

Welcome



The Bowtie Economist

Elliot Eisenberg, PhD. is an internationally acclaimed economist and public speaker specializing in making the arcana and minutia of economics fun, relevant and educational.

ECONOMICS 20/20: GROWING BUT SLOWING!

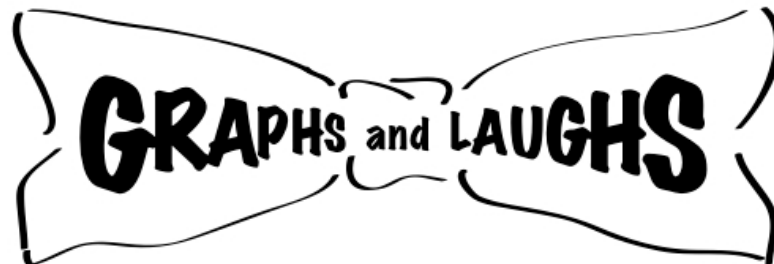
Presented by:

Elliot F. Eisenberg, Ph.D.

President: GraphsandLaughs, LLC

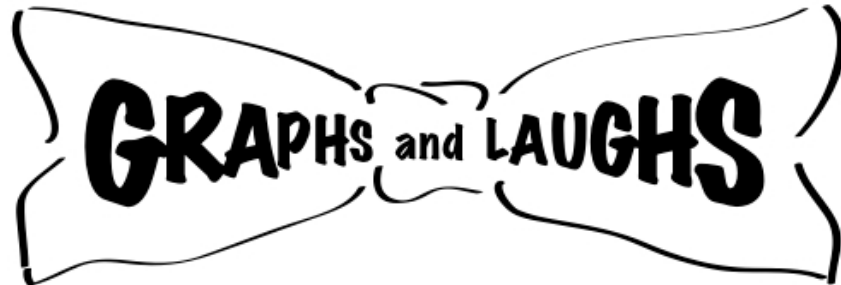
January 23, 2020

Sacramento, CA



The Economy is Slowing

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





The Stock Market Is Doing Relatively Well

Despite numerous stressors

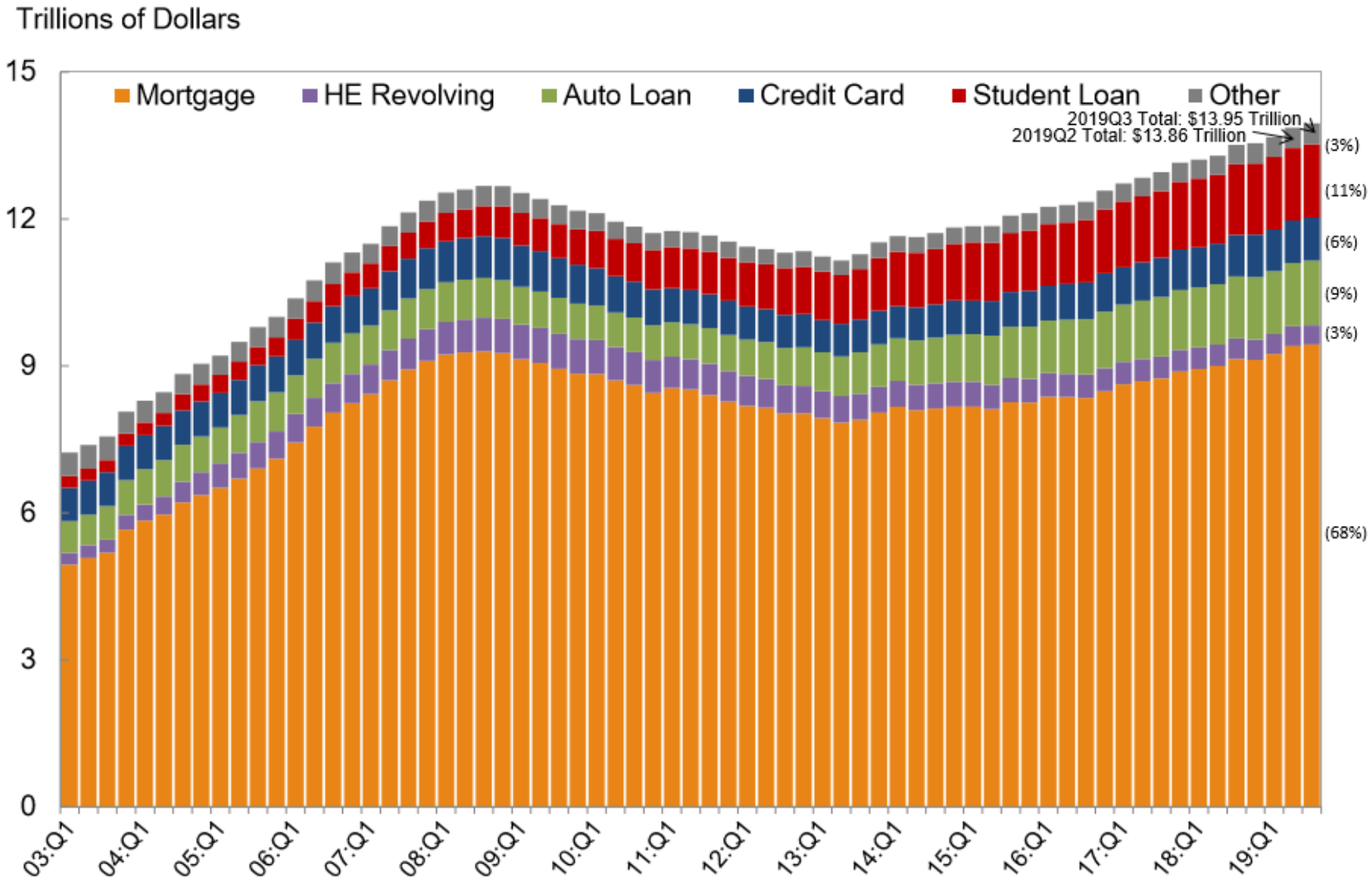




Households Are Re-Leveraging

Mortgage debt remains slightly below the 2008 peak. Total debt is 10% higher

Total Debt Balance and its Composition

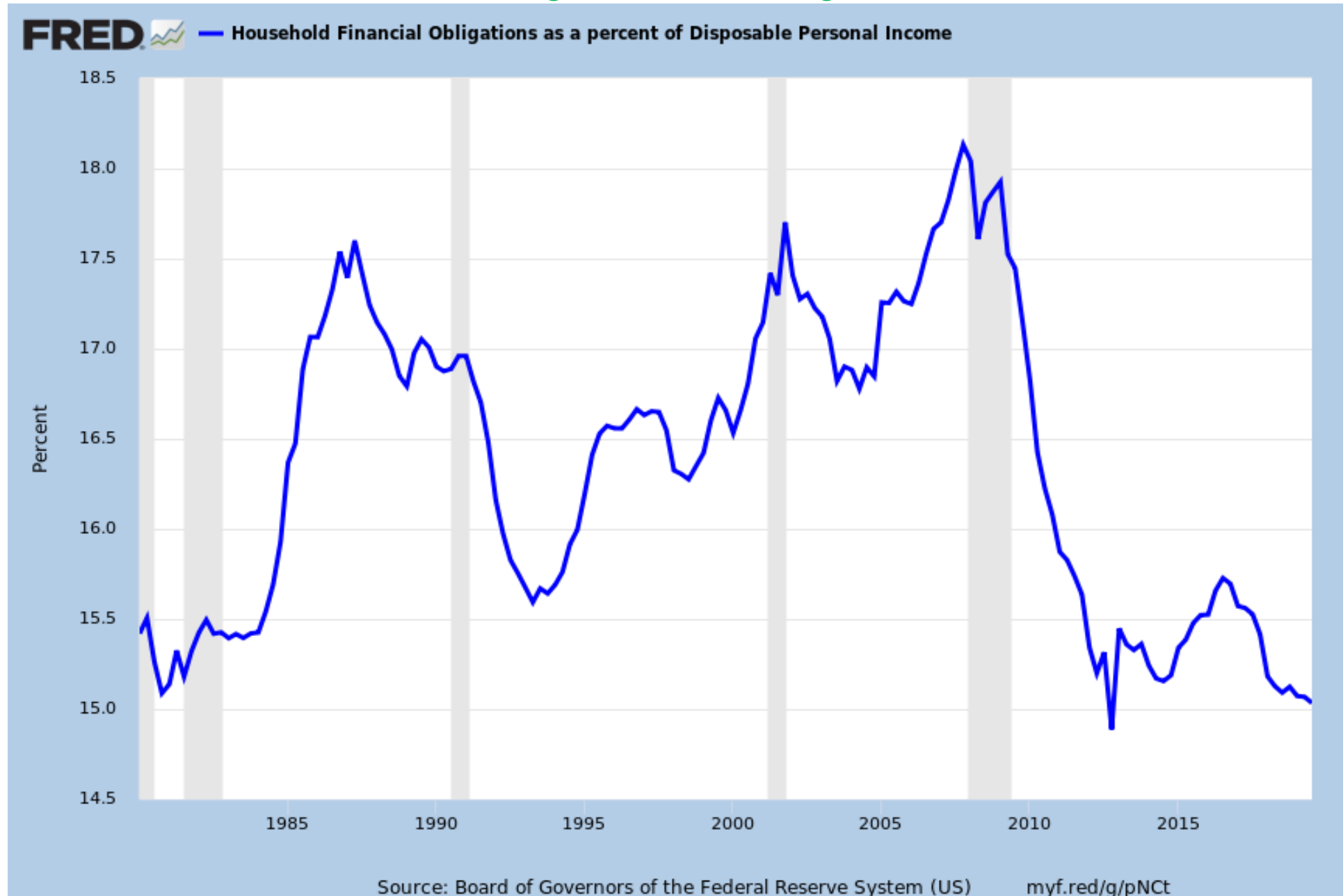


Source: New York Fed Consumer Credit Panel/Equifax



Households Balance Sheets Look Pretty Good

Less high interest revolving debt





Bloomberg Comfort Index is Near a Peak

Index is near a 20-year high!



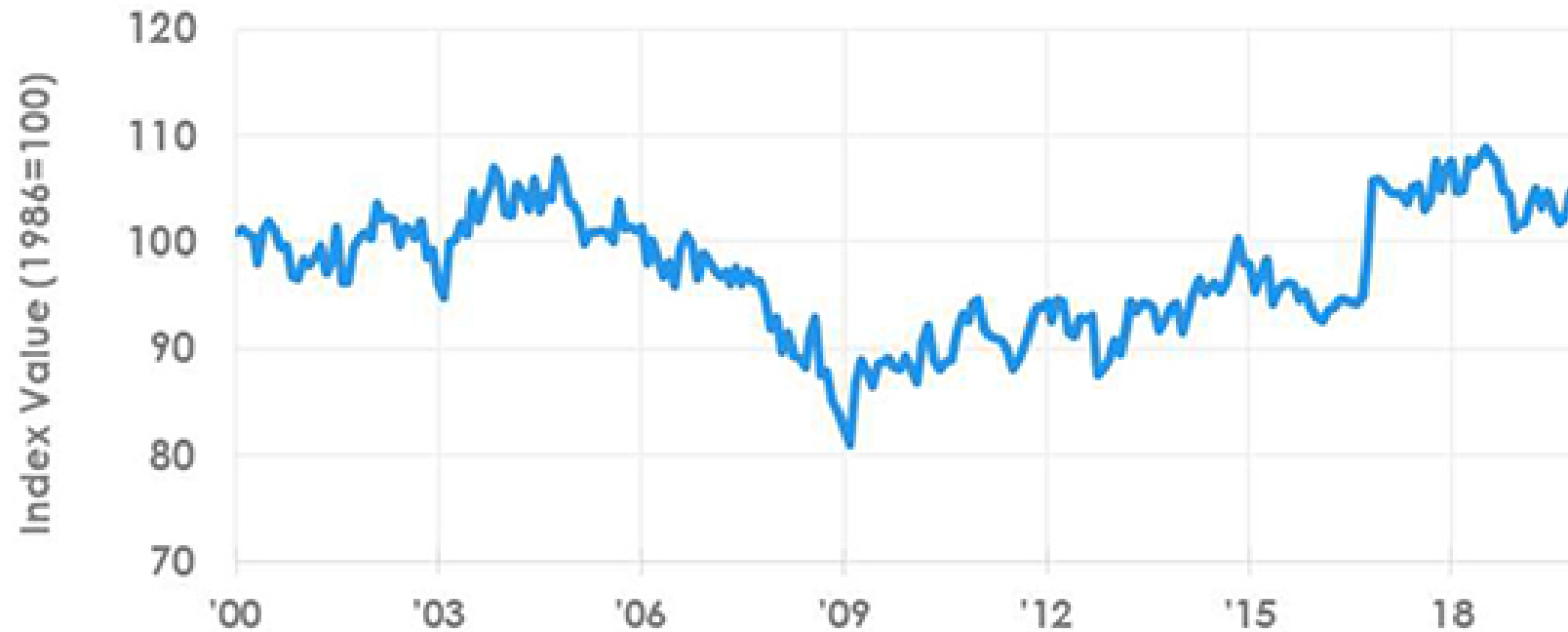


Small Business Confidence Remains Strong

Decline is reversing and it remains above long-term average of 98

Small Business Optimism Index at 102.7

Based on 10 survey indicators, seasonally adjusted, Jan. '00 – Dec. '19



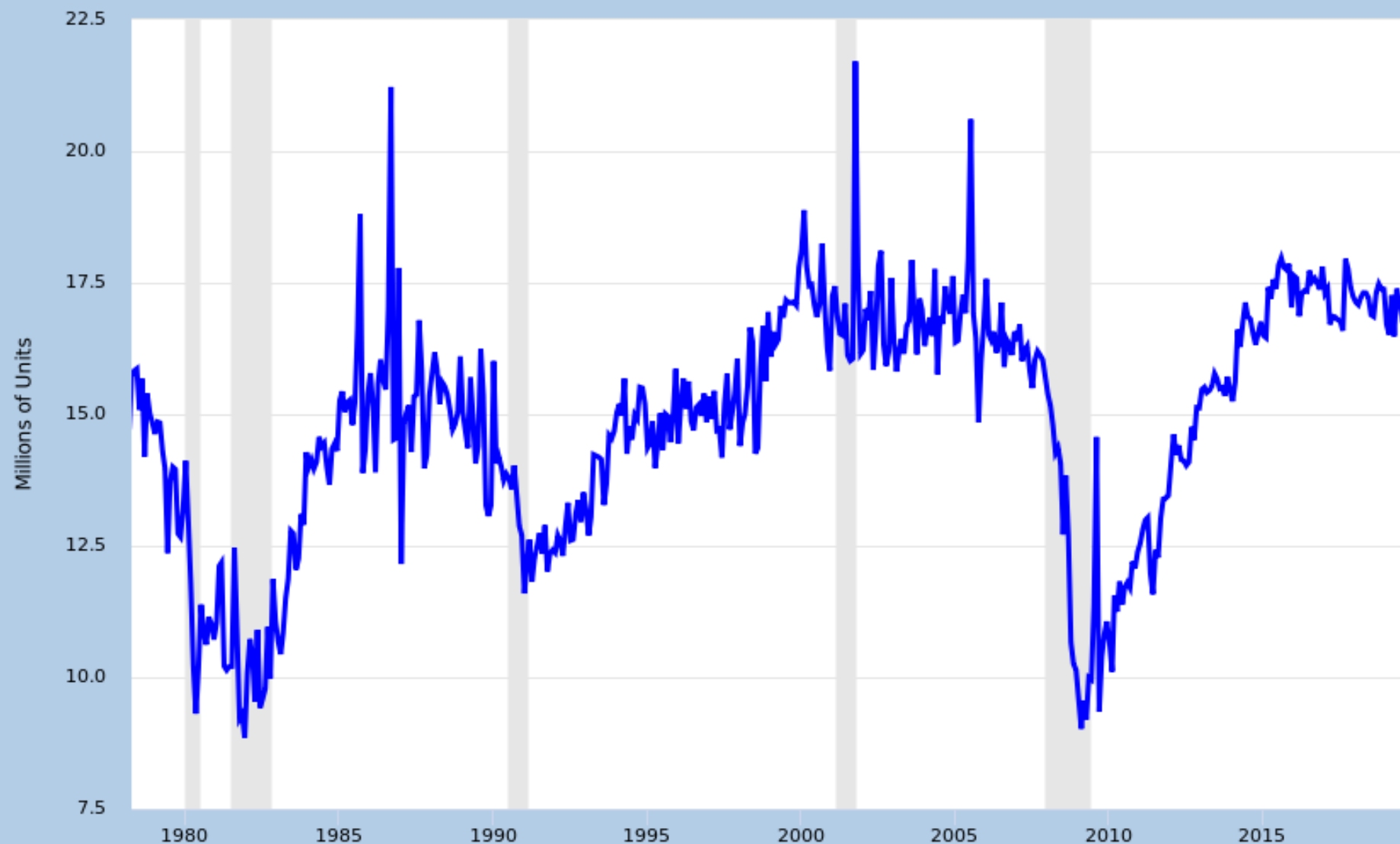


US Light Vehicle Sales Slow Slightly

First year since 2014 that 17 million units were not sold

FRED 

— Light Weight Vehicle Sales: Autos and Light Trucks



Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Economic Analysis

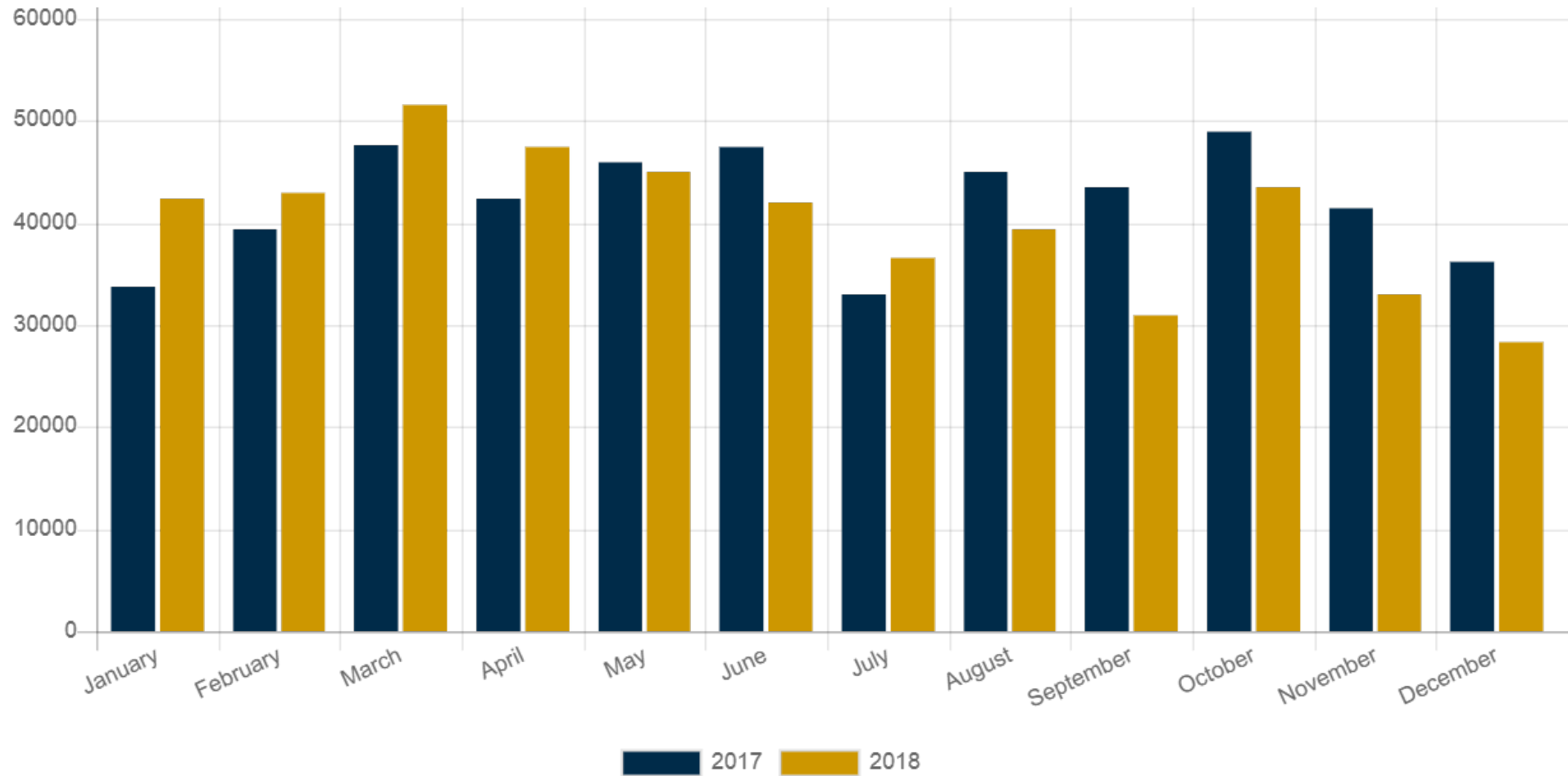
myf.red/g/pWvp



Let's Buy an RV!

Sales are now higher than ever

Total Shipments Monthly vs. Last Year

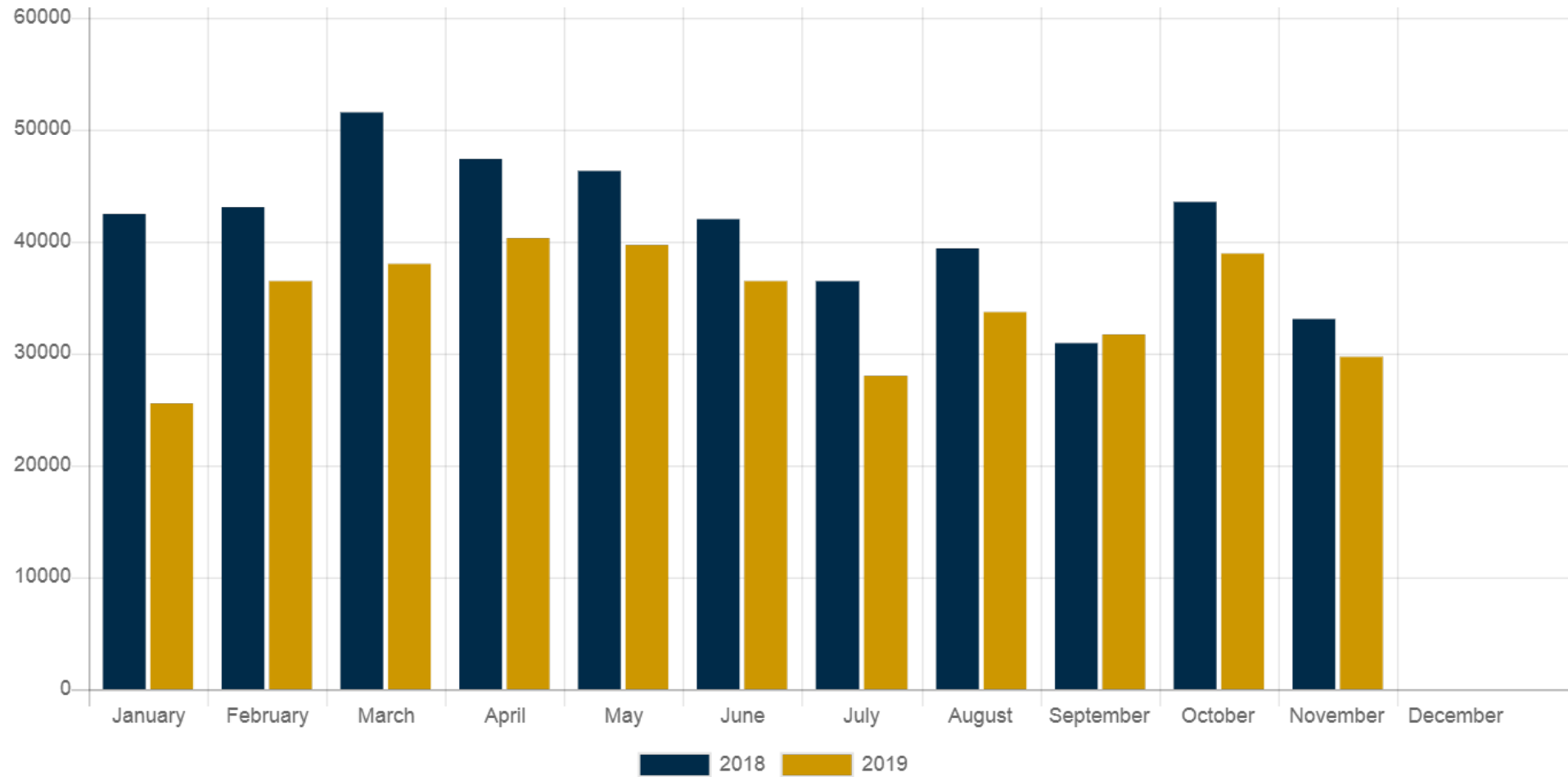




Let's Buy an RV, OK Maybe Not!

Sales keep slipping

Total Shipments Monthly vs. Last Year





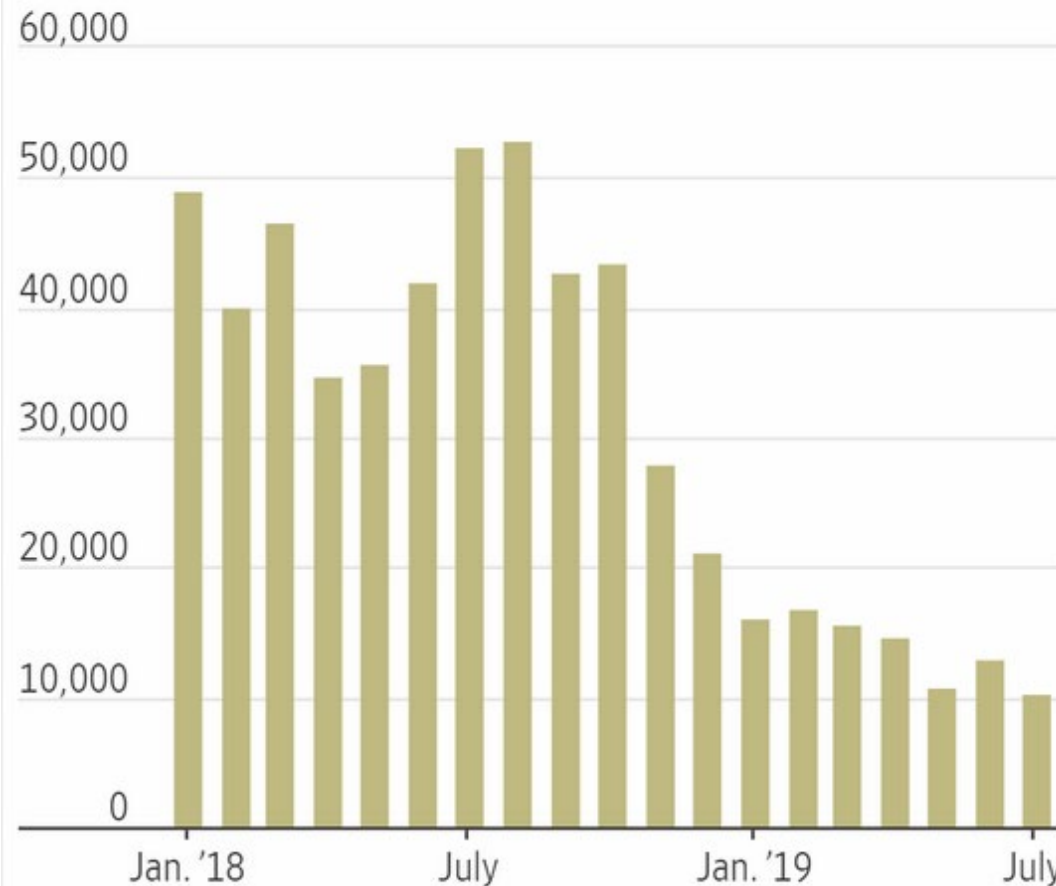
US Heavy Truck Sales Collapse

Gross Vehicle Weight > 7 tons. Down due to huge purchases last year

Orders are falling for new trucks amid a weaker freight industry.

