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David Kirk - The summer months have distinguished seasonal waves

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The summer months have seasonal waves in employment and housing that distinguish summer activity from the other seasons; especially in areas with strong tourism economies. This year watching the yield curve and cyclical trends will warrant observation during the much anticipated beach days ahead. The reconciliation of the Arab Spring, the stabilization of the European debt market and the resolution of the domestic debt ceiling, budget and deficit are a three-ring circus that most of us will only read about; but may ultimately affect local markets.

Economic forecasts have been frustrating for several months because of significant changes necessitated by sluggish recovery and frequent revisions in past performance indicating hesitation and uncertainty in the market. Logically and traditionally economic forecasts have informed capital market forecasts. Rate expectations and the yield curves had predictability if not precision. Selecting capitalization rates and discount rates was part of a rate discipline of historical relationships. The fed's monetary activity during this extended and unprecedented recovery is reason enough for uncertain yield curves in riskless government rates and spreads for risk rates such as real estate. Real estate investments are made and leveraged based on rate differentials. Accordingly, watching the yield curve for governments, corporates and high yield and junk corporates is important to the real estate investor.

Cycle wave analysis has also been frustrating in this recovery. Most economists expect some sectors to permanently lose jobs or decline in employment share during this recovery. Although sector adjustments normally occur in economic cycles, the scope and scale of sector adjustments is emerging as more dramatic than recent economic cycles. These adjustments certainly impact job gains during this recovery and, of course, economic forecasts. The sector performance is reported in monthly national and state labor releases. Household formations are linked to jobs and economic activity and drive consumer spending and demand for housing. Jobs accordingly drive demand for most real property; especially office and residential uses. The prevailing uncertainty, because of the length and rate of this recovery, is apparent in patterns of recent consumer confidence surveys and spending and household formations. These disconnects in traditional cyclical relationships have marginalized the utility of cycle analysis for forecasting with any confidence or precision. This recovery, the first truly global recovery, is an outlier.

The macro economic trends that characterize the current national economy are generally favorable even if disappointing. The macro trends of our regional economy are better. And micro trends of our local property markets are improving and the outlook is certainly hopeful because of our job sector distribution and property market conditions. We are working hard to retain and add to the momentum. We will still watch forecasts for the summer months, watching the yield curves and considering cyclical impact will probably add more to our understanding of the outlook for the capital

markets than predicting the outcome of extraordinary global crises and domestic political disarray.
Watch the summer waves.

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