

THE ECONOMY IN 2018: PROBABLY BETTER THAN IN 2017

Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

April 19, 2018

Napa, CA



The Economy is Solid!

$$\text{GDP} = \text{C} + \text{I} + \text{G} + (\text{X} - \text{M})$$

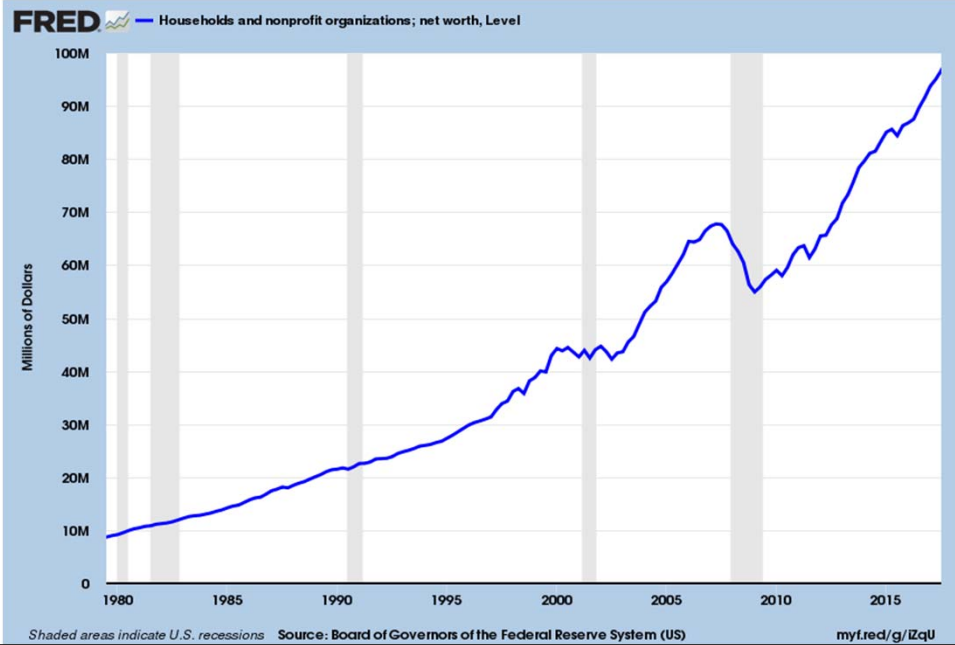


The Stock Market Is Doing Amazingly Well



Households are Repairing their Balance Sheets

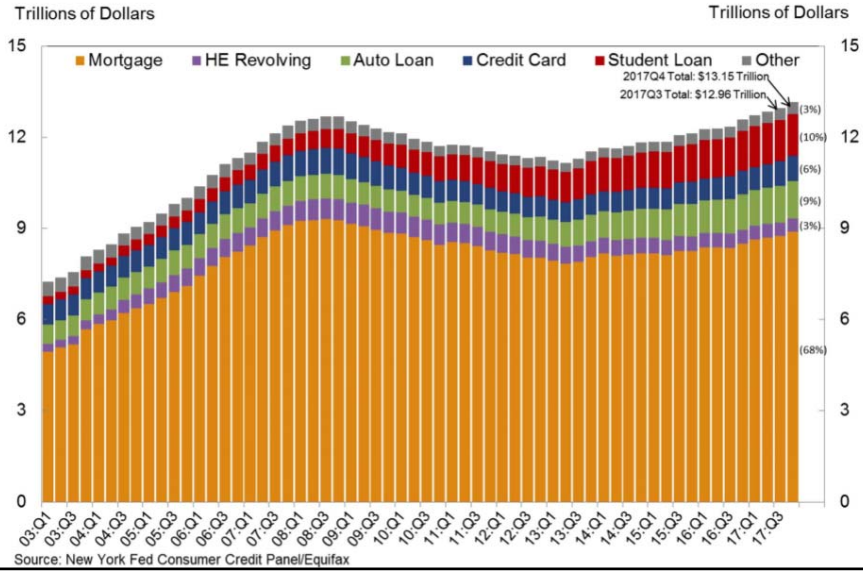
Trillions in net worth recovered; at a new record level



Households Deleveraging is Done!!!!!!

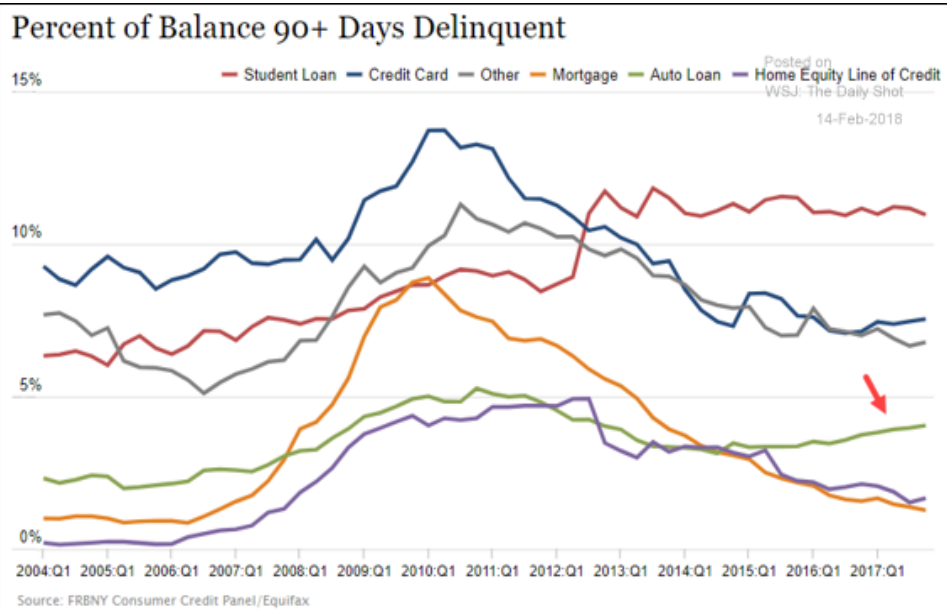
Mortgage debt remains 4.4% below the 2008 peak

Total Debt Balance and its Composition



Loan Delinquencies by Loan Type

Auto and credit cards loan delinquencies are rising



Credit Card Charge-Offs, While Low, are Rising

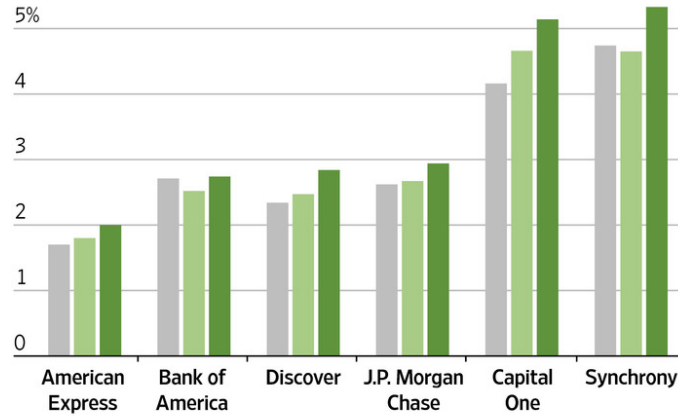
Rates are up. AmEx has most affluent borrowers, Cap One and Synchrony; the least

Souring Debt

Losses on U.S. credit cards are rising, most dramatically at Capital One and Synchrony, both of which reported earnings this week.

Net charge-off rates

■ 1Q 2016 ■ 4Q 2016 ■ 1Q 2017



Source: the companies

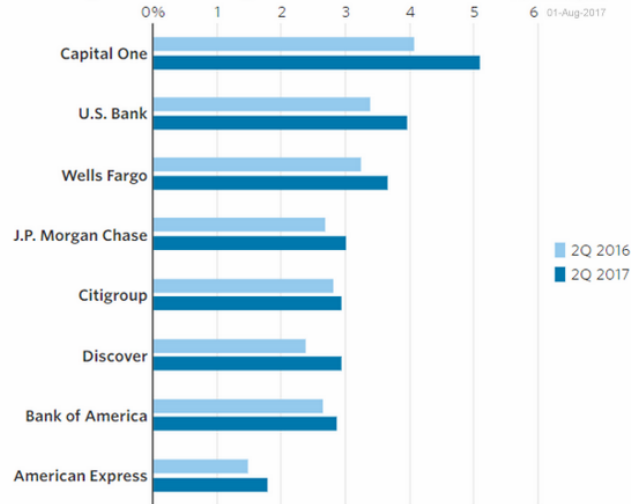
THE WALL STREET JOURNAL

Credit Card Charge-Offs, While Low, are Rising

Rates are up. AmEx has most affluent borrowers, Cap One and Synchrony; the least

Taking a Loss

Net charge-off rates at large credit card issuers



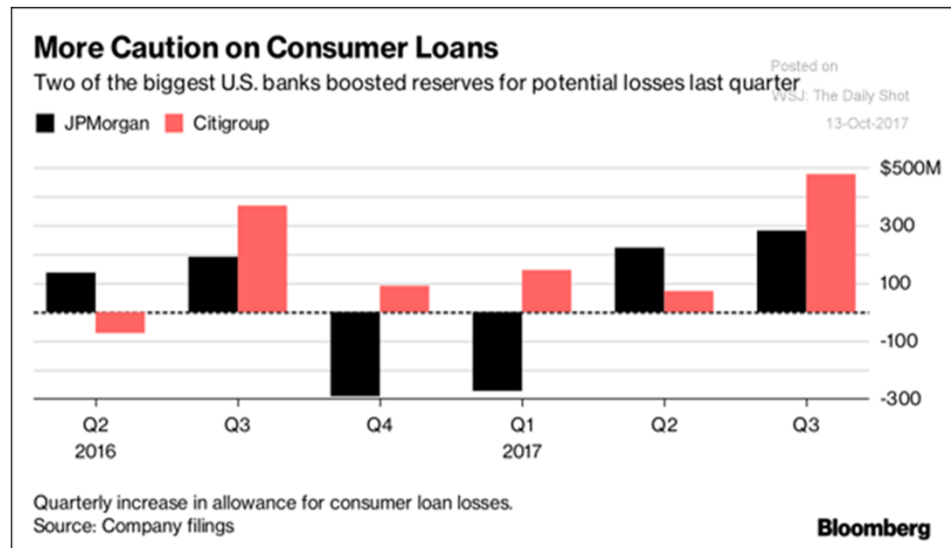
Note: Data based on U.S. credit cards; retail store cards excluded, except for Capital One.

Source: the companies

THE WALL STREET JOURNAL

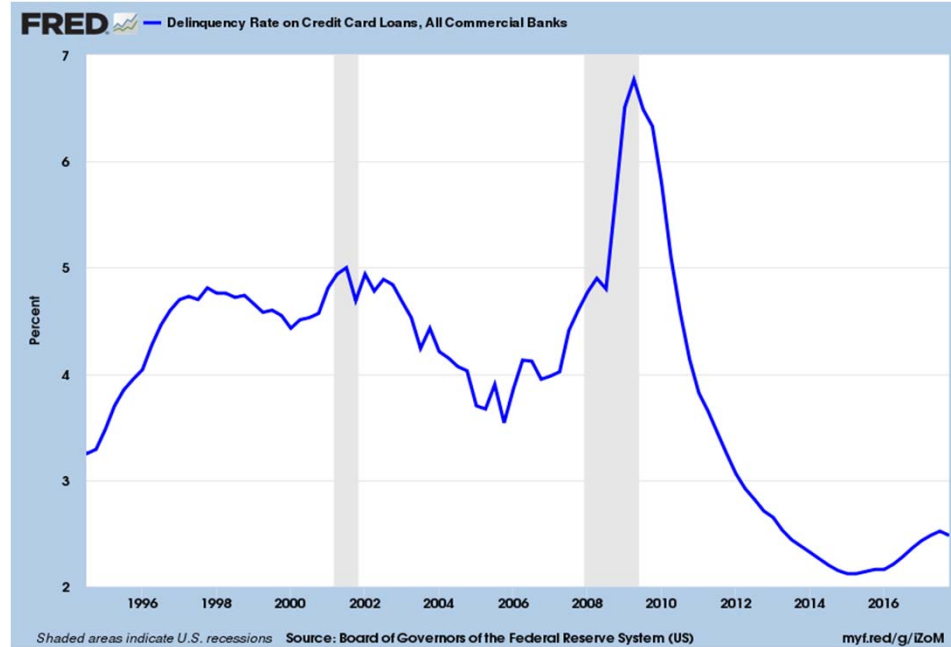
Credit Card Charge-Offs Are Rising

These banks are boosting reserves



Credit Card Delinquencies are Rising

Defaults are low but clearly rising!



Auto Loan Lending Rose Dramatically

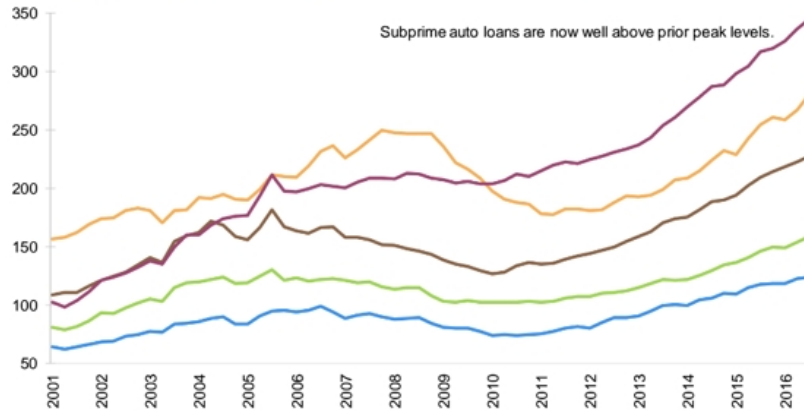
Post Recession Auto Demand Fueled by Rapid Growth in Subprime Loans Outstanding (Credit Score < 620); +58% since 2011 Bottom

WSJ: The Daily Shot

03-Apr-2017

Total Auto Loans Outstanding by Credit Score*

\$ billions <620 620-659 660-719 720-759 760+



*Credit score is Equifax RiskScore 3.0; Total auto loans are broken up between auto finance companies and banks/credit unions. Auto finance companies make up ~74% of subprime loans outstanding. Auto finance companies also historically have much higher levels of delinquency.

Sources: New York Fed Consumer Credit Panel / Equifax; John Burns Real Estate Consulting, LLC (Data: 3Q16, Pub: Feb-17)

JOHN BURNS
REAL ESTATE CONSULTING

See Terms & Conditions of Use and Disclaimers. Distribution to Non-Clients is Prohibited © 2017

Auto Loan Lending Growth Has Dramatically Slowed

FRED — Consumer Loans: Other Consumer Loans: Automobile Loans, All Commercial Banks



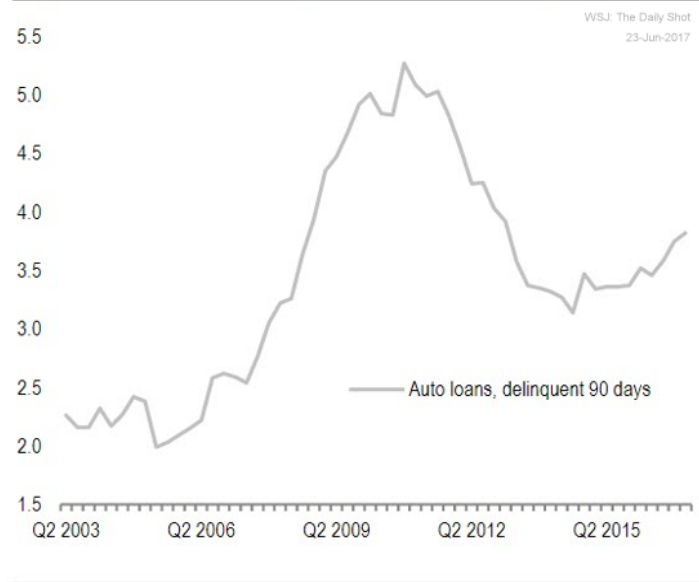
Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

myf.red/g/jbIE

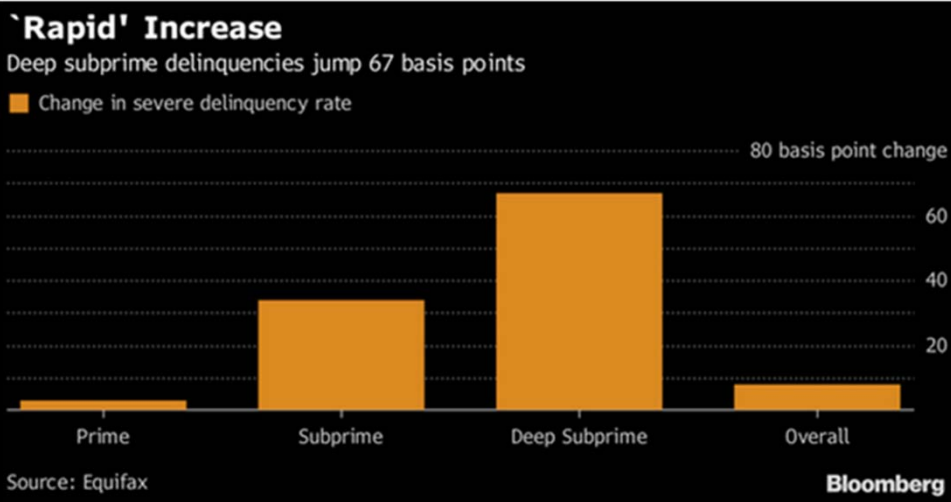
Auto Loan Delinquencies are Revving Up

Figure 84: Auto delinquencies are rising



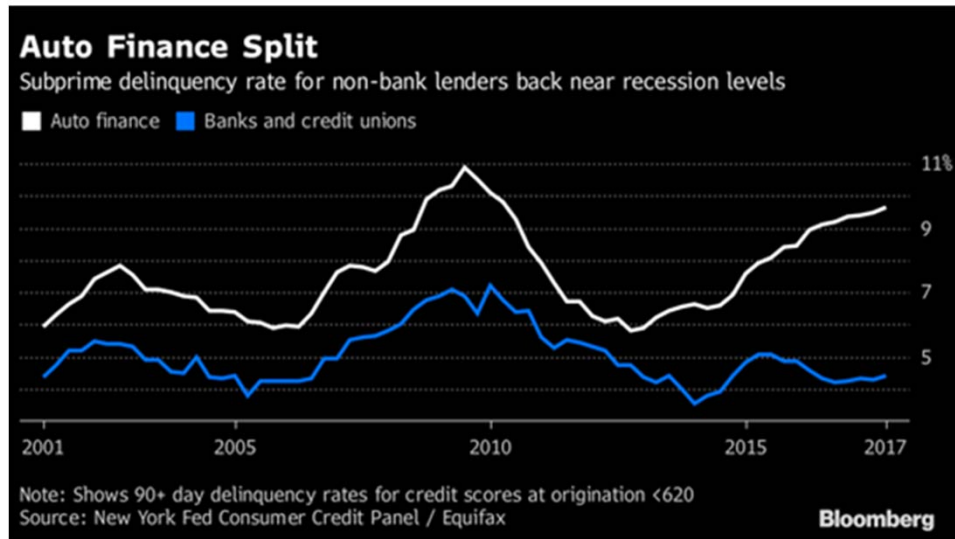
Lousy Auto Loan Delinquencies are Way Up Y-o-Y

