What are the bright-spots and blind spots in the U.S. economy and real estate in the second half of 2013?

The year 2013 started off with the uncertainty of the “fiscal cliff” and a potential dockworkers strike against East Coast and Gulf Coast ports. However, despite sequestration and a lot of economic uncertainty during the winter, the spring did emerge. And, it brought forth a new six-year agreement with the dockworkers, as well as a plethora of good news on the housing front. Commercial real estate also continued its trek to improved fundamentals with vacancy falling across all property types. Even the capital markets seemed to shrug off Washington’s dysfunctional nature with CMBS opening up its coffers the most since closing them down in 2009. Prognostications of $75–$80 billion in new private commercial mortgage-backed securitization activity were the buzz at the Commercial Real Estate Finance Council winter meetings in Miami. The following is a sampling of some of the headlines from First Quarter 2013 that set the tone for what most thought was gloom and doom for the year:

- **Reuters** (January 2013): “Global jobless to hit record 200 million this year: ILO”

  The global jobless queue will stretch to more than 200 million people this year, the International Labour Organization said in its annual report on Tuesday, repeating a warning it has made at the start of each of the last six years. The U.N. jobs watchdog estimates unemployment will rise by 5.1 million this year to more than 202 million, and by another 3 million in 2014, following a rise of 4.2 million in 2012. If those predictions are right, global unemployment will hit a record.


  The International Longshoremen’s Association and employers will resume bargaining Tuesday on New York-New Jersey port issues that may pose the toughest challenge to settlement of an East and Gulf Coast dockworker contract. This week’s talks between the ILA and the New York Shipping Association follow a federal mediator’s report of progress last week during three days of negotiations between the union and United States Maritime Alliance on a coast-wide master contract. The latest contract extension is set to expire February 6. The contract, originally scheduled to expire last September 30, has been extended twice.

- **The Washington Post** (Feb. 17, 2013): “Automatic cuts are getting a big yawn from Washington”

  As deadlines go, the March 1 sequester lacked punch. Nobody’s taxes went up; the U.S. Treasury won’t run out of cash. Government offices won’t...
immediately turn out the lights and lock the doors. Most federal workers didn't face furlough for at least 30 days. So Washington felt little need to cancel the Presidents’ Day holiday break. Instead, President Obama flew to Florida for a long weekend of golf. And Congress left town for nine days, with scant hope of averting deep cuts to the Pentagon and other agencies in the short time remaining when lawmakers return. Instead of negotiating, party leaders were busy issuing ultimatums and casting blame.

BUOYANCY OVERCOMES TURBULENCE
Despite the uncertainty of the U.S. fiscal situation, higher payroll taxes, and dire forecasts for consumer spending and retail sales, as well as a rise in the official unemployment rate to 7.9 percent following the controversial decline prior to the November 2012 elections, the U.S. economy remained buoyant in the first half of 2013, and the performance of both residential and commercial real estate continued its climb out of the 2009 abyss toward a new point of equilibrium. In other words, the buoyancy of the market overcame the fiscal, tax and political turbulence that spilled over from 2012. Housing inventory declined, home prices rose, manufacturing remained the “little engine that could” in this below-trend economic recovery, and capital remained optimistic about commercial real estate fundamentals. The following is a sampling of the headlines that prevailed in the second quarter that drove the stock markets to new record highs, and kept the “can reach equilibrium” momentum in commercial real estate:

• Where Have All the Houses Gone?
  March 3, 2013 – By DIANA OLICK, CNBC
  The first official day of spring may still be a few weeks away, but the spring housing market is already underway. Buyer traffic is rising along with home prices, but one traditional spring phenomenon is sorely absent: rising supply. The raw number of homes for sale is now at its lowest level in over 13 years, according to the National Association of REALTORS®. The numbers continue to fall.

