THE 2018 ECONOMY: BETTER THAN IN 2017

Presented by:

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President: GraphsandLaughs, LLC

February 22, 2018

Aspen, CO

The Economy is Solid!

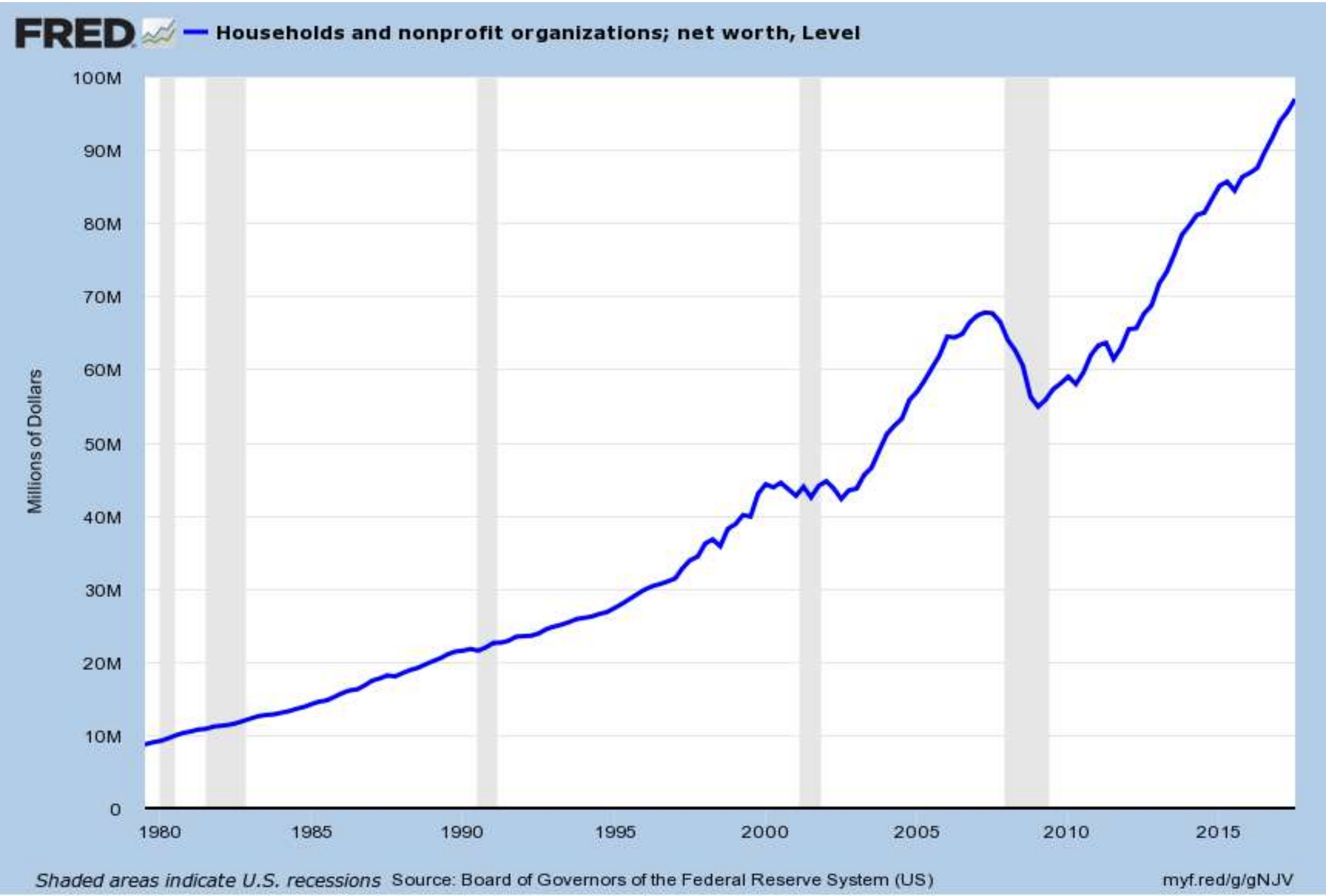
GDP = C+I+G+(X-M)

GRAPHS and LAUGHS

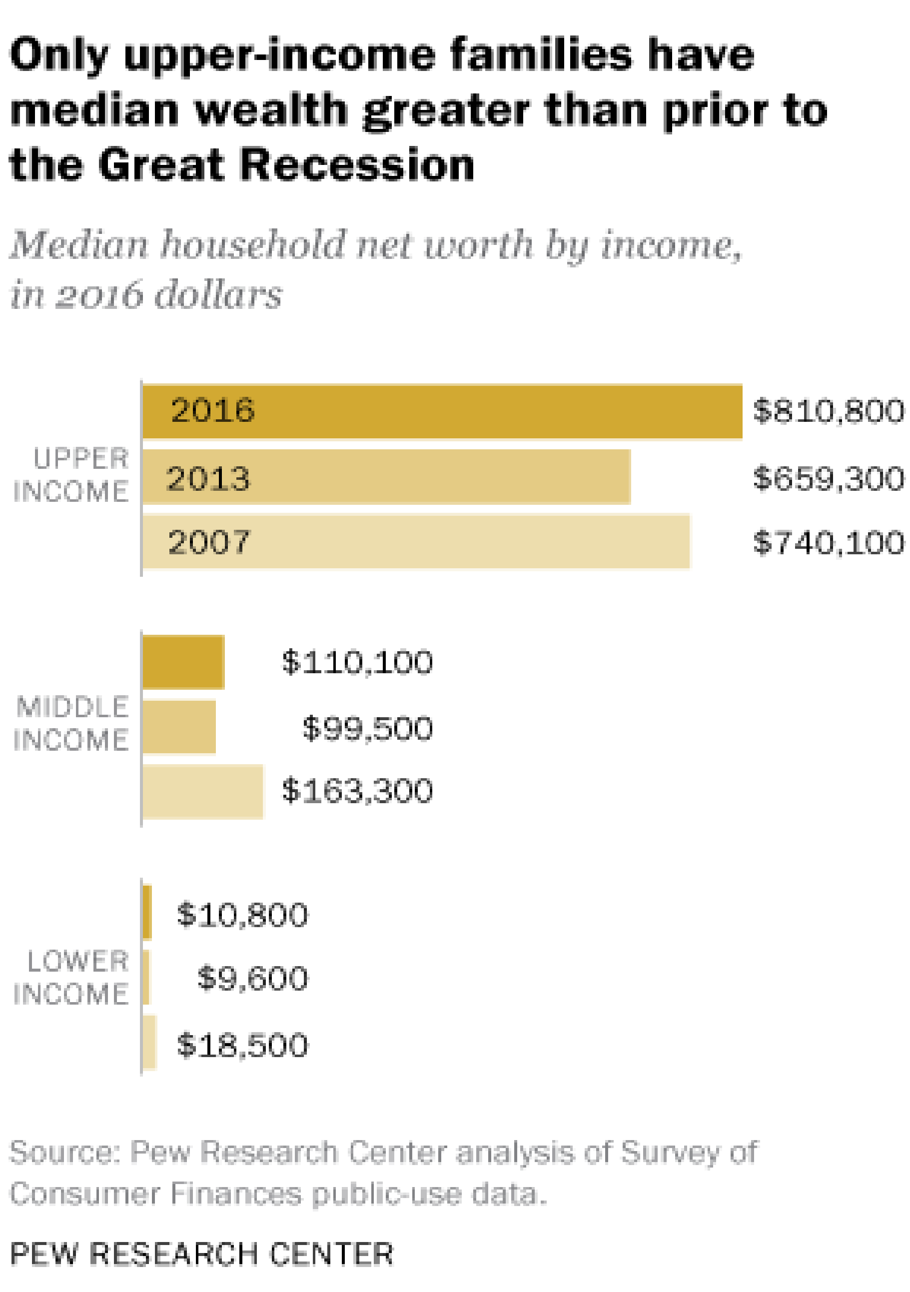
The Stock Market Is Doing Amazingly Well