These are loans with FICOs < 550



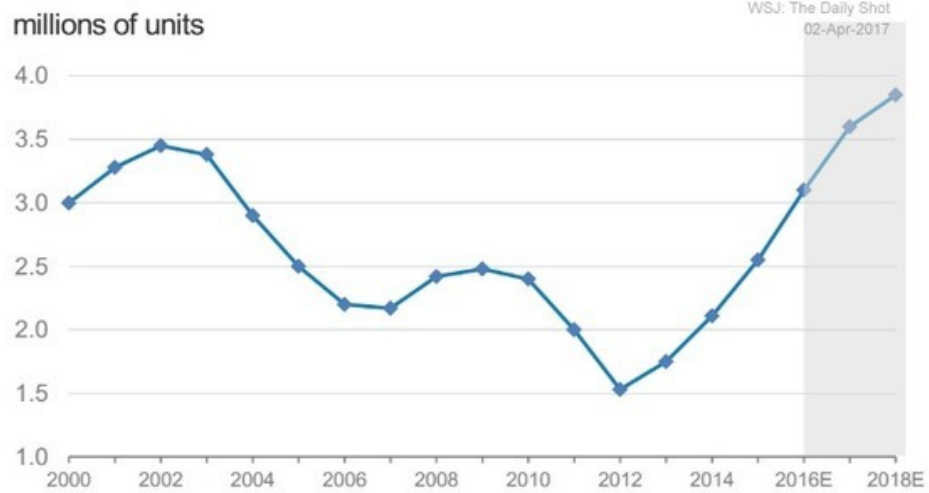
Subprime Non-Bank Loans are Driving Delinquencies

Bank loans look very good



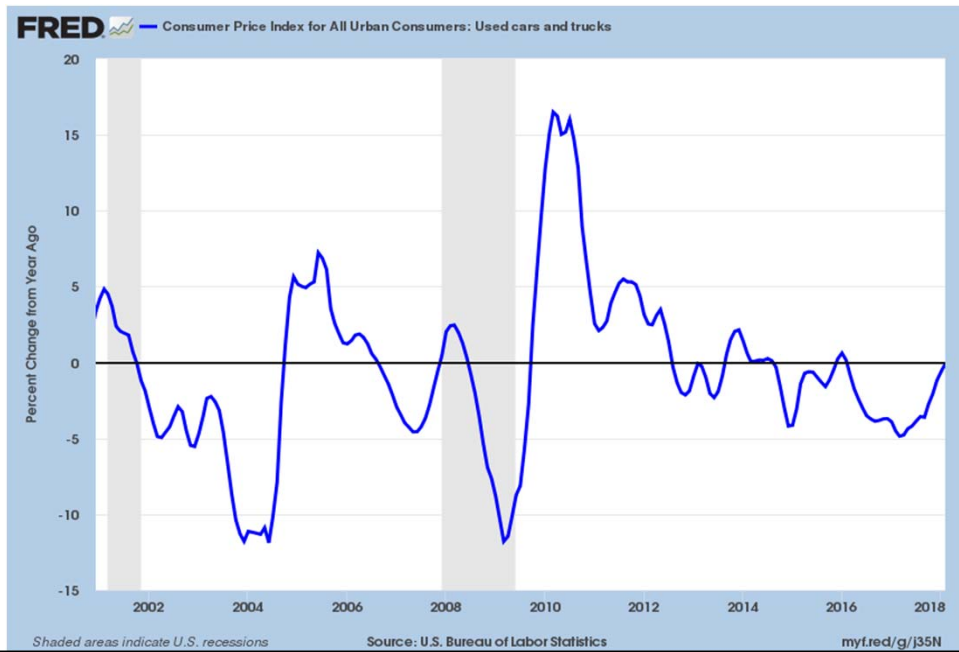
Used Car Volumes are Skyrocketing

Exhibit 3: Off-Lease volumes - further growth ahead

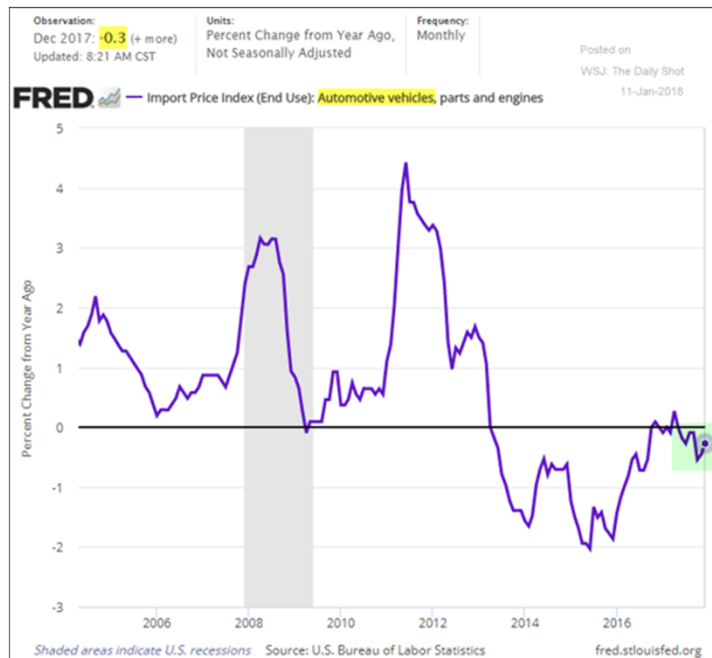


Source: Manheim, Morgan Stanley Research

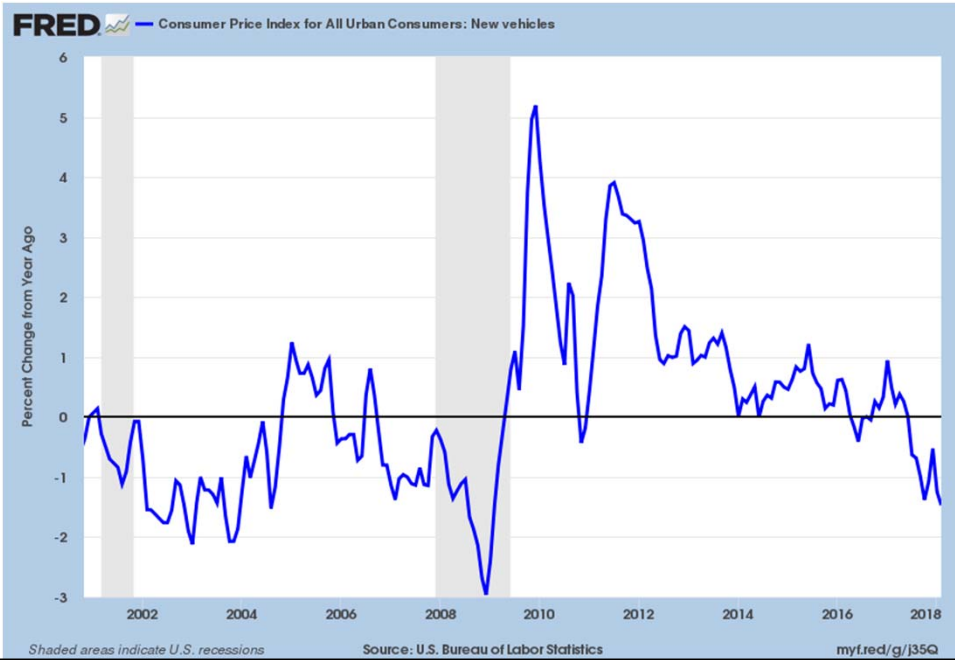
Used Car Values are Declining but by Less



Imported Car Prices also Decline

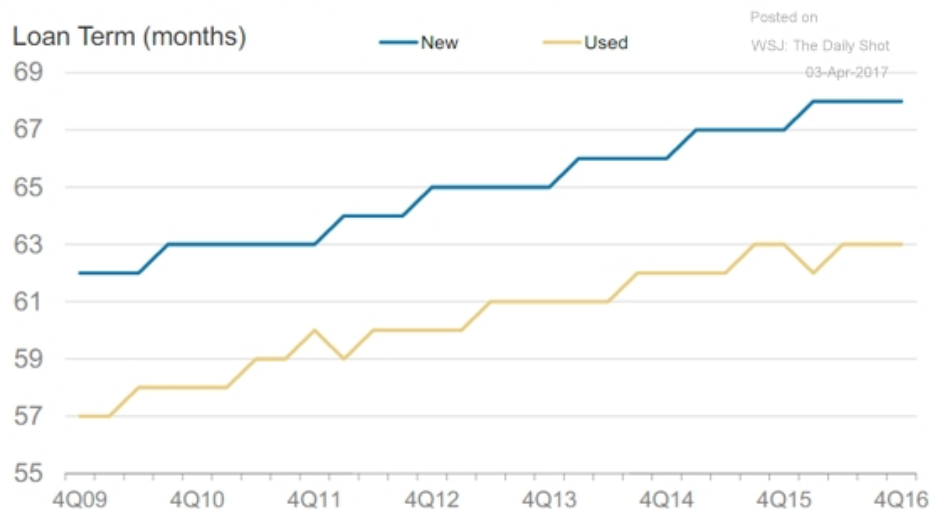


New Auto Prices are Still Declining



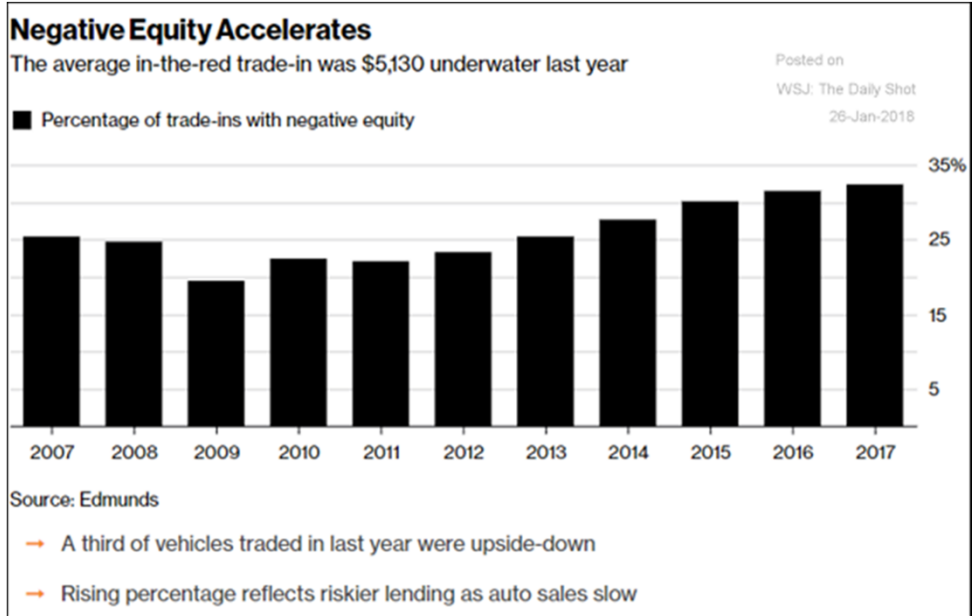
Auto Loans Have Very Long Durations

Exhibit 4: Average loan terms are on the rise

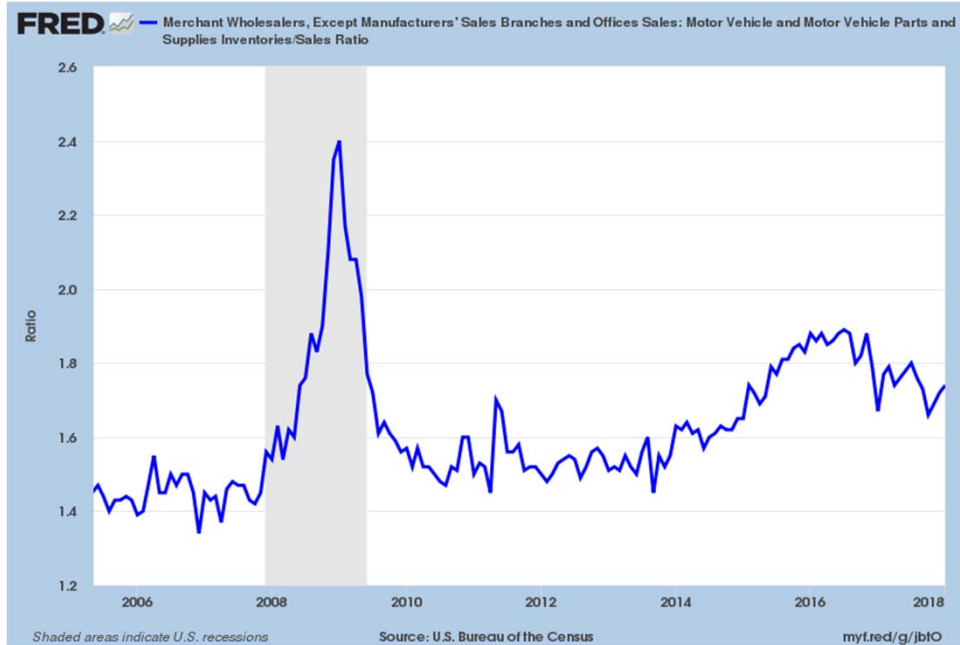


Note: Used transactions do not include leasing
Source: Experian, Morgan Stanley Research

New Car Buyers are Often Upside-Down



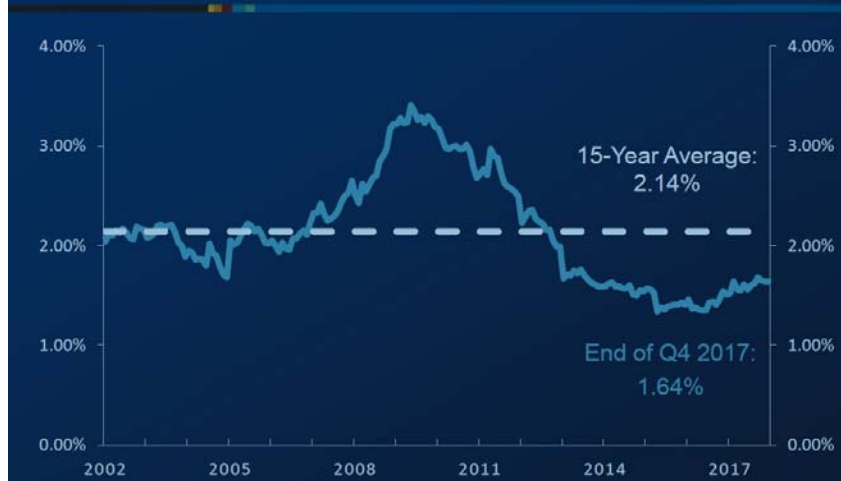
Auto Inventories are Large but Shrinking



Households Deleveraging is Done!!!!!!

Household delinquency rates are lower than before the recession but are no longer falling

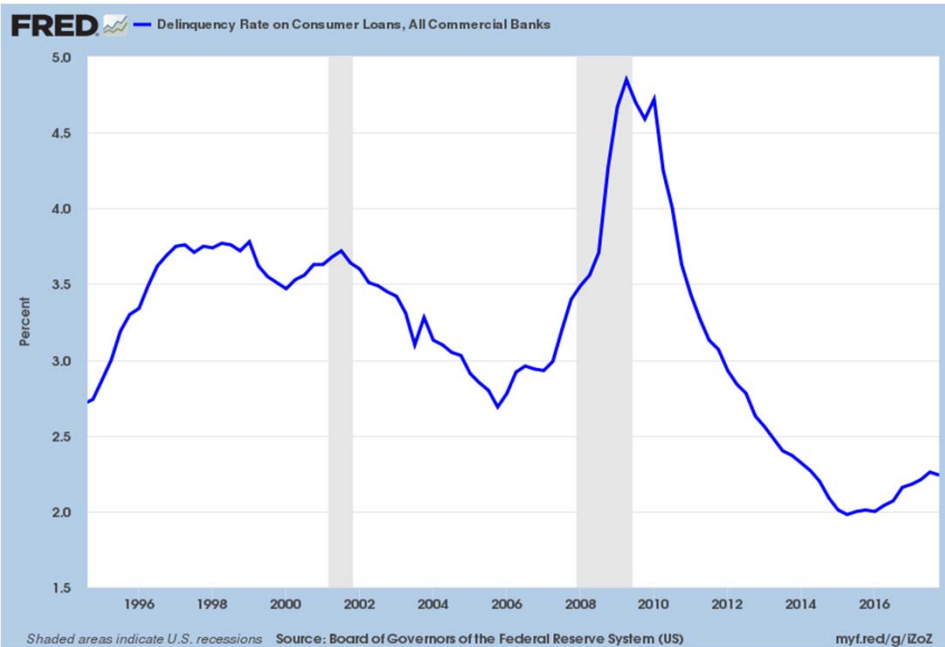
Installment Loan Delinquencies Fall Across the Board



Source: ABA Consumer Credit Delinquency Survey. All rights reserved.

