

HOUSING AND THE ECONOMY

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January 16, 2019



**Georgia
Power**



Angel Oak

HOME LOANS



COLES COLLEGE OF
BUSINESS
KENNESAW STATE UNIVERSITY

HBA/BDL QUARTERLY REPORT – December 2018



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METROPOLITAN ATLANTA
CONSUMER CONFIDENCE SURVEY



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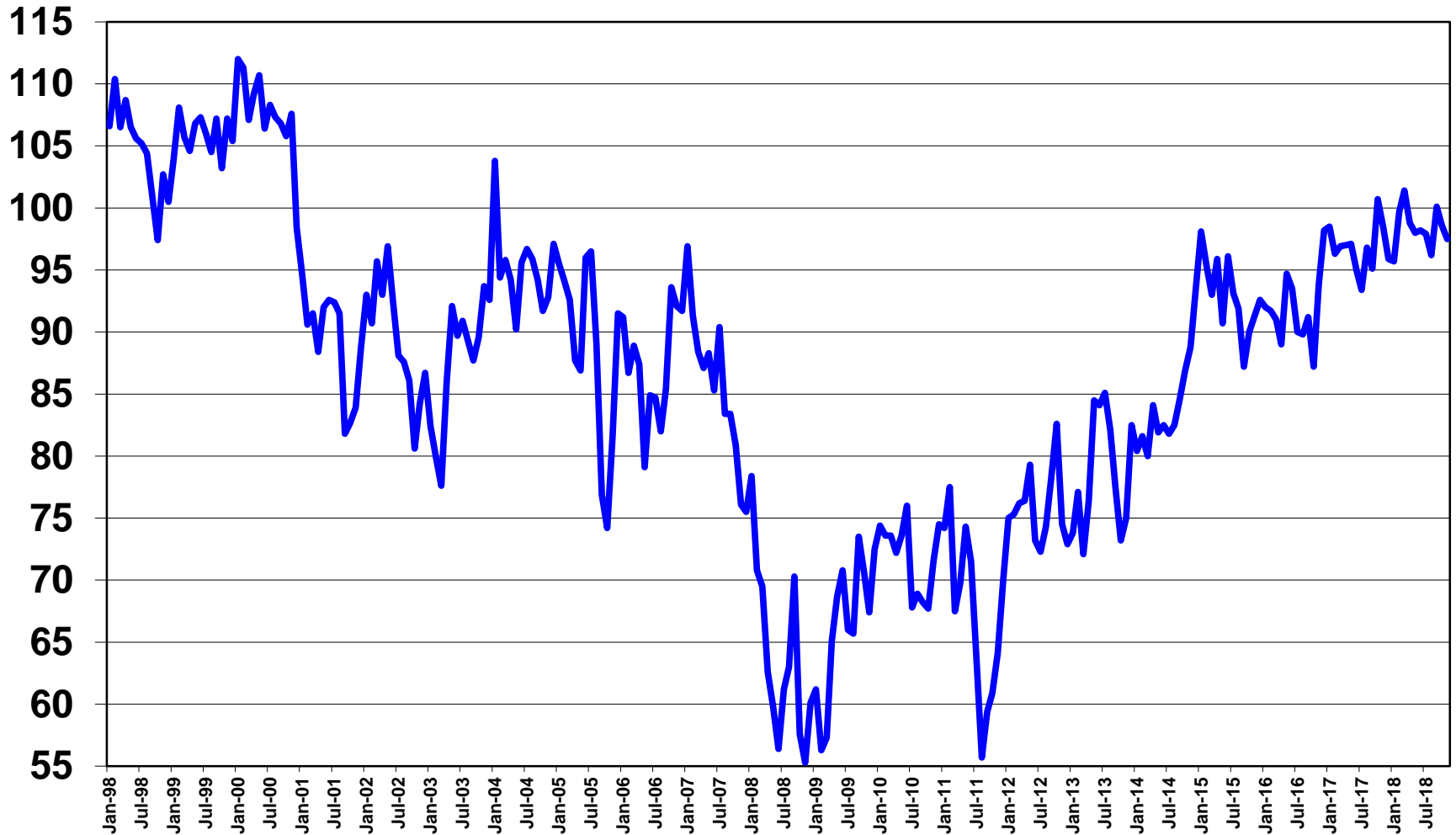


Metropolitan Atlanta Consumer Confidence Survey
Fourth Quarter 2018 – BDL Roundtable – January 16, 2019

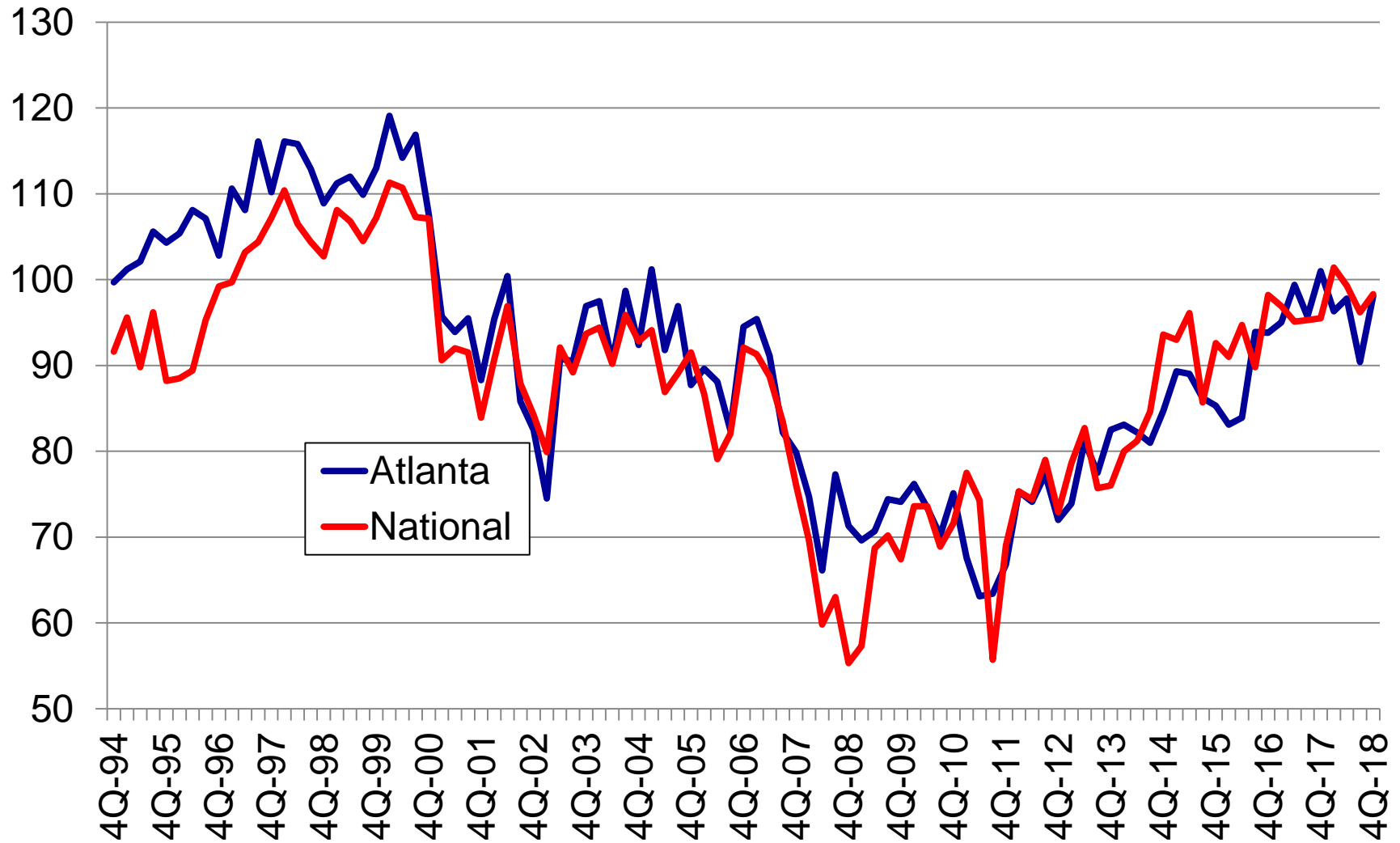


Consumer Sentiment

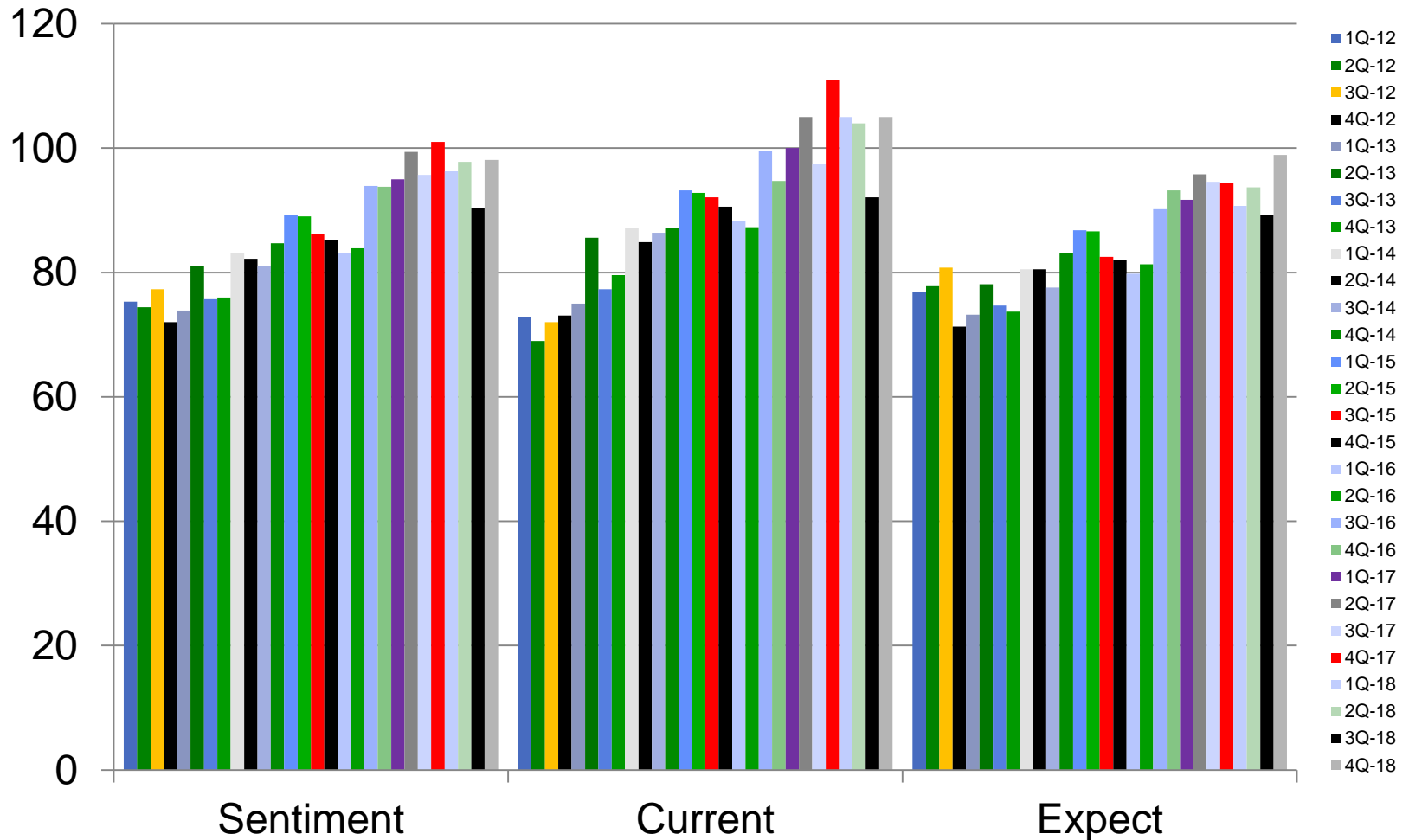
(source: University of Michigan, Survey Research Center)



CONSUMER SENTIMENT

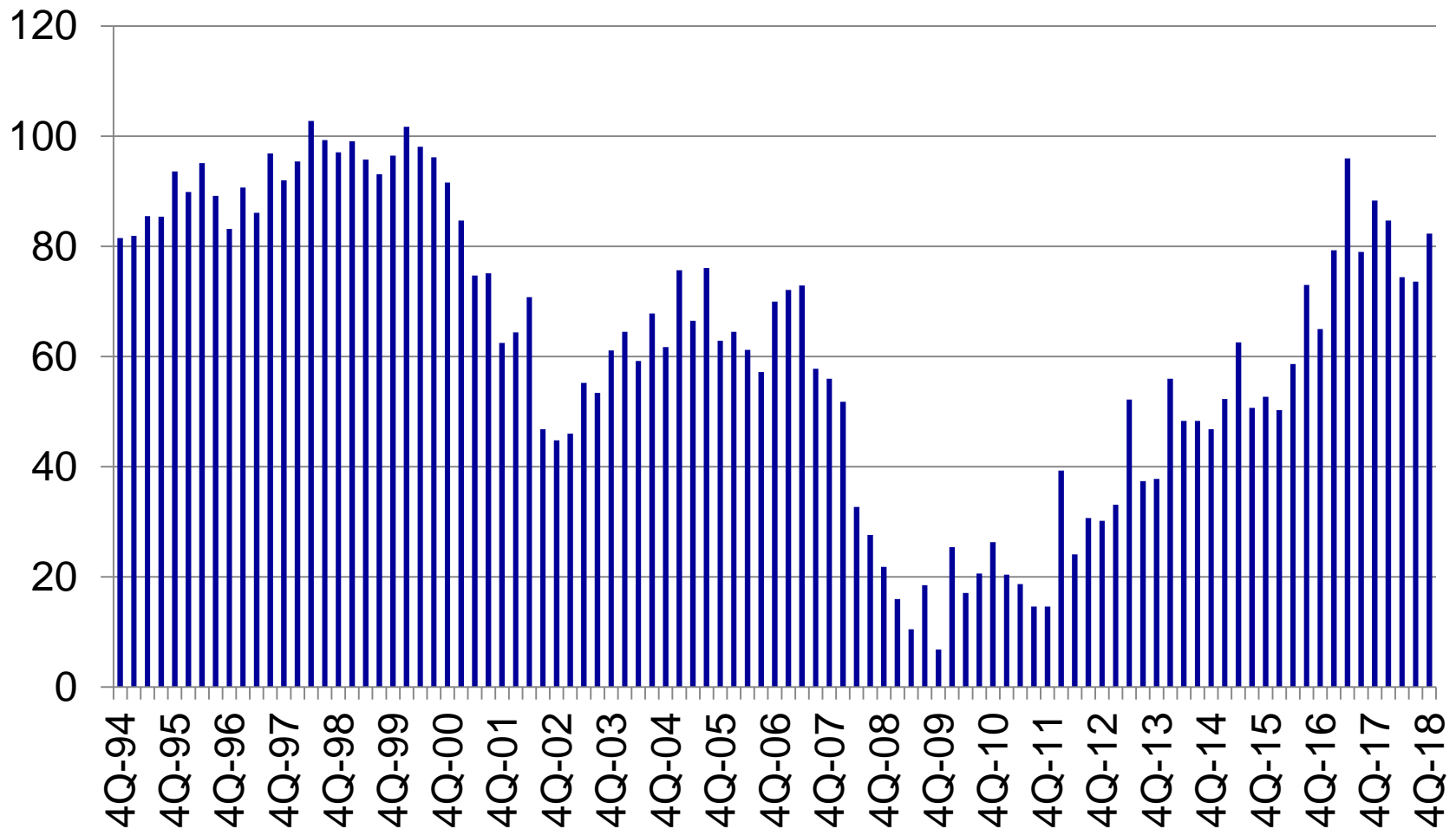


CONSUMER SENTIMENT: ATL



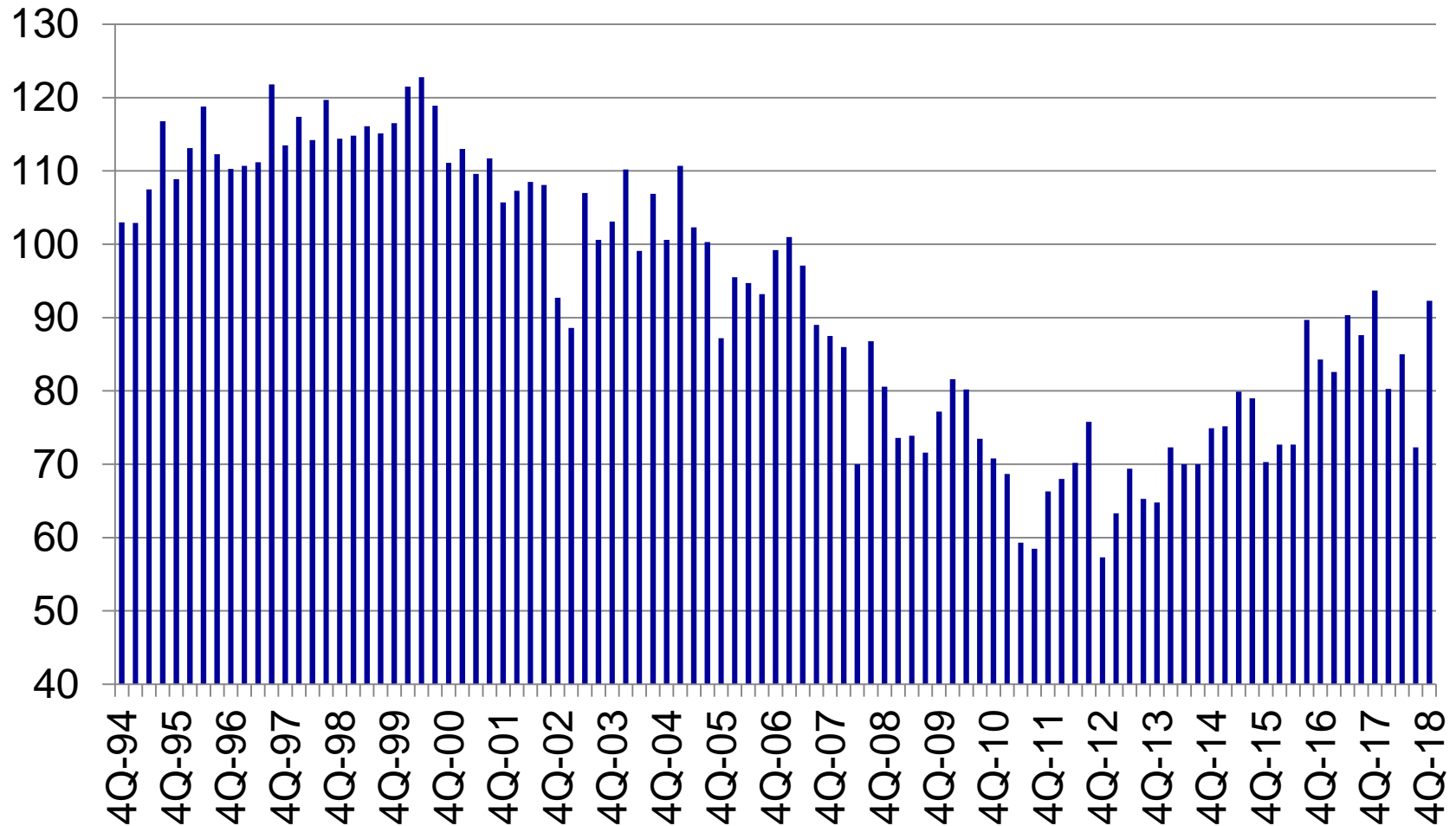
Better off or worse off than you were one year ago?

(Index = up – down + 50)



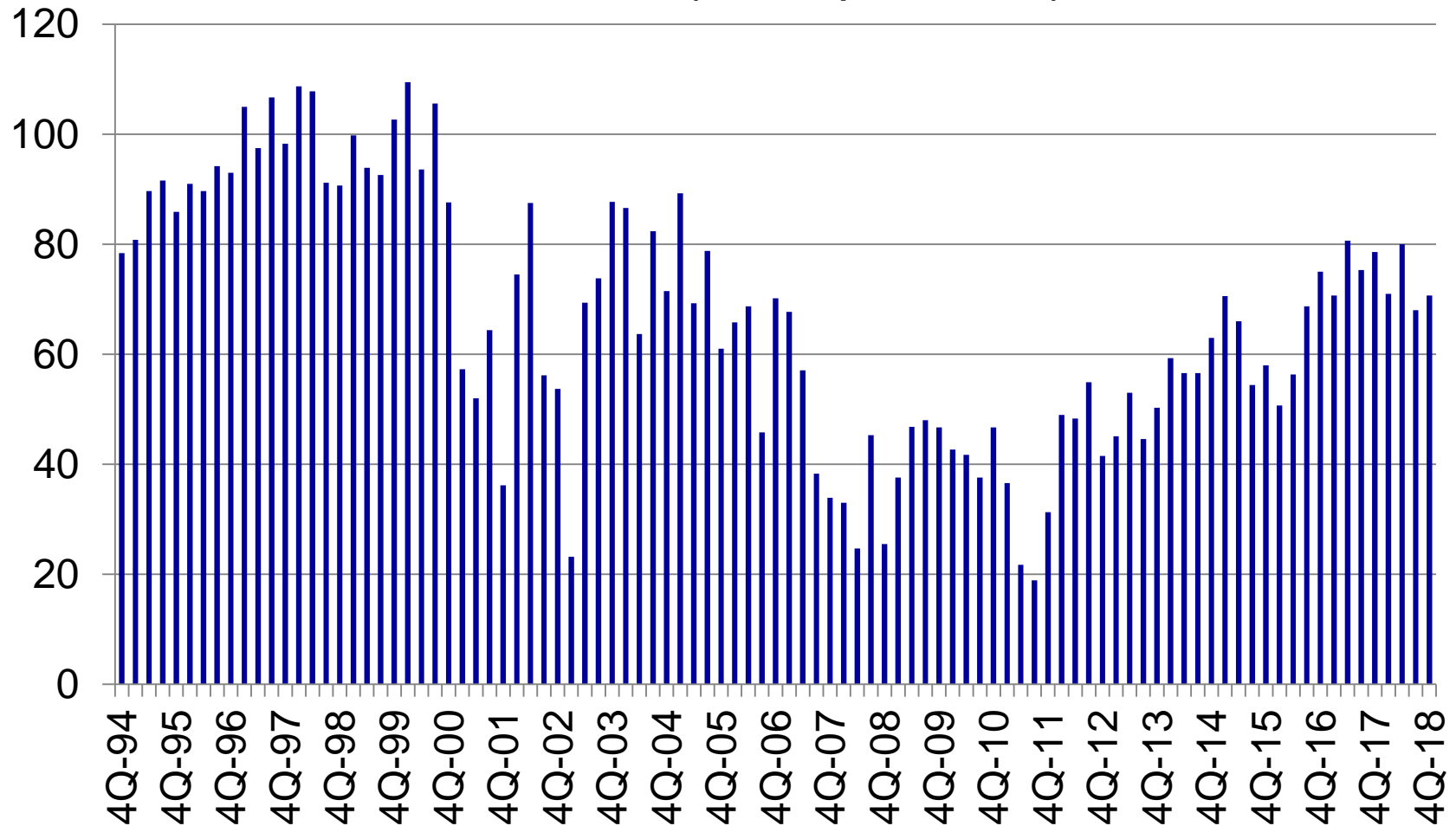
Will you be better off or worse off in one year?

(Index = up - down + 50)

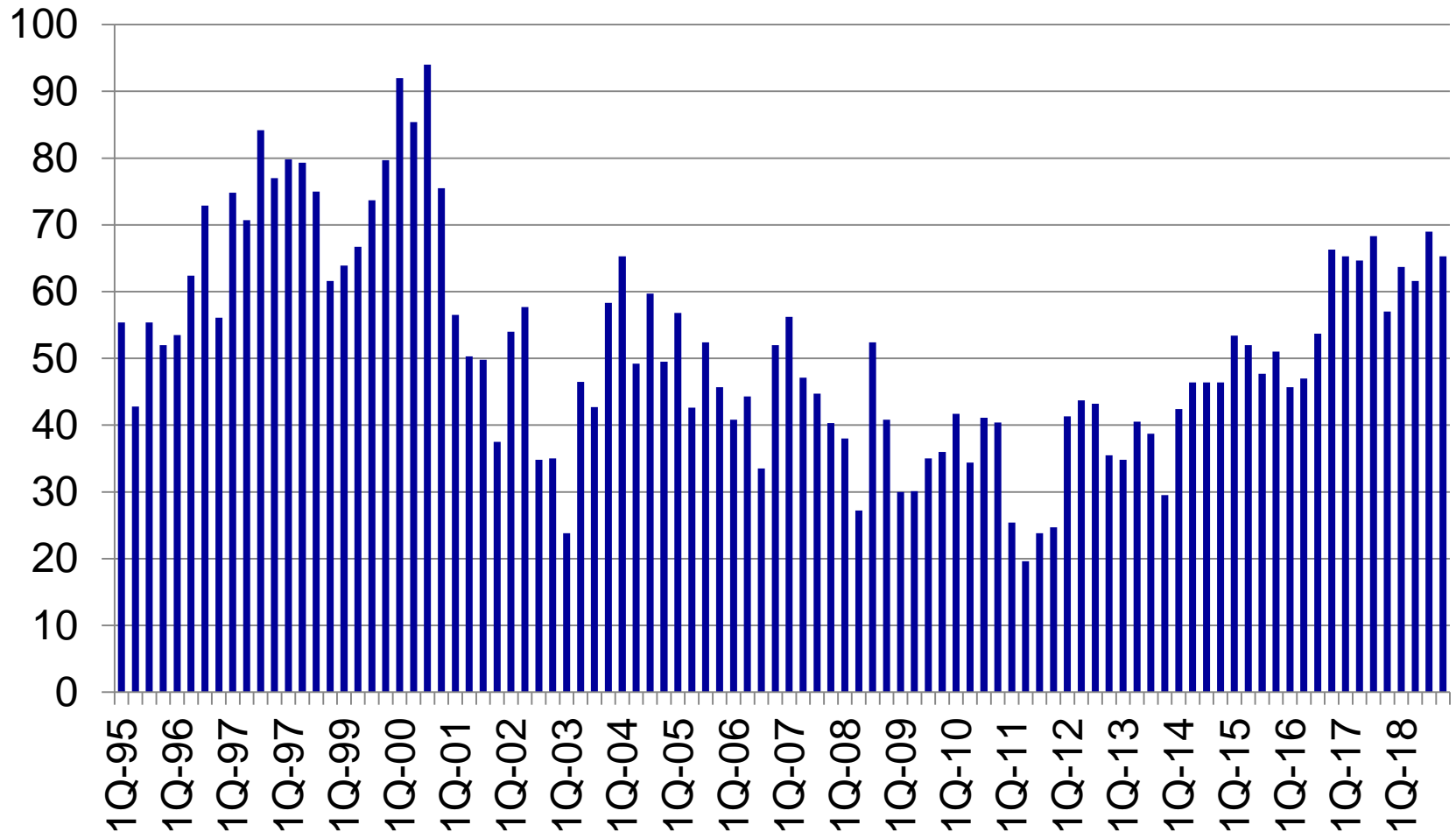


Over the next 12 months will we have GOOD times or BAD times?

(Index = up - down + 50)

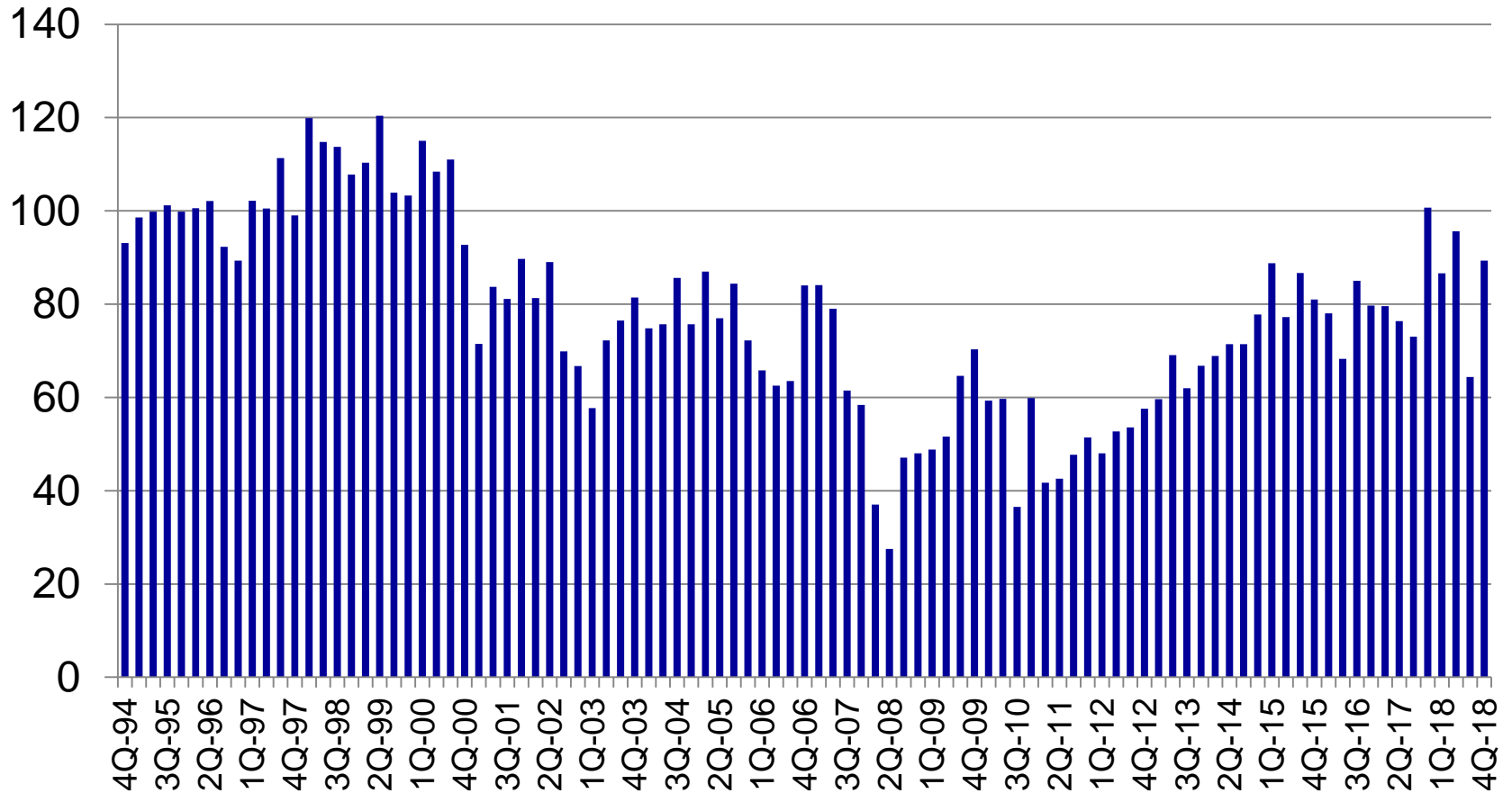


Over the next five years, will we have? (Index = up - down + 50)



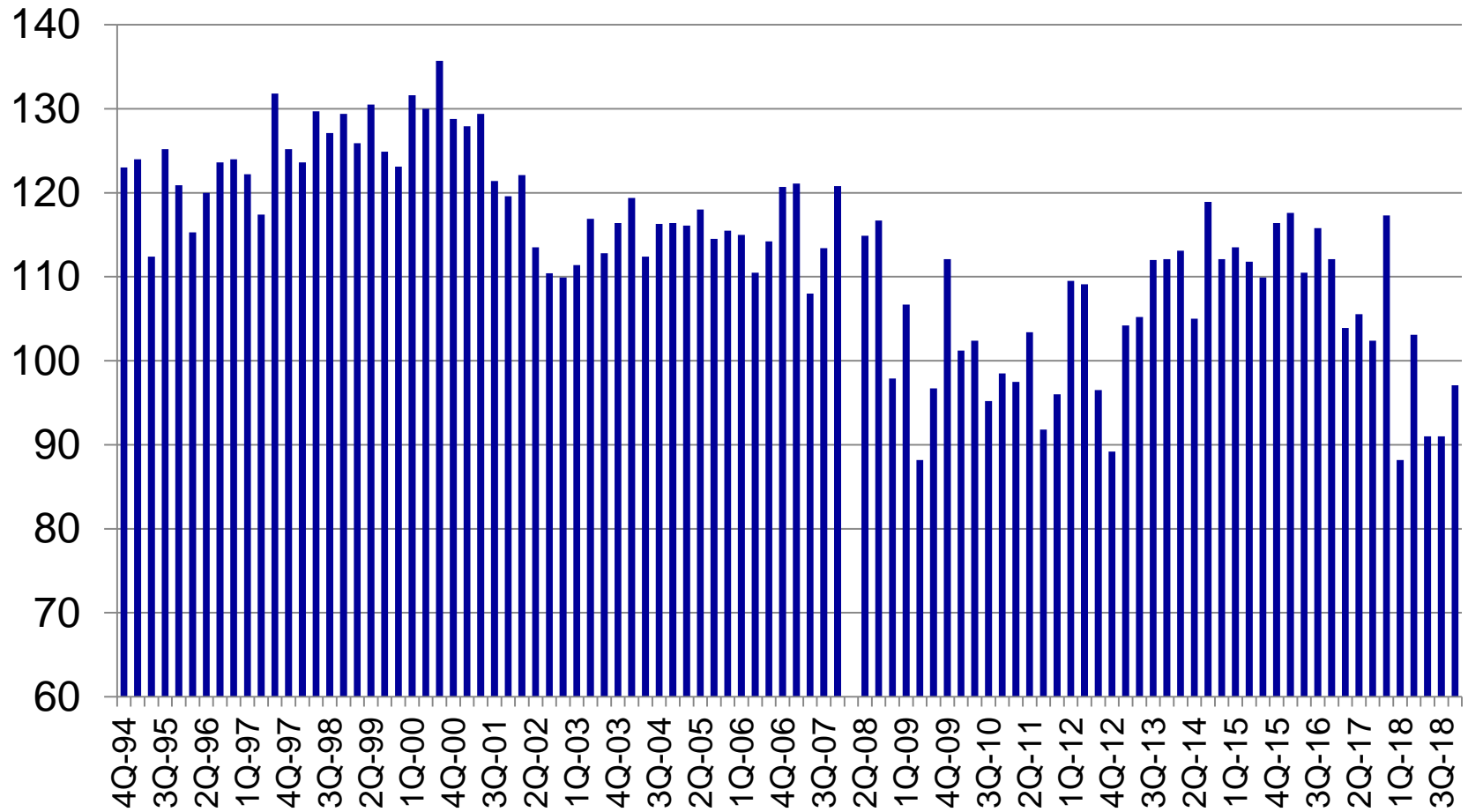
Is it a good time or a bad time to purchase a major household appliance?

