



Yardi Matrix

National Industrial Report

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Industrial Strong in Volatile Economy

- Despite slowing economic growth and persistent inflationary pressures, demand for industrial space seems poised to remain strong. Drivers of industrial demand—including healthy consumer spending, the ongoing supply-chain hurdles, and the need to bring the nation's stock up to snuff to support modern logistics usage—are not likely to be affected in the near term.
- U.S. GDP turned negative (-1.4%) in the first quarter, in part due to lower inventory restocking and growth in imports. But economic growth is expected to bounce back going forward and finish the year at about 3%. Among the reasons for optimism are that consumers continued to spend in the first quarter, with purchases up 2.7%, and that business investment was also strong, up 9.2%. Supply-chain issues continue to be a drag on growth, although the backups at ports are easing somewhat.
- Inflation remains the biggest economic headwind. The annual consumer price index fell slightly to 8.3% in April, near 40-year highs. Higher prices cut into consumer purchases, and the Federal Reserve's efforts to curb inflation by raising interest rates could eventually push the economy into a recession, possibly in 2024. The war in Ukraine is contributing to persistently high energy prices, and there seems to be no quick end in sight. In the short term, though, the U.S. economy continues to pump out new jobs, with total employment nearing pre-pandemic levels. And consumer balance sheets remain healthy from personal savings and growth in the value of stocks (at least until recently) and homes, which portends continued strong spending, a good sign for retail and industrial real estate.
- Amid the economic volatility, industrial fundamentals remain exceptionally strong. Increased consumer spending and international trade create demand for industrial space, especially in major port areas including Southern California, the New York-New Jersey corridor and Miami. There aren't enough modern logistics facilities to meet demand in those and other U.S. metros, which means occupancy rates are high and rents are growing well above historical levels around the country.
- Meanwhile, the new-supply pipeline is extraordinarily robust. The supply-demand imbalance was noted by Prologis last week in a research article that termed the industrial market severely undersupplied. Based on a methodology that includes the Purchasing Managers Index, job growth, core retail sales and inventories, Prologis calculated that the U.S. has 16 months of available industrial inventory, well below what is needed to meet the needs of businesses. As a result, Prologis forecast rents and the supply pipeline to continue rising at elevated levels.