American Bankers Association

Delinquency Rate on Consumer Loans is Up



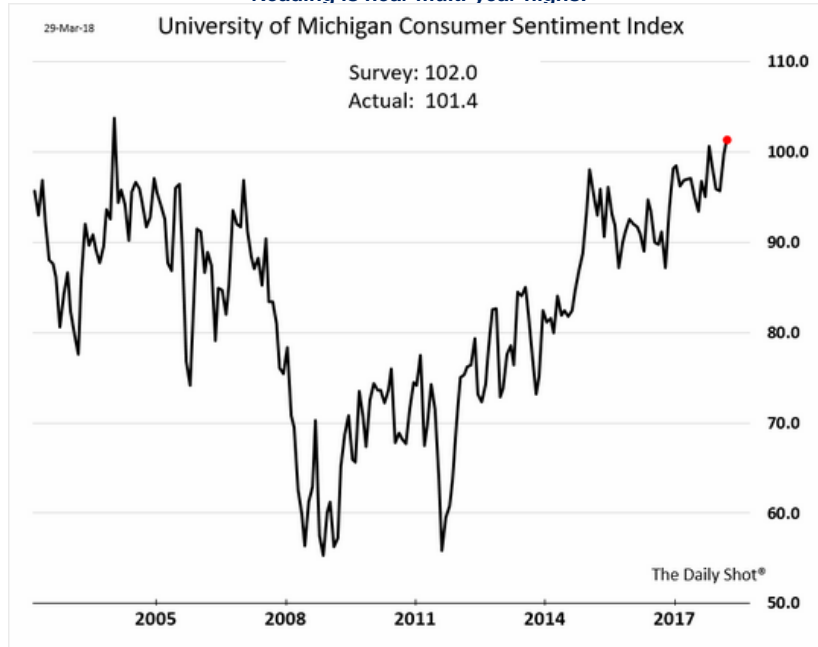
Shaded areas indicate U.S. recessions

Source: Board of Governors of the Federal Reserve System (US)

myf.red/g/IZoZ

University of MI Consumer Confidence is Good

Reading is near multi-year highs.

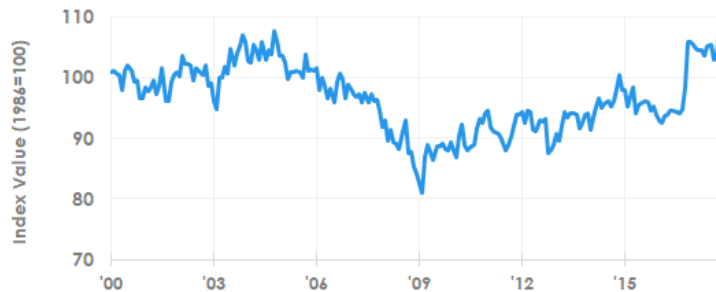


Small Business Confidence is Strong

Spectacular rise since election.

Small Business Optimism Index Increases to 107.6

Based on 10 survey indicators, seasonally adjusted, Jan. '00 – Feb. '18

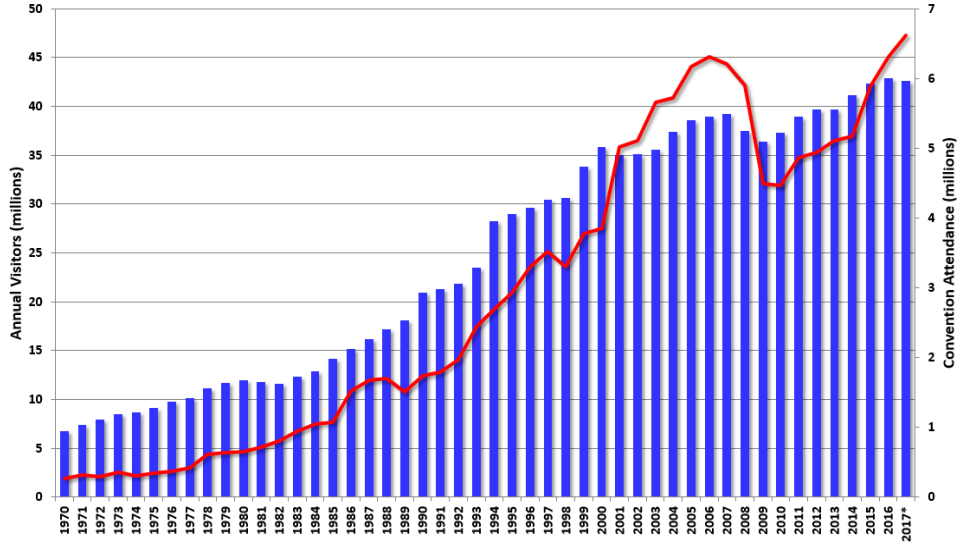


NFIB.com/sboi

Las Vegas is Rocking

Las Vegas Visitors

■ Visitors ■ Convention Attendance

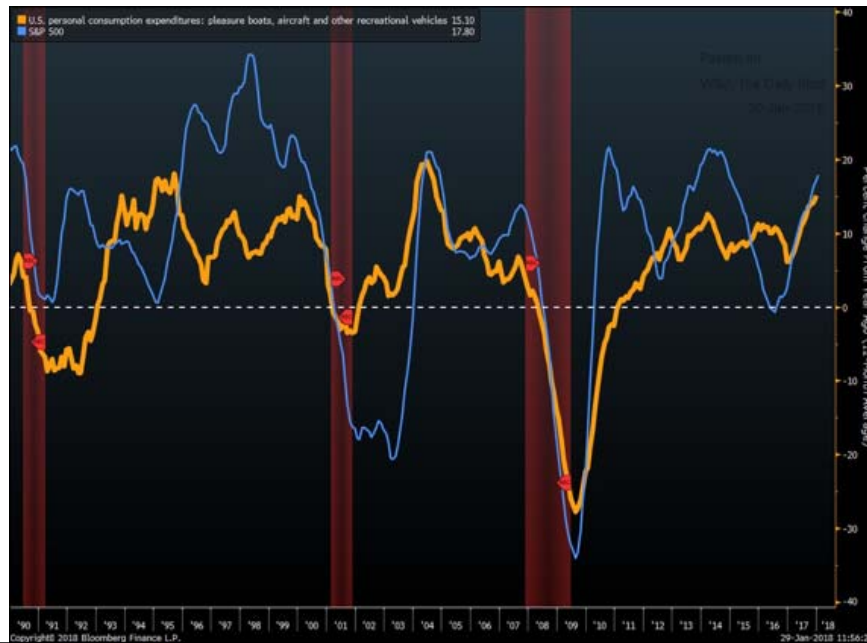


<http://www.calculatedriskblog.com/>

*2017 estimated, through July

Let's Buy a Boat, Plane or an RV

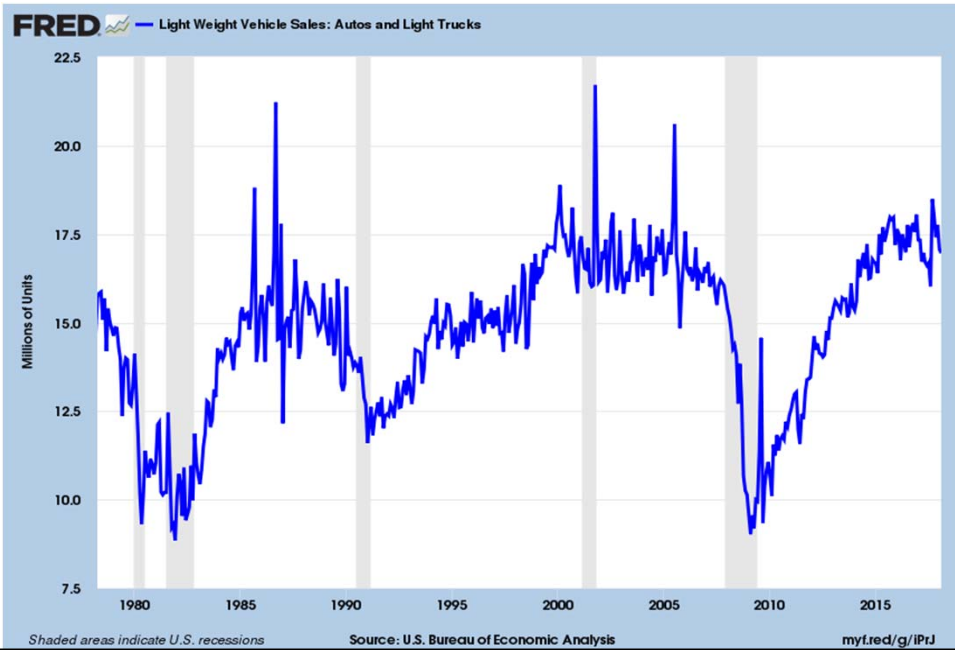
The growth rate is better than at any time since 2004



Copyright © 2018 Bloomberg Finance L.P.

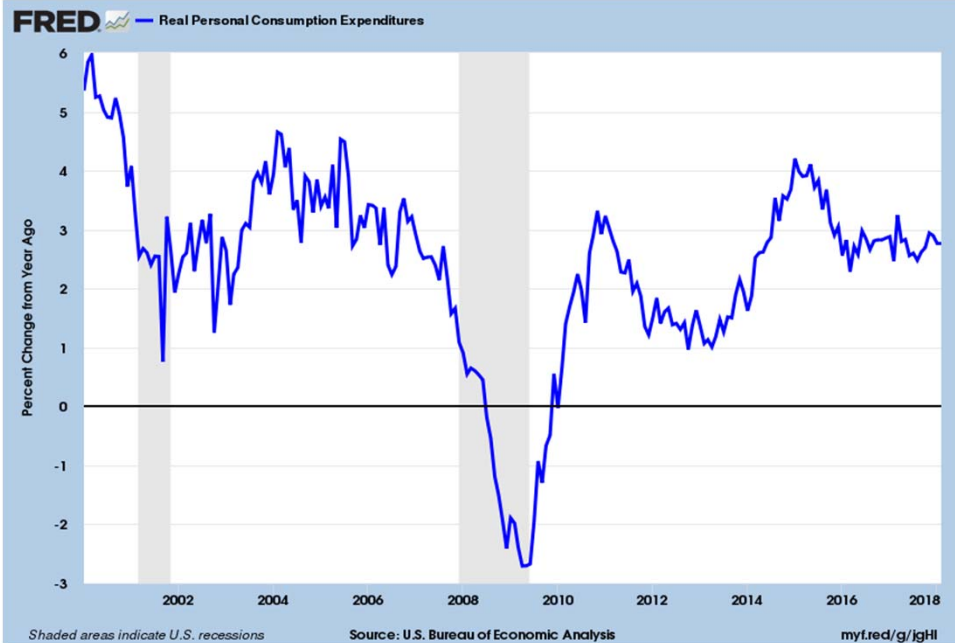
29-Jan-2018 11:54:20

US Light Vehicle Sales are Down but are Solid



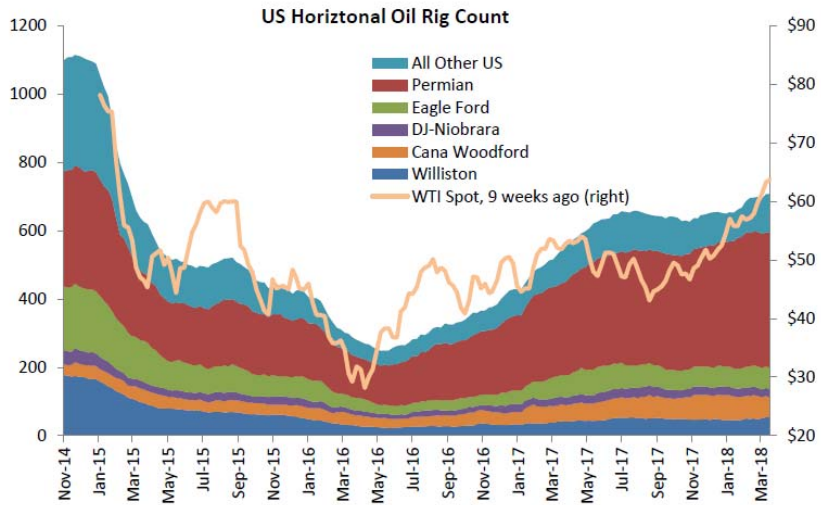
Annual Y-o-Y Percent Change in PCE

A solid albeit mildly lackluster growth rate of 2.75%



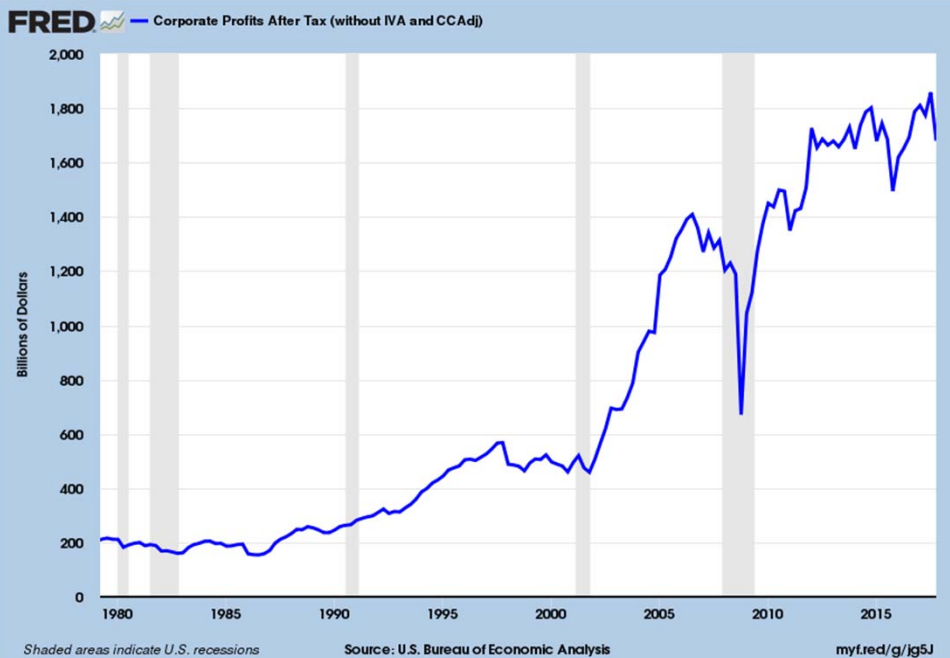
Drilling Activity is Up

Number of oil rigs is now rising as a result of the rising price of crude



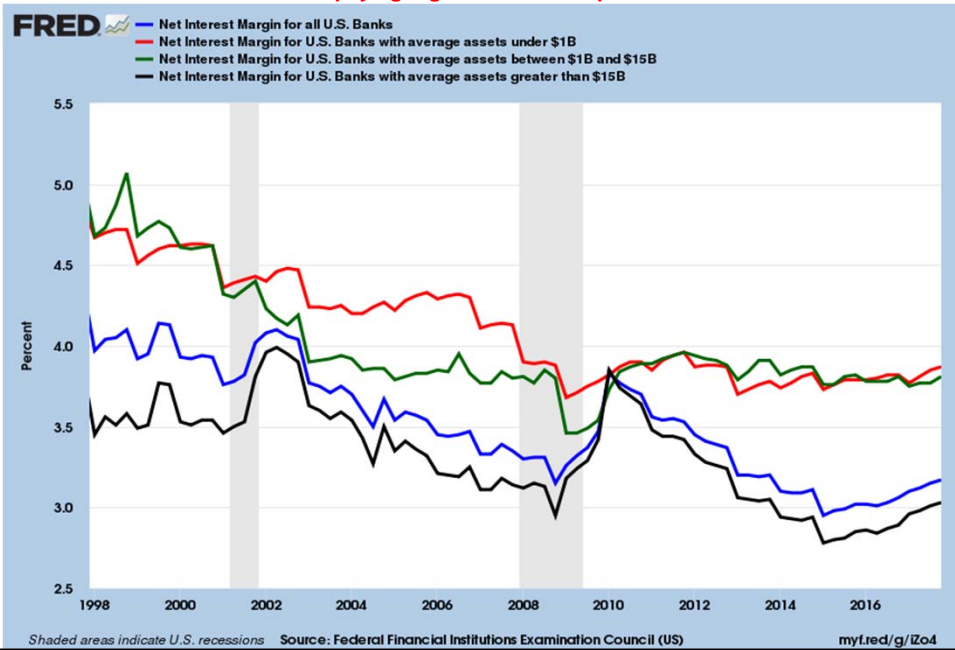
- Horizontal oil rigs: +1 to 708

Corporate Profits are Again Rising After Weakening

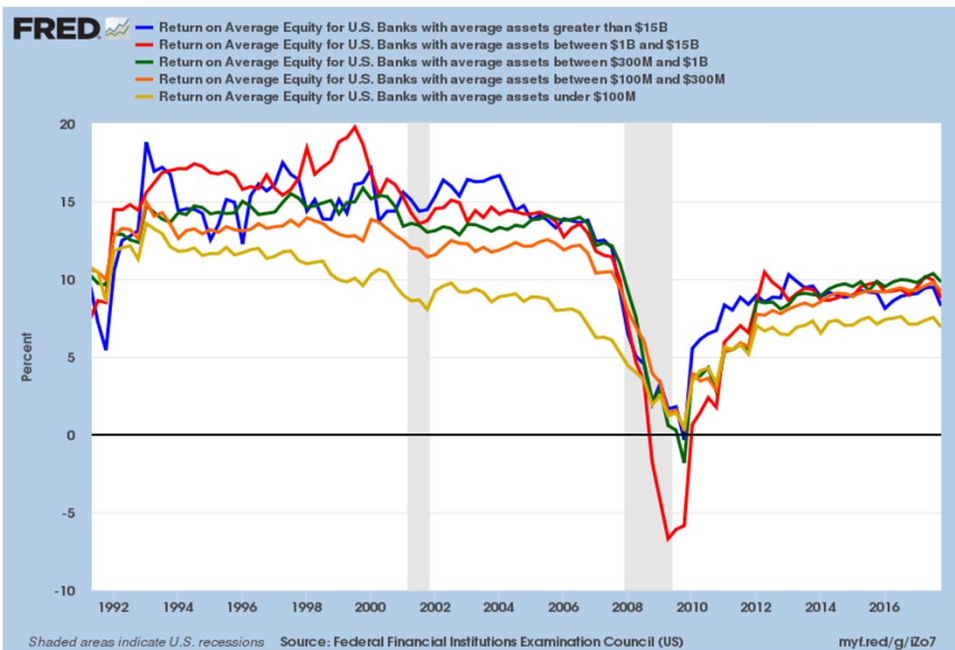


Bank Net Interest Margins Are Growing!

