BIRLING CAPITAL ADVISORS, LLC

Think Strategically

4 Predictions, 4 Issues & 4 Observations for 2024

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We end 2023 and enter 2024, facing a radically different and more complex macroeconomic and investment environment.

Birling Capital has outlined four key predictions that will have significant implications for global business in the ever-evolving landscape of international economics and financial markets; 2023 has been a year of challenges, surprises, and adjustments. As we look ahead to 2024, it's essential to take stock of the key predictions, issues, and observations that will shape the path of the global economy. The world has navigated through turbulent waters, from the aftermath of the pandemic to geopolitical conflicts and shifting economic dynamics. We'll delve into the forecasted soft landing of global growth, the labor market's resilience, the ghosting of the workplace, and the seismic changes in commercial real estate. These are the critical themes that demand our attention as we step into the next chapter of economic development and growth. Let's explore what lies ahead on this fascinating journey of economic insight and creative thinking.

1. **Issue 1: Soft Landing: The Global Growth forecast is 3% in 2023 and 2.9% in 2024.**

   A Pliable and Strong Global Economy has continued its recovery from the travails of the pandemic, the effects of high inflation, rising interest rates, the Russian war on Ukraine; the once mighty Chinese economy is facing Japanimation, a bank crisis of confidence and more recently, the Israel-Hamas War, to say that the world is dealing with a myriad of issues would be an understatement.

World Economic Outlook Projections	2022	2023	2024
World Output	3.50%	3.00%	2.90%
USA	2.10%	2.10%	1.50%
Euro Area	3.30%	0.70%	1.20%
Germany	1.80%	-0.50%	0.90%
France	2.50%	1.00%	1.30%
Italy	3.70%	0.70%	0.70%
Spain	5.80%	2.50%	1.70%
Japan	1.00%	2.00%	1.00%
United Kingdom	4.10%	0.50%	0.60%
Canada	3.40%	1.30%	1.60%
China	3.00%	5.00%	4.80%
India	7.20%	6.30%	6.30%
Russia	-2.10%	2.20%	1.10%
Brazil	2.90%	3.10%	1.50%
Latin America & Caribbean	4.10%	2.30%	2.30%
Mexico	3.90%	3.20%	2.10%
Puerto Rico	3.70%	1.60%	1.50%

The International Monetary Fund's Pierre-Olivier Garrincha's, head of the IMF Research Department, stated that the IMF Sees the Global Economy "limping, not sprinting".

In the most recent IMF forecasts, growth is expected to slow from 3.5% in 2022 to 3% in 2023 and 2.9% in 2024, a 0.1 percentage point downgrade for 2024. These latest economic projections are well below historical averages, a scenario that should concern us all.

While the data shows that global economies have slowed, its main culprits have been out-of-control inflation and the central banks increasing rates to rein in inflation.

FOMC Meeting	Rate Change	Fed Funds Rate
11/1/23	Unchanged	5.25% - 5.50%
9/20/23	Unchanged	5.25% - 5.50%
7/26/23	0.25%	5.25% - 5.50%
5/3/23	0.25%	5.00% - 5.25%
3/22/23	0.25%	4.75% - 5.00%
2/1/23	0.25%	4.50% - 4.75%
12/14/22	0.50%	4.25% - 4.50%
11/2/22	0.75%	3.75% - 4.00%
9/21/22	0.75%	3.00% - 3.25%
7/27/22	0.75%	2.25% - 2.50%
6/16/22	0.75%	1.50% - 1.75%
5/5/22	0.50%	0.75% - 1.00%
3/17/22	0.25%	0.25% - 0.50%

The Federal Reserve Bank had until March 2022 to state that inflation was "Temporary" and began its interest rate campaign in March 2022 and took rates from 0.25% after 11 rate increases rates are at a 22-year high in the range of 5.25%-5.50%. The Fed has opted to pause during its September and October meetings. However, it kept open the door for additional rate increases, considering the U.S. economy remains strong, growing last quarter at 4.90% GDP, and the forecast for the fourth quarter GDPNow Forecast is at 2.30% GDP.

Similarly, the European Central Bank took rates from 0% in June 2022 to 4.25%, increasing rates nine times. The tightening took effect in the U.S. the Consumer Price Index had hit its zenith on June 2022 with a 9.06%; by June 2023, the U.S. CPI had fallen to 2.97%, a 67.21% decrease only to increase in September 2023 to 3.70%, due to energy prices. In the Eurozone, the CPI hit its highest point in October 2022 at 10.62% CPI, and as of September 2023, it had fallen to 4.34%, a 59.13% decrease.

In summation, the consensus estimates are consistent with the scenario of a "Soft Landing" in both the U.S. and the E.U. for 2023 as the Central banks have navigated the storm of bringing down inflation.

2. Issue 2: The Labor Markets Softening, yet resilient.

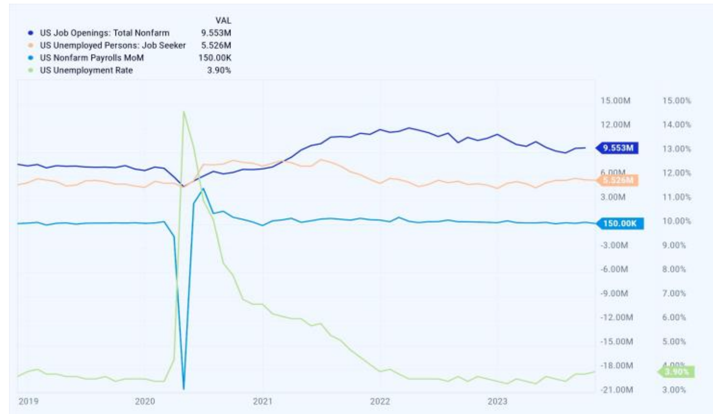
Total nonfarm employment rose by 150,000 in October, well below the prior month's 297,000 gain, and the unemployment rate rose to 3.9% from 3.8%, and when compared to its historical low of 3.40% reached in April 2023, its 14.70% increase in six months. For 2023, total nonfarm job growth totals 2,388 million or 238,800 monthly. Compared to 2022, job growth has slowed by 50.17%, as total nonfarm payrolls reached 4,793 million.

