As Good as it Gets

The Aging Expansion Powers On
. . . but for How Much Longer?

Andrew J. Nelson
Chief Economist | USA, Colliers International

STUDENT HOUSING CONFERENCE & EXPOSITION

#NMHCstudent
@ApartmentWire

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

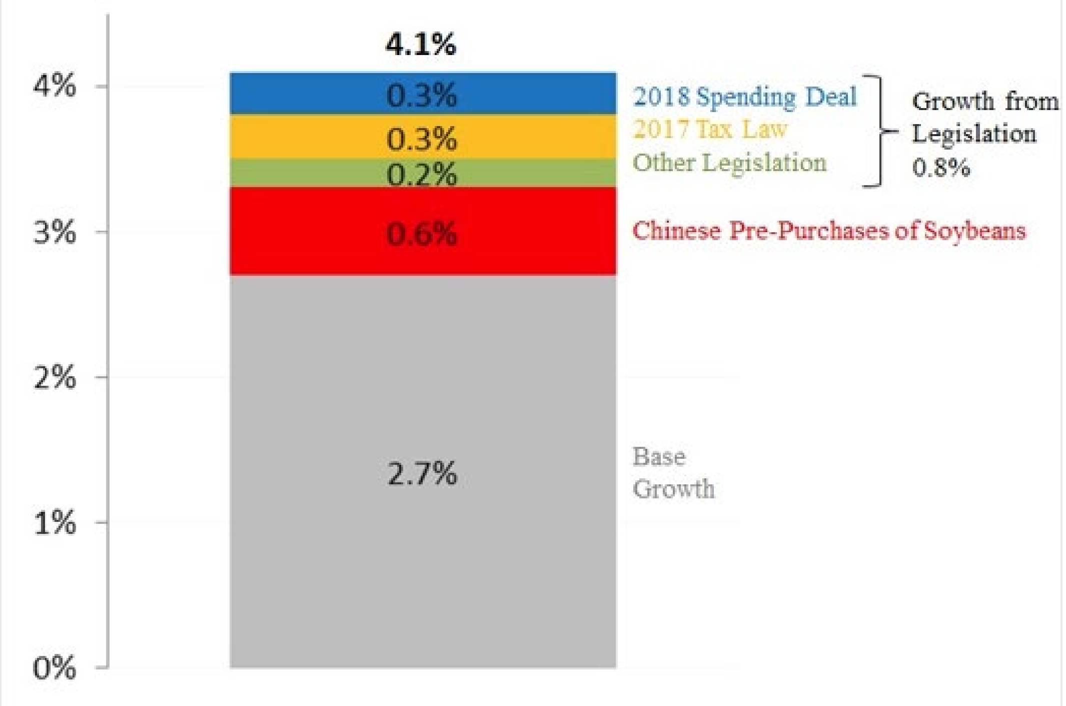
> Numerous homes still seriously underwater; affordability reducing homeownership rates