(Index = up - down + 50)

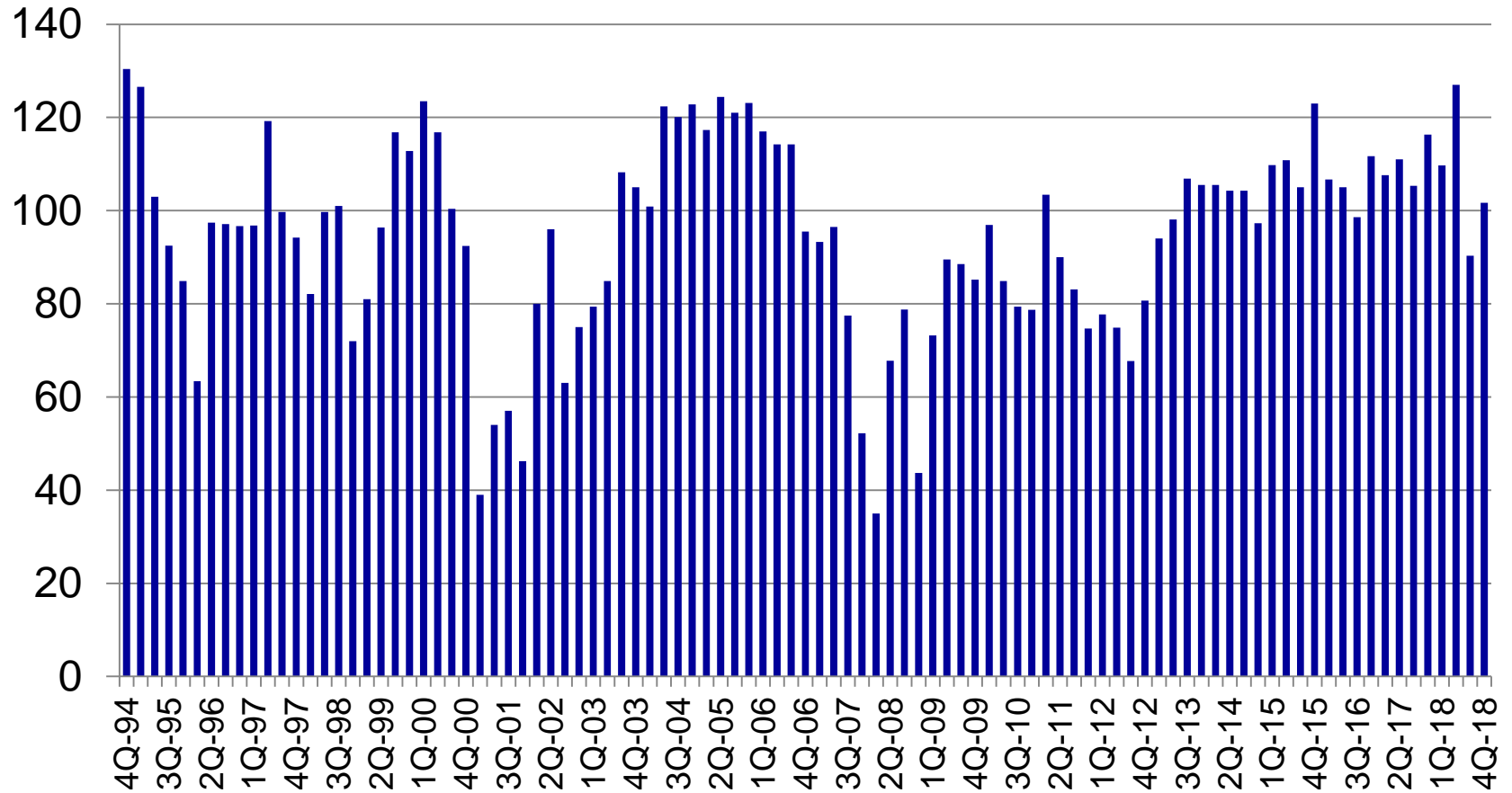


Are you worried about your job security?

(Index = up - down + 50)

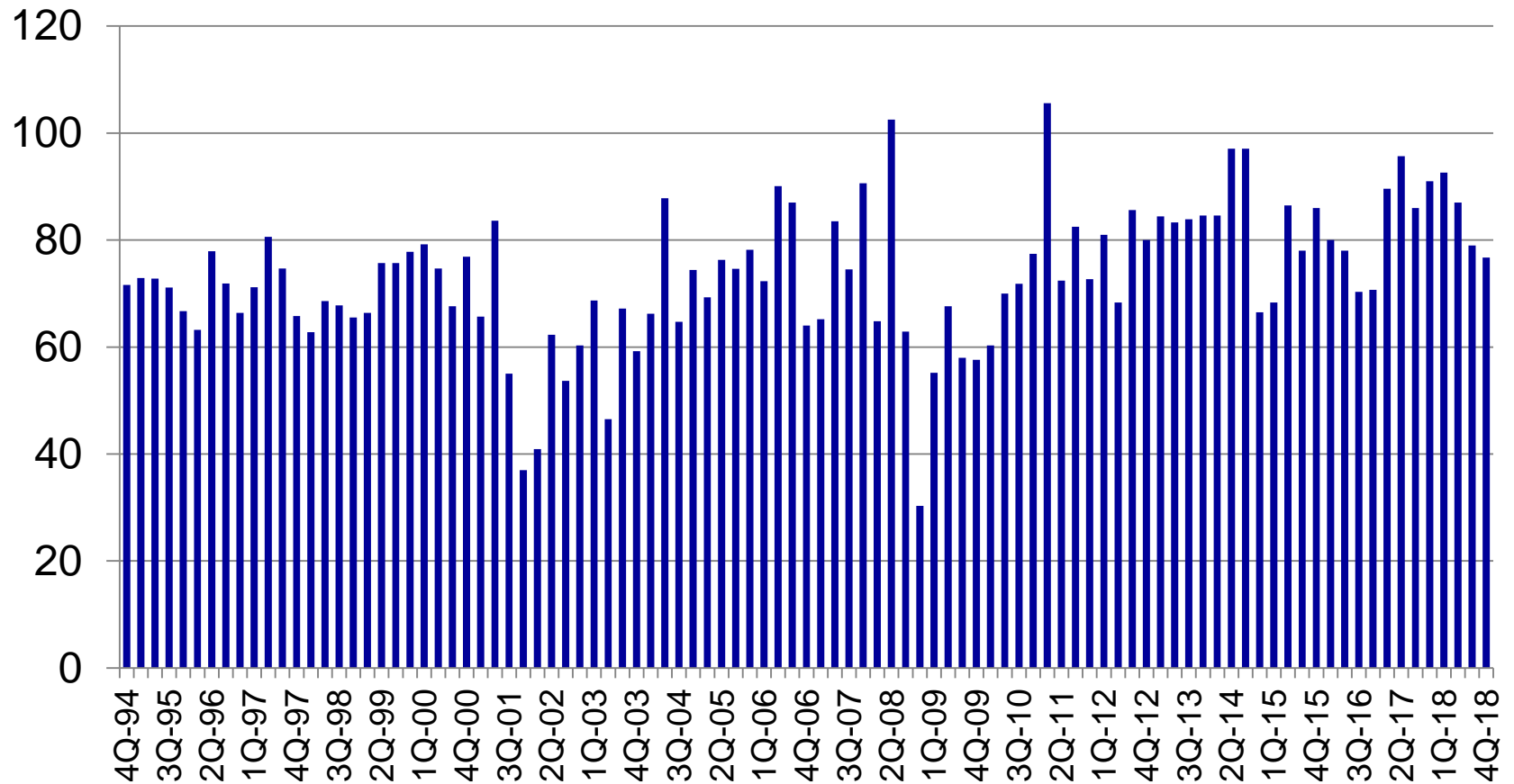


Over the next 12 months, will interest rates go UP, go DOWN, or remain the SAME? (Index = up - down + 50)

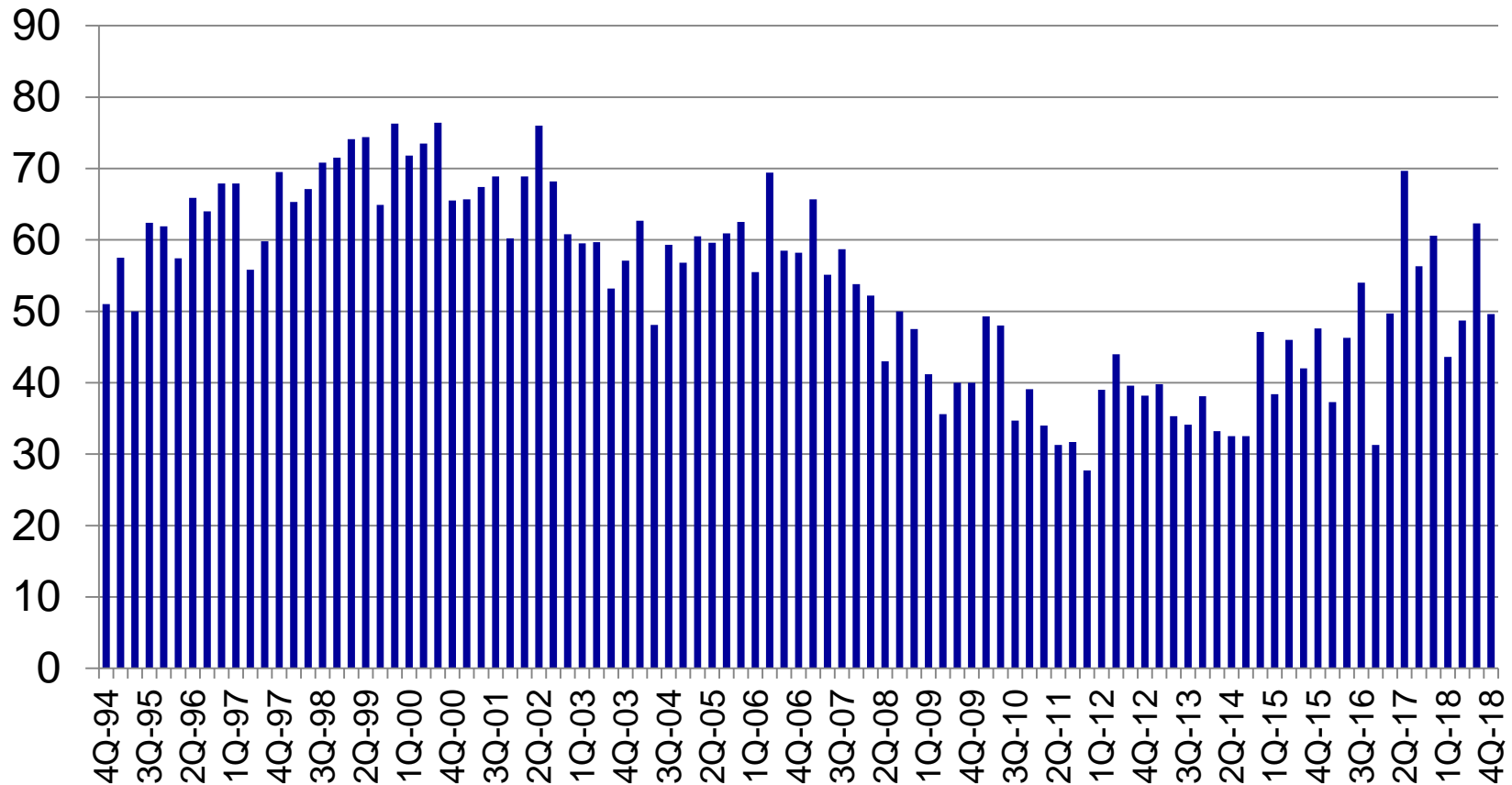


Over the next 12 months, will prices rise faster, slower or at the same rate?

(Index = up - down + 50)

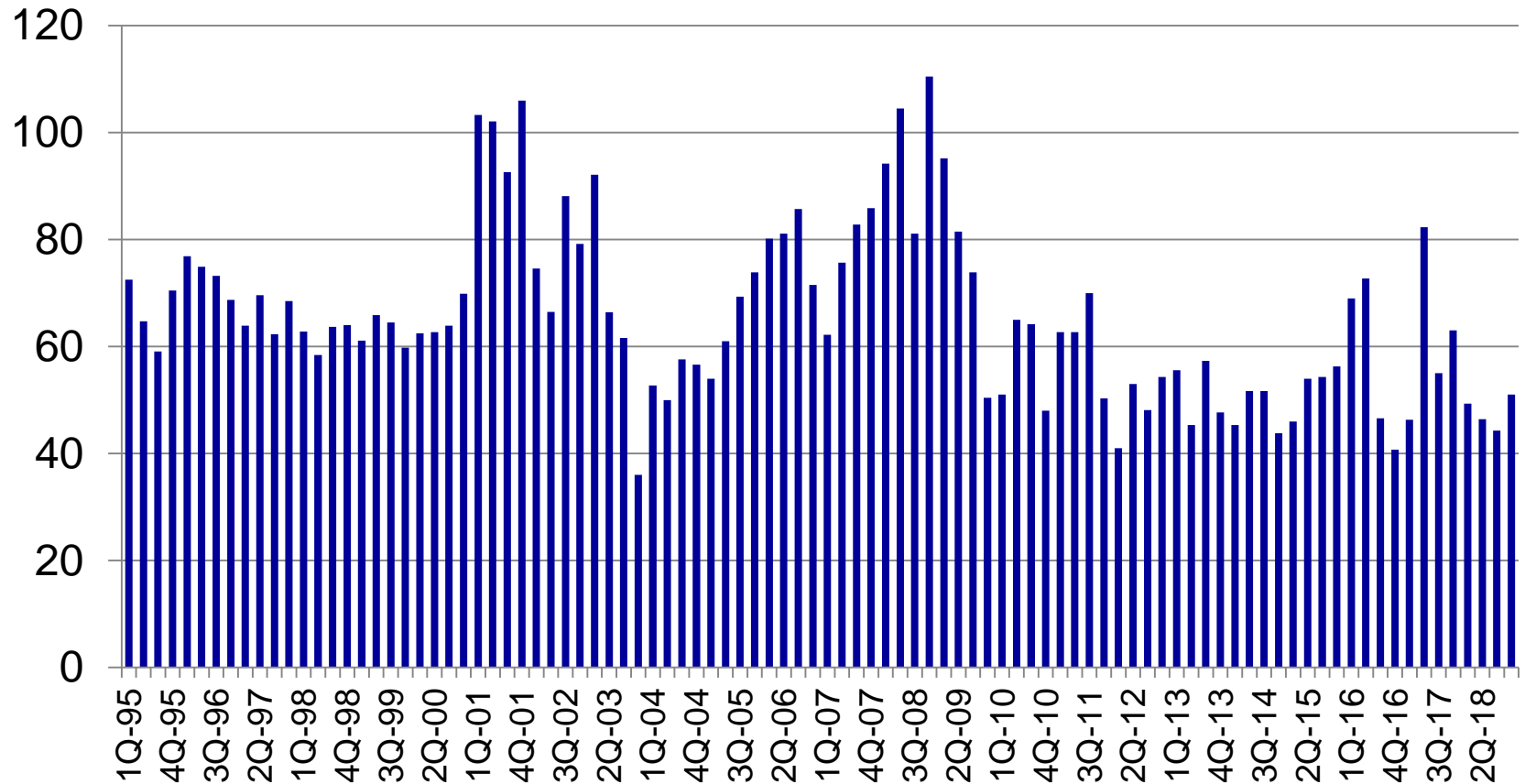


Over the next 12 months, will your income rise more than prices, less than prices, or stay about the same? (Index = up - down + 50)



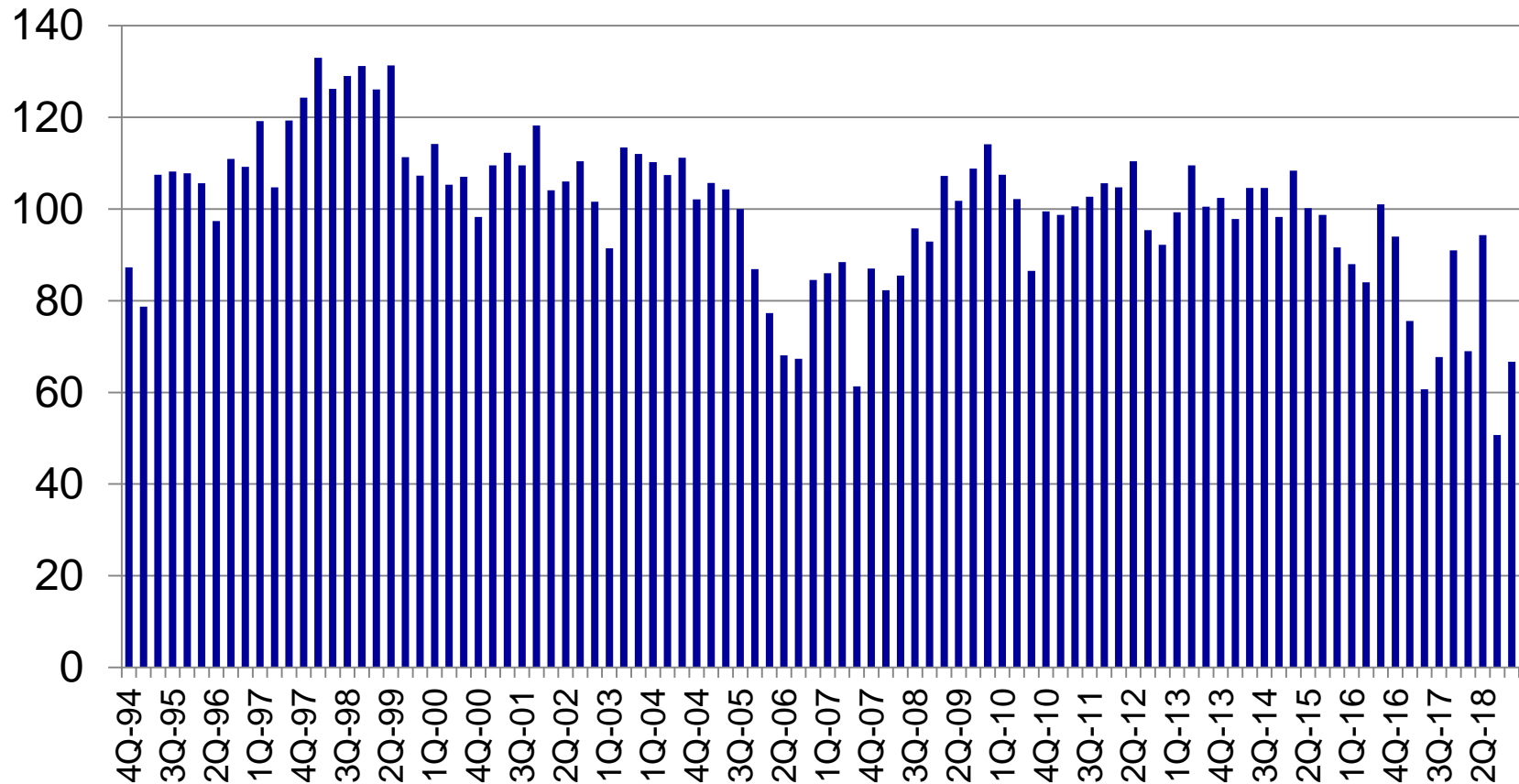
Do you think the unemployment rate will go up, down, or stay the same ?

(Index = up - down + 50)



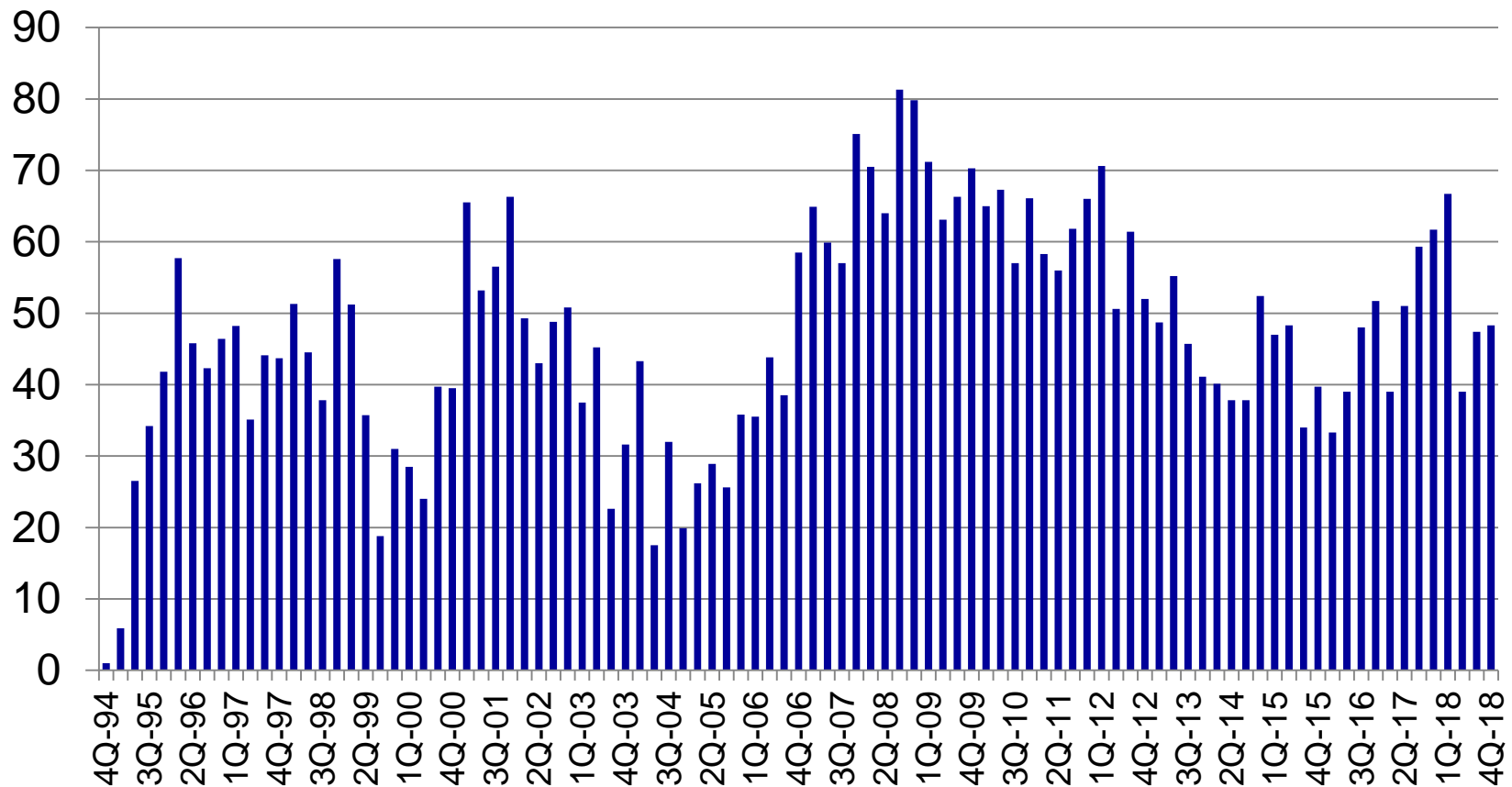
In general, is it a GOOD time or BAD time to purchase a house?

(Index = up - down + 50)

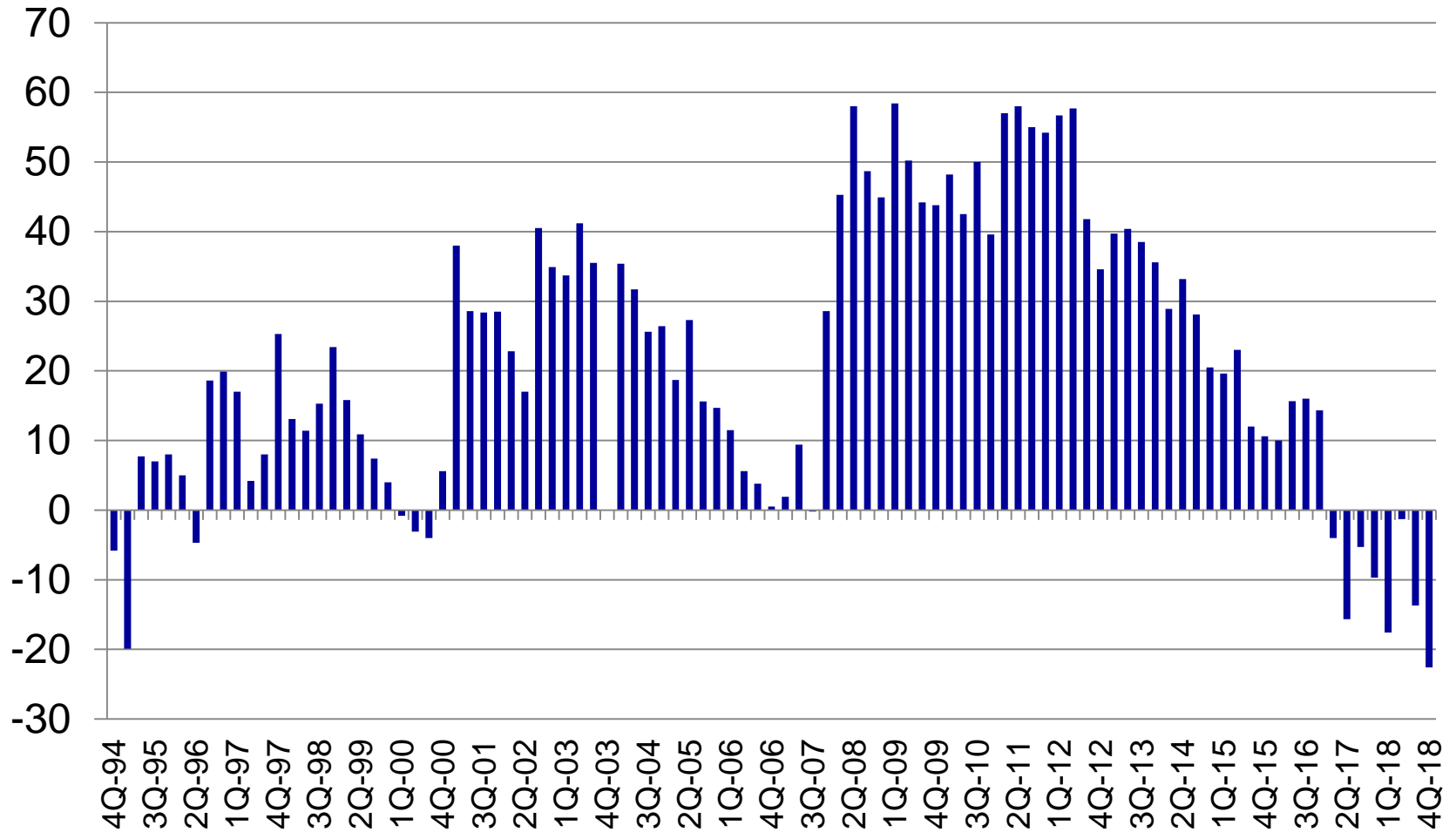


Will Conditions for Buying a House be Better, Worse or the Same IN 6 MONTHS?

(Index = up - down + 50)



HOME BUYING PREMIUM



Some Reflections on the Current Environment: THE NATIONAL PICTURE

Expansion Getting Tired?

