Elliott D. Pollack & Company

The Monday Morning Quarterback

A quick analysis of important economic data released over the last week

FOR IMMEDIATE RELEASE
December 3rd, 2018

Some writers just seem to view the world as the glass always being half empty. I call it the Eeyore complex. This depressed donkey from Winnie the Pooh is always expecting something negative to come from any given situation. The economic pundits with this complex are forever looking at the downside. The economy is weak? It's going to stay weak. Unemployment is very low? Well then let's focus on a particular group where the rate is not at an historic low. The economy is growing rapidly? That means it has to be near the end of the cycle. I imagine these people must spend Christmas day finding reasons to complain about their presents.

What brought on this tirade is a series of article I've read lately about how bad the economy is going to be. No matter that is it now doing well. No matter that everyone expects the economy to slow, but still grow at rates that are respectable. No matter that there are seven million unfilled job openings in America. No matter that there are no signs of a recession. (Leading indicators are still going up. Consumer confidence remains at high levels. The yield curve is still positive. The Fed's recession indicator is still well below levels that would suggest a downturn.) No. Let's focus on the negative. Are there negatives? Of course. There almost always are. But, while they are worth mentioning, they are not the story.

But, Ok. In all deference to the Eeyores of the world, let's go negative. Will there be another recession? Absolutely. Our economy, just like every other economy in the history of mankind, is inherently cyclical. Is it late in the game? Yes. Yet, as discussed above, there are no indications that a downturn is likely over the next year or so. Is the economy likely to slow over the next few quarters? Yes. But the current level of growth is unsustainable in an economy that is demographically going through a period of slow labor force growth and tepid productivity growth.

Isn't the housing market slowing? In many markets it is. Affordability problems will continue to get worse given cost pressures on housing prices caused by issues (lack of labor, increases in commodity costs) that have no immediate solution as well as increasing interest rate. This is noteworthy because housing (both new owner and rental housing) account for almost one-sixth of the economy. Yet, the recent declines have been considerably more than offset by the rest of the economy. That is likely to continue to be the case over the next year. In addition, the underlying demographics of single family housing over the next five years are amazing. That doesn't mean there can't be interim declines. But, they are likely to be mild and not long lasting.

As for autos where growth in unit sales will be tough to come by, growth in the rest of the economy should offset any problems there. That includes the layoffs at GM. 14,000 layoffs vs. jobs growth of 180,000 per month.

How about some perspective. Overall, we are late in the game. Growth will continue but at a slower rate. But, as any economist will tell you, expansions don't die of old age. They die of imbalances that need to be corrected. This expansion will end at some point. But, for the time being, enjoy the ride. The odds are that the end is not near.

U.S. Snapshot:

- October personal income grew by 0.5% over September. Personal income is now up 4.3% over year earlier levels. Disposable person income was up 0.5% for the month and is now 4.8% above year earlier levels. And personal consumption expenditures were up 0.6% over a month ago and 5.0% above a year ago. These are good numbers going into the holiday shopping season.

- Consumer confidence as measured by the Conference Board remains at high levels (see chart below). The November index was 135.7 vs. 137.9 in October and 128.6 a year ago.

- The Pending Home Sales Index, a forward looking indicator based on contract signings, declined by 2.6% to 102.1 in October. Year over year contract signings dropped 6.7% making this the 10th straight month of annual decreases. Recent increases in mortgage rates have reduced the pool of eligible homebuyers.

- Sales of new single family houses in October were at a seasonally adjusted annual rate of 544,000. This compares with 597,000 in September and 618,000 a year ago. Not surprisingly, the median sales price was down 3.6% from September and was down 3.1% from a year ago.

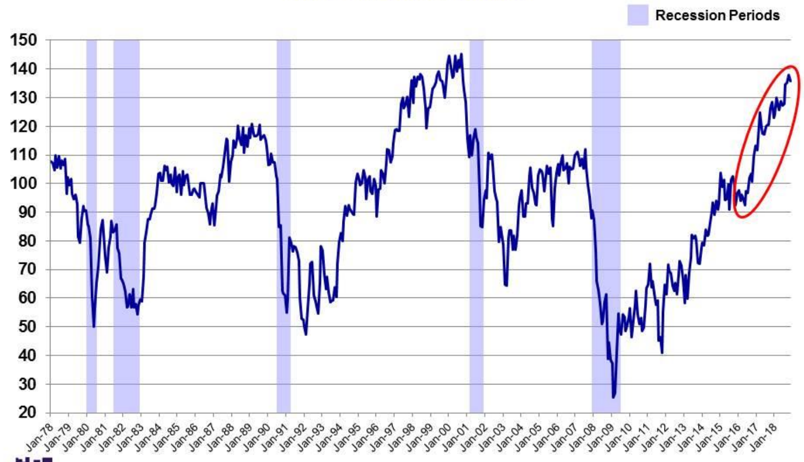
- The S&P/Case-Shiller home price index in September was flat when compared to August. August was flat when compared to July. The index is now up 5.1% from year earlier levels. Thus, the surge in home prices seems to be abating.

Arizona Snapshot:

- October enplanements at Sky Harbor International Airport were 4.0% above year earlier levels. Deplanements were up 3.7%. Total traffic was up 3.8%. This is a strong performance.

- The S&P/Case-Shiller home price index for Greater Phoenix was up 0.8% for the month in September and now stands 7.2% above year earlier levels.

Consumer Confidence
1978 – 2018*
Source: The Conference Board



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*Data through November 2018