> Student debt levels soaring


The Aging
Moderate
Expansion. . .
Deserves
more respect

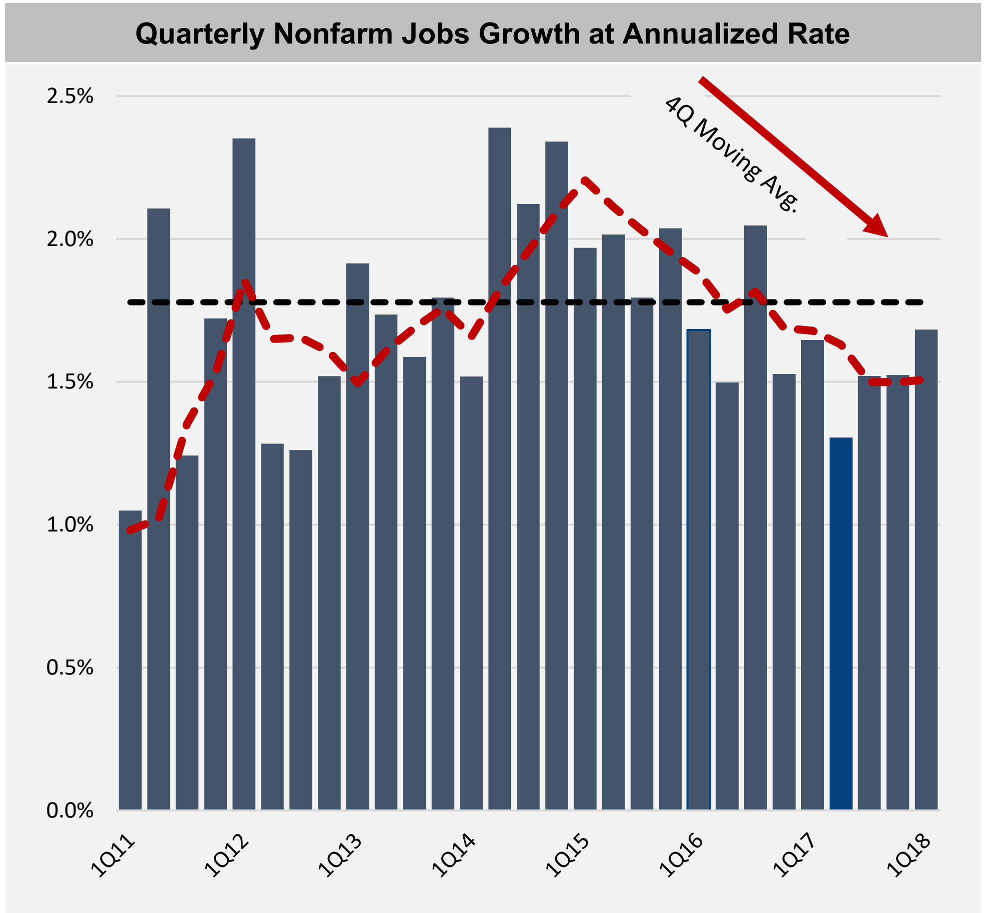
As Good as it Gets? (1)

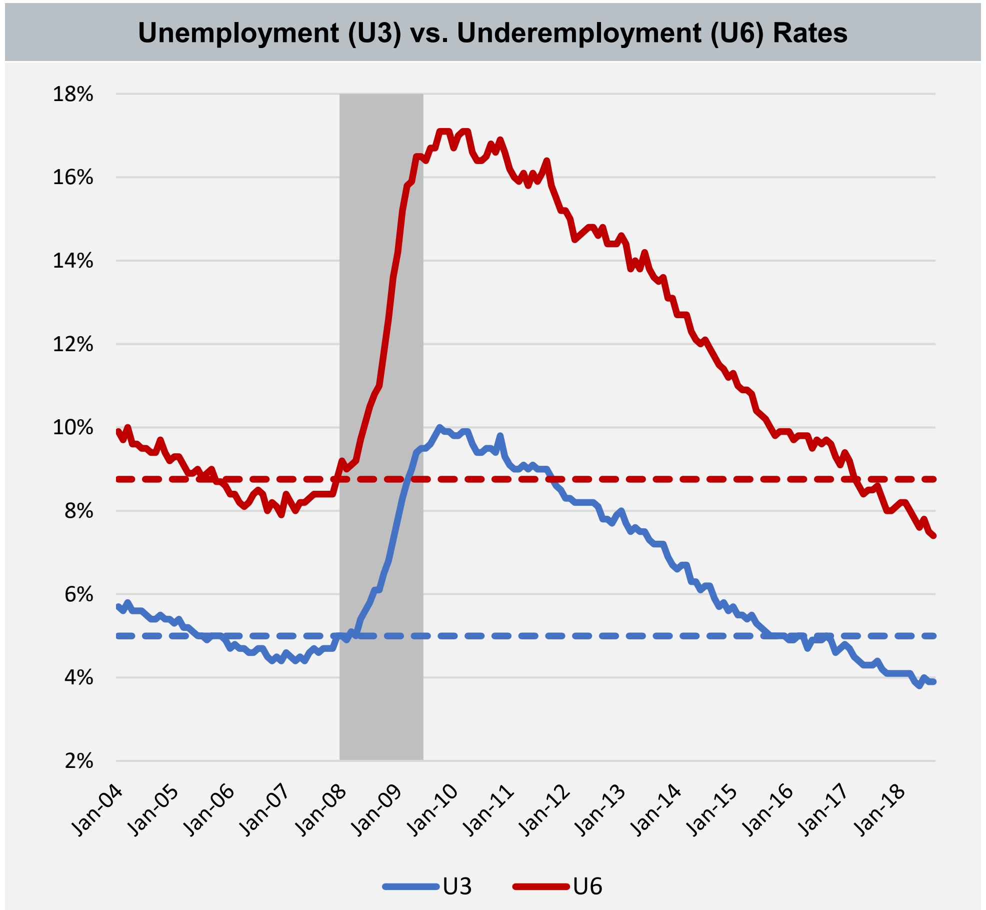
Economy surges . . . but less than it seems