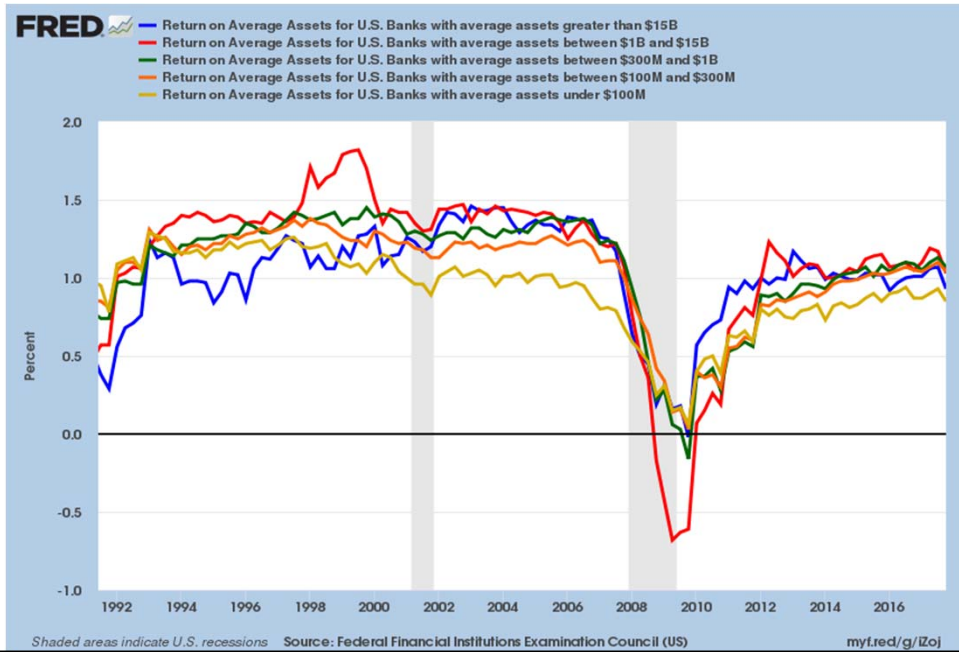
Not paying higher rates for deposits?



ROE for Banks Had Been Slowly Improving



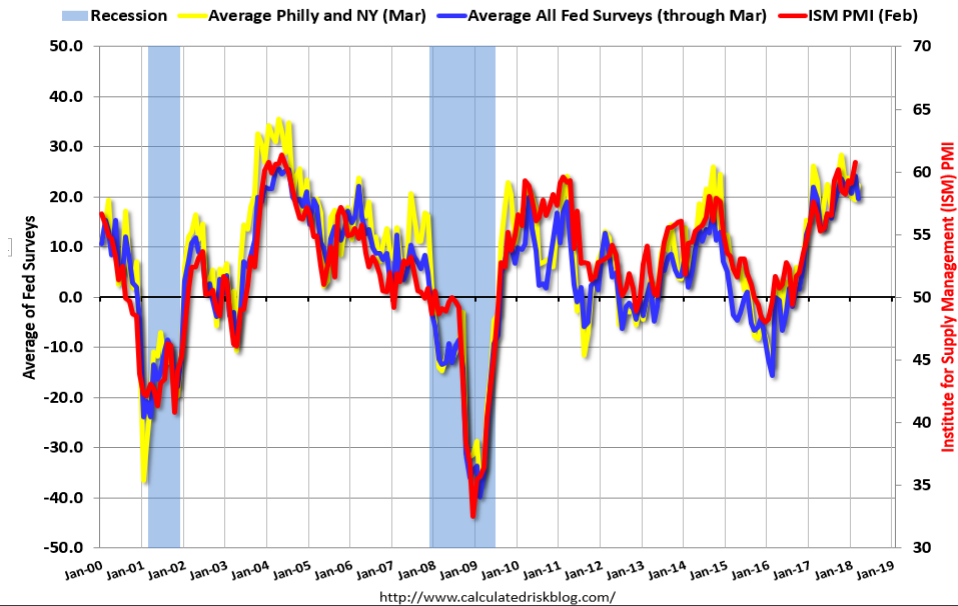
ROA for Banks Had Been Slowly Improving



ISM Manufacturing Numbers are Strong

Manufacturing is not as important as it was in the past. It is however booming!

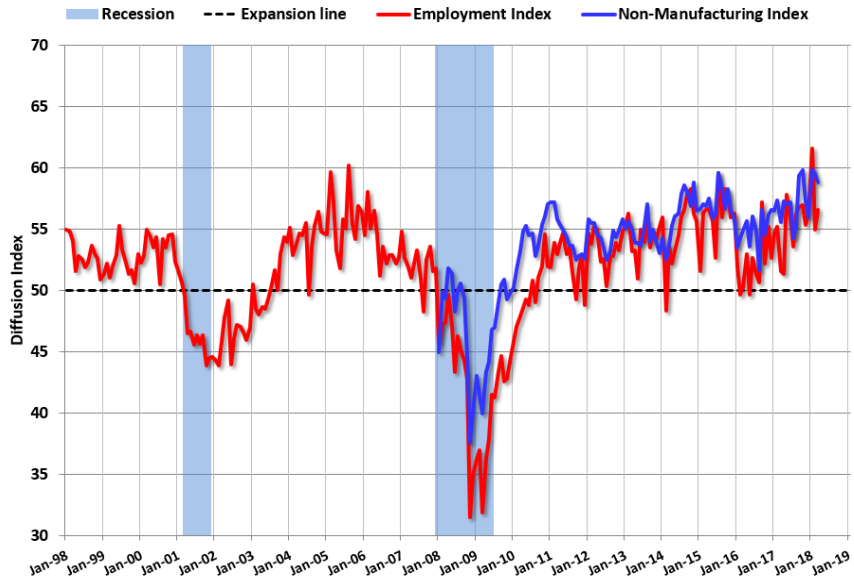
ISM Purchasing Managers' Index (PMI) and Fed Manufacturing Surveys



ISM Non-Manufacturing Numbers are Very Good

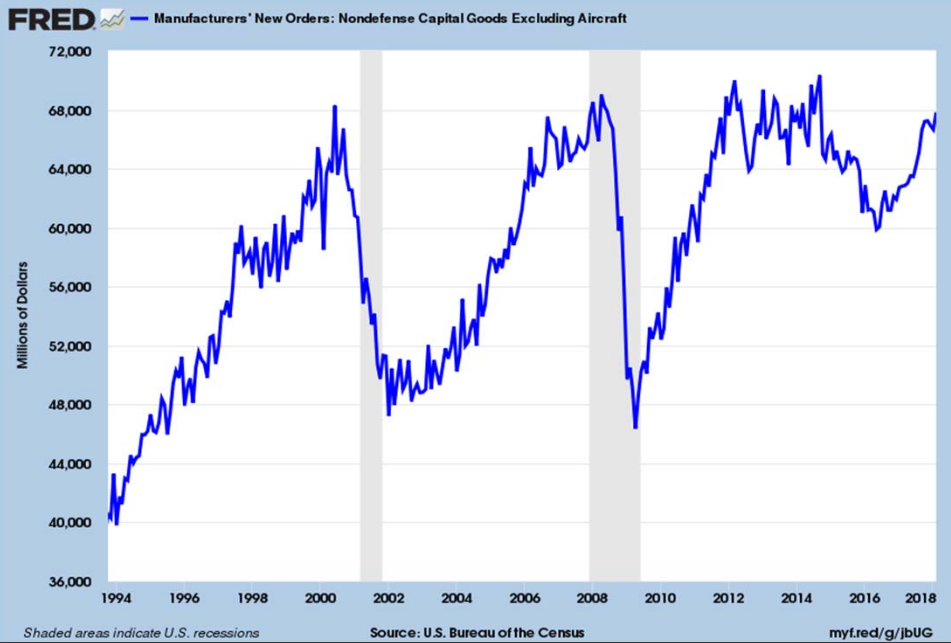
Service sector is doing well

ISM Non-Manufacturing and Employment Diffusion Indexes



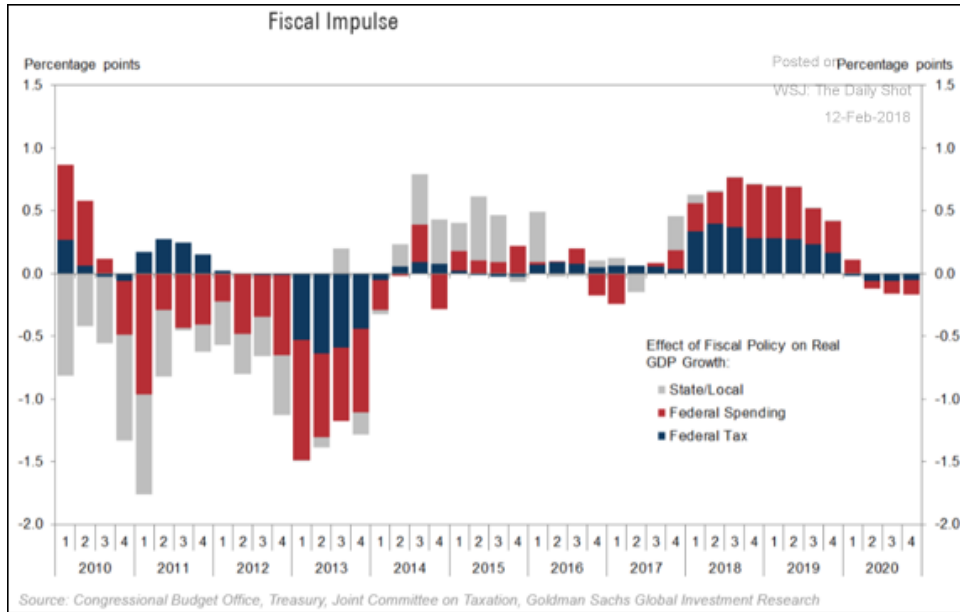
Look at Capital Goods Orders! Very Strong Growth

Minus defense and aircraft



Tax Cuts Are Going to Supercharge the Economy

But, only in the short run



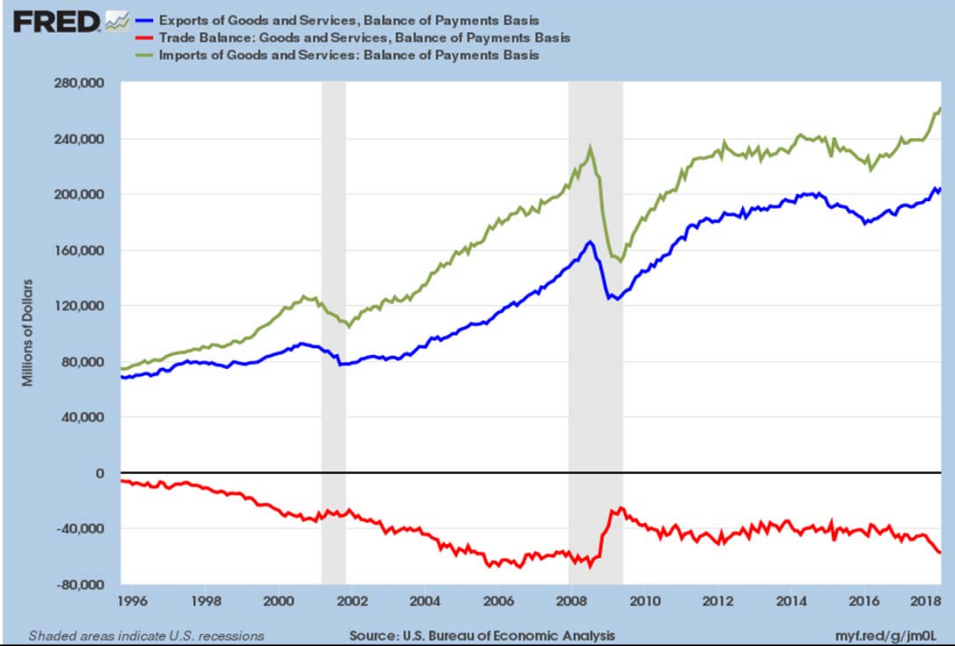
The Dollar is Weakening Against all Currencies

Peaked in January 2017. A weaker dollar is a concern



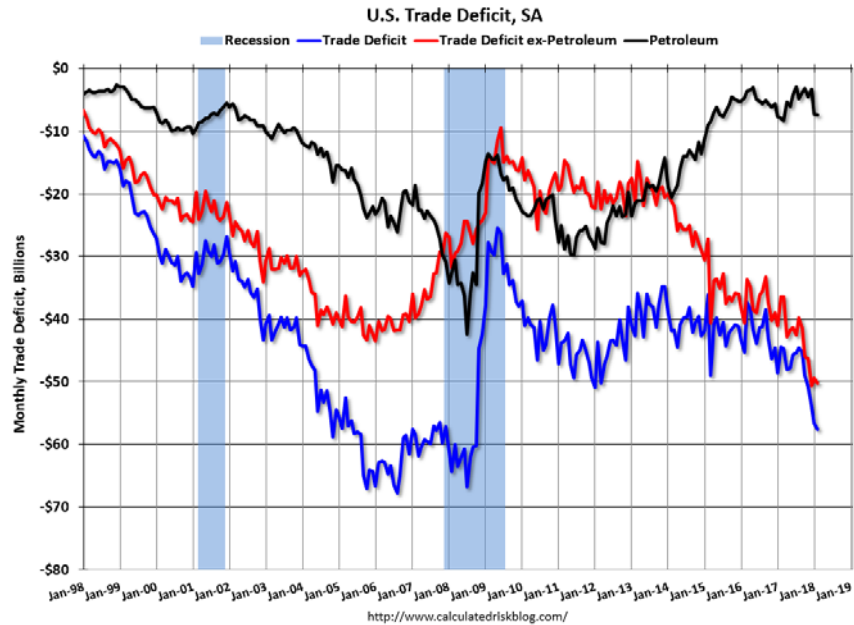
The Trade Deficit is Clearly Deteriorating

Trade is subtracting from GDP growth. That said, rising trade volumes are good.



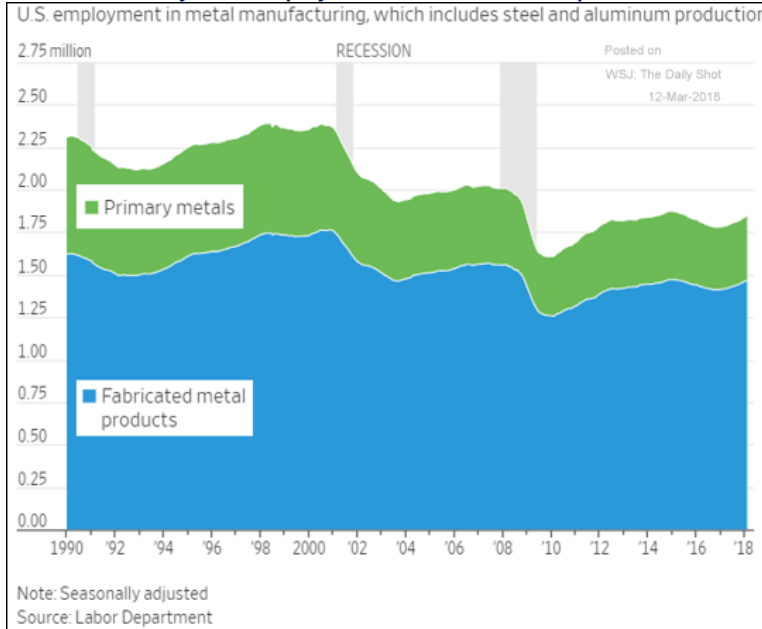
The Trade Deficit Worsens

The deficit in stuff (red) is worsening. Our shrinking petroleum deficit (black) helped.



Trade Tariffs Will Hurt Employment and GDP

So many more employed in fabrication than in production



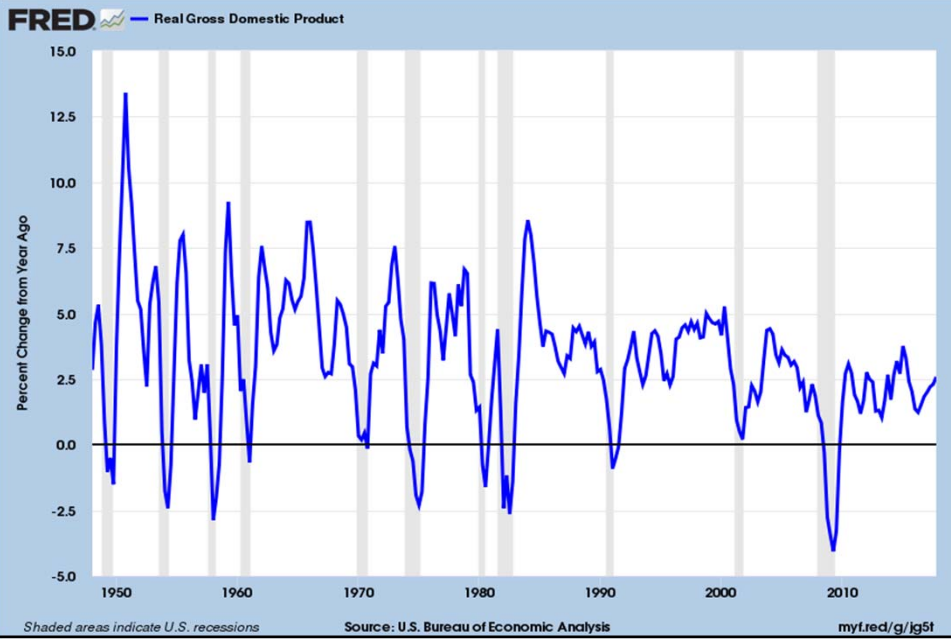
Western Democracies are All Growing!