Households are Repairing their Balance Sheets

Trillions in Net Worth Recovered, at a New Record Level



Change in US Wealth by Income Class 2007 - 2016



Retirement Wealth Gap Keeps Growing

The top percentiles keep pulling away.

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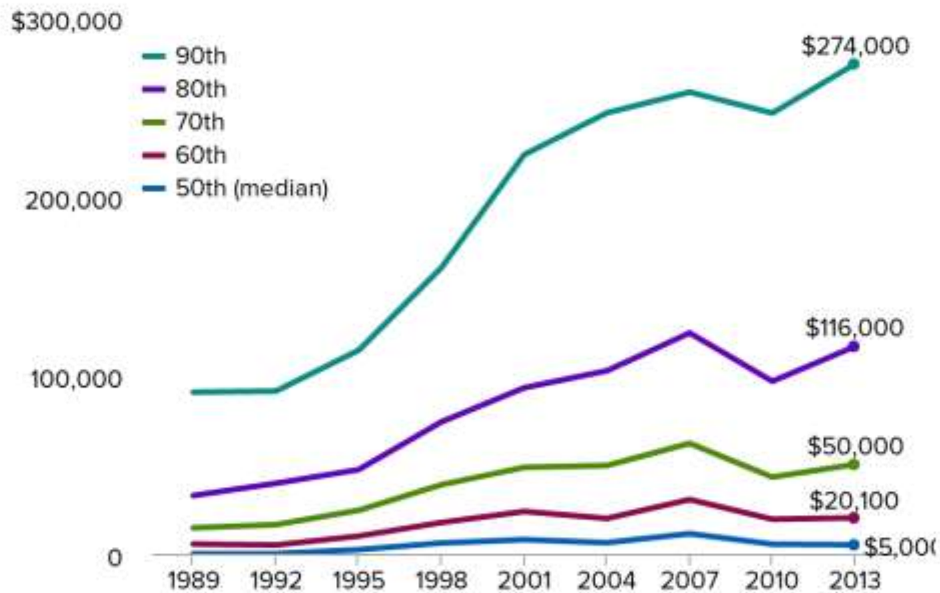
The gap between the retirement 'haves' and 'have-nots' has grown since the recession

Retirement account savings of families age 32–61 by savings percentile, 1989–2013 (2013 dollars)



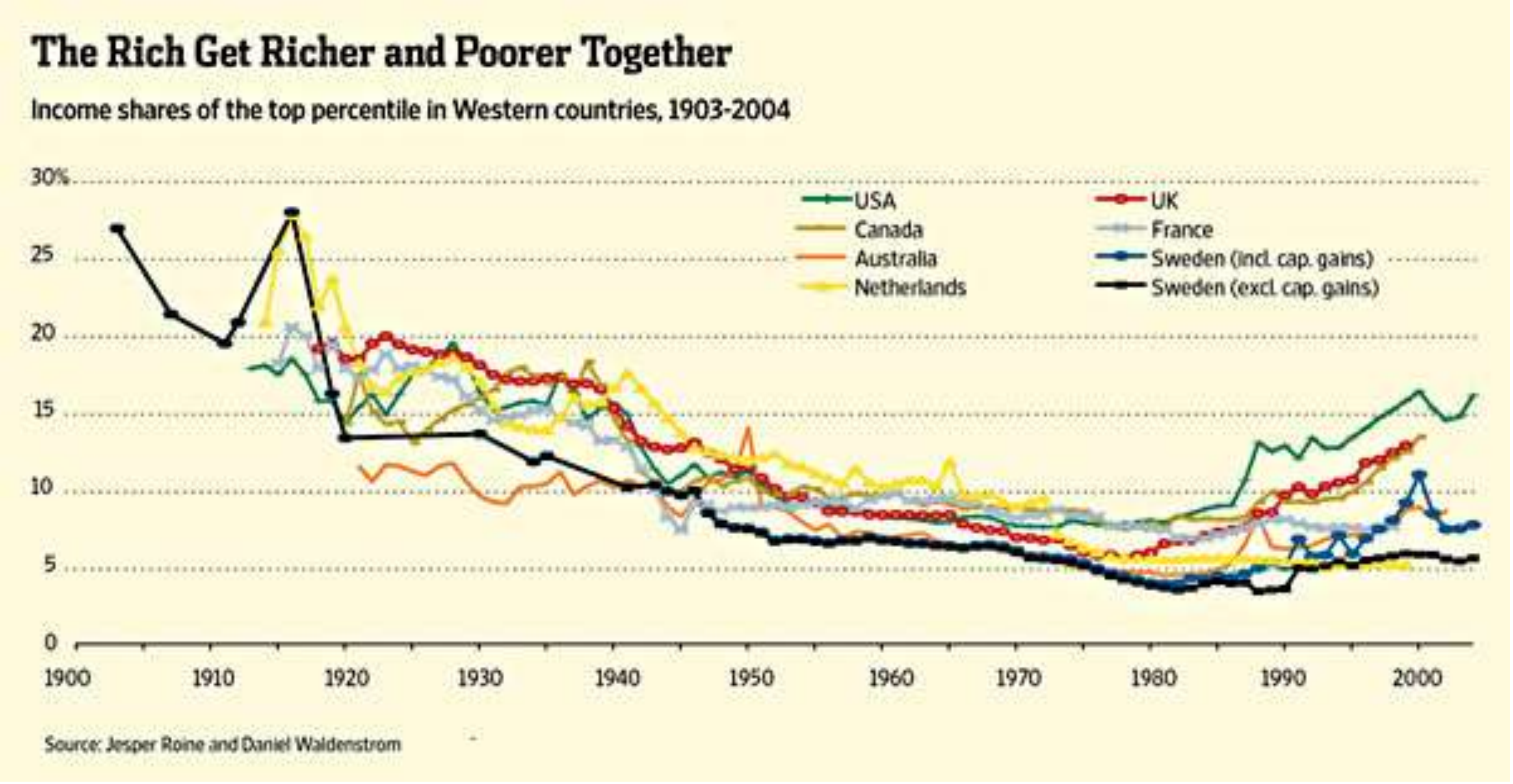
Note: Retirement account savings include 401(k)s, IRAs, and Keogh plans. Scale changed to accommodate larger values.

