The Economic Outlook for the Land Market

Dr. Mark G. Dotzour
Real Estate Economist
College Station, Texas
Bitcoin

The “founder” of bitcoin is Satoshi Nakamoto. Or not!
Mt Gox had $450 million stolen in 2014. NiceHash had $70 million stolen in 2017. Coincheck in Japan reported that $450 million in customer assets disappeared in 2018. Crypto Exchange lost $170 million to hackers, can’t pay back customers.

$20,000 intraday on Dec 17
Fell 25% on Dec 22
Falls below $11,000 on Jan 16
Falls to $7,700 on Feb 2
Falls to $6,000 on Feb 5

China closes crypto exchanges in 2017.
Bitcoin Speculators
Longest U.S. Economic Expansions
Current expansion began in June, 2009

- Mar 1991 to Mar 2001: 120 months
- Feb 1961 to Dec 1969: 106 months
- Nov 1982 to Jul 1990: 92 months
- Jun 1938 to Feb 1945: 80 months
- Nov 2001 to Dec 2007: 73 months

Current expansion as of Apr 2018 is 106 months
U.S. Leading Index of Economic Indicators

Source: Federal Reserve Bank of St. Louis - FRED
Monthly Increase in Jobs

All Employees: Total Nonfarm Payrolls

Source: Federal Reserve Bank of St. Louis - FRED
Defining the Terms
From a real American Heritage Dictionary

**News** – Information about recent events of general interest

**Propaganda** – the systematic propagation of a given doctrine or of allegations reflecting its views and interests.

**Gossip** – Trifling, often groundless rumor. Usually of a personal, sensational, or intimate nature.

**Bias** – Preference or inclination that inhibits impartial judgement.
Tax Reform Aftermath

Boeing-$100 million for corporate giving, $100 million for worker development and $100 million for facilities enhancement.

ATT will increase investments by $1 billion and pay 200,000 employees a $1,000 bonus.

Comcast- $1,000 bonus to 100,000 employees

Wells Fargo and Fifth Third will increase minimum wage to $15 per hour. Fifth Third will give $1,000 bonus to 3,000 employees.

Source: WSJ 12/22/17
Market Predictions Gone Wrong

Investors in the stock market currently regard a Trump presidency as a relatively low-probability development. But while the precise consequences of bad policies are always hard to predict, if investors are wrong and Trump wins, we should expect a big markdown in expected future earnings for a wide range of stocks — and a likely crash in the broader market.

Dr. Simon Johnson, professor at MIT’s Sloan School of Management
Nov 1, 2016 in MarketWatch.com

Source: MarketWatch.com 11/1/2016
Election night freakout for stocks

8:15 pm
Trump and Clinton neck-and-neck in Florida

10:27 pm
CNN calls Ohio for Trump

11:35 pm
Trump projected to win Florida

12:10 am
Dow futures dive 870 points before trading-loss limits

3:00 am
Trump victory speech

Source: CNN Money
Fed Economic Forecasting

“The fact that our econometric models at the Fed, the best in the world, have been wrong for fourteen straight quarters does not mean that they will not be right in the fifteenth quarter.”

- Alan Greenspan, 1999 speech to the IMF

Fed Speak

“A major duty of every central banker is to learn how to exude confidence without positively lying.”


Household Net Worth

Source: Board of Governors of the Federal Reserve System

Households and Nonprofit Organizations; Net Worth, Level
Corporate Profits

Corporate Profits After Tax with Inventory Valuation Adjustment (IVA) and Capital Consumption Adjustment

Source: U.S. Dept. of Commerce: Bureau of Economic Analysis
Small Business

“Planning To Hire People In Next Three Months”

Planning to Hire People in the Next Three Months

Source: National Federation of Independent Business
Small Business
“Now Is A Good Time To Expand”

Source: National Federation of Independent Business
### Large Corporate Hiring Plans: Next 6 Months

<table>
<thead>
<tr>
<th>Quarter</th>
<th>More Jobs</th>
<th>Less Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4-17</td>
<td>43%</td>
<td>18%</td>
</tr>
<tr>
<td>Q3-17</td>
<td>43%</td>
<td>13%</td>
</tr>
<tr>
<td>Q2-17</td>
<td>36%</td>
<td>16%</td>
</tr>
<tr>
<td>Q1-17</td>
<td>41%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Business Roundtable
## Job Openings in America
Looking for Workers

<table>
<thead>
<tr>
<th>Category</th>
<th>Openings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Job Openings</td>
<td>5,879,000</td>
</tr>
<tr>
<td>Construction</td>
<td>210,000</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>378,000</td>
</tr>
<tr>
<td>Trade, Transportation, Utilities</td>
<td>1,028,000</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>1,082,000</td>
</tr>
<tr>
<td>Education &amp; Health Care</td>
<td>1,095,000</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>854,000</td>
</tr>
<tr>
<td>Government</td>
<td>519,000</td>
</tr>
</tbody>
</table>

Source: Bureau of Labor Statistics  BLS release on Jan. 9, 2018
Civilian Unemployment Rate

“It is the judgment of the Dallas Fed economists that current levels of headline unemployment as well as U-6 are indicative of an economy that is either at or has moved past the level of full employment.”