As Good as it Gets? (2)

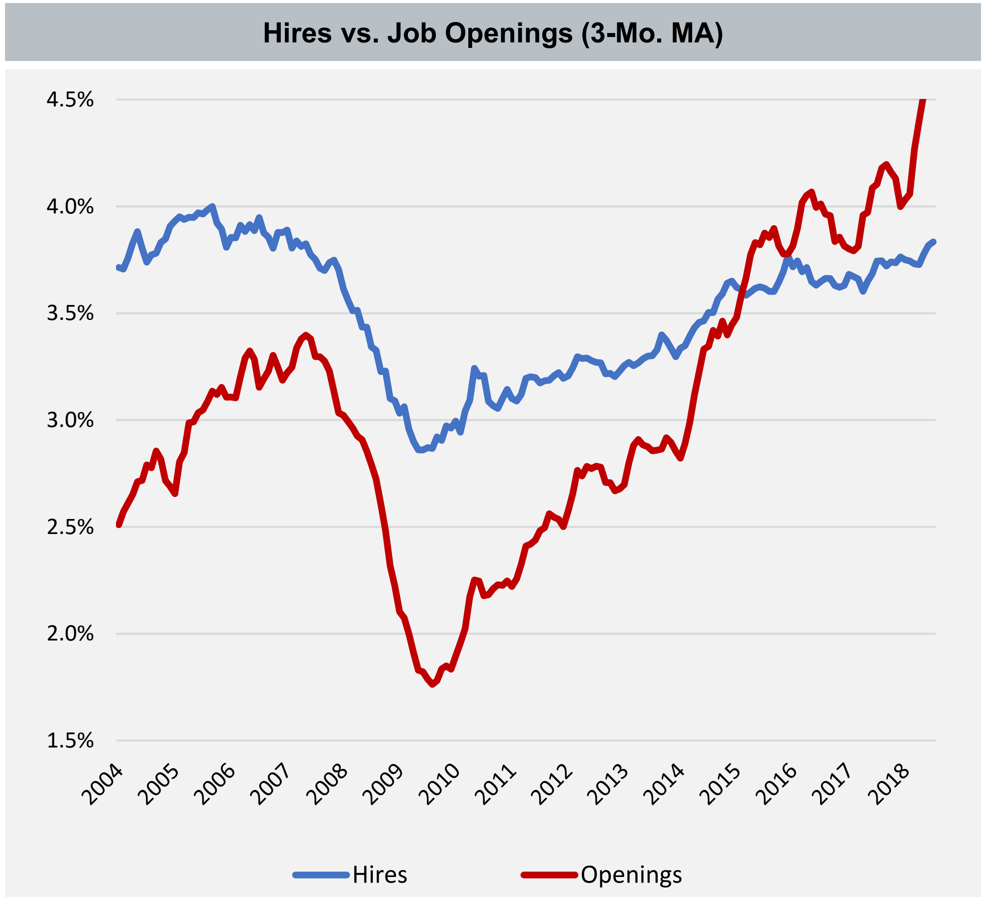
Job growth strong but slowing . . . as unemployment falls