Source: EPI analysis of Survey of Consumer Finance data, 2013.

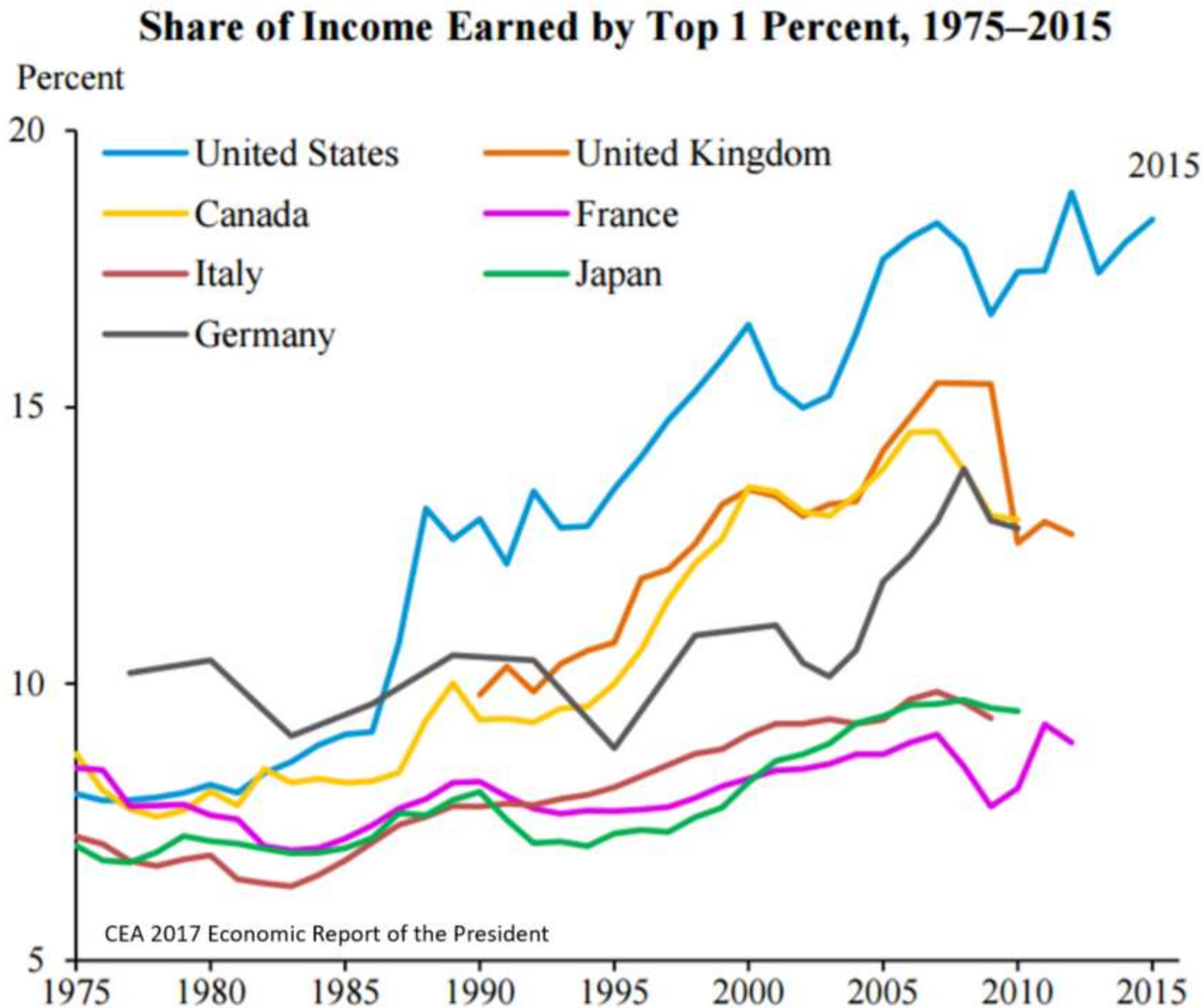
Economic Policy Institute

Income Share of The Wealthiest 1% of Population

It moves largely in lock step across nations



Income Share of The Wealthiest 1% of Population



Source: World Wealth and Income Database.

Growth in Millionaires by Region 2010-2016

Fastest growth is occurring in Asia-Pacific, North America and Europe

Figure 1. Number of HNWIs, 2010–2016 (by Region)