Source: Robert S. Kaplan, President of the Dallas Fed
Feb 21, 2018
The Economy:
Wage Rates Increase Slowly

Nonfarm Business Sector: Compensation Per Hour

Trade Weighted U.S. Dollar Index

Weaker Dollar Could Help Ag Sector

Trade Weighted U.S. Dollar Index: Major Currencies

Index Mar 1973=100

Source: Board of Governors of the Federal Reserve System
Global Investors Start to Look Elsewhere

Since the beginning of last year, investor cash has been flowing out of U.S. equities markets and into overseas stocks. See article on B11.

Long-term investors have collectively turned negative on the U.S. currency. 

Source: WSJ 1/30/18
WSJ 1/31/18
Global Investors Start to Look Elsewhere

Investors Earmark More Money Abroad

Source: WSJ 1/30/18
Threats to U.S. Expansion in 2018

• **Short term interest rates increase** too fast and too much. Fed controls this outcome.
  1. Avoid repeat of Black Monday in 1987

• **Long term interest rates increase** because of higher inflation. Fed has no control here.
  1. Escalation of proxy war between Saudi Arabia and Iran
  2. Continued U.S. budget deficit spending increases for infrastructure
  3. Cost increases from labor shortage
Black Monday
October 19, 1987
Margin Debt
Debit Balances at Broker/Dealers

Source: Standard and Poor's
Margin fell 14%
Dow dropped 11%
Falling from 18,037 to 15,973
Margin Calls and Forced Selling

The margin clerk doesn’t ask you if you want to “work the order.”
Home Mortgage Rate Determined by the 10-Year Treasury Bond Rate

Source: Board of Governors of the Federal Reserve System/FRED
10-Year Treasury Rate is Determined by the Expected Rate of Inflation

10-Year Treasury Bond Rate

Annualized Rate Of Inflation

1950 1980 2018
The CPI Inflation Rate
1920 to Present

Consumer Price Index for All Urban Consumers: All Items


Percent Chg. From Year Ago

Jan-20 Jul-34 Jan-49 Jul-63 Jan-78 Jul-92 Jan-07
Inflation Expectation Survey

University of Michigan Inflation Expectation©

Source: Thomson Reuters/University of Michigan
Oil Prices and Inflation

Inflation Rate by Decade

- 1.82%
- 2.45%
- 7.25%
- 5.82%
- 3.08%
- 2.54%
- 1.86%
Escalating Tension Throughout the Middle East

Saudi Arabia accuses Iran of ‘act of war against the kingdom’

Crown prince says Tehran has been supplying missiles to Yemeni rebels

Saudi FM: Qatar call to internationalize holy sites an ‘act of war’

Saudi Arabia says Lebanon declares war, deepening crisis

BEIRUT (Reuters) - Saudi Arabia accused Lebanon on Monday of declaring war against it because of aggression by the Iran-backed Lebanese Shi’ite group Hezbollah, a dramatic escalation of a crisis threatening to destabilize the tiny Arab country.
OPEC Breakeven Prices to Balance Their Budgets

$107  Bahrain
$  96  Saudi Arabia
$  93  Algeria
$  76  Iraq
$  70  Iran
$  58  Qatar
$  52  Kuwait

Source: IMF and WSJ 1/20/16
Nobody Knows How Low

2014

Oct 3  Drops below $90  after Saudi price cut

Oct 13  Kuwait oil minister says “natural floor for prices at $76 to $77

Oct 17  Saudi prince says Arabia needs $80 to $90
Nobody Knows How Low

Nov7  “At $70 there will be panic in OPEC.” -OPEC official

Nov7  “Were prices to fall below $70, there will be action from OPEC.”

Nov7  OPEC doesn’t expect price to fall below $75

Dec4  Saudis say oil could stabilize at around $60, a price they believe they could withstand

Jan6, 2015  WTI trades at $48
Nobody Knows How Low

2015

Apr 17  “The relentless increase in US oil output appears to be at an end.”
WTI at $56

May 6 WTI oil price goes above $60.

June  Iran and the Ayatollah are new business partners

August  Oil price falls below $40
$65 is a “Fair Price”

OPEC president Mohammed bin Saleh al-Sada said a minimum price of $65 a barrel is “badly needed at the moment.”

Source: Associated Press 5/24/16
The Saudi Binladin Group is the largest construction company in the Persian Gulf region. They haven’t paid subcontractors and suppliers for months. The Saudi government is delaying payment for completed projects.

WSJ 3/26/16
Middle East Budget Strains

Thousands of Indian workers in Saudi Arabia haven’t been paid for months, prompting India’s government to hand out food to hungry workers.

