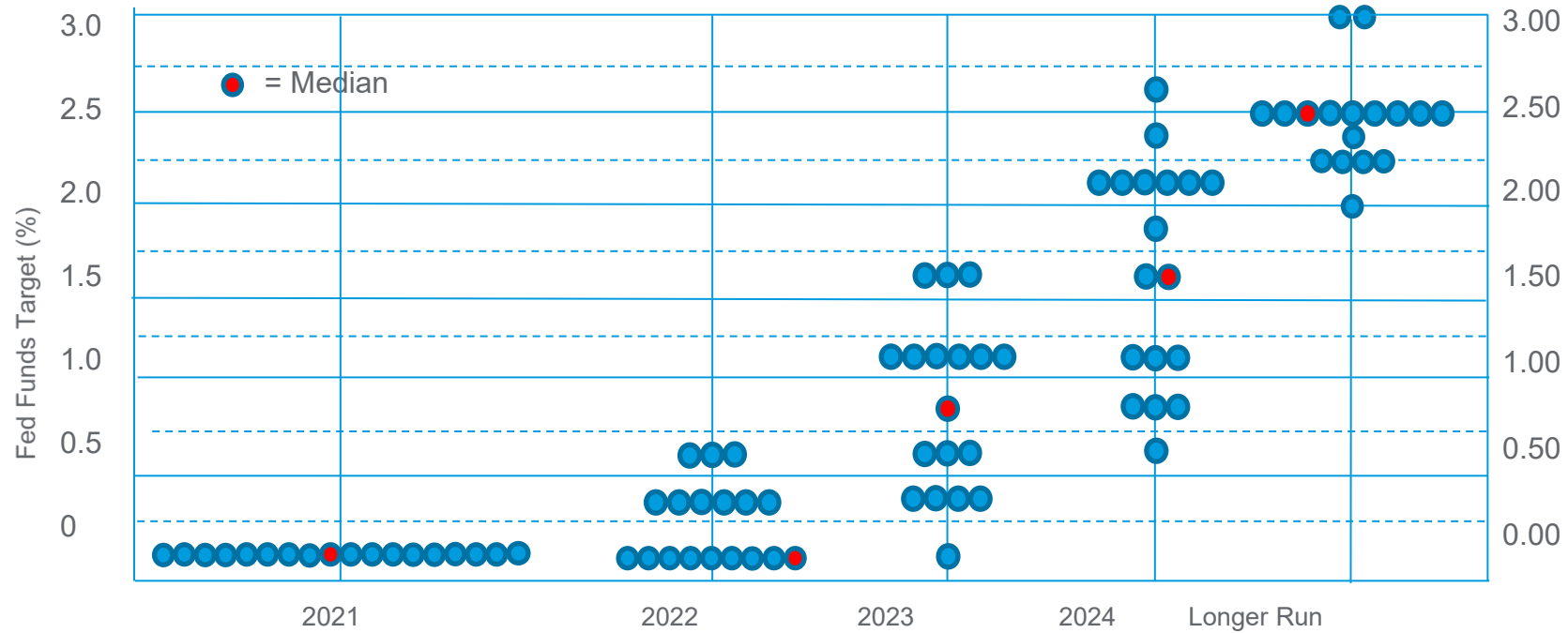
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US Federal Reserve: Tapering on Way



U.S. Federal Reserve Balance Sheet (USD, billions)

FOMC's Assessment of the Appropriate Fed Funds Target Rate at the End of 2021, 2022, 2023 and in the Longer Run



Source: Federal Reserve, *Summary of Economic Projections (SEP)*, September 22, 2021

U.S. Economy: Towards a Post Pandemic Economy



US Economy: Growth, Employment and Inflation

- Unemployment declines to 3.5% by end of 2022
- Over \$2 trillion in excess savings compared to pre-pandemic levels
- Q4'21 GDP at 5.6%
- Housing boom to continue: residential starts to bolster growth prospects and employment



2022 Policy Outlook

- American Rescue Plan Act: \$1.9 trillion and \$908 billion in fiscal aid at end of 2020.
- Fed to hike once in December 2022 with risk of another hike should inflation accelerate further
- \$1.25 trillion infrastructure investment plan implemented
- Build Back Better: still in limbo. If passed will boost overall growth and require upward revision to the baseline forecast



Labor Market

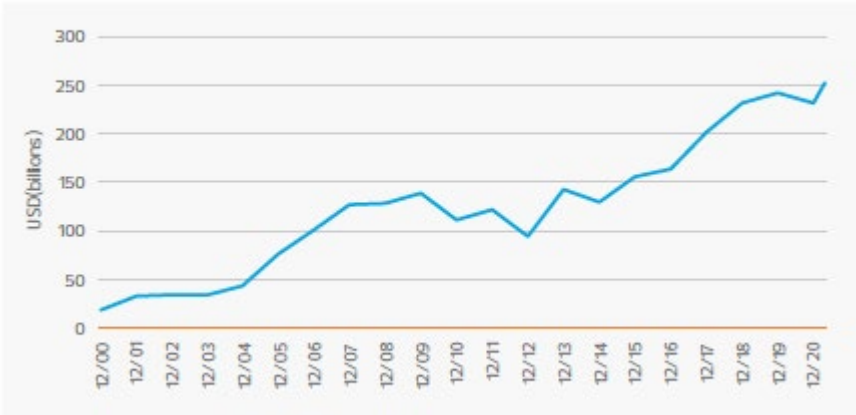
- Acceleration in baby boomer retirement:
- Tight labor market to result in accelerated integration of technology to meet demand
- Behavioral revolution among prime aged workers: you only live once
- Workplace transformation and higher wages



WHAT DOES THIS MEAN FOR COMMERCIAL REAL ESTATE?