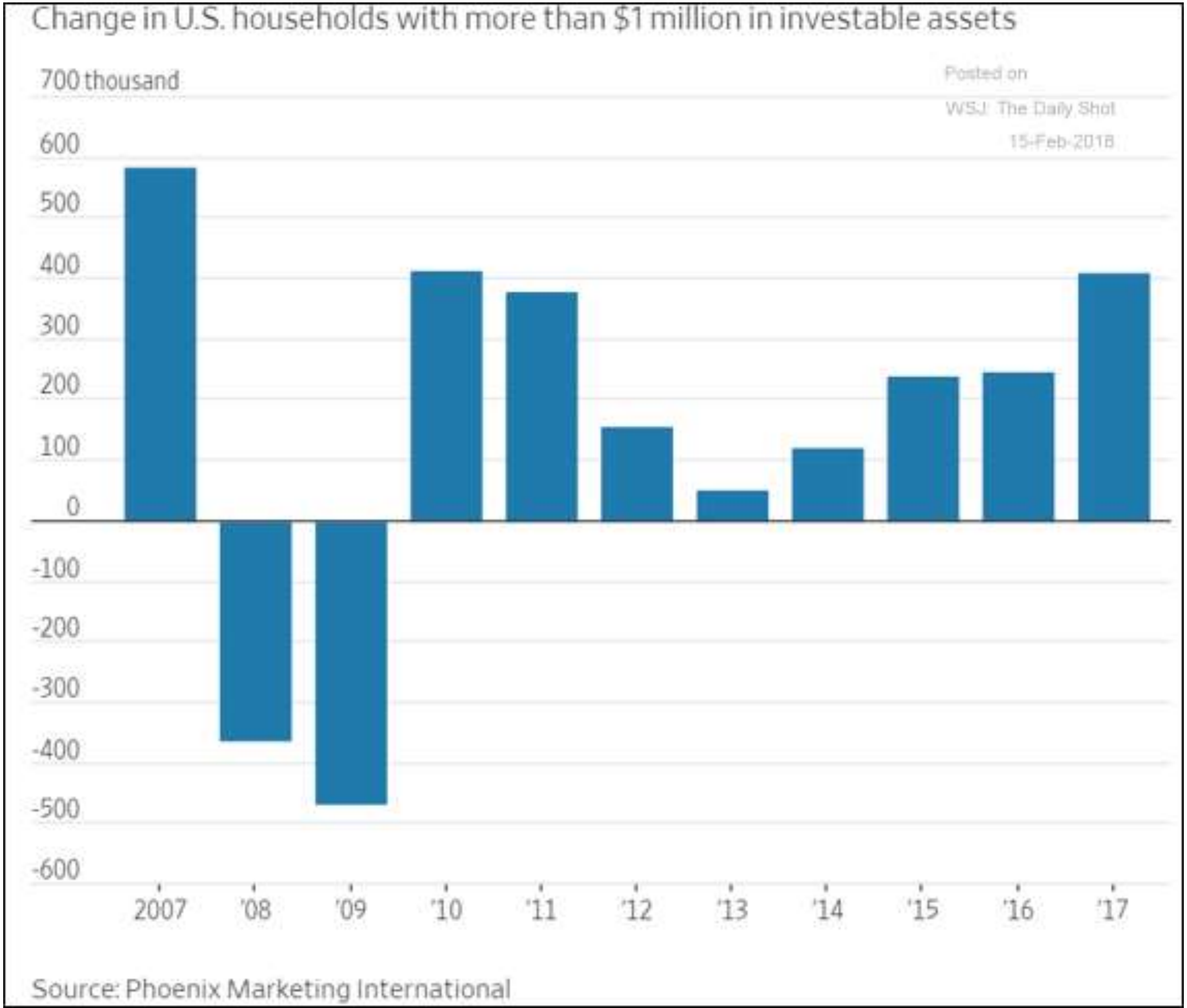
Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2017

Figure 2. HNWI Financial Wealth, 2010–2016 (by Region)

Note: Chart numbers and quoted percentages may not add up due to rounding
Source: Capgemini Financial Services Analysis, 2017