(Source: National Bureau Economic Research)

Trough	Peak	Months
October 1945 (IV)	November 1948(IV)	37
October 1949 (IV)	July 1953(II)	45
May 1954 (II)	August 1957(III)	39
April 1958 (II)	April 1960(II)	24
February 1961 (I)	December 1969(IV)	106
November 1970 (IV)	November 1973(IV)	36
March 1975 (I)	January 1980(I)	58
July 1980 (III)	July 1981(III)	12
November 1982 (IV)	July 1990(III)	92
March 1991(I)	March 2001(I)	120
November 2001 (IV)	December 2007 (IV)	73
June 2009 (II)	???	114

Average Expansion, Post WWII

58.4

Contributions To GDP Growth

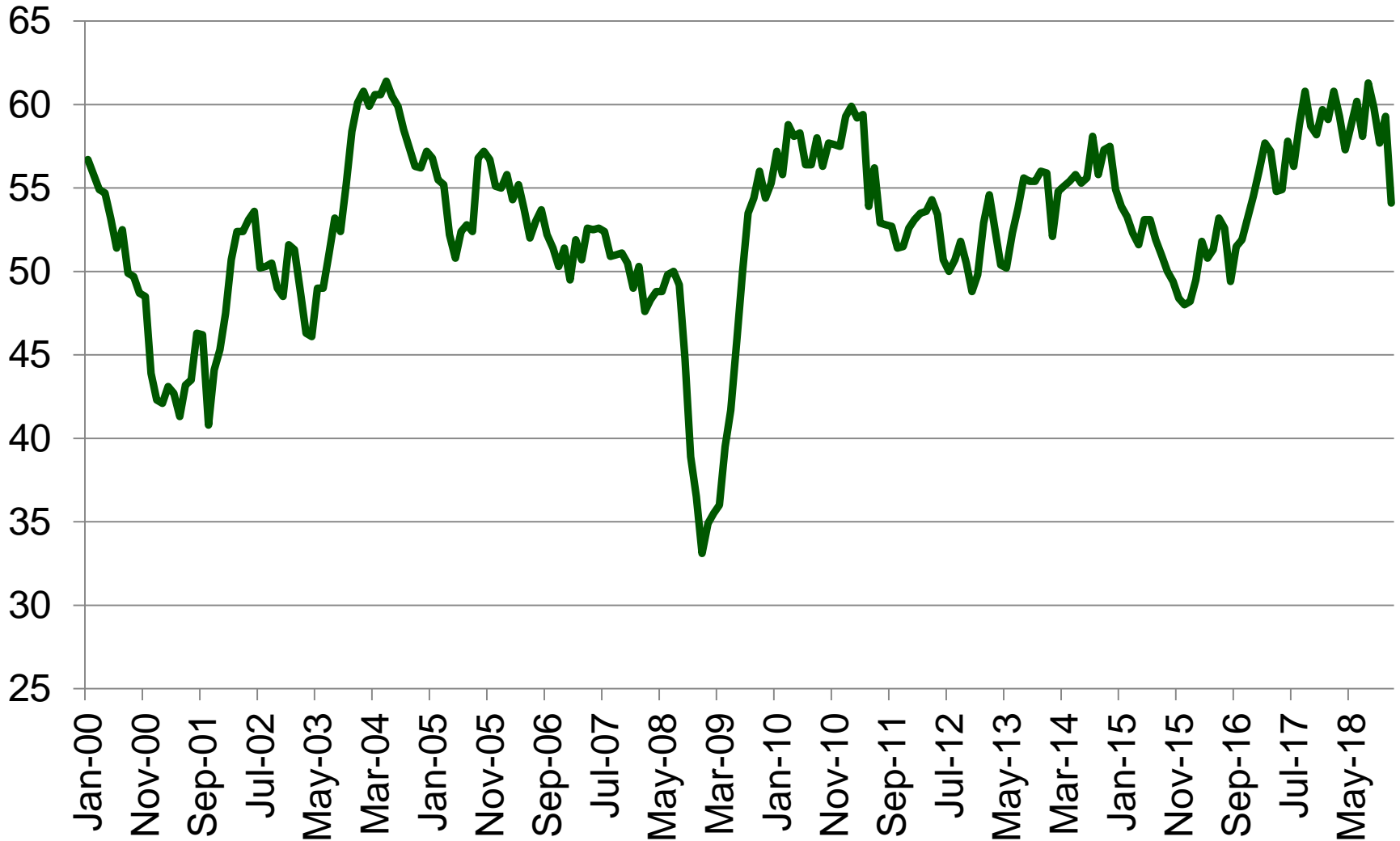
(Source: Bureau of Economic Analysis)

	GDP =	Consumption	Gross Investment	Net Exports	Government
2017: Q1	1.80%	1.22%	0.80%	-0.10%	-0.13%
2017: Q2	3.00%	1.95%	0.95%	0.08%	0.01%
2017: Q3	2.80%	1.52%	1.47%	0.01%	-0.18%
2017: Q4	2.30%	2.64%	0.14%	-0.89%	0.41%
2018: Q1	2.20%	0.36%	1.61%	-0.02%	0.27%
2018: Q2	4.20%	2.57%	-0.07%	1.22%	0.43%
2018: Q3	3.40%	2.37%	2.53%	-1.99%	0.44%

	Gross Investment =	Nonresidential	Residential	Inventory
2017: Q1	0.80%	1.20%	0.41%	-0.80%
2017: Q2	0.95%	0.94%	-0.22%	0.23%
2017: Q3	1.47%	0.45%	-0.02%	1.04%
2017: Q4	0.14%	0.63%	0.41%	-0.91%
2018: Q1	1.61%	1.47%	-0.14%	0.27%
2018: Q2	-0.07%	1.15%	-0.05%	-1.17%
2018: Q3	2.37%	0.35%	-0.14%	2.33%

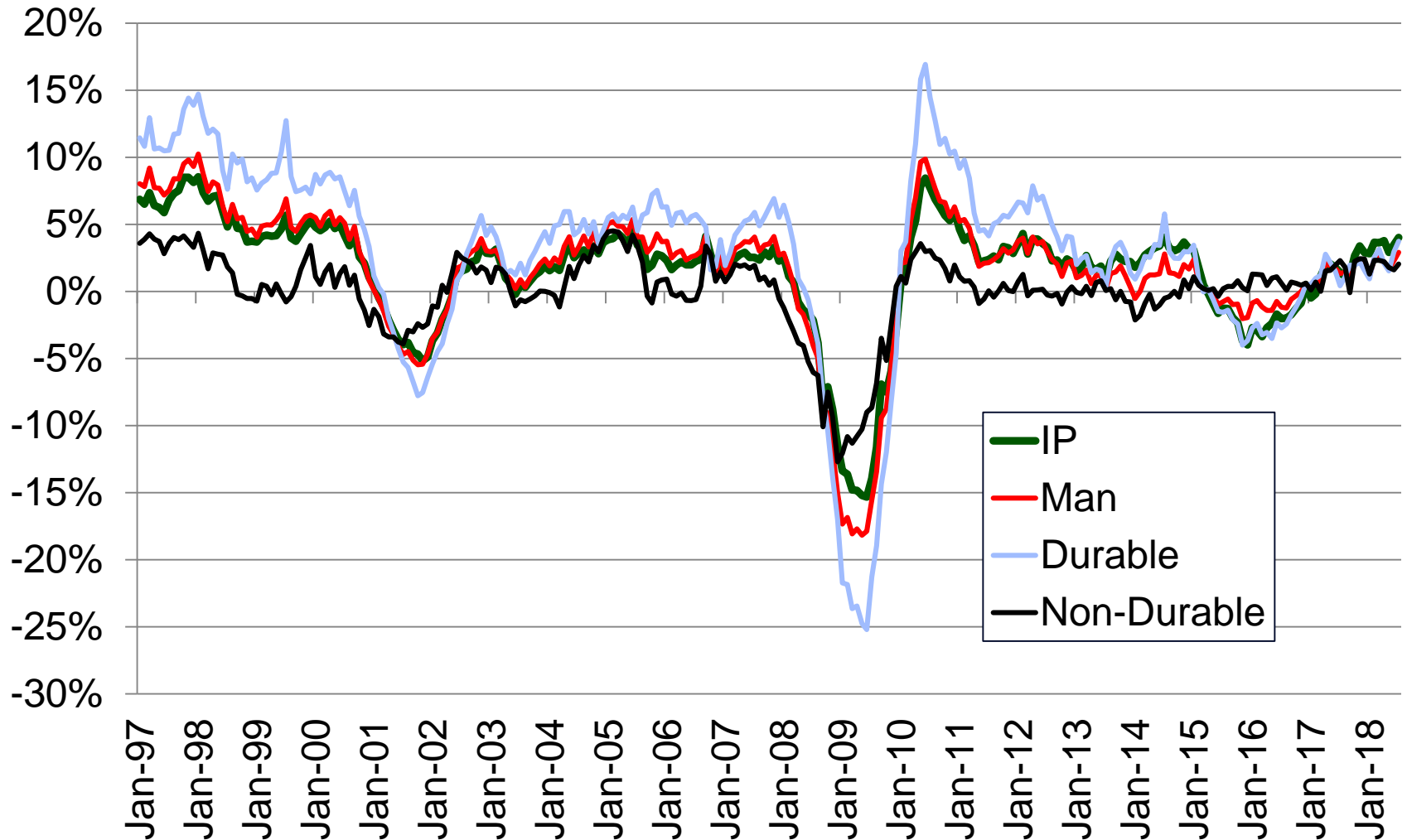
ISM's "PMI"

(Source: Institute of Supply Management)



Industrial Production

(Source: Federal Reserve BOG)



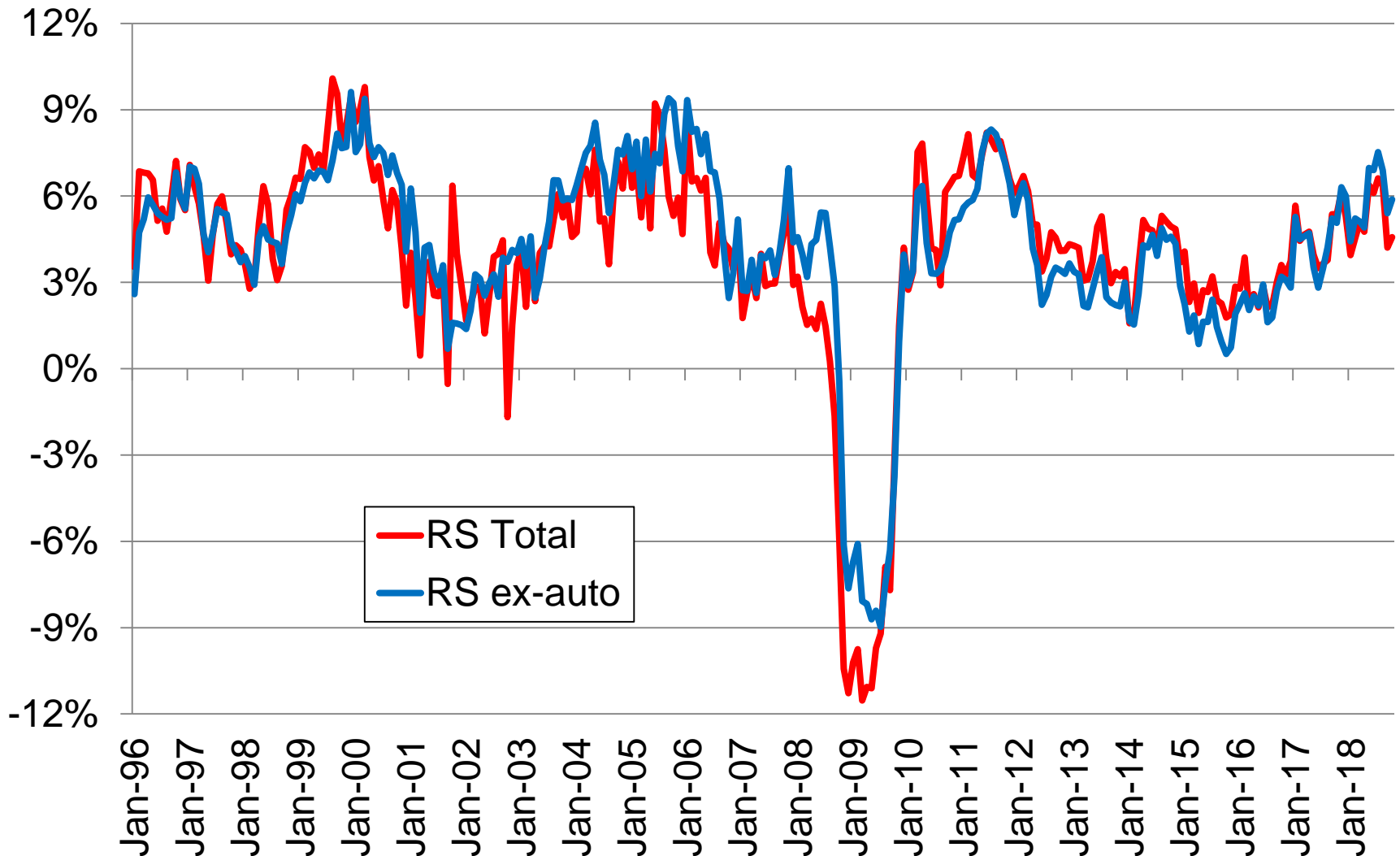
Foreign Exchange: Trading Partners

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



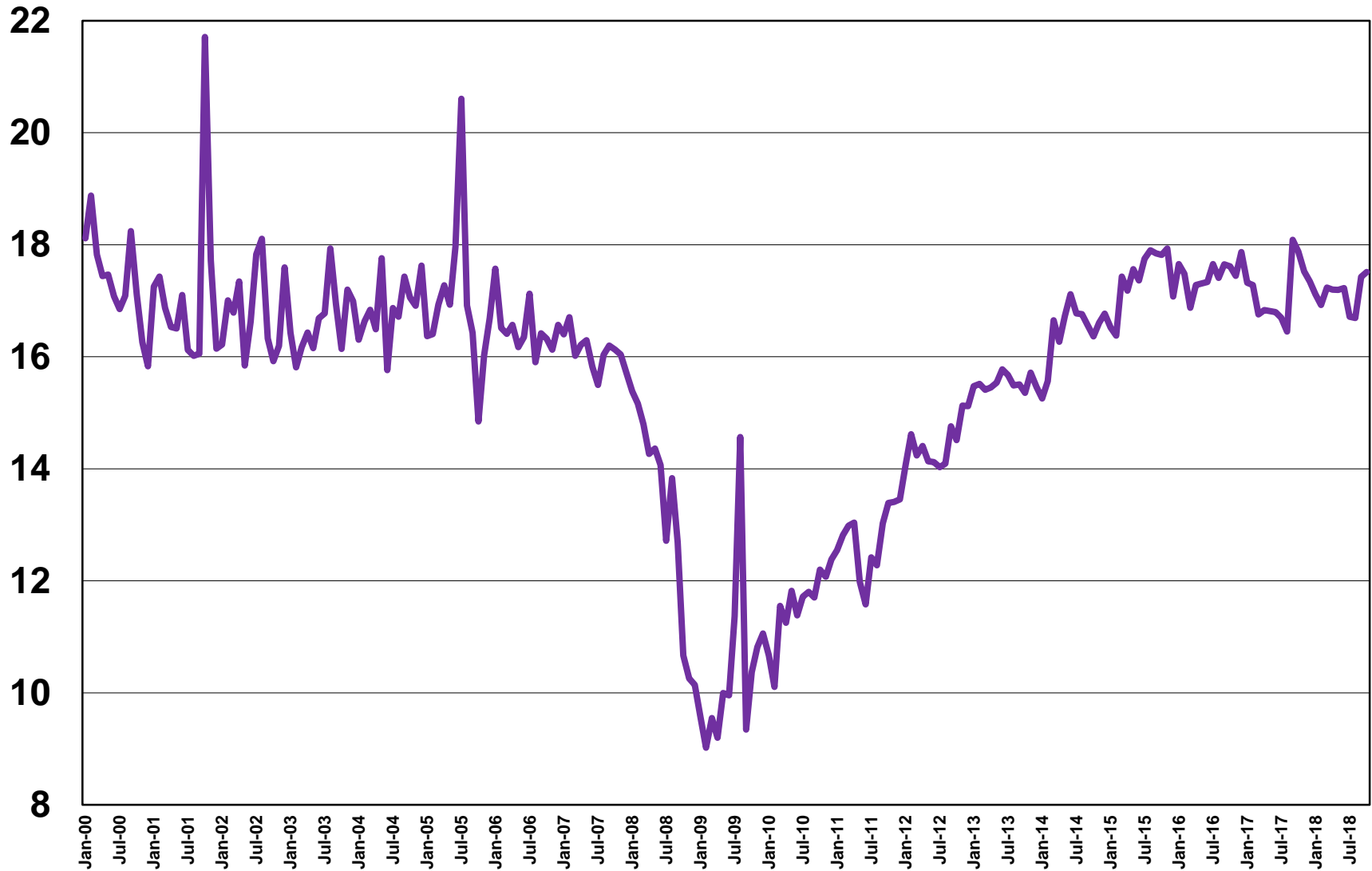
Retail Sales

(source: U.S. Bureau of the Census, annual rate of growth)



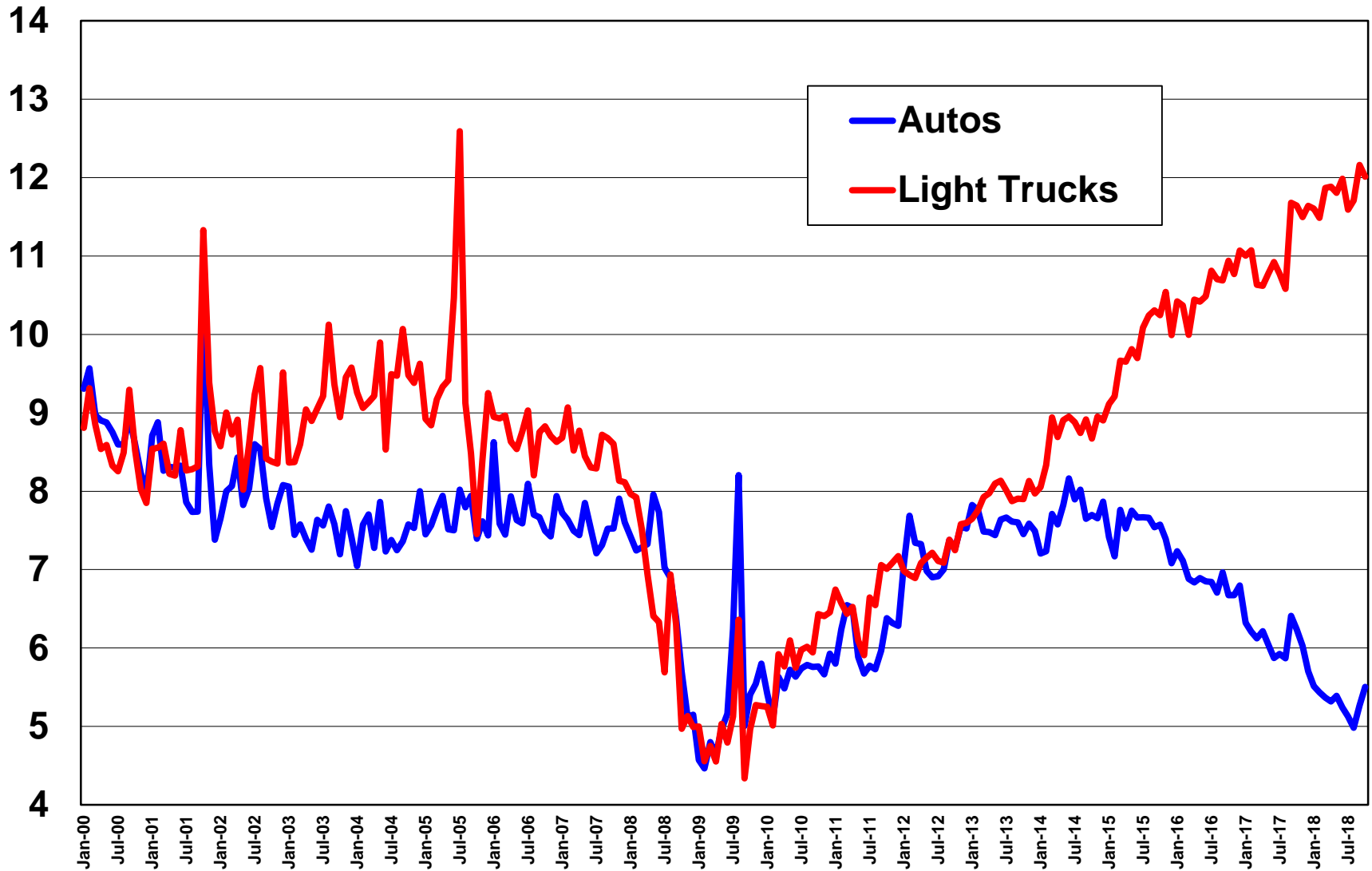
Light Vehicle Sales – H&I Effect

(Source: Department of Commerce, in millions)



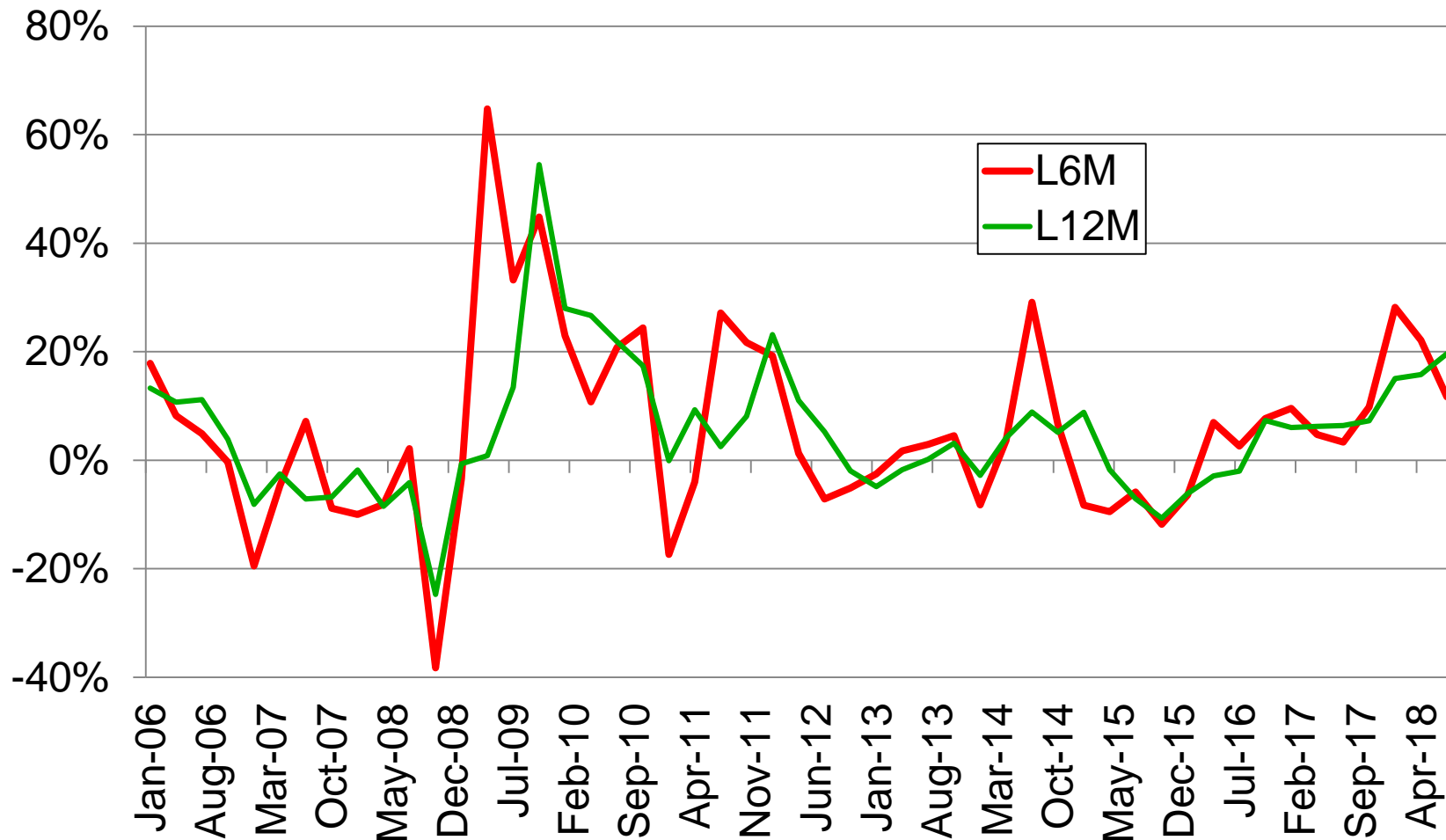
Auto & Light Truck Sales – H&I Effect

(Source: Department of Commerce, in millions)



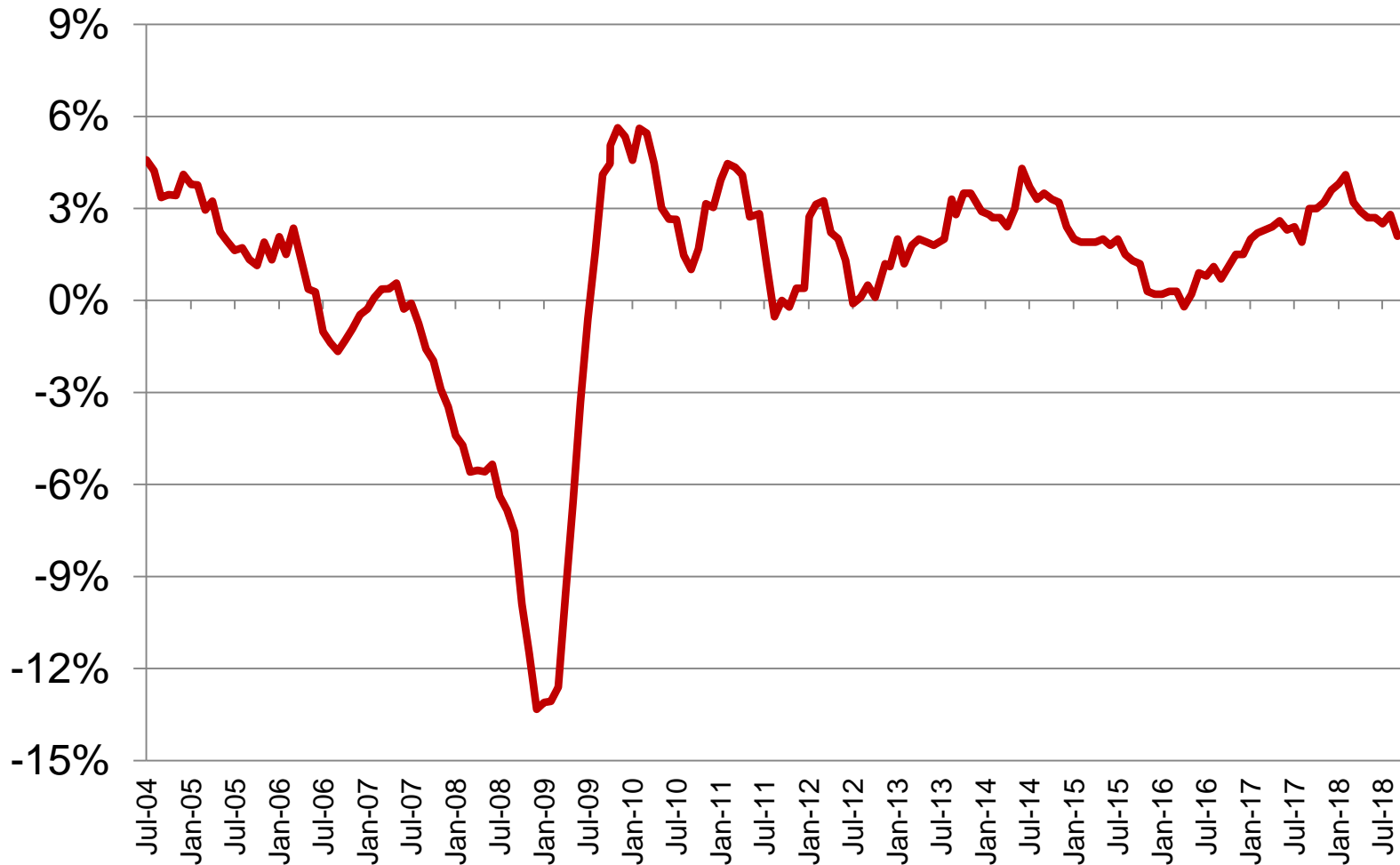
Corporate Profits (with CCA & Inventory adjustment)

(source: U.S. Bureau of the Census, annual rate of growth)



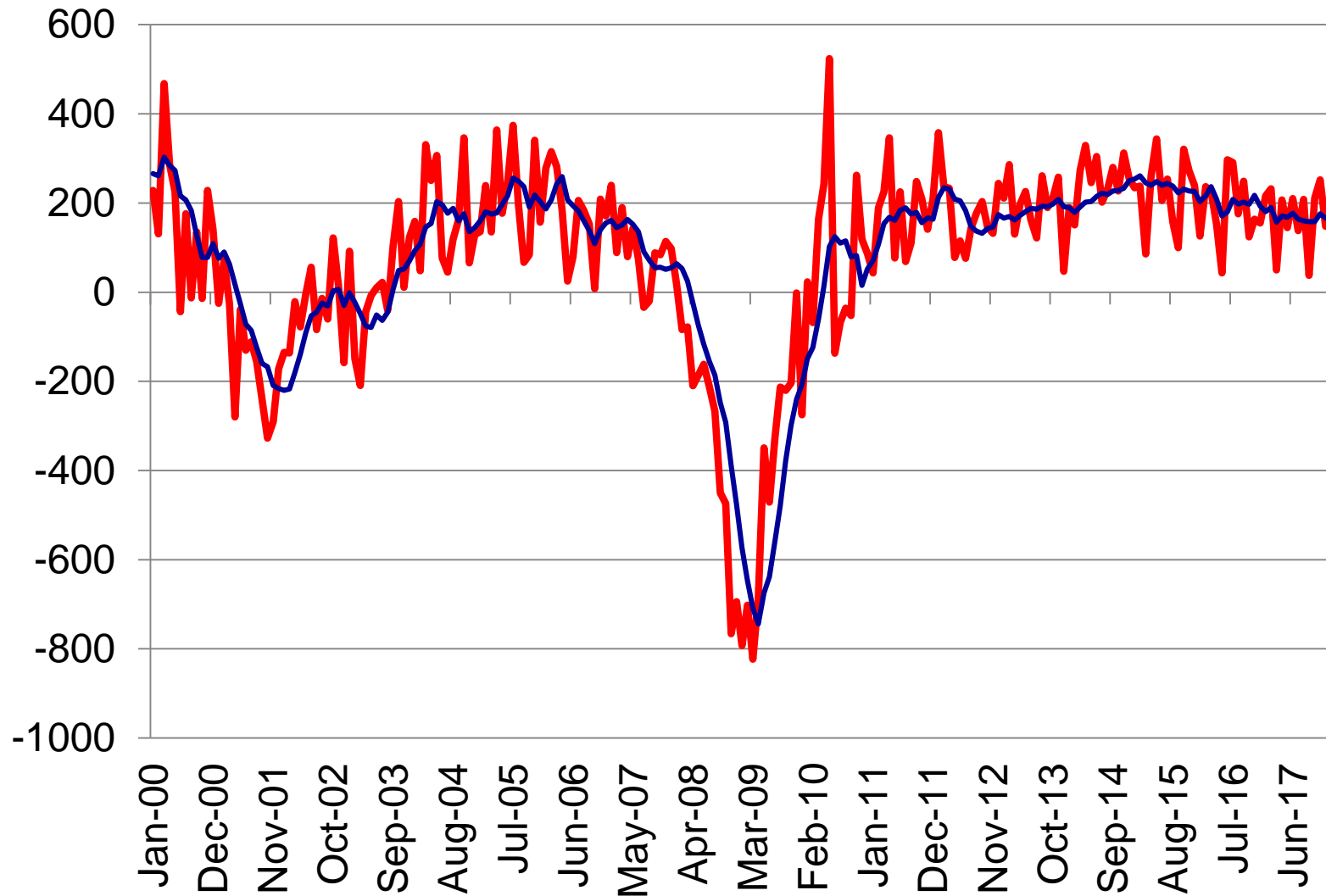
Leading Economic Indicators

(source: Conference Board, % change in last 6 months)



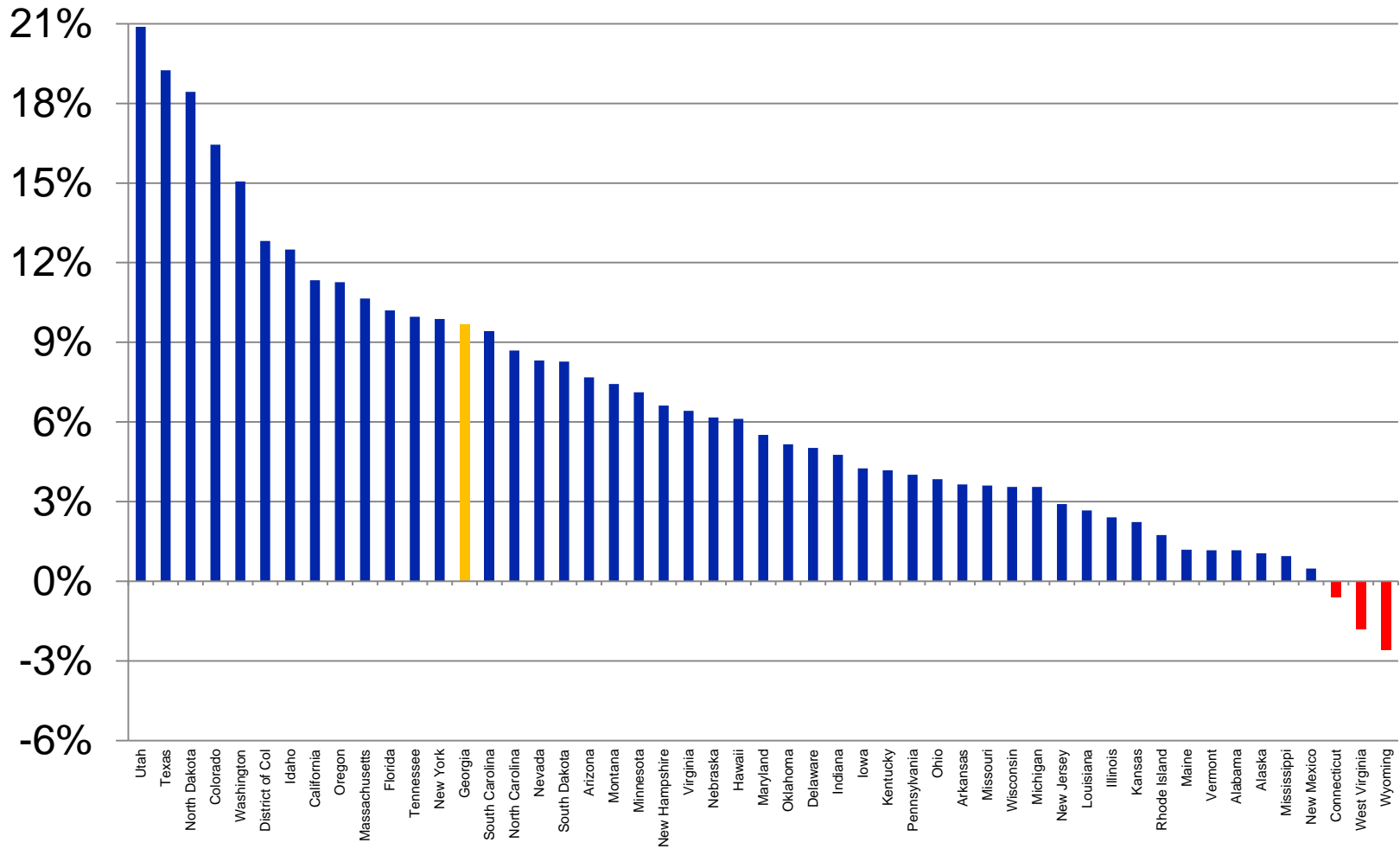
Change in Payroll Employment

(Source: Bureau of Labor Statistics)