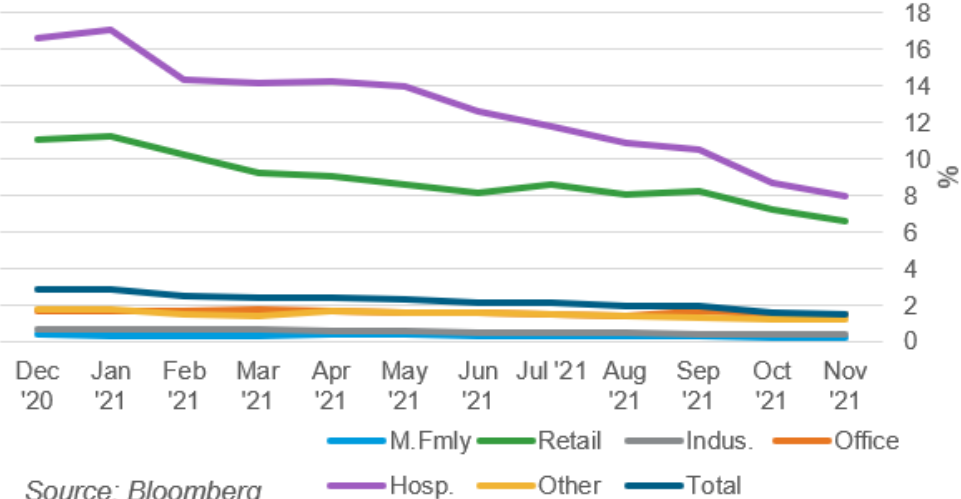
Capital markets

Real estate dry powder at record levels



Source: Preqin

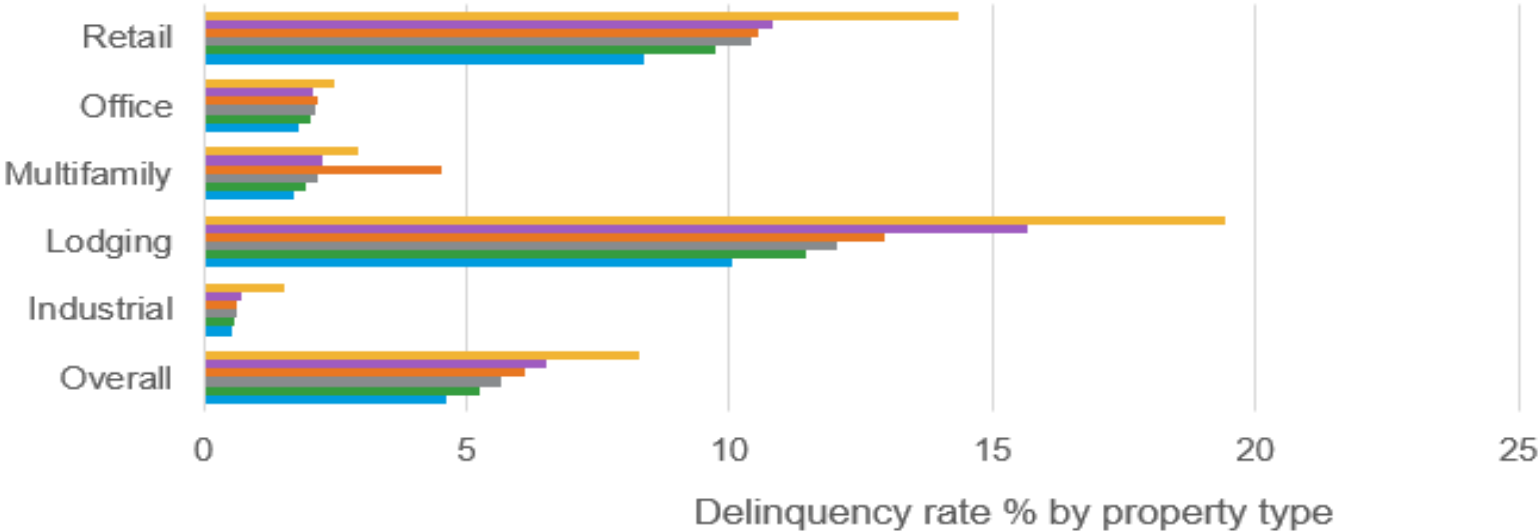
Historical 60+D loans by property type



Source: Bloomberg

CMBS delinquency rates

October CMBS delinquency rate: biggest decline since early 2021



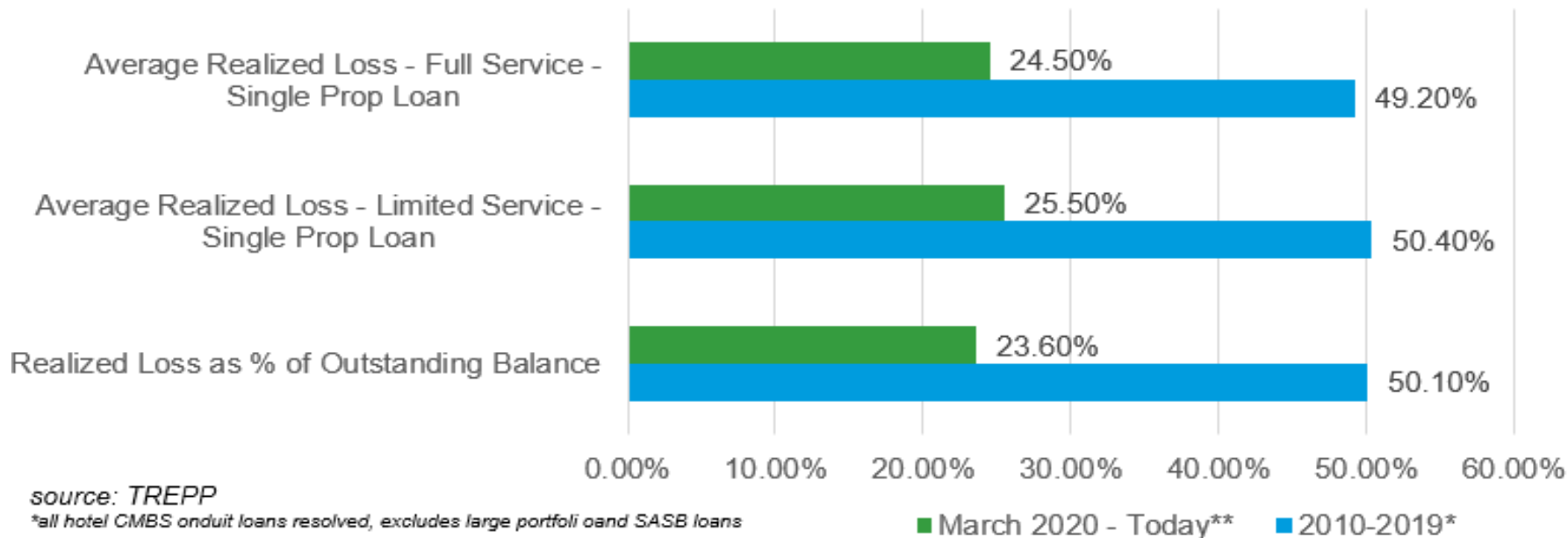
source: TREPP

12 MO 6 MO 3 MO 21-Aug 21-Sep 21-Oct



Industry Trends – distress in lodging

Hotel resolutions - GFC vs. COVID-19 Pandemic



THANK YOU FOR
YOUR TIME AND
ATTENTION



QUESTIONS AND ANSWERS

RSM US LLP

+1 800 274 3978

rsmus.com

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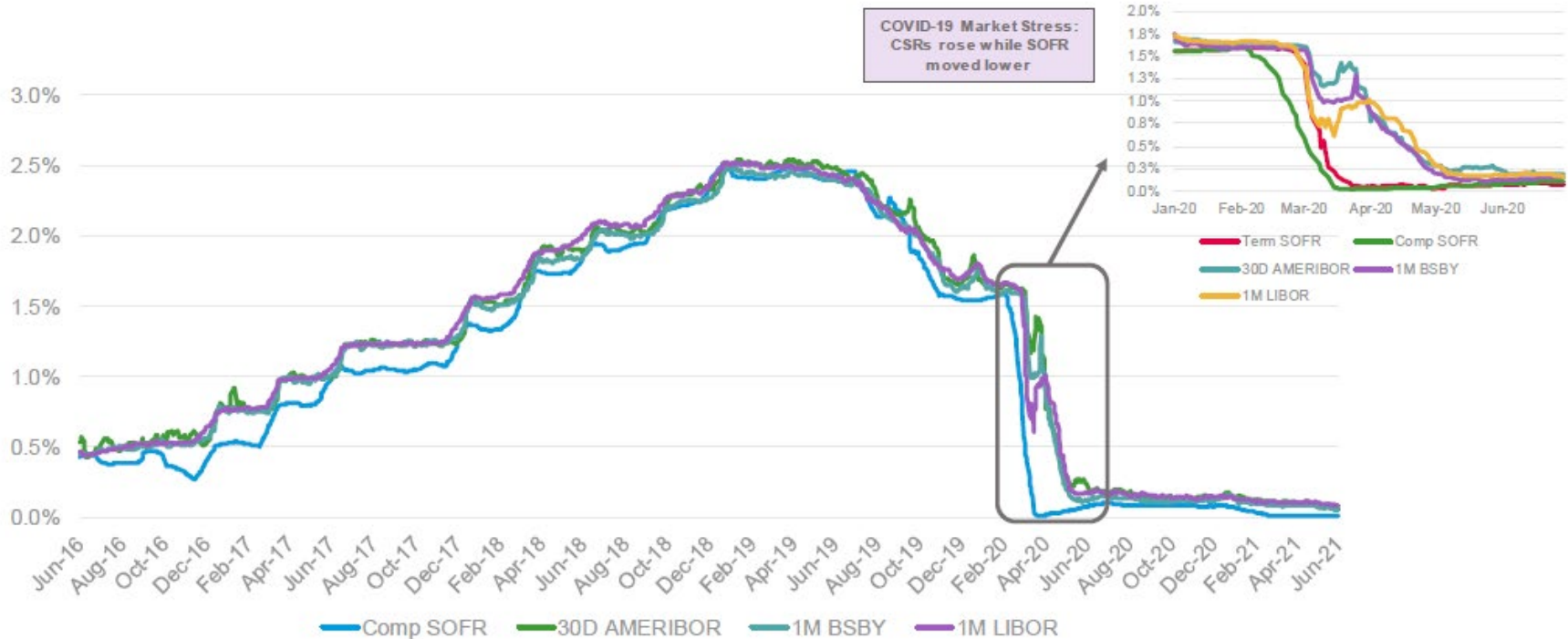