New US Millionaires per Year

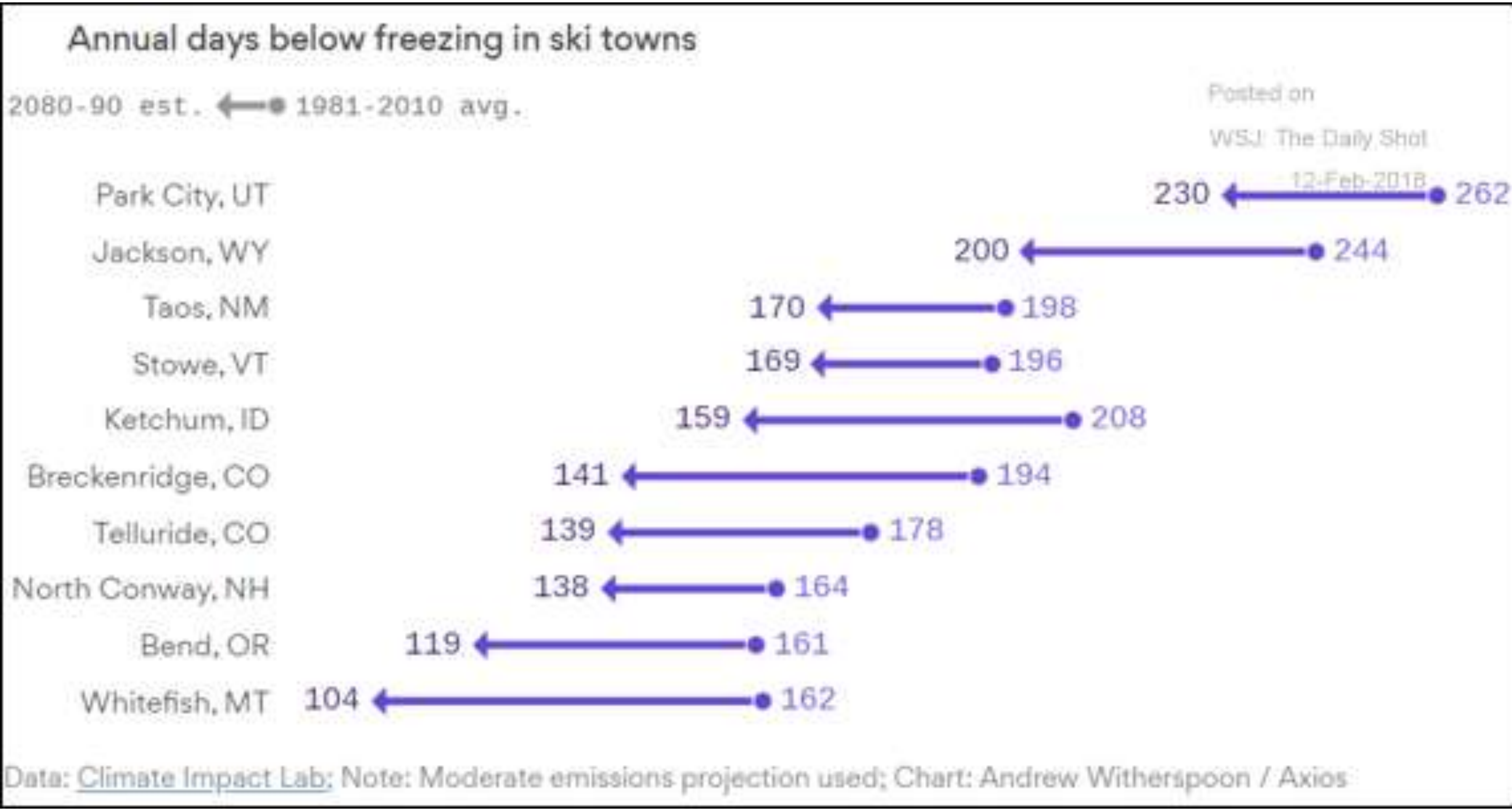
This is looking good



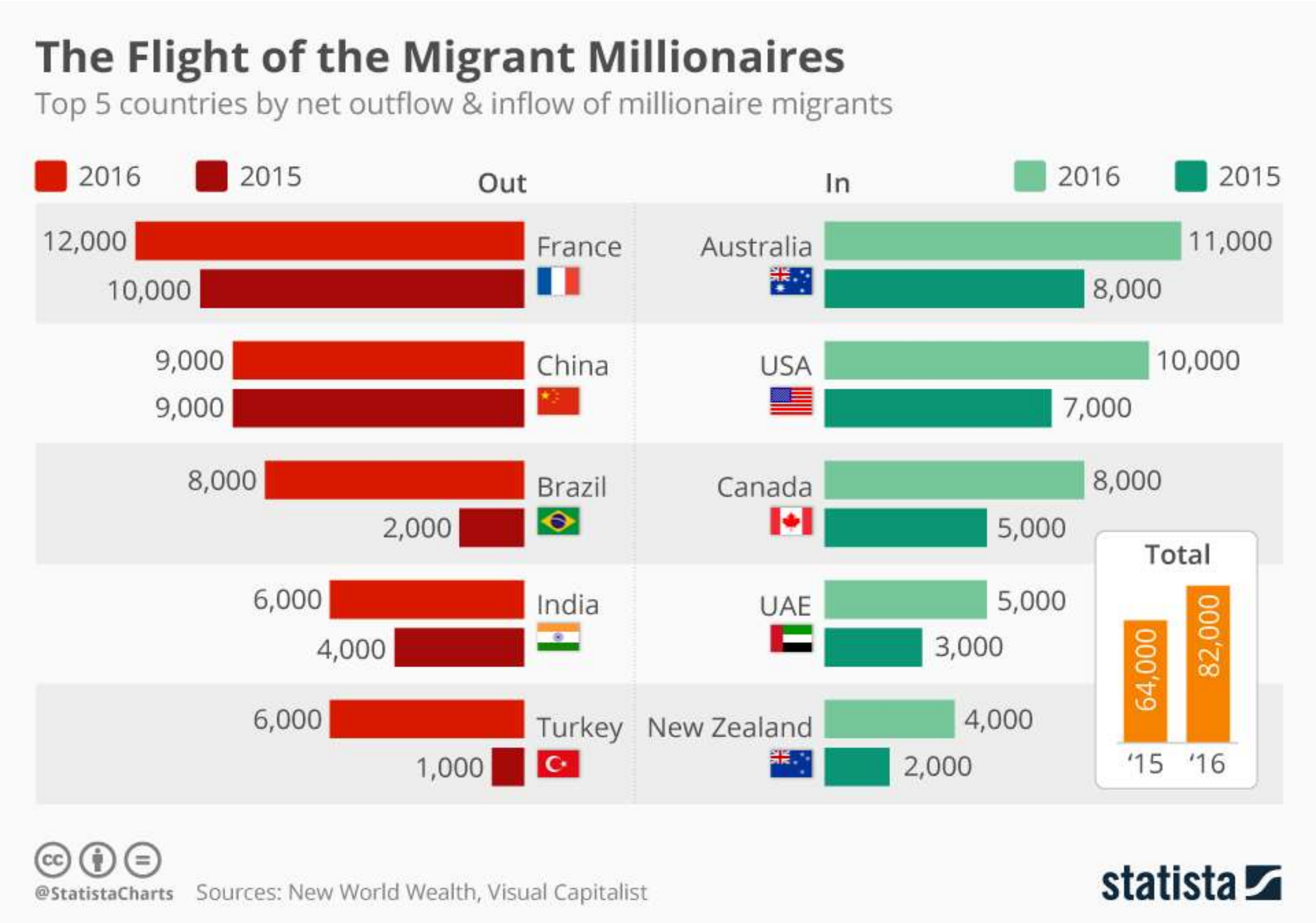
Number of Millionaires by Nation 2015

Millionaires Are Not Exempt from Weather Issues

This could be an issue. Artificial snow is best made at 28F