• U.S. Intermodal Volumes Rise for 10 Straight Weeks
  March 21, 2013 – JOC Staff

• U.S. Commercial Real Estate Forecast Reveals Optimism
  May 21, 2013 –Mortgage Orb.com
  Industry executives currently have a “modestly optimistic” outlook on the U.S. commercial real estate market, as economic fundamentals show slow, yet steady, improvement according to the latest Sentiment Index from The Real Estate Roundtable. “Commercial real estate executives are seeing increased interest in transactions outside healthy core markets,” says Jeffrey DeBoer, president and CEO of the Real Estate Roundtable. The company’s survey for the second quarter of 2013 reveals an overall Sentiment Index of 69—unchanged from the previous quarter. The overall index score is based on the average of two indices: the Current Conditions Index (which stands at 71, up one point from the previous quarter) and the Future Conditions Index (67, unchanged since the first quarter). Figures above 50 indicate a positive market trajectory, the Real Estate Roundtable notes. This quarter’s index indicates that senior commercial real estate executives continue to see favorable trends in both values and capital availability in major gateway markets, but remain nervous about how a potential rise in interest rates and political uncertainty could worsen market conditions.

• Wells Fargo Securities: Structured Products
  Monthly, June 7, 2013 – Midyear Outlook
  CMBS Overview: Credit trends in CMBS have been encouraging in 2013. Delinquency rates have been helped to some extent by the heavy issuance this year, but a significant factor is also the continued decline...
of newly delinquent loans. We expect the positive momentum to continue throughout the year given the limited pipeline of maturing loans and the steady decline of term defaults. We are now three years into the recovery in the property markets, and we are forecasting continued improvement through 2014. Strong property sales transaction volume has driven improved pricing across the major property types since the market trough in 2009. The slow growth economic environment will likely keep cap rates stable for the remainder of the year; further cap rate compression in the major markets appears unlikely as investors look beyond the major markets for value.

THE SECOND HALF 2013 BRIGHT SPOTS AND BLIND SPOTS OUTLOOK

Before forecasters can put forth any kind of outlook for the second half of 2013, they have to have some kind of view on what are the primary influences—or driving forces—behind the economy. As we enter the second half of 2013, four primary forces are at work that will determine the final "Bright Spot/Blind Spot" score at year-end. Those four forces are the:

- Federal Reserve and winding down of the Bernanke era;
- Sustainability of the housing recovery;
- Energy;
- Manufacturing activity fueled by a remaking of the domestic and global supply chains.

THE FEDERAL RESERVE AND WIND-DOWN OF BERNANKE ERA

On June 24, the President confirmed what this author had shared previously with many industry colleagues in the second half of 2012—that Chairman of the Federal Reserve Ben Bernanke would retire in January 2014—and we would have a new head of the U.S. Central Bank. Two days later, the Fed’s June Federal Open Market Committee (FOMC) meeting concluded and Bernanke threw the market a curve ball. That curve ball was that maybe the Fed wasn’t on a steroid-laced, accommodative monetary-policy trek through 2014—and that maybe it was time to at least pull back on its bond purchases program by $20 billion per month. The market reacted with an abrupt 70-basis point rise in the 10-Year Treasury bond’s yield overnight. And, the market has been in volatility mode ever since. So what is Bernanke really doing, and what is the "Bright Spot" or "Blind Spot" in the second half of 2013 from Fed monetary policy?

Bernanke’s call to reduce the Fed’s bond-buying program from $85 billion to $65 billion is merely a balancing of what is needed in response to our projected fiscal debt. It is not any real tightening of monetary policy at all. Until this fiscal year, the U.S. has been running approximately a $1.0 trillion annual deficit. Divide that $1.0 trillion by 12 months and you get approximately $85 billion ($83.3 billion to be exact). In essence, the Fed has been soaking up onto its balance sheet an amount equal to our annual deficit to stabilize long-term interest rates. In June of this year, we learned that the projected annual deficit for Fiscal Year 2013 is projected by the Government Accounting Office (GAO) to be only $780 to $800 billion, thanks to the “fiscal cliff” deal that raised taxes on almost everyone in 2013. Now divide the new forecast annual deficit of $780 billion by 12 months and one derives a figure of $65.0 billion. In essence, Bernanke is really just right-sizing the amount of monthly bond purchases from $85 billion to $65 billion to stabilize long-term interest rates in response to a smaller annual deficit. There is no retraction of quantitative easing (QE) occurring by the Fed or Chairman Bernanke, but now the market has been awakened to the reality that interest rates could rise, with a change in the leadership at the Fed imminent. The market now wants to be approximately 100 basis points (or the first four, 25-basis-point increases) ahead of this interest rate risk that it was not planning on until 2014 or 2015.

