EW ECONOCAST™ WEEKLY

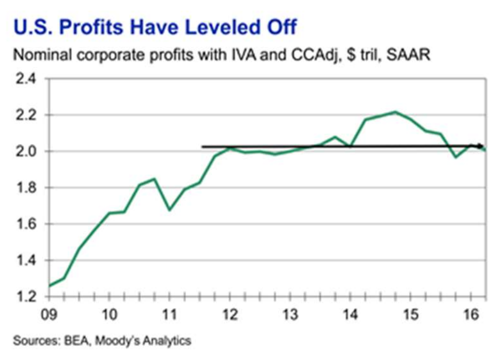
ECONOCAST™ UPDATE – August 29, 2016

U.S. Economy – Home Sales Mixed

July's home sales were mixed with new home sales up strongly and sales of existing homes down. New home sales surged 12% in July and they are up by 31% from July 2015. Sales were running at an annual rate of 654,000 in July compared to about 800,000 from the late 1990s to just before the start of the housing bubble. In addition, the market is very tight with just 4.3 months of inventory, a level last seen in 1998-2004. Thus, the new home market is poised to continue moving higher.

In contrast existing-home sales fell 3.2% from June and were 1.6% below July 2015 levels. However, it does not appear that there is a lack of demand. The main constraint is the very low level of listings resulting in total inventory below year-ago levels. Despite rising demand, inventory has not increased significantly since 2014. Even though the U.S. median existing-home price is back to its 2005 peak, many U.S. regions, including the states hit hardest by the housing crisis, still have prices below their peaks from last decade. The high level of rents and the modest prospects offered by stocks and bonds are also keeping homes off the market.

In her widely anticipated speech Fed Chair Yellen said that the U.S. economy is nearing the Fed's goals for growth and inflation. This suggests that a rate hike will occur this year, probably after the election. However, the impact will be modest since the anticipated rate hike is very small. A small hike is unlikely to change the investment calculus. More important maybe the leveling of profit growth which limits earnings.



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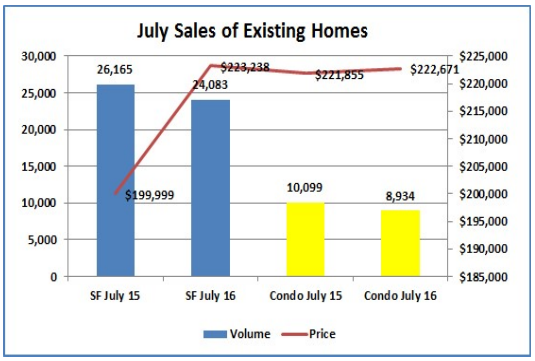
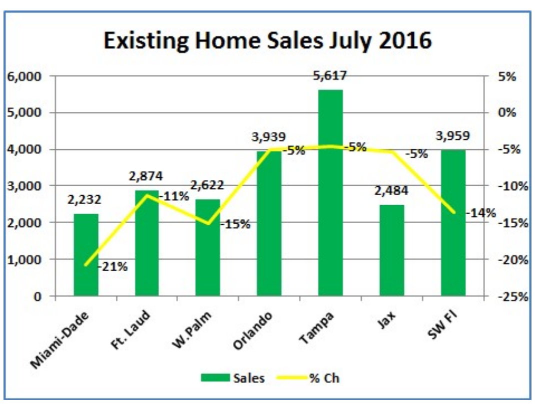
Florida Economy: Housing Sales Weaken in July

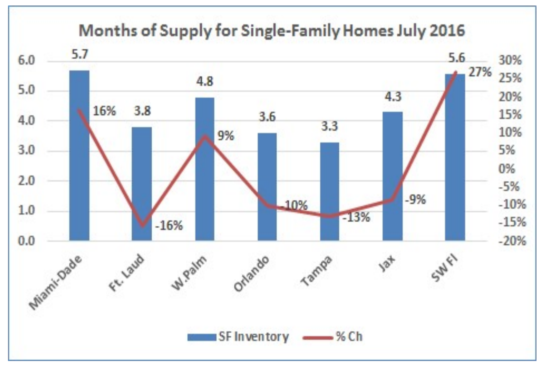
Sales of existing homes continued declining in July for the third month in a row. Single-family sales were down 8% and multifamily sales were down 11% compared to last year. Single-family prices rose 11%, so the total value of sales was flat. Condo prices were flat, resulting in an 11% drop in the total dollar value of multifamily sales.



The statewide average masks the very significant sales declines in Miami-Dade down 21%, West Palm off 15%, and Southwest Florida dropping 14%. Most other major markets were down 5% over the year.



The sharp contraction in Miami-Dade sales reflects the collapse of foreign investment and speculation. In Southwest Florida much of the decline occurred in Naples which was also subject to rampant speculation. For most other markets the dip in existing home sales appears more related to a lack of supply than to falling demand. This contrast is shown in the inventory data. For example, in the single-family marketplace, inventories jumped in the weaker markets, Miami-Dade and Southwest Florida, but inventory levels remained very low or declined in the stronger markets like Orlando and Tampa.



This contrast is even more apparent in the inventory data for multifamily product. The months of inventory at current sales levels jumped 32% over the year in Miami-Dade to a very unhealthy level of 11.6 months. While the level of inventory was not nearly as high in Southwest Florida's multifamily market, it shot up by 51% over the last 12 months. By contrast, in the stronger markets inventory levels were low and often declining over the last year.