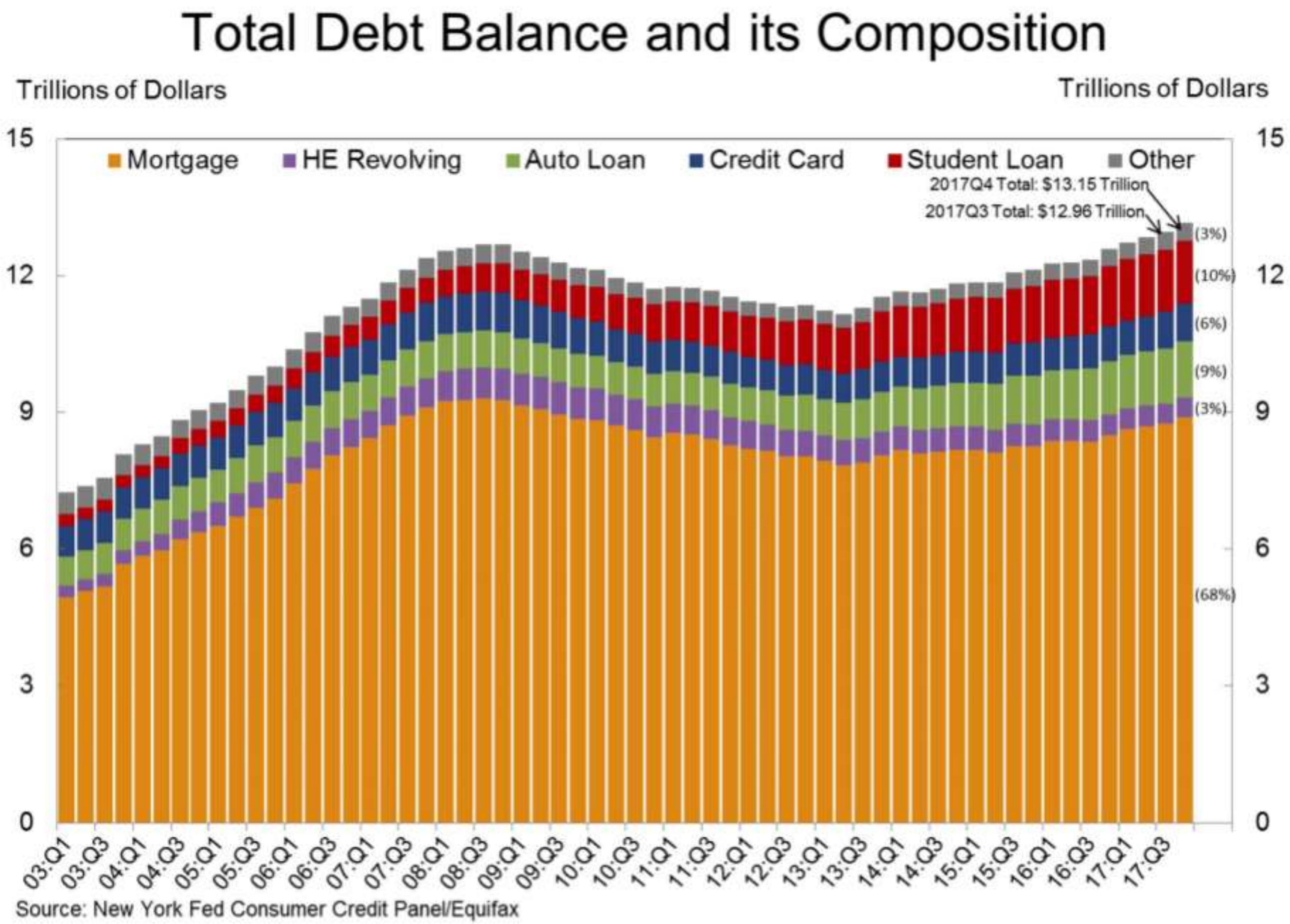


Millionaire Emigration/Immigration by Nation



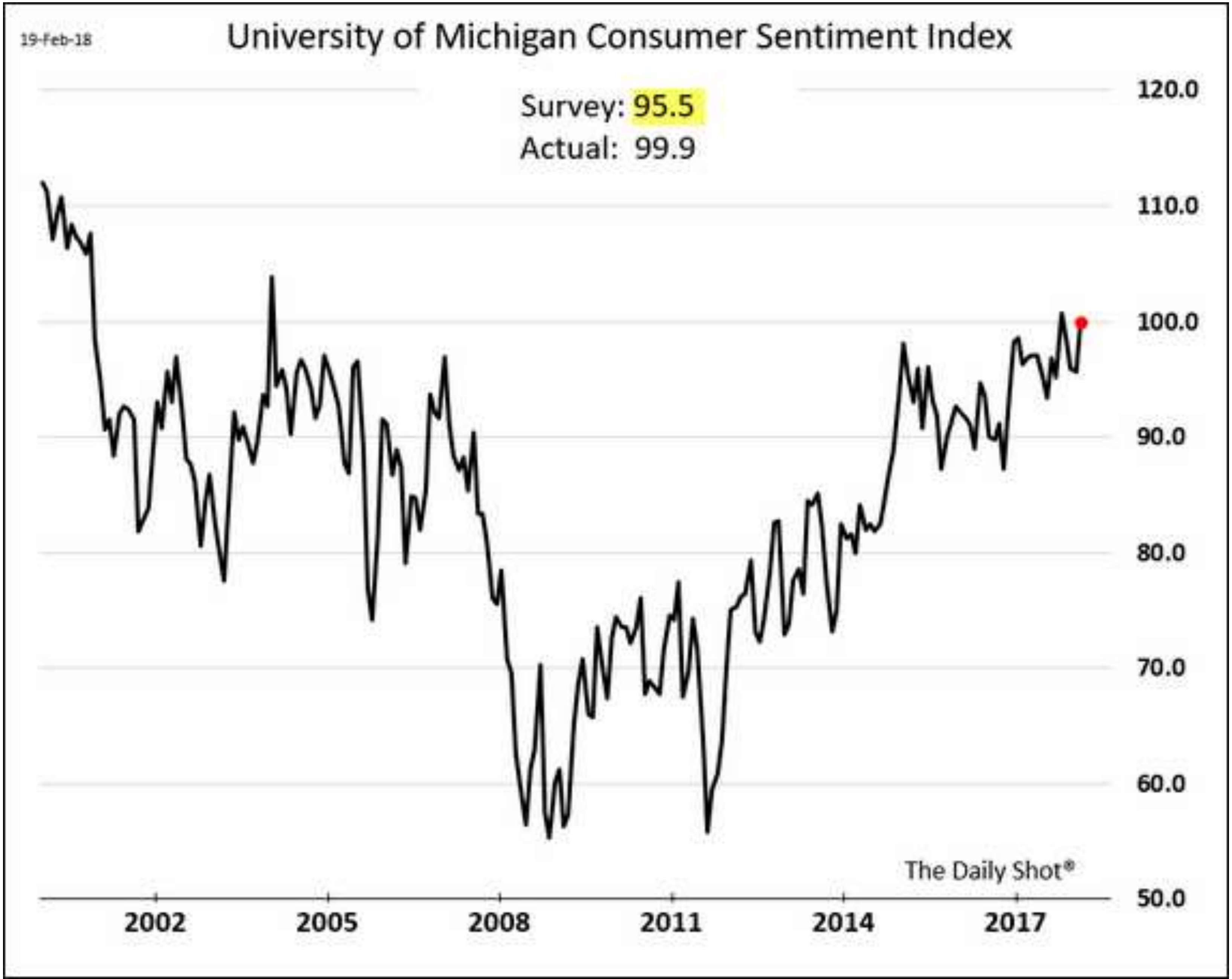
Households Deleveraging is Done!!!!!!

Mortgage debt remains 4.4% below the 2008 peak



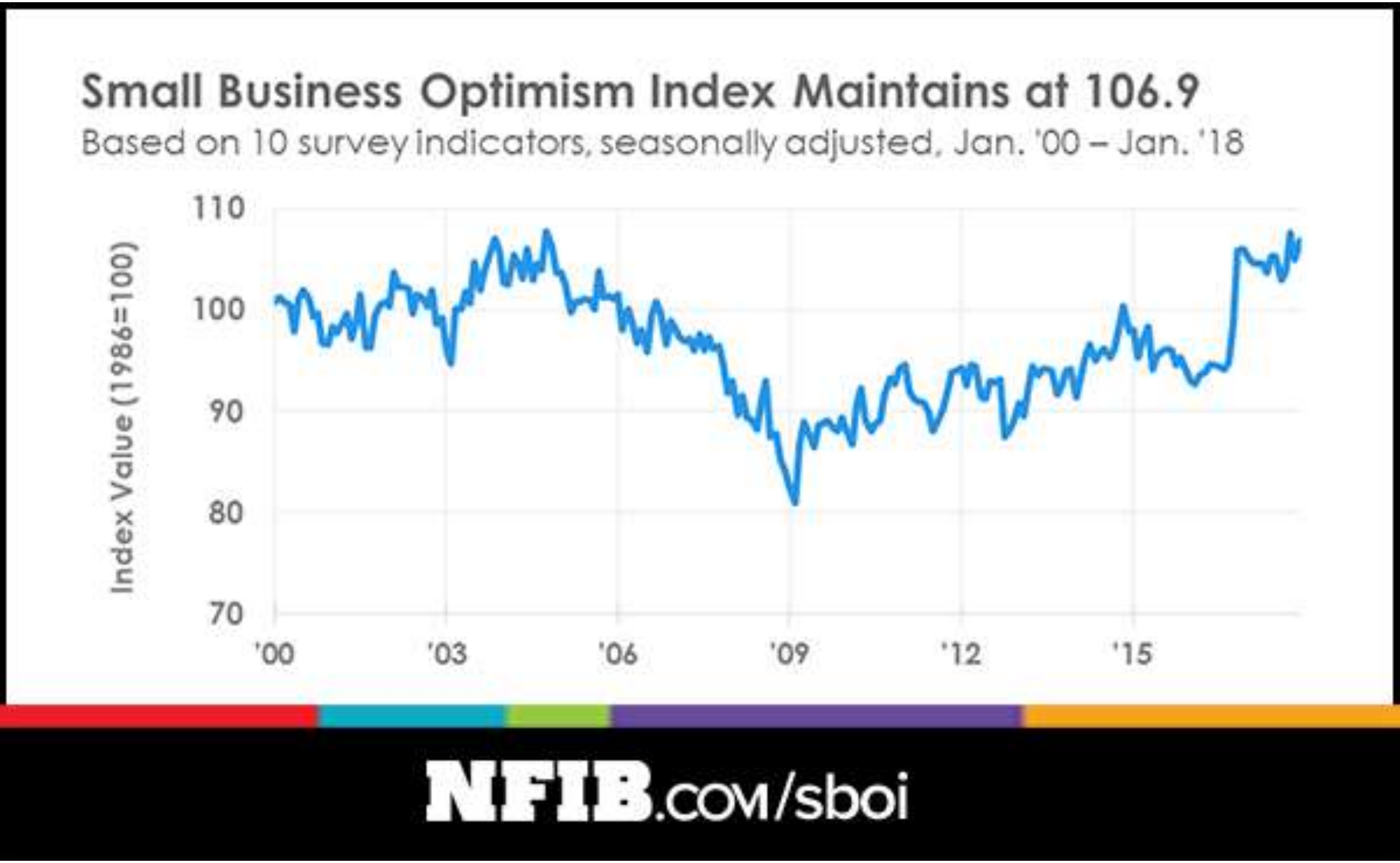
University of MI Consumer Confidence is Good