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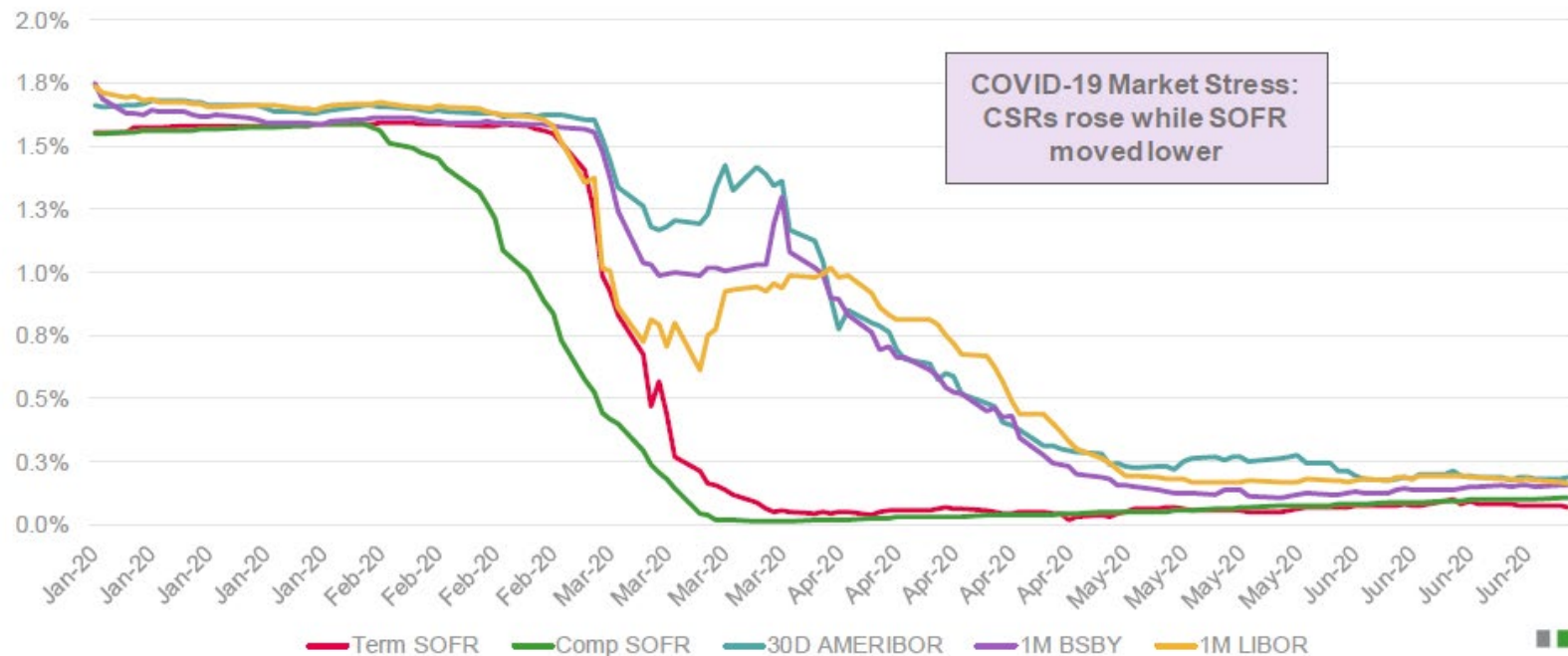
LIBOR TRANSITION

[HTTPS://RSMUS.COM/EVENTS/LIBOR-TRANSITION-KEY-CONSIDERATIONS-AFTER-YEAR-END.HTML](https://rsmus.com/events/libor-transition-key-considerations-after-year-end.html)

Alternative reference rate comparison (five-year historical data)



Credit-sensitivity matters in times of stress



New three-stage pricing in certain deal types

All-in Rate = Term SOFR + Applicable Margin + Credit-Spread Adjustment

ISDA Fallback Spread Adjustments vs. Spot Market

Index Tenor	ISDA Spread (bps)	Spot Spread (bps)
1M LIBOR	11.448	4.429
3M LIBOR	26.161	10.510
6M LIBOR	42.826	16.135
12M LIBOR	71.513	22.000

Where should new deals be priced?

