

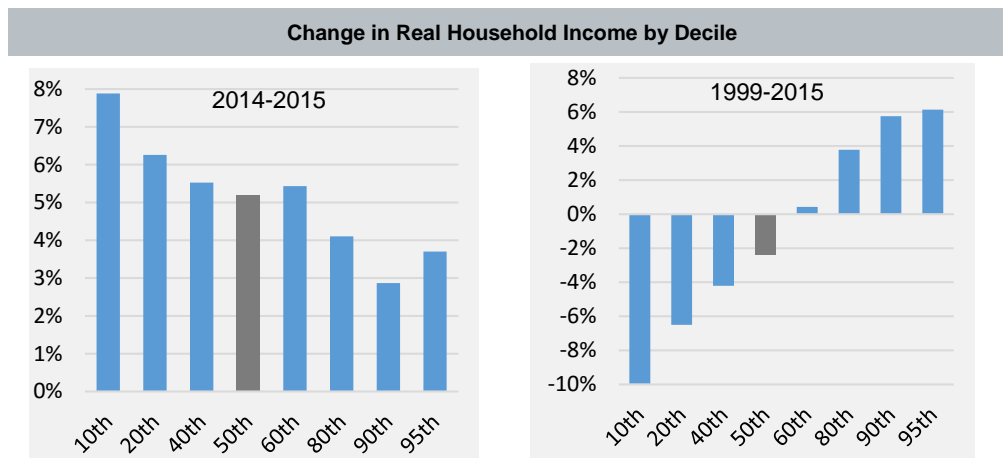


September 28, 2016 | Andrew J. Nelson, Chief U.S. Economist

WHERE WE ARE

For all the recent breathless press hype surrounding this month's Fed meeting, its outcome was hardly a shock: The Federal Open Market Committee elected to [stand pat with interest rates](#) while also setting the stage for a potential hike in December—a year after the first, and to date only, rate hike in this cycle. Wall Street now is gauging the odds of a hike this year at only around 50-50, but that's perhaps overly optimistic. At least two Fed governors expressed outright anxiety that [we're waiting too long](#). Barring a major downside surprise in economic metrics, I expect we're going to see the next hike in December.

The bigger economic news came from the Census Bureau, which [reported this month](#) that median household incomes rose by 5.2% in 2015, the biggest annual rise since the bureau started tracking the statistic in 1967, and a welcome reversal of post-recession trends. Even better: The income gains were widespread, with the lowest income groups rising the most (left chart). They further reported that the national poverty rate declined 1.2 percentage points, also an historically significant improvement, to 13.5%.



Alas, the good news must be tempered by the reality that this one-year gain barely dented the longer-term trends. Since incomes peaked in 1999, the real median household income is still down 2.4%. That's right—adjusted for inflation, household incomes today are still below where they were at the end of the dot.com boom almost two decades ago. Moreover, as has been widely reported, the income gains in this century have been heavily concentrated among the most affluent households (right graph). Meanwhile, the killjoys at Brookings have concluded that the good news might well have been much [less than it seems](#). Based on data from other sources, they argue that the gains in 2015 likely were less than reported by the Census Bureau. But that probably also means gains in prior years were a bit stronger.

Stepping back from the minutia of different data sources, it seems that wage and other income gains are indeed finally spreading to more households, which is positive for the economy overall and even more positive for less affluent households. Which is likely one reason that [consumer confidence improved](#) last month to its highest reading since the recession. But we should not expect a surge in growth. More likely, the economy will continue to [muddle through](#), though perhaps a tad faster.

For property markets, this means marginally stronger leasing prospects for all sectors, but especially those like retail, housing and hotels that depend more directly consumers' financial strength.

