

Are weathermen the new economists?

March 13, 2014 - Appraisal & Consulting

Baby, it's cold outside. There has been a lot of talk about the weather lately and its relationship to the economy and the health of real estate. It's not just griping around the coffee machine, but, real experts trying to measure the real impact the weather has had on the overall economy. I guess such conjecture has always been the case, or there wouldn't be so many metaphors comparing weather to the economy: economic barometer, temperature of the market, real estate is hot or not, and whirlwind of buying, etc.

So it is natural for an extremely cold winter to be the basis for commentary on real estate activity slowing down. But really, do they have to say that it is actually the cause? Even our new chairman of the Federal Reserve, Janet Yellen, hinted at this during her recent Fed meeting.

Housing construction has slowed somewhat, as it typically would during a winter in Minnesota, but it does not explain the slowdown in Southern California. So, attributing everything to the weather is searching for a scapegoat. There are actually other issues at work. How about the following problems or questions that have not gone away:

The beginning of tapering, i.e. slowing of bond buying by the Fed, has plenty of people nervous about how this will impact interest rate rise in the overall economy. When Yellen hinted that they could stop the tapering or slow it down if the economy stalled, the stock market was happy, but the economic recovery really would have slowed

Emerging market economies have slowed and, in some cases, have been coupled with extreme political unrest. Now there's a real potential problem.

There has also been plenty of talk about the schism between low-paying and high-paying jobs, and the creation of two economies in the U.S. Wealthier people are driving significant parts of the economy while moderate-income people are not seeing improvements in inflation-adjusted income. You have to have both improving to be optimistic.

Those are a few of the real issues to contend with beyond the easy metaphor of cold weather. On the other hand, most think the economy is improving for 2014 into 2015. There has been modestly better GDP growth, and inflation is low (1.1%), but slightly up and more aligned with the target established by the Fed. Interest rates remain relatively low, and when there is a slight increase, its effect on markets has only been short-lived. In Washington, D.C., there is fewer political agendas, the most recent example of which being almost unanimous agreement on expanding the debt ceiling. Finally unemployment seems to be holding at 6.8% and, although we may not see improvements because of the low end of the wage schedule, it is once again not far from the federal target rate.

My final take-away: the economy is improving slowly; real estate markets are responding accordingly, with a few outliers being extremely hot; jobs are being created although in modest increments sometimes offset by efficiencies (i.e. lay-offs) created during the recession.

All in all, it seems relatively comfortable but, when people blame weather for a pullback, it demonstrates to me that there isn't enough confidence in our growth. I'd rather see pundits focusing on more serious problems, such as trouble in the Ukraine instead of highlighting plane cancellations due to snow.

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New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540