Using SOFR may *INCREASE* your borrowing costs

By switching from LIBOR to SOFR, lenders will likely require a spread adjustment due to the lack of credit sensitivity with SOFR. Lenders will not be able to dynamically hedge this credit sensitivity so will likely charge more than current spread levels to compensate for the increased risk.

Interest Period	LIBOR	Margin	All-in Rate
1 Month	0.089%	1.000%	1.089%
3 Months	0.155%	1.000%	1.155%
6 Months	0.226%	1.000%	1.226%
12 Months	0.399%	1.000%	1.399%

Interest Period	Term SOFR	Margin	Credit Spread Adjustment	All-in Rate	Increase in Cost vs. LIBOR
1 Month	0.045%	1.000%	0.115%	1.160%	7.1 bps
3 Months	0.050%	1.000%	0.262%	1.312%	15.7 bps
6 Months	0.065%	1.000%	0.428%	1.493%	26.7 bps
12 Months	0.179%	1.000%	0.715%	1.894%	49.5 bps

Note that this assumes a credit spread adjustment consistent with the ISDA fallback spreads calculated on March 5, 2021. Some lenders may require wider spreads depending on factors such as maturity of the loan, credit rating of the borrower and other factors that may not be specified by the lender.

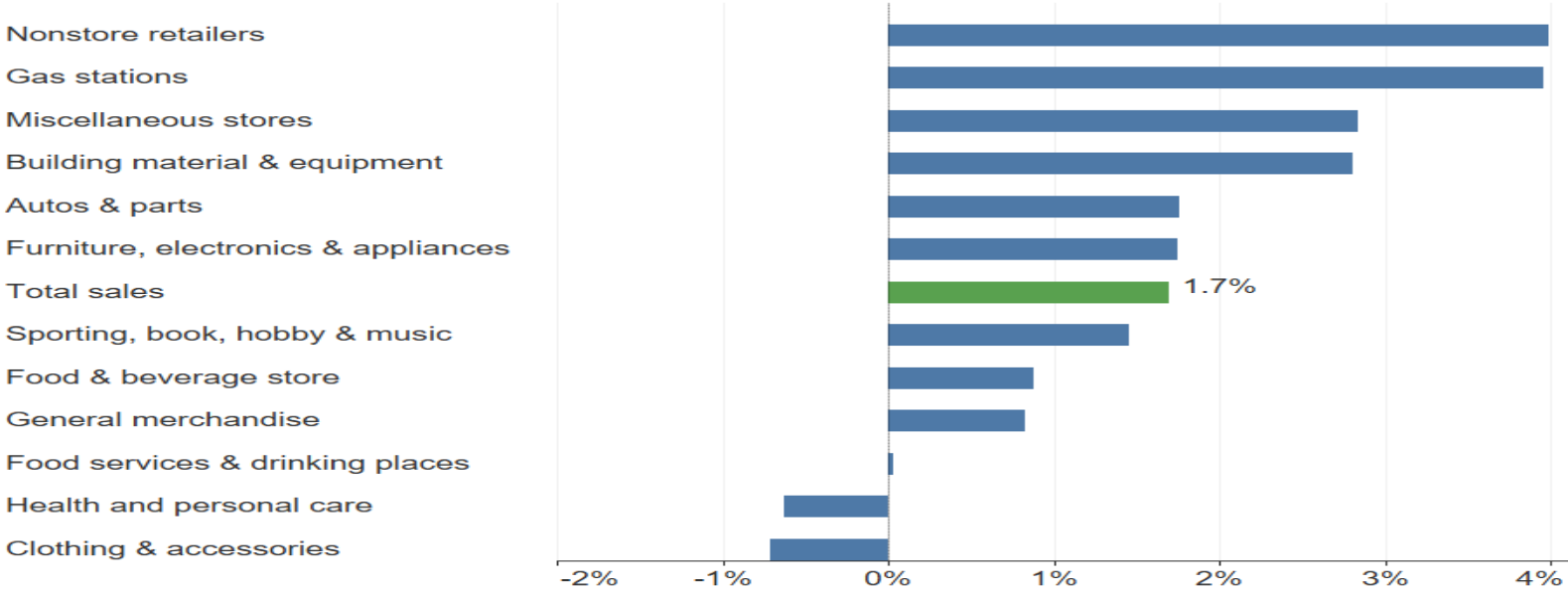


PENT UP DEMAND + PLENTIFUL SAVINGS

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Pent Up Demand, Household Savings & Recovery

Monthly percent change in October retail sales



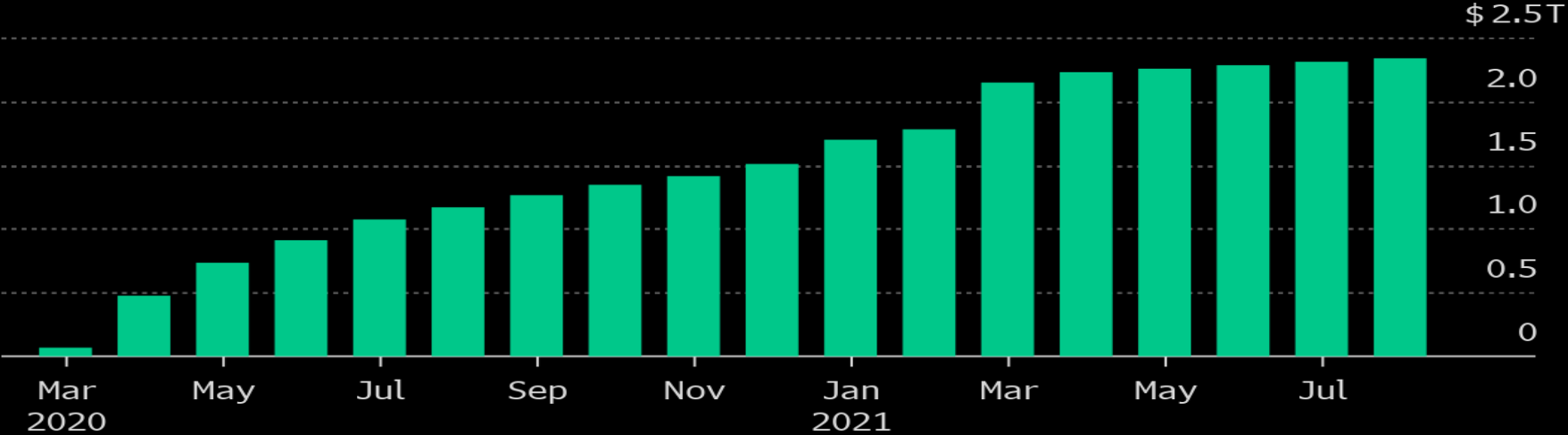
Note: Seasonally adjusted and nominal changes
Source: U.S. Census Bureau, RSM US