While this rise in the 10-Year Treasury from a 1.60 percent range to a 2.60 percent range has caused some indigestion for the commercial real estate debt markets, it has had virtually no impact on cap rates or values? Why?

The answer is two-fold:

- Commercial real estate offers a yield not matched by bonds or equities—and capital is fixated on yield more than it is value; and
- Investors and lenders have adopted a debt-yield (or simply stated, interest-only) underwriting over the past few years to address the interest rate risk from extending long-term mortgage debt at today’s unprecedented low interest rates. As long as the NOI after capital reserves throws off a 9–10 percent yield to the gross debt amount ($900,000 NOI / $10,000,000 permanent debt loan), investors and lenders are comfortable with refinancing risk in a higher interest rate environment 5–10 years out. In essence, debt-yield has replaced debt service coverage ratio as the interest rate underwriting protection mechanism. Since this new mechanism already was
in place prior to the June FOMC meeting, the Fed’s self-created uncertainty of higher interest rates has been negligible thus far on commercial real estate. That is the “Bright Spot.”

The “Blind Spot,” though, is that it is not all that simple. If real interest rates rise materially in 2014–2015 (say, to a 3.5 percent 10-Year Treasury or 6 percent, 30-year home mortgage rates) under a new Federal Board of Governors, businesses may likely curtail their already anemic pace of hiring, unemployment could rise above the official employment rate of eight percent and the total actual unemployment rate could rise above 15 percent level, the housing recovery and manufacturing activity could stall, and GDP could collapse to near recession levels. That would disrupt the vacancy and rental rate recovery underway for commercial real estate and undermine the investor/lender protection from even a debt-yield underwriting mechanism. We have a glimpse of this risk already with the decline in mortgage applications and revisions to GDP (downward to 1.8 percent from 2.4 percent).

Fed monetary policy and the changing-of-the-guard from Bernanke to a new head of the U.S. Central Bank is the most material “Blind Spot” to be “at-bat” in the second half of 2013. How the Fed transitions from Bernanke, tempers QE, and eventually retrieves the approximate $4.0 trillion in excess liquidity in the system (25 percent of the U.S. annual $16.0 trillion GDP) will determine the fate of the macro-economy and commercial real estate performance over the next 6–24 months. With a second wave of CMBS maturities coming due 2015–2017 (more than double the volume of 5–7 year interest-only CMBS maturities 2010–2012 that blew up CMBS delinquencies to a record high of 10.5 percent), the Fed has a very fine needle to thread.

THE HOUSING RECOVERY

There have been many doubting Thomas’ as to the nature of a housing recovery. After all, it has been seven years since home price appreciation fell from an annual rate of 14 percent to zero before then going negative for five consecutive years. Despite the glowing news on rising home prices from the likes of both Case-Shiller and the Federal Housing Finance Authority (FHFA), home builders lack the same enthusiastic outlook as the economists and media analysts because they continue to face the headwinds of:

- lack of credit for land and construction loans;
- labor shortages in key trades;
- elevated construction costs that are up an astonishing 40 percent since 2007 (ENR/Dodge Construction indices show construction costs never declined during the 2007–2009 housing recession); and
- continued pricing pressure from a large inventory of foreclosure homes—especially in judicial foreclosure states like Florida where the backlog of foreclosures is greatest. This lack of builder confidence in housing is best reflected in the National Association of Home Builders’ biweekly survey, which measures the perceived impact on the housing market of the number of the total number of new homes for sale relative to the number of buyers. A reading of 100 indicates that builders believe there are too many homes for sale, while a reading of 50 indicates a balanced market, and a reading of 0 indicates there are too few homes for sale.

Figure 1

![UNITED STATES GDP GROWTH RATE](source: www.tradingeconomics.com, Bureau of Economic Analysis)
Builders/Wells Fargo Housing Market Index (NHAB HMI) which has accurately forecasted every housing recession and recovery the past quarter century.

