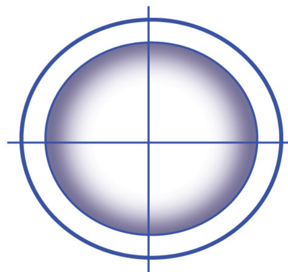

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# Real Estate & Economic Roundup

## *Highlights & Observations from Select Reports*

August 30, 2012 by William L. Pittenger, MAI, SRA

In its second estimate of Q2 2012 **Gross Domestic Product** (GDP) the Bureau of Economic Analysis reported that the economy expanded at a 1.7% seasonally adjusted annual rate. That is down from 2.0% in the first quarter and down from 2.3% in all of 2011. Recall that there are three estimates of GDP beginning with the “advance estimate” (+1.5%) that was delivered a month ago. Each estimate is based on more incoming data. Slowing growth in the second quarter, as compared to the first, is largely the result of rapid growth in consumer spending to virtually no growth. Last quarter, consumers invested heavily in durable goods, which, by definition are big ticket items such as autos, appliances and furniture, etc. Durable goods are expected to last three years or more. Growth in non-durables (consumables) also slowed in Q2. Spending rose again in July suggesting Q3 could move a bit higher.

Real gross domestic income rose a paltry 0.6% annualized in the second quarter in contrast to growth of 4.5% and 3.6% in the preceding two quarters.

Corporate profits were included in the second estimate. They grew at 0.5% over the quarter (not annualized) recovering part of the 2.7% decline a quarter earlier. In the first quarter, corporate profits were up 6.1% from a year earlier implying that businesses have the capacity to hire even though they are not.

The report showed that inflation rose at 0.7% which was substantially less that the +2.6% reading in the first quarter. This was largely due to falling energy prices. (Note that gas prices reversed course again and have been rising in very recent weeks.) Excluding food and energy, Q2 inflation slowed less dramatically from 2.2% to 1.8%. Inflation concerns remain low.

At 1.7% annualized growth, the economy continues to underperform its potential. That level of growth will not be enough to cause any measurable downward movement in unemployment.

**Case Shiller Home Price Indices** for the three month period ending in June increased modestly. The 20 city index gained 0.5% year over year. Similarly, the 10 city composite, representing the nation’s largest cities rose 0.1% from a year ago. These are seasonally adjusted annual rates (SAAR). The unadjusted rates were larger (10 city = +2.2% and 20 city = + 2.3%) but there is significant seasonality in the numbers in the summer months. More metros had prices above year ago levels. Only San Diego, Los Angeles, Chicago, Las Vegas, New York and Atlanta experienced declines. Atlanta was the biggest loser at 12.1%. Alternatively, the biggest winner was Phoenix with a gain of 13.9%. The gains are the first since 2010 and that gain was driven by tax credits. Excluding the tax credit effect, the gains are the first since 2006. Robert Shiller, one of the creators of the indices, opined that housing may finally have hit bottom. Nevertheless, housing recovery is still fragile and housing is not yet out of the woods.

**Pending Home Sales** as reported by the National Association of Realtors rose 2.4% in July to their highest level since April 2010. The 2010 surge was home buyer tax credit induced. Nevertheless, the index is up 12.4% year over year. The Pending Home Sales Index (PHSI) is a leading indicator. It is based on contracts reported by Realtors and is reasonably indicative of closing activity in the short term future; usually two to three months.

Housing demands is beginning to move in the right direction and will likely to continue to do so barring any unforeseen shock to the housing sector or the broader economy. Foreclosure appear to be the most significant remaining obstacle.

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