Pent Up Demand, Household Savings & Recovery

Pile of Money

The U.S. stock of pandemic savings hasn't shrunk

■ Accumulated U.S. savings in excess of pre-pandemic run rate (Feb. 2020 = 0)



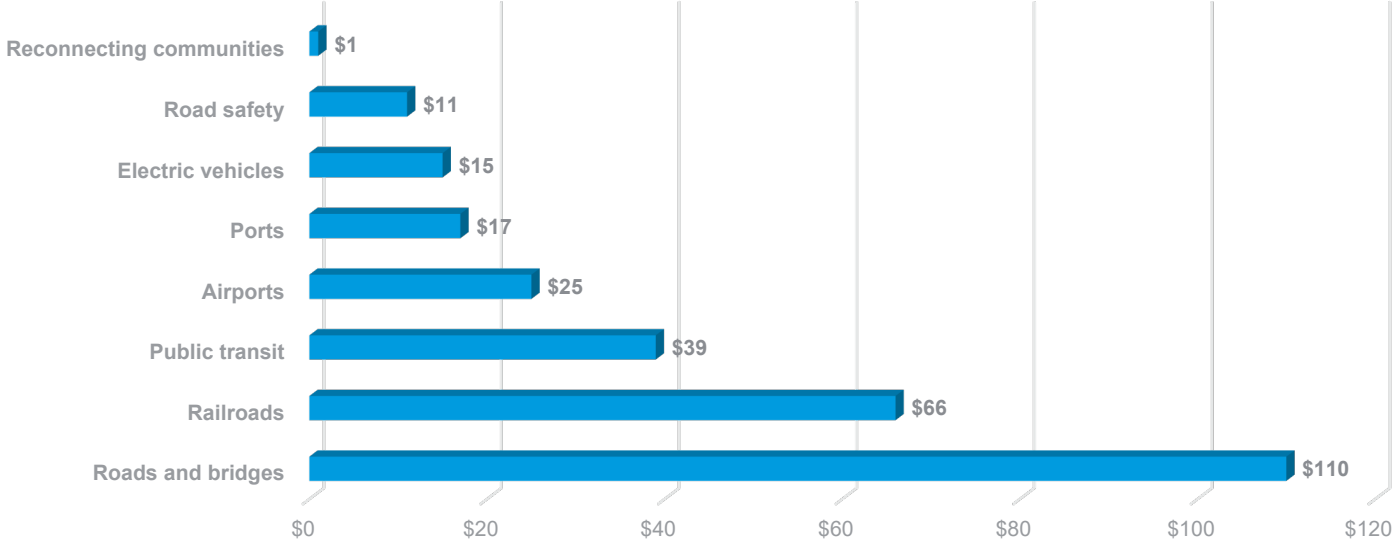
Source: BEA, Bloomberg Economics

Bloomberg



Infrastructure Investment: Modernizing the Domestic Economy

Infrastructure spending on Transportation -- \$284 billion

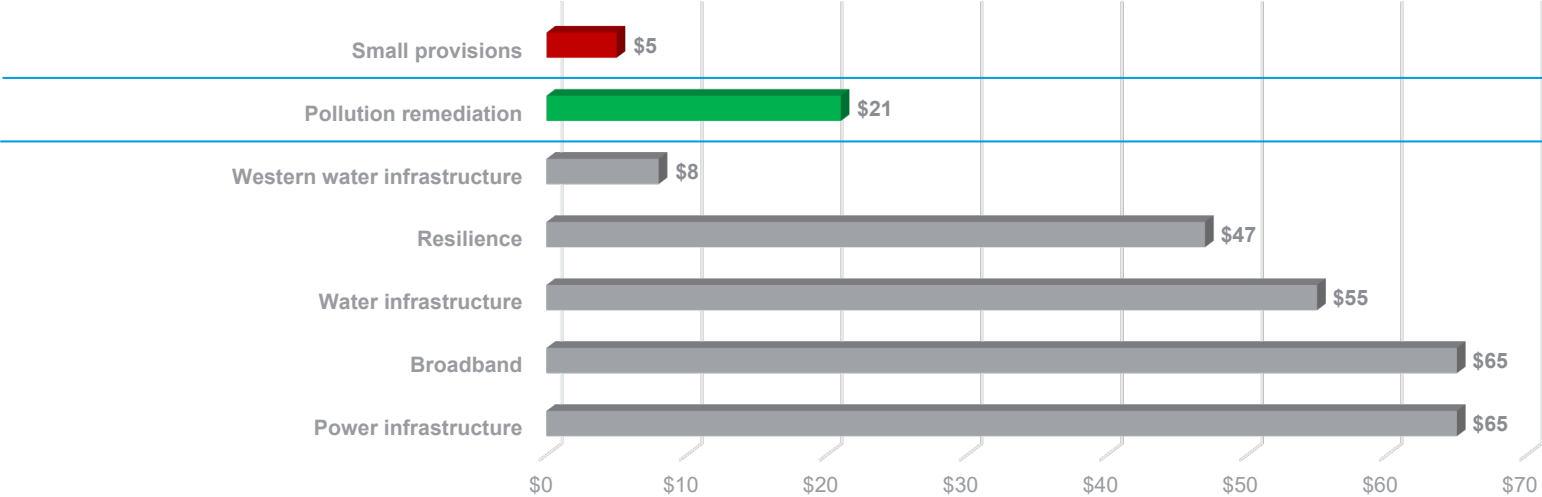


Source: Washington Post; RSM US



Infrastructure Investment: Modernizing the Domestic Economy

Infrastructure spending on Utilities (\$240bn),
Pollution remediation (\$21bn), and Small provisions (\$5bn)



