



Elliott D. Pollack & Company

The Monday Morning Quarterback

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

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The latest economic data suggests that the economy will continue to grow. As for the national picture, employment growth was above expectations. Personal income, disposable personal income and personal consumption expenditures were flat for the month but are up slightly more than the rate of inflation on a year over year basis. Auto sales remain at a plateau that is slightly lower than a year ago. The manufacturing and non-manufacturing sectors continue to grow modestly. And while construction spending was down slightly for the month, it is showing good gains from a year ago.

In the Greater Phoenix area, the ratio of the median price of a new home as a percent of the median price of a resale home is now the lowest since late 2008 and continues to trend downward toward its historic norm. This is good news. And, Greater Phoenix industrial, office and retail markets continue to improve.

Nothing terribly unexpected this week. It's more a confirmation of the trends we have seen over the last several months.

U.S. Snapshot:

- Total nonfarm payroll employment increased by 209,000 in July and the unemployment rate declined to 4.3% from 4.4% in June and 4.9% a year ago. Employment increased in virtually all major sectors but the gains were greatest in Leisure and Hospitality, Educational and Health services and Professional and Business Services. Manufacturing and Construction also had a good month.
- Personal income was essentially flat in June when compared to May. It still stands 2.6% above year earlier levels. Disposable personal income also had a very minor decline (essentially flat as well) and now also stands 2.6% above a year ago. Personal consumption expenditures for June were up slightly from May and now stand 3.8% above year earlier levels. As a result, the personal savings rate fell to 3.8% in June compared to 3.9% in May and 5.1% a year ago. Consumers are spending more and saving less than they have at any time since this cycle began.
- The ISM manufacturing index fell to 56.3 in July from 57.8 in June and 52.3 a year ago. Keep in mind that any reading of 50 or more suggests that the manufacturing sector is expanding. July was the 98th consecutive month of growth in the economy.

- The ISM non-manufacturing index fell to 53.9 in July. That is down from 57.4 in June and 54.9 a year ago. Again, any reading of 50 or above suggests that the non-manufacturing sector is expanding.
- Manufacturers' new orders continued to grow in June. Overall, orders were up 3.0% from May and stand 9.8% over a year ago.
- Sales of motor vehicles in the U.S. have declined but there were some hopeful signs in July. Unit sales edged higher to a 16.7 million annualized rate overall and 13.0 million rate for domestic made. Domestic cars and imported light trucks showed the most life in July.

Arizona Snapshot:

- According to the Cromford Report, average days on the market for resale housing continued to decline in July. The average resale home was on the market for 64.6 days in July compared to 66.7 days in June and 71.6 days a year ago.
- The median price of a new home as a percent of the median price of a resale home in Maricopa County continued to decline. In July, the ratio stood at 135% compared to a peak high of over 200% in 2011. Prior to the great recession, the normal ratio was in the 120% range. The ratio continues to move in that direction.
- According to CBRE, the Phoenix industrial market reflected strong growth and a healthy local economy in the 2nd quarter. Absorption in the 1st half of the year was almost 4.8 million square feet. Change in inventory for the 1st half was 3.65 million square feet. Thus, vacancy rates in industrial continued to decline. The overall vacancy rate was 7.7% at the end of the 2nd quarter compared to 8.0% at year-end 2016 and 9.1% a year ago.
- According to CBRE, favorable market conditions-positive new absorption and healthy rent growth-remained in place. However, there were various one-time events that impacted market conditions. First, a substantial amount of spec construction was completed during the 2nd quarter and put upward pressure on vacancy rates. Second, the consolidation of State Farm offset some of the market's gains during the 2nd quarter. Still, the market remains healthy and was able to absorb these transitory shocks without much in the way of negative effects. Overall, vacancy rates for office ended the quarter at 17.6% compared to 17.4% at year-end 2016 and 18.1% a year ago.