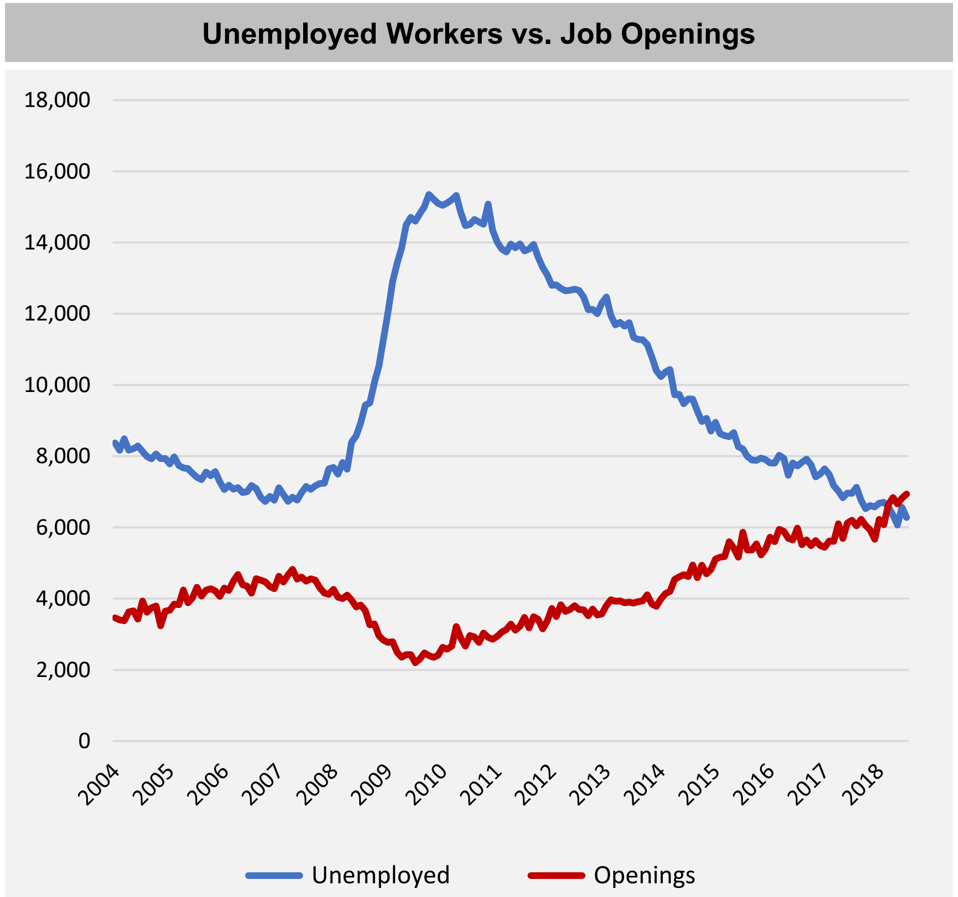




As Good as it Gets? (3)

Job openings now exceed hires . . . and unemployed workers!

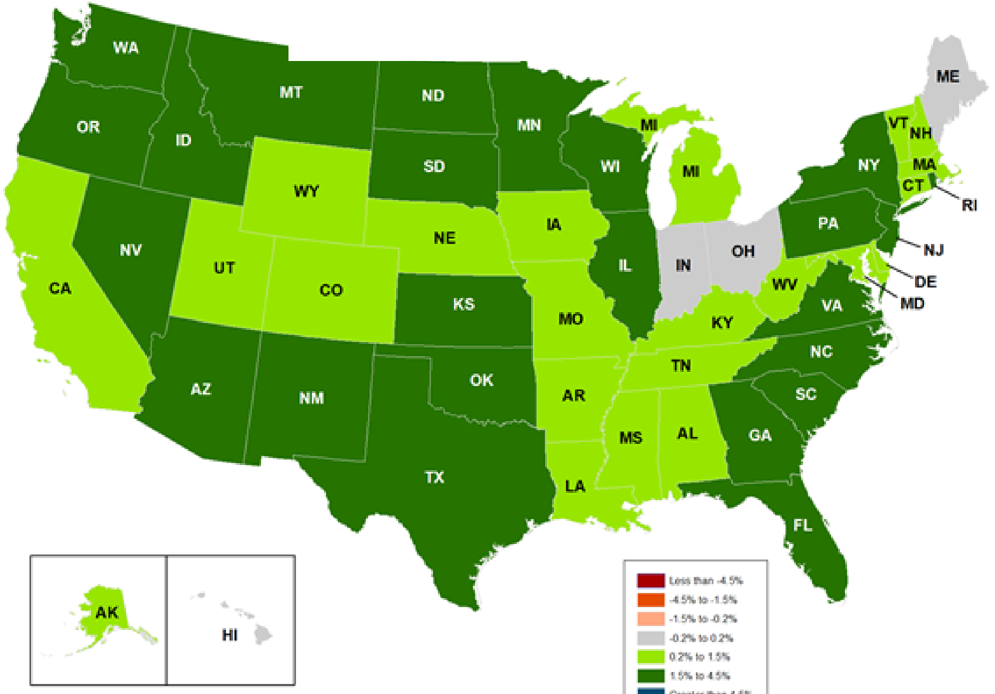




Leading Indicators Still High – but for how long?