Assisting 10,000 Indian workers who New Delhi says are without a job, pay and food. Some workers for Saudi Oger report they haven’t been paid in seven months.

Source: WSJ August 1, 2016
Saudi Arabia King wants to list 5 percent of Aramco, at a valuation of around $2 trillion. Lowest estimate from bankers is $400 billion.

Hopes to raise $100 billion in IPO in late 2018, and use the money to diversify the Saudi economy.

“There is so much emphasis in the higher levels and lower levels within the kingdom that this I.P.O. will take place,” he said. “Their vision is to make Saudi Aramco like Exxon Mobil, but much bigger.”
In March 2017, King cuts the Aramco tax rate from 85% to 50% to enhance the value of the IPO.
Labor Shortage Will be Noticed

Teamsters union contract with UPS expires in July. It involves 260,000 UPS workers.

...capacity in most modes has become extremely tight. Pricing power has erupted in those modes to levels that spark overall inflationary concerns in the broader economy.

-CASS FREIGHT INDEX REPORT
JANUARY 2018
Full Employment Already

“It is the judgment of the Dallas Fed economists that current levels of headline unemployment as well as U-6 are indicative of an economy that is either at or has moved past the level of full employment.”

Source: Robert S. Kaplan, President of the Dallas Fed
Feb 21, 2018
Cost Increases Coming

Tyson Foods says the nationwide shortage of trucks and drivers will add $200 million to its costs this year. It also says that increasing wages for its workers will raise prices for consumers.

“a sign of stresses as companies find distribution channels squeezed”

Source:  WSJ Logistics Report  2/9/18
Infrastructure Spending

If “Hawks” are gone -

- Additional deficits to fund infrastructure
- Infrastructure spending occurs
- Inflation expectations increase
- 10-Year Treasury rate increases
- Fed feels pressure to be more aggressive
New Trend Or A One Time Event?

Deficit Hawks Take a Back Seat

BY NICK TIMMERMAN AND KATE DAVIDSON

Deficit hawks emerged among the losers in the GOP effort to pass a tax overhaul. The Senate prepared Friday to pass a tax bill that would reduce the government's revenue by about $1.3 trillion over a decade. The House version of the bill would also raise revenue by $1.4 trillion.

President Donald Trump's administration and GOP lawmakers have argued the revenue loss would be much less than that price tag because cuts would spur economic growth and boost federal revenue even as tax rates drop.

But a growing number of economists say the higher growth wouldn't fully offset lost revenue from lower tax rates. That means that budget deficits—already projected to increase in the years ahead as baby boomers retire and take on benefits like Medicare and Social Security—would end up even wider than already projected.

The House Ways and Means Committee on Taxation, Congress's official scorekeeper on tax projections, said Thursday the Senate bill would generate $458 billion in revenue from stronger economic growth, while adding $51 billion in higher interest costs, leaving the net cost of the bill at $1 trillion over a decade.

That estimate was one reason why Sen. Bob Corker of Tennessee, a self-described deficit hawk, appeared prepared to defect on the vote Friday, making him potentially the lone Republican defector.

The Tax Foundation, a right-leaning think tank, found a version of the bill that cleared the Senate Finance Committee would decrease government revenue by $1.78 trillion without accounting for the benefits of economic growth and about $516 billion after accounting for stronger economic growth. Republicans fought for years to include scoring estimates that account for economic growth in evaluating tax legislation. After the act estimate was released, some doubted the conclusions.

"Our bill will end up reducing the deficit," Sen. Rob Portman (R., Ohio) said.

After Mr. Trump, a Republican, won the White House last year, top GOP lawmakers said any tax proposal needed to be "revenue neutral"—bringing in as much revenue by eliminating deductions and other tax breaks, for example, as it lost from lower rates.

But the revenue-neutral commitment proved daunting to keep as resistance built against revenue-raising measures meant to offset the cost of reduced tax rates. House Republican leaders abandoned a controversial bid earlier this year to impose a tax on imports while exempting exports, which would have raised around $1.5 trillion over a decade and helped finance other tax cuts.

A key breakthrough came in September, when Sen. Pat Toomey (R., Pa.) and Mr. Corker agreed to a budget blueprint that allowed for a $1.5 trillion reduction in revenue over a decade. Some argued the actual cost would be much smaller than that when accounting for the benefits of growth.

"At that moment, you heard the last squawks from the deficit hawks," said Steven Bell, a senior analyst at the Bipartisan Policy Center.

Reconcile This

The House and Senate tax bills differ in some important ways which...

Tax Cuts Could

Source: WSJ 12/2/17
Actual net borrowing by the Treasury:
$519 billion actual borrowing in year ended Sep, 2017

Estimated future net borrowing by the Treasury:
$ 955 billion estimated in year ending Sept 30, 2018
$1.08 trillion estimated in year ending Sept 30, 2019
$1.13 trillion estimated in year ending Sept 30, 2020

Source: WSJ 2/1/18
Thank You!

Dr. Mark G. Dotzour
College Station, Texas