Source: Washington Post; RSM US

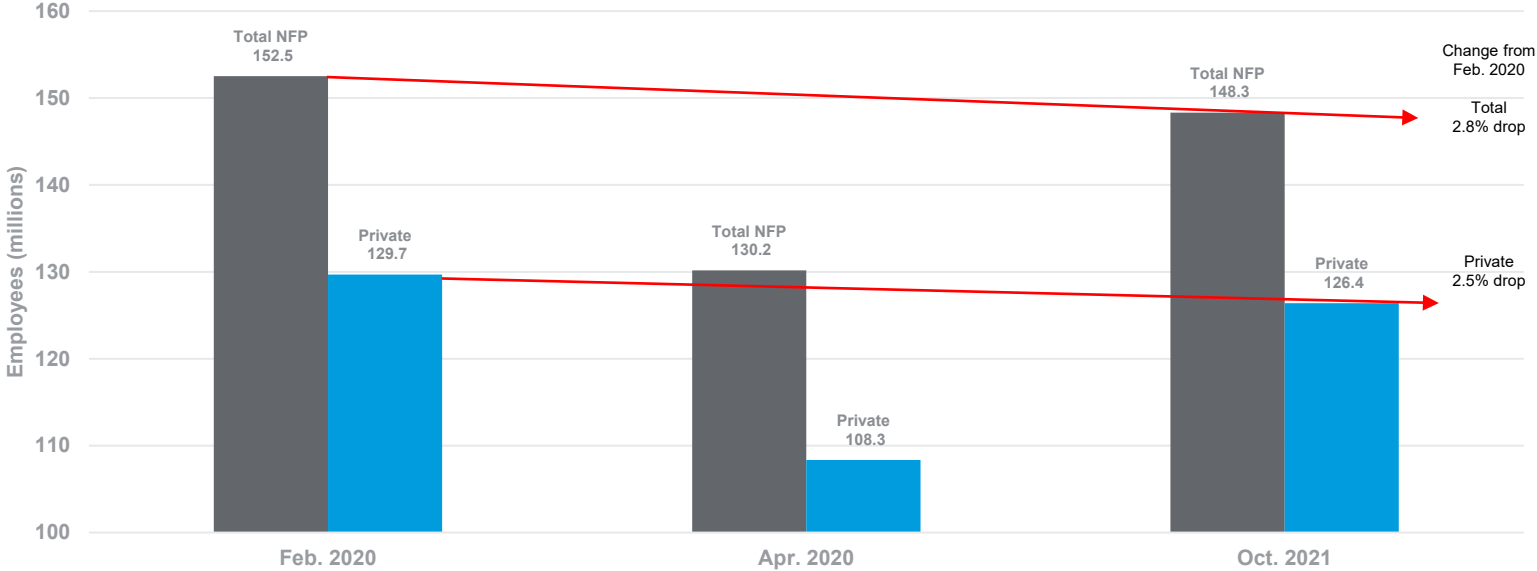


LABOR MARKET

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US Economic Outlook: Employment Recovery

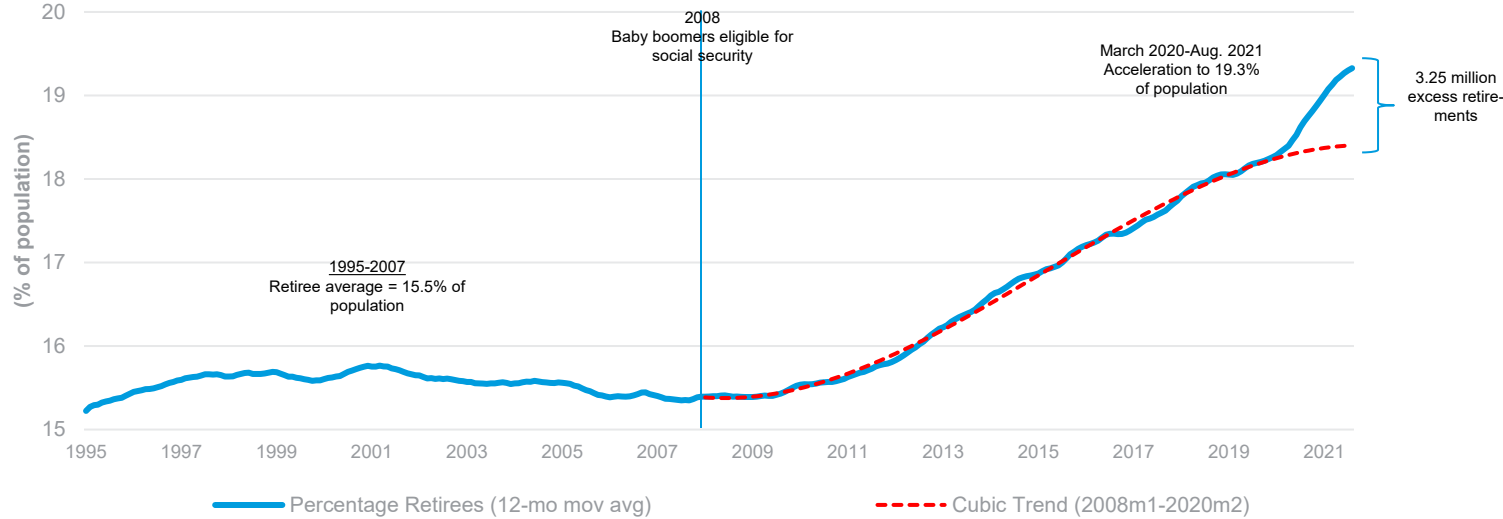
Non-farm payrolls employees during the pandemic
Total and private-sector as of February 2020, April 2020 and October 2021



Source: BLS; Bloomberg; RSM US

US Economic Outlook: Boomers Exit the Workforce

Retirees as a percentage of U.S. population
and the 2008-February 2020 baby-boomer retirement trend