More related insights may be found here:

[FOMC Leaves Rates Unchanged in September Meeting](#)

[Two 2017 Fed Voters Differ on Rate Hike After Latest Decision](#)

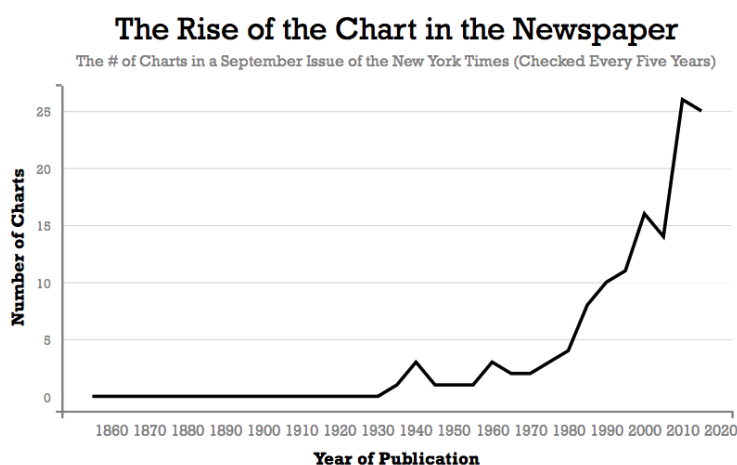
[U.S. Households Make Long-Awaited Gains in Housing Recovery \(WSJ\)](#)

[U.S. Household Incomes Soared in 2015, Recording Biggest Gain in Decades \(The Washington Post\)](#)

[The Economic Expansion Is Helping the Middle Class, Finally \(The New York Times\)](#)



CHART OF THE WEEK



Source: *The New York Times* via [priceeconomics.com](#).

“Modern newspapers are overflowing with charts. The *New York Times*, *Washington Post* and *Wall Street Journal* dedicate immense resources to making graphics for both their print and online editions. But it was not always so ... Though statistical graphics were already in fairly common use by the turn of the 19th Century, the pre-1930 editions we examined had exactly zero charts. Every paper since 1930 has had at least one chart, and the 2010 and 2015 editions each included more than twenty.”

From [When Did Charts Become Popular? \(priceconomics.com\)](#)

ECONOMIC NEWS AND VIEWS

[Where They Stand on Economic Issues \(WSJ\)](#)

“In the end, elections usually come back to the economy—to jobs, wages, taxes, imports and exports, the price of goods and the cost of an education. Differences over all these issues—from tax rates and immigration to globalization and the minimum wage—are particularly sharp this year between Donald Trump and Hillary Clinton. Here’s a look at where the two candidates stand on the top economic issues.”

[Homebuilder Sentiment Jumps to 65 in September, Highest Level in Nearly a Year \(CNBC\)](#)

“Americans are making more money, and that is making the nation’s homebuilders feel a lot better about their business. A monthly survey of builder confidence jumped a striking six points in September to the highest level in nearly a year.”

[The Recovery Finally Reached Most Americans in 2015 \(FiveThirtyEight\)](#)

“The Great Recession officially ended in 2009. But 2015 may go down as the year the recovery finally began for most Americans. The Census Bureau reported Tuesday that the median U.S. household made \$56,516 in 2015, up 5.2% from 2014 after adjusting for inflation. That’s the first increase since 2007, and the largest one-year increase on record. The number of Americans living in poverty fell by 3.5 million, and the poverty rate fell 1.2 percentage points, to 13.5%, the biggest drop since 1968.”

[Global Watchdog Warns over China’s Debt Levels \(Financial Times\)](#)

“China’s debt has grown to alarming levels, according to new data from the Bank for International Settlements that highlight a big potential risk to the global economy. What the BIS terms the country’s “credit gap” is now three times higher than the typical danger level, the research shows. The measure tracks the difference between corporate and household debt as a proportion of gross domestic product and the long term trend, thus highlighting any divergence between current and historic borrowing patterns—a possible indicator of unsustainable debt accumulation.”