Posted on
WSJ: The Daily Shot
03-Sep-2019
@SoberLook

Net orders of heavy-duty trucks



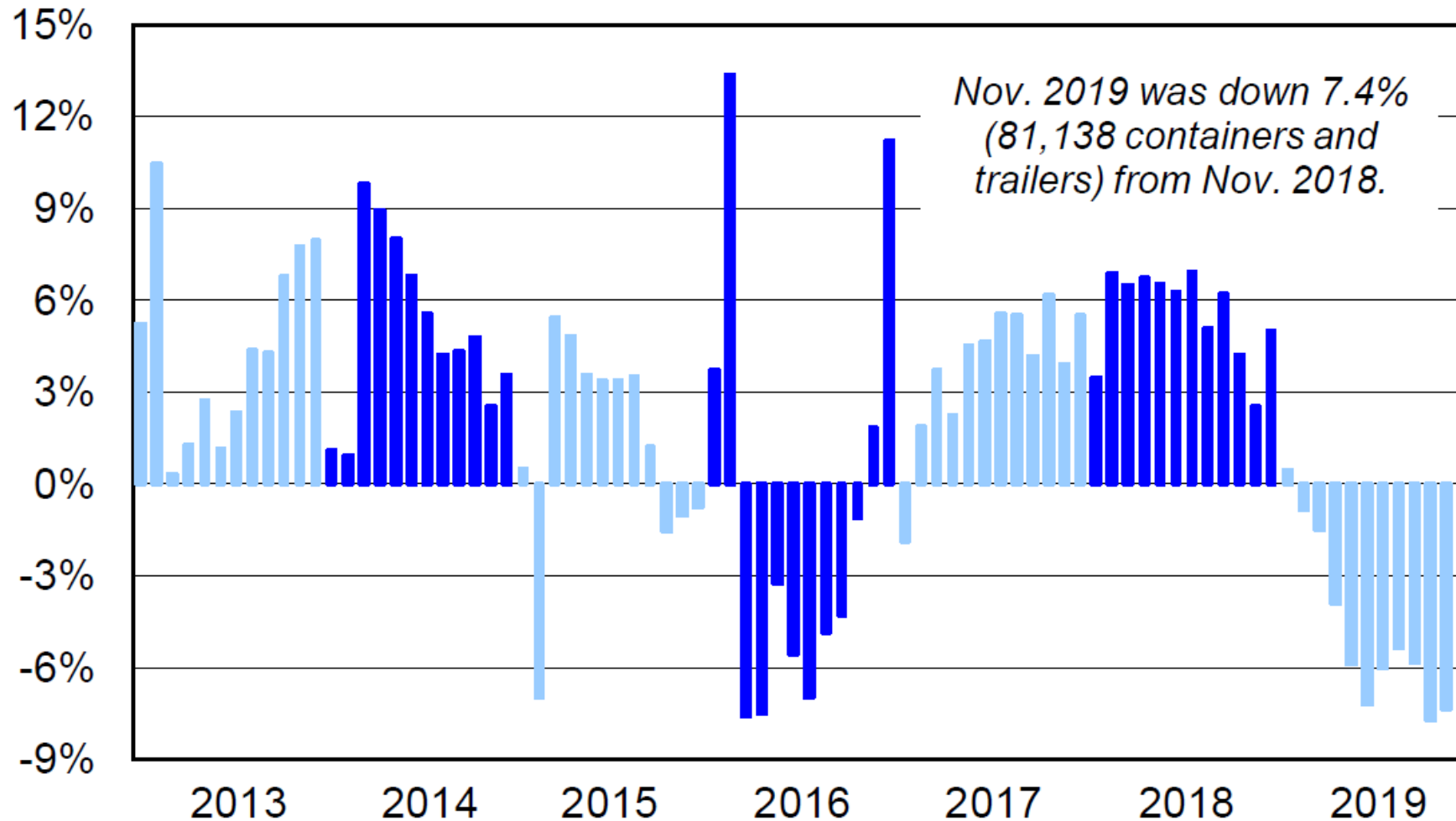
Source: ACT Research



Container Traffic Slows Slightly

2018 was the best year ever. 2019 looks weaker due to less exports, flooding, trade disputes

% Change in U.S. Rail Intermodal Units From Same Month Previous Year: Jan. 2013 - Nov. 2019



Data are based on originations and do not include the U.S. operations of CN, CP and GMXT. Source: AAR Rail Time Indicators

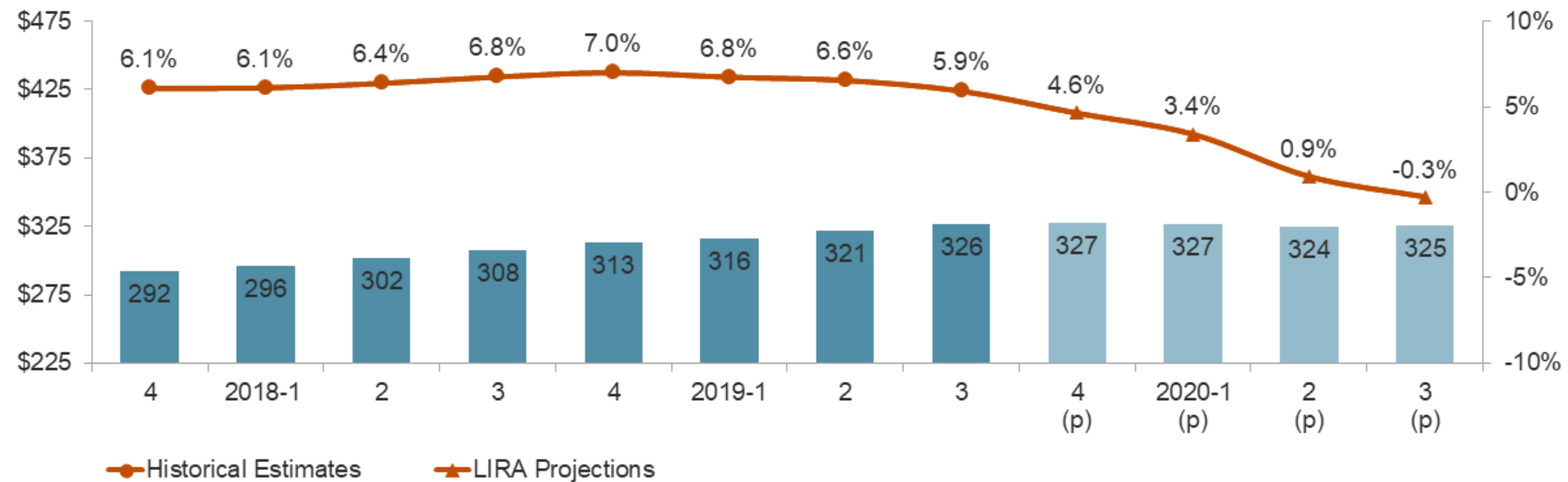


Housing Improvements & Repairs Rise Very Slowly

Homes are aging, rates are higher, home equity growth slows

Leading Indicator of Remodeling Activity – Third Quarter 2019

Homeowner Improvements & Repairs
Four-Quarter Moving Totals
Billions



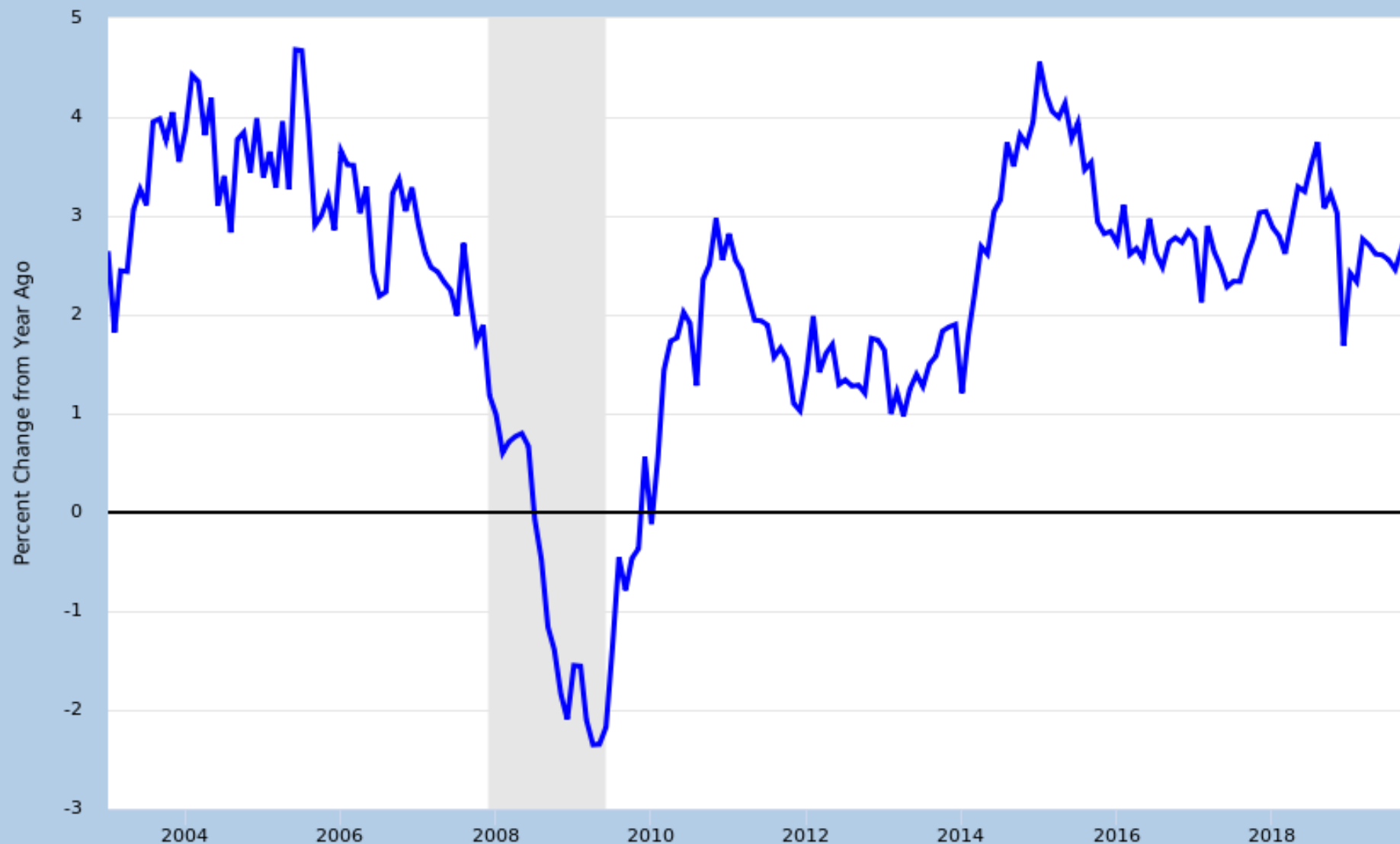
Note: Historical estimates since 2017 are produced using the LIRA model until American Housing Survey benchmark data become available.



Annual Y-o-Y Percent Change in PCE

A very solid growth rate of about 2.5%, but down from the amazing 2018

FRED  — Real Personal Consumption Expenditures



Shaded areas indicate U.S. recessions

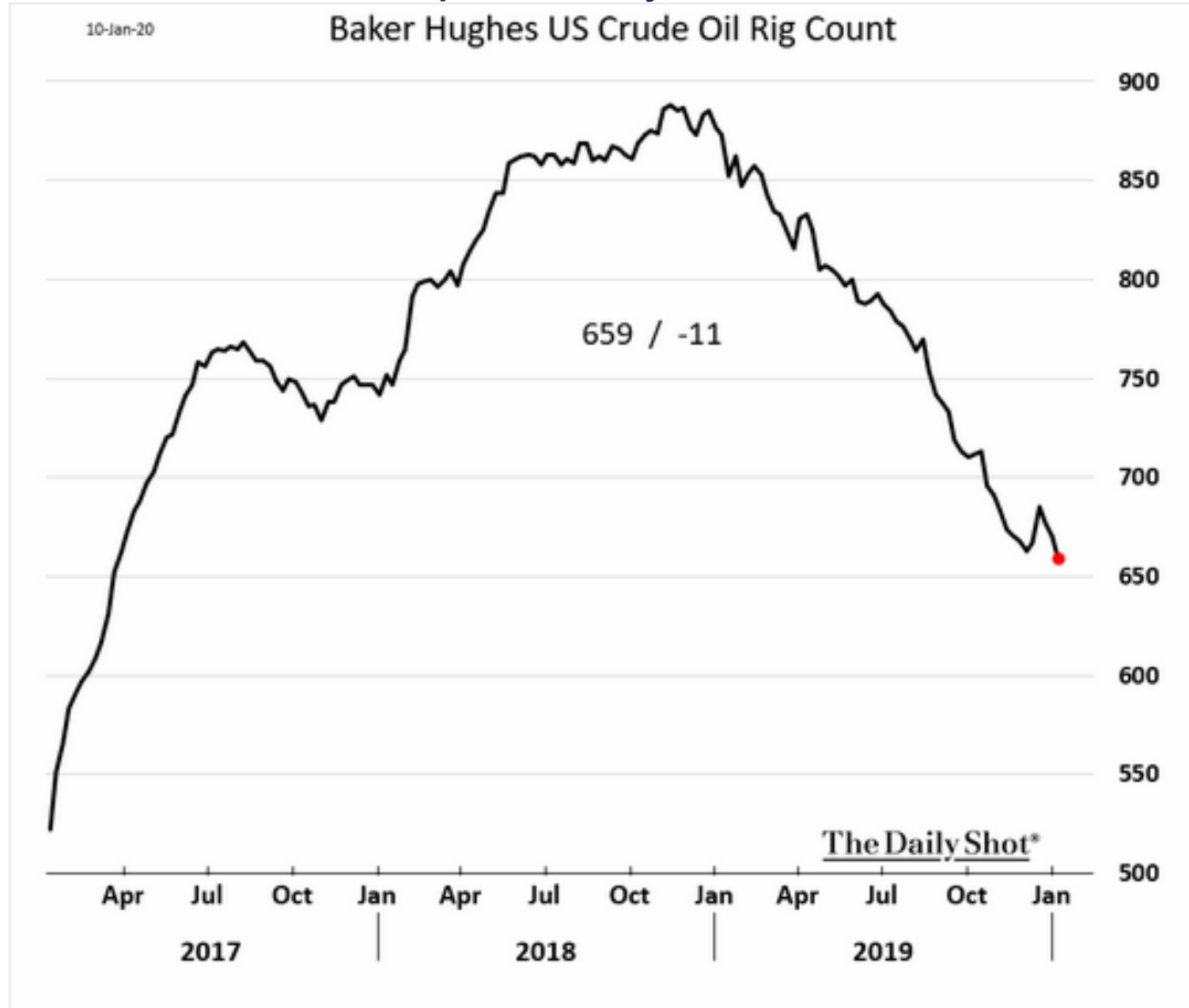
Source: U.S. Bureau of Economic Analysis

myf.red/g/pLDm



US Rig Counts Decline Accelerates

Lower prices are key, no investors

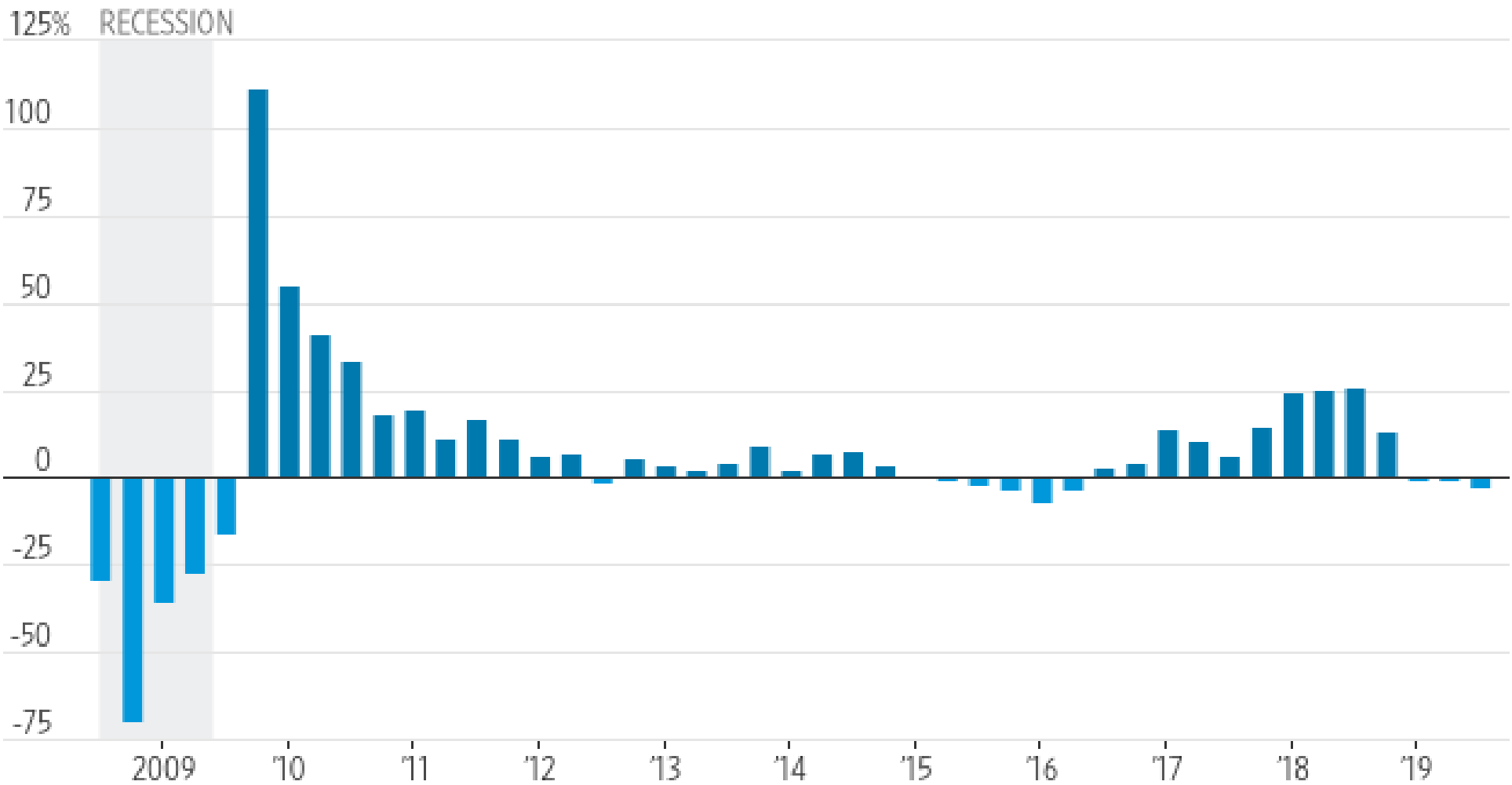




2019 Corporate Profit Growth Look Weak

This will not help stock prices

Change in S&P 500 earnings from year-earlier period



Note: Data for 3Q 2019 are a blend of reported results and estimates.

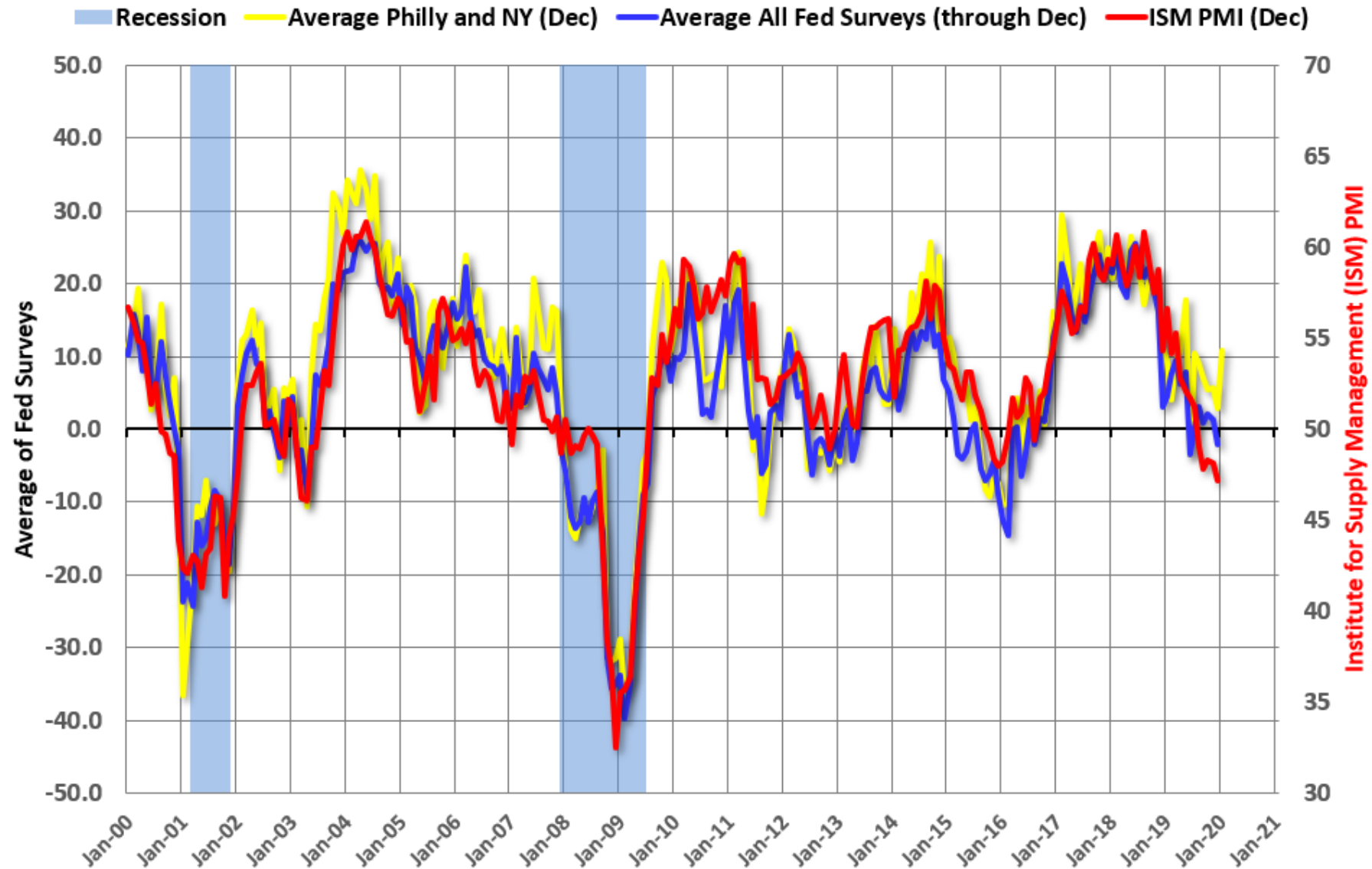
Source: FactSet



ISM Manufacturing Numbers Are Weak

Manufacturing is less important than in decades past

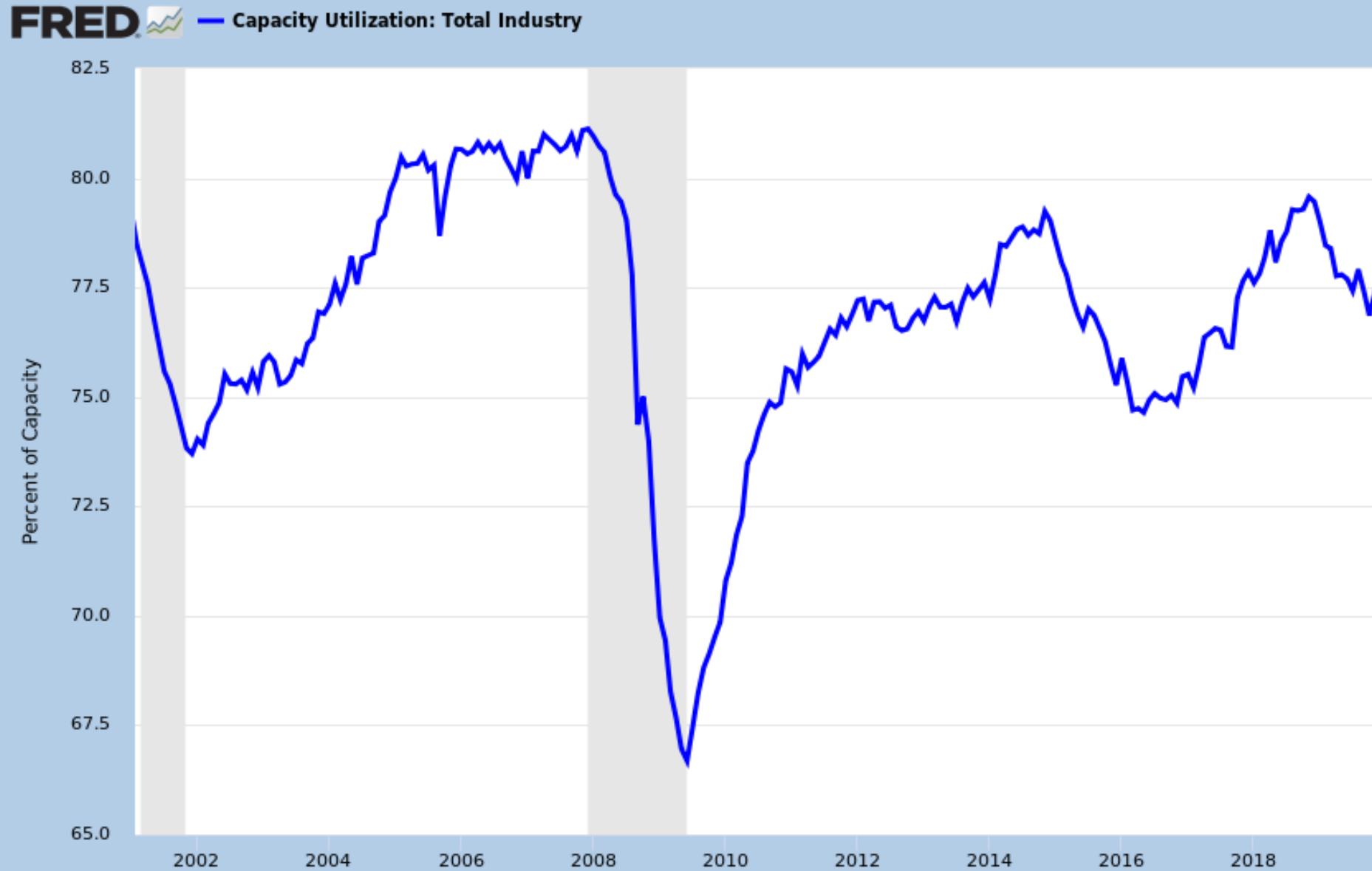
ISM Purchasing Managers' Index (PMI) and Fed Manufacturing Surveys