Source: Miguel Faria-e-Castro, Federal Reserve Bank of St. Louis; RSM US

US Economic Outlook: Wages



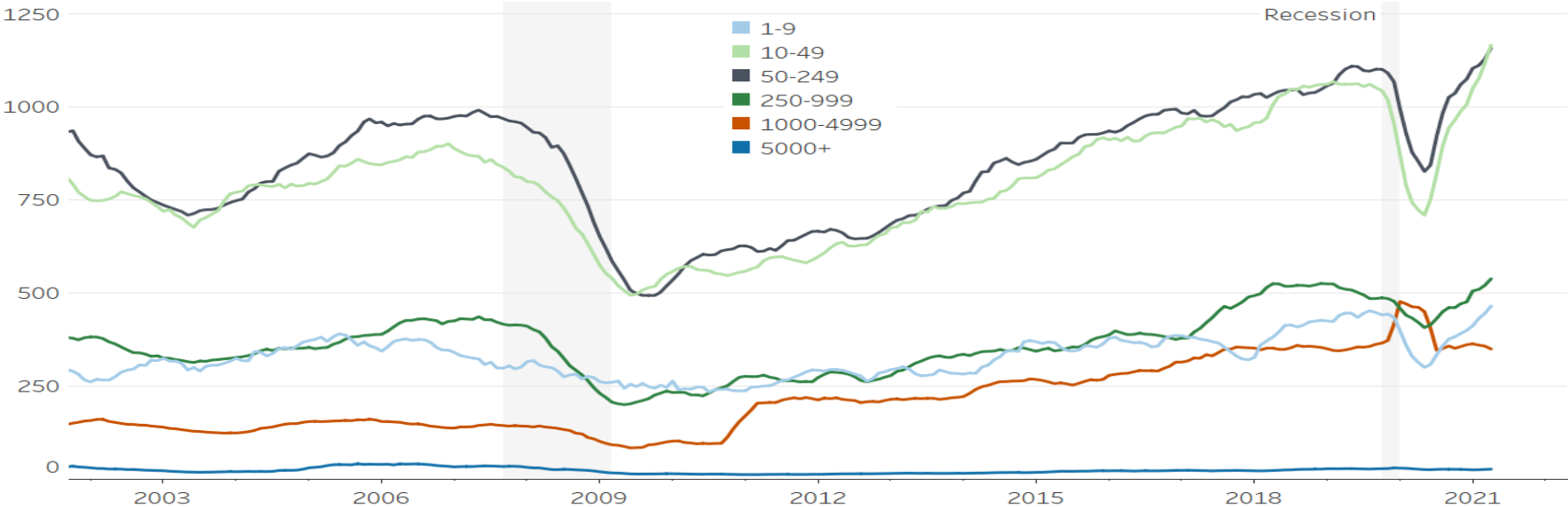
Source: BLS; Bloomberg; RSM US

US Economic Outlook: Workplace Transformation

Job quits by firm size

6-month moving average

Thousands, SA

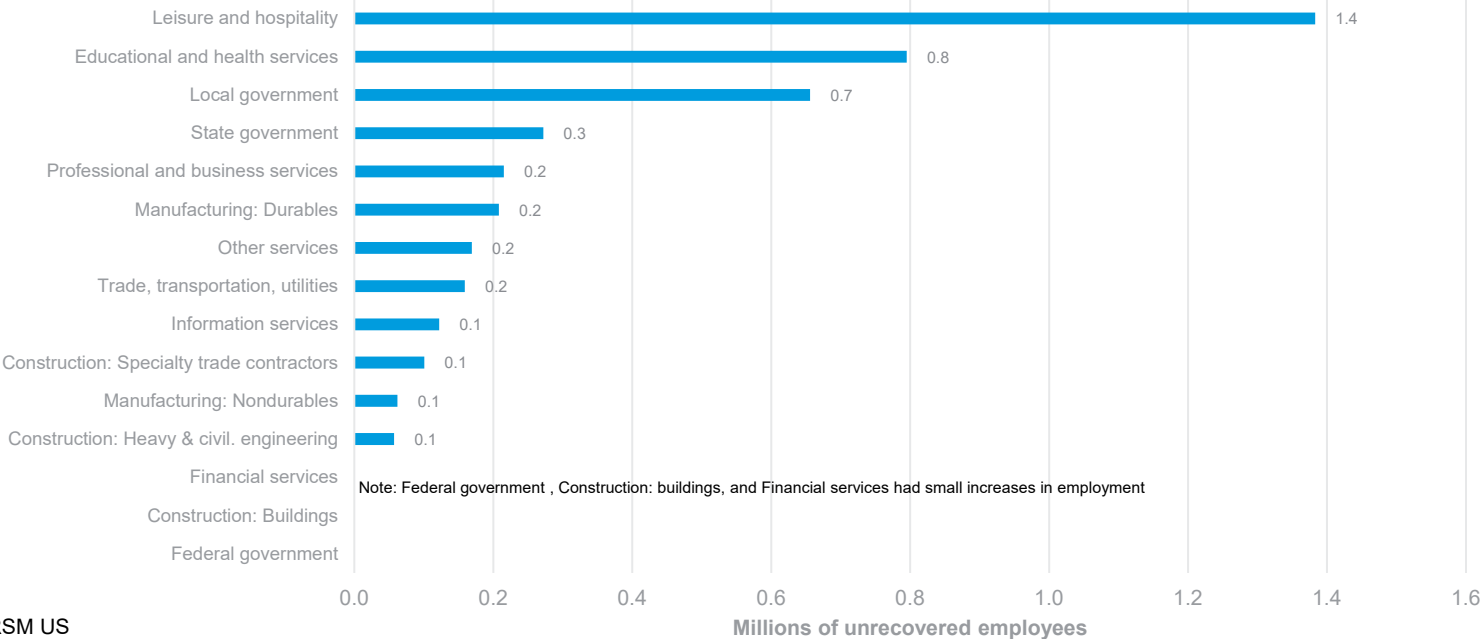


Source: BLS, RSM US, NBER

US Economic Outlook: Employment Recovery

Employment deficits of occupational groups relative to pre-pandemic levels

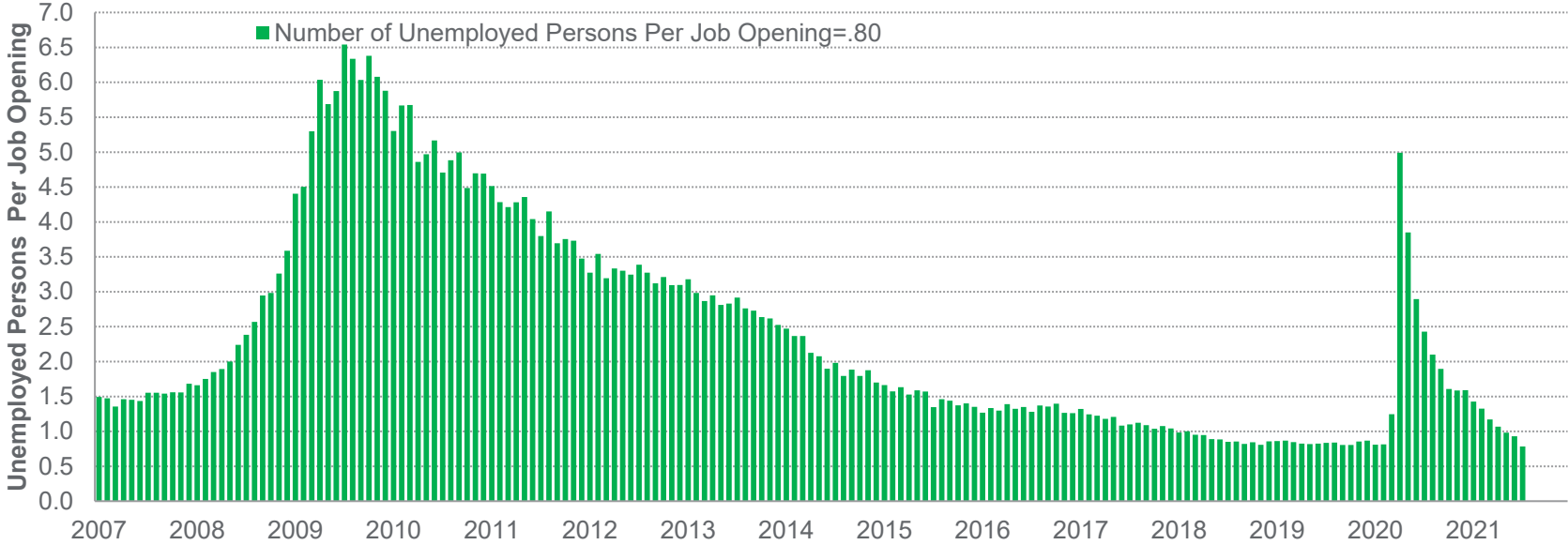
Millions of employees not on nonfarm payrolls as of October 2021