Reading is near multi-year highs.



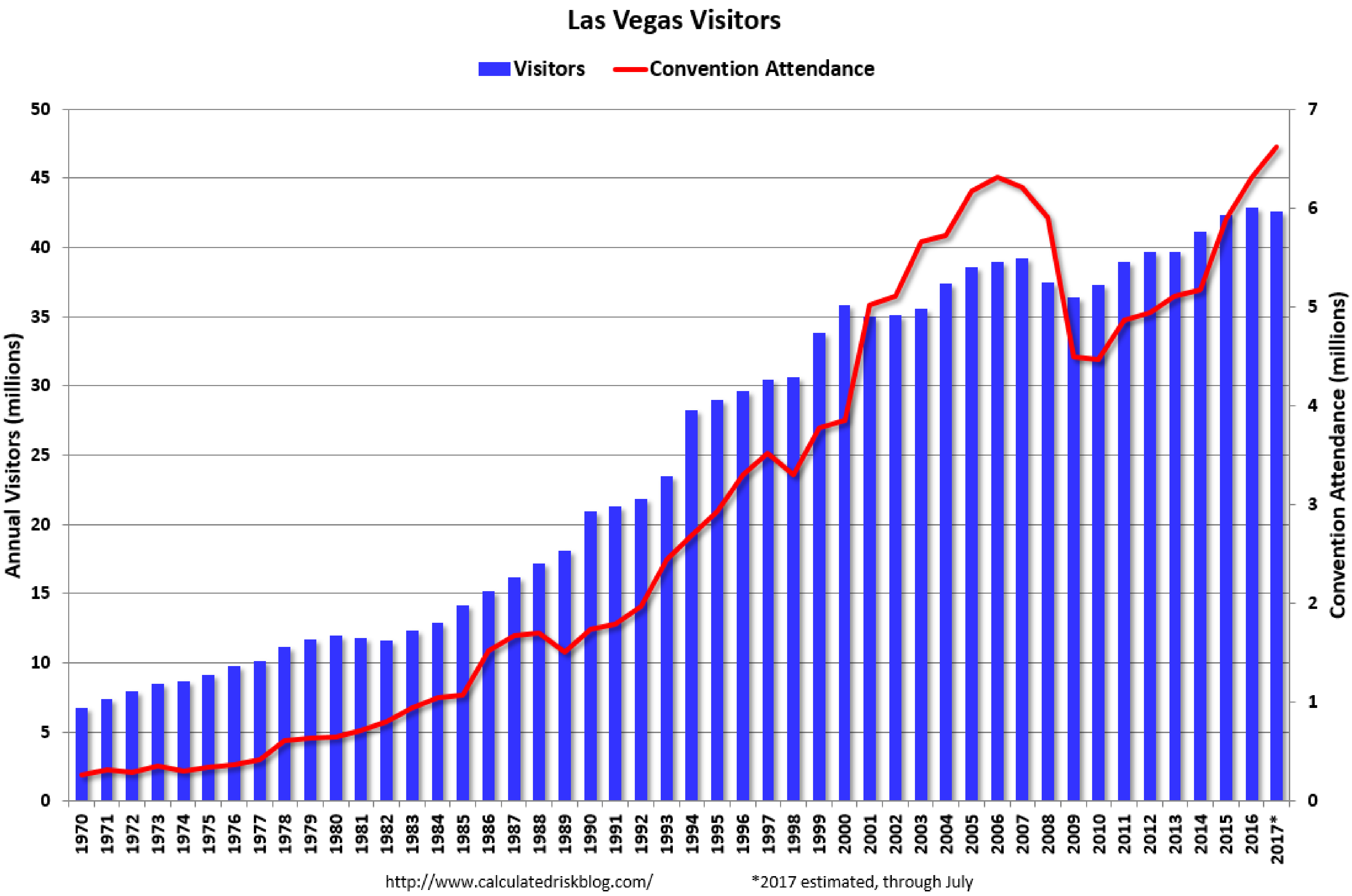
Small Business Confidence is Strong

Spectacular rise since election.