Factory Utilization Rates are Declining

Combination of slowing global growth, trade wars, weak oil prices and a strong dollar



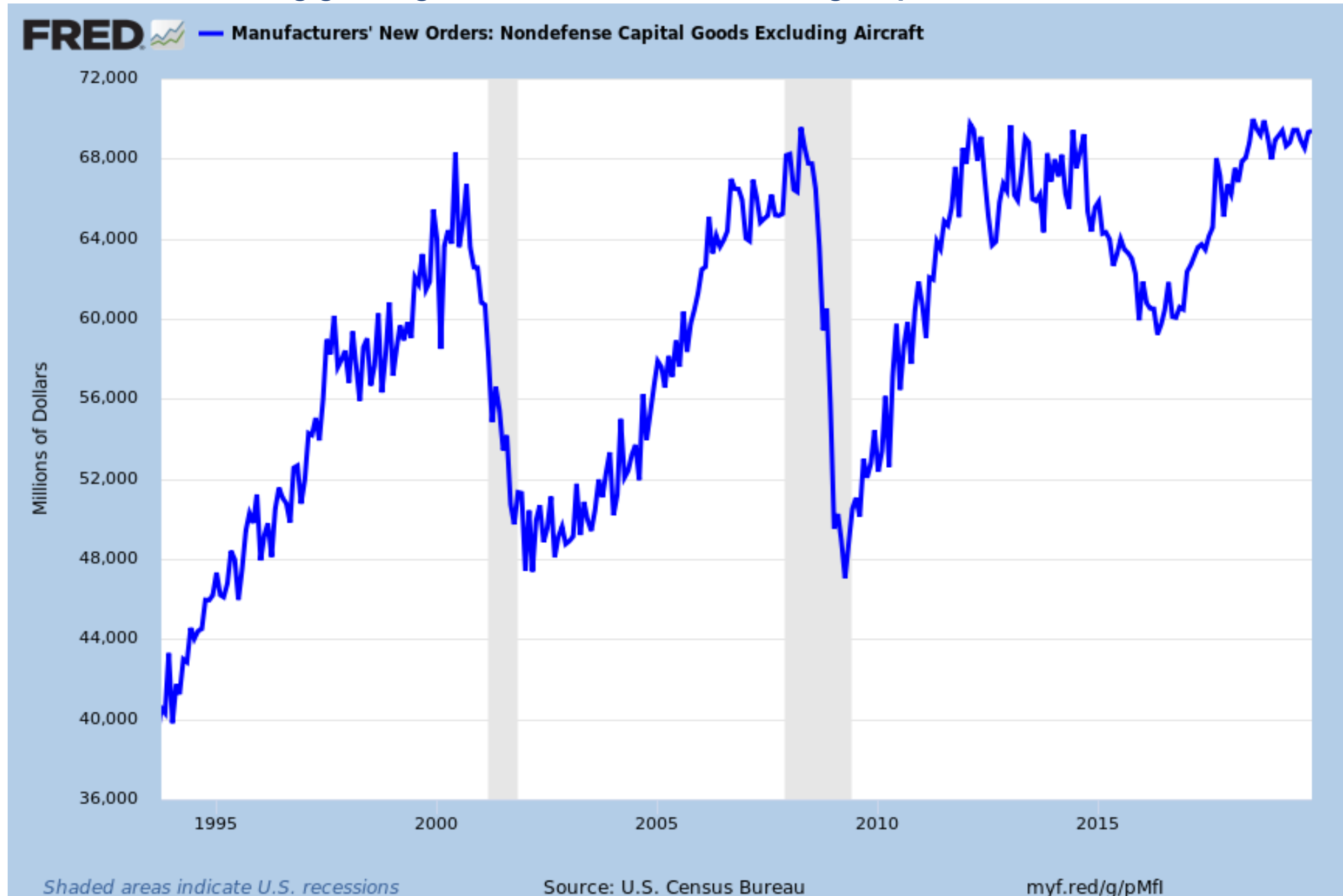
Source: Board of Governors of the Federal Reserve System (US)

myf.red/g/pX4E



Capital Goods Orders are Flat

Slowing global growth, trade concerns, falling oil prices and more...

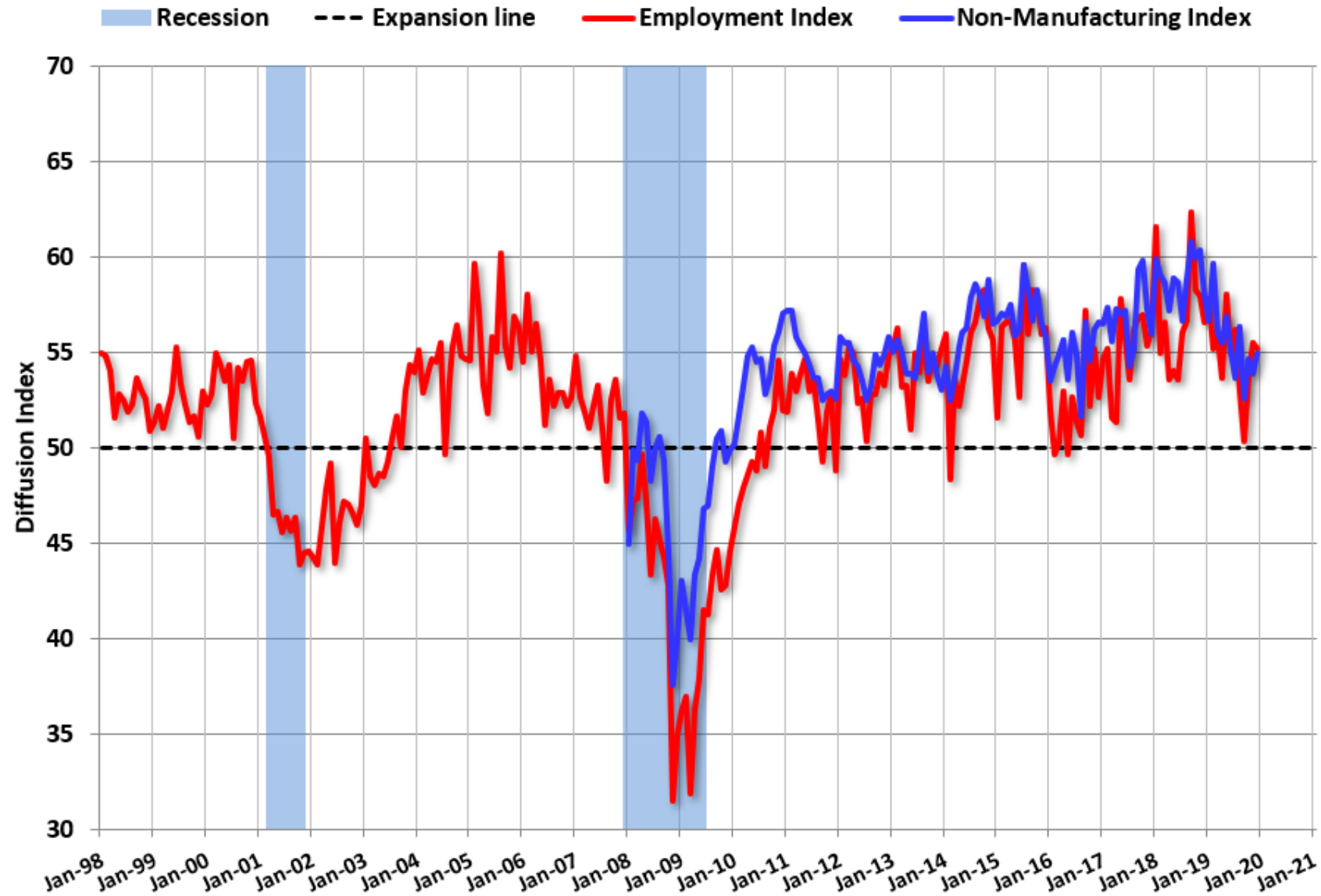




ISM Non-Manufacturing Numbers are OK

Service sector is stable

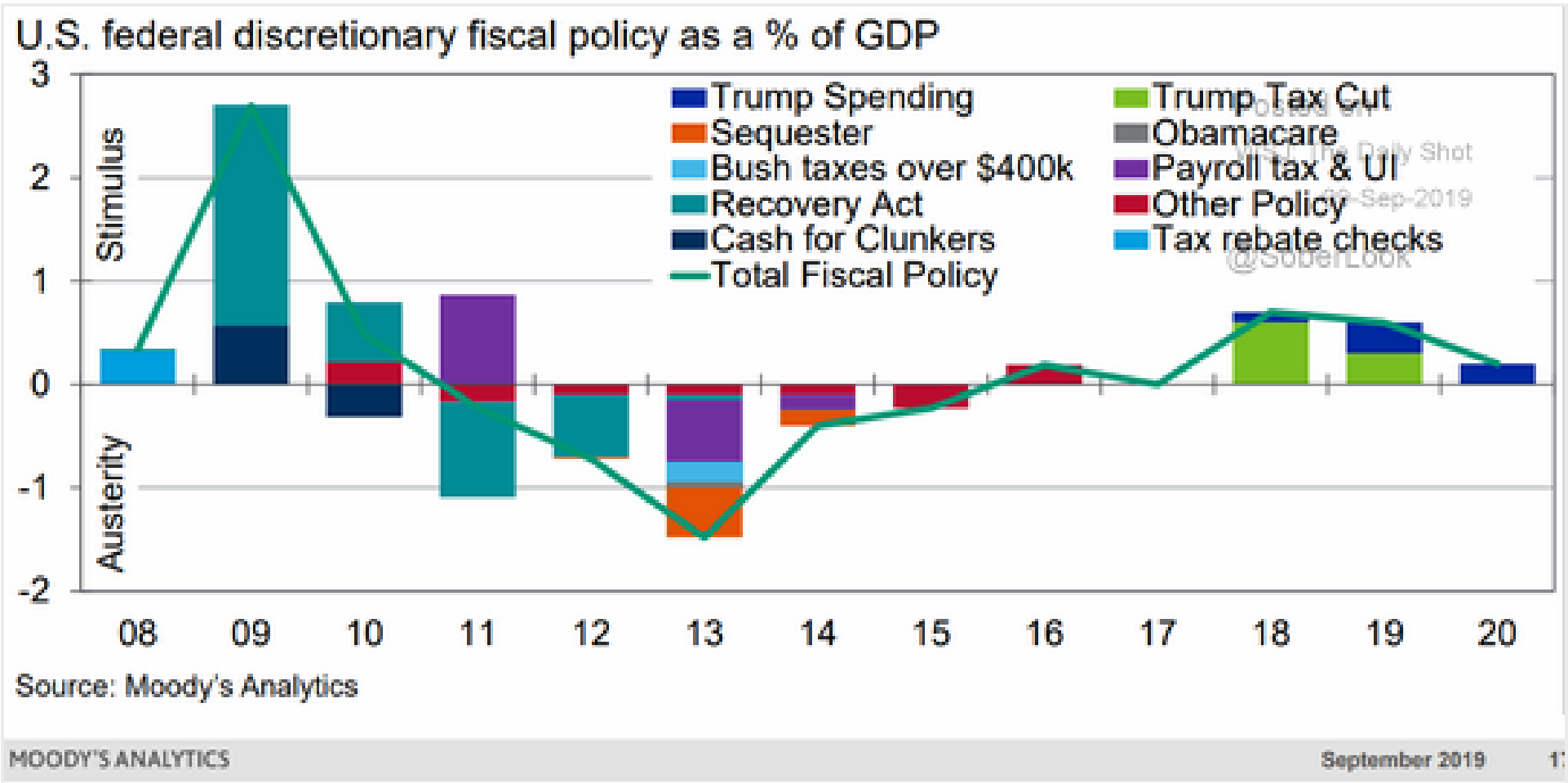
ISM Non-Manufacturing and Employment Diffusion Indexes





Tax Cuts Are Waning

By 2020, policy is contractionary



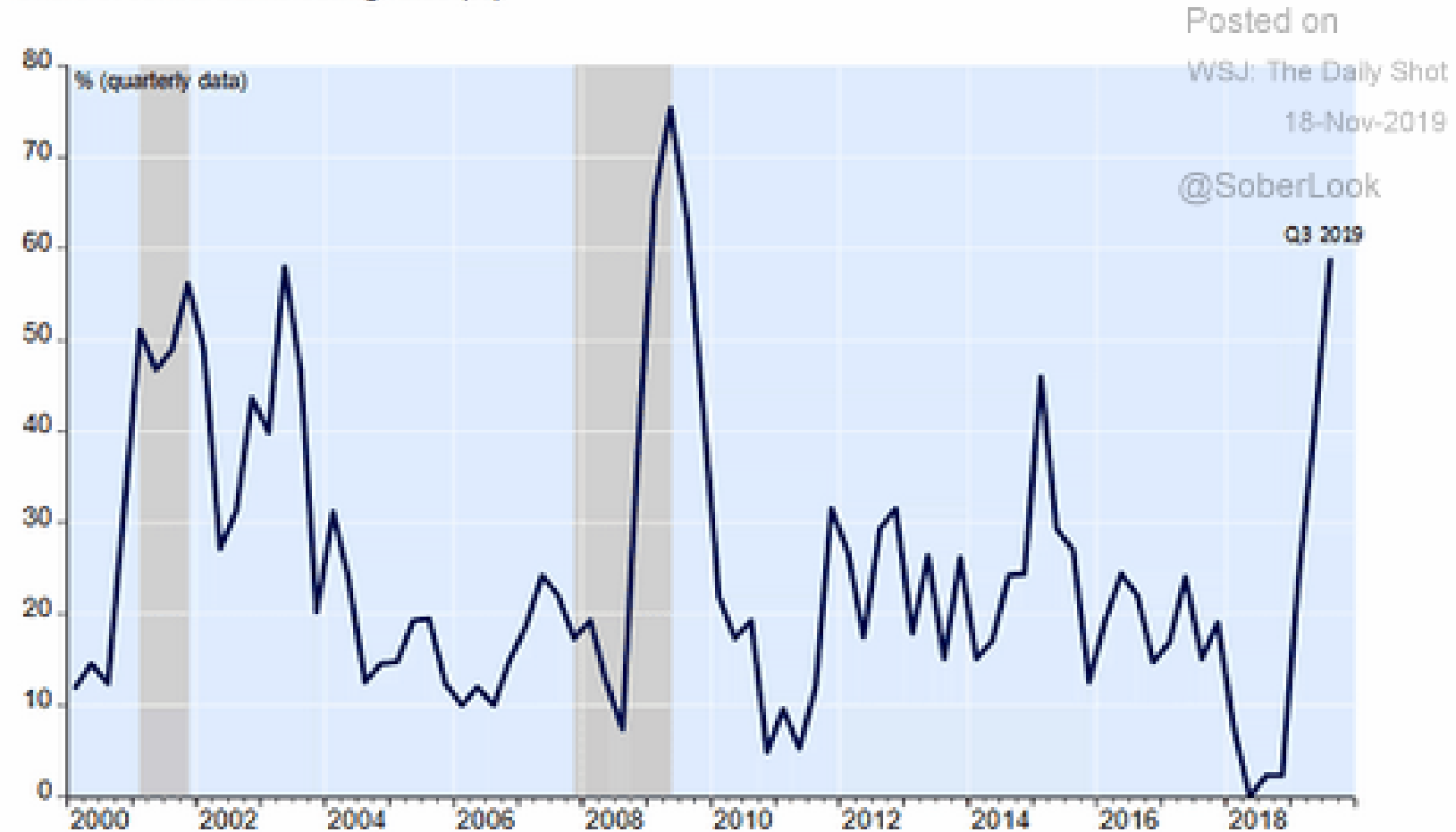


Many Nations are Loosening Monetary Policy

Global growth is slowing, and central banks are easing

World: The most synchronized easing cycle in a decade

Share of central banks cutting rates (%)





\$550 Billion Trade War Hurts US GDP

The impact peak at 0.6% of GDP and then wane

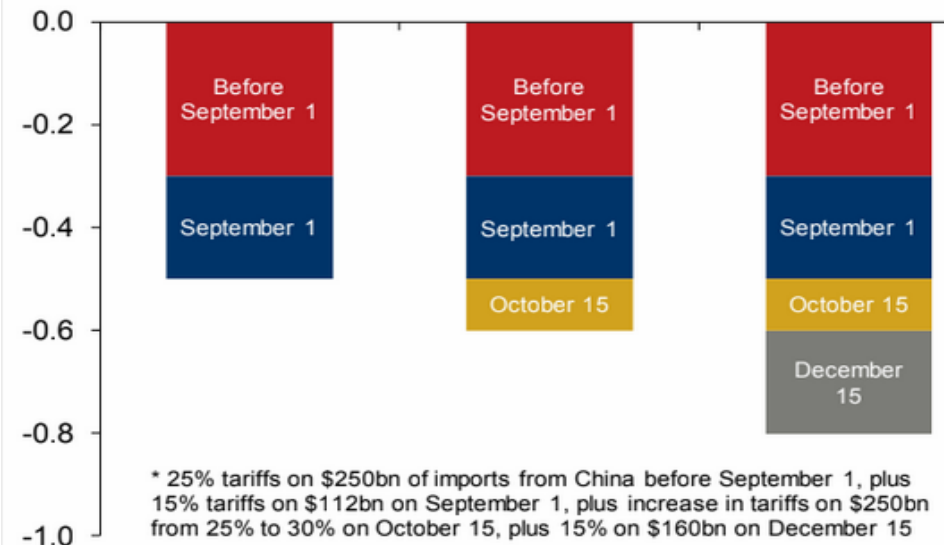
While any de-escalation in the ongoing trade war with China is welcome, today's mini deal would only regain 0.1% of the previously anticipated 0.6% GDP loss.

Given the 0.5% drag from measures enacted so far, this mini-deal doesn't make the outlook rosier – simply less bad.

Posted on
WSJ: The Daily Shot
14-Oct-2019
@SoberLook

US: Real GDP drag from China tariffs*

% GDP in 2020 relative to no tariffs baseline



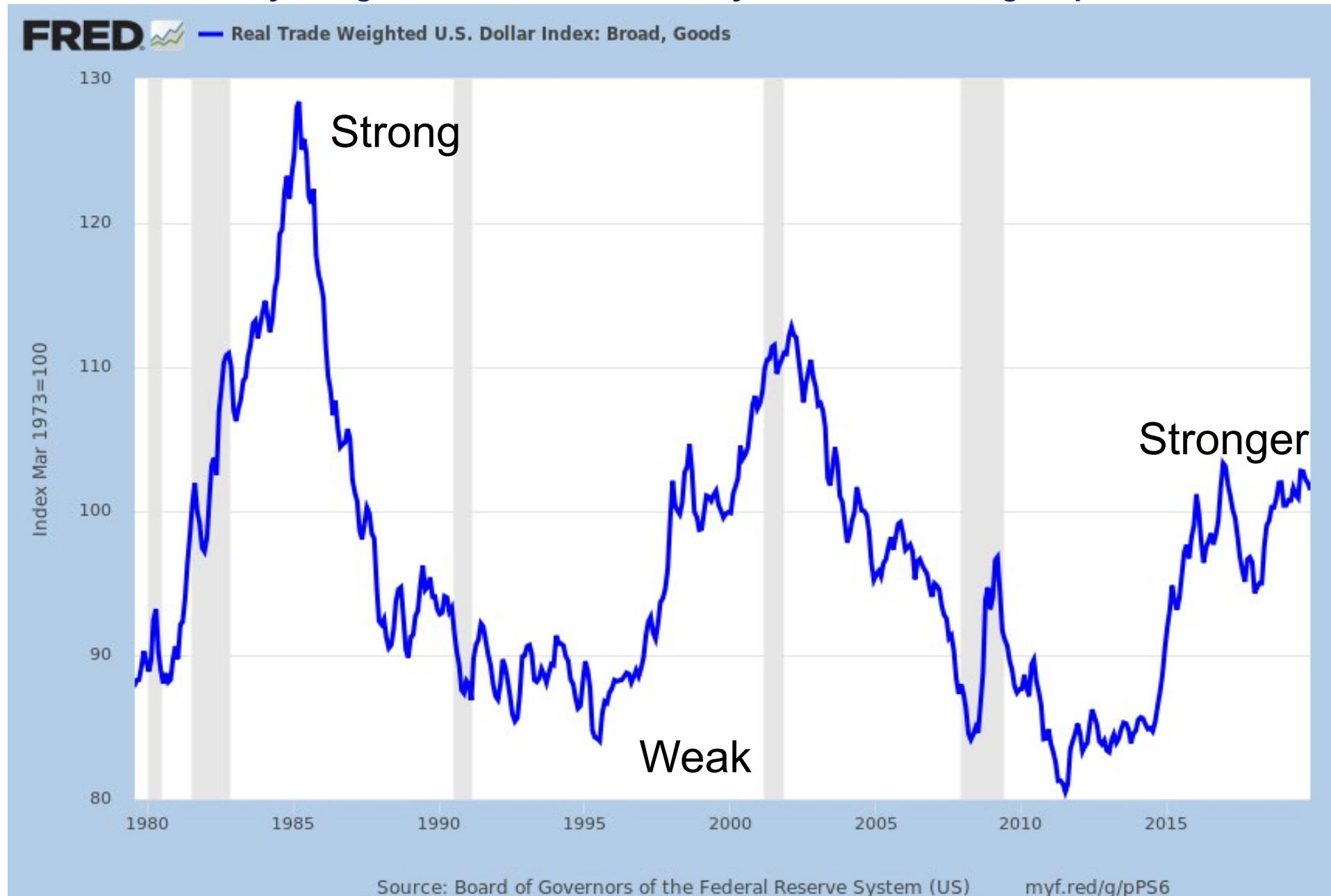
Source : Oxford Economics

Contact: Gregory Daco | gregorydaco@oxfordeconomics.com



The Dollar Is Surprisingly Strong

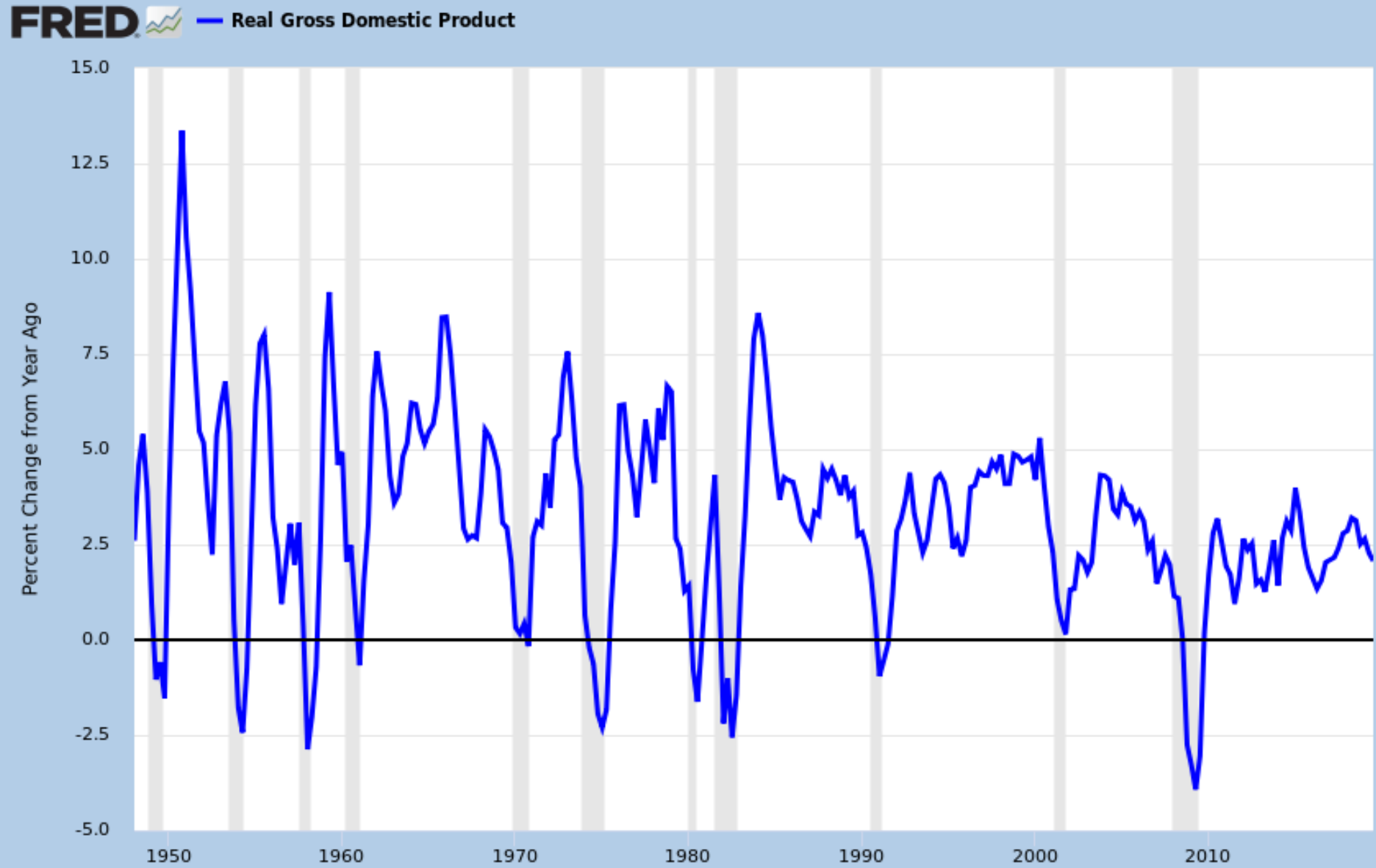
Nearly at highest level since in January 2003. This is a big surprise!