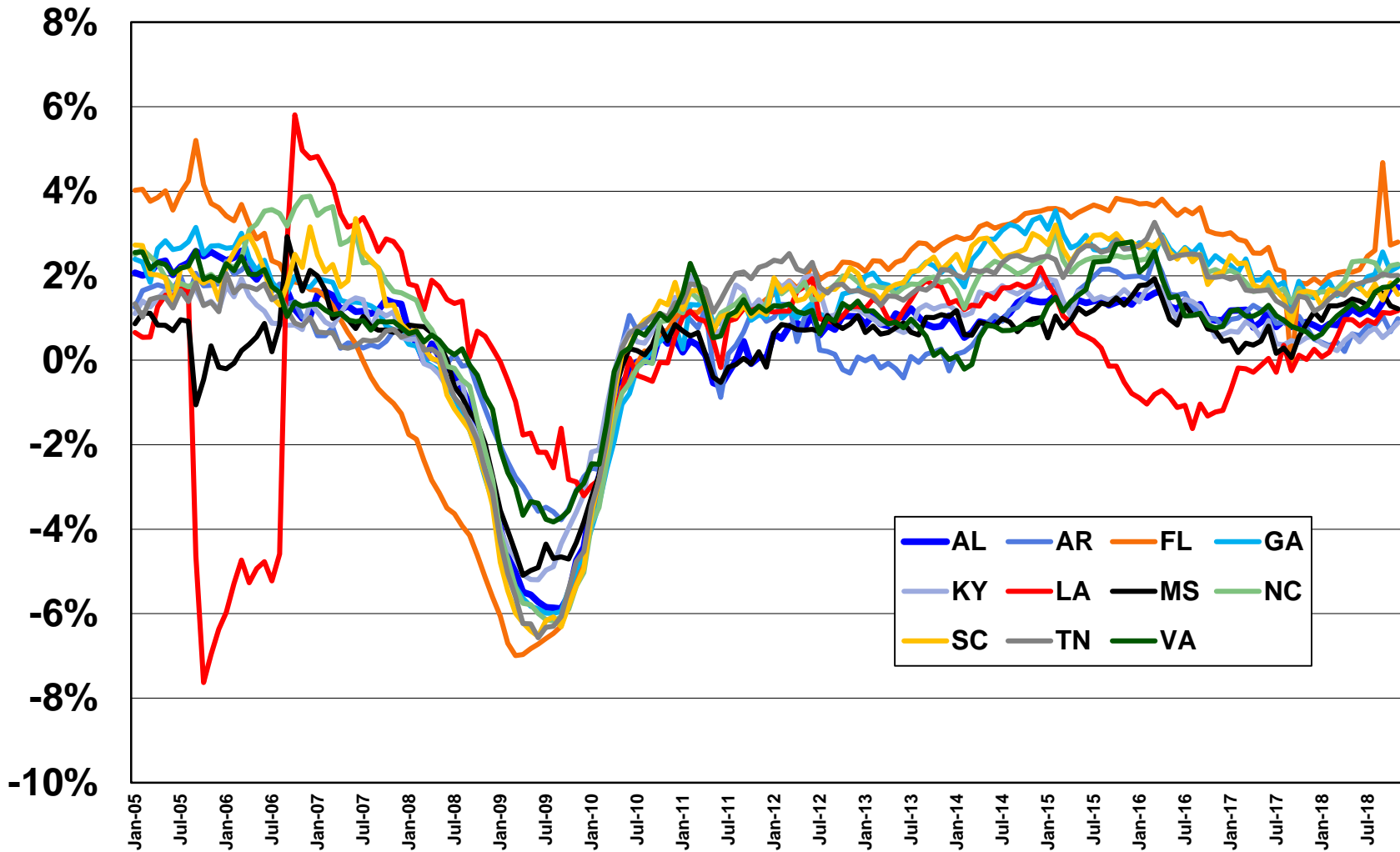
State Employment (Net Change)

(source: Bureau of Labor Statistics)

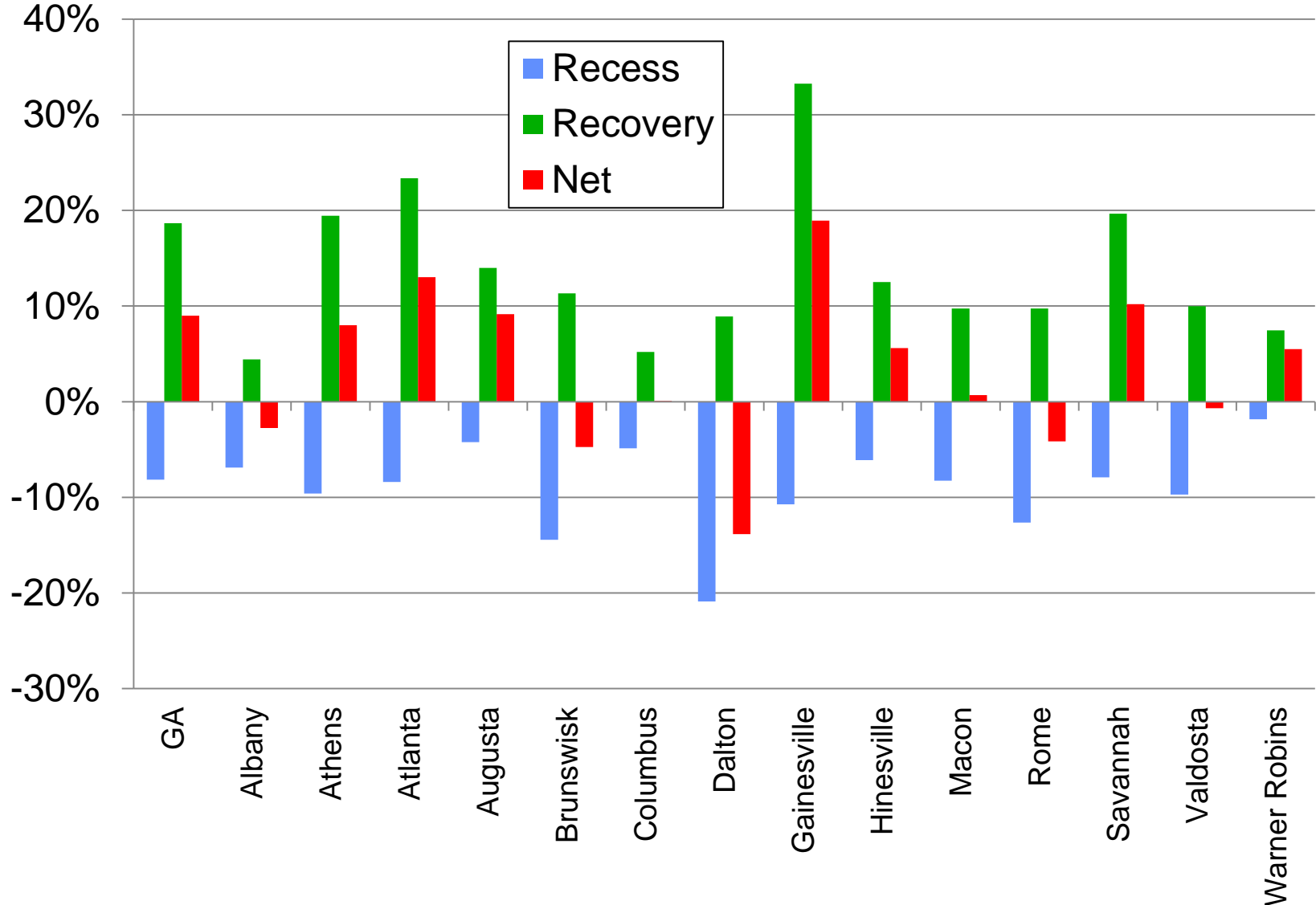


SE State Employment

(source; Bureau of Labor Statistics)

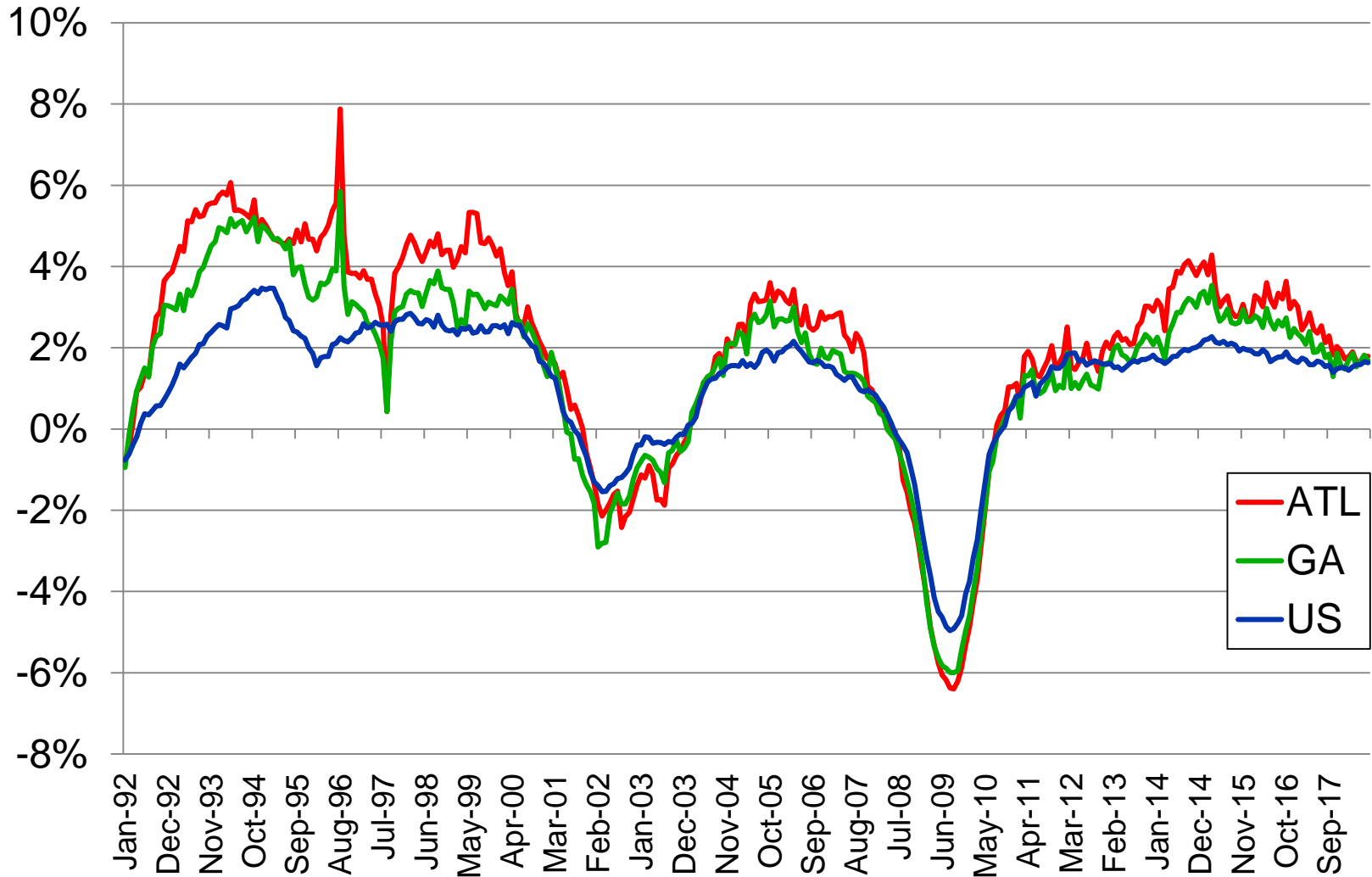


Employment: Georgia



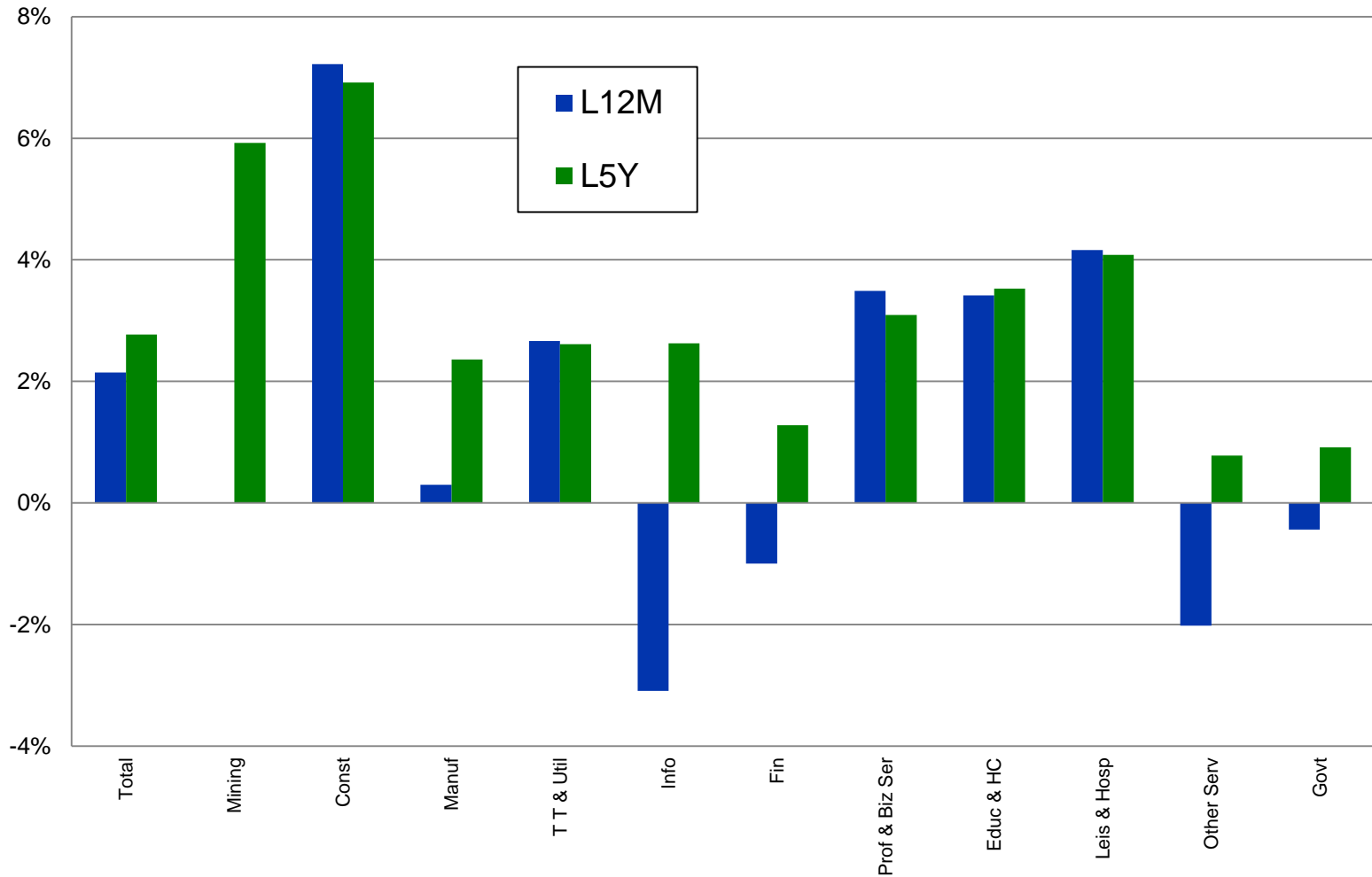
Employment: Atlanta

(Source: Bureau of Labor Statistics)



ATL Employment Shift by Sector

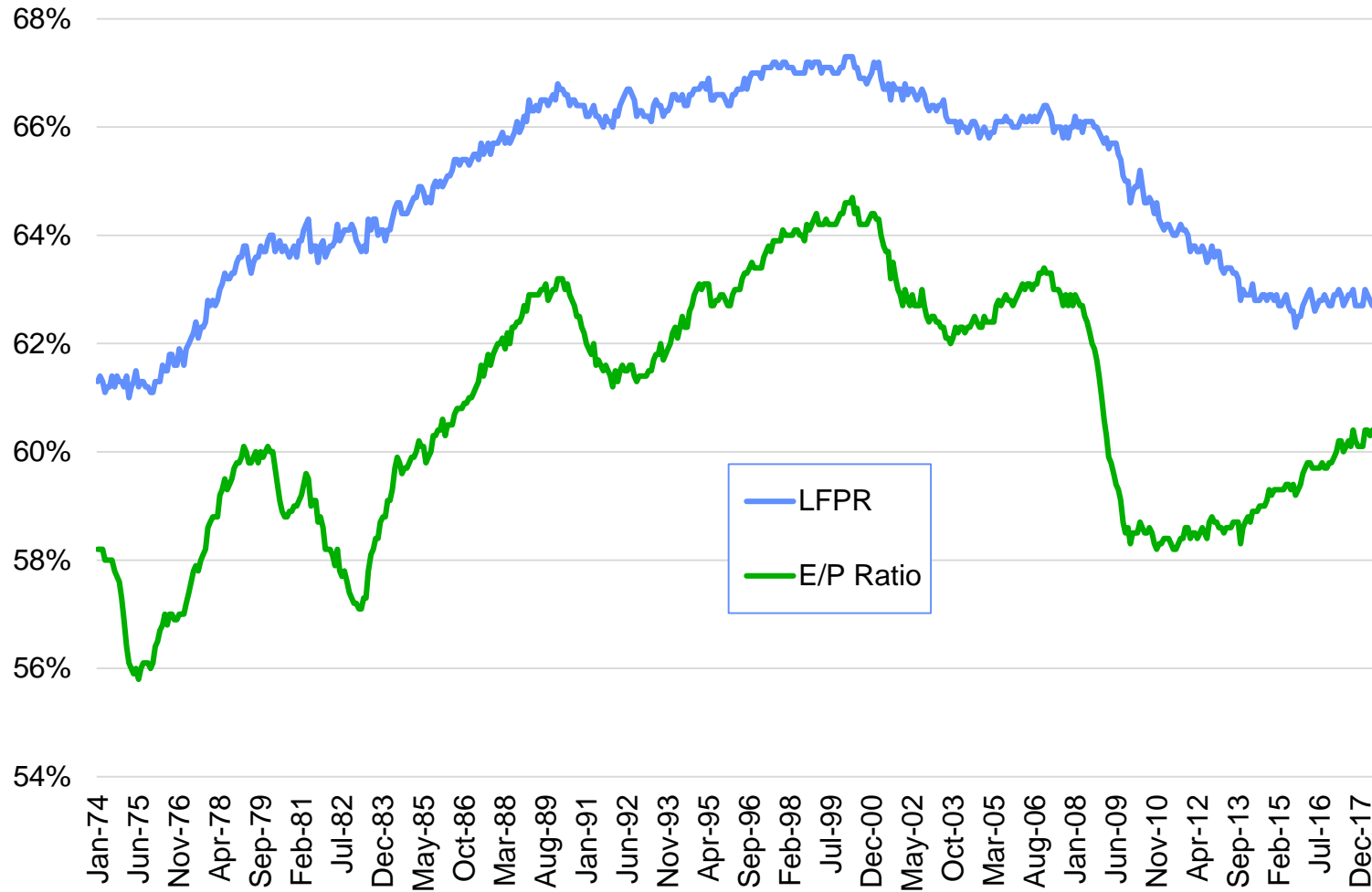
(Source: Bureau of Labor Statistics)



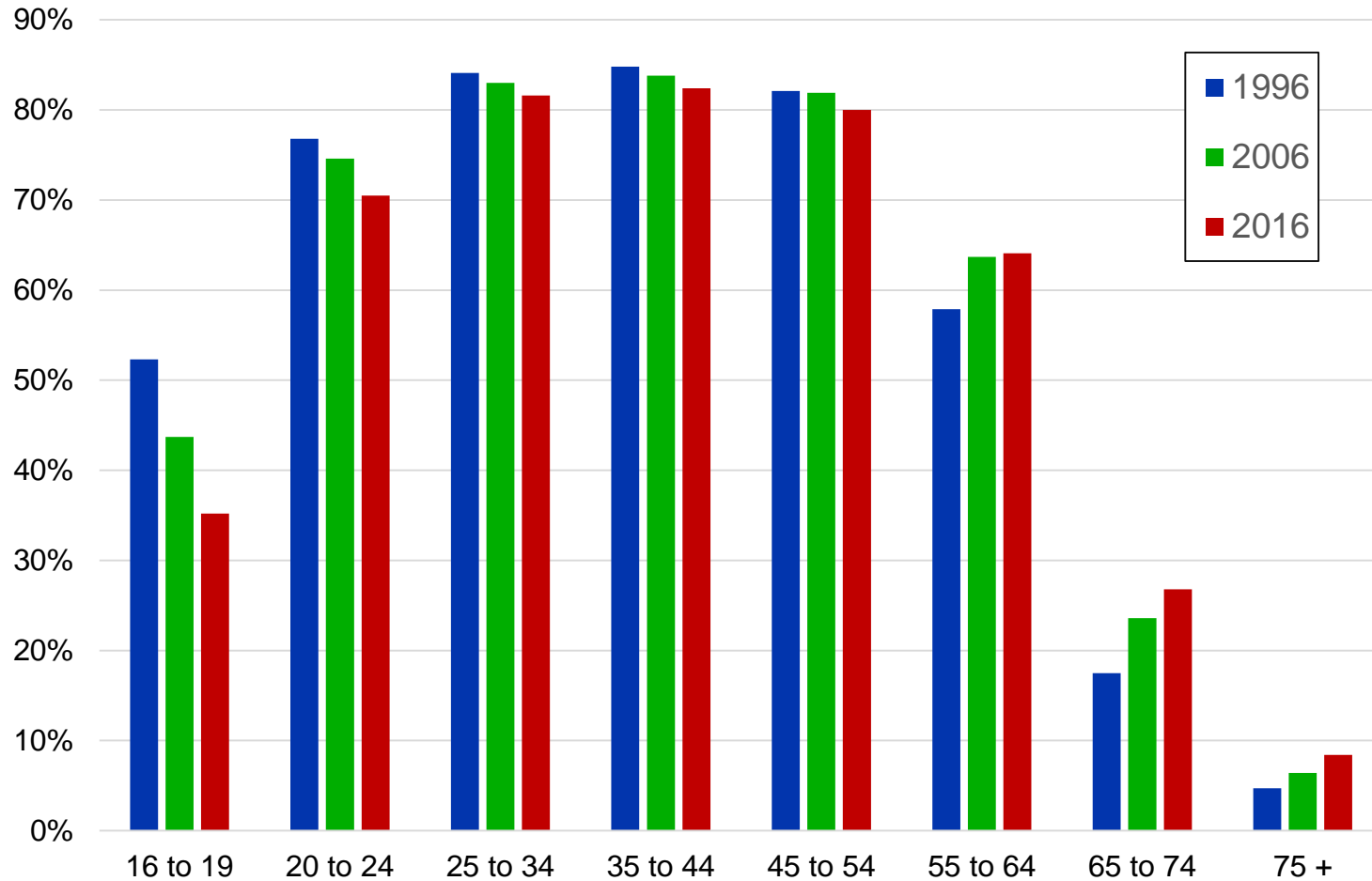
Wages by Occupation

	US	ATL	US Wage	ATL Wage
Total, all occupations	100.0%	100.0%	\$ 24.34	\$ 24.71
Computer and mathematical	3.0%	4.4%	\$ 43.18	\$ 42.52
Management	5.1%	6.6%	\$ 57.65	\$ 60.01
Business and financial operations	5.2%	6.5%	\$ 36.70	\$ 36.12
Transportation and material moving	7.0%	8.3%	\$ 17.82	\$ 17.50
Legal	0.8%	0.9%	\$ 51.62	\$ 54.12
Sales and related	10.2%	11.2%	\$ 19.56	\$ 19.28
Food preparation and serving related	9.3%	9.5%	\$ 11.88	\$ 10.15
Office and administrative support	15.4%	15.5%	\$ 18.24	\$ 18.22
Arts, design, entertainment, sports, and media	1.4%	1.4%	\$ 28.34	\$ 26.36
Installation, maintenance, and repair	3.9%	3.8%	\$ 23.02	\$ 22.80
Education, training, and library	6.1%	5.9%	\$ 26.67	\$ 24.14
Protective service	2.4%	2.2%	\$ 22.69	\$ 19.12
Architecture and engineering	1.8%	1.6%	\$ 41.44	\$ 38.75
Construction and extraction	4.0%	3.4%	\$ 24.01	\$ 21.24
Healthcare practitioners and technical	6.0%	5.1%	\$ 38.83	\$ 38.42
Production	6.3%	5.1%	\$ 18.30	\$ 16.97
Building and grounds cleaning and maintenance	3.1%	2.4%	\$ 13.91	\$ 13.05
Healthcare support	2.9%	2.2%	\$ 15.05	\$ 15.06
Community and social service	1.5%	1.0%	\$ 23.10	\$ 24.26
Personal care and service	3.6%	2.3%	\$ 13.11	\$ 12.83
Life, physical, and social science	0.8%	0.5%	\$ 35.76	\$ 33.09
Farming, fishing, and forestry	0.3%	0.1%	\$ 13.87	\$ 13.68

Labor Force Participation



Labor Force Participation



Prices:

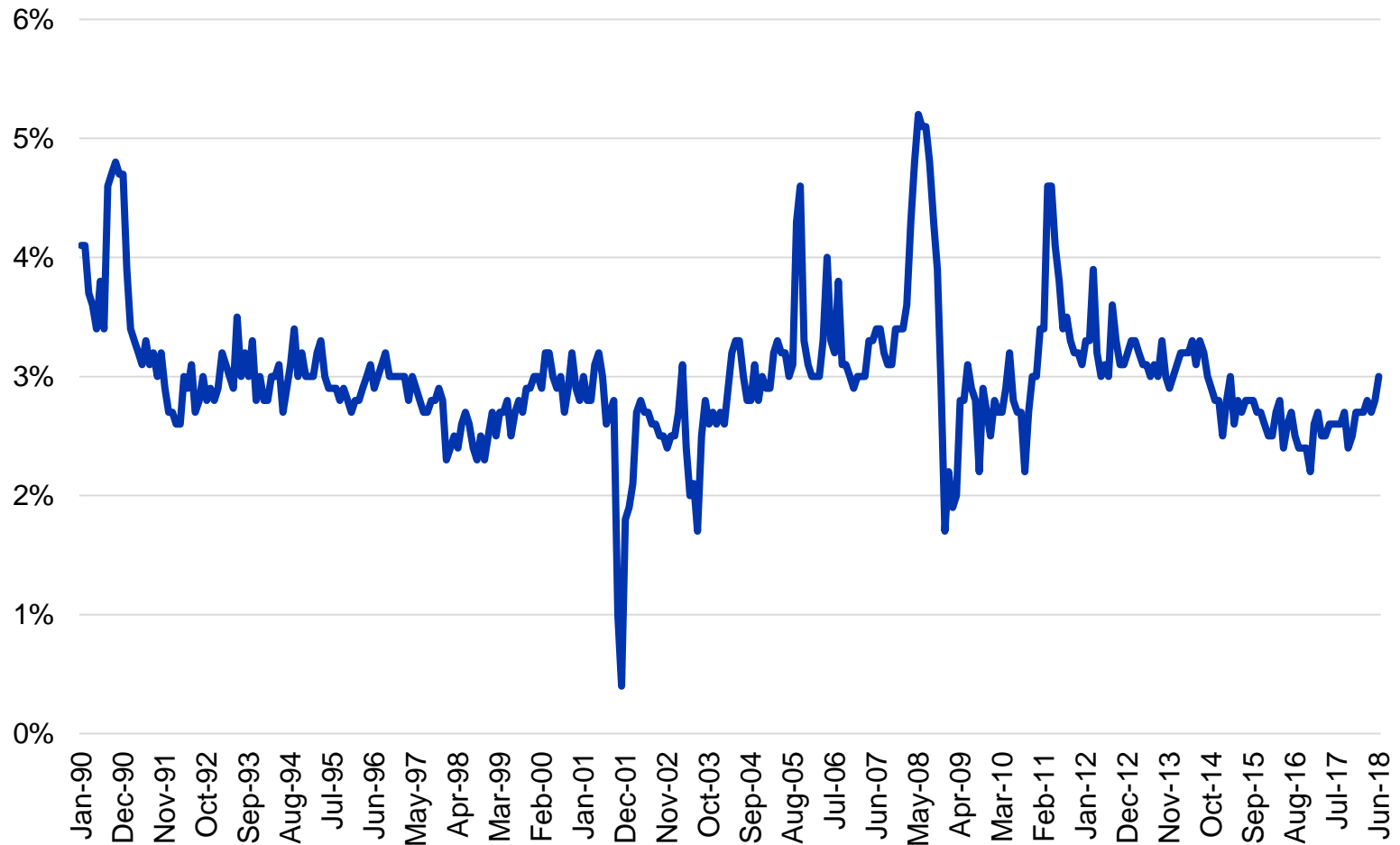
Still talk of Deflation/Inflation?