Both emerging markets and developed ones look better



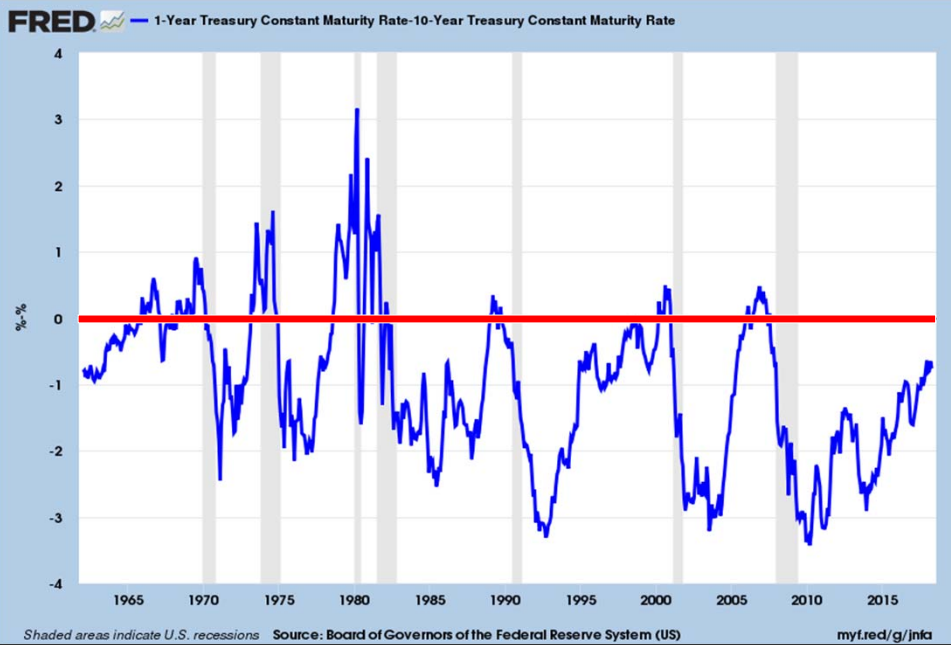
GDP Growth Goes Nowhere Slowly

Trump tax cuts should boost GDP by 40 bps in 2018



Best of All, No Recession is in the Cards!

Yield Curve Inversion Test: 1-Year Treasury Yield – 10-Year Treasury Yield

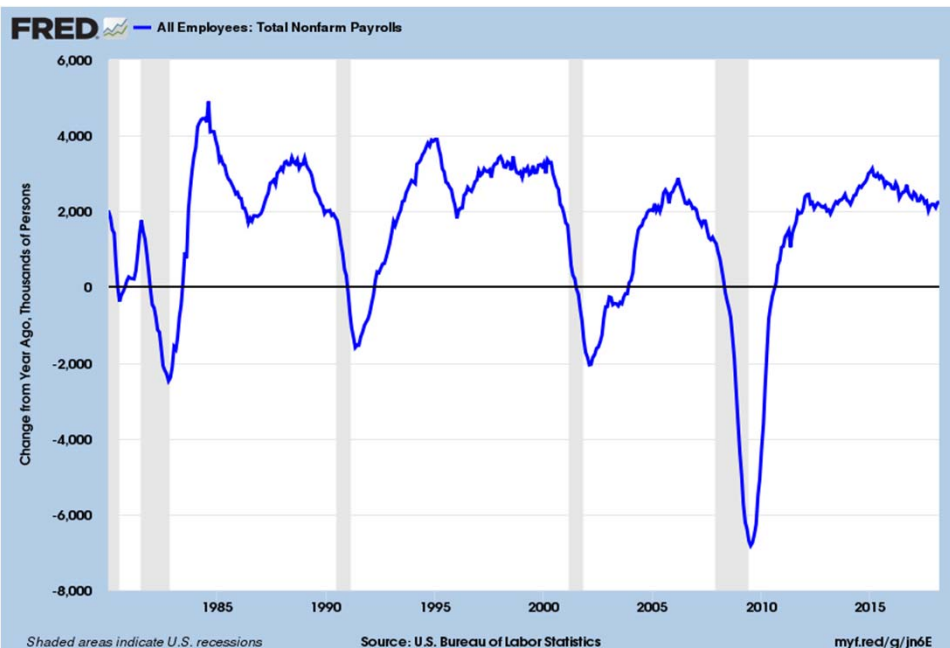


Labor Markets: They're on the mend



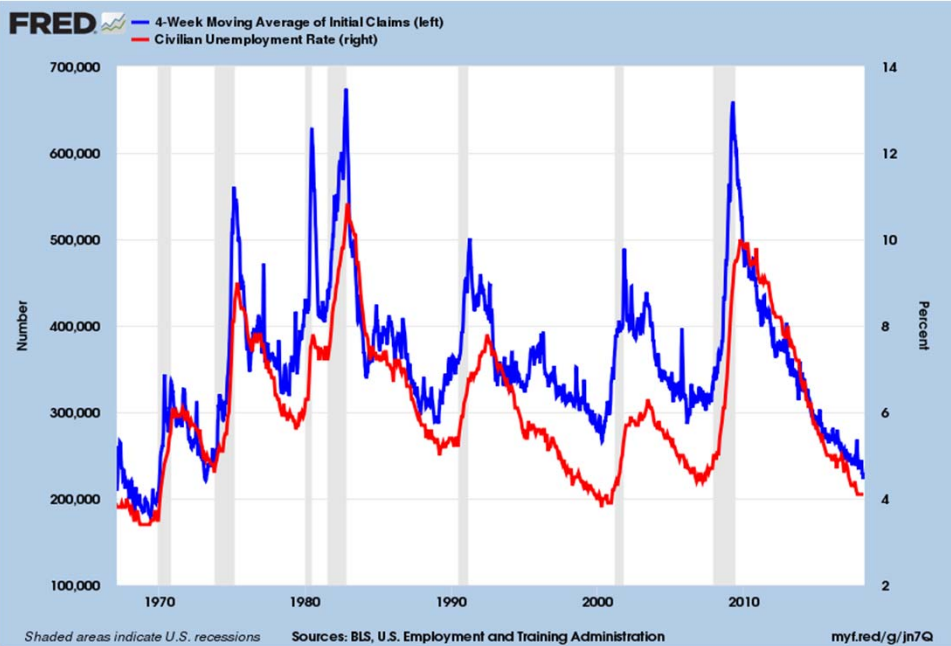
Historical Job Growth

Y-o-Y Total employment growth is slowing. We are running out of workers



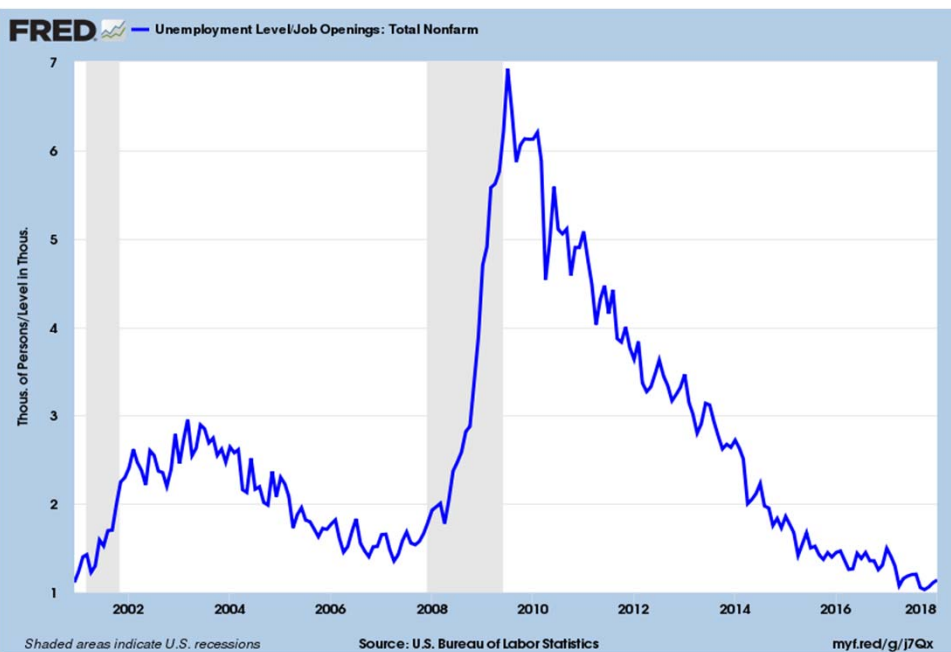
STEADY Labor Market Improvement: Involuntary Separation

Long Term Trends: 1967-2017 Initial claims below 300K for 161 straight weeks!



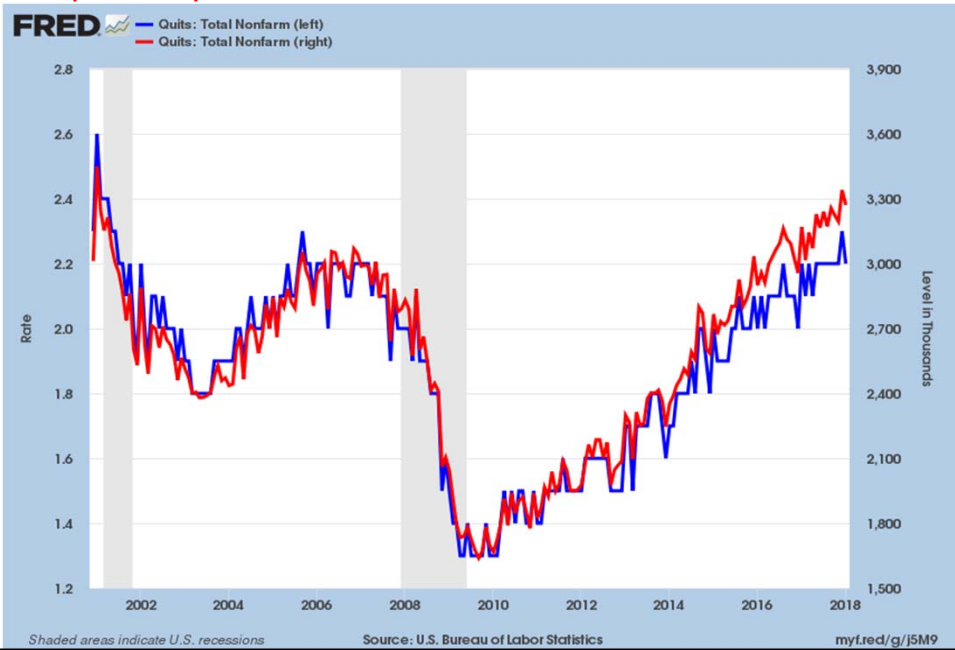
Tighter Labor Market than Perceived? For Sure!

The number of unemployed per job opening is at a record low!



Quits, No matter How Measured Are Good

Are equal to their pre-recession level. At 2.2% in blue or 3.2 million in red

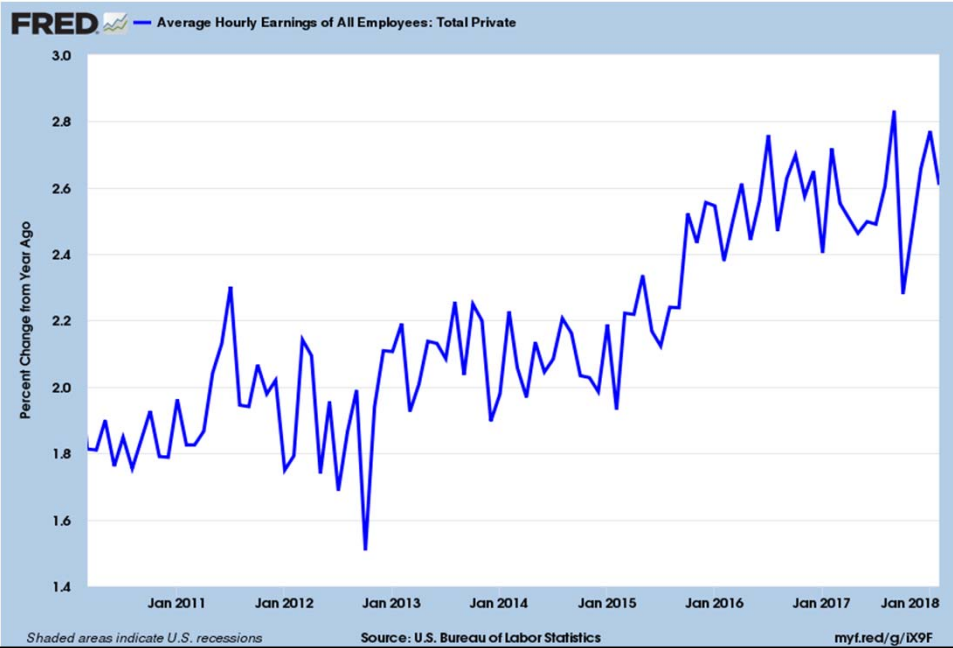


Wage Growth is Weak, but Improving!



Y-o-Y Percent Change in Hourly Earnings

Despite a very low unemployment rate, wages growth is weak

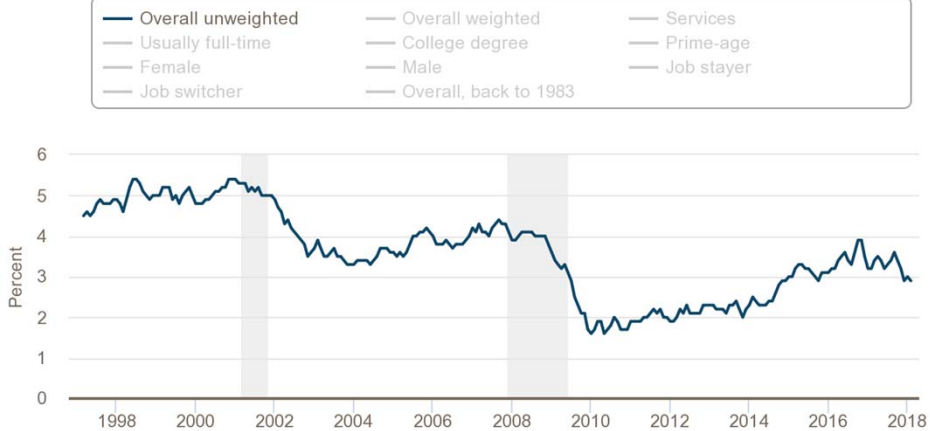


Changes in Median Wage Growth Looks OK!

Looks only at those continuously full-time employed

Wage Growth Tracker

three-month moving average of median wage growth

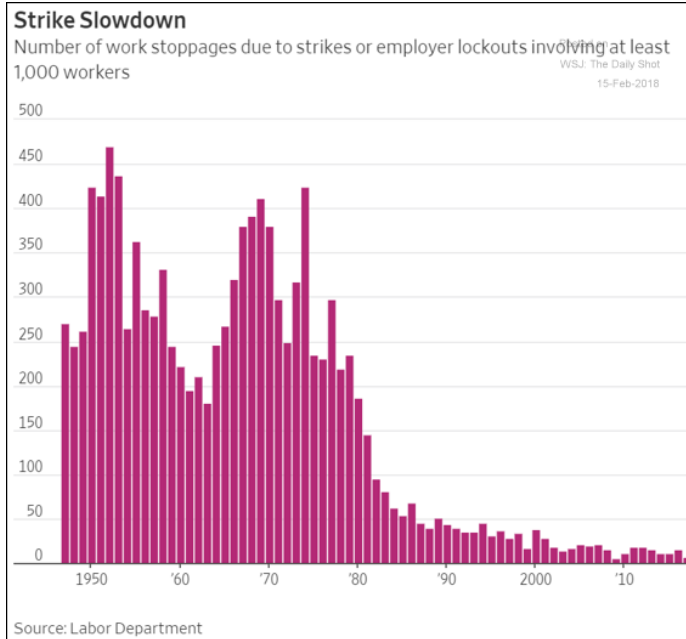


Source: Current Population Survey, Bureau of Labor Statistics and Author's Calculations

Exported on: Friday, March 23, 2018

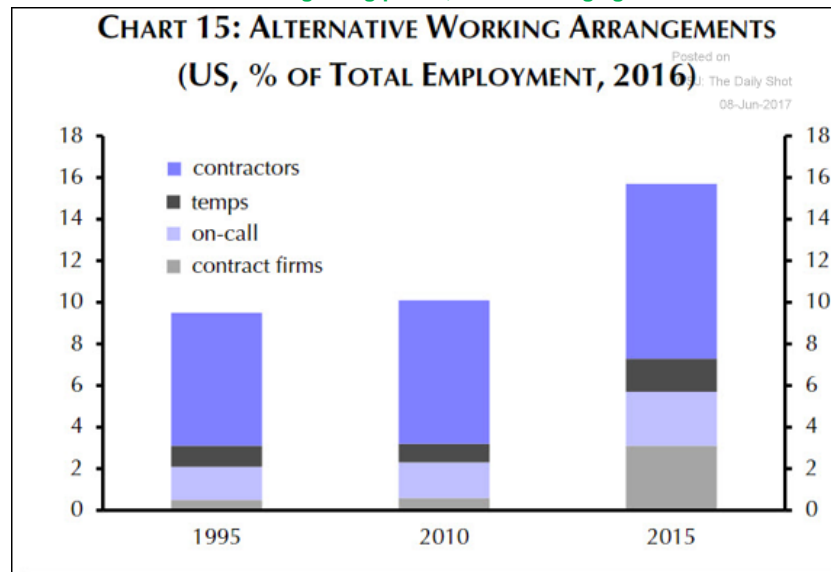
Less Unionized Labor Reduces Bargaining Power

The number of strikes is way down



Rise in Alternative Working Conditions

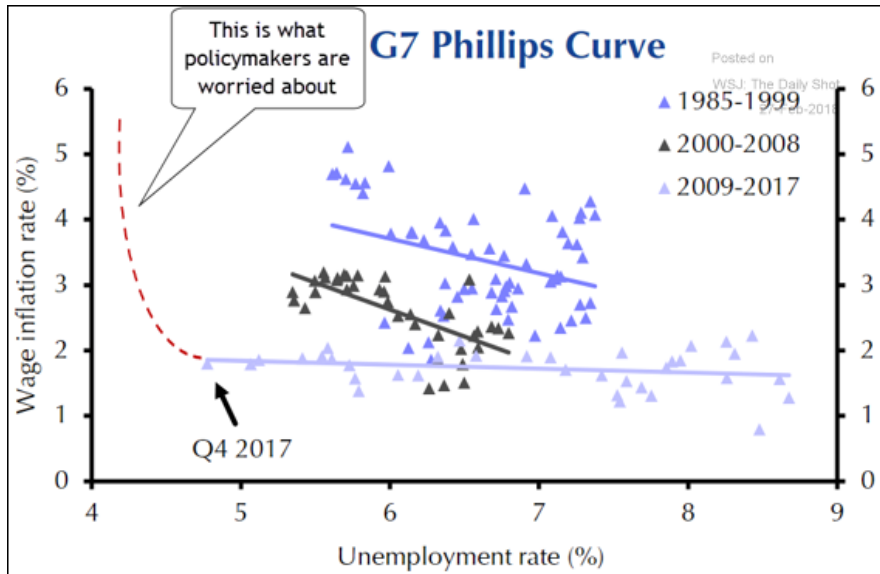
These workers have less bargaining power, and thus wage growth is slower.