GDP Growth Is Slowing

Impact of the 2017 tax cuts and 2018 spending increases have fully dissipated



Shaded areas indicate U.S. recessions

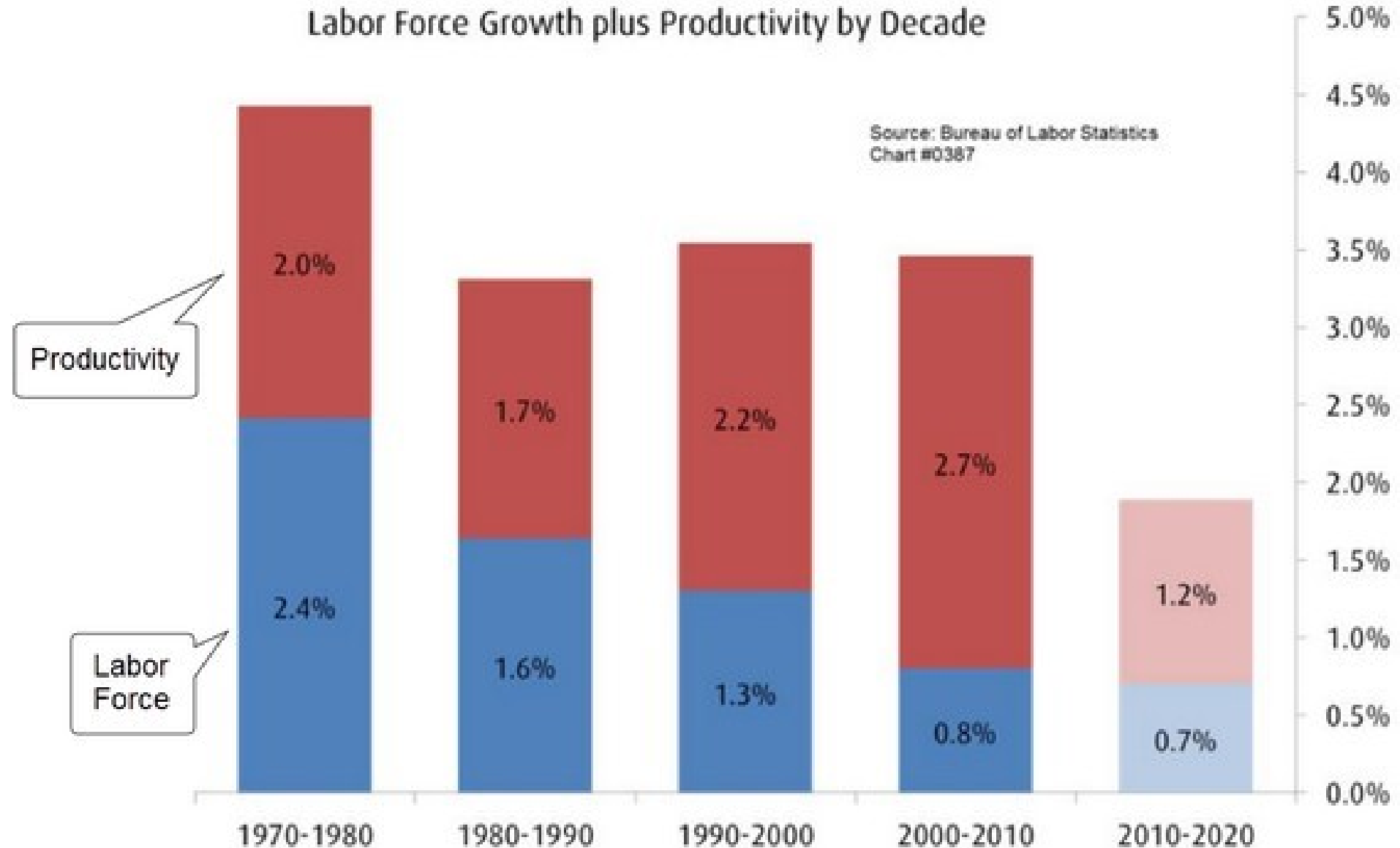
Source: U.S. Bureau of Economic Analysis

myf.red/g/pLDg



GDP Can't Grow Fast!

Very weak population growth and labor productivity growth

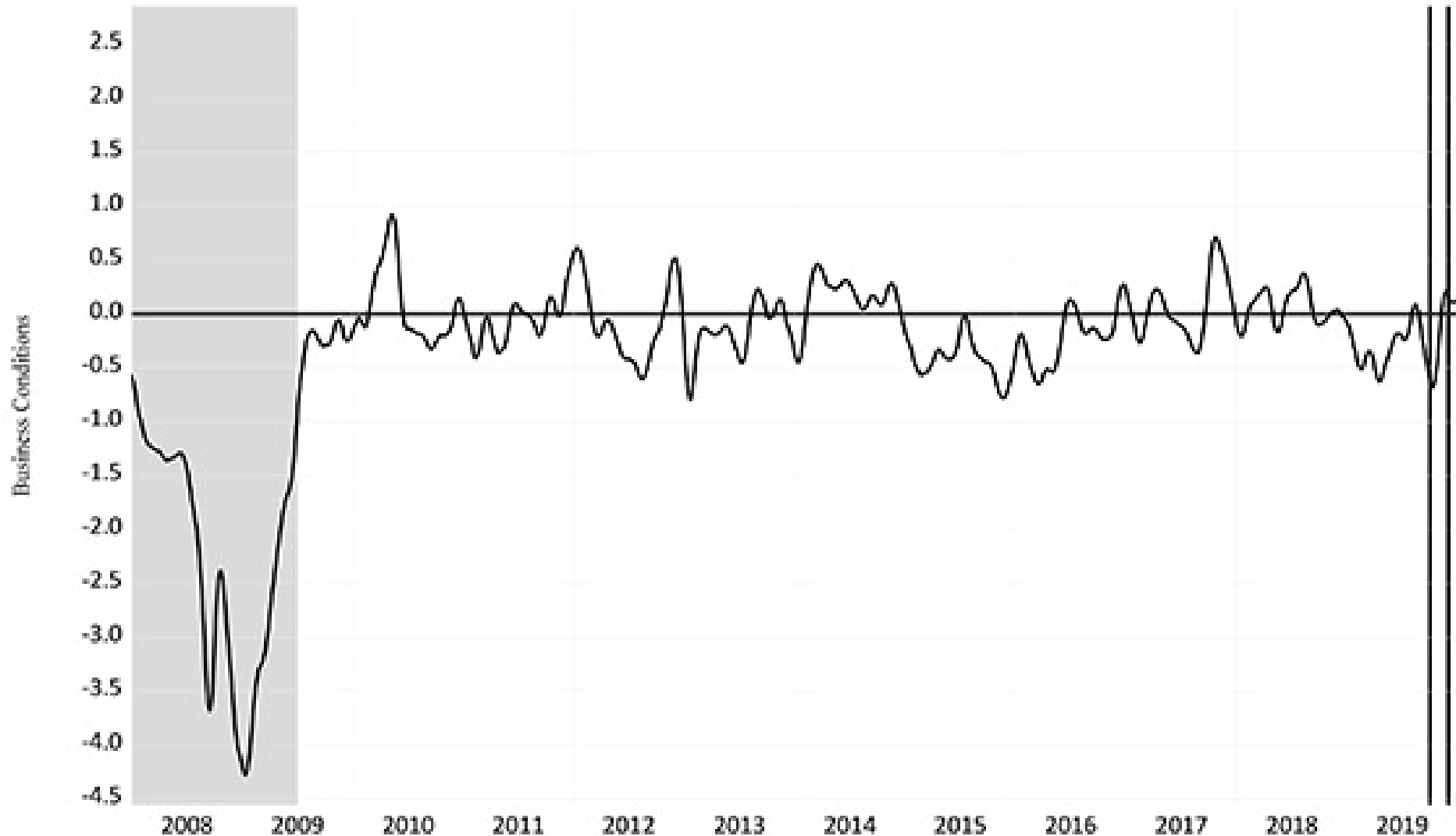




Best of All, No Recession Now!

Designed to track real macroeconomic activity in real time

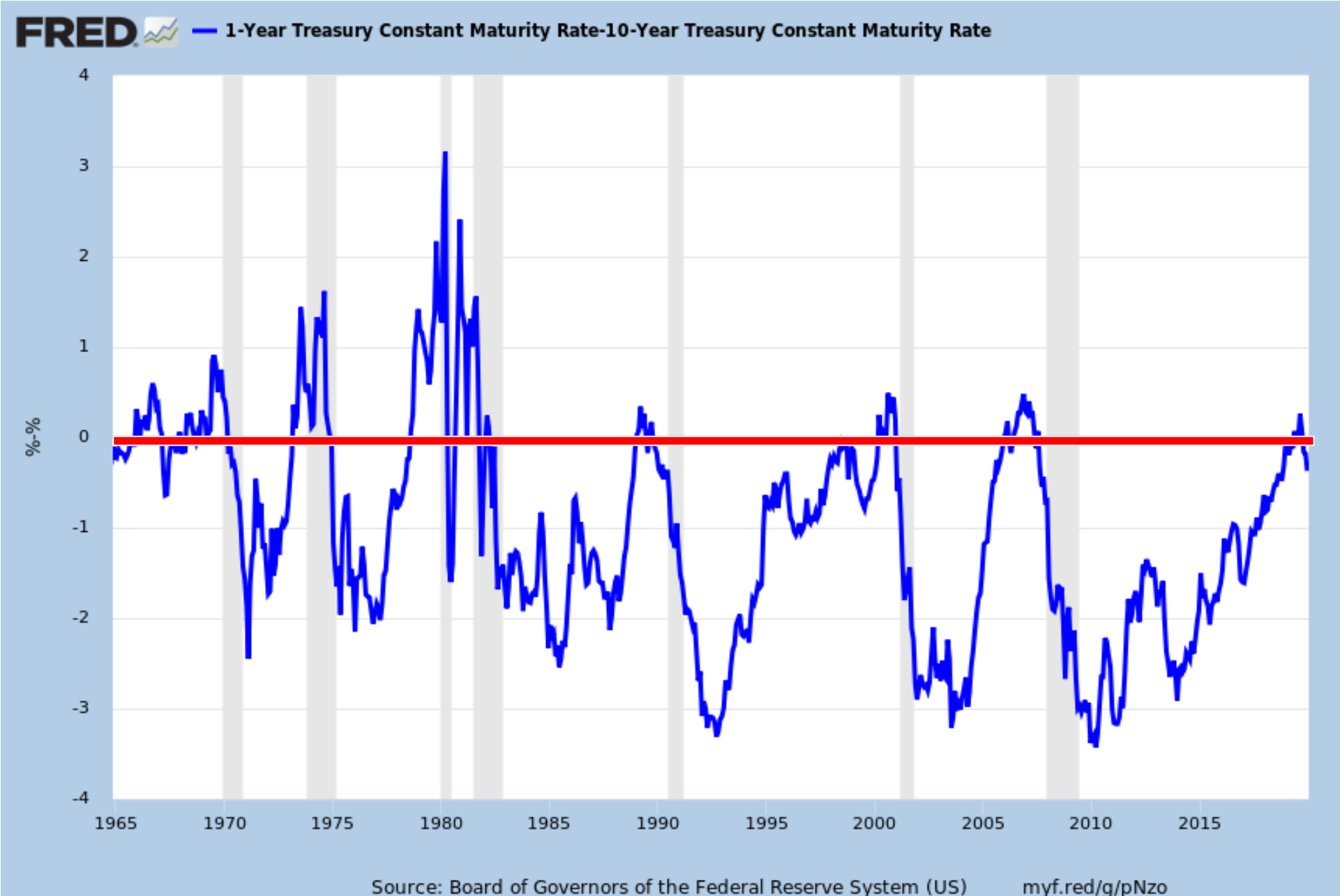
Aruoba-Diebold-Scotti Business Conditions Index (12/31/2007- 01/11/2020)





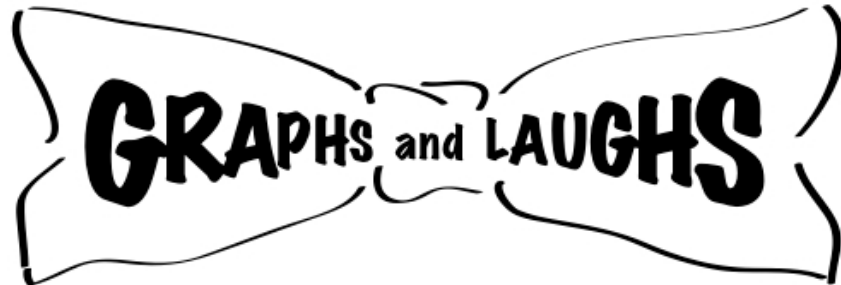
Best of All, No Recession...Yet!

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



Labor Markets:

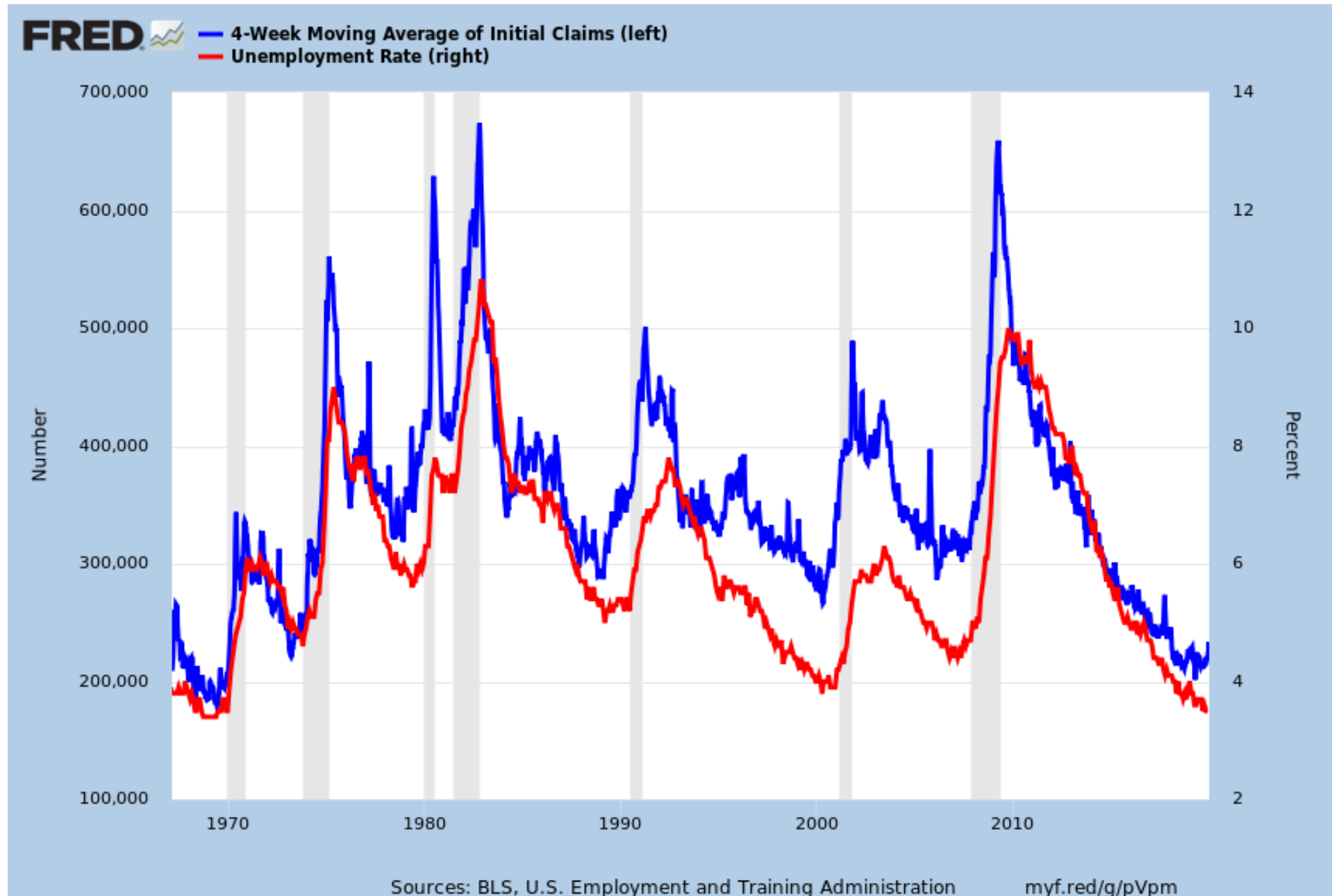
They're Tight, Very Tight





STEADY Labor Market Improvement: Involuntary Separation

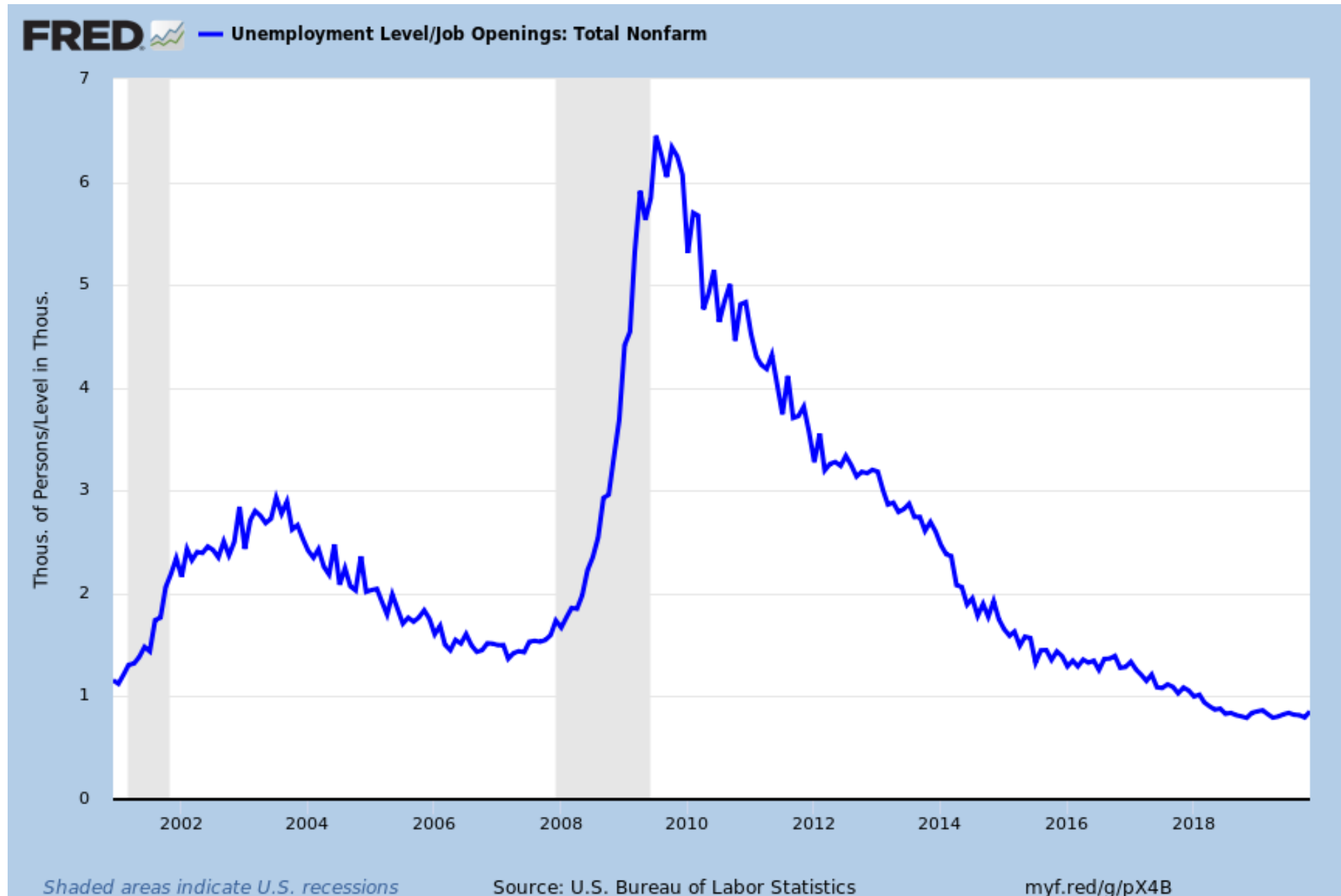
Long Term Trends: 1967-2017 Initial claims below 300K for **248** straight weeks!





Labor Market is Clearly Tight

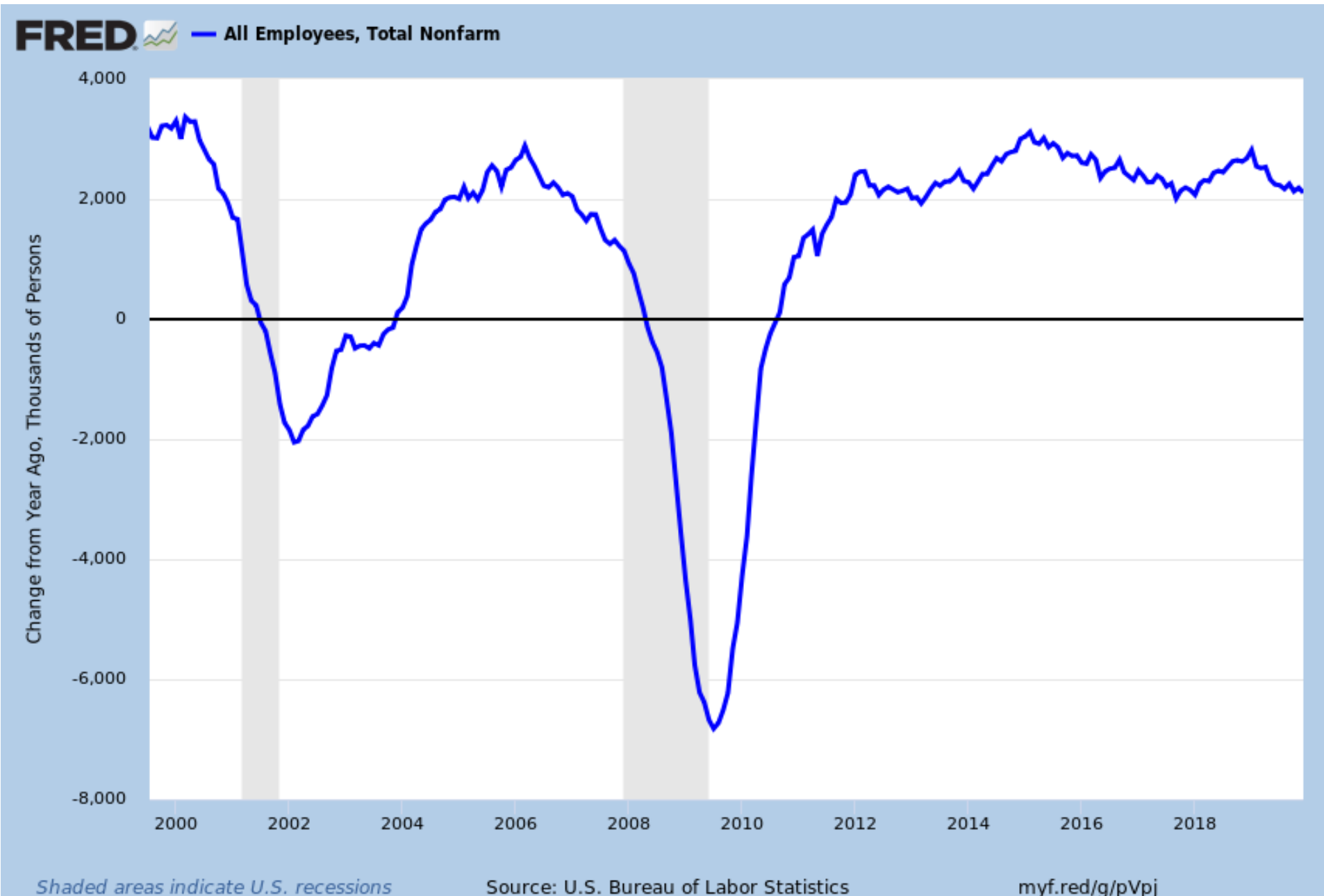
There are 1.24 jobs/unemployed person!!!!!!



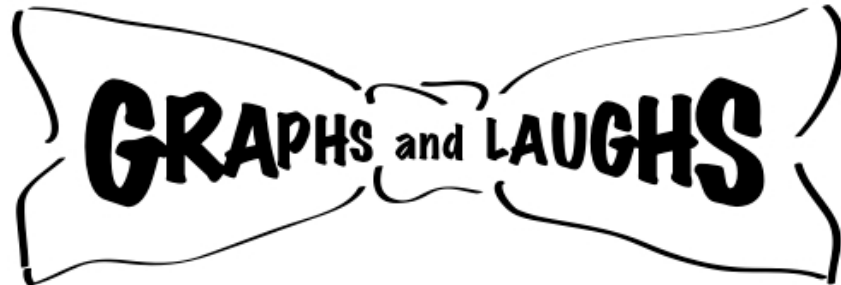


Historical Job Growth Since 2000

Total Employment Change. Y-o-Y is now close to 2 million new jobs!



Wage Growth is Weak, But...





