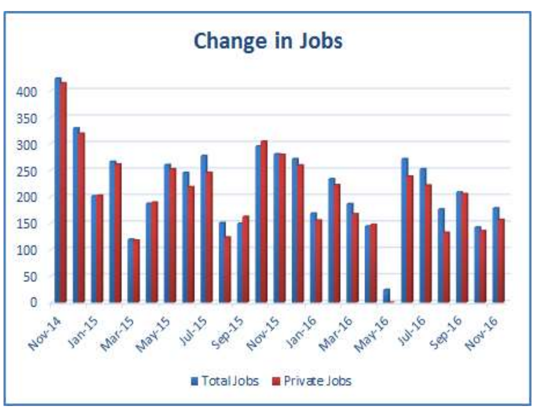
ECONOCAST WEEKLY

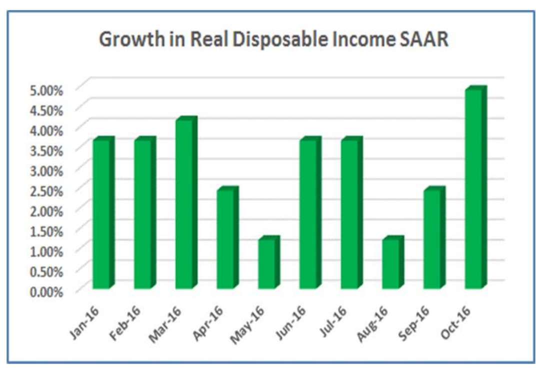
ECONOCAST™ UPDATE – December 5, 2016

U.S. Economy – More Jobs and Higher Rates

Last week's data were consistent with the pattern emerging after the election, accelerating growth and rising interest rates. Payroll employment rose a solid 178,000 in November, and the gains would have been higher but for the continuing erosion in retail jobs courtesy of booming ecommerce sales. Unemployment dropped to a cyclical low of 4.6% in part because of a dip in participation that is consistent with a labor market operating at nearly full employment. The only disappointment in the November report was that average hourly earnings dipped, but this was likely depressed by a calendar effect that will disappear in December.



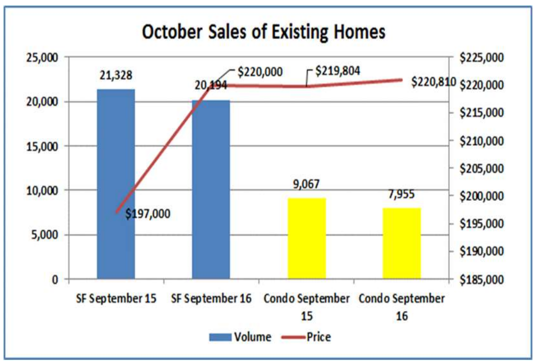
The labor market has tightened enough to produce upward pressure on wages. Thus, growth in average hourly earnings has risen from about 2% through most of the recovery to more than 2.5%. However, there is still enough slack in the labor market, in the form of discouraged workers and those are not working as many hours as they would like, to restrain wage growth. Year-over-year growth in nominal wage income is tracking at about 4.3%, compared with its historical average of 6.3%. Fortunately, inflation is very low and taxes have not increased. This has resulted in sturdy gains in real disposable income averaging almost 4% this year.



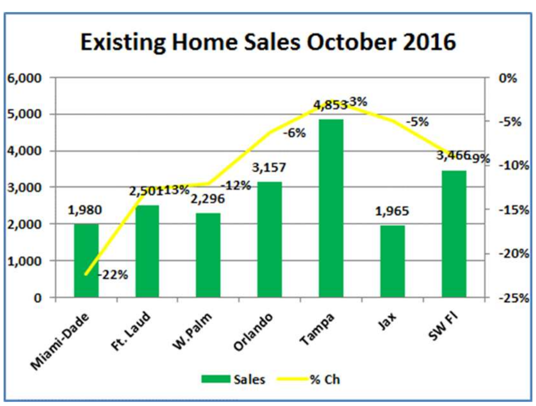
But interest rates continued rising. Mortgage rates rose to 4.13% on the benchmark 30-Year, fixed-rate. The bell-weather 10-Year closed at 2.39%.

Florida Economy: Existing Home Sales Weaker in October

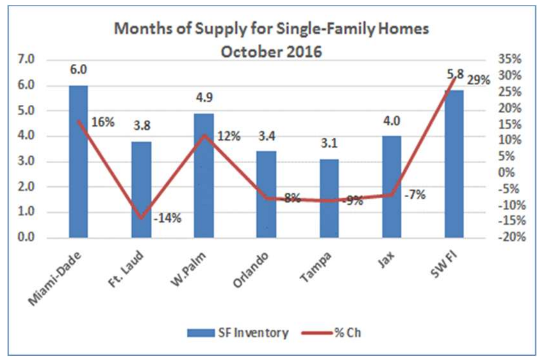
Existing home sales were weaker again in October. Single-family closings dipped 5% while condo and townhome sales dropped 12% compare to last year. Prices increased 12% for single-family homes but were flat for the condos and townhomes. Pending sales were down compared to last year pointing to further weakness in November. However, median time to contract and to closing declined suggesting that further weakening maybe reversed in December.



Sales volumes declined in every major metro area in October, except for Tampa Bay which posted a modest 3% gain. There was notable weakness in Southwest Florida with sales down 9% and in South Florida with sales down sharply in Miami-Dade, Ft. Lauderdale and W. Palm.



The deterioration in Miami-Dade worsened in October. Single-family closings were off 13% while condo and townhome sales plummeted 30% compared to last year. Inventory levels have risen strongly, particularly for multifamily units up 20% compared to last year. At current sales levels, there is over 12 months of multifamily inventory on the market. The other troubled market is Naples. Closings for single-family homes dipped 5% and prices were down 3%. Multifamily closing dropped 16%.



Otherwise, most markets were down only modestly in October. Inventory levels are very tight across the I-4 corridor and in Jacksonville. So, even though closing volumes have deteriorated over the last few months, prices continued to move modestly higher in most markets. Thus, the months of supply, which would be about 6 when markets are in equilibrium, remained well below this threshold.