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FOURTH QUARTER 2020

Economy Grows at the Fastest Pace in Postwar Era in Third Quarter

U.S. records strongest quarterly gain on record. Reopening local economies pushed GDP growth to 33.1 percent in the third quarter. Although the gain was on the high end of expectations, the overall economy remains 3.5 percent below the level at the end of last year. Following strict shutdowns in April and May, most states began to relax restrictions on nonessential businesses to some degree. At the same time, CARES Act stimulus started reaching households as delayed unemployment payments, the Paycheck Protection Plan, and other support was injected into the economy. Much of the third quarter growth likely occurred in the first two months of the period before government aid dissipated.

Apartment operations hinge on fourth quarter economic and job growth. Although much of the federal stimulus has worked through the system, local unemployment runs through at least the end of the year for many residents, along with eviction moratoriums at both the state and federal levels. Densely populated and core locations with smaller apartment footprints will face challenges until a solution to the health crisis emerges and typically office-using firms recall dispersed workers. Suburban apartments are less impacted from the pandemic as residents move out of core areas. However, competition from a hot housing market could also form as residential structure expenditures jumped 59.3 percent in the third quarter, erasing a 35.6 percent decline during the spring period.

Headwinds Strengthen

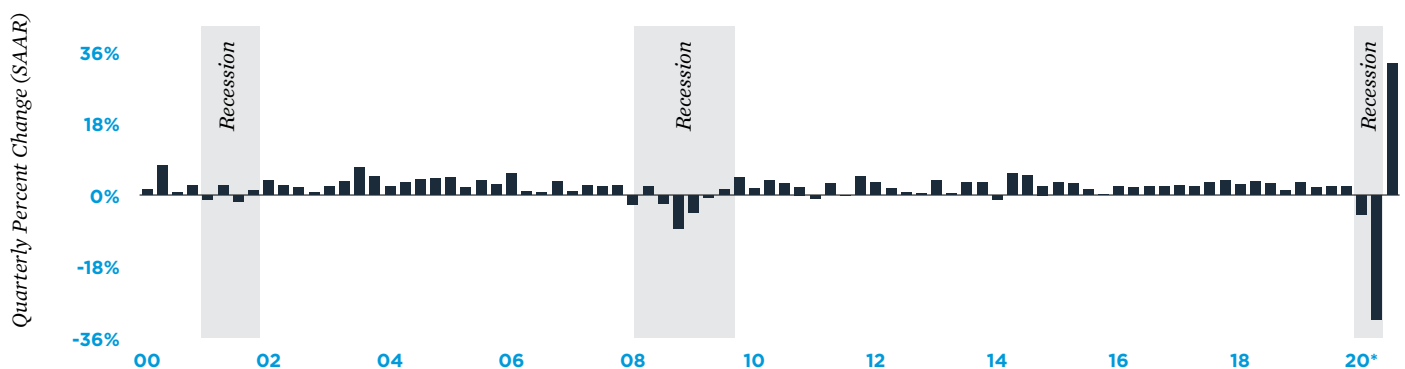
Rise in COVID-19 cases generates uncertainty. Both North America and Europe are experiencing a spike in positive test results. Unlike Europe, where curfews and wide lockdowns have returned, a more localized approach will be leveraged across the U.S. Absent additional federal assistance, states and local governments will be hesitant to surrender much-needed tax revenue. In the third quarter, state and local expenditures fell 3.3 percent as receipts declined. The capacity of local healthcare systems are anticipated to be the primary catalyst of closures.

Shape of recovery in doubt. Thus far, a K-shaped recovery has emerged as another round of stimulus failed to come to fruition while the economy is restricted from operating at full capacity. A new injection of capital into the economy is necessary to tip the scale in favor of a broader rebound. If Congress can reach an agreement, more support should reach households before other protections sunset. Several vaccines are also in the final stretch of clinical trials and could begin protecting vulnerable populations early next year.

33.1% Annualized 3Q Increase in GDP

14.6% Annualized 3Q Decrease in Nonresidential Investment

3Q Marks Largest-Ever Increase in GDP



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* Through third quarter

Sources: IPA Research Services; Bureau of Economic Analysis