Source: BLS; RSM US



Plentiful Job Openings Across the Economy



Source: RSM US, BLS

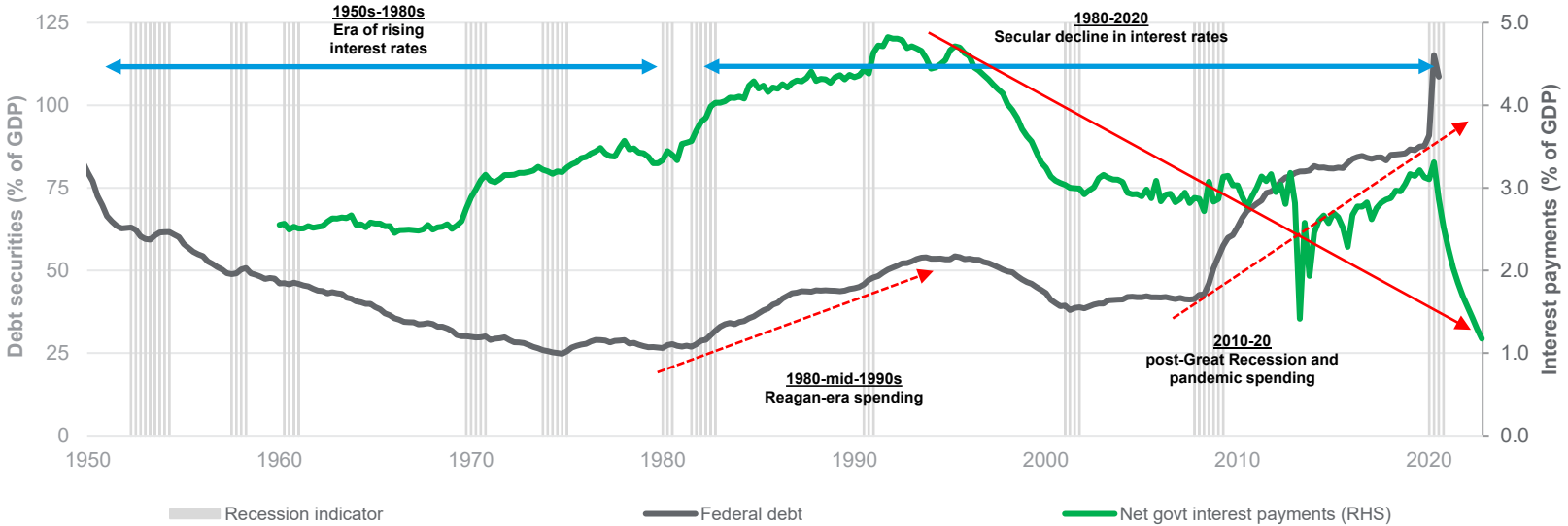


GOVERNMENT DEBT

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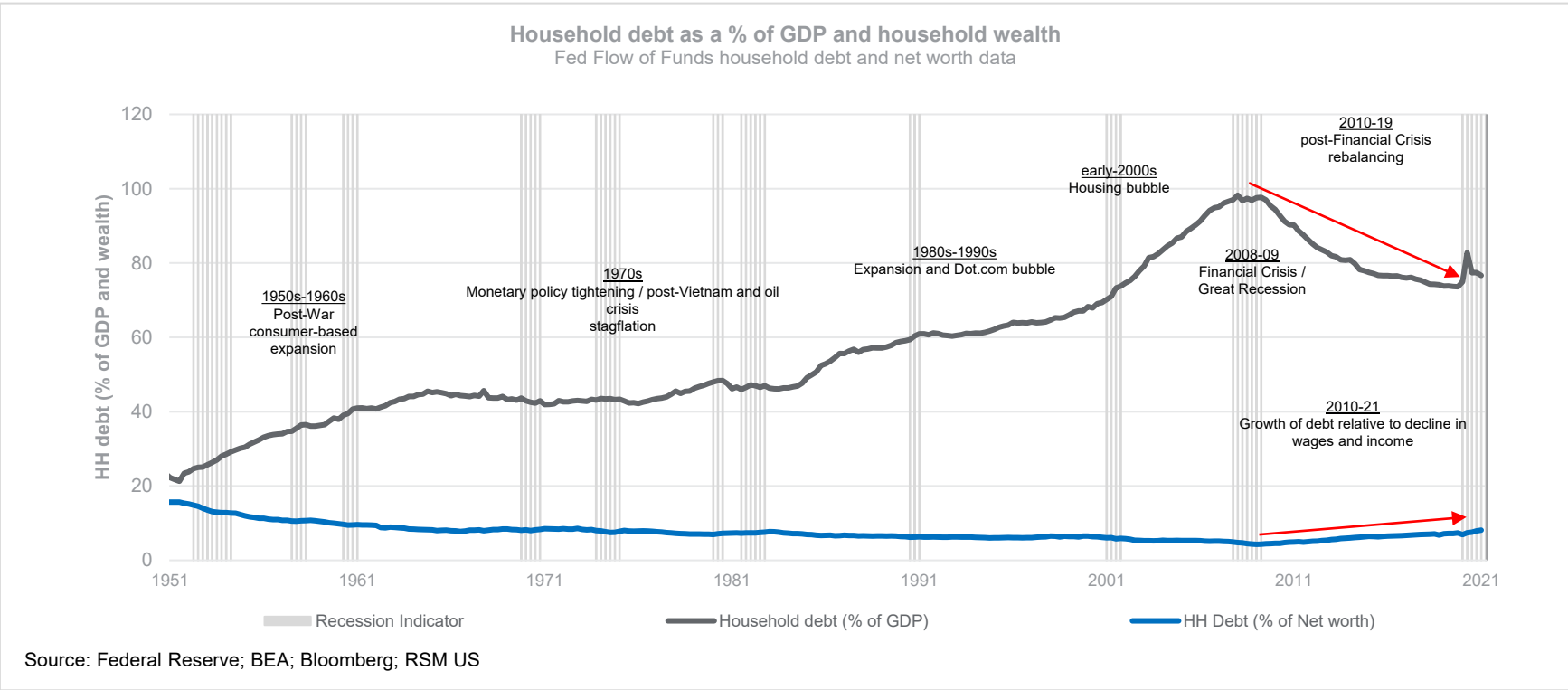
US Economic Outlook: Federal Government Debt

Federal debt and net interest payments as % of GDP
 Federal government debt securities liabilities and net interest payments



Source: Federal Reserve; BEA; Bloomberg; RSM US

US Economic Outlook: Household Debt as % of Net Worth



US Economic Outlook: Household Debt as % of Net Worth