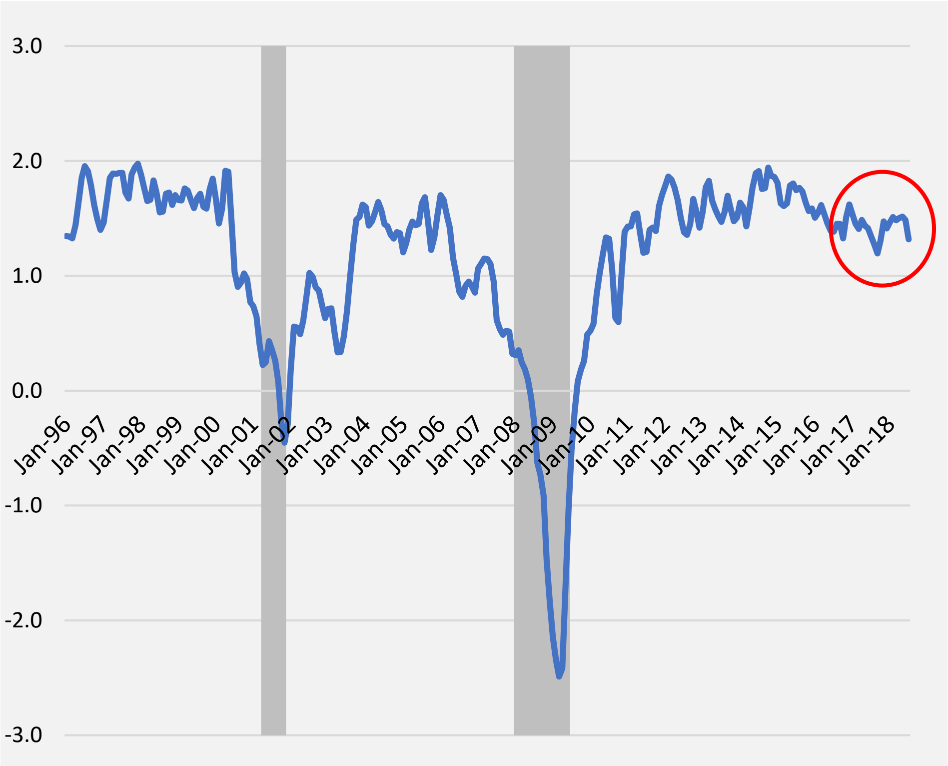
Virtually all states to keep expanding into 2019