(source: Bureau of Labor Statistics)

- **CPI fell by 0.1% in December after having been flat and 0.3% in November and October.**
- **Core CPI up 0.2% in November – after rising by 0.2% in two previous months.**
- **Overall CPI up 1.9% over last 12 months. Core up 2.2% over same period.**
- **Energy component down by 0.3% over the last 12 months.**

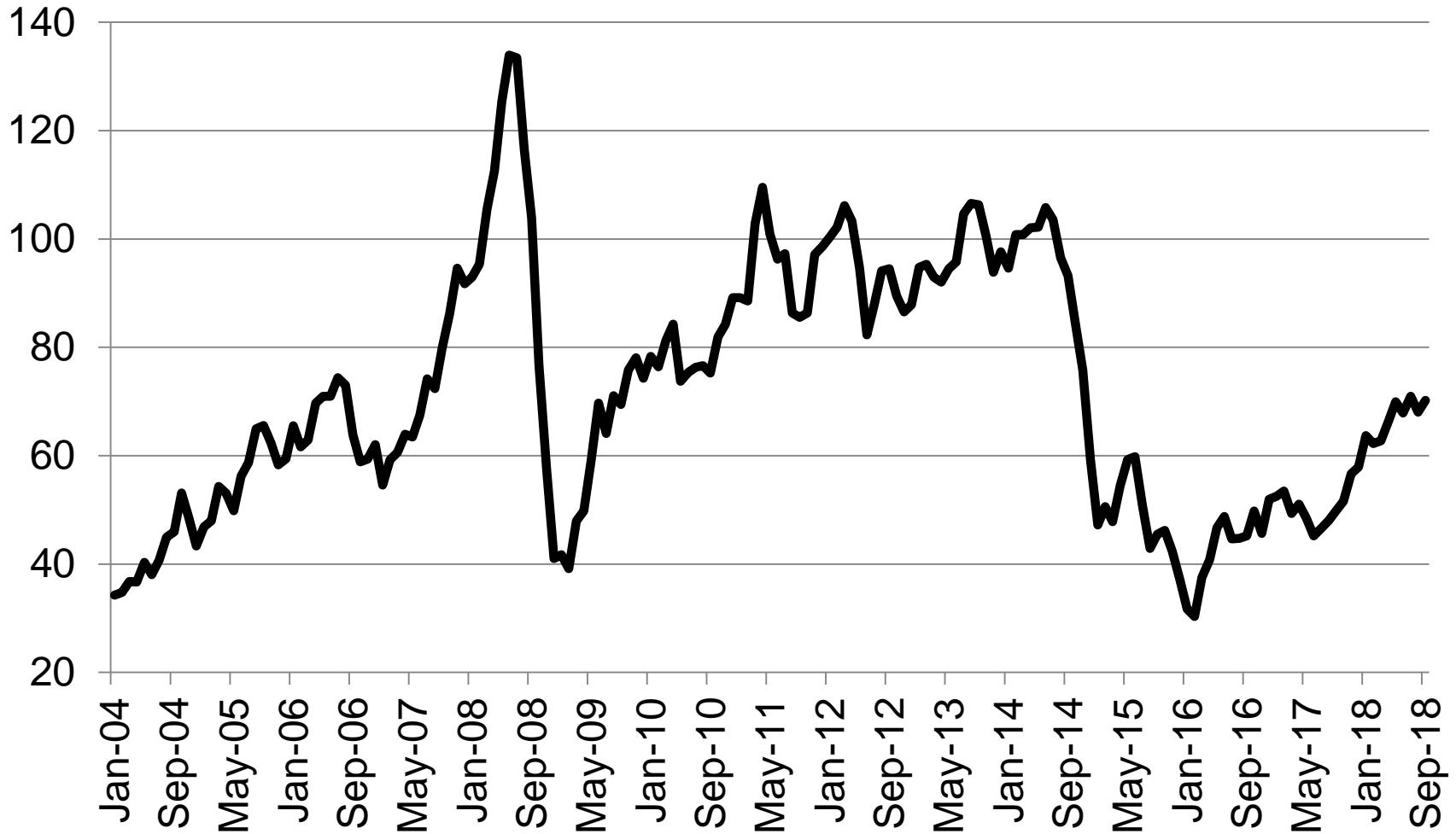
Inflation Expectations

(Source: University of Michigan, Survey Research Center)



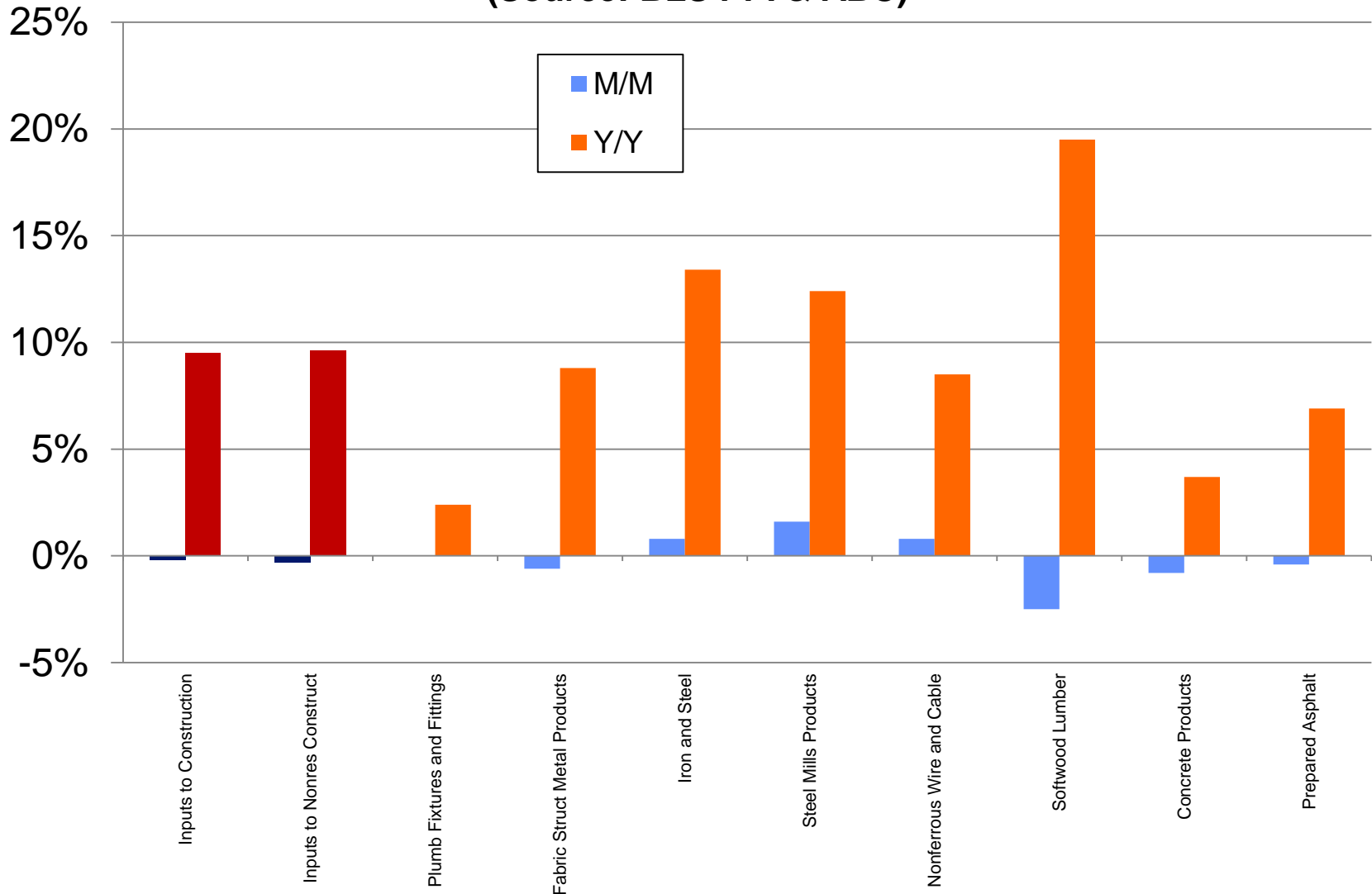
Crude Oil: West Texas Intermediate

(Source: US Energy Information Administration)



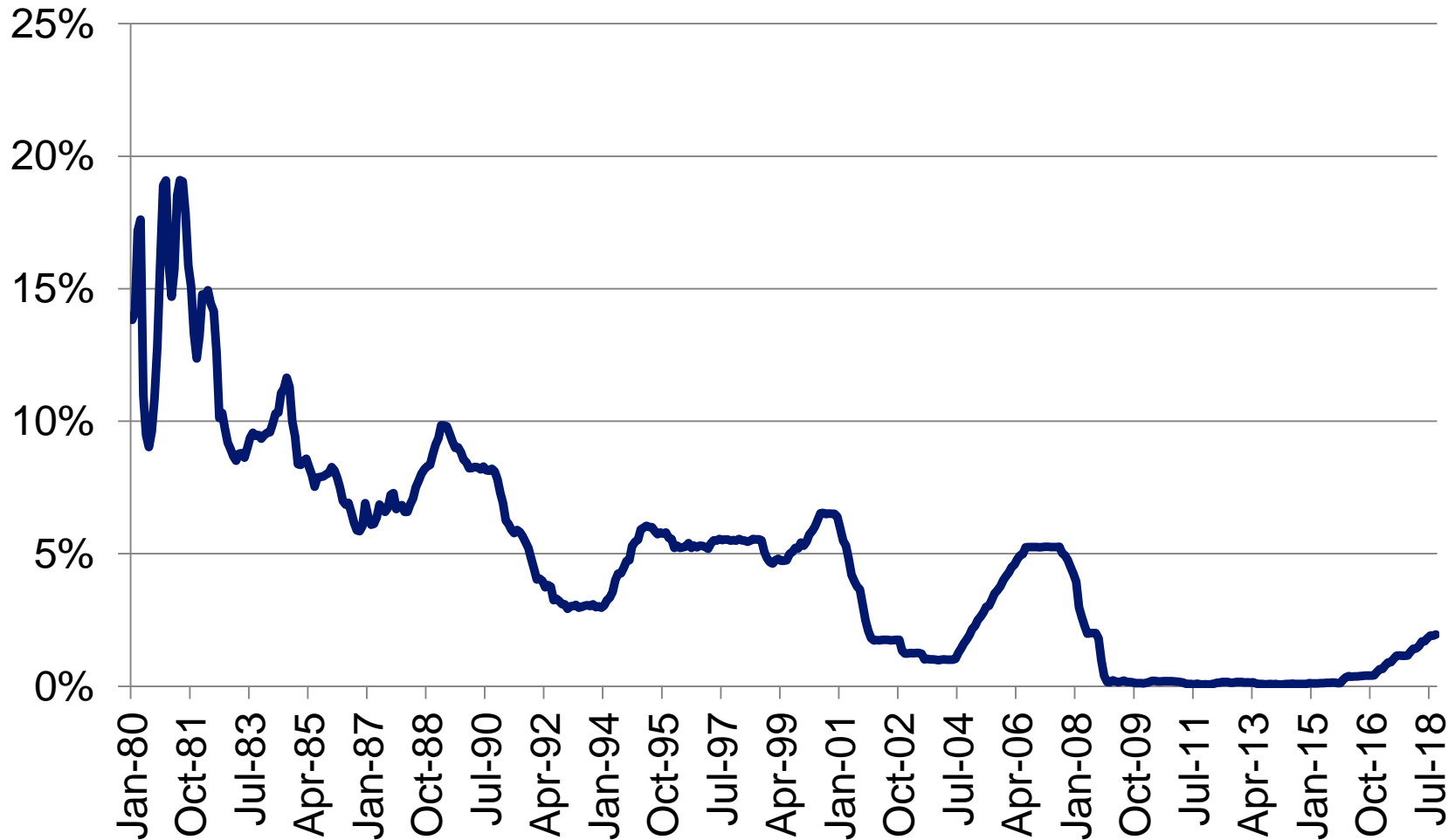
Construction Cost w/o Energy

(Source: BLS PPI & ABC)



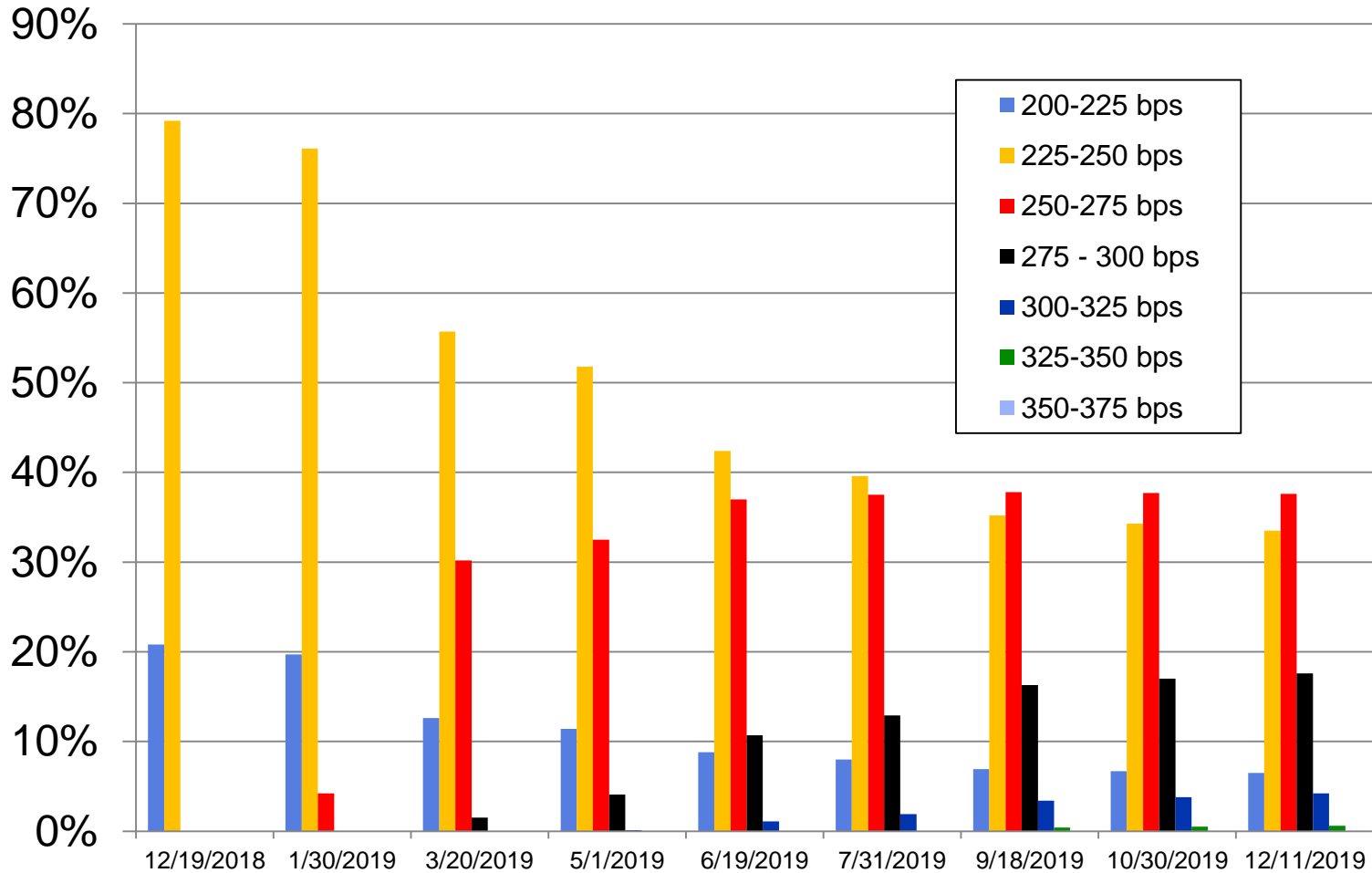
Federal Funds Rate Short Rates Finally Start Moving

(Source: Board of Governors of Federal Reserve System)



Market's FFR Outlook

(Source: CME Group)

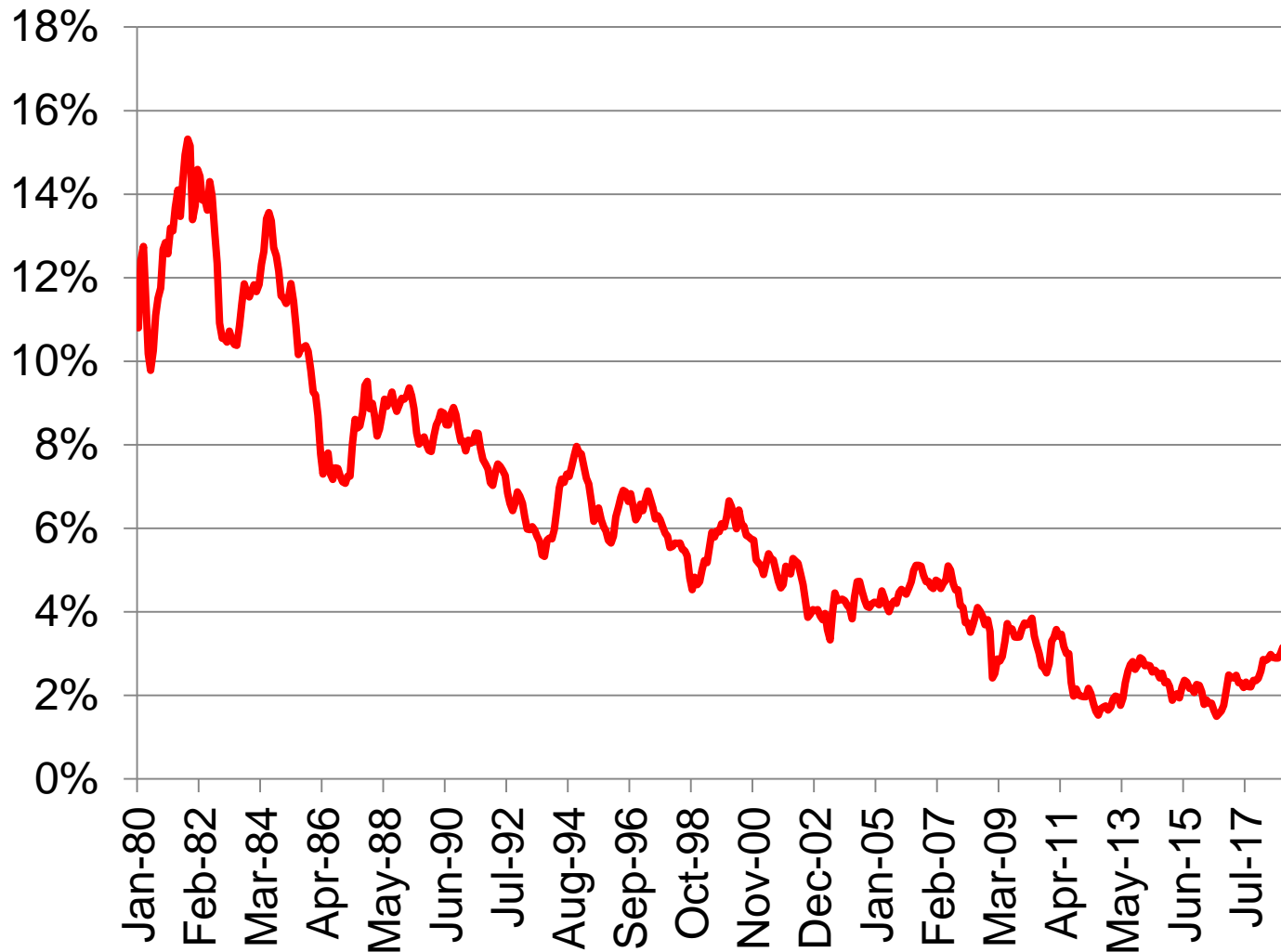


Comments on LIBOR/SOFR

- **LIBOR fading away?**
- **SOFE is secured, based on actual transactions.**
- **Transitions on exiting contract will be challenging.**
- **Derivatives have longest exposure**

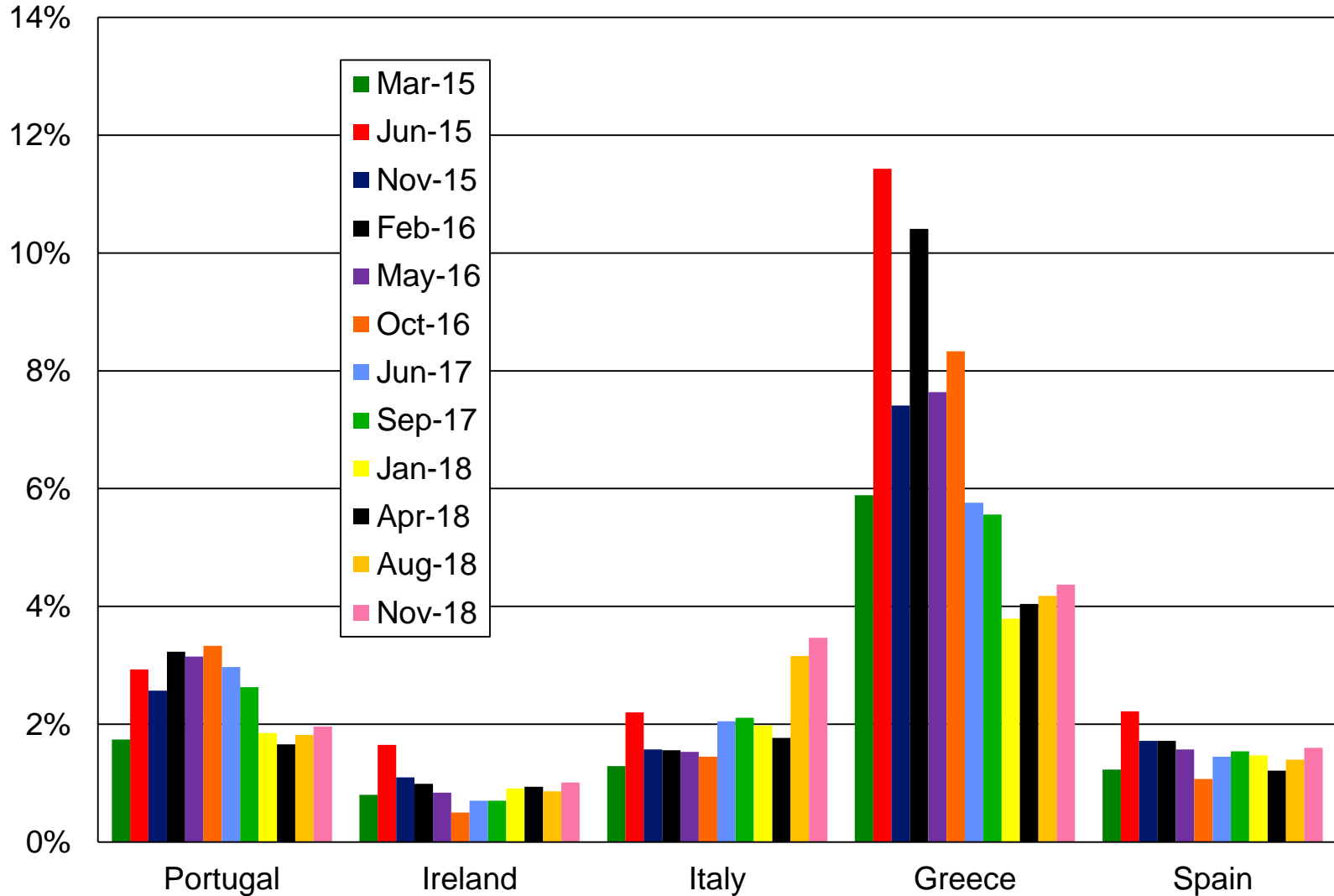
10-Year Treasury Bonds

(Source: Board of Governors of Federal Reserve System)



“PIIGS Revisited”

(Source: European Central Bank)

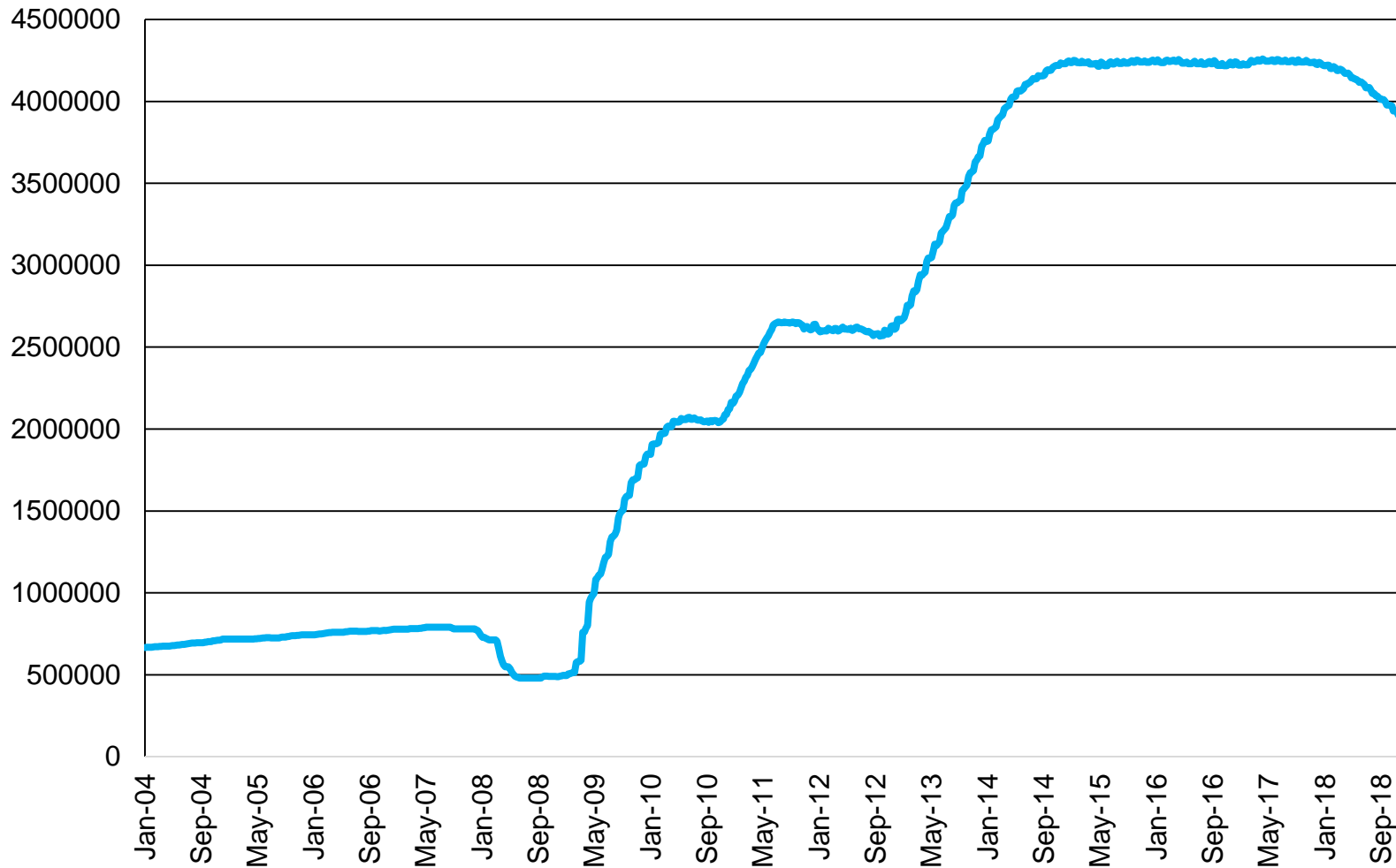


Large Scale Asset Purchases

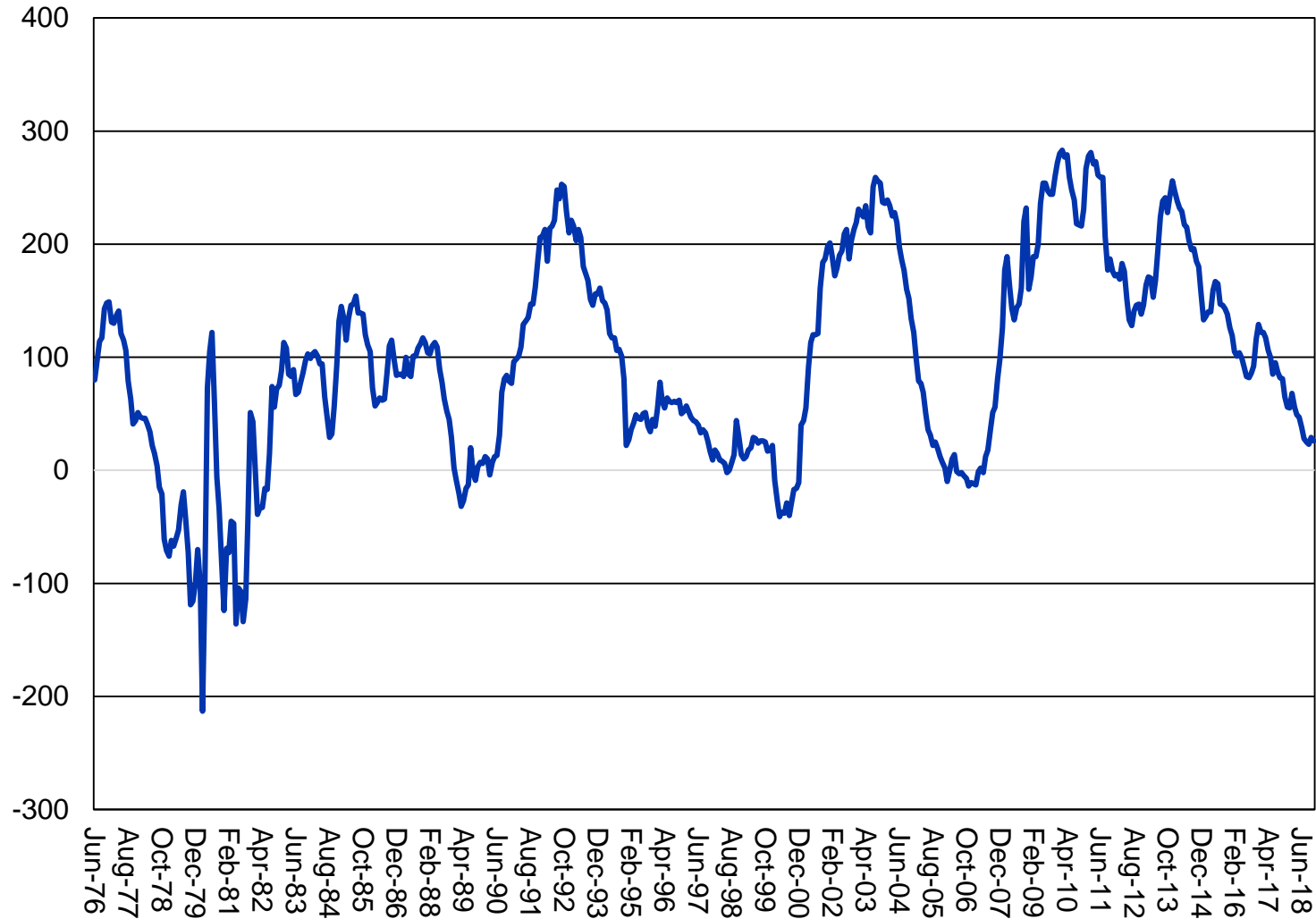
(source: Federal Reserve System)

- **QE1 (March 2009)**
 - \$1.25 T in MBS
 - \$200B in Agencies
 - \$300M in Treasuries
- **QE2 (November 2010)**
 - \$600B in Treasuries
- **Operation Twist**
 - Swapped \$667B in longs for shorts
- **QE3 (September 2012)**
 - \$85B/month agency MBS & Treasuries
 - Taper begins December 2012