[OECD Revises Brexit Forecasts but Still Predicts Hit to Growth \(Financial Times\)](#)

“Britain’s exit from the EU is likely to hit the UK economy later but harder than originally thought, the Organisation for Economic Co-operation and Development said ... In an update on Wednesday of its main June forecasts and of its pre-referendum warning that Brexit would damage UK living standards, the Paris-based OECD acknowledged the immediate shock from the referendum had not been as serious as it had expected, but it also lowered its 2017 growth forecast more than it had predicted.”

[Optimism Fades for Economic Boost by Year-End](#)

“Cautious consumers, retrenching manufacturers and scant signs of inflation are diminishing optimism about a breakout in economic growth in the final stretch of the year. Retail sales declined last month for the first time since March and manufacturing production slipped, government data released Thursday showed. Meanwhile, prices businesses receive for their goods and services were unchanged last month, a sign of still-soft demand at home and abroad. Companies also remain cautious about building up too much inventory, new figures showed.”

[Street Economists Cut Q3 GDP Estimates after Retail Sales Miss \(CNBC\)](#)

“Wall Street economists trimmed their third-quarter growth estimates to below 3% after retail sales fell more than expected in August. Third-quarter GDP tracking estimates fell 0.2% to 2.8%, according to the median estimate of economists polled in [CNBC/Moody's Analytics GDP rapid update](#). The average estimate was 2.9%. In the second quarter, real GDP grew at an annual rate of 1.1%, according to the second estimate by the Bureau of Economic Analysis. First-quarter GDP grew by 0.8%.”

PROPERTY MARKETS

[US Holiday Sales to Grow, But Big Chains Getting Smaller Piece \(Business of Finance\)](#)

“US retail sales will grow about 4% this holiday season, buoyed by a better job market, according to a forecast by Deloitte LLP. Still, the news isn’t all good for big retail chains. Consumers are increasingly buying gifts at niche retailers, potentially pulling spending away from places like Wal-Mart and Macy’s.”

[Amazon Eats the Department Store \(Bloomberg\)](#)

“Amazon is already the biggest clothing seller online. It might soon overtake most of its brick-and-mortar rivals in fashion sales, as well.”

[Construction Loans Fall Victim to Concentration Risk Concerns \(National Real Estate Investor\)](#)

“Capital is still free flowing for most borrowers. Yet some banks are taking their foot off the gas pedal for apartment construction loans in select markets where there are growing concerns of concentration risk. Banks are cautious about over-exposure in the wake of a prolonged apartment building boom. Some lenders are concerned about their bank’s exposure in that asset class and potential overbuilding risk.”

[U.S. Households Make Long-Awaited Gains in Housing Recovery \(WSJ\)](#)

“Middle-class families are starting to see their biggest housing challenges ease. Housing affordability is finally improving after years during which the struggle to pay rent swelled to crisis levels for many poor and middle-class Americans, according to an analysis of American Community Survey data released Thursday.”

[Millennials will be Renting for a Lot Longer \(CNBC\)](#)

“The U.S. housing market continues to move ahead, but a generation of homebuyers is being left behind. That’s the conclusion of an analysis of homeownership by John Burns, a real estate consultant and author who has crunched the numbers. Homeownership rates have fallen across all age groups since the housing collapse in 2009, but the biggest drop has been among the millennial generation.”

[July 2016 Housing Construction Report](#)

“Multifamily comprised the majority of that increase, with the 433,000 units started on an SAAR basis representing an 8.3% rise from June’s figure and a 15.2% increase from July 2015. The 770,000 single-family (SF) starts reported in the 12 months ending in July were 0.5% above the revised June total and 1.3% higher than July 2015’s annual rate.”

[Reits: Moving House \(Financial Times\)](#)

“The desire to own a place of your own is powerful. And as of this month, property shares no longer have to put up with roommates or landlords. Property-related shares now have their own sector within the indices constructed by MSCI and S&P. Previously they dossed in the financial sector’s spare bedroom. The new accommodations may have increased valuations already stretched by yield-chasing—but real estate is no simple play on low rates.”