The only plausible analysis on the softening of the labor markets is that it helps lower upcoming inflation numbers, allowing the Fed to eventually pivot toward reducing rates during 2024.

The forecast of the U.S. unemployment rate for 2025 is 3.90%, a rate reached in October 2023 and up from its lowest rate of 3.40% in April 2023.

The 3.90% unemployment rate is still lower than the long-term average of 5.71% compared to other periods, such as 1982, when unemployment reached 10.80% in November 1982; our current unemployment rate is much more manageable. Also, in the U.S., there are still 9.553 million job openings and only 5.526 million job seekers. The pronounced labor market disparity is characterized by a job opportunity surplus of 3,027 positions per 1,000 individuals, resulting in a substantial 72.87% imbalance between job openings and job seekers, raising questions about the efficiency and productivity of the workforce.

US Job Openings, US Job Seekers, US Nonfarm Payrolls &. US Unemployment Rate



3. Issue 3: The Ghosting of the Workplace and its Impact on Cities

In recent years, a quiet but significant transformation has occurred in the world of work. The traditional office-based 9-to-5 job is no longer the sole archetype of employment. With advancements in technology and shifting cultural norms, the workplace has been undergoing a radical transformation. One of the outcomes of this transformation is the rise of remote work, which has led to what can be described as "The Ghosting of the Workplace".

The term "ghosting" typically refers to a practice in dating where one party abruptly and without explanation ceases all communication with the other. In the workplace context, "The Ghosting of the Workplace" refers to the increasing trend of employees and employers parting ways with physical office spaces, often without a clear plan or explanation. Instead of the traditional brick-and-mortar offices, many individuals and businesses are embracing remote work as the new normal. This transformation has been accelerated by the COVID-19 pandemic, which forced a massive shift to remote work and prompted many to reevaluate their working habits.

The appeal of remote work lies in its flexibility and efficiency. Employees can work from the comfort of their homes or any location of their choosing. Employers can tap into a global talent pool, reduce overhead costs associated with maintaining physical offices, and benefit from the increased productivity of remote work. This shift has led to creative thinking about where and how work can be done, resulting in an overhaul of traditional norms.

Well, since the COVID-19 pandemic hit, employees have been ghosting the office in dramatic numbers. Back in the day, pre-2020, the office was their second home, but that's ancient history now. With the rise of remote and hybrid work models, office attendance took a nosedive, plummeting by as much as 90% in some places. Fast forward to today, and guess what? Hybrid work isn't going anywhere. In these superstar cities, the office remains like a

distant relative that you see only occasionally, with attendance still down by an average of 30%. Office workers are now clocking in at an average of 3.5 days a week, depending on the city, ranging from 3.1 days in London to 3.9 days in Beijing. It's a whole new world.
New York City's heart, once teeming with life, saw 5% of its population vanish into thin air between mid-2020 and mid-2022. Meanwhile, San Francisco's urban core suffered a 6% exodus. Yet, the pulse of commerce continues to beat at a quieter rhythm, with foot traffic near stores in metropolitan areas lingering 10 to 20% below the vibrant levels of the pre-pandemic era.

However, it's not a one-size-fits-all scenario. The real estate landscape is like a mosaic, where each piece varies dramatically based on the local features of a city. Neighborhoods and cities decked with towering office buildings, sky-high housing costs, and the heavyweights of the knowledge economy may witness subdued demand.

4. Issue 4: Commercial Real Estate in Flux: Navigating the Changing Landscape

Commercial real estate is undergoing a seismic shift, and the catalyst for this transformation is the rise of remote work. The demand for office and retail spaces in these so-called superstar cities, like Beijing, Houston, London, Munich, New York City, Paris, San Francisco, Shanghai, and Tokyo, is in for a bumpy ride. Most forecasts state that we're looking at a 13% drop in office space demand by 2030 compared to 2019 in the average city under scrutiny. And when things get dicey, some cities could see a jaw-dropping 38% nosedive in demand, which is a dramatic twist. Many businesses have realized that employees can be just as productive working from home or flexible workspaces. This reduced demand has led to a surge in vacancy rates for traditional office buildings, causing financial strains on landlords.
Some are opting for Office Space Reconfiguration to address the changing needs of tenants, landlords, and property owners who are increasingly reconfiguring office spaces.

Co-working spaces have skyrocketed. With the increasing number of remote workers and small businesses seeking flexible, short-term office solutions, co-working providers have expanded their presence.

A solid shift to Suburban and Secondary Markets as businesses shift away from business districts in major cities. The world of commercial real estate is amid a profound transformation, and its future will be characterized by flexibility, technological integration, and innovative solutions.

The Last Word: Adapting to a Changing Economic Landscape:

The global economic landscape faces a delicate "soft landing" amidst challenges like high inflation and central banks' efforts to control it. The labor market shows signs of softening, which may impact future inflation figures and potential rate adjustments by central banks. Moreover, the workplace transformation towards remote and hybrid models reshapes cities and the commercial real estate sector, offering challenges and investment opportunities. This evolving reality demands creative thinking and adaptability from businesses and investors as they navigate the changing landscape of work and real estate.

In the end, it is not whether we are right or wrong that's important, but how much money we make when we are right and how much we lose when we are wrong.

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