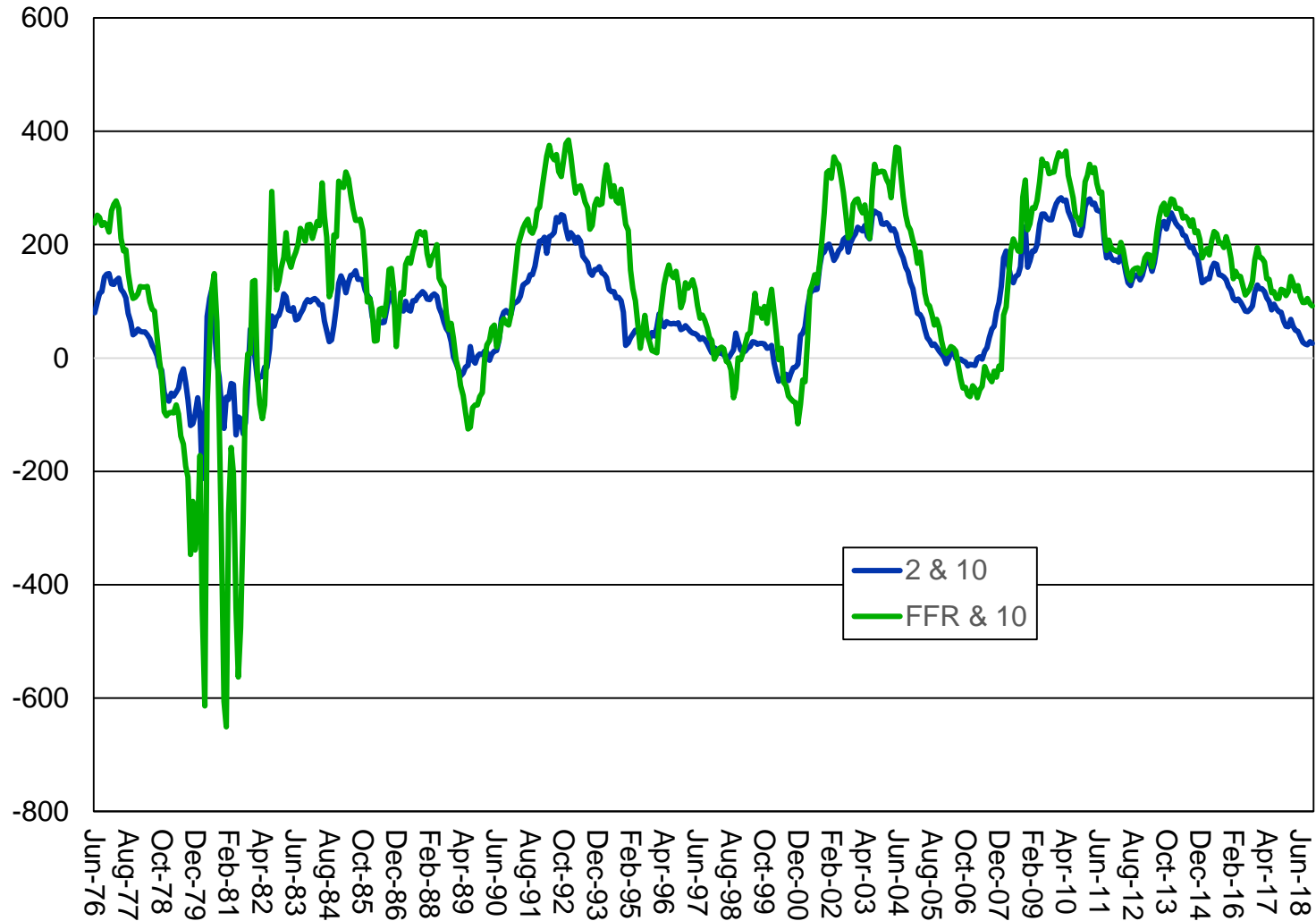
Fed: Securities Held Outright



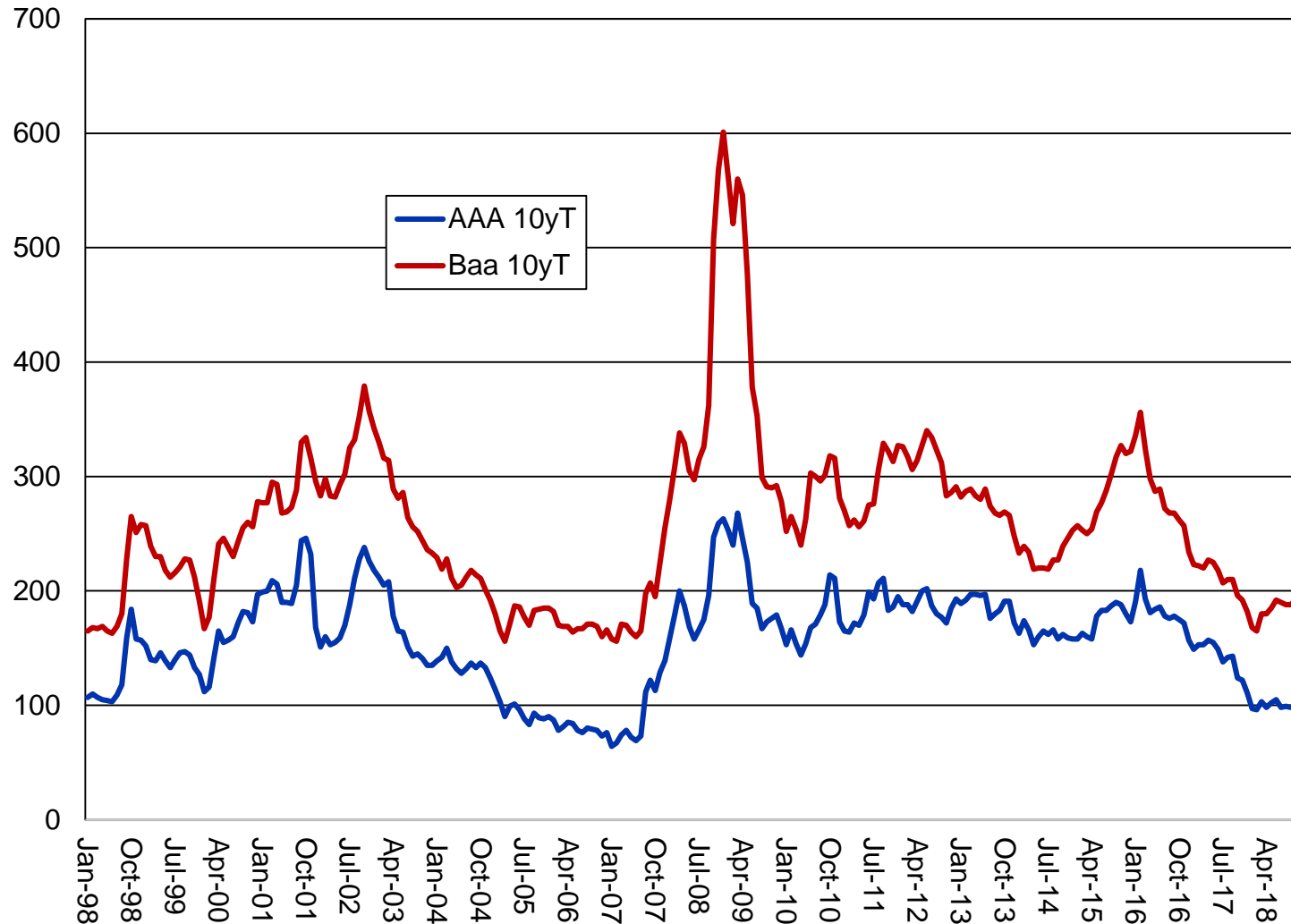
2-10 Treasury Spread (bps)



Yield Curve Spreads (bps)



Corp to Treasury Spread (bps)

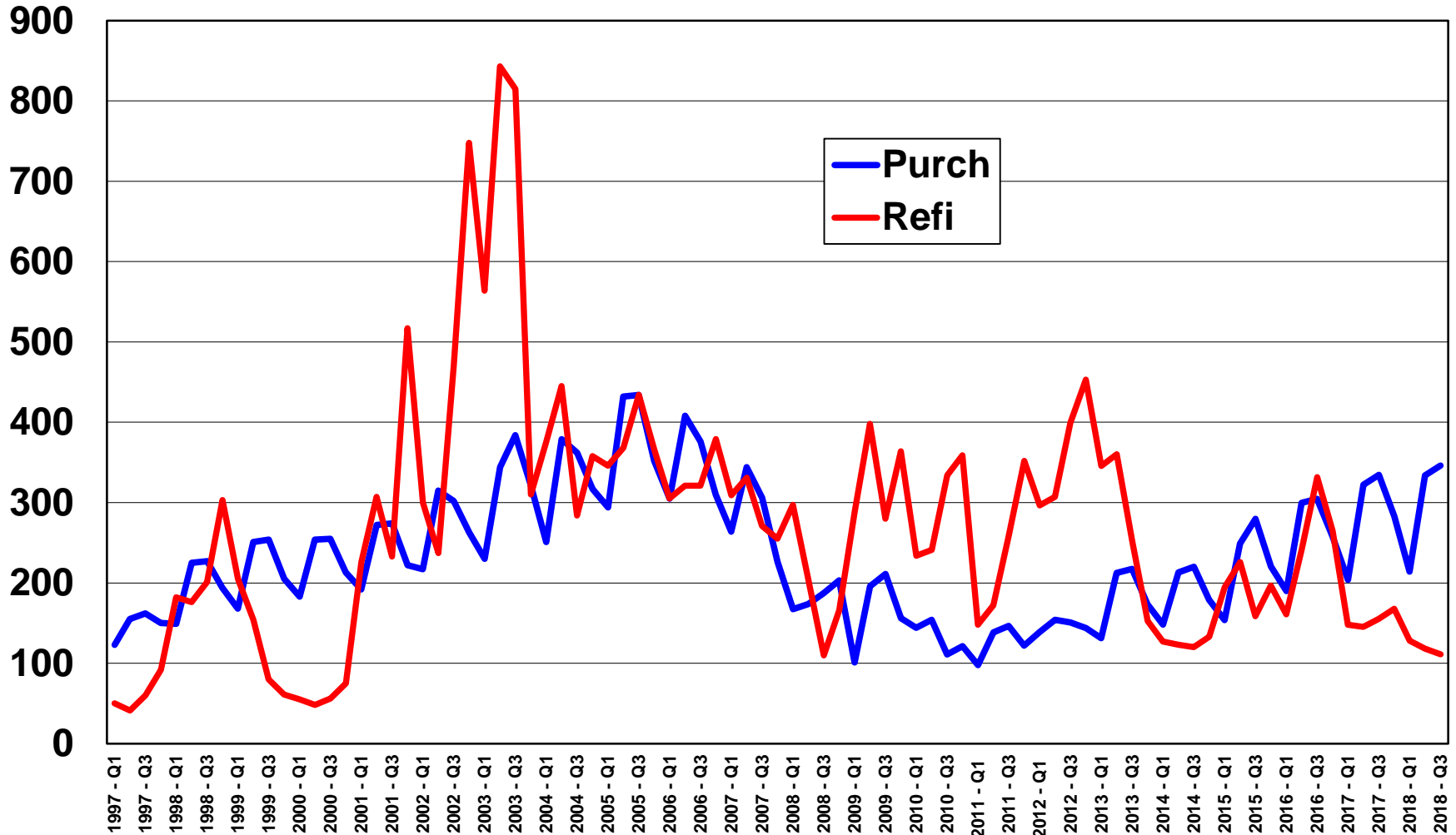


Equity Valuation: Shiller CAPE



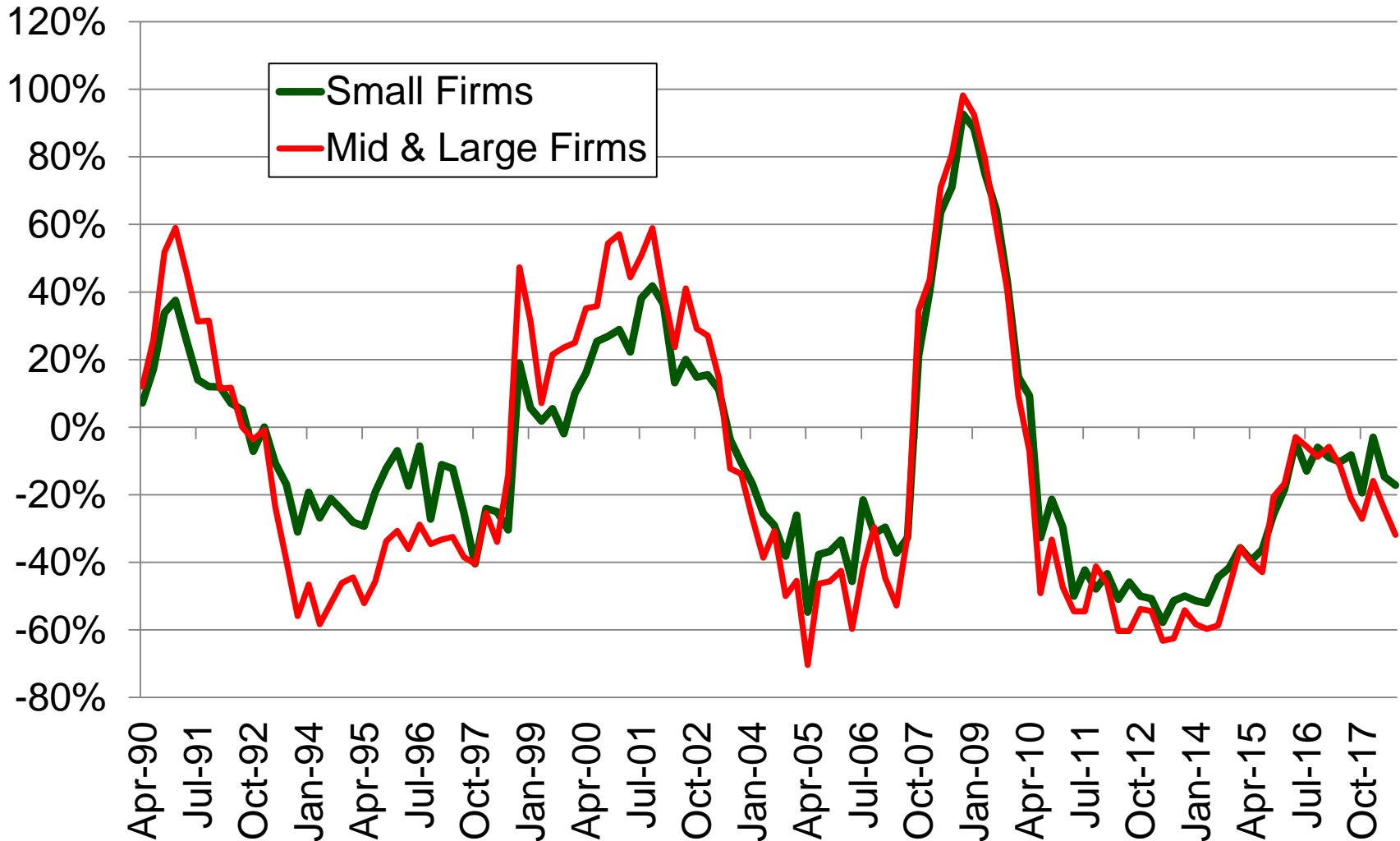
MBA Mortgage Activity: Purchase & Refinance

(Source: Mortgage Bankers Association)



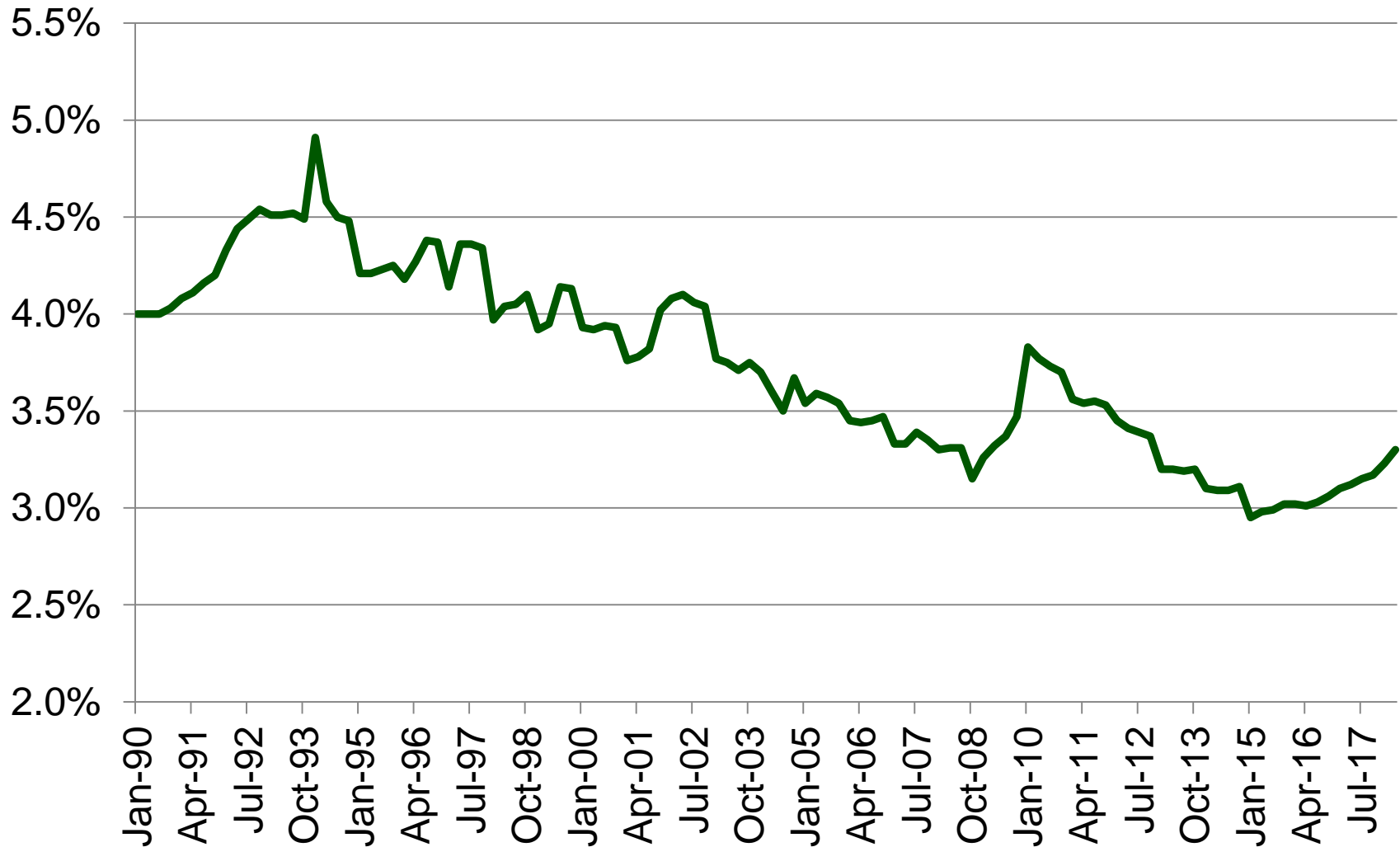
Yields over Funding Cost

(source: Federal Reserve, Senior Officer Lending Survey)



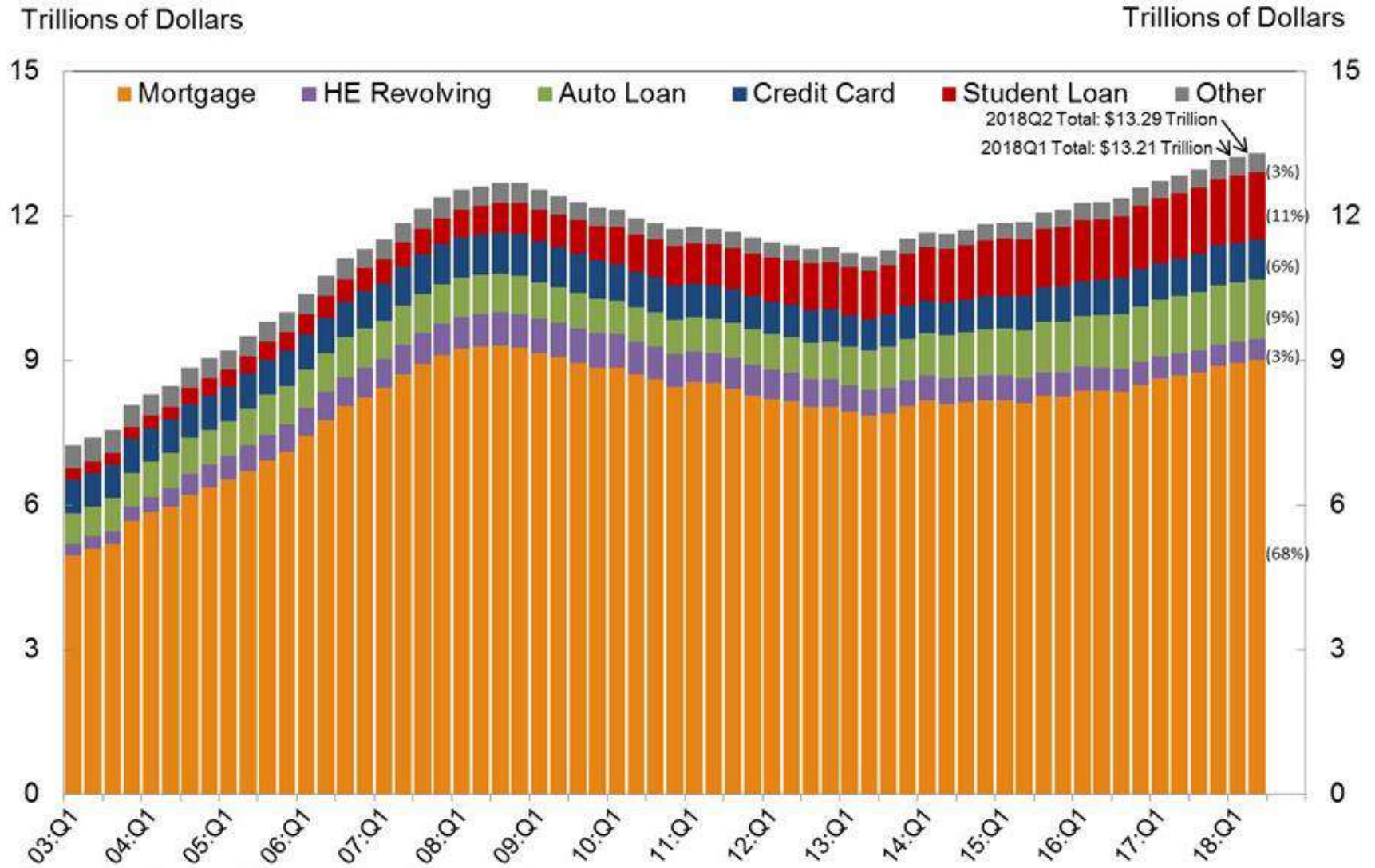
Net Interest Margin

(source: Federal Financial Institutions Examination Council)



Debt Balance and Mix

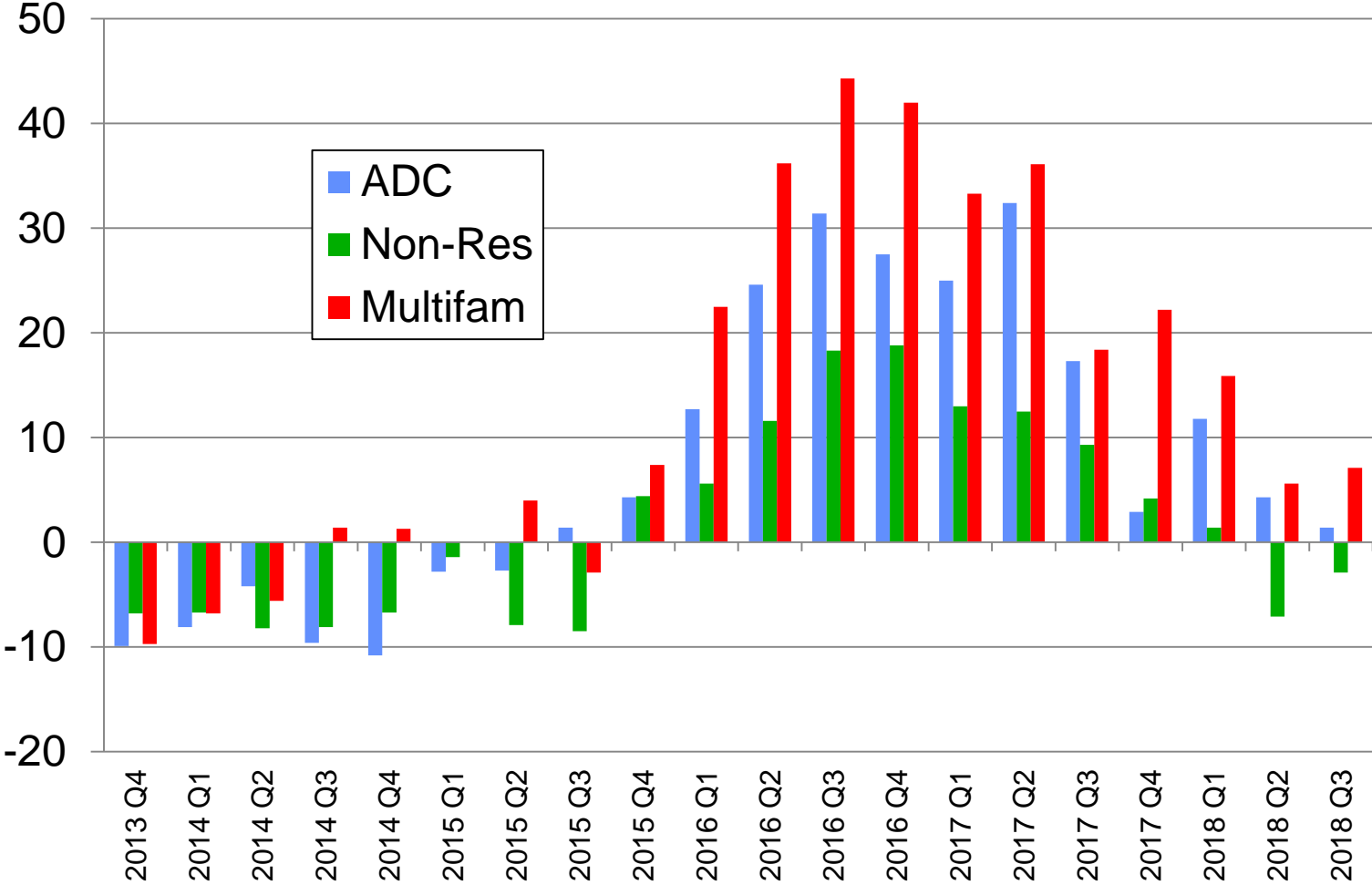
(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Source: New York Fed Consumer Credit Panel/Equifax

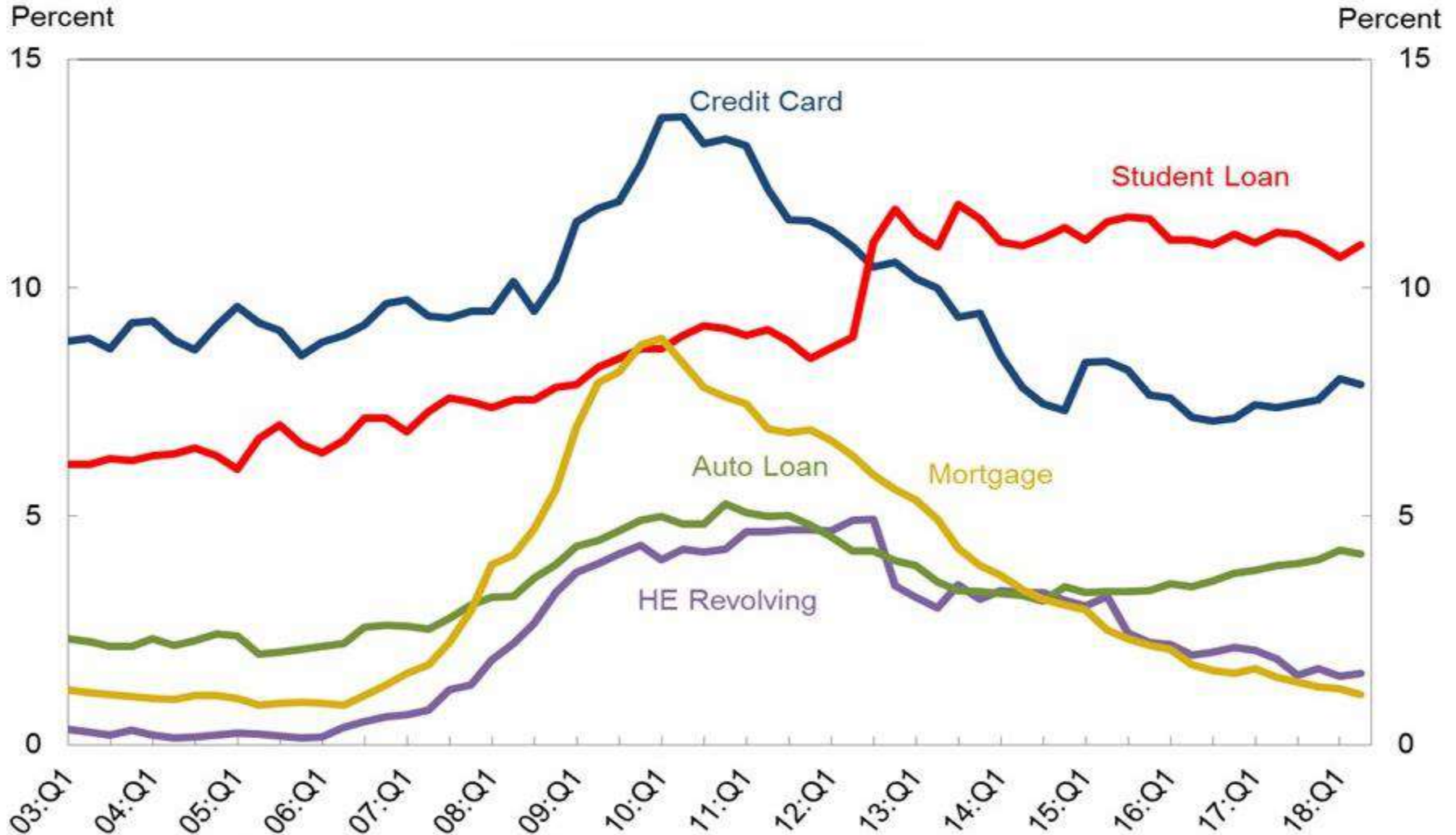
CRE Loan Standards: Net Tightening

(Source: Federal Reserve System, Senior Officers Lending Survey)



90+ Days Delinquent by Loan Type

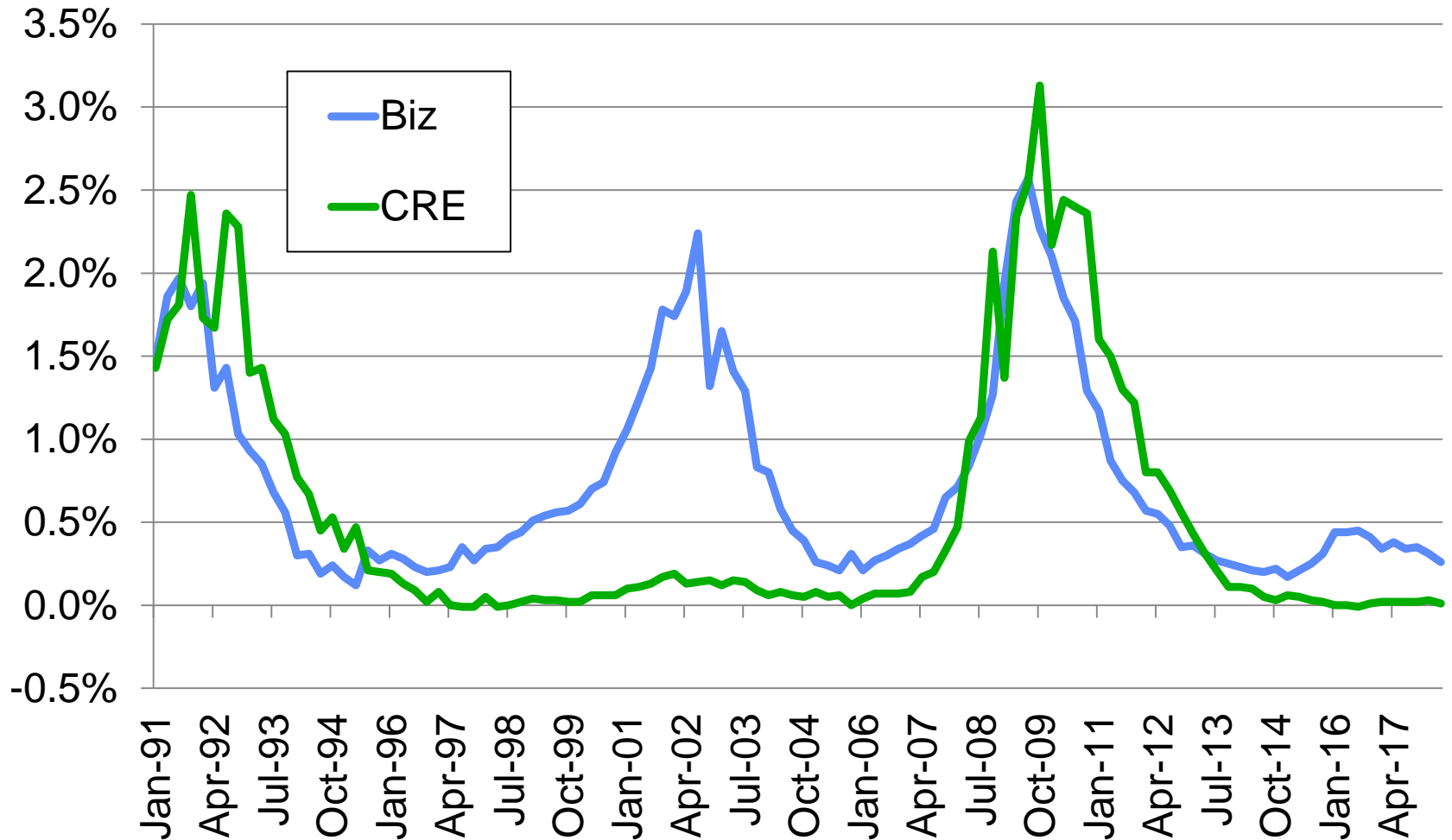
(source: Federal Reserve Bank of New York Credit Panel/Equifax)