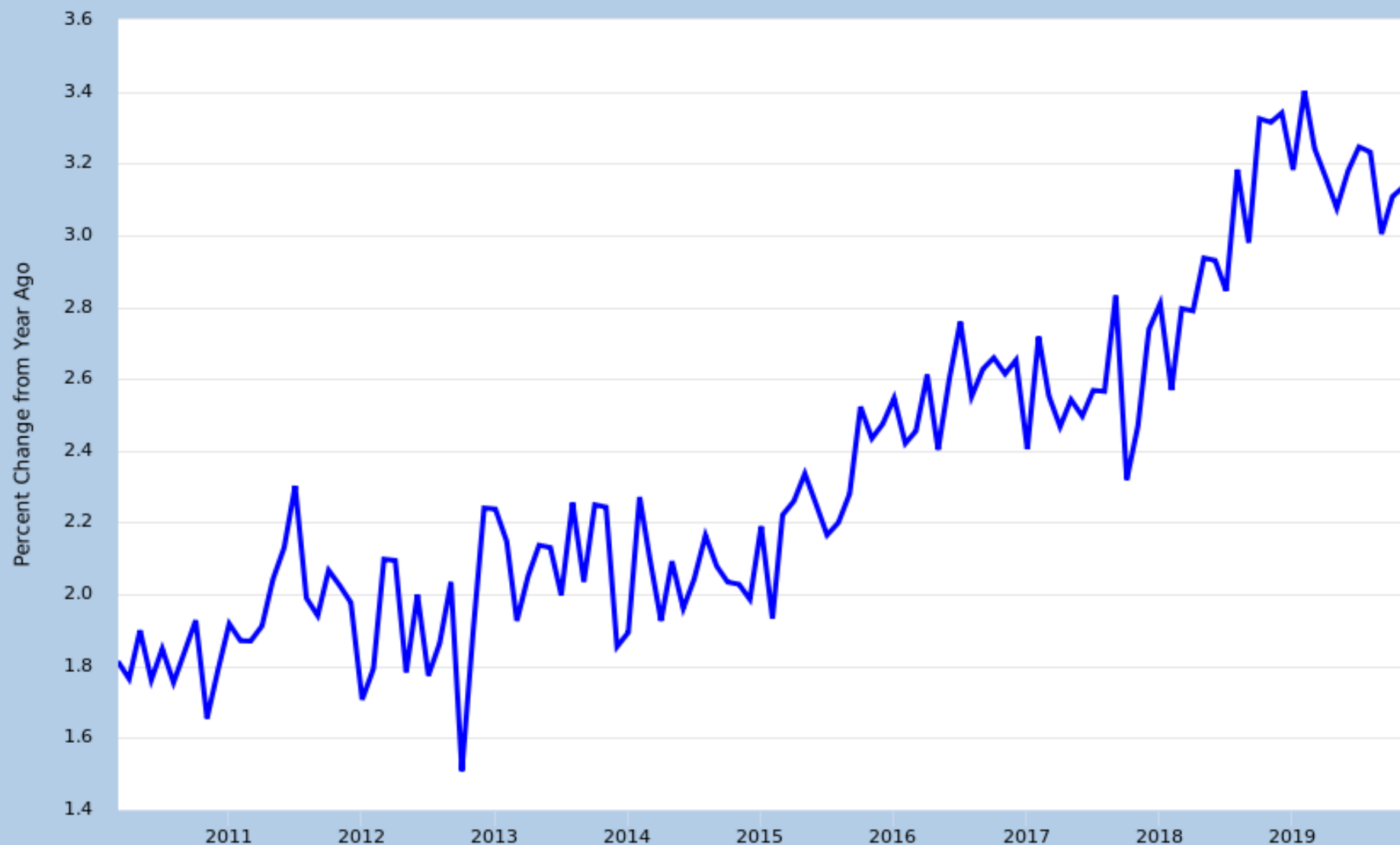
Y-o-Y Percent Change in Hourly Earnings

Despite very low unemployment, wage growth is weak

FRED



— Average Hourly Earnings of All Employees: Total Private



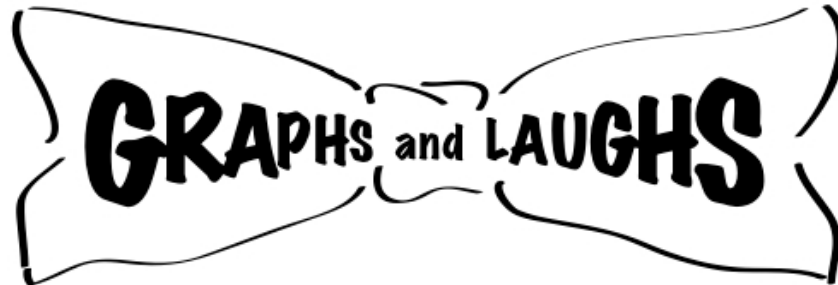
Shaded areas indicate U.S. recessions

Source: U.S. Bureau of Labor Statistics

myf.red/g/pUbZ

Inflation?

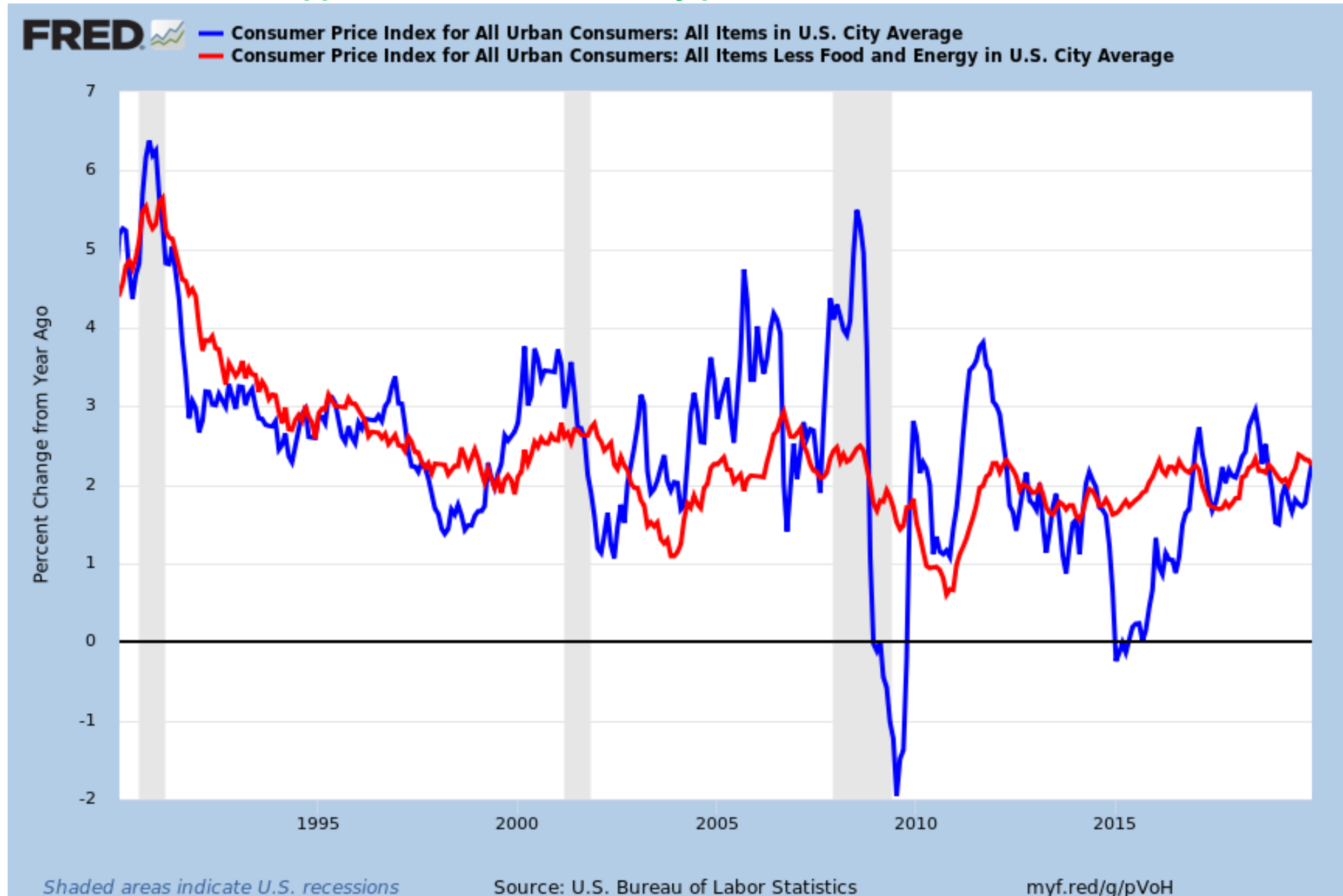
It's MIA!





CPI: Inflationary Pressures are Not Rising

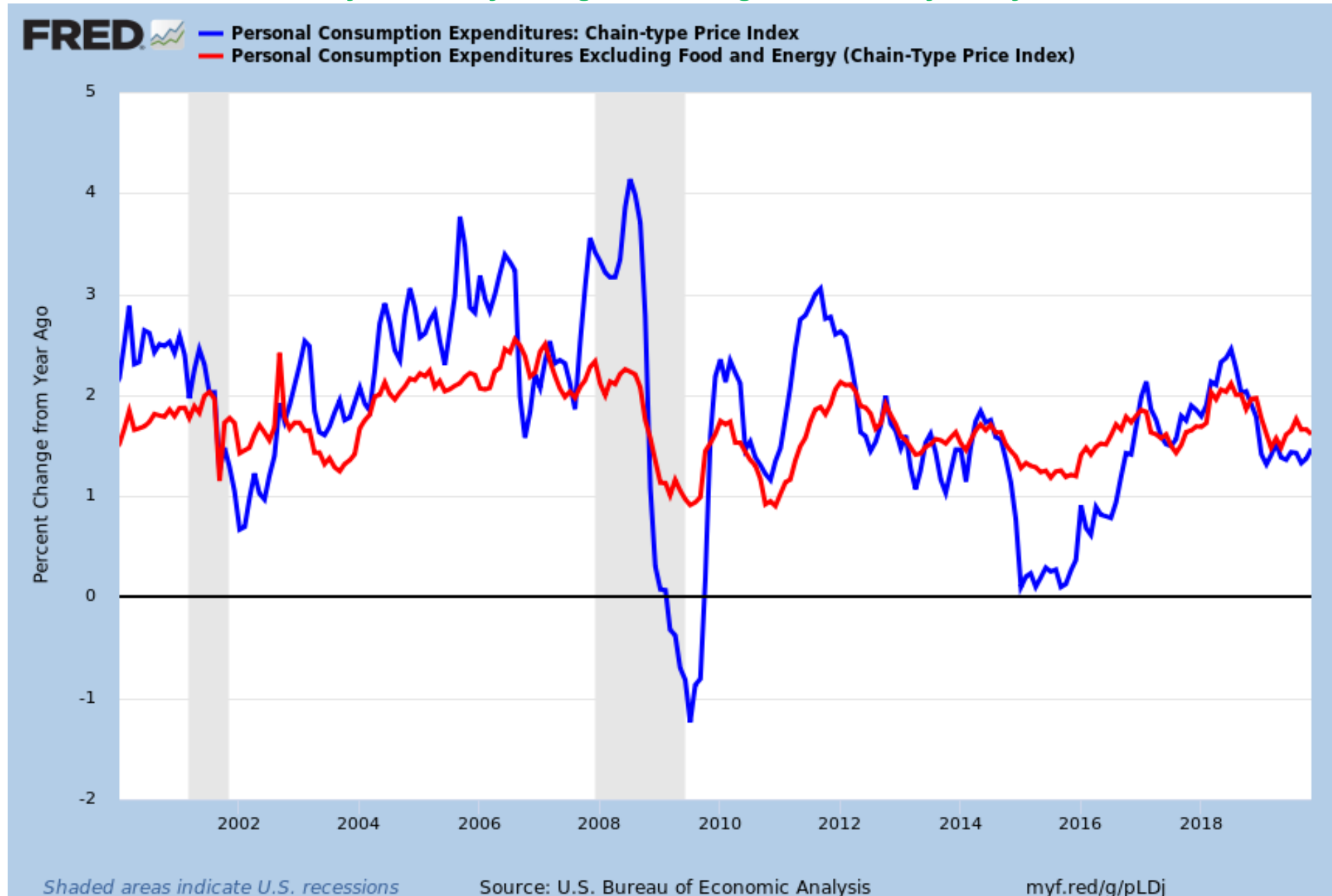
There appears to be no inflationary pressures. Growth is at best flat





Core PCE Price Index

Inflation may be slowly rising after being held back by many of factors



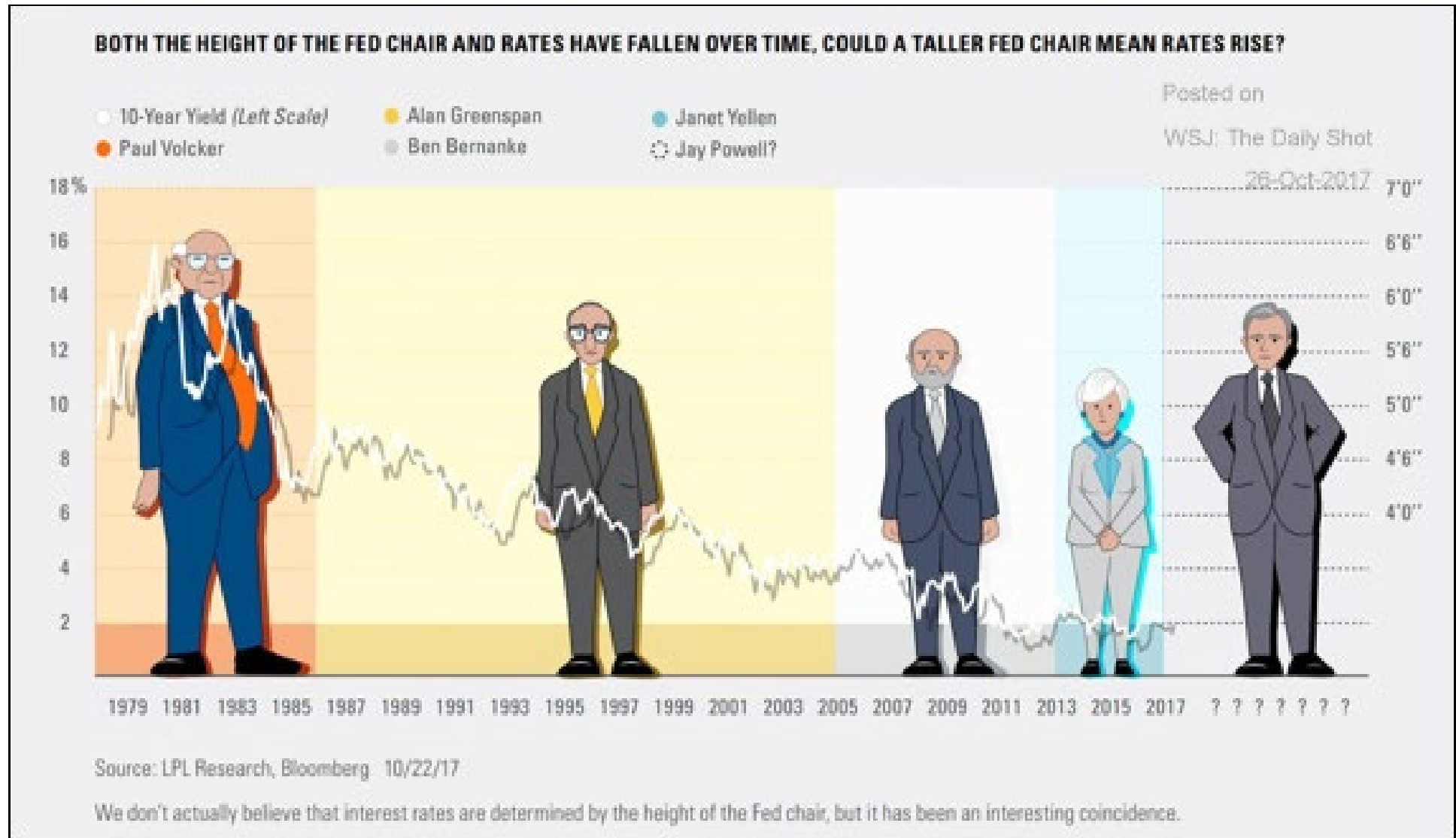


Federal Reserve Behavior

Will Rates Rise?

Nope!

Taller Fed Chair, Higher Rates?



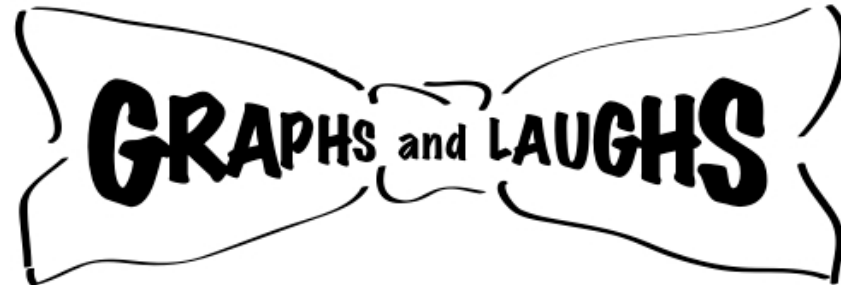


Federal Reserve Behavior

Best Case Scenario

- Fed funds is currently 1.625%
- 12/31/20: 1.625% 10-yr Treasury @ 2.20%
- 12/31/21: 1.375% 10-yr Treasury @ 2.35%
- 12/31/22: 1.625% 10-yr Treasury @ 2.55%

Now For Politics!

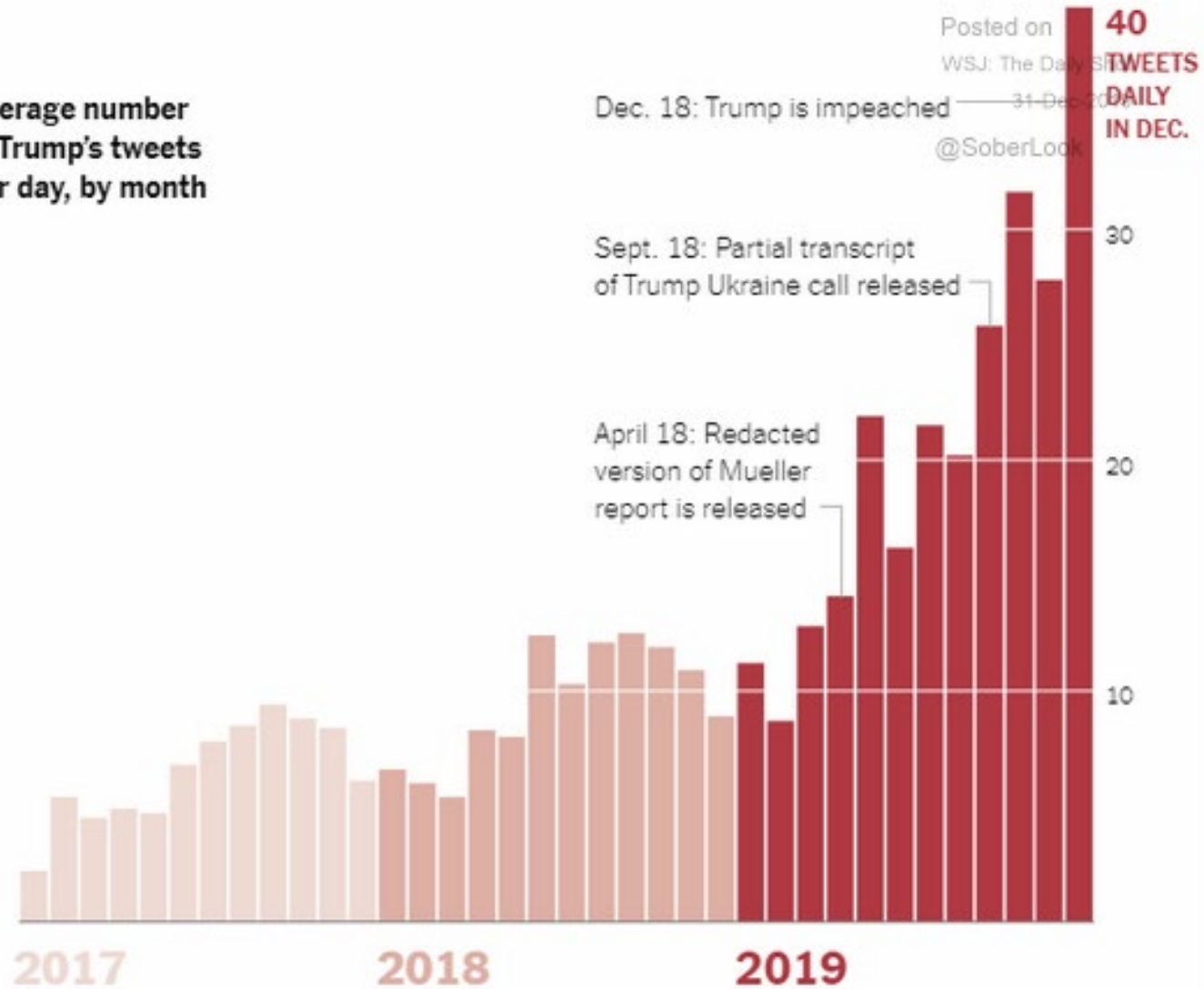




Trump Tweets More and More

He has gone from 5/day to 30/day

Average number
of Trump's tweets
per day, by month



Source: Trumptwitterarchive.org; includes tweets and retweets; tally is from Jan. 20, 2017, through Dec. 27.



Trump Tweets Move Markets

Less tweeting is more powerful tweeting

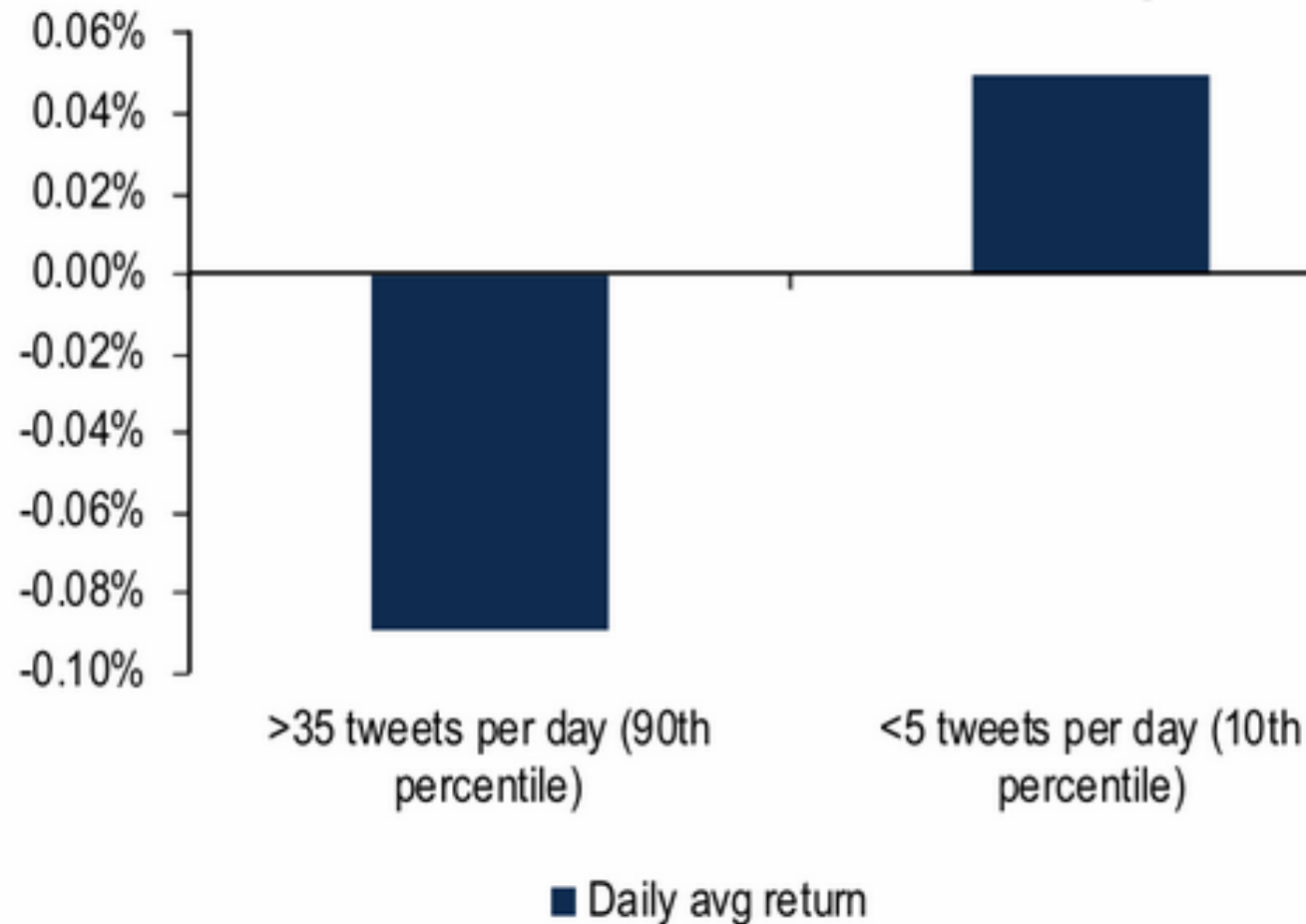
Chart 5: The market tends to fall, on average by 9bp, on days Trumps is more active on Twitter

Average daily returns when Trump writes more than 35 Tweets a day (90th percentile) versus less than five Tweets a day (10th percentile), since 2016

Posted on

(199) The Daily Shot
10-Sep-2019

@SoberLook

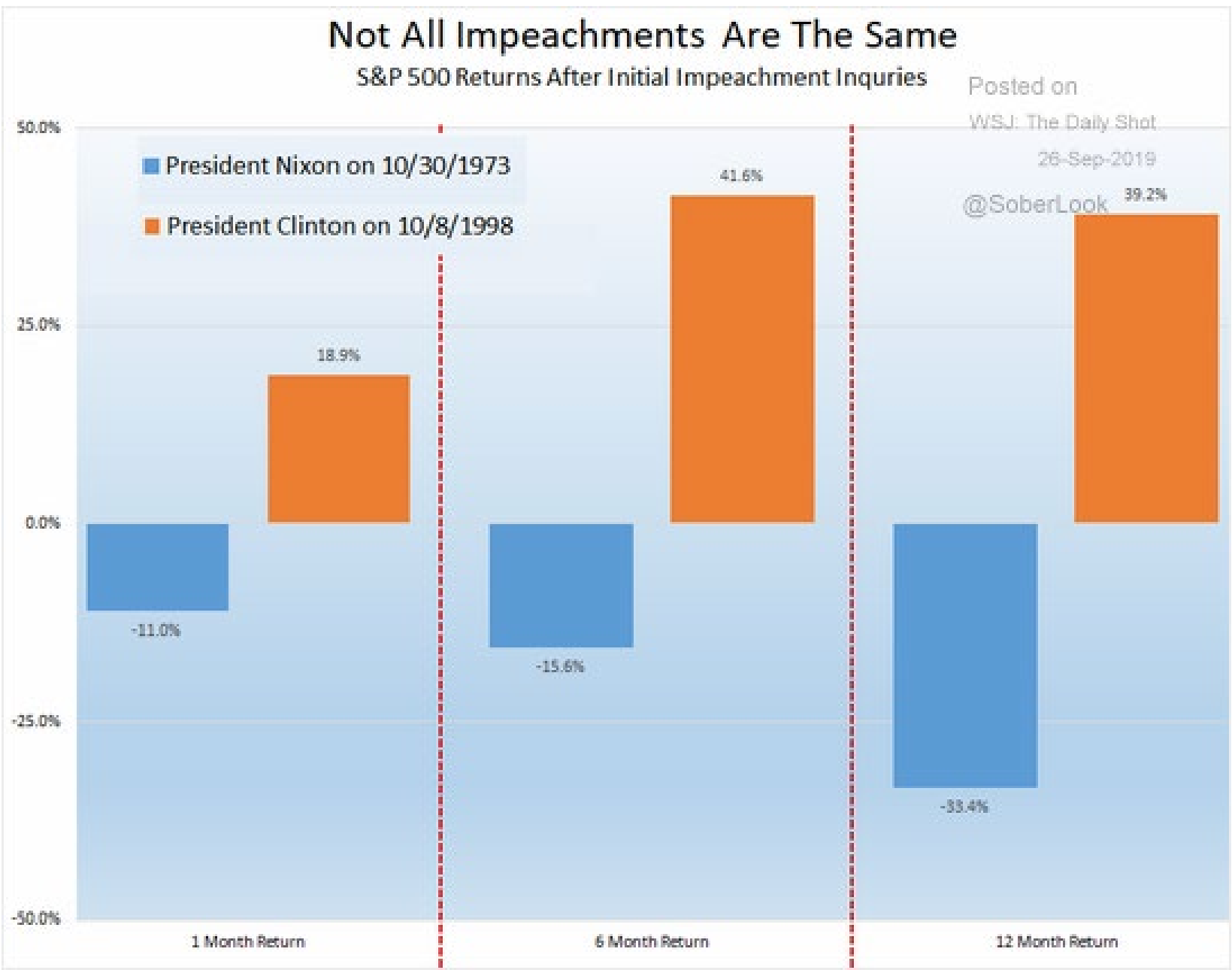


Source: BofA Merrill Lynch US Equity & Quant Strategy, Twitter, S&P



Impeachment Impact on Markets?

