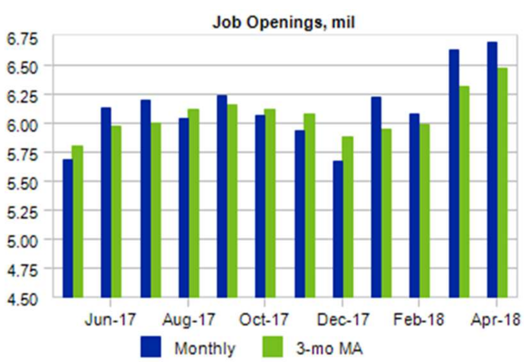
EW | ECONOCAST™ WEEKLY

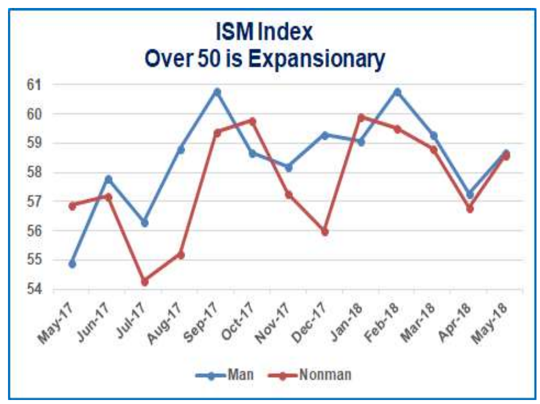
ECONOCAST™ UPDATE – June 11, 2018

U.S. Economy – Less Slack Means Rising Inflation and Higher Rates

Last week's economic data reflect reduced slack in the economy and rising price pressure. The Job Openings and Labor Turnover Survey data confirm the tightness of the labor market. Job openings ticked up in April to 6.7 million, a record for the series. There are now more job openings than unemployed workers. Hiring increased with 5.6 million people hired. Although the gap between openings and hires narrowed slightly, it remains very large at 20%.



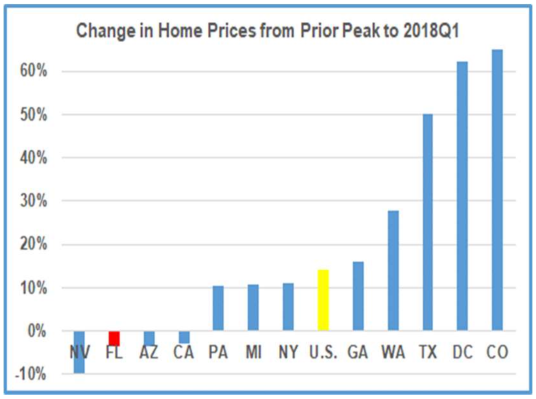
The ISM surveys showed manufacturing expanding, but supply constraints and mounting trade tensions will weigh on production. The ISM manufacturing index increased from 57.3 in April to 58.7 in May boosted by new orders, and it is equal to its average over the past 12 months. The nonmanufacturing index increased from 56.8 in April to 58.6 in May, and it is above its average over the past year. While new orders, and employment increased, slowing supplier deliveries reflect supply chain constraints.



With rising inflation pressures, the Fed is sure to raise rates this week to 1.75% to 2%, and the midpoint of the target rate range will have risen by 50 bps since year-end 2017. However, the three-month Libor is effectively ahead of the Federal Reserve as far as raising interest rates on variable-rate business loan debt. For whatever reason, the market is effectively hiking short-term interest rates more rapidly than is the Fed.

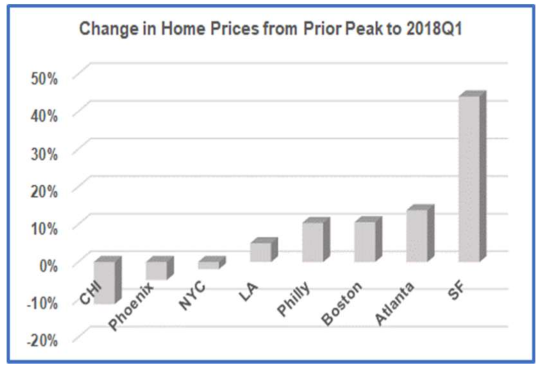
Florida Economy: Home Prices from Peak to 2018Q1

Home prices in the U.S. are now 14% above their prior cyclical peak reached in 2007Q1 according to The Federal Housing Finance Administration's Home Price Index ("HPI"). HPI is a repeat-sale index based on actual sales of the same house, so that it accurately measures changes in home prices over time.

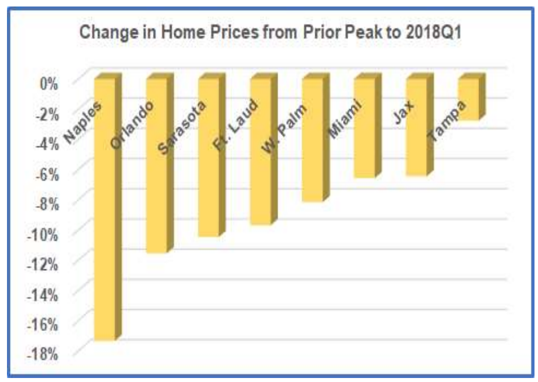


However, there are huge variations in how home prices have changed since their prior cyclical peaks, which also vary as to when they achieved their prior peaks. In Florida home prices peaked in 2006Q3 and they are still 4% below their peak price more than a decade later. By contrast, prices peaked in Colorado in 2007Q1 and are now 65% above that peak. Besides Florida, there are very few states in which home prices are still below their prior peaks including California, Arizona, and Nevada.

There are also substantial variations in the trajectory of home prices since their prior cyclical peaks across metro areas. At one extreme home prices are up 44% in San Francisco compared to their prior peak, compared to prices in Chicago which are still 11% below the prior peak.



In Florida home prices in all of the major metropolitan areas have yet to regain their prior cyclical peaks. Prices in Tampa come closest, down only 3% compared to the prior peak. But, in Naples home prices are still 17% lower than their peak level.



The relationship between current home prices and their prior peaks have important implications for market behavior and for migration. When home prices are below their prior peaks, many owners are reluctant to list their homes for sale or cannot do so given their current mortgage amounts. This results in the very low levels of inventories in Florida in particular. Also, when homes are below their prior peaks and sales are inhibited, fewer people sell and move. So, the home price in the sending areas to Florida impacts Florida's population growth.