Source: New York Fed Consumer Credit Panel/Equifax

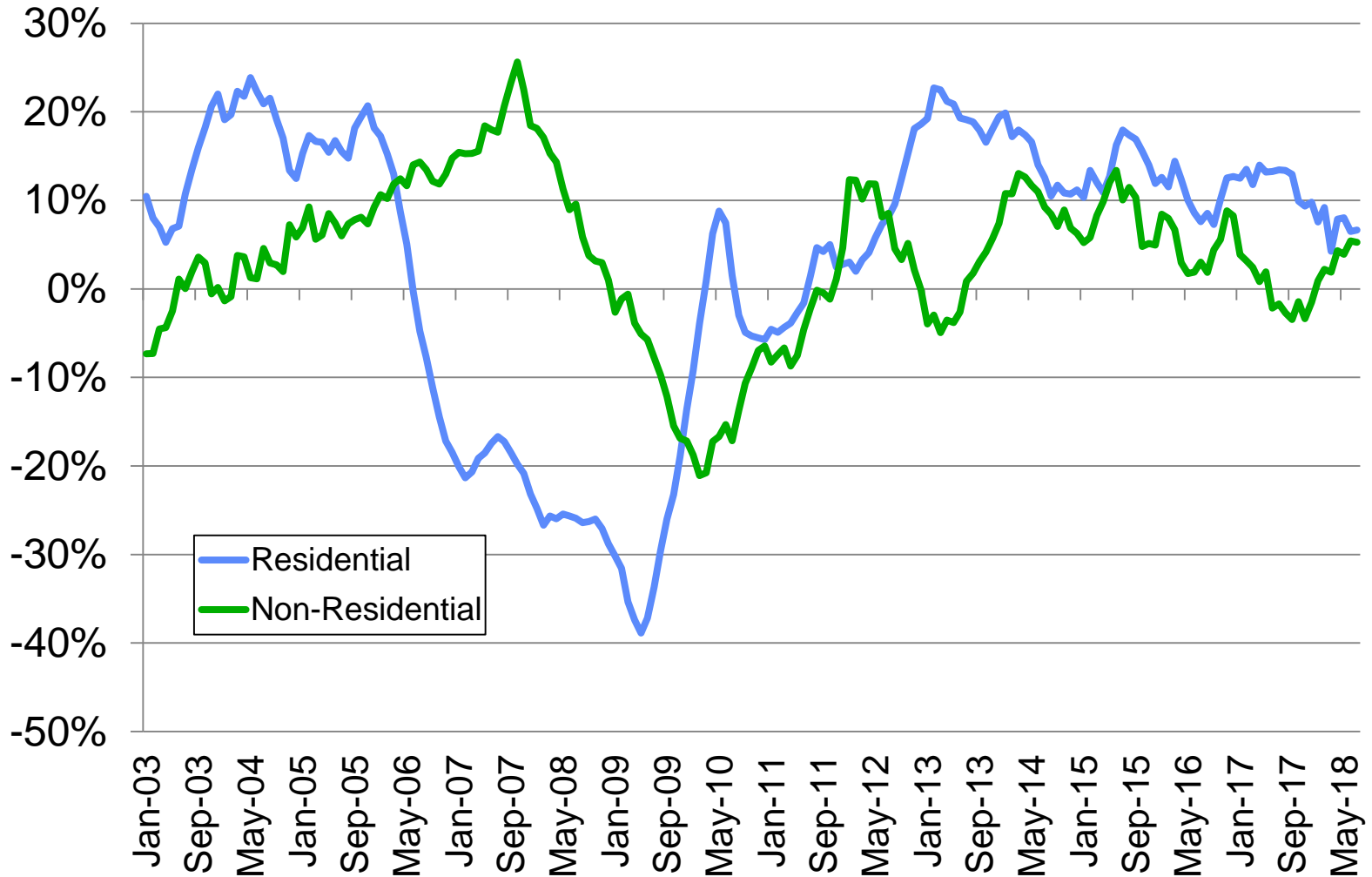
Charge Off Rates at Commercial Banks

(source: Board of Governors of the Federal Reserve System)



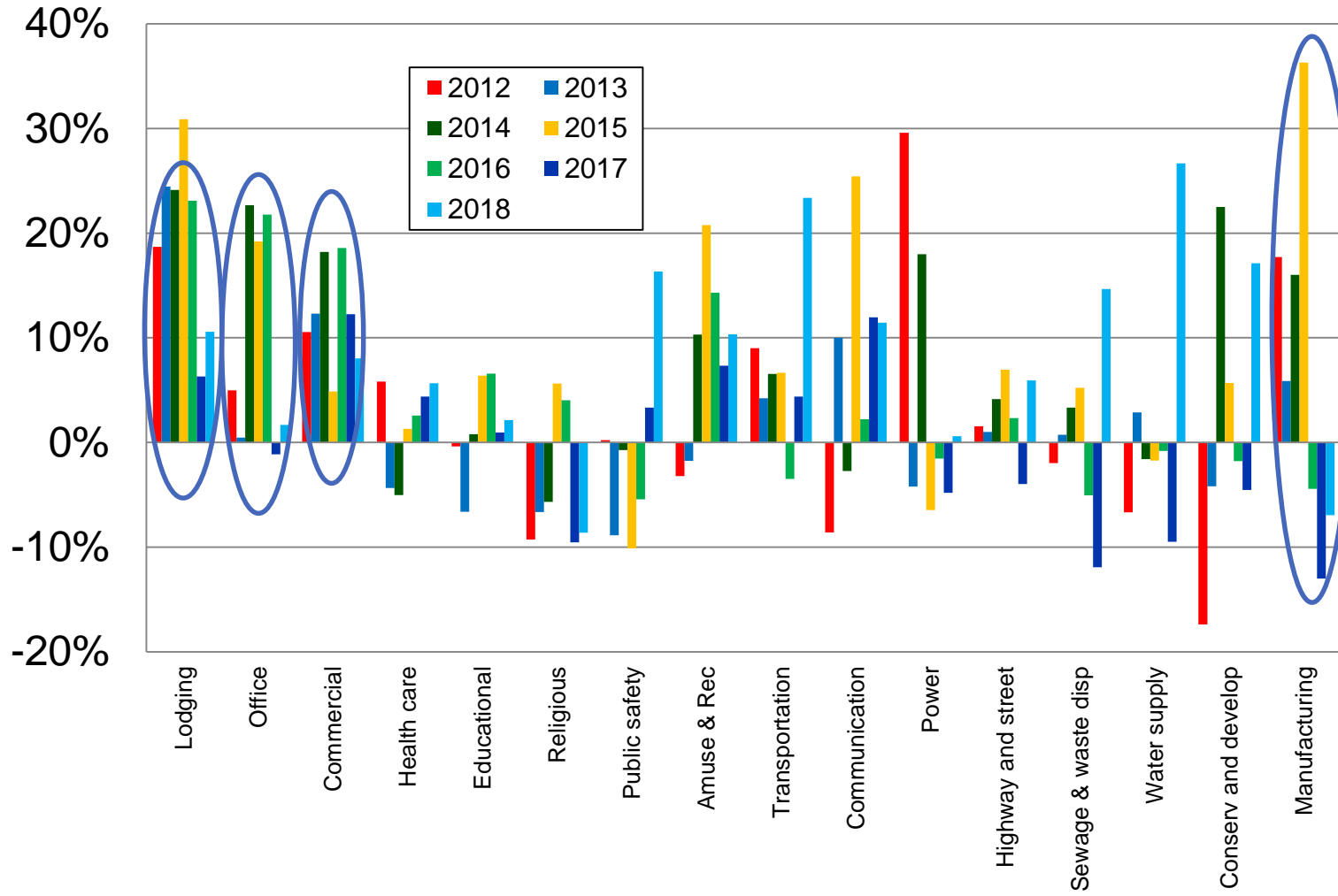
Construction Spending: By Sector

(Source: U.S. Bureau of Census)



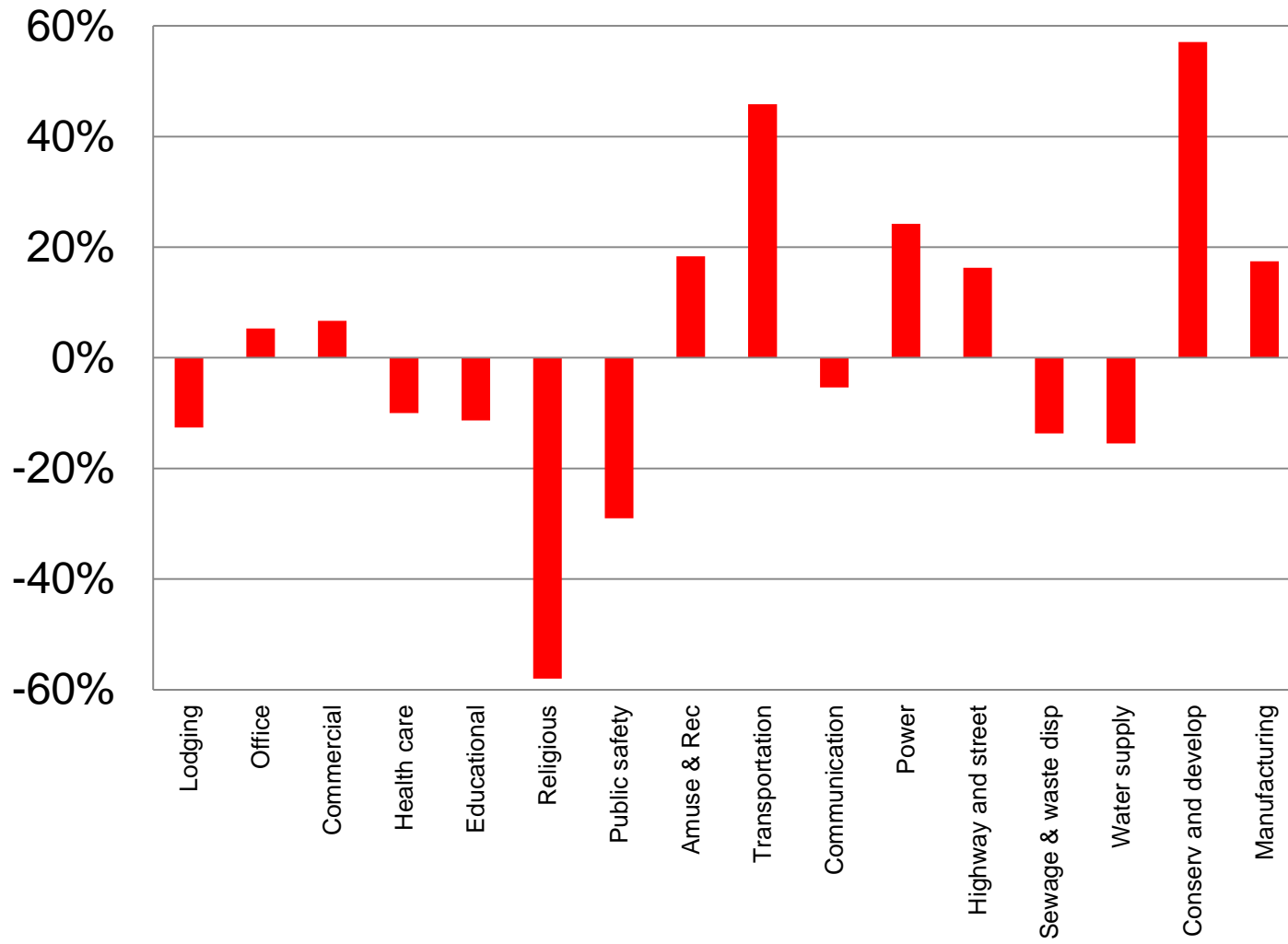
Non-Residential Construction

(Source: U.S. Bureau of Census)



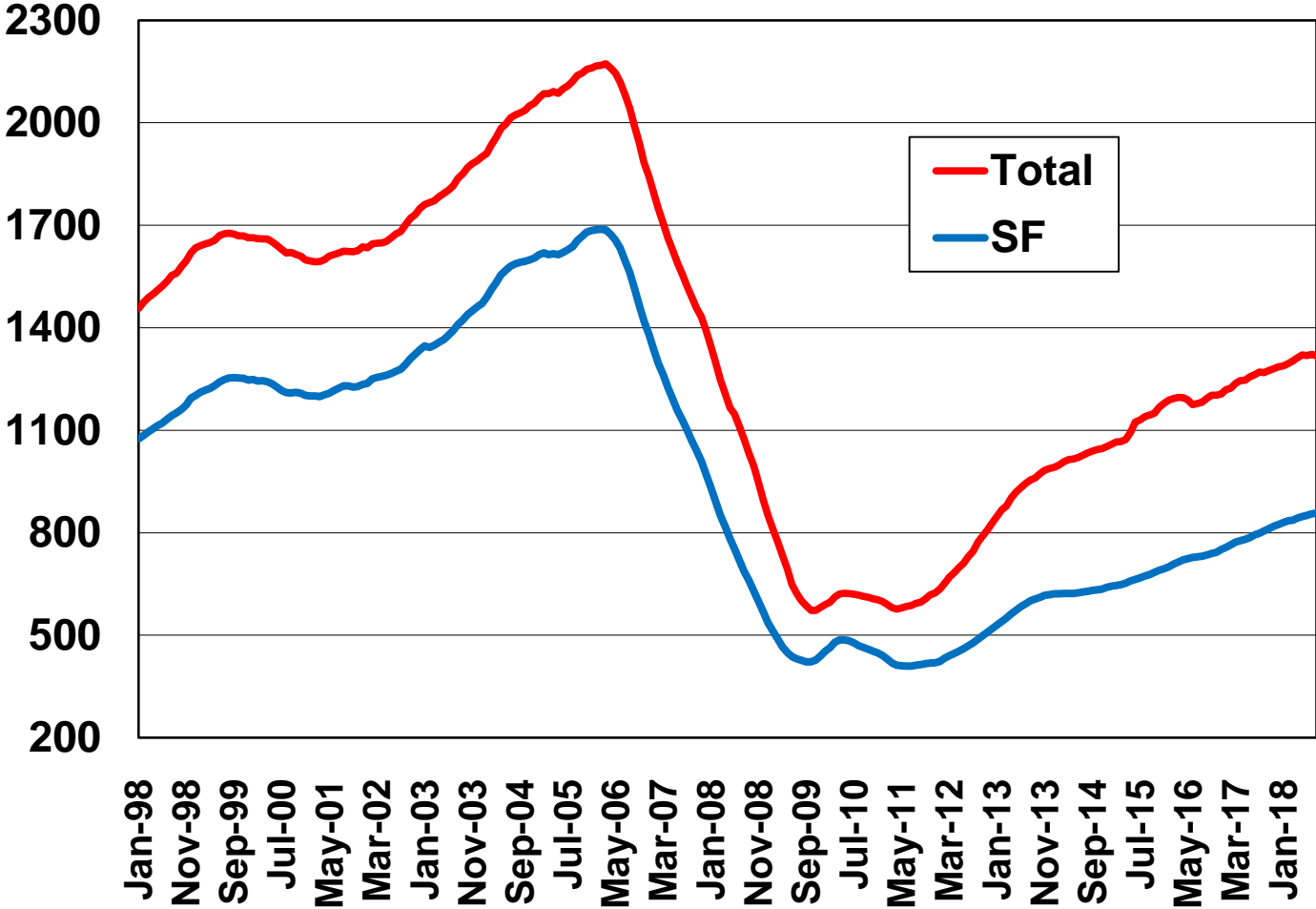
Non-Residential Con: 10 Year

(Source: U.S. Bureau of Census)



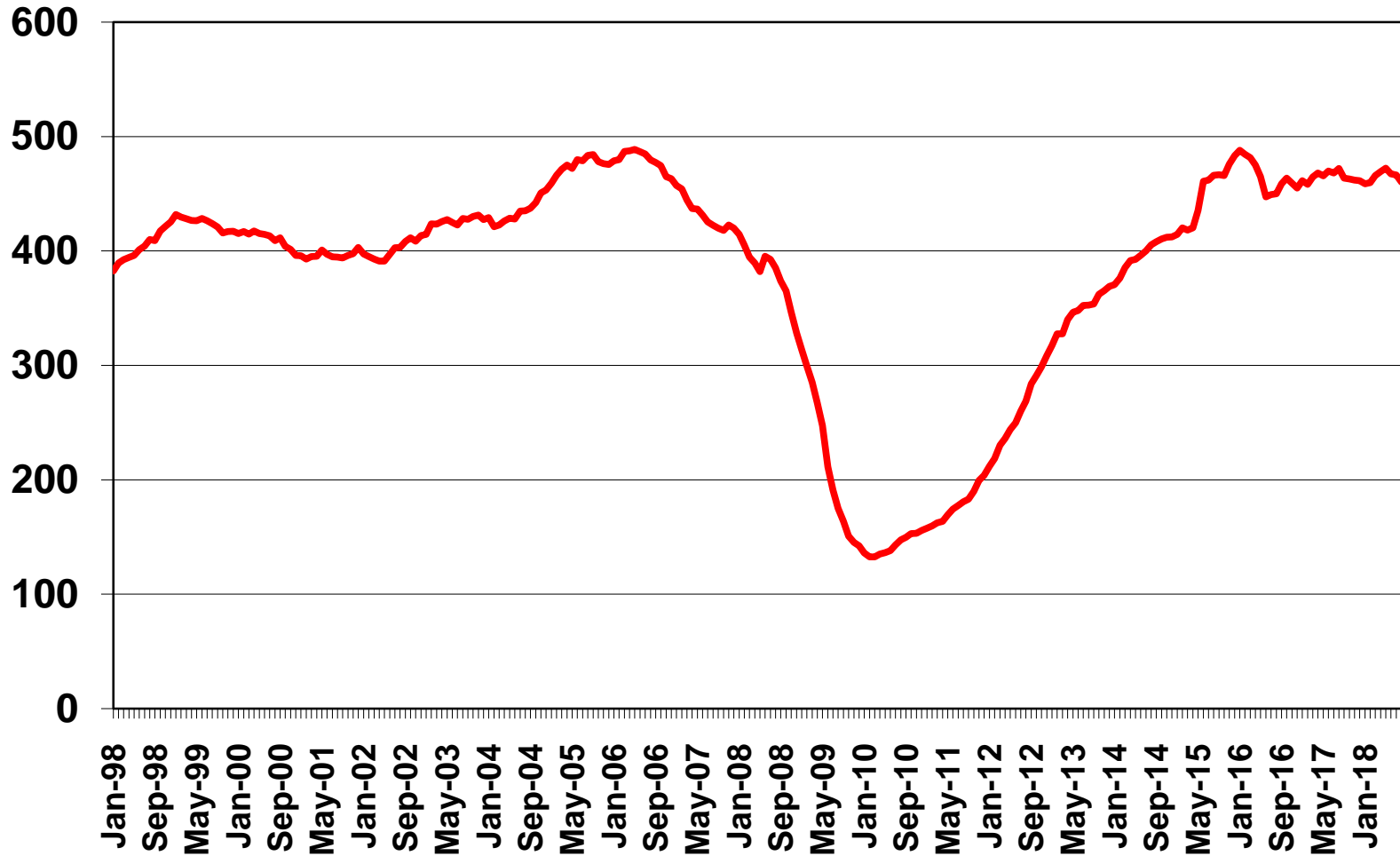
US Housing Permits: SF and Total

(source: U.S. Bureau of Census)



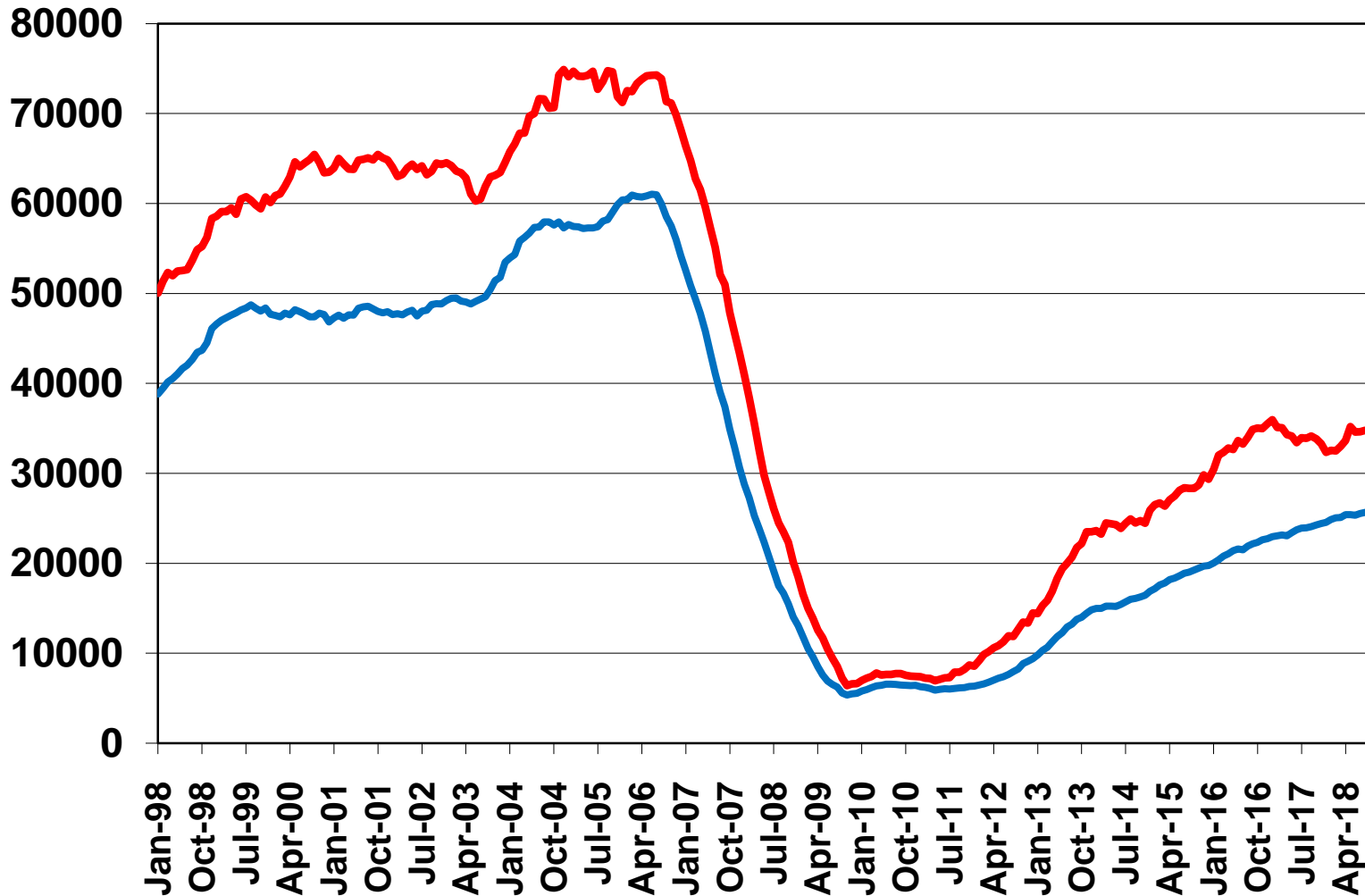
US Housing Permits: Multi-family

(Source: U.S. Bureau of Census)



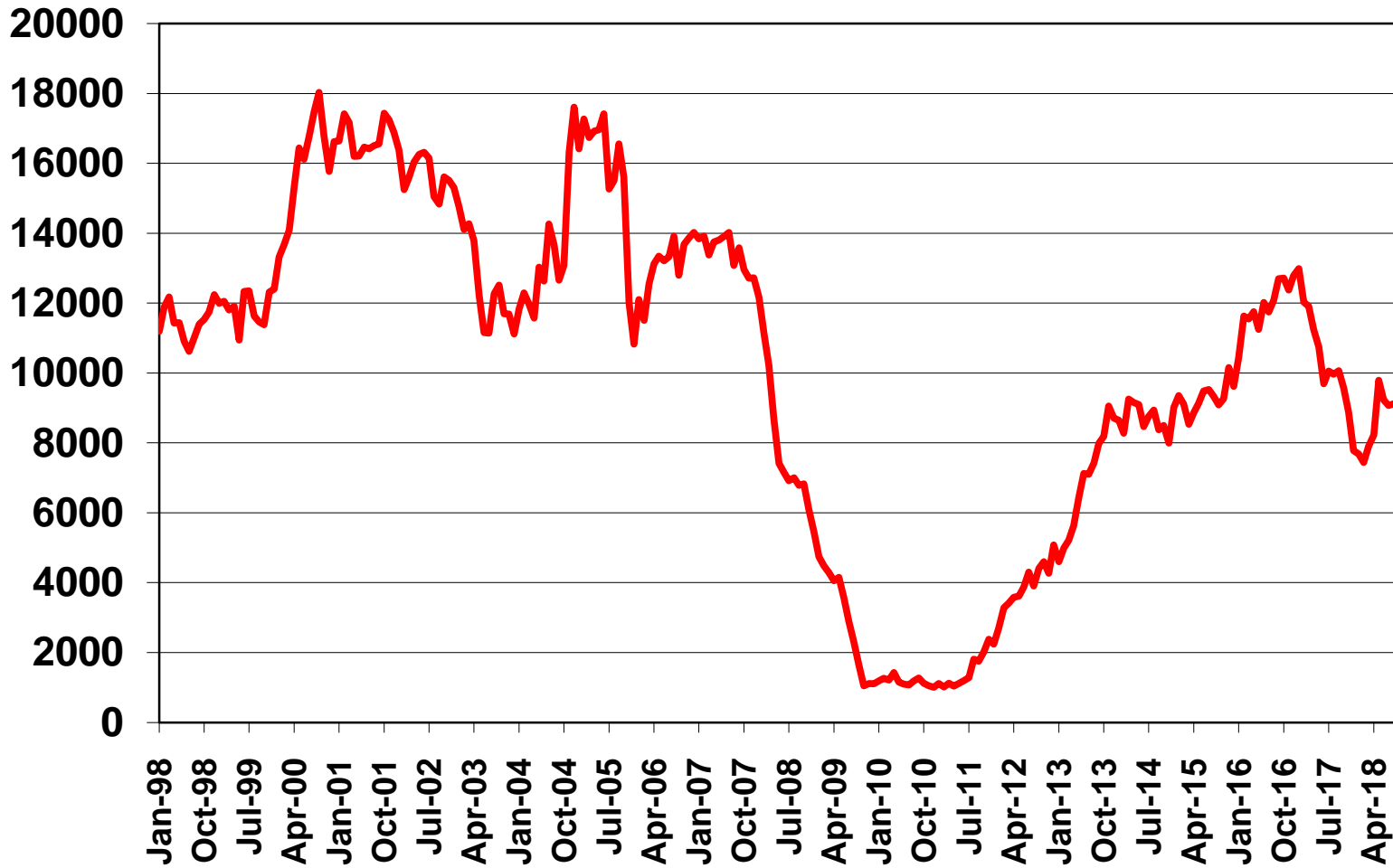
ATL Housing Starts: SF and Total

(12 month moving average)



ATL Housing Starts: Multi-family

(12 month moving average)

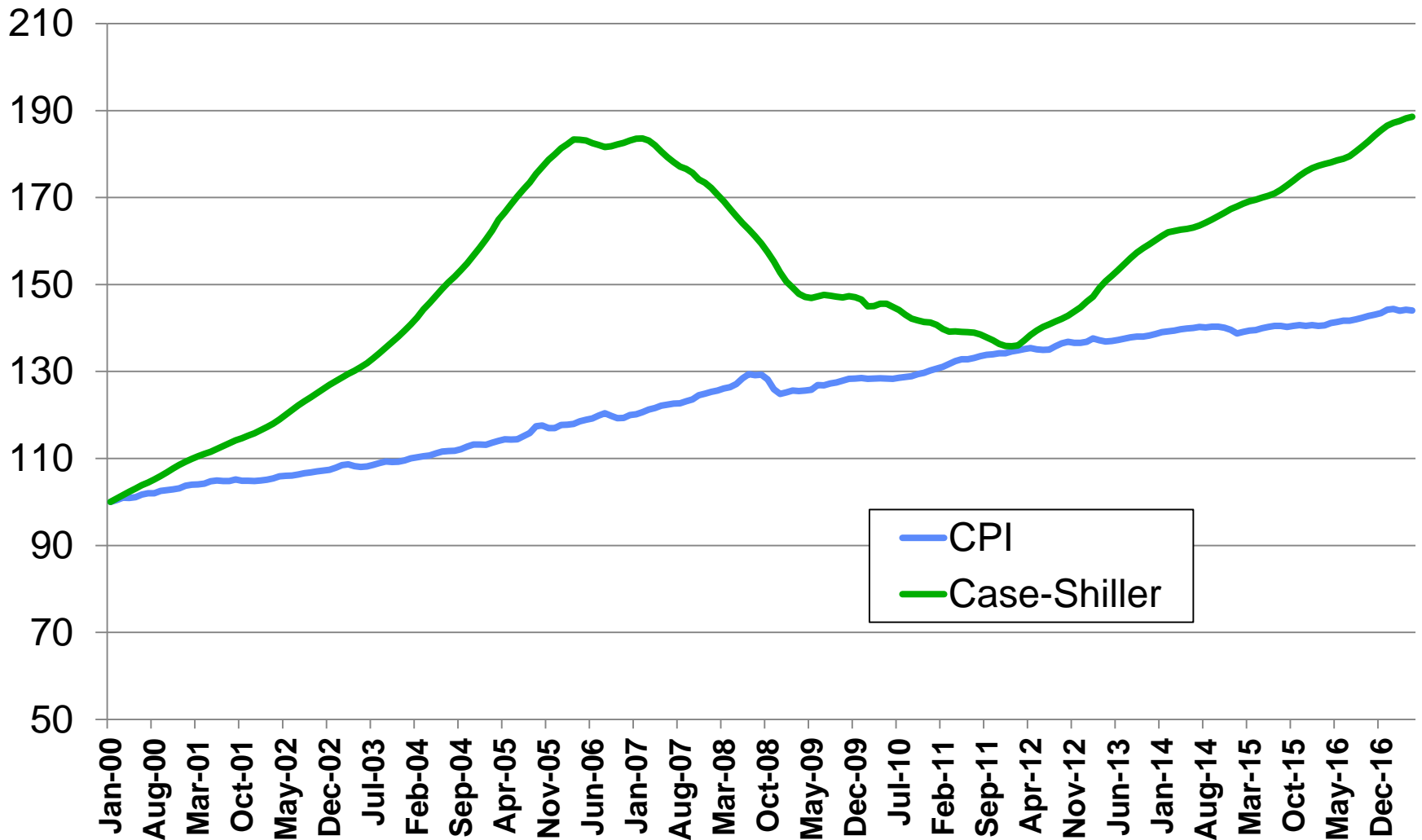


New Homes: Month Supply



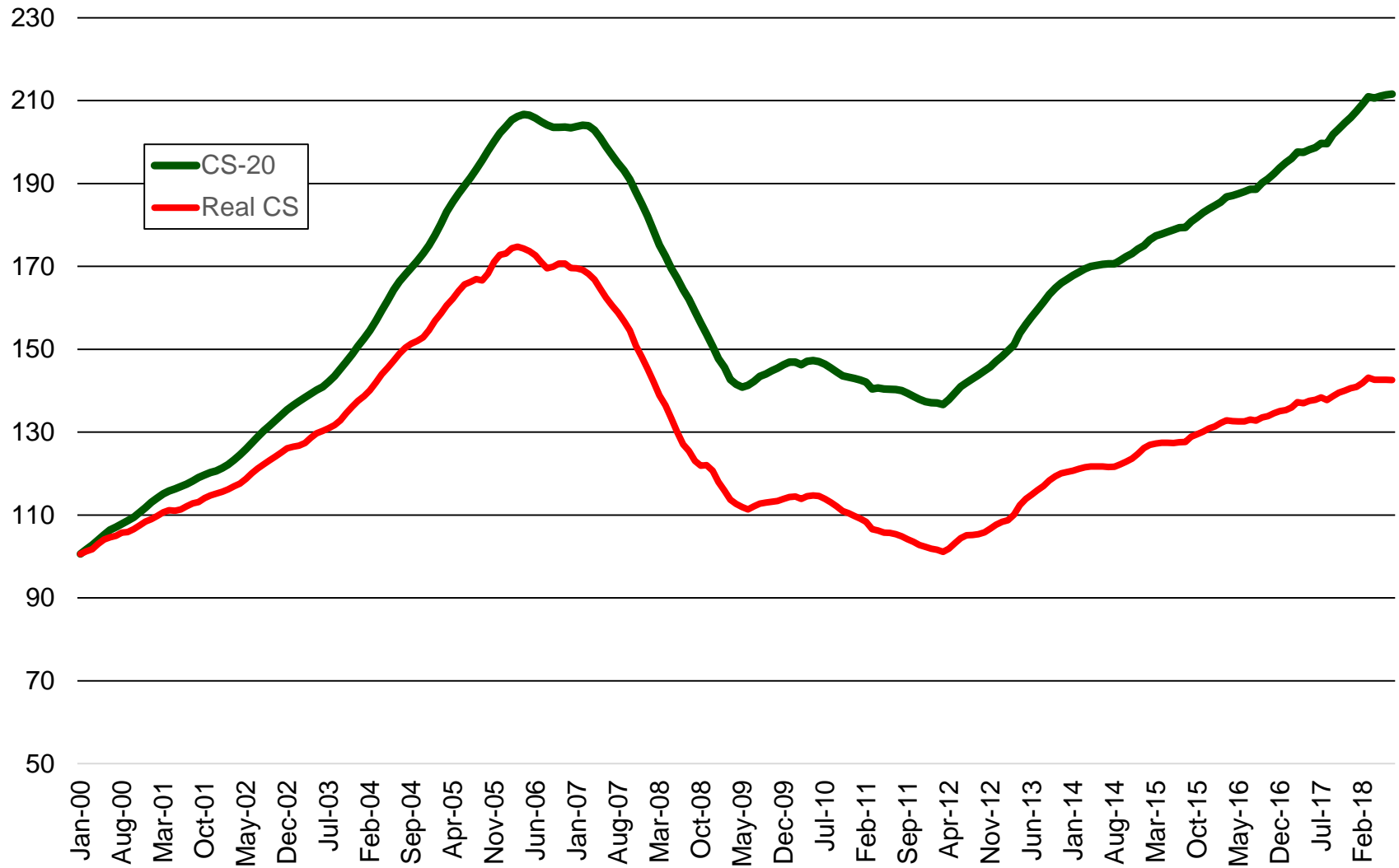
Home Prices & CPI

(Source: S&P Case-Shiller & Bureau of Labor Statistics)