Economic fundamentals rule





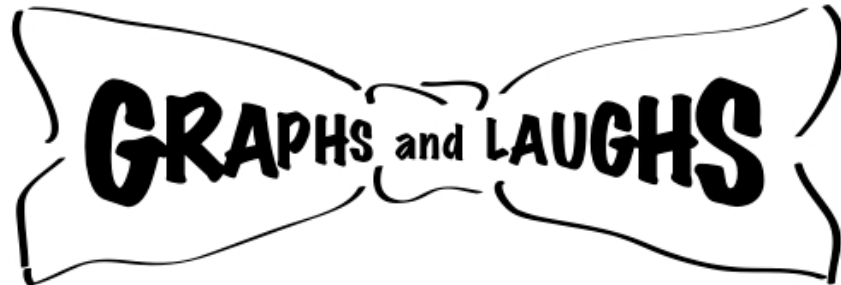
These Are The R Challengers

Presidents that face primary challenges lose general elections ('76, '80, '92)



As For Housing?

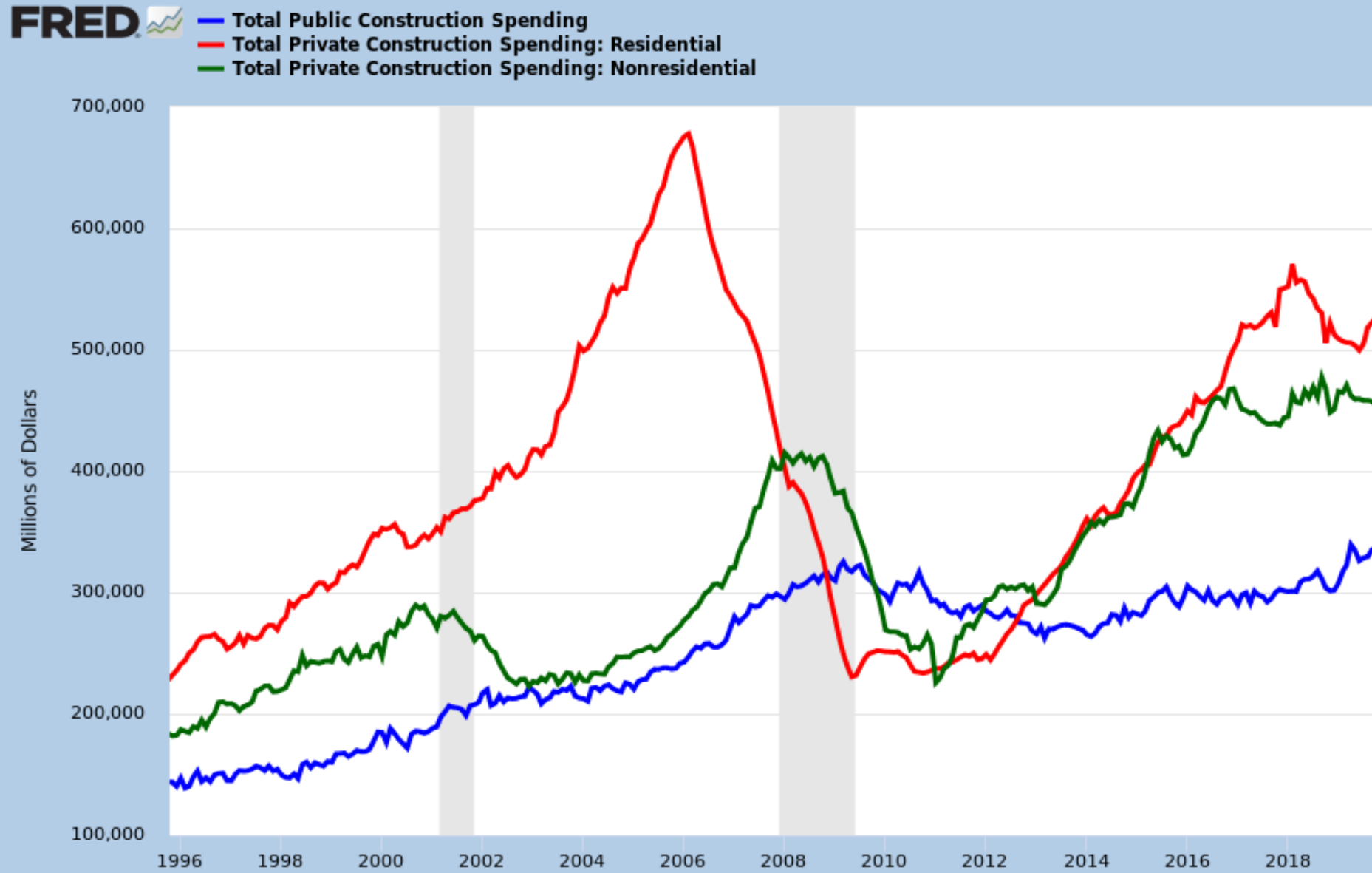
There is not
enough of it!





Residential Fixed Investment Shrinks

Non-residential is up 8%, public is up 4%, and residential is down 21% from peak



Shaded areas indicate U.S. recessions

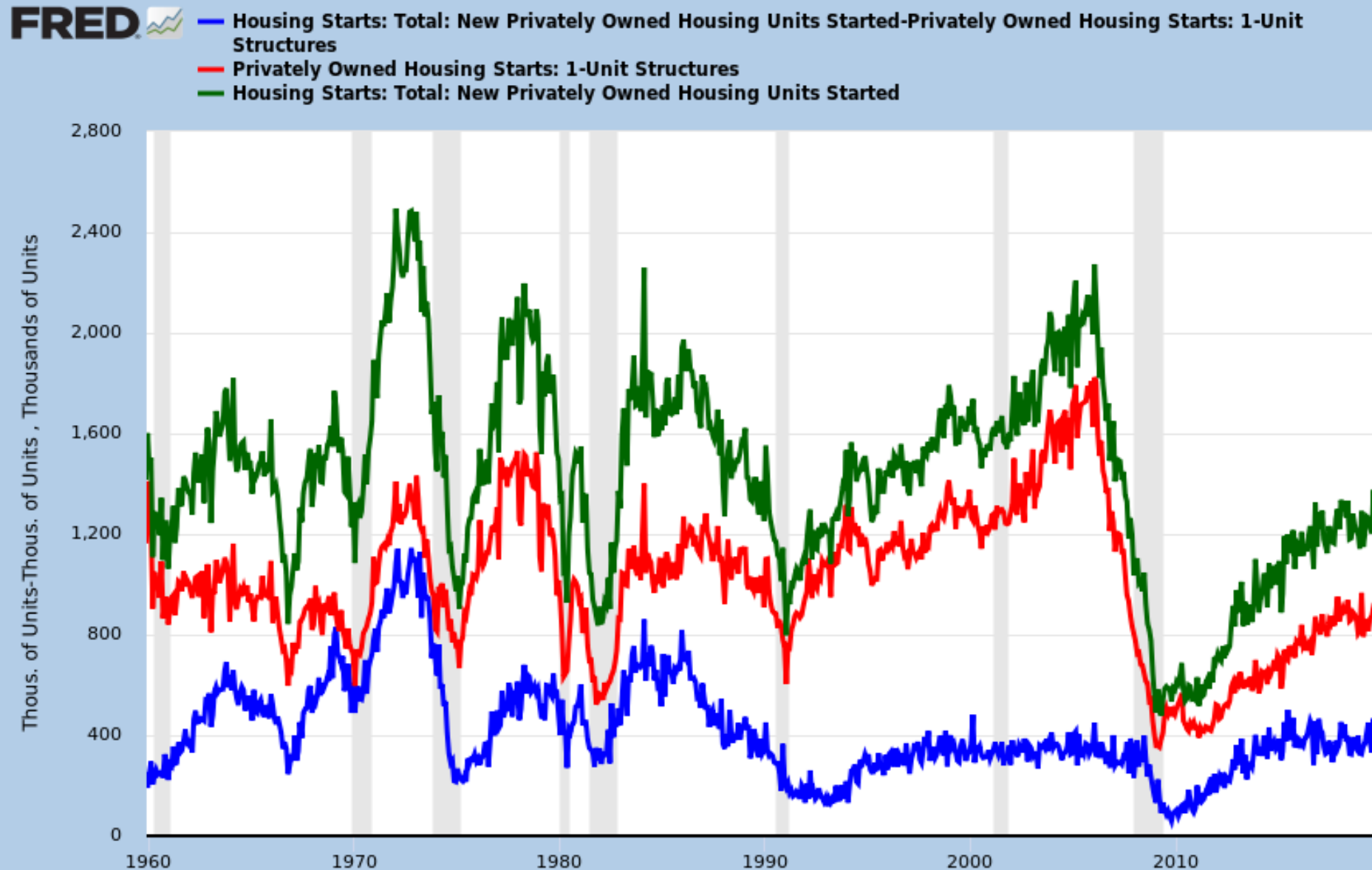
Source: U.S. Census Bureau

myf.red/g/pPWj



Single-Family and Multifamily Starts – A Slow Recovery

Lack of lots and labor and high prices, SF remains near recessionary lows



Shaded areas indicate U.S. recessions

Source: U.S. Census Bureau

myf.red/g/pX4G

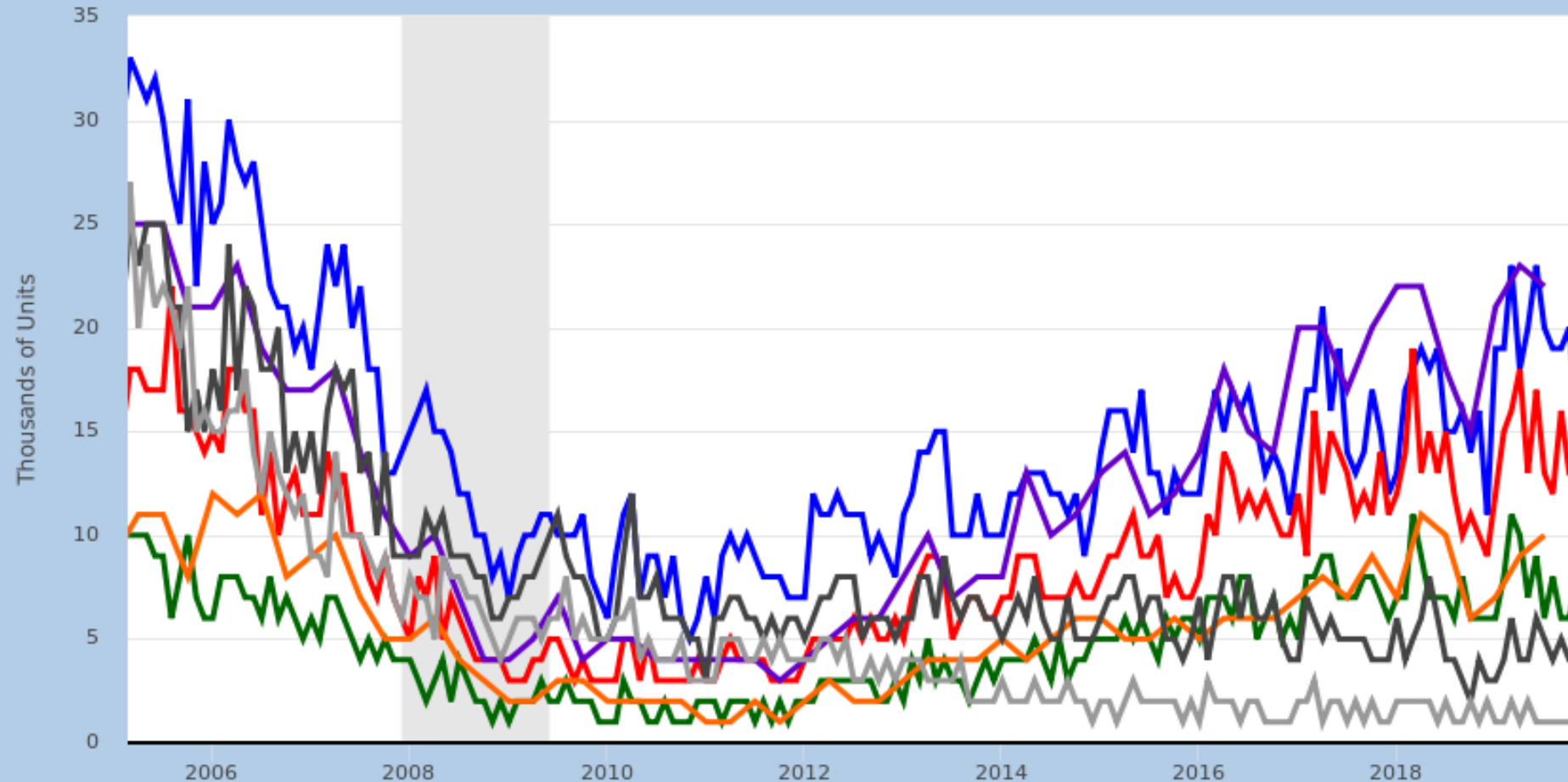


New Home Sales by Price

Houses under 200K are an insignificant percentage

FRED

- New Houses Sold by Sales Price in the United States, Between \$200,000 and \$299,999
- New Houses Sold by Sales Price in the United States, Between \$300,000 and \$399,999
- New Houses Sold by Sales Price in the United States, Between \$400,000 and \$499,999
- New Houses Sold by Sales Price in the United States, Between \$500,000 and \$749,999
- New Houses Sold by Sales Price in the United States, Between \$750,000 and Over
- New Houses Sold by Sales Price in the United States, Between \$150,000 and \$199,999
- New Houses Sold by Sales Price in the United States, Under \$150,000



Shaded areas indicate U.S. recessions

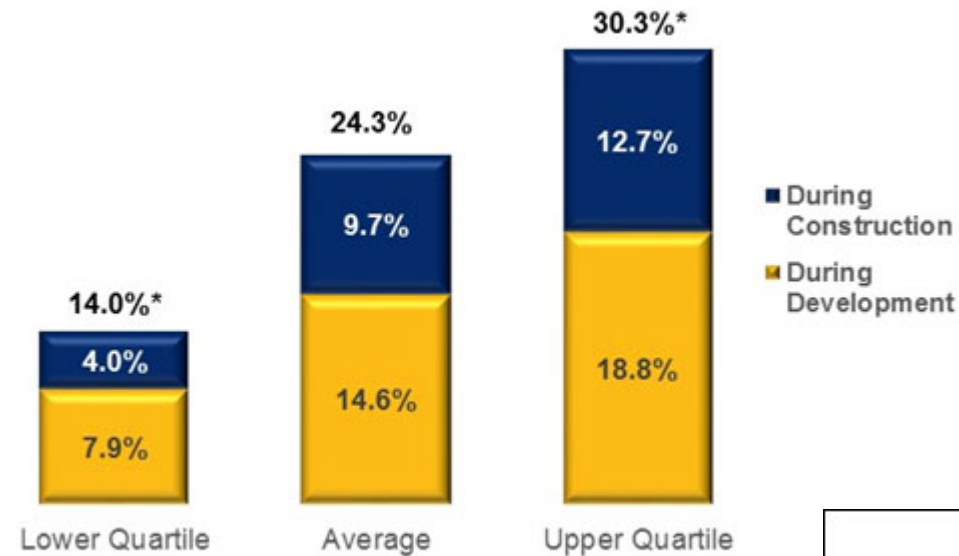
Source: U.S. Census Bureau

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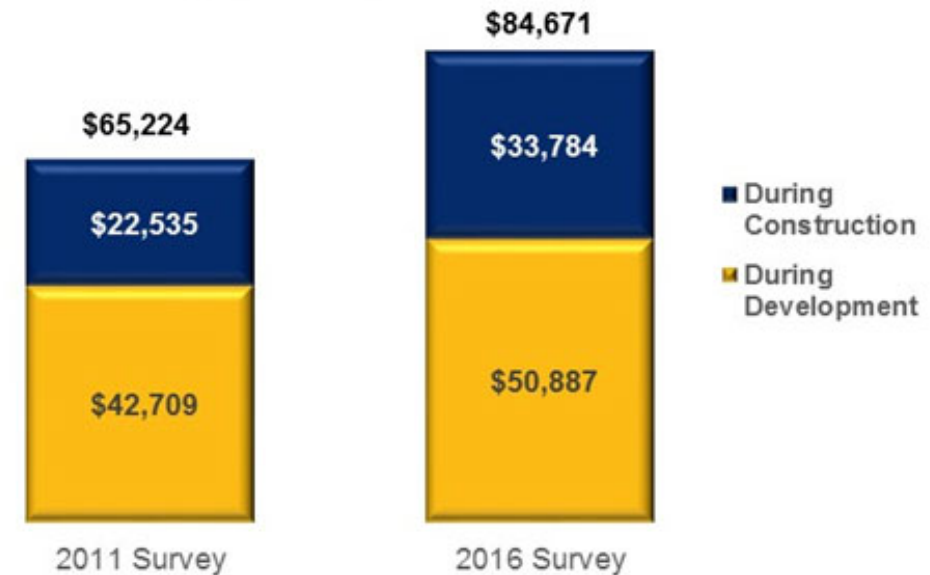
New Home Prices Are Too High Due to Regulation

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.



Construction Workers are in Serious Short Supply

Average wage growth/year for construction workers is 5.1%, much higher than the average

Construction Contractor Hourly Wages by Trade

Hourly wages for construction contractors increased 5% YOY, with notable dispersion between trades. Siding wages gained 24%, while wages for flooring stayed flat.

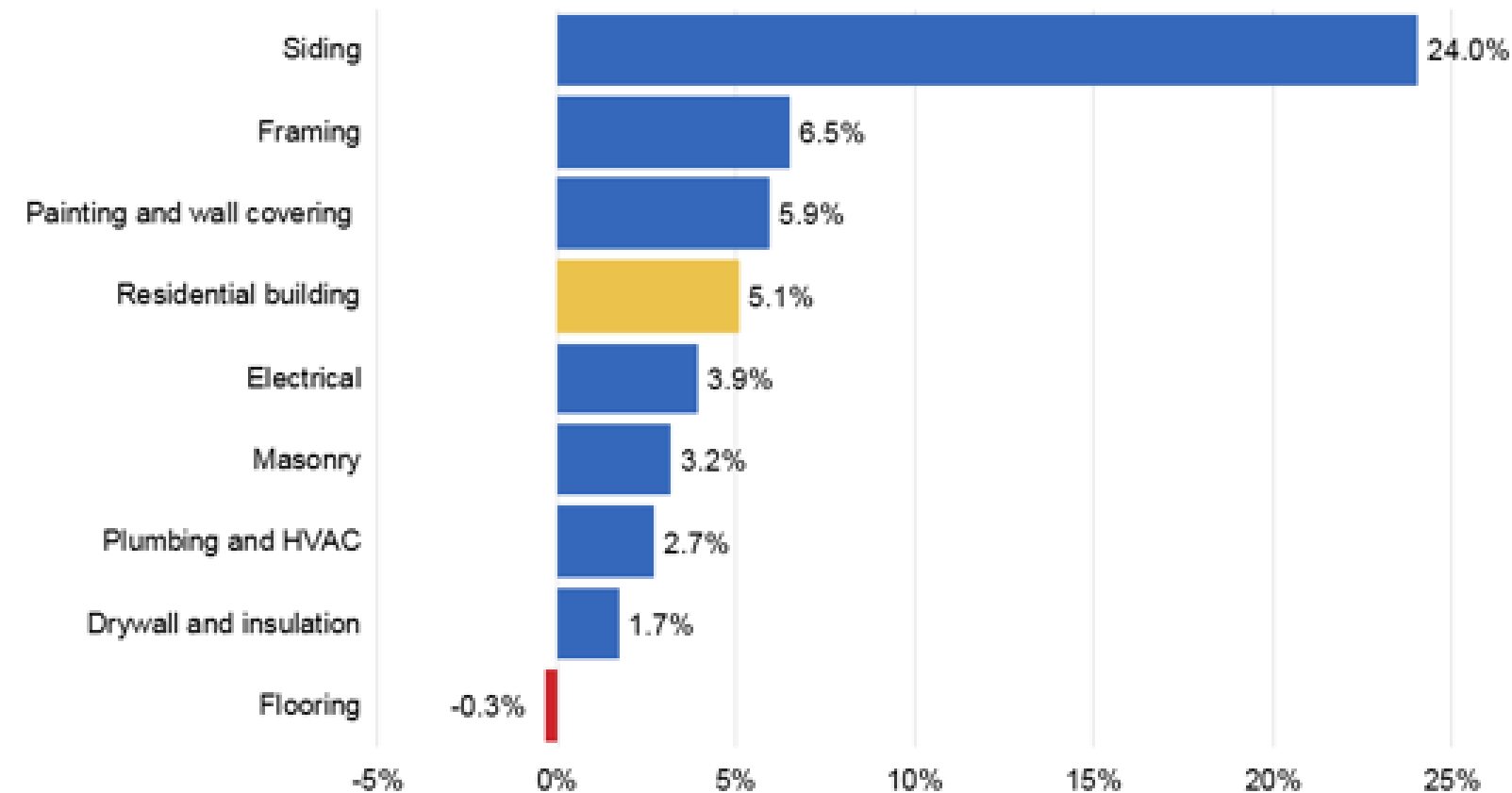
WSJ: The Daily Shot

22-Apr-2019

Construction Contractor Hourly Wages

YOY % change*

@SoberLook



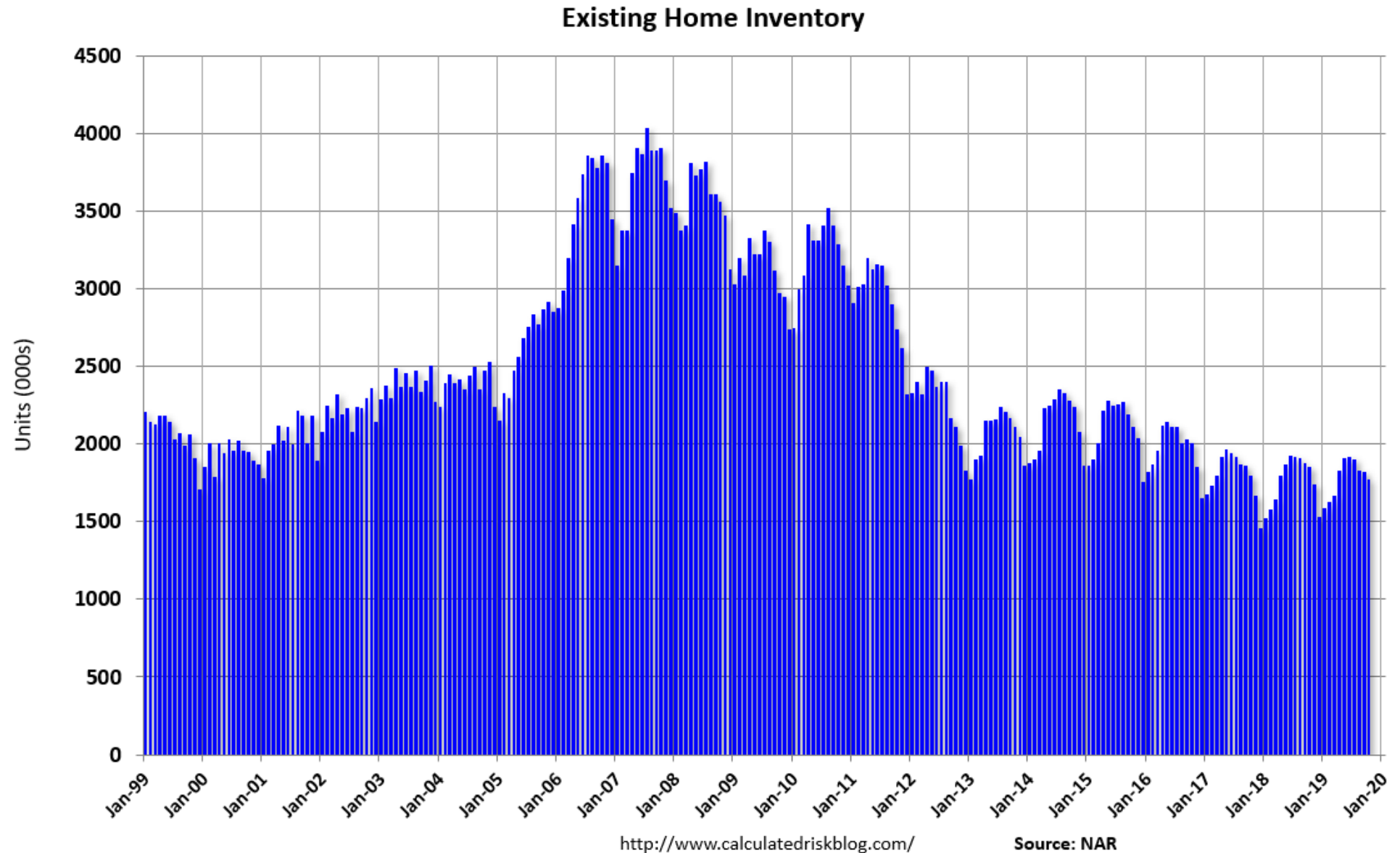
Source: BLS (Data: Jan-19, Pub: Mar-19)