State Leading Indexes: Expected Six-Month Change



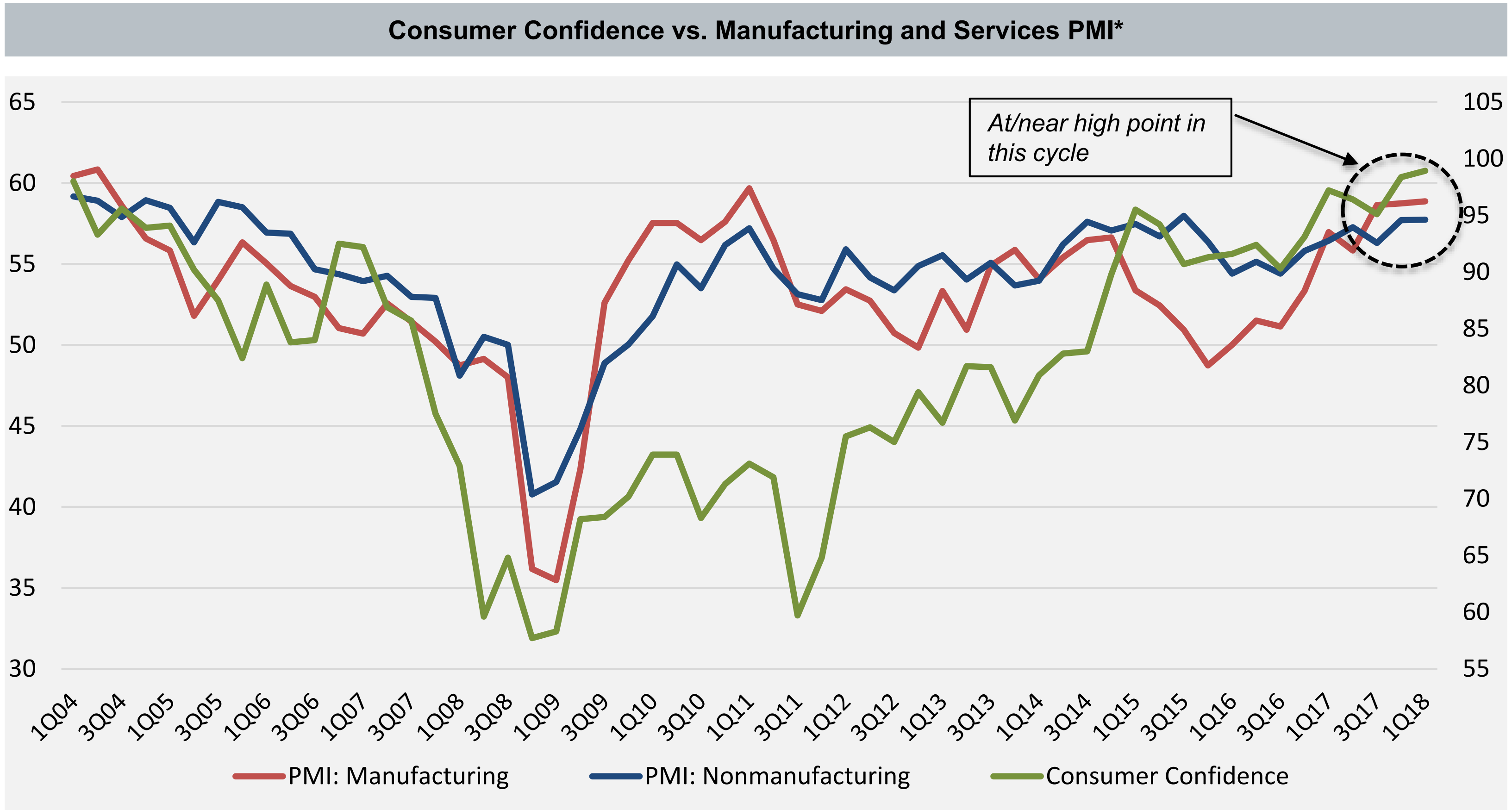
Source: Federal Reserve Bank of Philadelphia