Source – Lawrence Katz and Alan Krueger, “The Rise and Nature of Alternative Work Arrangements in the US”, 2016

Low Unemployment Does Not Lead to Wage Growth

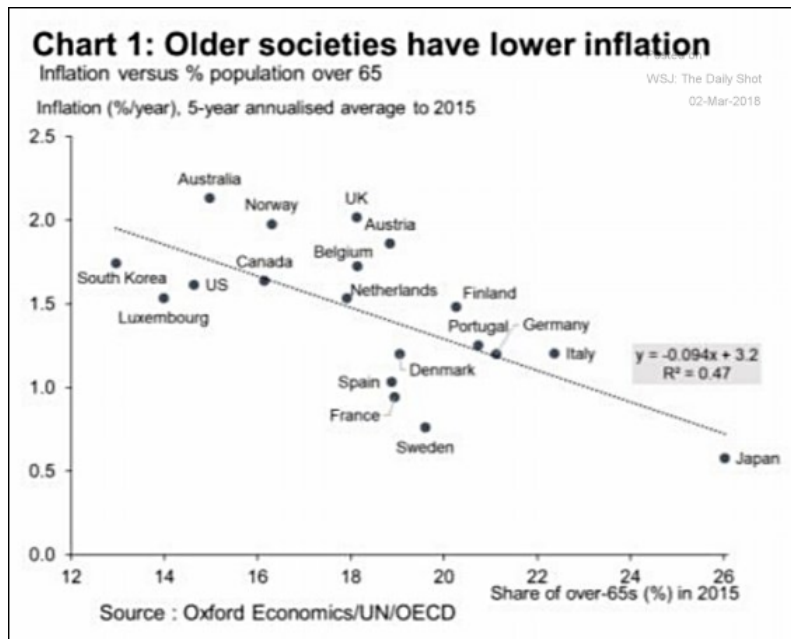
The relationship has weakened substantially since the last century



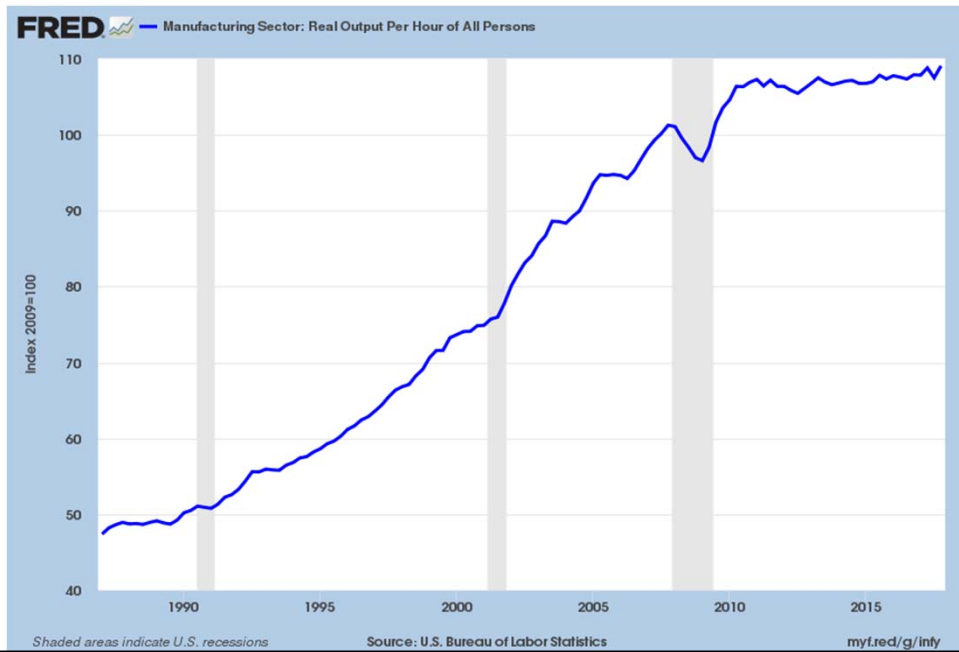
Sources: Thomson Reuters, CE

As a Nation Ages Inflation Weakens

Japan is the nation with the oldest population



Labor Productivity Growth is Dismal

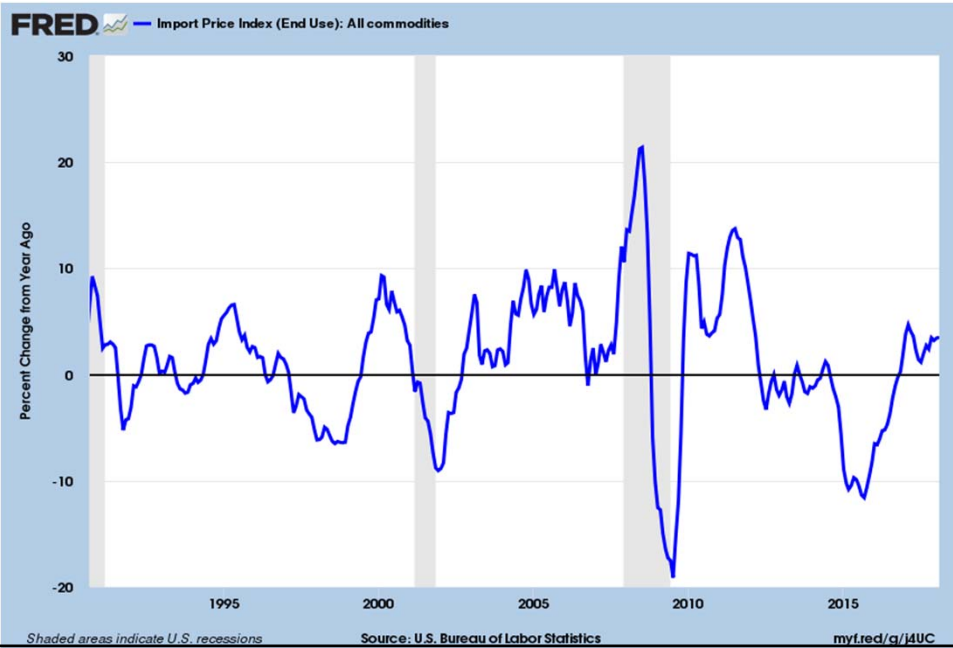


Inflation? What Inflation!



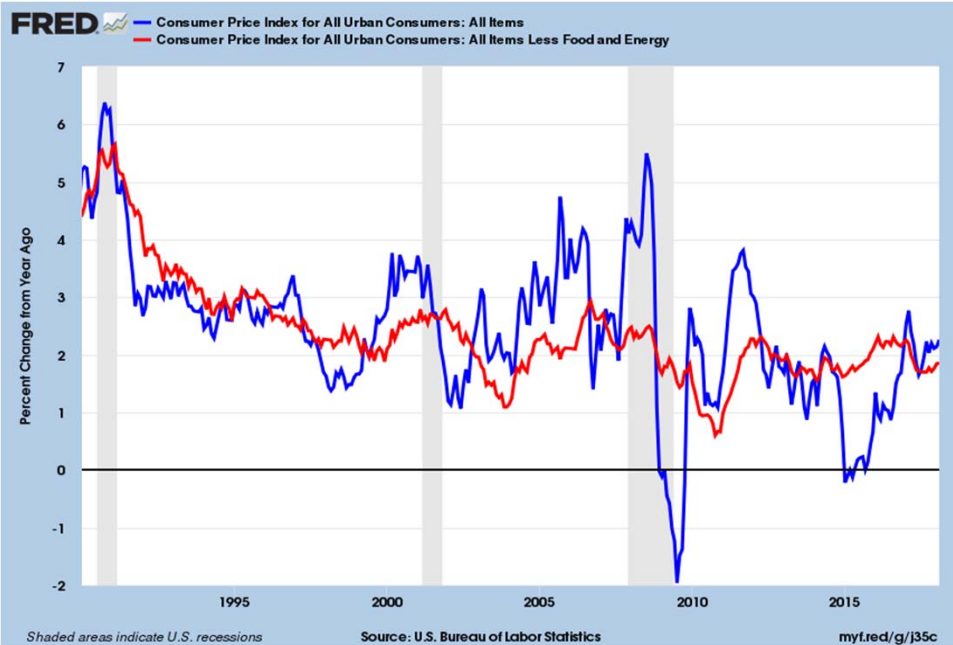
Import Prices for all Items

Seems to be steadily rising. How much worse will this get with a trade war?



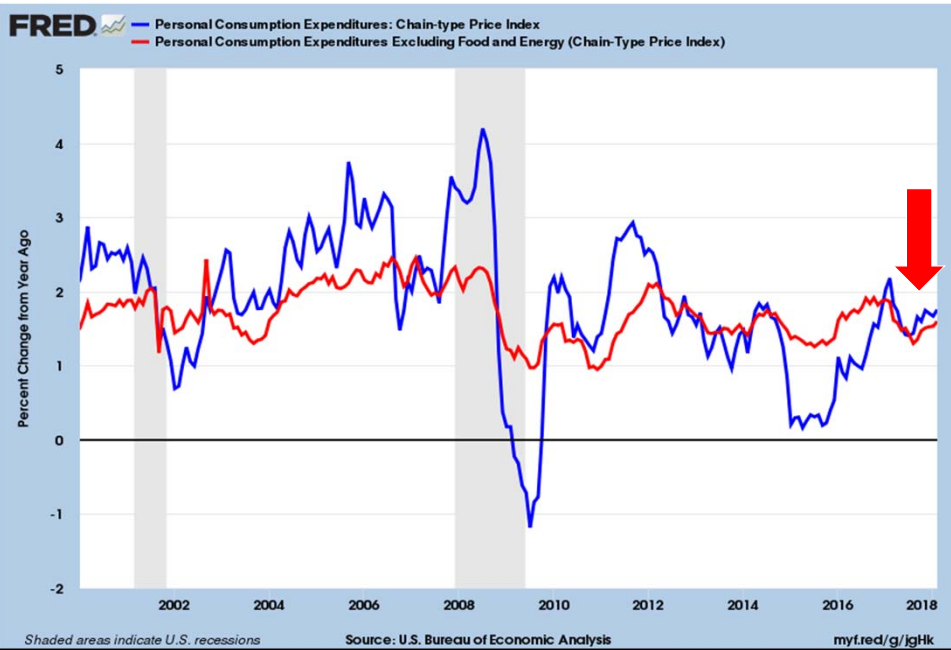
CPI: Inflationary Pressures are Flat

Remove Healthcare, and apparel are now weak. Was drugs, cellphones and autos



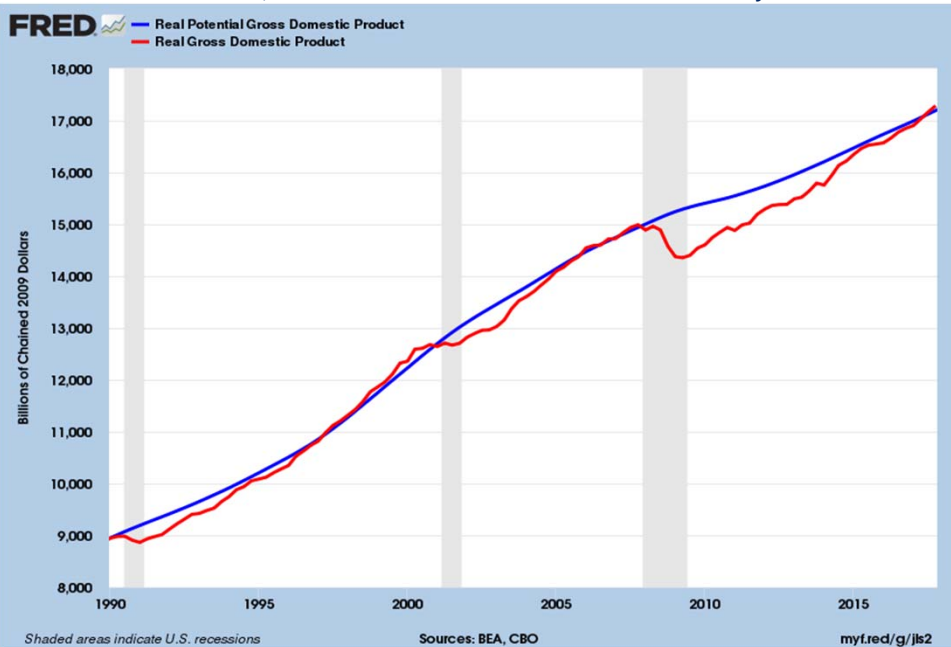
Core PCE Price Index: Inflation is Very Tame!

Surprising this late in the business cycle.



Gap Between Potential GDP and Real GDP is Gone!

Nice news, but note that the blue line fell! Now inflation may rise!



Federal Reserve Behavior

Most optimistic scenario

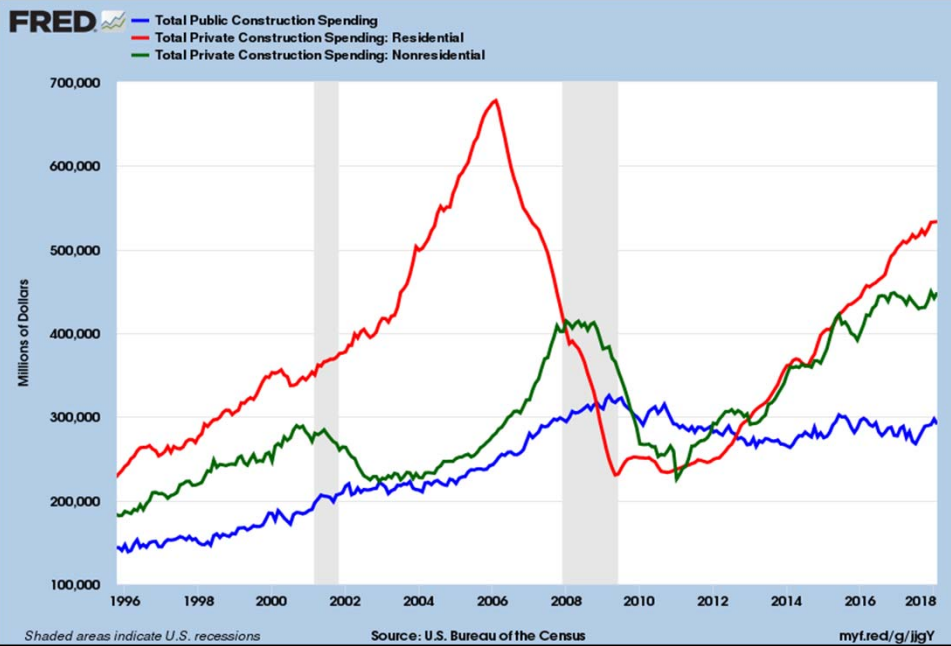
- Fed funds is currently 1.625%
- 12/31/18: 2.125% 10-yr Treasury @ 3.20%
- 12/31/19: 2.875% 10-yr Treasury @ 3.50%
- 12/31/20: 3.375% 10-yr Treasury @ 3.95%
- Balance sheet keeps shrinking.

Real Estate?
It's Improving but In
Fits and Starts!



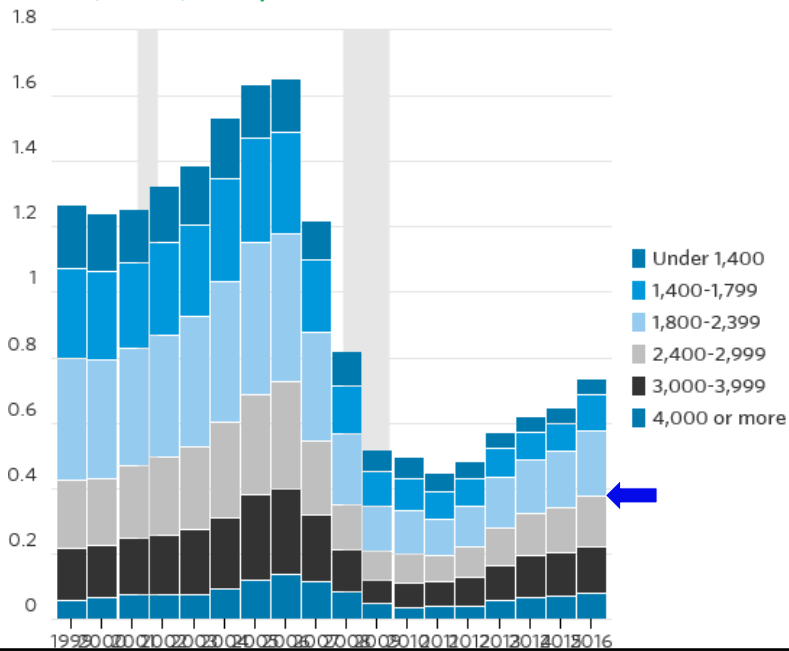
Residential Fixed Investment Slowly Rises!

