Elliott D. Pollack & Company

The Monday Morning Quarterback

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

FOR IMMEDIATE RELEASE
June 18th, 2018

Economic data this past week suggests the economy is still booming. This is true despite the fact that stimulus from tax cuts and increases in government spending have yet to completely work their way through the system.

Thus, it is not surprising that the FED increased the target rate for Fed Funds by 25 basis points to a range of 1.75%-2.0%. The FED is expecting lower unemployment and higher inflation for the rest of this year and into next. They are also likely to increase rates again in September and December with additional rates (perhaps up to four increases) next year. It appears that the FED central tendency forecast calls for the unemployment rate to continue to inch down toward 3.5% into 2020. It also expects inflation rates as measured by the deflator for personal consumption expenditures to increase to the 2.0-2.25% range. Some overshooting of that range could occur.

Inflation usually comes with strong economic growth. One way to show the difference in compensation investors are getting for choosing to buy shorter or longer-term debt is to look at short term versus long term Treasury notes, often called the "yield curve". When the curve is positive, it indicates that investors are demanding higher rates on long term bonds due to expected inflation from a strong economy. The yield curve has been flattening for some time (meaning the rate on long term bonds and short term bonds are becoming more similar). But, the curve is still positive. This suggests that the expansion will continue. Since short term rates are likely to rise over the next year to 18 months, it would be necessary for long term rates to increase, albeit more modestly, over the period for the curve to remain positively sloped. This could occur if inflation increases and inflationary expectations also rise. This seems likely over the next year. But, watch the yield curve. If it flattens too much or turns negative, the expansion would be at risk. As of today, we are not close to such an outcome.

U.S. Snapshot:

- Retail and food service sales for May increased 0.8% over April and 5.9% over a year ago. This is a strong performance.

- The University of Michigan Consumer Sentiment Index stood at 99.3 in June. This is up 1.3% from the 98.0 of April and up 4.5% from the 95.0 a year ago. The index remains at a high plateau (see chart below).

- Manufacturing and trade sales and inventories continued to grow in April. Sales were up 0.4% over March and 6.7% above a year ago. Inventories were up 0.3% over March and

4.4% over a year ago. The inventories to sales ratio was at 1.35. This is the same as March but down from 1.38 a year ago. All good news.

- The consumer price index for all urban consumers (CPI-U) increased 0.2% in May after a similar increase in April. The index is up 2.7% from a year ago. But, the index for all items less food and energy (called the base rate of inflation) was up a more modest 2.2% over a year ago.

- Industrial production declined by 0.1% in May compared to April. When compared to a year ago, it is up 3.5%. Last month, industrial production was up 0.9% over March and 3.6% from a year ago.

Arizona Snapshot:

- According to the Home Builders Association of Central Arizona (the Greater Phoenix area), single family permits were up 6.0% from a year ago to 2,025 from 1,910. For the first five months of the year, permits were up 16.8% from the similar period in 2017.

- According to the Greater Phoenix multiple listing service, the number of listings in May continued to fall while the number of sales continues to increase on a year over year basis. As a result, the month's supply of listings in May was 2.0 compared to 2.3 a month ago and 2.4 a year ago. The pressure is especially intense in the under $300,000 market. The result of this supply/demand imbalance is that prices of single family sales sold through MLS have increased 9.8% to $280,000 over the past year.

- In the Greater Tucson market, the same imbalance exists. Listings for all types of homes stood at 3,048 in May compared to 3,313 a year ago. Total sales rose to 1,581 in May from 1,470 a year ago. Thus, the month's supply has declined from 2.25 in May 2017 to 1.93 in May 2018. As a result, housing prices have increased 8.3% over the last year to $216,500.