Elliott D. Pollack & Company

The Monday Morning Quarterback

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

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There was lots of interesting info last week. Most interesting was the latest Blue Chip forecast. This survey was taken after the tax bill passed and also gave a view of the consensus forecast for 2019 as well as 2018. According to the forecast, "optimism about U.S. economic growth this year increased again over the past month. Moreover, the consensus now predicts that the economy will register another year of above-trend, albeit somewhat slower, growth in 2019." Thus, the next two years according to the Blue Chip will be years of growth. If this happens, the current cycle will be the longest in U.S. history. It will not, however, be the strongest. This cycle has been anemic. Even so, this outlook has to be considered positive.

It will be interesting to see how the stimulus of the tax cuts and expected infrastructure spending will affect what has been a surprisingly low rate of inflation in this cycle. Given the low rate of unemployment, it is likely that prices will increase more over the next year than they have since the expansion began. That being said, the rate of inflation should remain under control but still allow the FED to raise rates so that real rates will be less negative or perhaps even positive.

The historic norm is for real rates of return to be positive. What has gone on in this cycle is an historic anomaly. It had to do with what the FED felt was necessary to make sure that the financial bust of 2008 did not turn into something that was worse. Their policies worked. However, the cost was that savers and retirees got the short end of the stick in that the income generated by their savings was less than the rate of inflation. The trick for the FED now is to get rates high enough over the rest of the expansion so they have enough "bullets in their gun" in order to be able to assist during the next economic slowdown when it does ultimately occur. This also could mean positive real rates of return for savers. Look for rates to go up faster than inflation over the next year or two.

U.S. Snapshot:

- The latest Blue Chip forecast predicts that on a year over year basis, 2018 will show real GDP growth of 2.7% and that 2019 will be up 2.4%.

- The CPI for all urban consumers (CPI-U) increased 0.1% in December on a seasonally adjusted basis. Over the last 12 months, the index rose 2.1%. The index for all items less food and energy (the base rate of inflation) increased 0.3%. This index increased 1.8% over the past year.

- Consumers were heating up their credit cards as revolving credit rose 13.3% at an annual rate in November and now stands 5.7% above a year ago. The rise in revolving credit is the second largest of the ongoing expansion and perhaps indicates less reluctance among consumers to run up their credit cards. Non-revolving credit, where auto financing and student loan debt are tracked, rose at a 7.2% annual rate in November and now stands 5.2% over a year ago (see chart below).

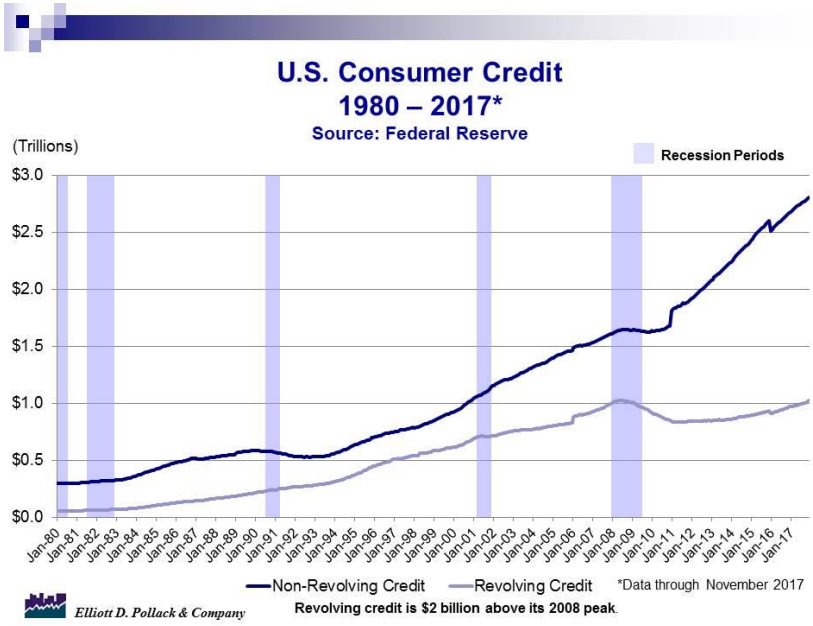
- Advanced estimates of retail and food sales in December (seasonally adjusted) increased 0.4% from November and were up 5.4% over a year ago.

- The combined value of trade sales and manufacturers' shipments for November increased 1.2% from October and now stand a strong 7.9% over a year ago. In addition, the manufacturing and trade inventories/sales ratio dropped to 1.33 in November. This is down from 1.34 in October and 1.4 a year ago (see chart below).

Arizona Snapshot:

- According to the Information Market, residential sales in Maricopa County in December were up 1.5% from a year ago. Also, resale median prices in December were $242,476. This is up 7.8% from a year ago.

- Total residential sales in Greater Tucson were down 0.7% in December to 1,116 units vs. 1,124 a year earlier.



U.S. Inventories to Sales
1992 – 2017*
Source: U.S. Census Bureau