An examination of the NAHB HMI since 2001 reveals that:

- the all-time high in builder confidence was reached in June 2005 with a reading of 72;
- housing entered a recession in May 2006 (the NAHB was spot-on and ahead of the collapse that media and lenders didn't accept until mid- to late-2007), and remained in recession territory until June of this year (a record 85 months, or seven years); and
- the all-time low reading of home builder confidence occurred in January 2009 with a reading of just eight. Readings above 50 are considered conducive to housing growth and new construction activity.

Looking forward into the second half of 2013 and 2014, monitoring the NAHB HMI is one of the two best leading indicators as to the vitality of the housing recovery. As the summer concludes, will the HMI dip back below 50 because of higher mortgage rates, or will builders shake off the higher rates as they have in the past by buying down the rate with an offsetting upgrade cut so buyers feel as though they are getting the same low rate as before June 26? This author is betting on the rate buy down and more sales growth.

The other key housing metric to monitor is a relatively new one introduced in 2008. It is the NAHB's Improving Markets Index (IMI). The NAHB IMI measures housing recovery on a MSA-by-MSA level via a weighting of several metrics that evaluate more than just home price appreciation (HPA). To follow is a snapshot of how this index has added MSAs that it considers as improving housing markets over the past 18–20 months, as well as a heat map of the breadth of the improving housing markets across the U.S. If you want just one metric to monitor to sort out the plethora of monthly and quarterly housing data (sales, starts, HPA, etc.), this is the one. The Web address is www.NAHB.ORG/newsroom, and is one of
this author’s top five picks for economic metrics to monitor the U.S. economy.

ENERGY, MANUFACTURING AND REMAKING OF SUPPLY CHAIN

These three items go hand in hand. They are perhaps more responsible for the progress in the U.S. economic recovery than even the Fed’s QE. The Energy Information Association (EIA) projects that by the fall of this year, U.S. crude oil production will exceed crude oil imports by as much as two million barrels per day. That is an amazing turn of events in less than a decade—for the U.S. to go from energy dependence to energy independence.

The abundance—and comparatively low cost of energy—in the U.S. is luring manufacturing from across the globe. Why? It is not just the cost of energy. It is the reliability of the energy infrastructure system (stable electric grid), and the redundancy of fuel options such as natural gas and coal. It is also a recognition by manufacturers that energy and transportation costs (50 percent) now surpass labor as the largest portion of their manufacturing costs. Real estate (plant and distribution centers/warehouses), represents less than five percent of a manufacturer’s total costs. This shift in costs is because of technology and the automation of manufacturing processes that no longer force companies to chase cheap labor around the globe to unstable regions that are not so friendly to U.S. interests nor respectful of its patents and copyrights. Robots can travel anywhere, and demand no health care or retirement benefits. Today, manufacturers need cheap and abundant energy more than they need cheap human labor. Combine this reality with U.S. patent protection, and the U.S. is quite possibly the most attractive manufacturing center in the world again. The convergence of this manufacturing renaissance in the U.S.—along with the growth in e-commerce and the expansion of the Panama Canal lock system (scheduled for completion in 2015, and which will accommodate container vessels nearly three times today’s Panamax-size container ships carrying a mere 3,000 to 5,000 containers)—is driving retailers, shippers and manufacturers to remake their supply chains. Connecting the “Post Panamax Ready” ports with intermodal rail to e-commerce fulfillment hubs (such as FedEx’s in Memphis and UPS’s in Louisville, Ky.) is the driving force behind manufacturing growth and the health in industrial real estate. Manufacturing continues to be ‘the little engine that can’ in this economic recovery thus far.

### Figure 3

**NAHB/Wells Fargo National HMI - History** *(Seasonally Adjusted)*

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<th>Feb</th>
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Source: National Association of Home Builders/Wells Fargo

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**Bright Spots and Blind Spots**
Real Estate Issues

Volume 38, Number 2, 2013

Insider's Perspective

Bright Spots and Blind Spots

Figure 4

NAHB/First American Improving Markets Index (IMI)

NAHB IMI forecast the upward move in housing 1.5 years ago. It is a great forward-looking metric – especially valuable to retailers!