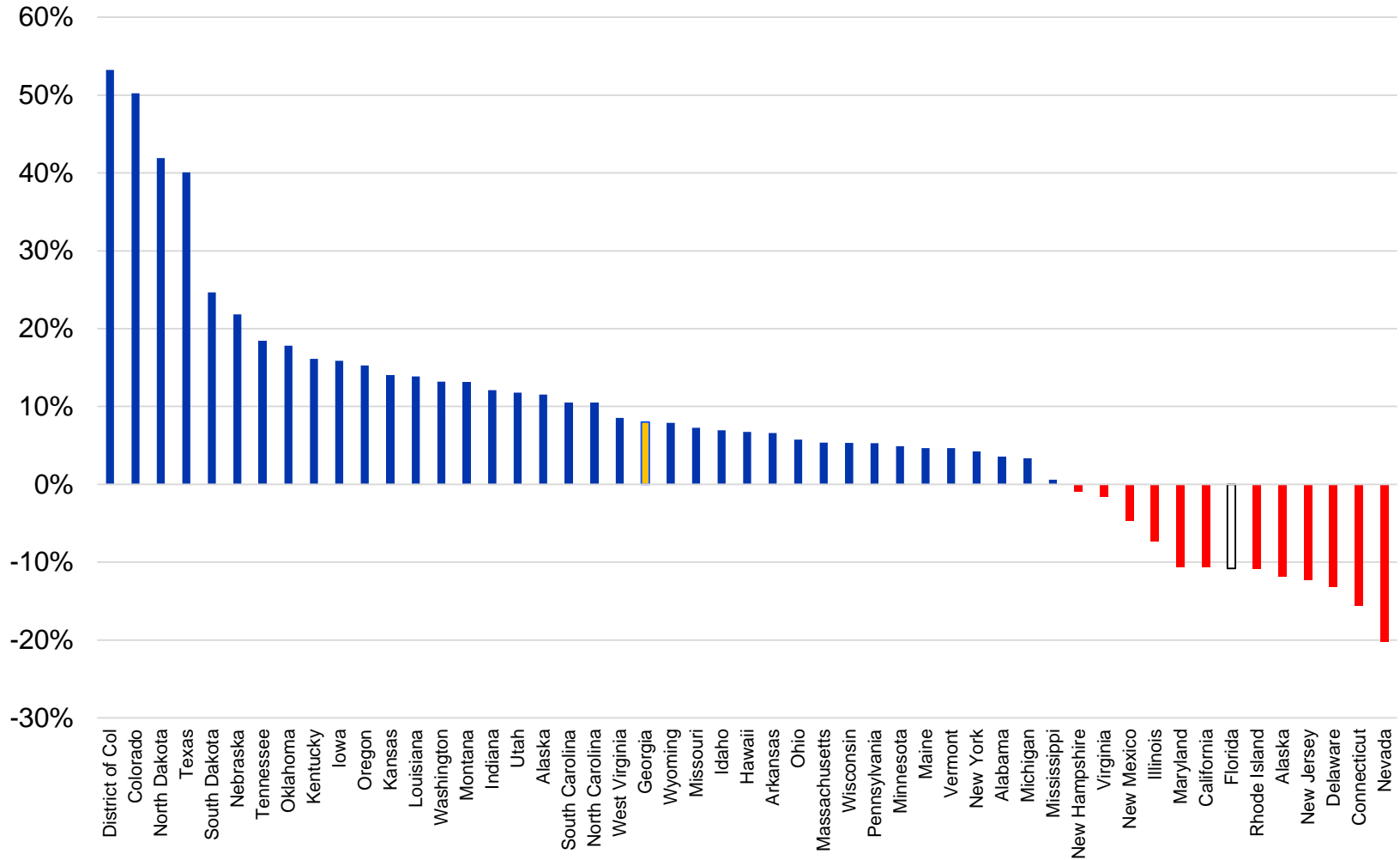


Real Case-Shiller

(National HPI; CPI-U)

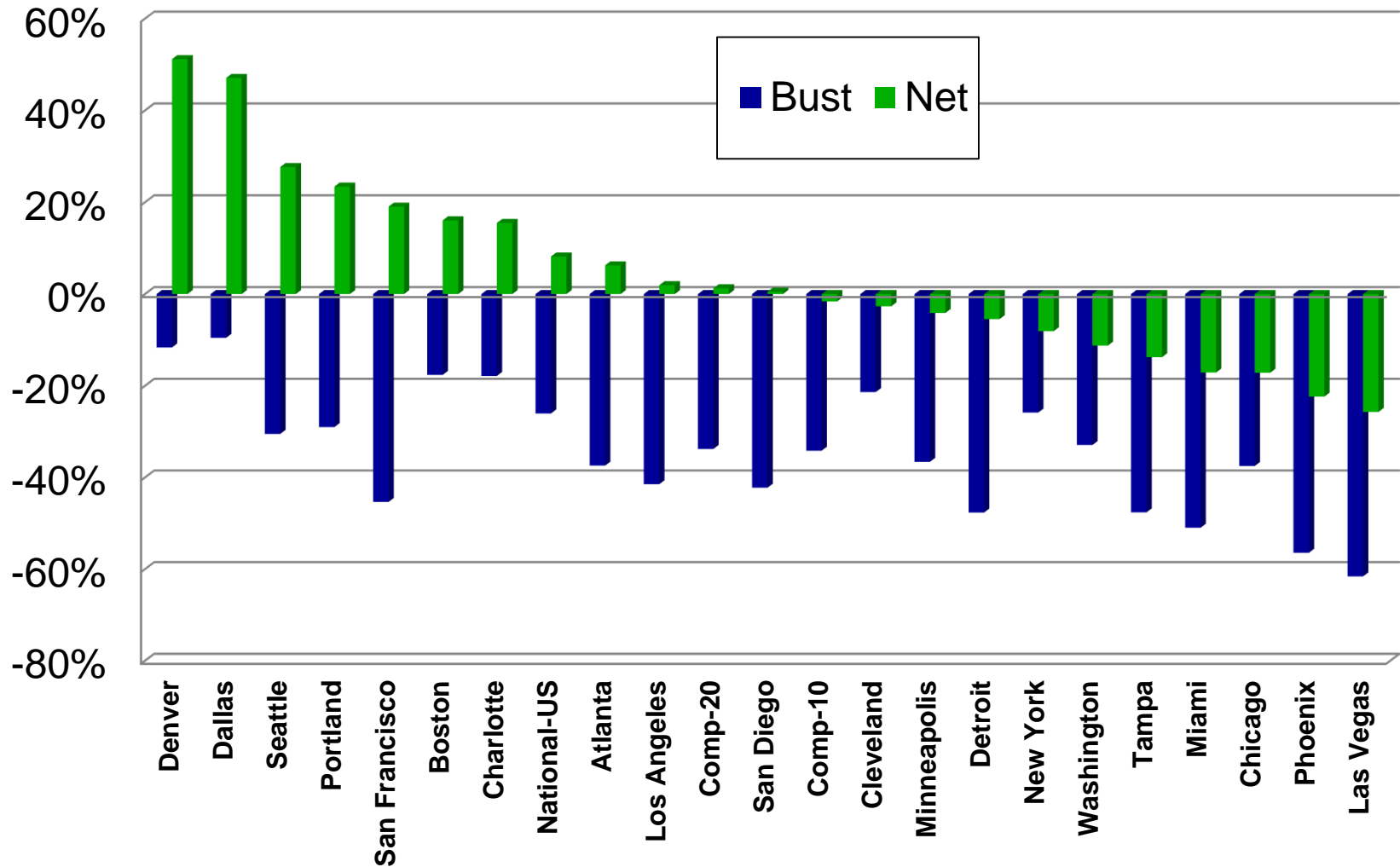


House Prices: Net



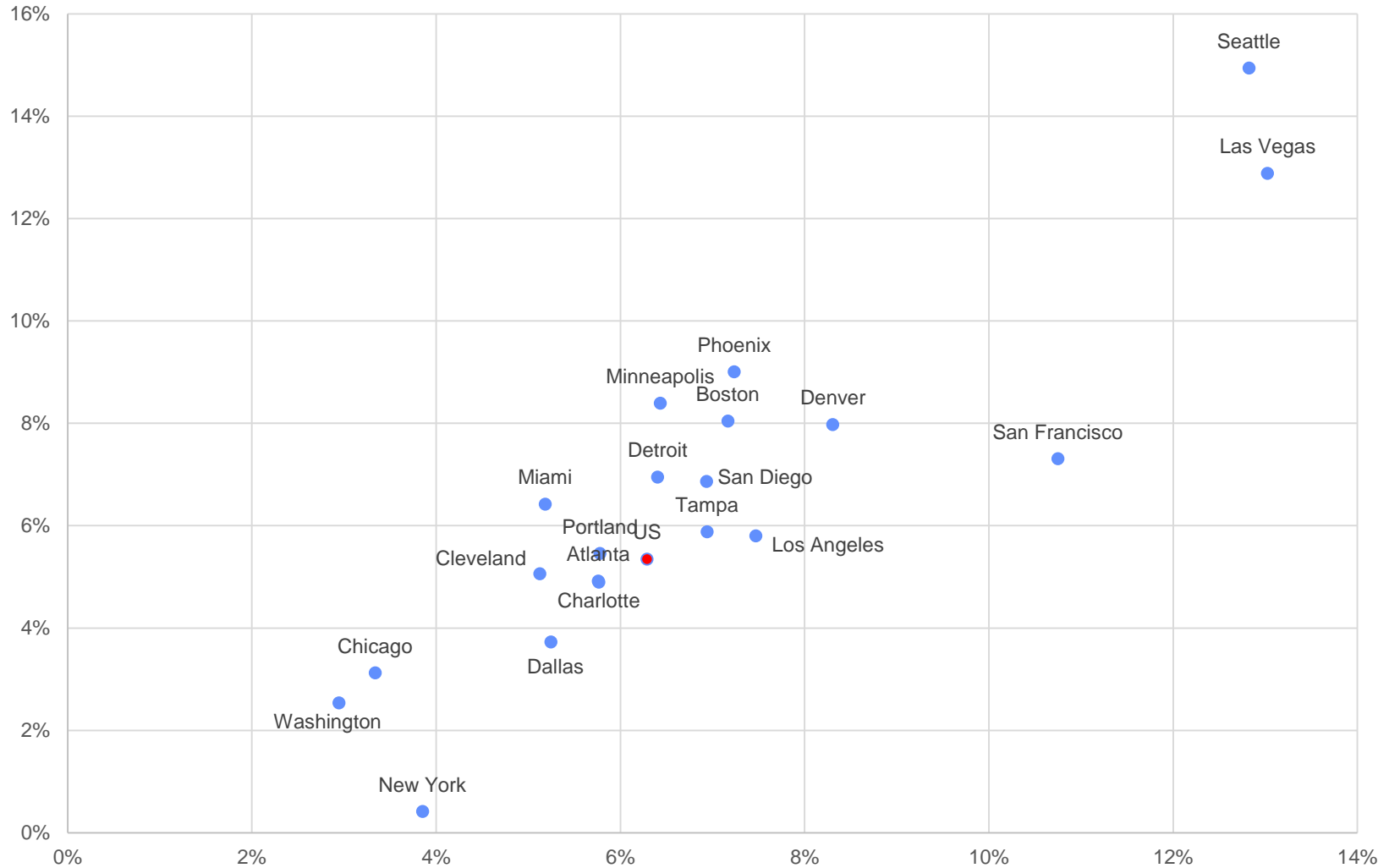
CS/S&P Home Price Index

(Source: S&P Case Shiller)

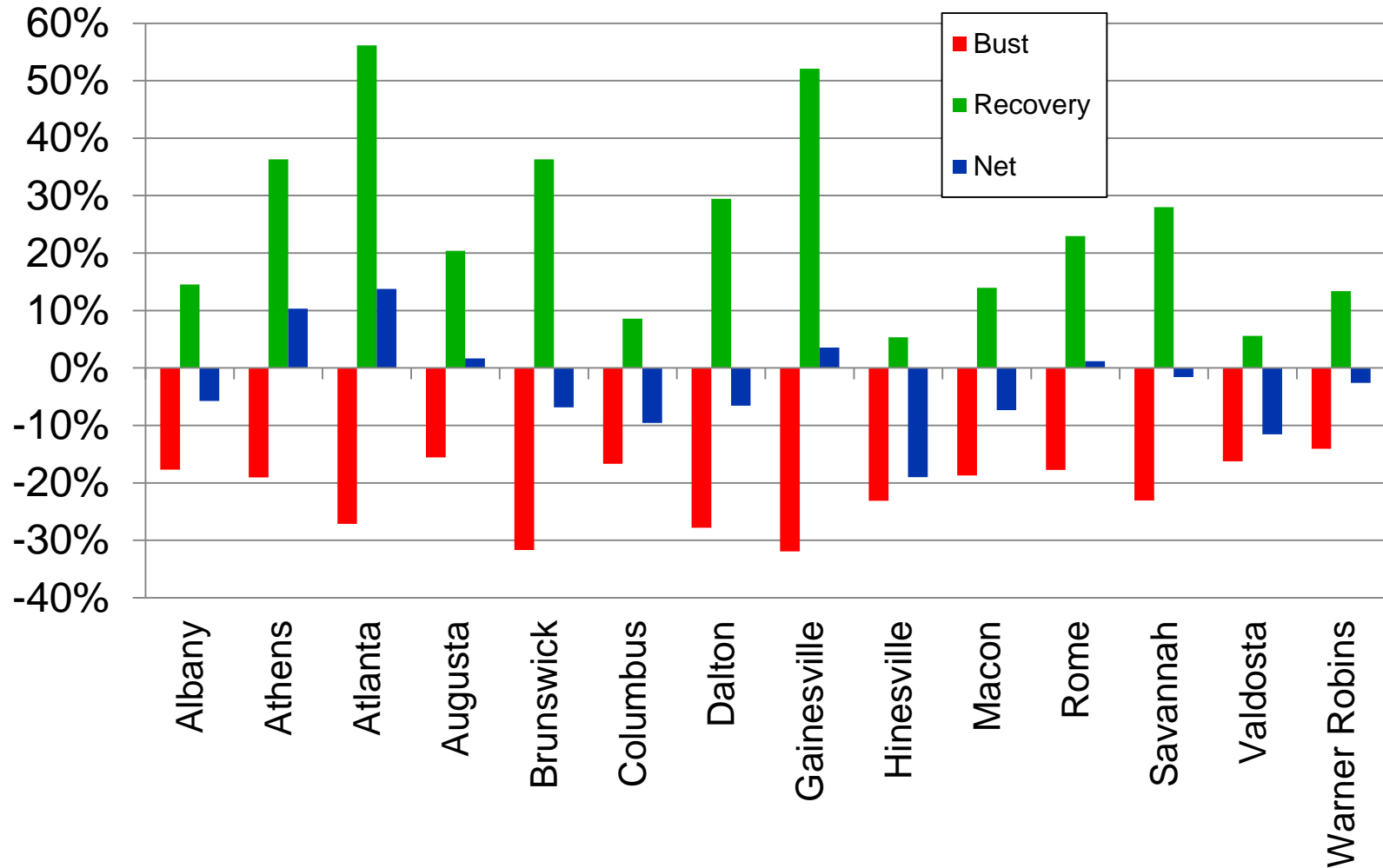


CS/S&P Home Price Index

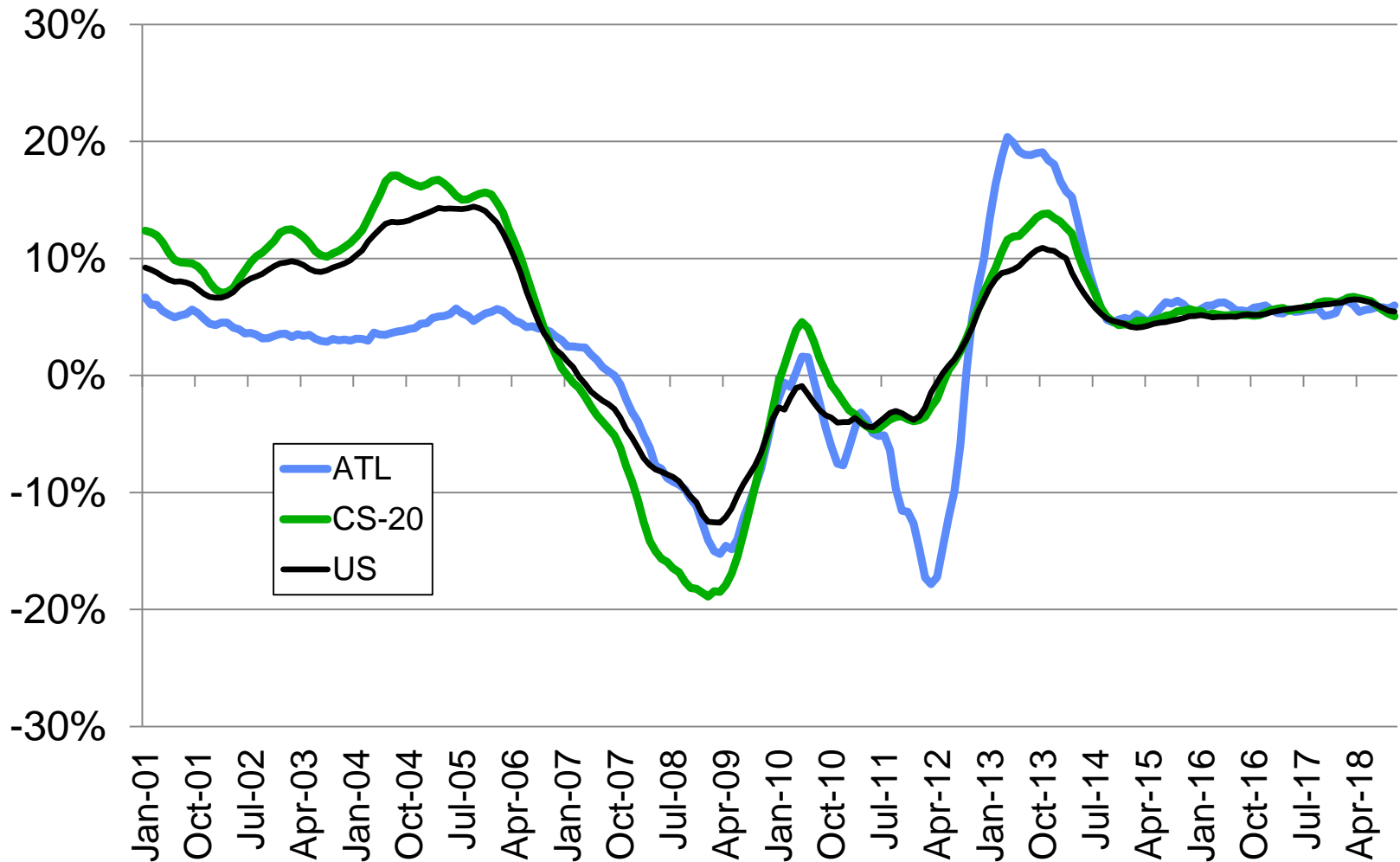
(Source: S&P Case Shiller)



GA MSA Home Prices

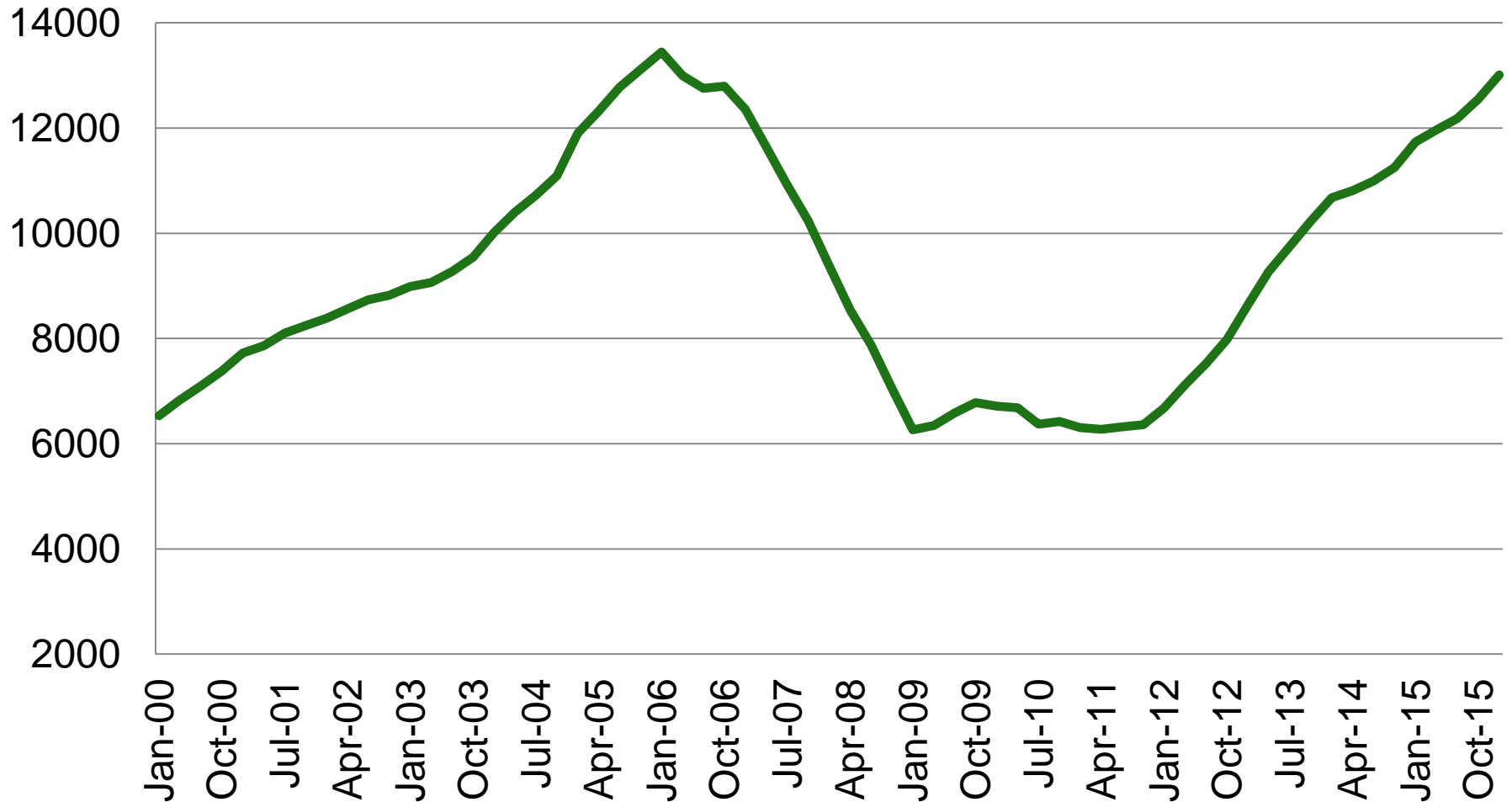


Case Shiller: Atlanta & US-20



Household RE Equity

(Source: Board of Governors of Federal Reserve System)



The Demographics: Boom & Bust

(Source: CDC, US Bureau of Census)



Tax Reform: Some Headlines

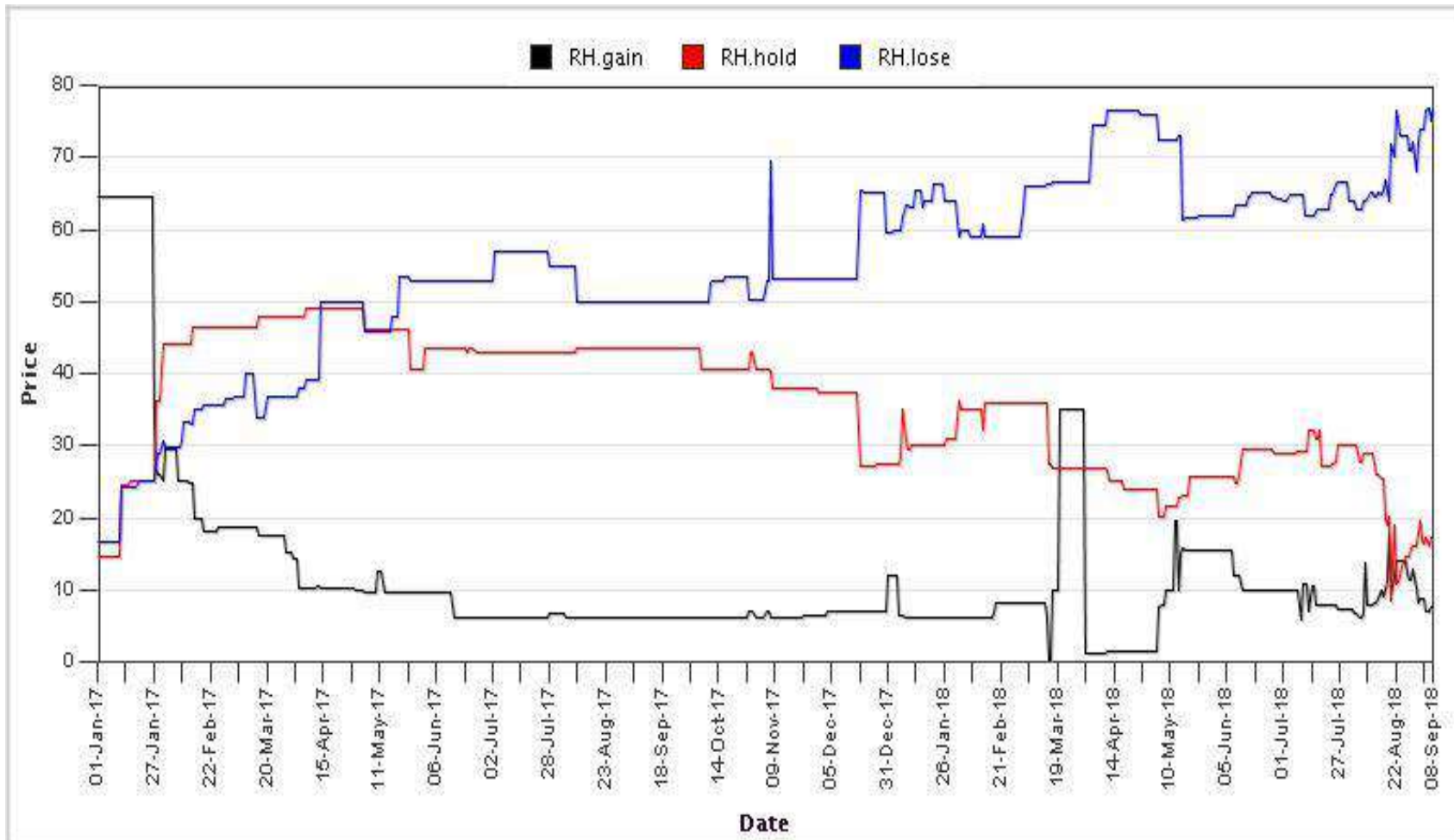
- **Corporate tax rates cut 35% to 21% - changes value of loss carry forwards, but lower cost of capital**
- **Preferential treatment for pass-through.**
- **Individual rate lowered in some brackets.**
- **Standard deduction increase, but exemption disappear and limits on SALT and other preferred items will more than offset for some.**
- **AMT fillers reduced.**
- **Global taxation reduces inversion and encourages repatriation.**
- **ACA individual mandate disappears.**

Currents Issues in Fiscal Affairs

- **Federal:**
 - **Shutdown** – longest
 - **2017-18 Biggest Play:** Tax Reform – but 2.0 unlikely
 - **Still in Play:**, Keystone, Dodd-Frank, EPA, NLRB
 - **Next in Play:** Infrastructure
 - **Always in Play:** SCOTUS
 - **Ongoing Play:** Revising Trade
 - » Bilateral vs Multilateral, Lumber deals and tariffs
- **States:**
 - Tax Reform Initiatives in other States slow, but SALT consideration weigh in
 - Recent gains in manufacturing facilities due to “reshoring”
 - SE states domination biz location ranking, but not exclusive.
- **Local:**
 - RE valuation rising = tax revenues, fiscal distress moderating

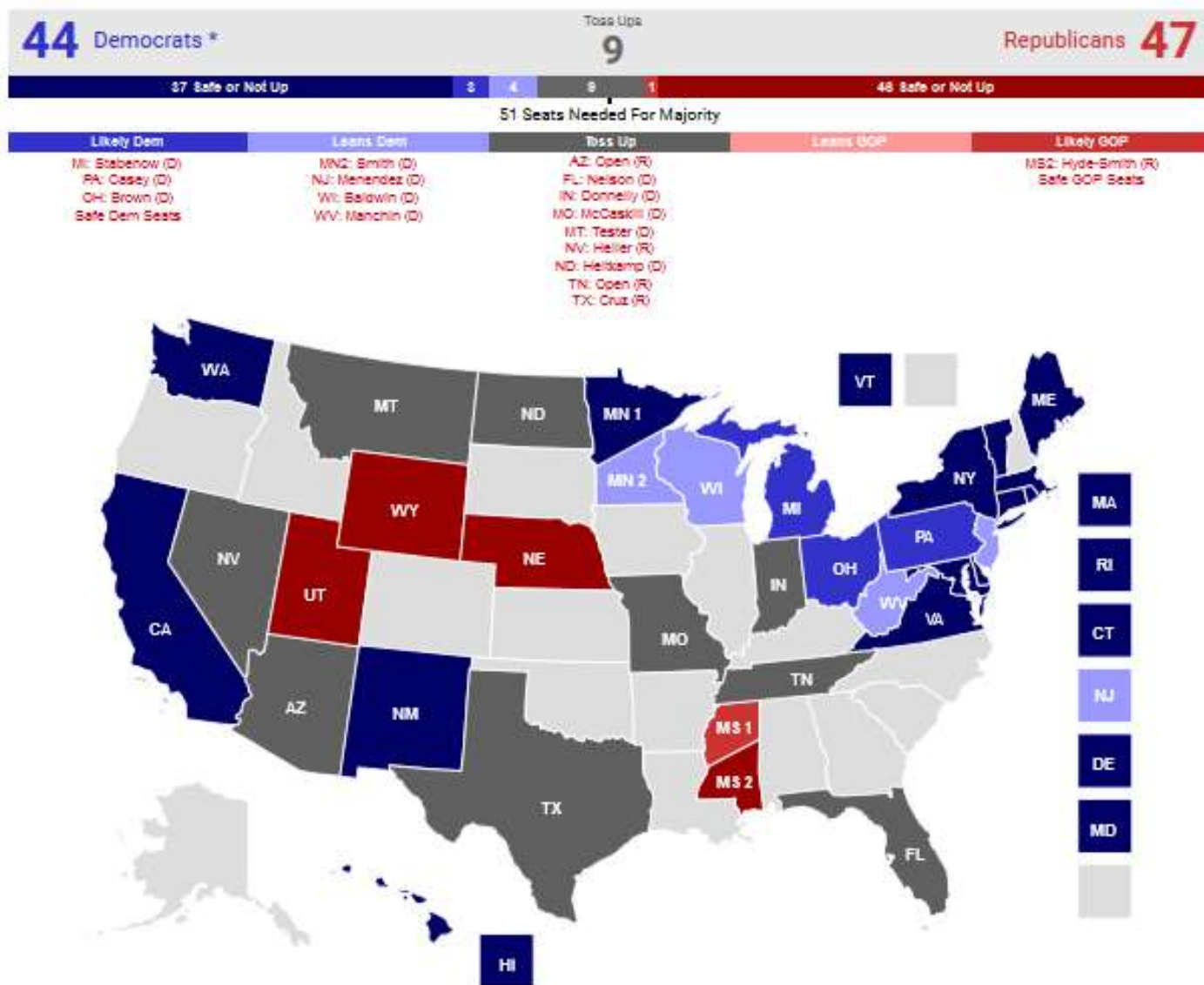
Election 2018: Just Down the Avenue

(Source: Iowa Electronic Markets)



Election 2018: Just Down the Avenue

(Source: RealClearPolitics.com)



HOUSING AND THE ECONOMY

***Roger Tutterow
Professor of Economics
Kennesaw State University***

January 16, 2019



**Georgia
Power**



Angel Oak

HOME LOANS



COLES COLLEGE OF
BUSINESS
KENNESAW STATE UNIVERSITY