As Good as it Gets

The Aging Expansion Powers On

. . . but for How Much Longer?

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Ten Years After: A Full if Imperfect Recovery

- GDP growing stronger and now back to “full potential”
- Jobs well above prior peak and still going strong
- Consumers financially stronger and confident
- Record household wealth
- Wage growth finally rising
- Home prices above prior peak nationally
- College enrollment still strong (if down modestly)
- Growth still below average; GDP “potential” keeps dropping
- Fewer people working; more low-end and part-time jobs
- Most Americans still live paycheck to paycheck
- Wealth (and income) even more highly concentrated at the top
- Inflation negating wage gains
- Numerous homes still seriously underwater; affordability reducing homeownership rates
- Student debt levels soaring

#NMHCstudent
@ApartmentWire
The Aging
Moderate
Expansion. . .
Deserves
more respect
As Good as it Gets? (1)
Economy surges . . . but less than it seems
As Good as it Gets? (2)
Job growth strong but slowing ... as unemployment falls
As Good as it Gets? (3)
Job openings now exceed hires . . . and unemployed workers!
Leading Indicators Still High – but for how long?
Virtually all states to keep expanding into 2019

State Leading Indexes: Expected Six-Month Change

U.S. Leading Economic Indicator Index

Source: Federal Reserve Bank of Philadelphia
Business and Consumer Confidence
Both near high point for this cycle

At/near high point in this cycle
Home Sales Strong-ish but Stalling
Both new and existing home sales flat to falling since the spring
Yield Curve Flattening
Long-term yields still > short-term yields – but barely

10-year minus 2-year Treasury Yields

Spread in 2018
GDP Output Gap is Positive and Rising
Overheating economy prompting Fed to cool growth with rate hikes

GDP Output Gap = (Actual GDP – Potential GDP) / Potential GDP

Key Economic Themes for 2018+
New life for a maturing expansion . . . but comes with risks

Drivers
› Tax cut / reform and new budget spending provide short-term boost
› Exuberant business sector to keep investing (though pace softening)
› Consumers confident but tapped out
› Global growth (and trade) slowing again after brief peak in 2017
› Fed increasingly pivots from expansionary to neutral (to contractionary)
› Increasingly tight labor markets raise wages, cool job growth

Near-Term Risks
› Rising dollar and growing costs of trade wars
› Equity prices (still) looking pricey, risk of correction
› Emerging market contagion from oil / currency shocks
› Accelerating inflation: wages, fiscal overdrive, deficit spending
› Overcorrection from Fed
2018+ U.S. Economic Forecast
“Mostly sunny with increasing clouds and a chance of T-storms”

› **We’re (much) closer to the end of the expansion than the beginning**
  • 2018 will be very good year but economy starts to cool in late 2019
  • Job growth slowing as we near “full employment”
  • Inflation and interest rates finally rising in earnest
  • Another one to two good years left but rising downside risks by 2020

› **We’re much (much!) closer to the top of the market cycle than the bottom**
  • Absorption and sales transactions to continue slowing.
  • Financial returns will continue easing as cap rates stabilize / rise . . .
  • But strong investor interest will maintain asset values for now.

› **Next recession / downturn likely to be kinder to property sector**
  • “Great Recession” was unusually deep / long / broad . . . and focused on property sector.
  • Next recession likely to be shallower / shorter / regional, and focused on other sectors. . .
  • But does Fed have tools to fight the next one?