Source: National Association of Home Builders

Figure 5

NAHB/First American Improving Market Index (IMI)

Heat Map

Source: National Association of Home Builders
HOW CAN ONE MONITOR THIS TREND?
This author’s best recommendation is to scrap the anecdotal respective Fed District Bank manufacturing surveys (such as the New York Fed’s “Empire State Manufacturing Survey”) and pay $100 per year to subscribe to the Association of American Railroad’s “Rail Time Indicators.” This robust monthly data series tracks everything that moves by rail in and out of North America, and is real-time, primary data produced by industry versus guessed-at and then heavily revised government data. A snapshot of a few of the best indicators in the “Rail Time Indicators” report is presented below, and includes metrics such as:

- volume of intermodal traffic;
- railroad employment;
- rail cars in storage, etc.

Anytime one can capture real-time, primary data produced by industry over government survey data, a more reliable forecast will result, yielding the true “Bright Spots and Blind Spots” ahead. Energy independence, manufacturing and remaking of the U.S. and global supply chains are all “Bright-Spots” for the second half of 2013 and on into 2015.

CONCLUSION
Going back to the opening question “What is the primary force fueling the U.S. economy?”, one would have to conclude that all four options (Fed monetary policy, housing recovery, energy, and manufacturing) are quite material influences to propping up our anemic 1.8 percent GDP growth rate. Pulling the legs out from any one of these would likely pull the U.S. economy back into recession. With a total unemployment rate of 14.3 percent (none of the media pundits reported that June’s real total unemployment rate actually increased 50 basis points from 13.8 percent to 14.3 percent), and job growth still running below 200,000 jobs per month, the U.S. economy needs fuel to all cylinders to even sputter forward.

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>Most Recent Data</th>
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<tbody>
<tr>
<td>U.S. Freight Rail Traffic (p. 1)</td>
<td><strong>Not Seasonally Adjusted:</strong> Total carloads ↓0.3%, carloads excluding coal ↑1.3%, carloads excluding coal and grain ↑3.8%, and intermodal ↑1.3% in June 2013 compared with June 2012. Highest-volume intermodal month ever for U.S. railroads.</td>
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<td><strong>Seasonally Adjusted:</strong> Carloads in June 2013 ↑1.2% over May 2013; intermodal in June 2013 ↑1.4% over May 2013.</td>
</tr>
<tr>
<td>Capacity Utilization (p. 29)</td>
<td>↓to 77.6% in May 2013 from 77.7% in April 2013. Manufacturing stable at 75.8% in May 2013 compared with April 2013.</td>
</tr>
<tr>
<td>Railroad Employment (p. 34)</td>
<td>↑474 in May 2013 over April 2013 to 164,249 employees. Fourth straight monthly increase, first time that’s happened since Nov. 2011.</td>
</tr>
<tr>
<td>Rail Freight Car in Storage (p. 44)</td>
<td>↑to 303,547 on July 1, 2013, up 3,974 cars from June 1, 2013. Source: Rail Time Indicators</td>
</tr>
</tbody>
</table>
Below are June unemployment rates reported by the Bureau of Labor Statistics: Note the official unemployment rate of 7.6 percent versus the actual unemployment rate of 14.3 percent (up 50 basis points).

<table>
<thead>
<tr>
<th>Measure</th>
<th>Not seasonally adjusted</th>
<th>Seasonally adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-1</td>
<td>4.5</td>
<td>4.1</td>
</tr>
<tr>
<td>U-2 Total unemployed</td>
<td>4.4</td>
<td>3.7</td>
</tr>
<tr>
<td>U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)</td>
<td>8.4</td>
<td>7.3</td>
</tr>
<tr>
<td>U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers</td>
<td>8.9</td>
<td>7.7</td>
</tr>
<tr>
<td>U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>9.9</td>
<td>8.5</td>
</tr>
<tr>
<td>U-5 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>15.1</td>
<td>13.4</td>
</tr>
</tbody>
</table>

Therefore, while the housing recovery is real, broad-based and a true “Bright-Spot,” it can be derailed by the Fed getting monetary policy wrong. Today’s home price appreciation map looks eerily similar to that of 2004. Is the Fed’s monetary policy creating a second housing bubble? That is the elephant in the Fed Second Half 2013 FOMC meetings—especially September’s.