U.S. Leading Economic Indicator Index



Business and Consumer Confidence

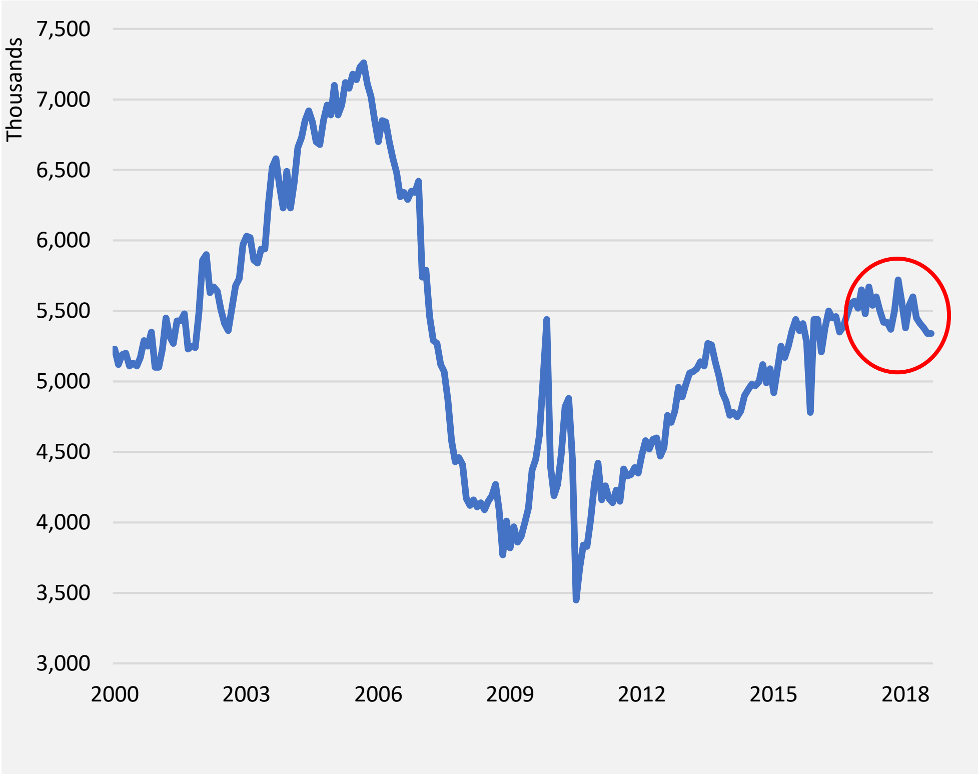
Both near high point for this cycle



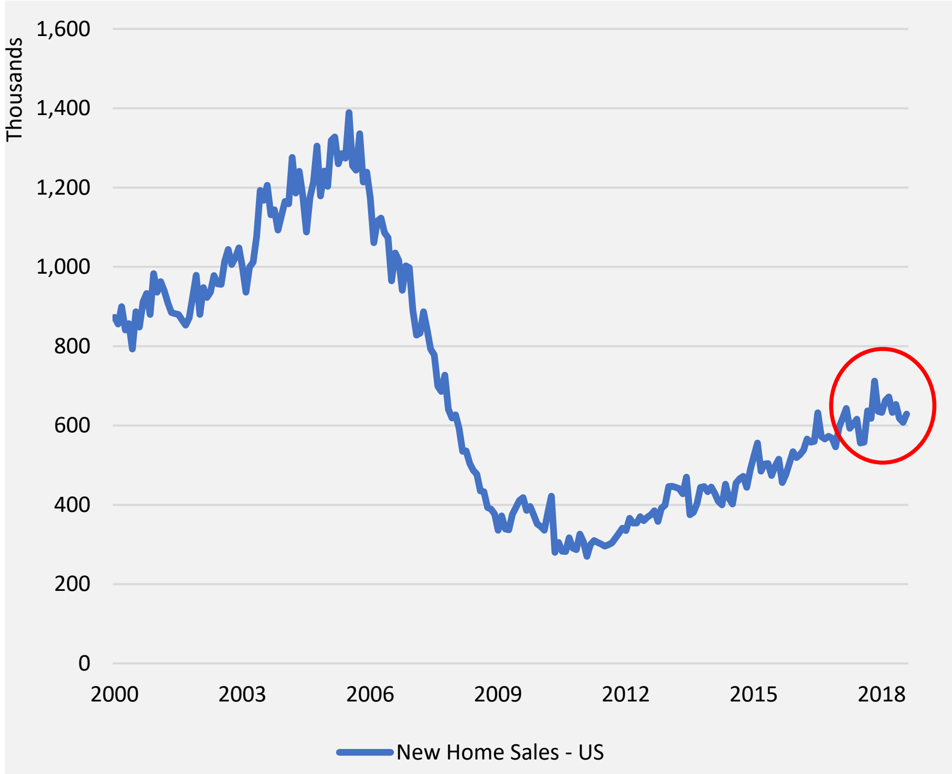
Home Sales Strong-ish but Stalling

Both new and existing home sales flat to falling since the spring

Existing Home Sales, SAAR (000s)

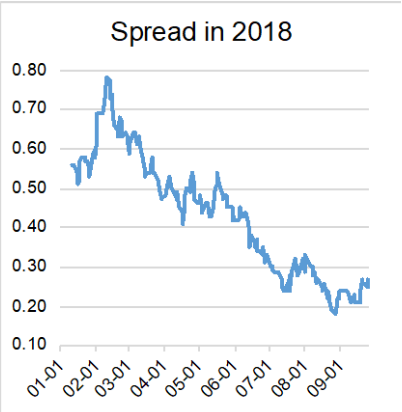


New Home Sales, SAAR (000s)



