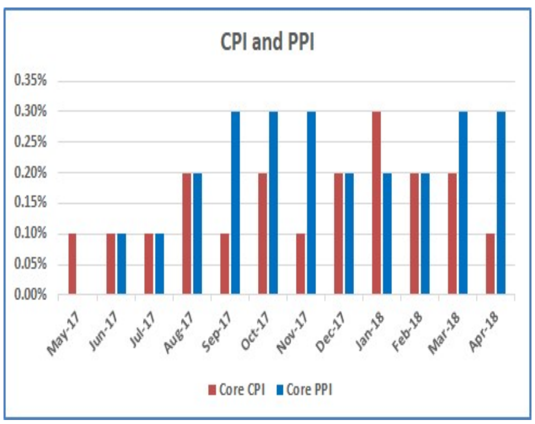
EW | ECONOCAST™ WEEKLY

ECONOCAST™ UPDATE – May 14, 2018

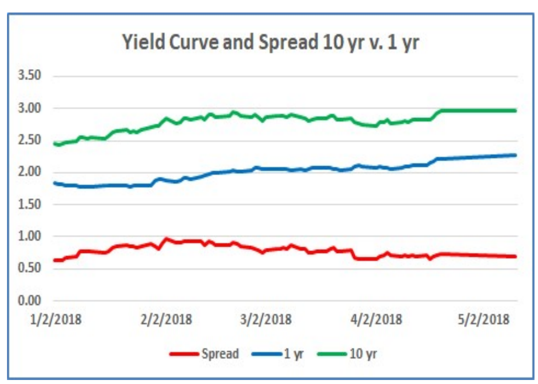
U.S. Economy – Price Inflation and Federal Reserve Policy

Inflation came in a bit weaker than expected in April. The CPI rose 0.2% and the PPI was up 0.1%. Core CPI rose 0.1% while core PPI was up 0.3%.



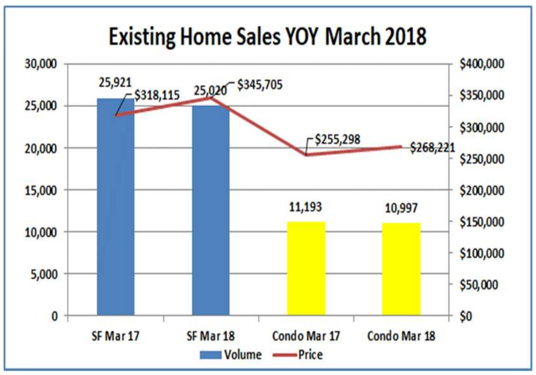
But, these prices do not fully reflect the nearly 30% jump in oil prices so far this year. Despite the fact that the rise in oil prices will reduce real consumer spending by $75 billion on an annual basis and largely nullify the stimulus from the tax cuts for most households, the April inflation reports continue to support the Fed's intentions to continue increasing interest rates. So far, the Fed is far more concerned about rising prices than slowing economic growth, which is running at about 3%. The Fed has announced plans for two more rate hikes this year, with the first likely after the June Fed meeting.

Financial markets may be underestimating the Fed, which appears to be becoming increasingly hawkish. This is reflected in the yield curve that is at its flattest since August 2007. So far this year, the spread between the 1-year note and 10-year bonds stands at just 69 bps. With at least two more rate increases announced for this year, there will be additional pressure on the short end of the yield curve. The risk is that the Fed will decide to raise rates more aggressively, which is what I think will happen given the underlying strength in the economy, at nearly full employment, and now fueled by tax cuts and the massive increase in debt-funded federal spending.

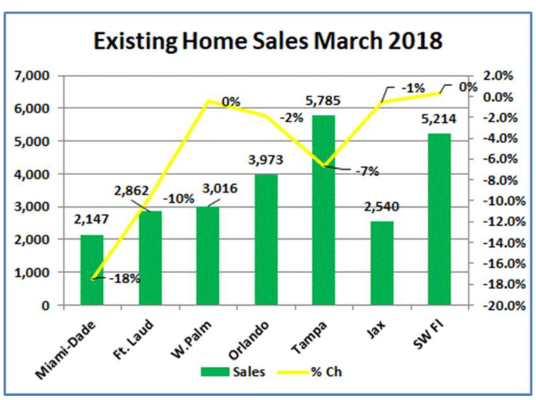


Florida Economy: Sales of Existing Homes Dip

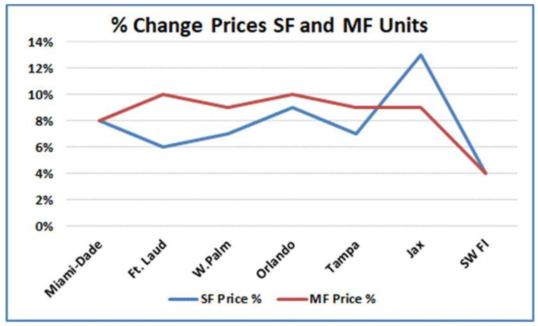
Sales of existing homes dipped in March, as single-family closings declined 3.5% and multis were off 1.8% over the year ending in March. But, prices were up 8.7% and 5.1% for singles and multis respectively. Sales have oscillated a little up and a little down over the last six months essentially unchanged, while prices retain substantial gains over last year. Inventories are extraordinarily tight, which is surprising since the price gains have failed to result in significant increases in new listing over the last six months.



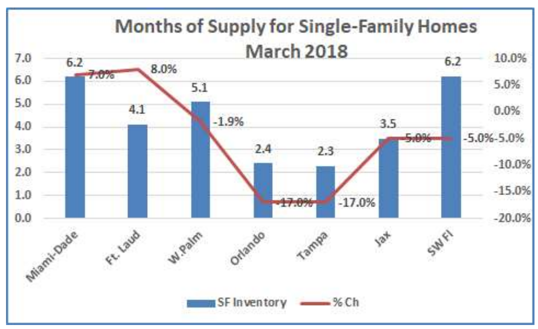
Sales were flat to down in every major metro area in Florida comparing March 2018 to last March. Closings were off 18% in Miami and 10% in Ft. Lauderdale and 7% in Tampa. These sharp declines in closings in March 2018 were in both single and multifamily markets.



Even though closing volumes dropped in March, prices were up 5% to as much as 12% compared to last year. Southwest Florida was the only area where prices failed to increase by at least 5%.



Despite the decline in closings, inventory levels were generally tighter. The equilibrium level of inventory at current sales rates is about six months, and almost no Florida market is at this level for single-family homes.



For condominiums and multifamily homes only Miami and Southwest Florida have excessive inventory levels.