Non-residential is up 9%, public is down 11% and residential is down 21% from peak



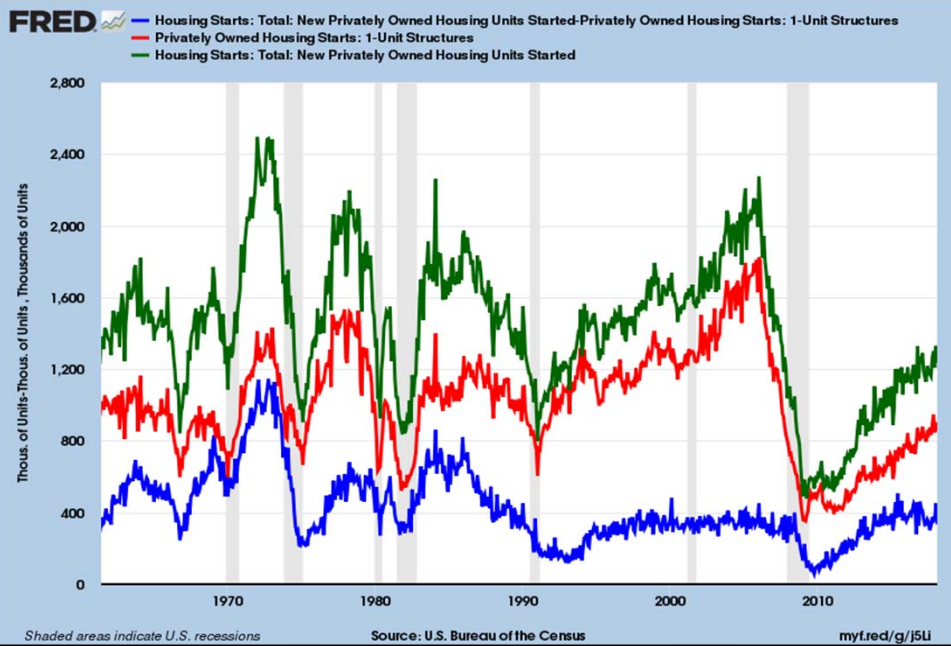
Bigger Houses Continue to Get Built

2,500 to 4,000+ square foot houses are 51% of all new houses!



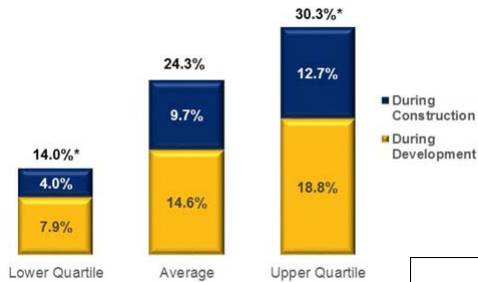
Single-Family and Multifamily Starts – A Slow Recovery

Lack of lots, gun shy lenders, high prices, SF looks decent



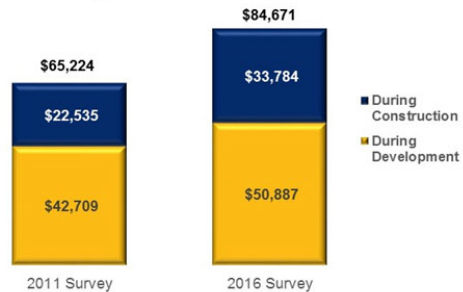
New Home Prices Are Too High Due to Regulation

Figure 1. Regulatory Costs as a Share of Home Price



* For quartiles, construction and development costs do not sum to the total.
 Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

Figure 2. Average Cost of Regulation in the Price of a New Home



Based on average new home price one month before the NAHB/Wells Fargo HMI surveys
 Source for average new home prices: New Residential Sales, U.S. Census Bureau...

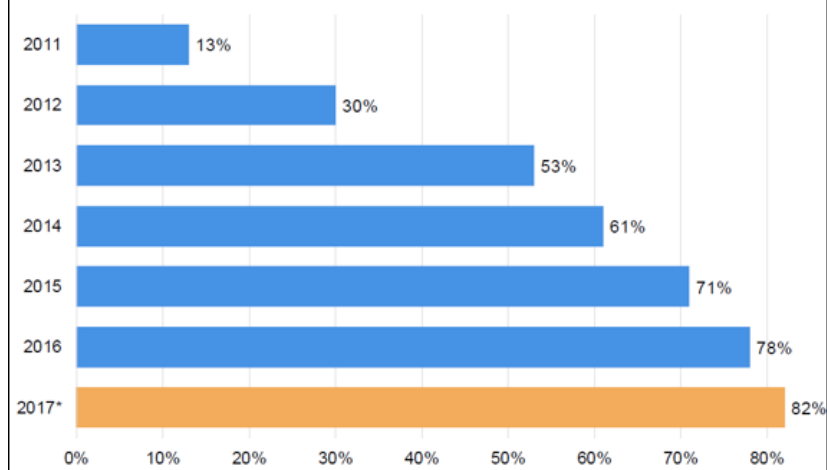
Labor Shortage is Quite Serious

Average annual wage increase for construction workers is still just 3.5%

82% of builders report labor shortages versus 13% in 2011. Shortages drive up builder costs, lengthen building cycle times, and hamper construction activity.

Posted on
WSJ: The Daily Shot
11-Oct-2017

Percentage of Builders Reporting Labor Shortages



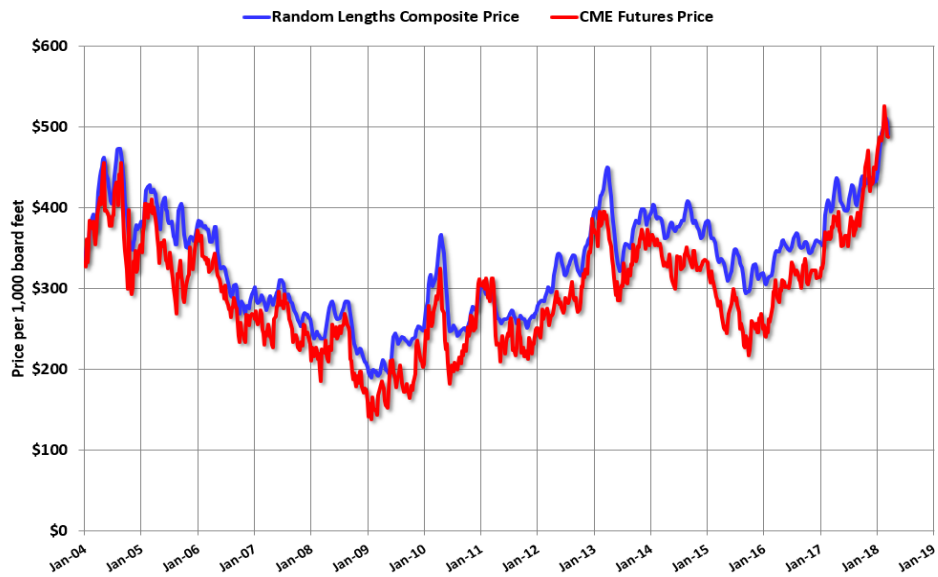
Source: NAHB (Data: 2016, updated quarterly) *Expected labor shortages

JOHN BURNES
REAL ESTATE CONSULTANT

Input Costs are Way Up due to Policy and China

Prices are up 23% to 29% Y-o-Y. End of NAFTA is making this worse

Framing Lumber Prices per 1,000 board feet

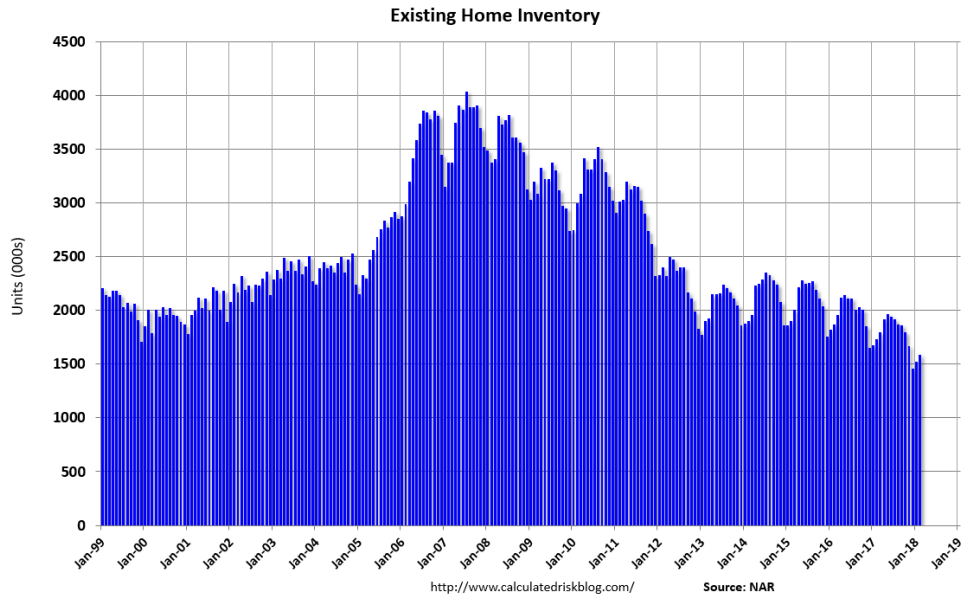


<http://www.calculatedriskblog.com/>

Source: NAHB

Existing Inventory is Shrinking

Down 6.4% Y-o-Y and down for **33** straight months . Higher prices should help, but rental conversions especially at lower price points, aging in place & mortgage lock-in are hurting



Huge Influx of Foreign Buyers

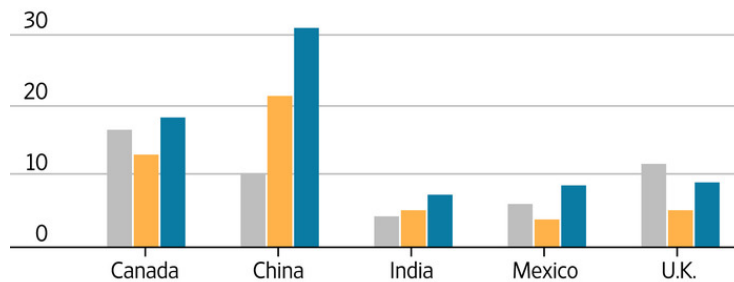
Total spending was \$153 billion in year ending 3/17. Equal to 500,000 units!

Big Spenders

Top five countries for sales of U.S. real estate to foreign buyers

■ 2010 ■ 2014 ■ 2017

\$40 billion



Note: Estimates from 2010 and 2014 include some commercial transactions. The 2017 estimates include only residential transactions.

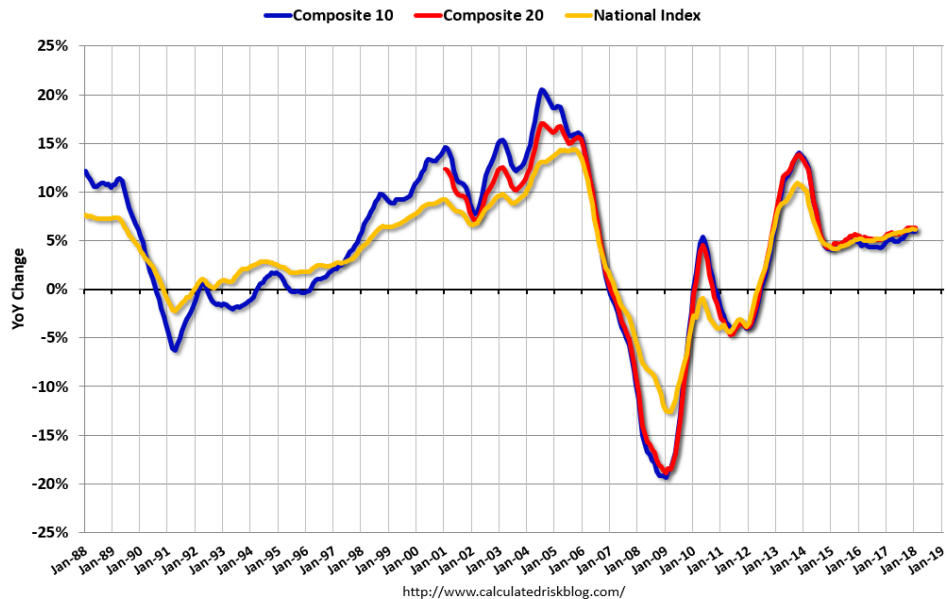
Source: National Association of Realtors

THE WALL STREET JOURNAL

Price Growth Appears to be Rising?

Prices rise faster than wages! Y-o-Y prices up 5.9%, 6.3% or 6.1% depending on the measure

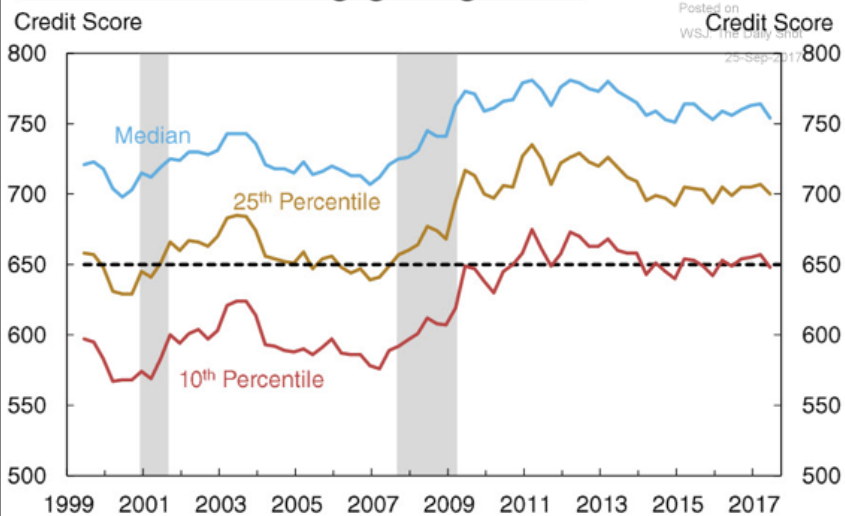
Case-Shiller National and Composite Indices SA, Year-over-year Change



Credit is Tight: Thus, No Housing Bubble

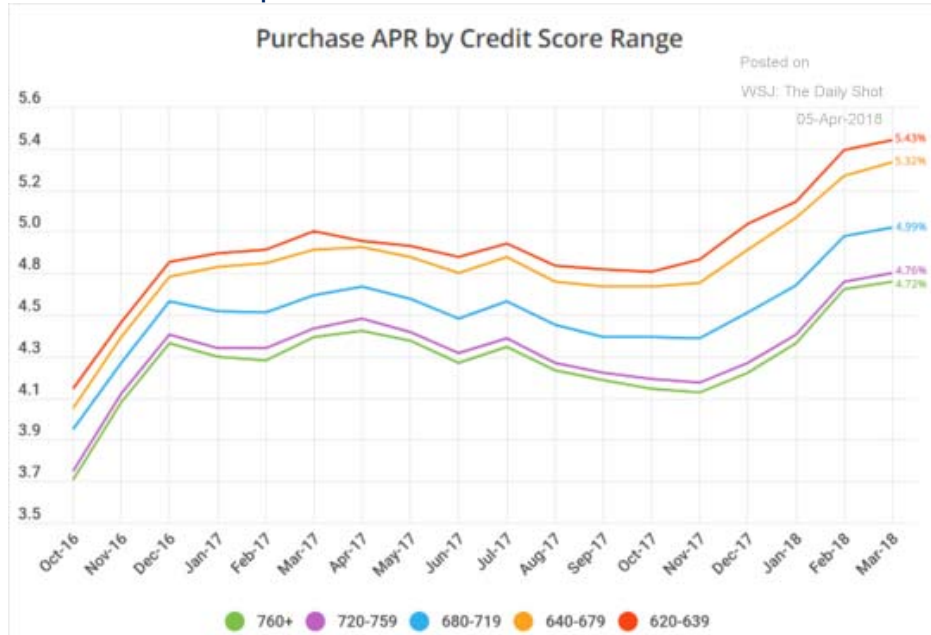
All FICO Scores are up about 40 points

Credit Score at Mortgage Origination



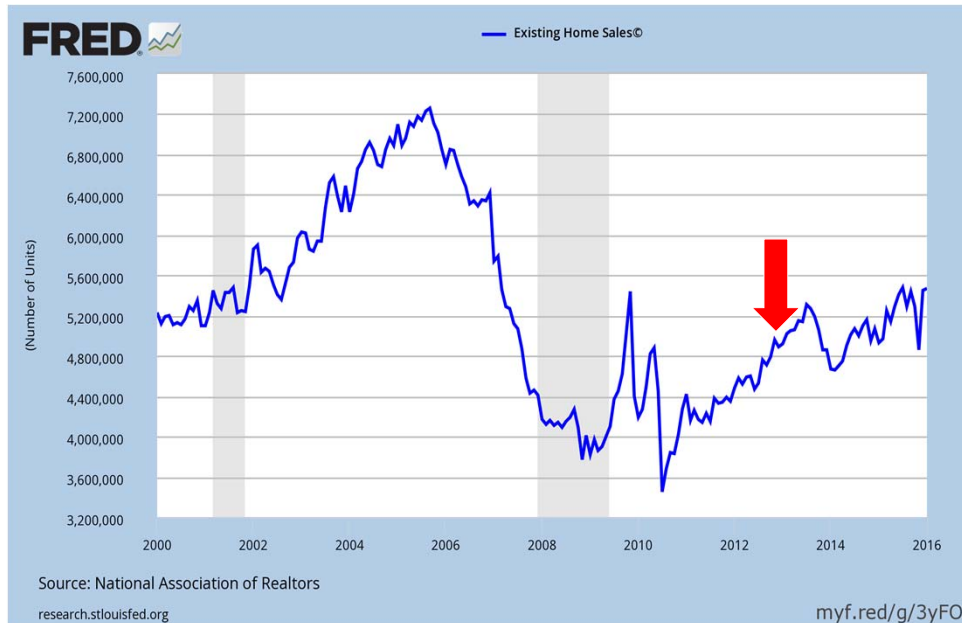
Credit is Available, but is FICO Dependent

FICO scores are more important than ever

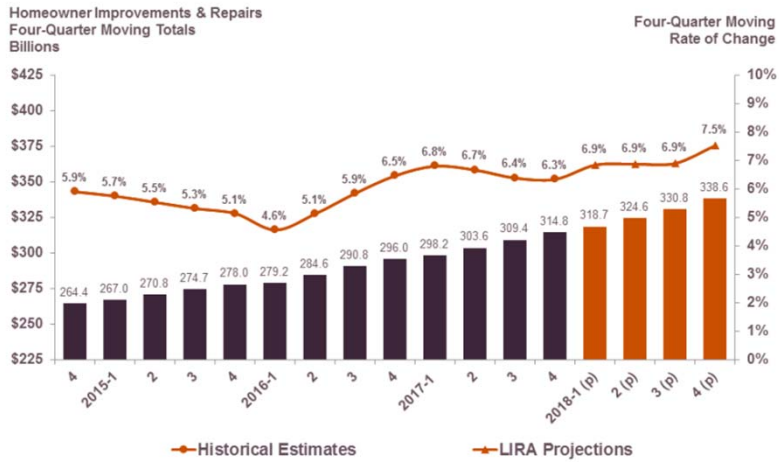


Existing Home Sales

1st-time buyers remain largely MIA. Distressed sales are just 6% of total. Where is inventory?
TRID was the reason for the 14% November decline.