*We take a 3-month average to remove unnecessary volatility



Inventory Is Low and Keeps Shrinking

Inventory is again declining Y-o-Y ! Had risen for 10 straight months, but is again shrinking

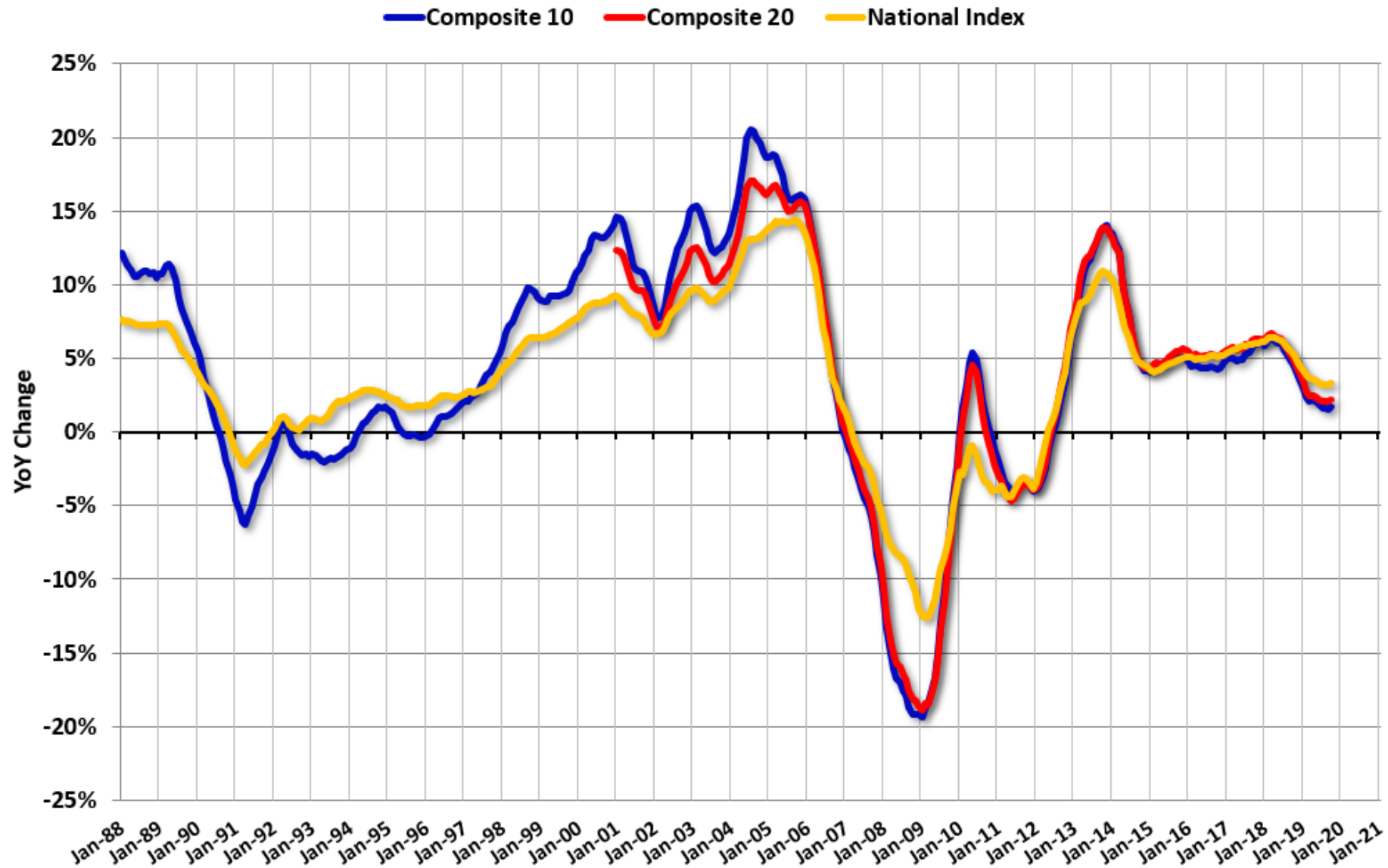




Price Growth is Slowing

Prices rise faster than wages! Y-o-Y prices up 1.7%, 2.2% or 3.3% depending on the measure

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

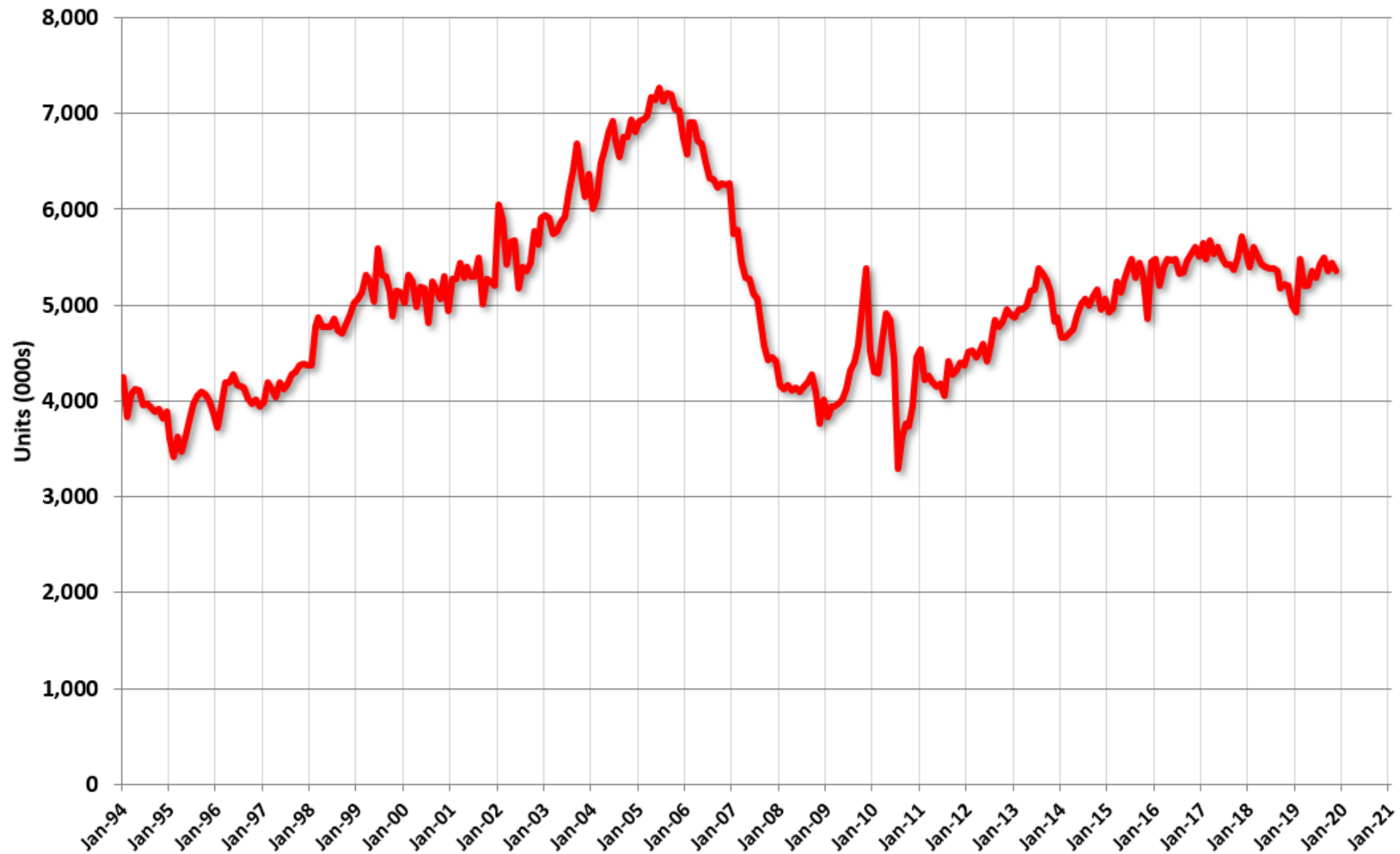




Existing Home Sales are Rising But Just Slightly

Regrettably, this is occurring while the economy rocks!

Existing Home Sales (SAAR)

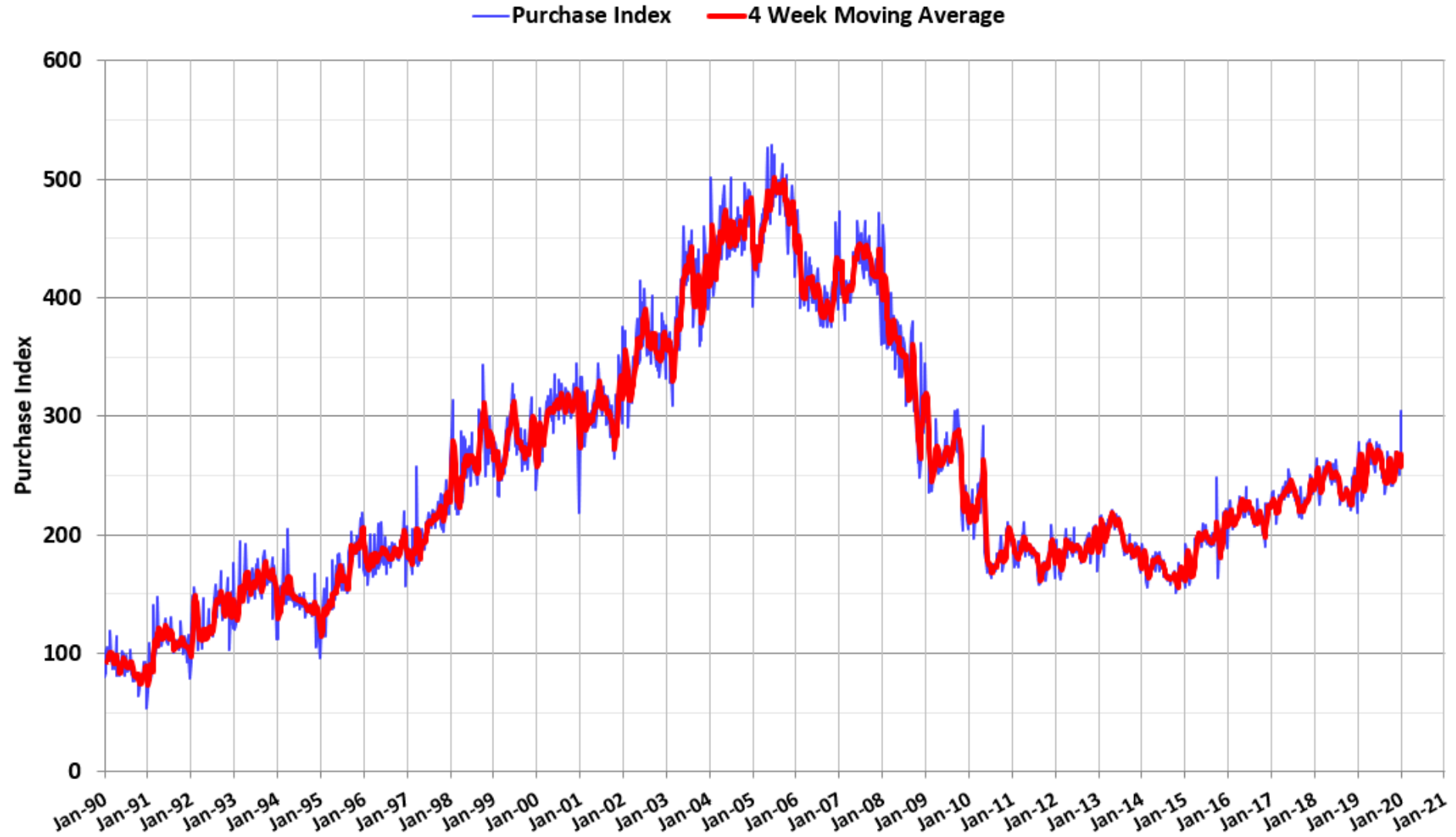




Mortgage Purchase Applications Flatten

1st time applications are up 2% Y-o-Y, at level of the late 1990s!
2020 purchase volume should be about \$1.25 trillion, unchanged from 2019

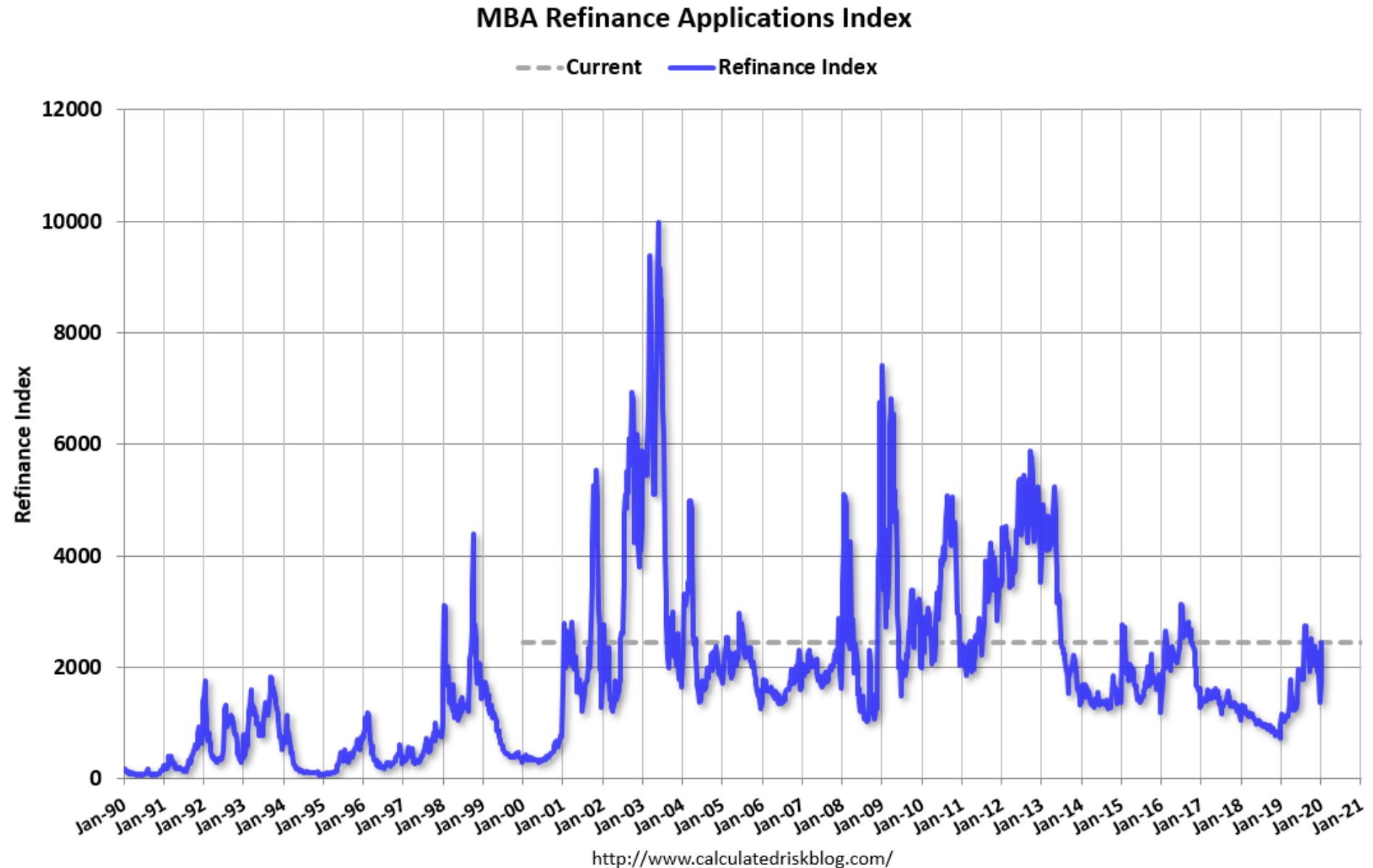
MBA Purchase Applications Index





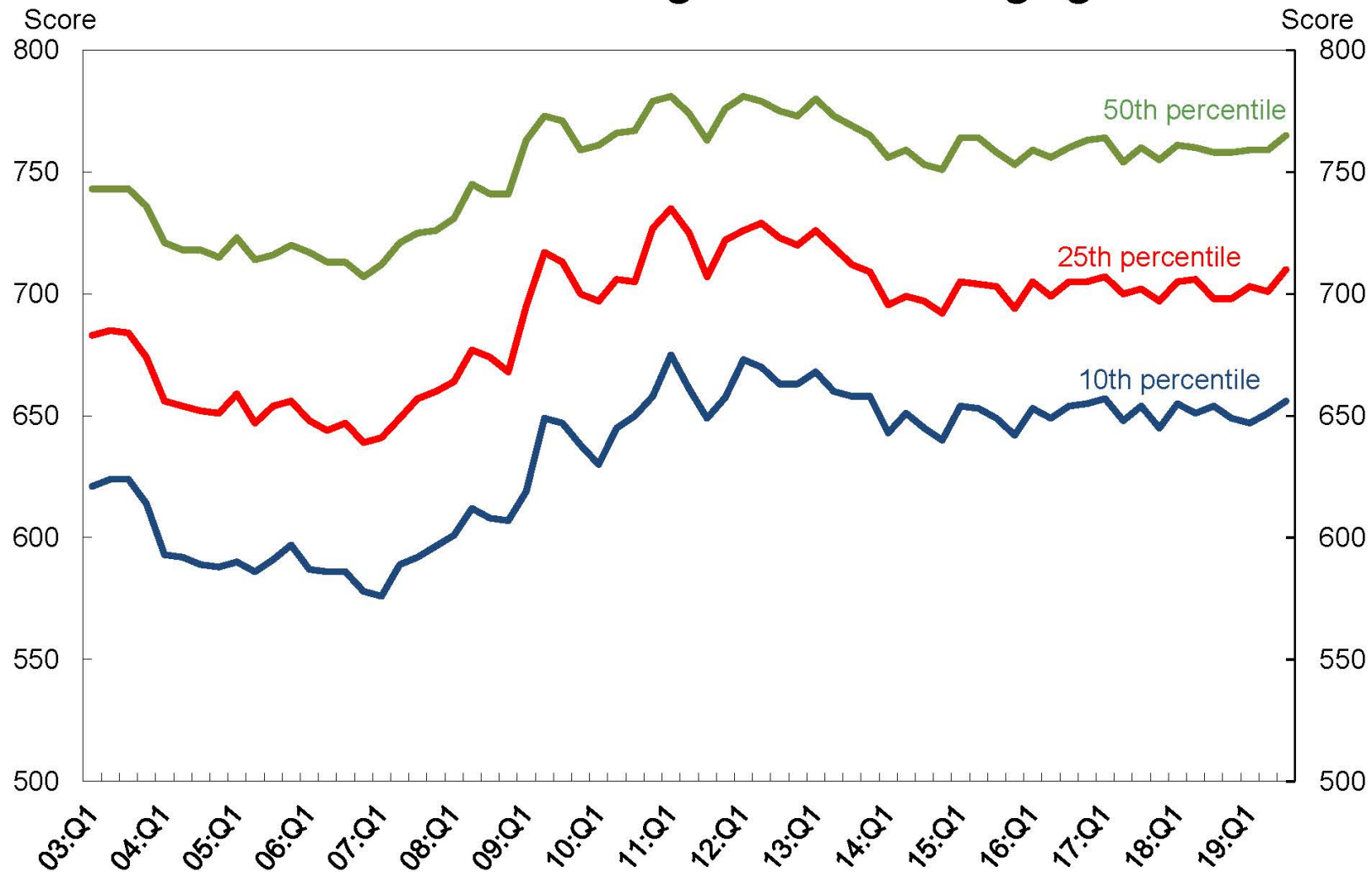
Refinance Activity Slumps

2020 refi activity probably falls to \$600 billion, from \$800 in 2019





Credit Score at Origination: Mortgages*



Source: New York Fed Consumer Credit Panel/Equifax

* Credit Score is Equifax Riskscore 3.0; mortgages include first-liens only.



DTI Ratios Creep Up

Few risk loans are being made

Share of mortgages in Fannie and Freddie securities that have debt-to-income ratios above 43%, annually

Posted on
WSJ: The Daily Shot
10-Sep-2019

@SoberLook

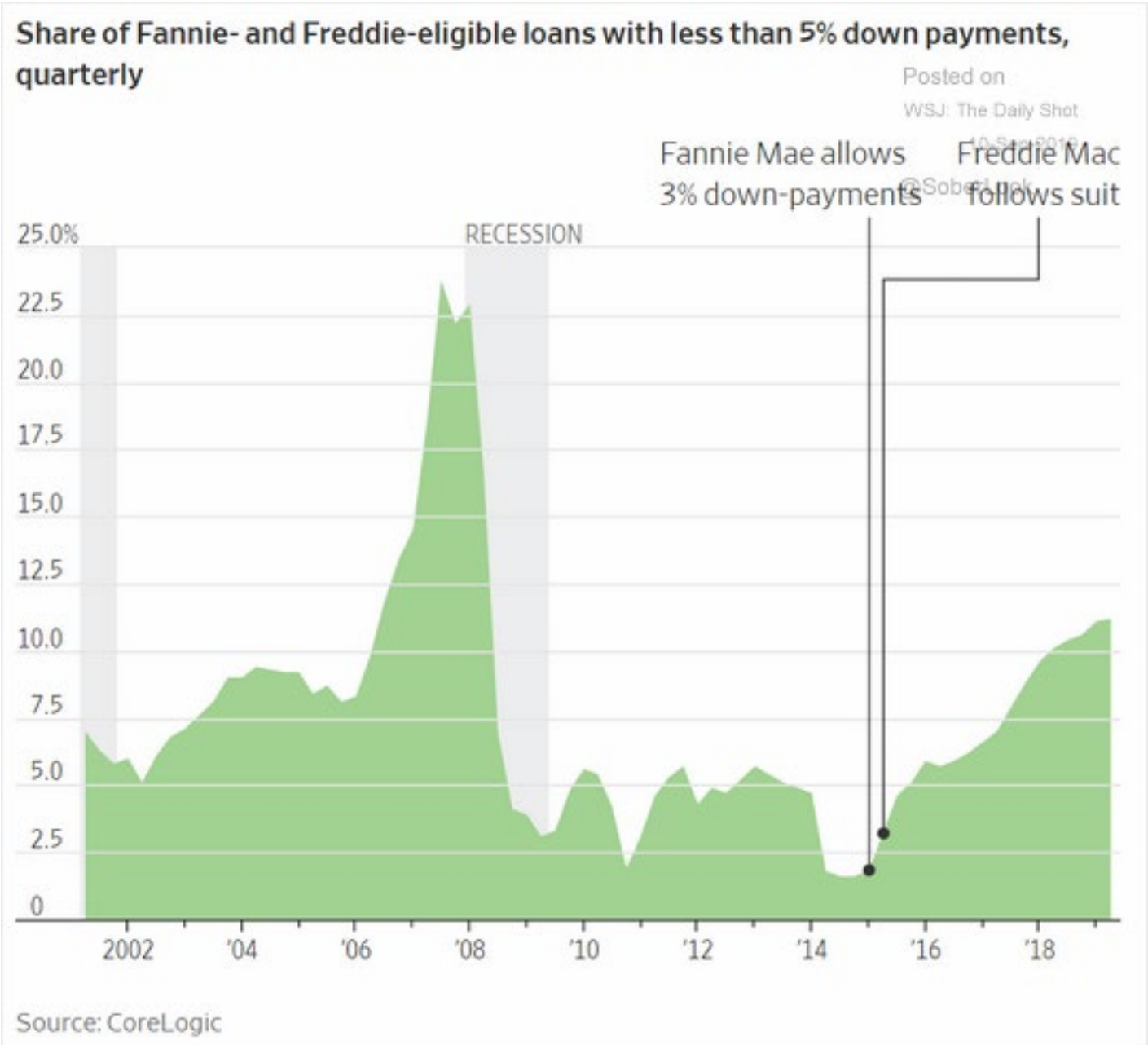


Source: Inside Mortgage Finance



Low Down Payment Borrowers

The percentage is rising!