Manufacturing, while less dependent on the U.S. consumer today because of a shift in the U.S. becoming an exporting manufacturer, is heavily dependent on how global GDP is performing. Europe, the second-largest economy in the world behind the U.S.—and nearly double the size of China’s $7.0 trillion GDP—matters a lot. Europe is a “Blind Spot” we can’t forget or take for granted.

Energy is the “Bright Spot” that has cushioned the full impact of higher taxes, and is most responsible for the manufacturing renaissance underway. It is ironic that a president who takes credit for manufacturing job creation is also working against the one thing making that job growth possible—cheap and abundant domestic carbon.

The second half of 2013 is likely to see more rain delays because of volatility in the atmosphere than game play. The Fed has yet to learn how to be transparent and communicate what it is really doing. One day it has a date-specific interest rate policy that then changes to a metric-specific policy (6.5 percent unemployment and <2.5 percent inflation). However, the Fed has yet to tell us which unemployment rate it is targeting for a 6.5 percent rate—and below 2.5 percent inflation has only been possible because of falling housing prices and flat apartment rents. Neither is now true, and collectively, home price and rents influence as much as 40 percent of the CPI. The Fed is the “Blind Spot” ahead in the second half of 2013, and to infinity and beyond. Given its track record on knowing when to stop raising interest rates (last time it was during the summer of 2006 after the housing bubble had burst) or when to reduce (a 21 percent prime rate in 1981 was a little extreme), and that Bernanke is about to hand off his eight-year Pandora’s Box, I suspect volatility is the economic forecast de jour for the balance of 2013. The other “Blind Spots” to keep on one’s radar are:

Below is the latest actual table of unemployment rates from the Labor Dept for August.

<table>
<thead>
<tr>
<th>Measure</th>
<th>Not seasonally adjusted</th>
<th>Seasonally adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>U-1 Persons unemployed 15 weeks or longer, as a percent of the civilian labor force</td>
<td>4.3 3.7 3.7</td>
<td>4.4 4.1 4.1 4.0 3.9 3.8</td>
</tr>
<tr>
<td>U-2 Job losers and persons who completed temporary jobs, as a percent of the civilian labor force</td>
<td>4.4 3.8 3.8</td>
<td>4.5 4.1 3.9 3.9 3.8 3.8</td>
</tr>
<tr>
<td>U-3 Total unemployed, as a percent of the civilian labor force (official unemployment rate)</td>
<td>8.2 7.7 7.3</td>
<td>8.1 7.5 7.6 7.6 7.4 7.3</td>
</tr>
<tr>
<td>U-4 Total unemployed plus discouraged workers, as a percent of the civilian labor force plus discouraged workers</td>
<td>8.7 8.3 7.9</td>
<td>8.6 8.0 8.0 8.2 8.0 7.8</td>
</tr>
<tr>
<td>U-5 Total unemployed, plus discouraged workers, plus all other persons marginally attached to the labor force, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>9.7 9.1 8.7</td>
<td>9.6 8.9 8.8 9.1 8.8 8.7</td>
</tr>
<tr>
<td>U-5 Total unemployed, plus all persons marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all persons marginally attached to the labor force</td>
<td>14.6 14.3 13.6</td>
<td>14.7 13.6 13.8 14.3 14.0 13.7</td>
</tr>
</tbody>
</table>


Therefore, while the housing recovery is real, broad-based and a true “Bright-Spot,” it can be derailed by the Fed getting monetary policy wrong. Today’s home price appreciation map looks eerily similar to that of 2004.
CMBS maturities 2015–2017 (Nightmare on Delinquency Drive—the sequel);

inflation (rising home prices and apartment rents have yet to filter into the CPI);

West Coast potential International Longshoreman’s Association (ILA) port’s strike in 2014 as the West Coast longshoreman have to renegotiate a long-term labor agreement as did the East and Gulf coasts in the second half of 2012 and the first quarter of 2103; and

global risks from uncertainty and unrest in the Middle East that could materially impact the Suez Canal. Commercial real estate, though still offers the best yield opportunity for capital and a hedge against inflation. It has yet to fully recover its NOI, occupancy and value from pre-2007, and offers upside potential not so evident in the equities markets. Cap rates will remain stable despite interest rate risks because the investment interest in commercial real estate is yield, not value concentric.

ENDNOTES