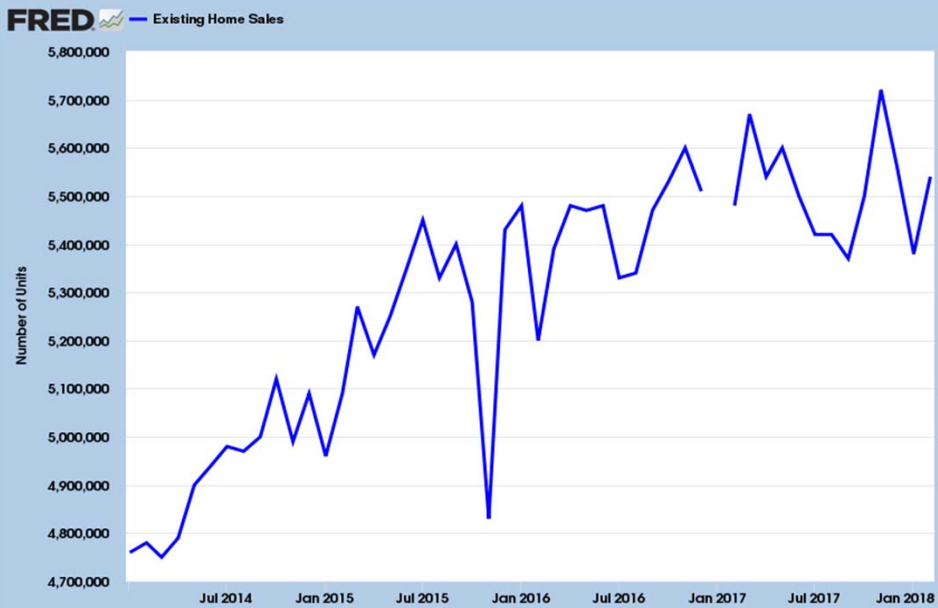
Leading Indicator of Remodeling Activity – Fourth Quarter 2017



Notes: The former LIRA modeled homeowner improvement activity only, while the re-benchmarked LIRA models home improvement and repair activity. Historical estimates are produced using the LIRA model until American Housing Survey data become available. Source: Joint Center for Housing Studies.

Recent Existing Home Sales

Solid and steady improvement until late 2016. Since then, largely flat.

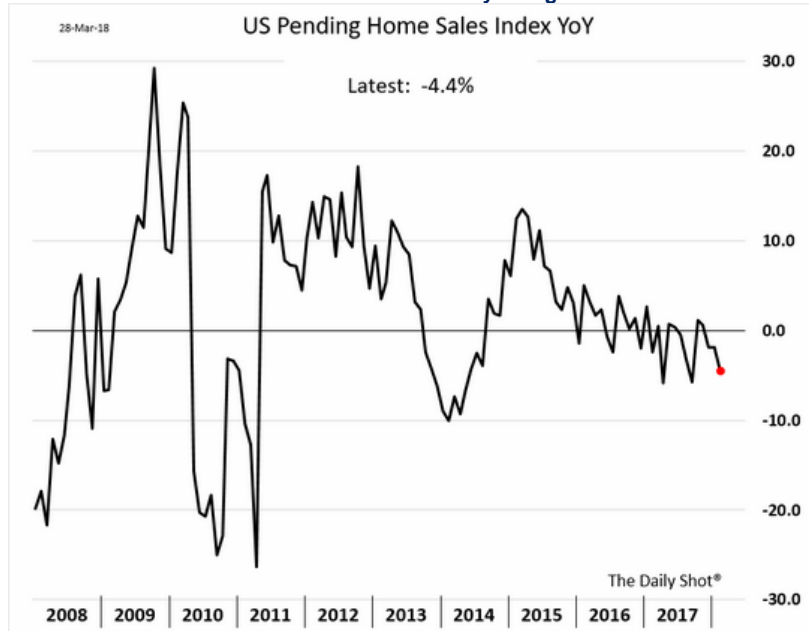


Source: National Association of Realtors

myt.red/g/jbtt

Pending Home Sales are Slumping

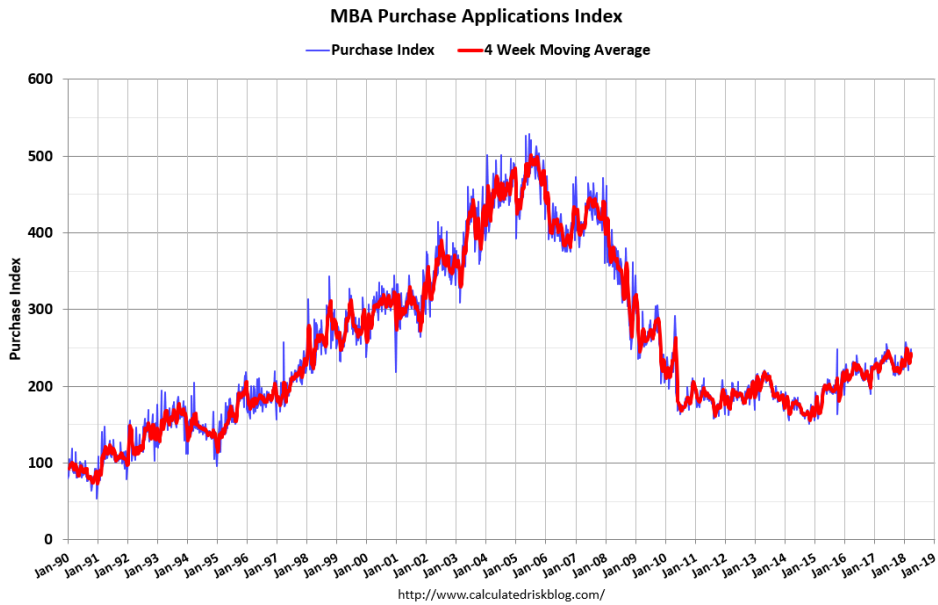
Low inventories are finally being felt



MBA Mortgage Purchase Apps Flatten

1st time applications up 5% Y-o-Y, at level of late 1990s!

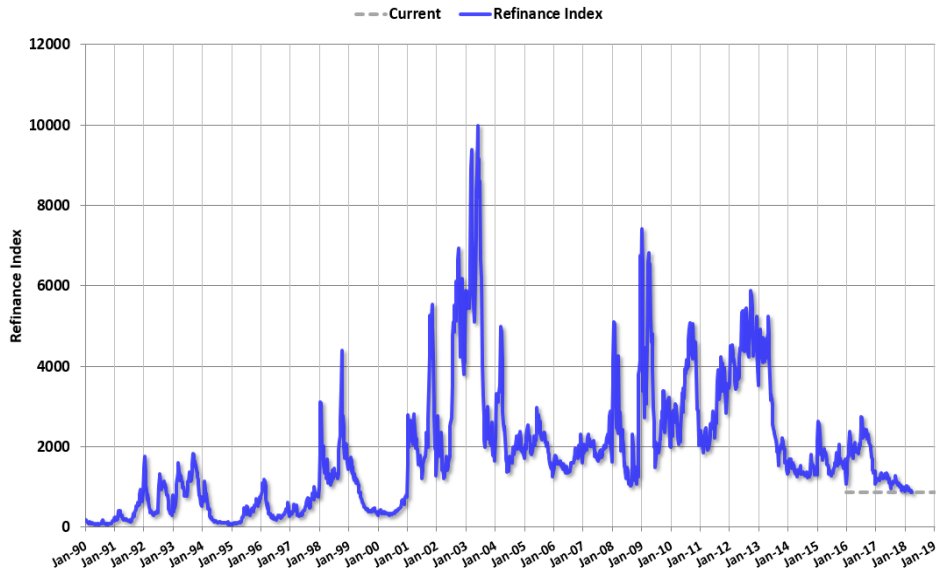
The recent decline has reversed. 2018 volume looks to be slightly better than 2017



Refinance Activity Keeps Steadily Declining

2018 refi activity falls to \$425 billion from \$600. Share falls from 35% to 25%.

MBA Refinance Applications Index

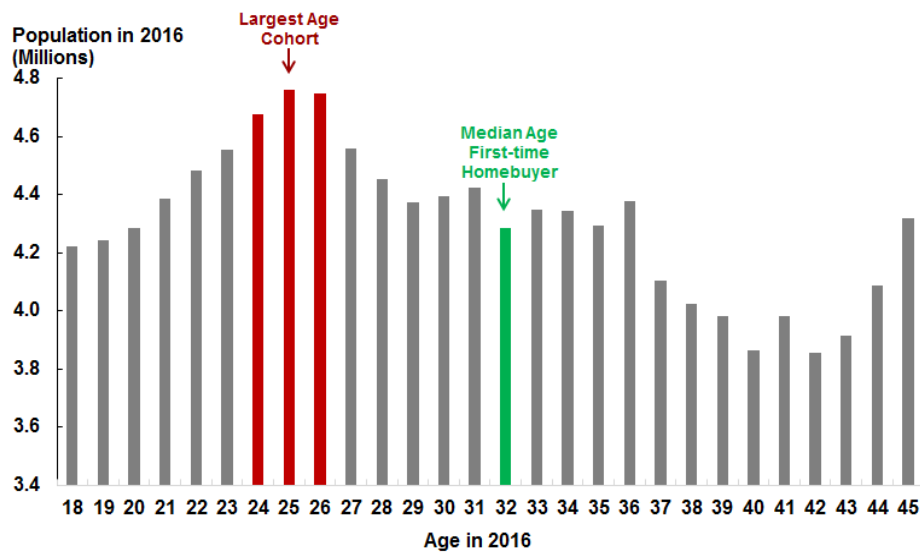


<http://www.calculatedriskblog.com/>

Demographics Will Start to Really Help

Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

Figure 1: Young Adults Make Up the Largest Age Cohort



Source: U.S. Census Bureau, Population as of July 1, 2016, NAR 2016 Profile of Home Buyers and Sellers ©2017 CoreLogic, Inc. All rights reserved

Demographics Will Start to Really Help Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

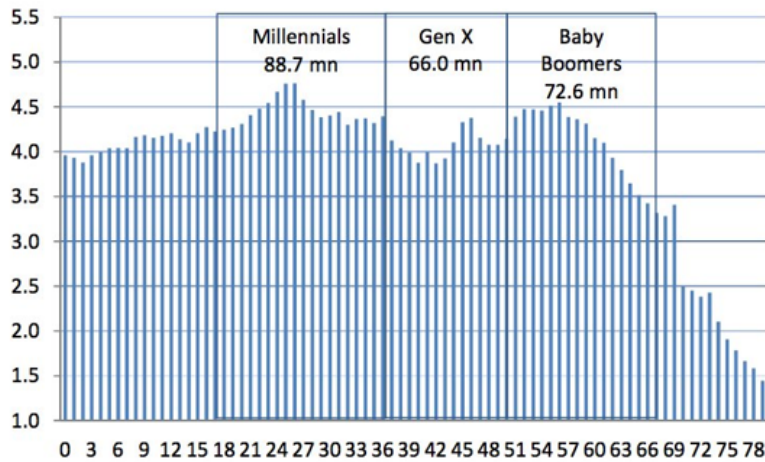
Exhibit 8: Millennials (roughly 18-34) remain the largest generation in the US and approach household formation years

Size of cohorts by generation 2015 population (in millions)

Posted on

WSJ: The Daily Shot

14-Jun-2017

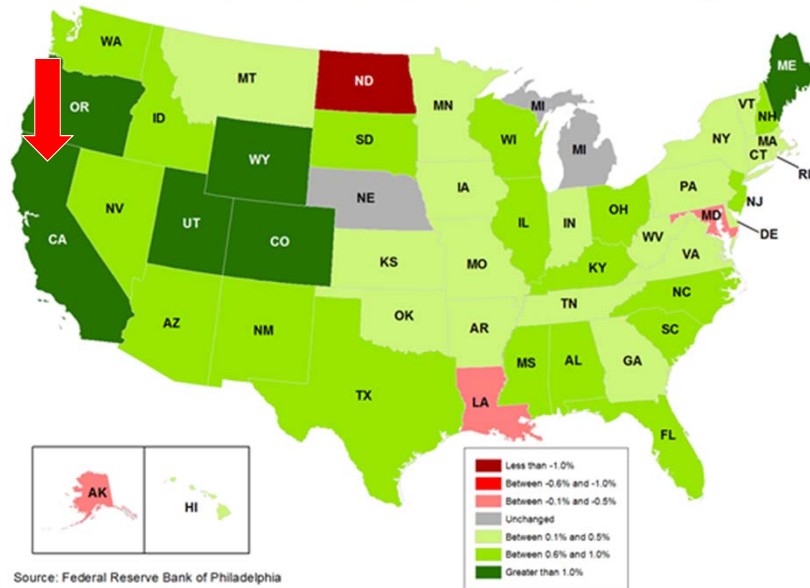


Source: Euromonitor, Goldman Sachs Global Investment Research

What About Things Here?

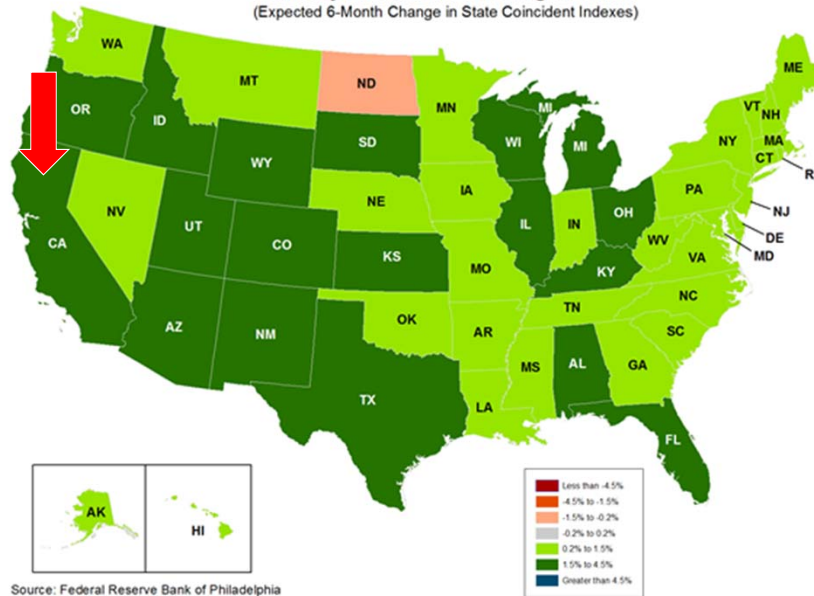
Things Are Good Everywhere

January 2018 State Coincident Indexes: Three-Month Change



The Future Looks a Bit Better Than the Present

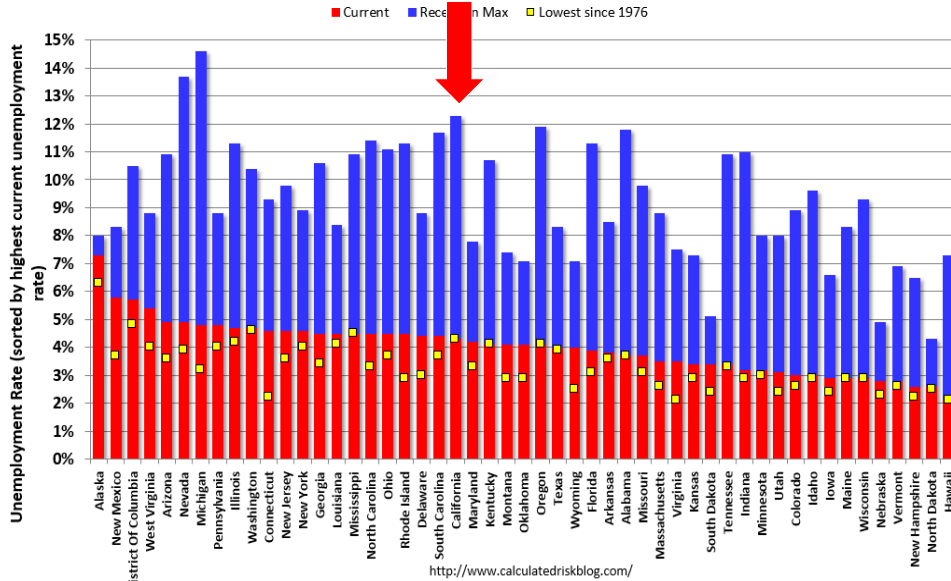
January 2018 State Leading Indexes
(Expected 6-Month Change in State Coincident Indexes)



State Unemployment Rates

Only three states & DC have rates that are above 5%

State Unemployment Rate: Current Rate and Max for 2007 Recession



ANY QUESTIONS?

Elliot F. Eisenberg, Ph.D.

Cell: 202.306.2731

elliott@graphsandlaughs.net

www.econ70.com

Do you want to get my daily 70 word economics email?
Please give me your business card or text "bowtie" to 22828

Thank YOU all very very much!

@ECON70