Yield Curve Flattening

Long-term yields still > short-term yields – but barely



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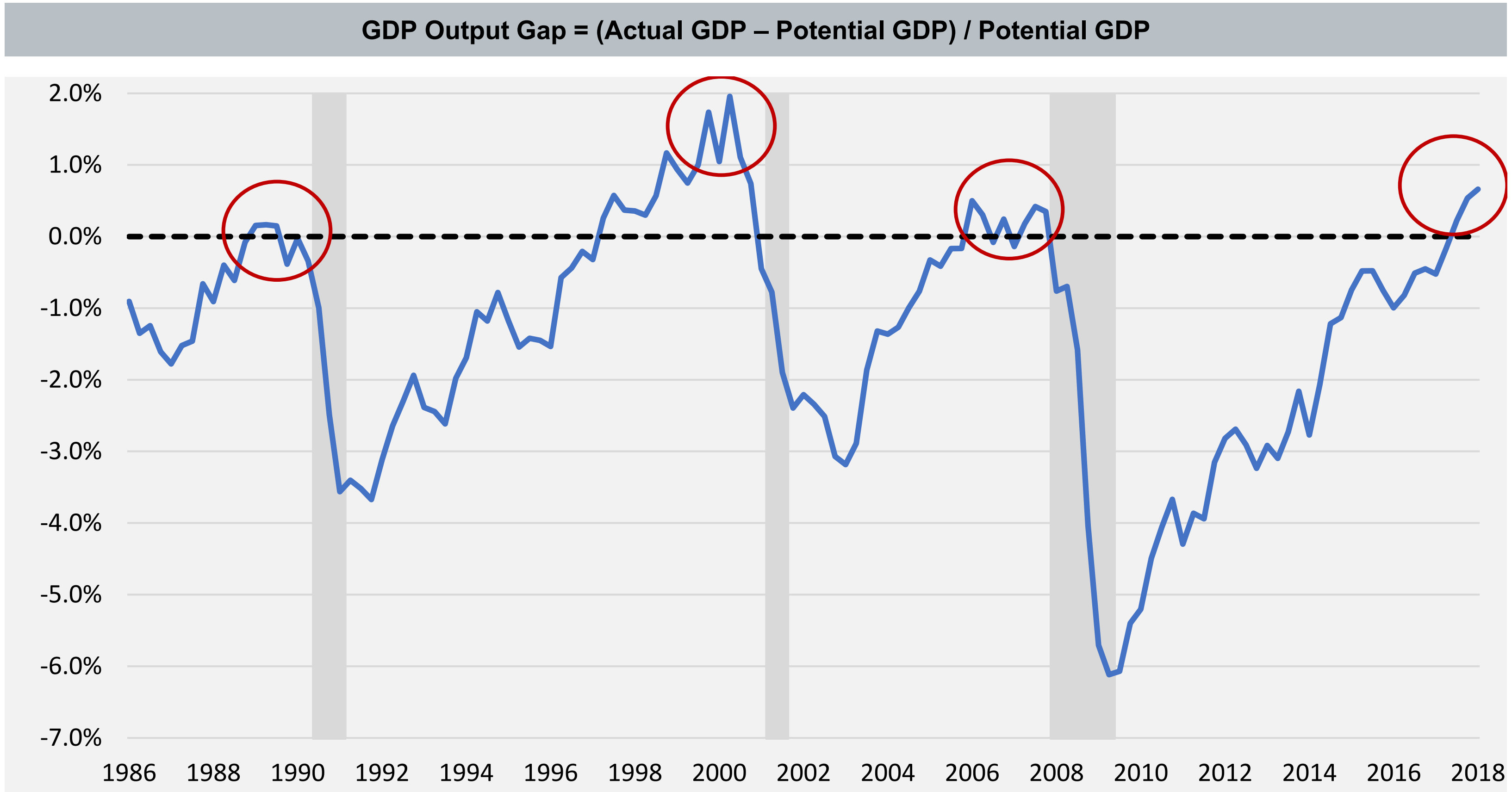
GDP Output Gap is Positive and Rising

Overheating economy prompting Fed to cool growth with rate hikes



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?

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