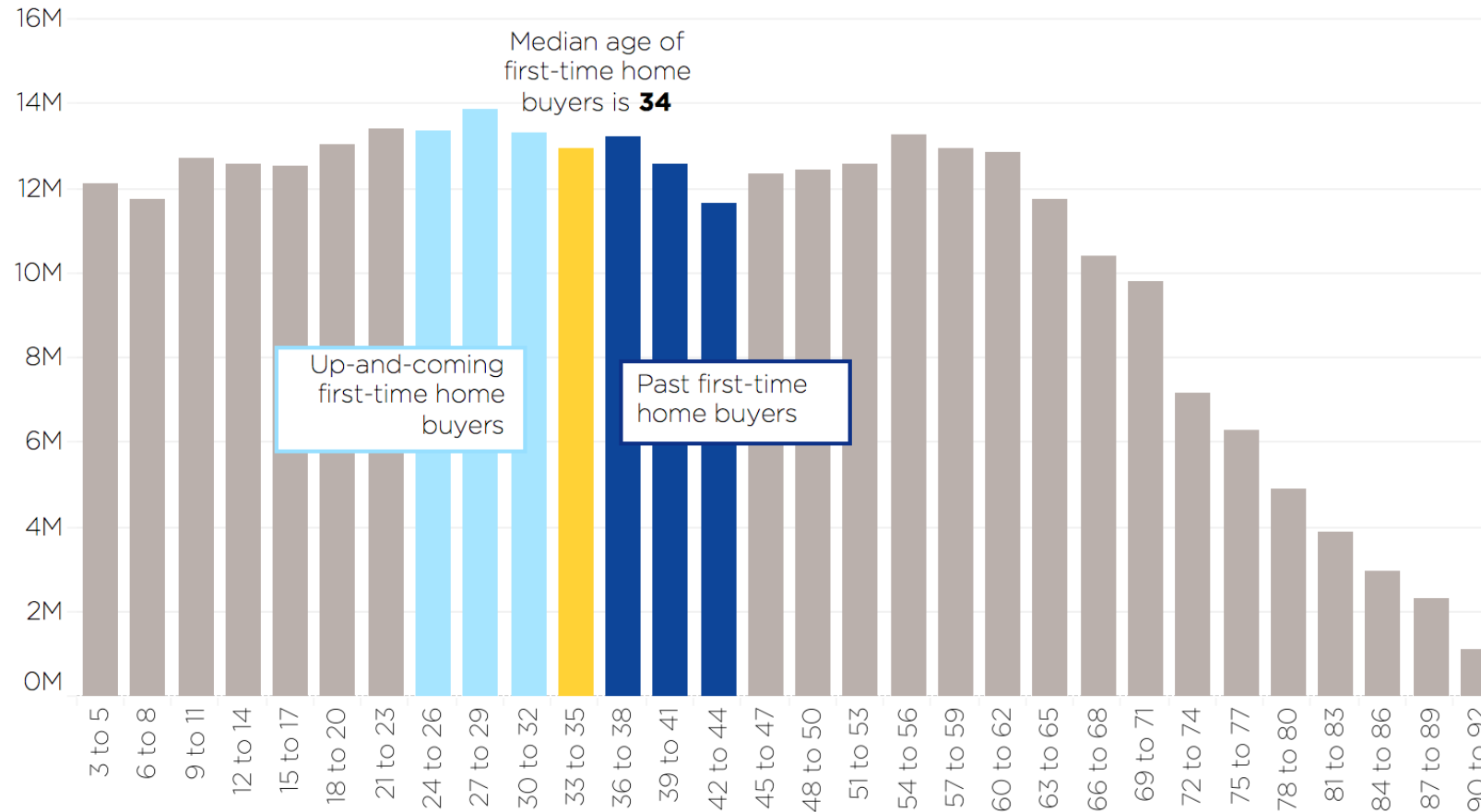


Millennials Will Keep This Issue Front and Center

Beginning to approach Peak Millennial

Coming soon: An even bigger wave of potential buyers

Age distribution of the United States



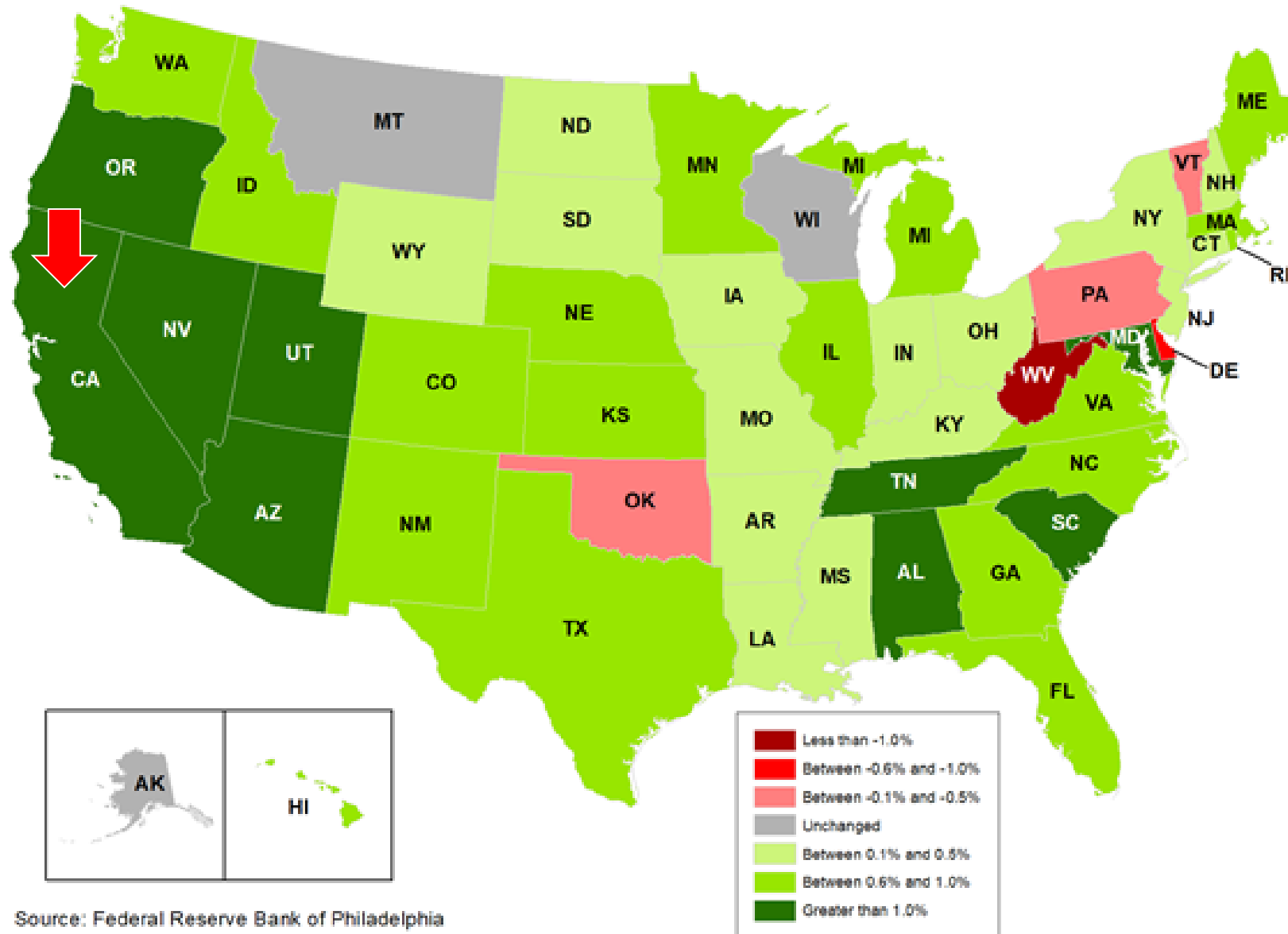
Zillow Economic Research | Source: Population counts by age and metro was pulled from one-year 2017-ACS data made available by IPUMS - USA. Ages of individuals were bumped up one year to coincide with our source for median age of first time buyer, the 2018 Zillow Group housing trends report. That survey was boosted in five metro areas, allowing for metro level median first-time home buyer ages in Phoenix (34.5 years), San Francisco (37 years), Atlanta (37 years), Chicago (34 years) and Washington, D.C. (34 years).

**What About
Things Here?**



Things Are Good Now

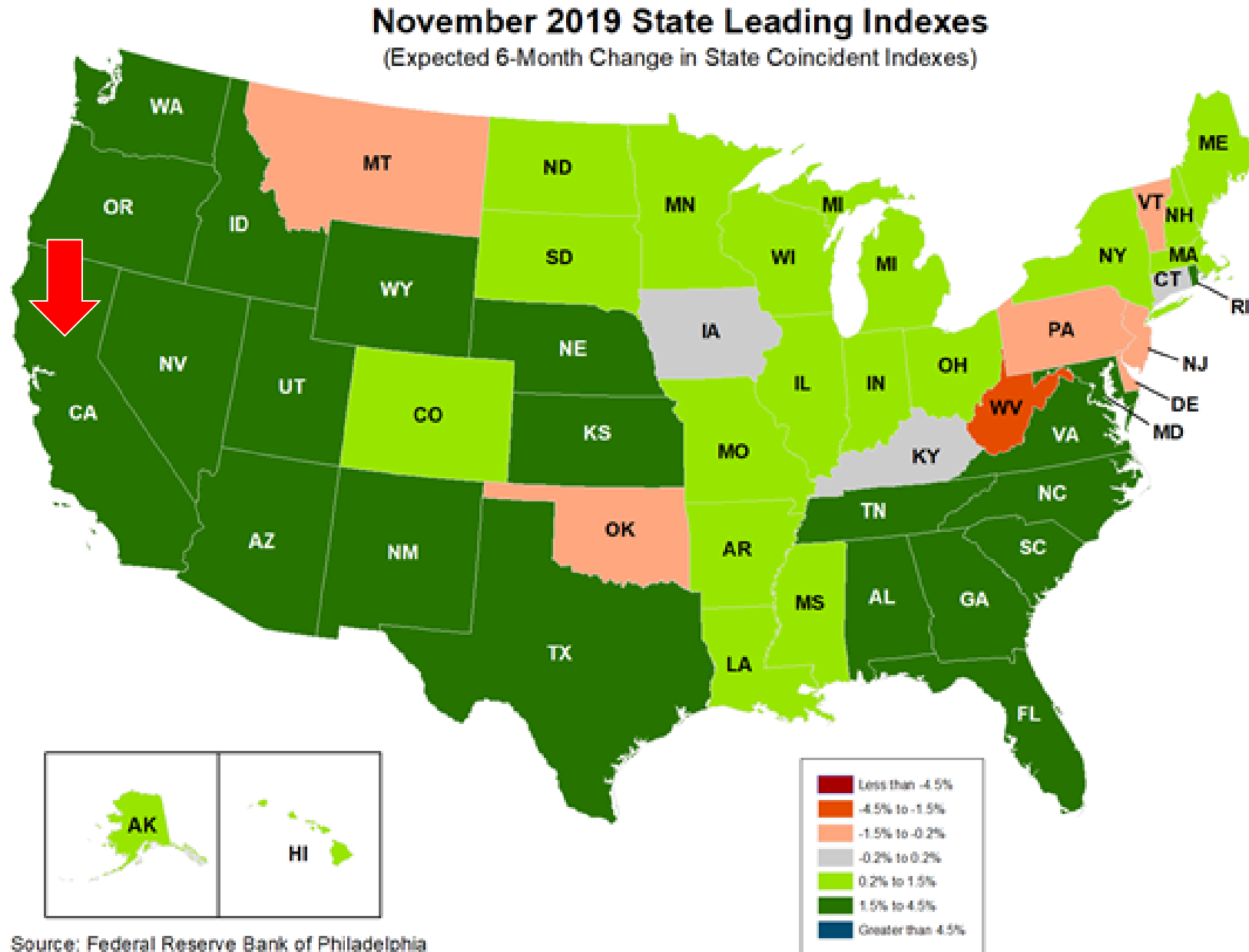
November 2019 State Coincident Indexes: Three-Month Change



Source: Federal Reserve Bank of Philadelphia



The Future Looks Good Too!

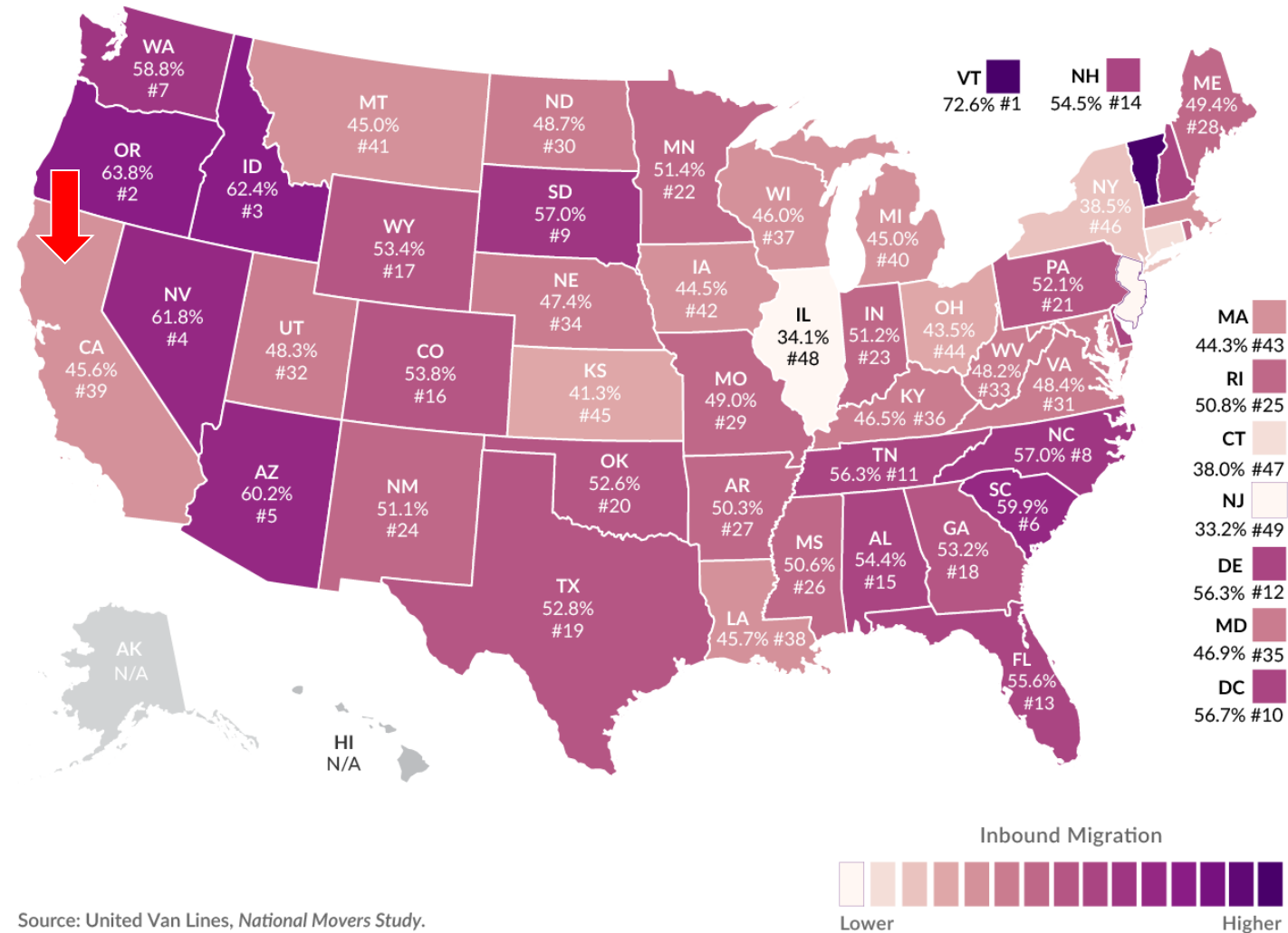




Interstate Migration Patterns 2018

Where Did Americans Move in 2018?

Inbound Migration as a Percent of Total Moves, 2018



Source: United Van Lines, *National Movers Study*.



States With Fastest Pop Growth in 7/1/18-6/30/19

Where is the Golden State?

Top 10 States in Numeric Growth, 2018 to 2019					
Rank	Geographic Area	April 1, 2010 (Estimates Base)	July 1, 2018	July 1, 2019	Numeric Growth
1	Texas	25,146,091	28,628,666	28,995,881	367,215
2	Florida	18,804,564	21,244,317	21,477,737	233,420
3	Arizona	6,392,288	7,158,024	7,278,717	120,693
4	North Carolina	9,535,751	10,381,615	10,488,084	106,469
5	Georgia	9,688,729	10,511,131	10,617,423	106,292
6	Washington	6,724,540	7,523,869	7,614,893	91,024
7	Colorado	5,029,319	5,691,287	5,758,736	67,449
8	South Carolina	4,625,366	5,084,156	5,148,714	64,558
9	Tennessee	6,346,276	6,771,631	6,829,174	57,543
10	Nevada	2,700,677	3,027,341	3,080,156	52,815



States With Fastest Percentage Growth 7/1/18-6/30/19


Where is the Golden State?

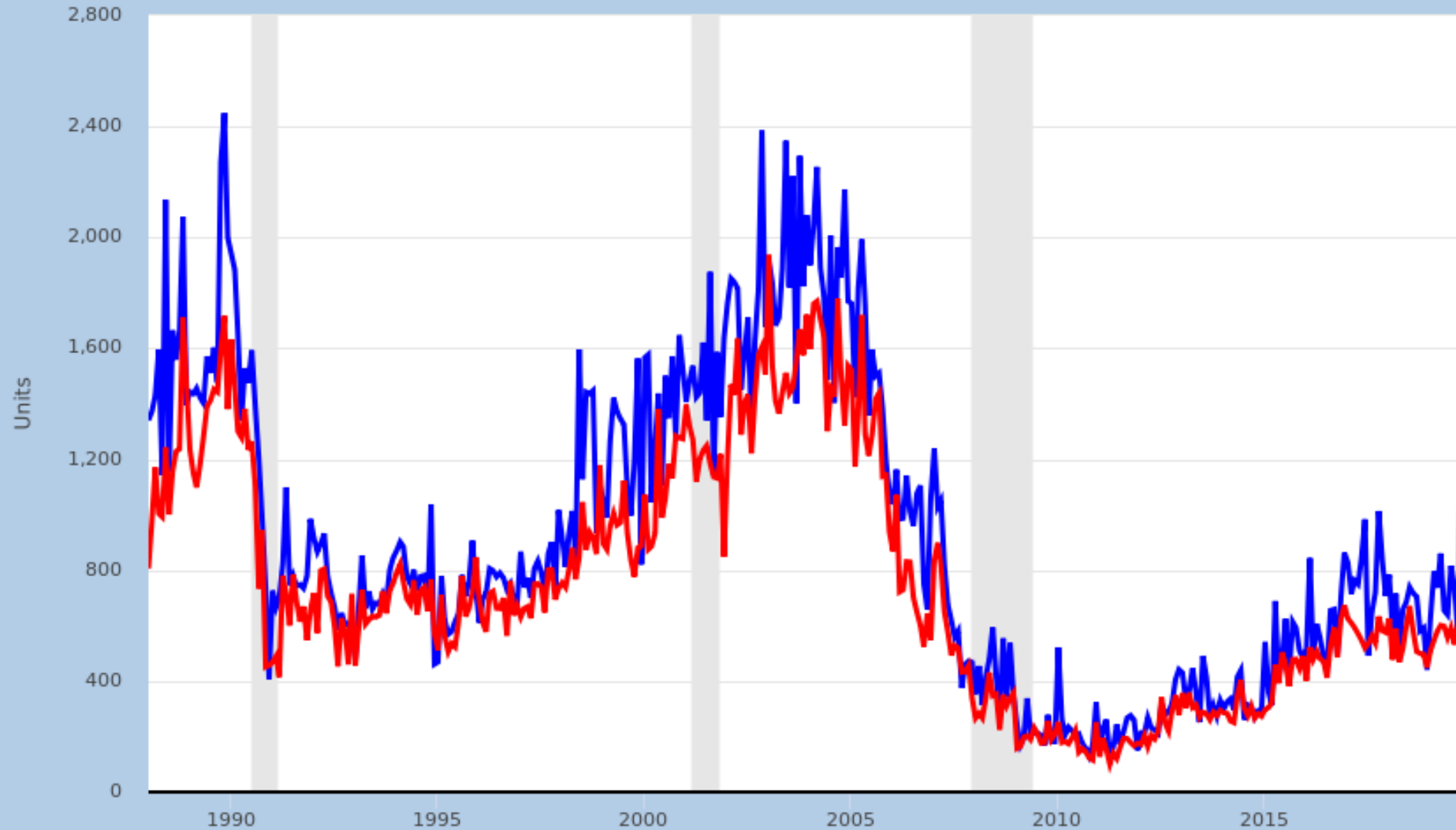
Top 10 States in Percent Growth, 2018 to 2019					
Rank	Geographic Area	April 1, 2010 (Estimates Base)	July 1, 2018	July 1, 2019	Percent Growth
1	Idaho	1,567,657	1,750,536	1,787,065	2.1%
2	Nevada	2,700,677	3,027,341	3,080,156	1.7%
3	Arizona	6,392,288	7,158,024	7,278,717	1.7%
4	Utah	2,763,891	3,153,550	3,205,958	1.7%
5	Texas	25,146,091	28,628,666	28,995,881	1.3%
6	South Carolina	4,625,366	5,084,156	5,148,714	1.3%
7	Washington	6,724,540	7,523,869	7,614,893	1.2%
8	Colorado	5,029,319	5,691,287	5,758,736	1.2%
9	Florida	18,804,564	21,244,317	21,477,737	1.1%
10	North Carolina	9,535,751	10,381,615	10,488,084	1.0%



Housing Starts in Sacramento

Where, where are they happening? No multifamily!

FRED  **New Private Housing Structures Authorized by Building Permits for Sacramento-Roseville-Folsom, CA (MSA)**
New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Sacramento-Roseville-Folsom, CA (MSA)



Shaded areas indicate U.S. recessions

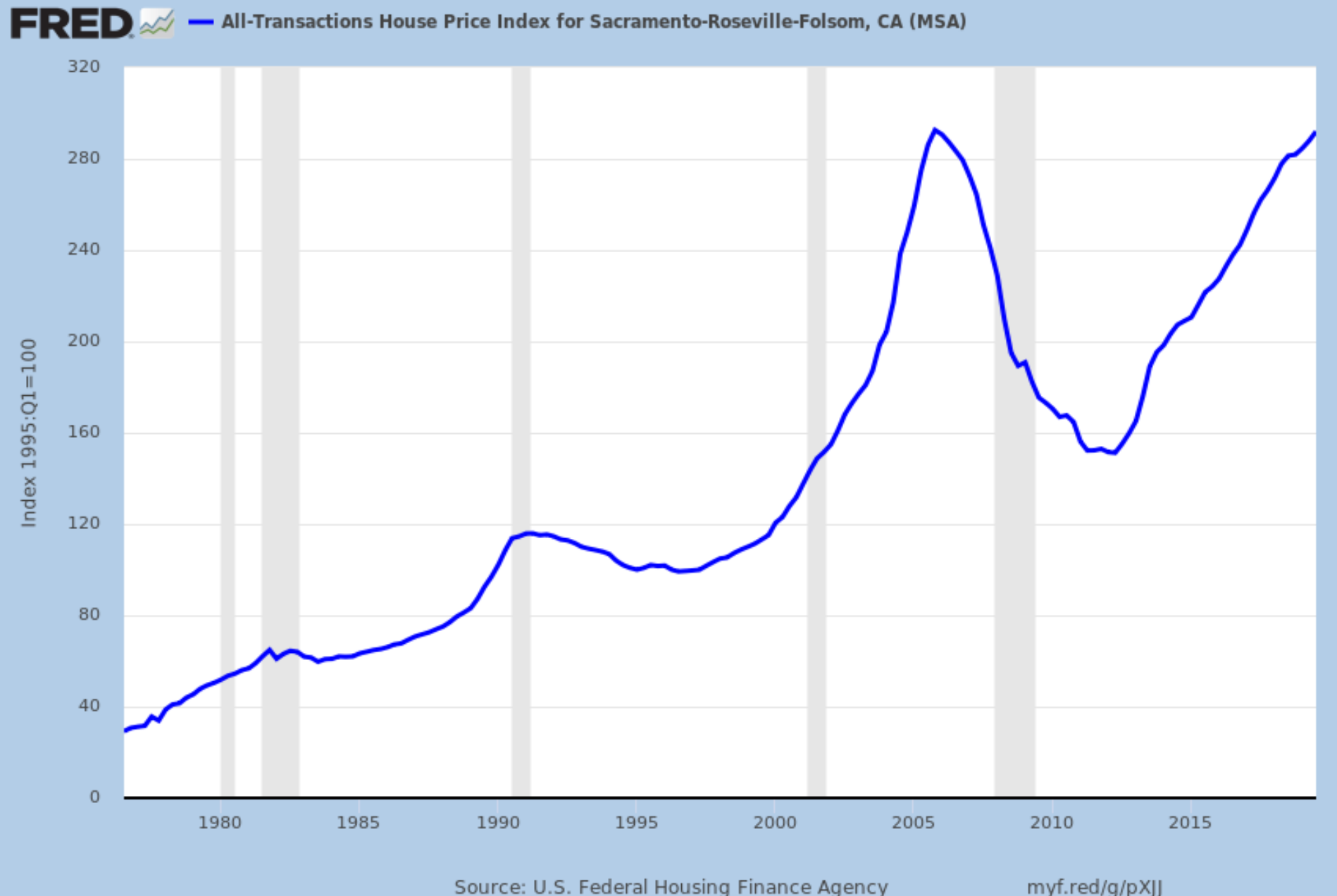
Source: U.S. Census Bureau

myf.red/g/pXJD



Housing Prices Finally Recover

In 2005, starts were more than double what they are today



ANY QUESTIONS?

Elliot F. Eisenberg, Ph.D.

Cell: 202.306.2731

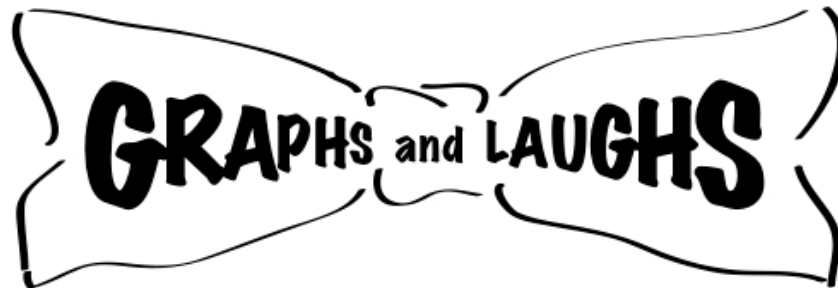
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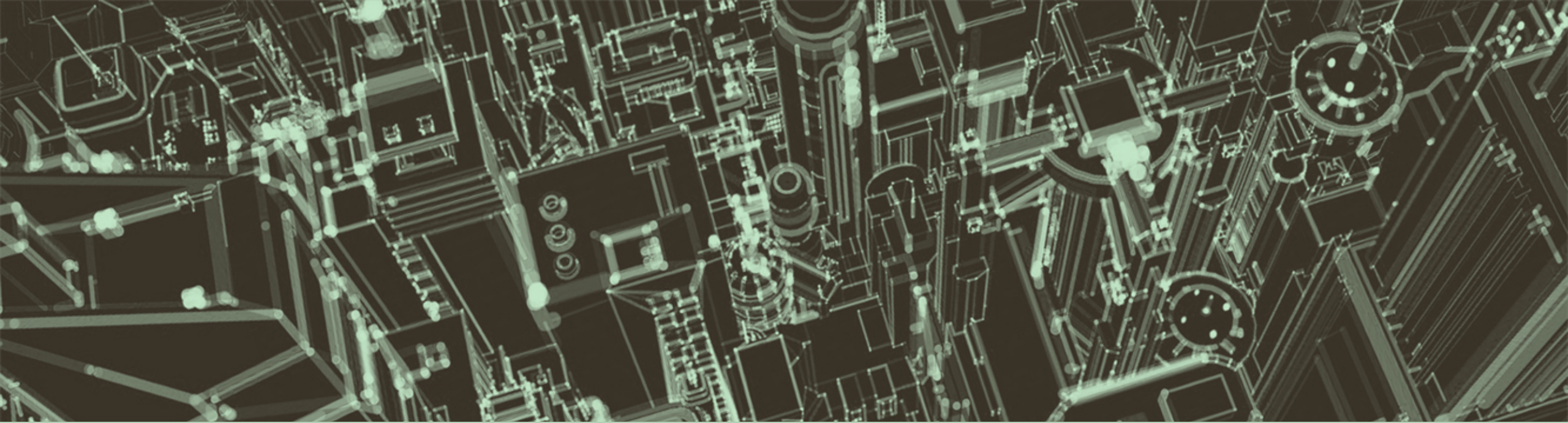
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