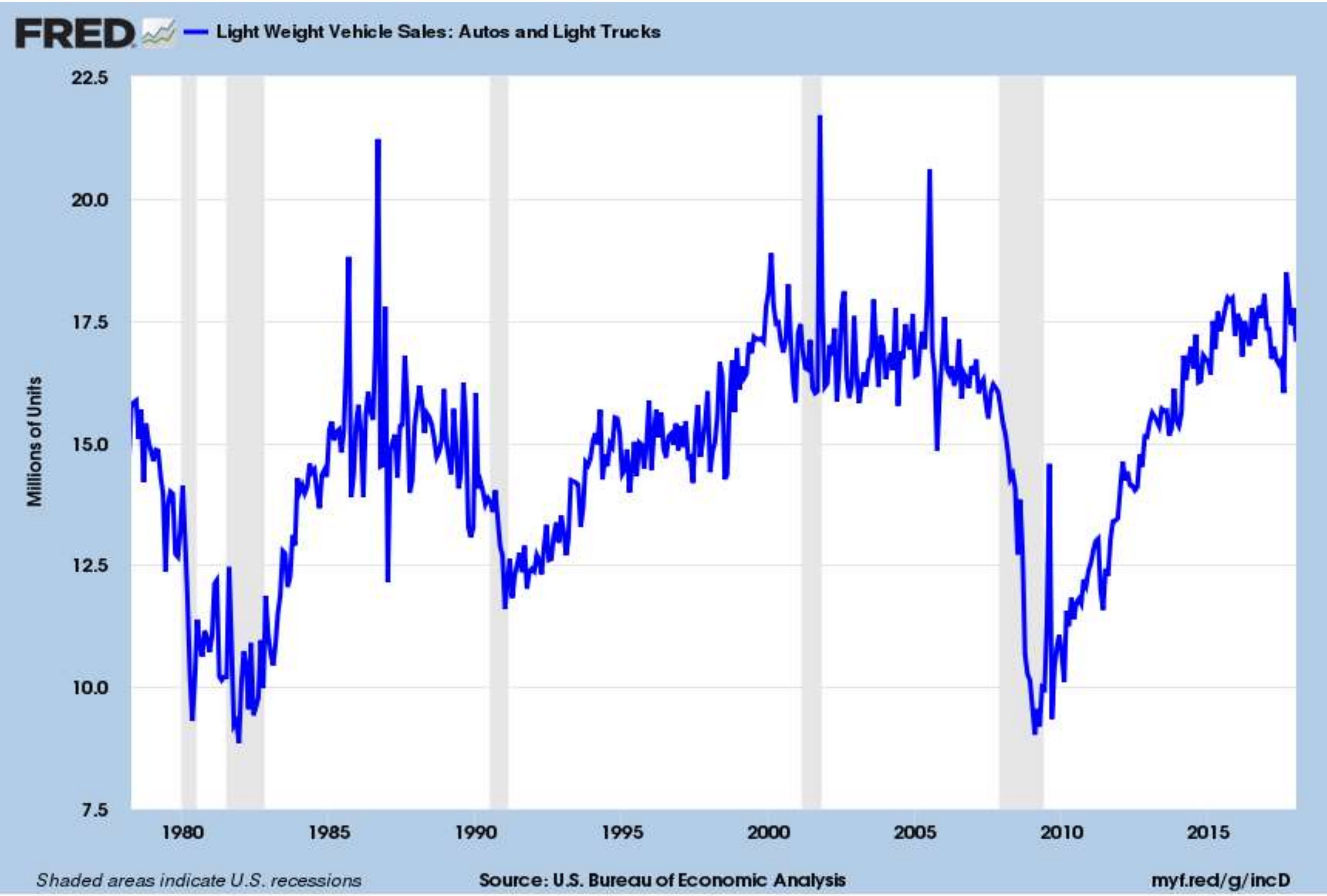


Las Vegas Attendance Rocks

The gamblers are back, the conventioneers are too!

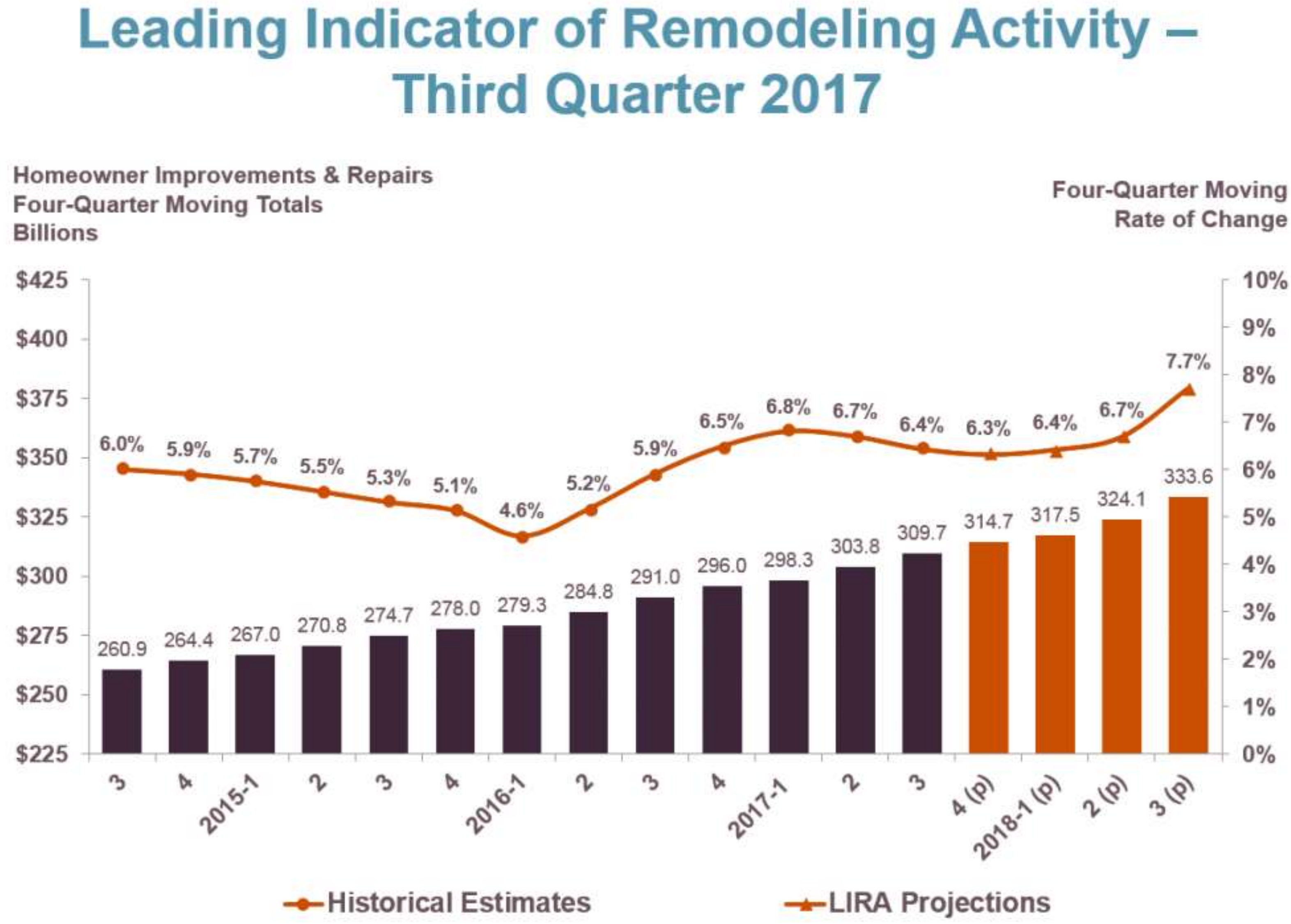


US Light Vehicle Sales are Down but are Solid



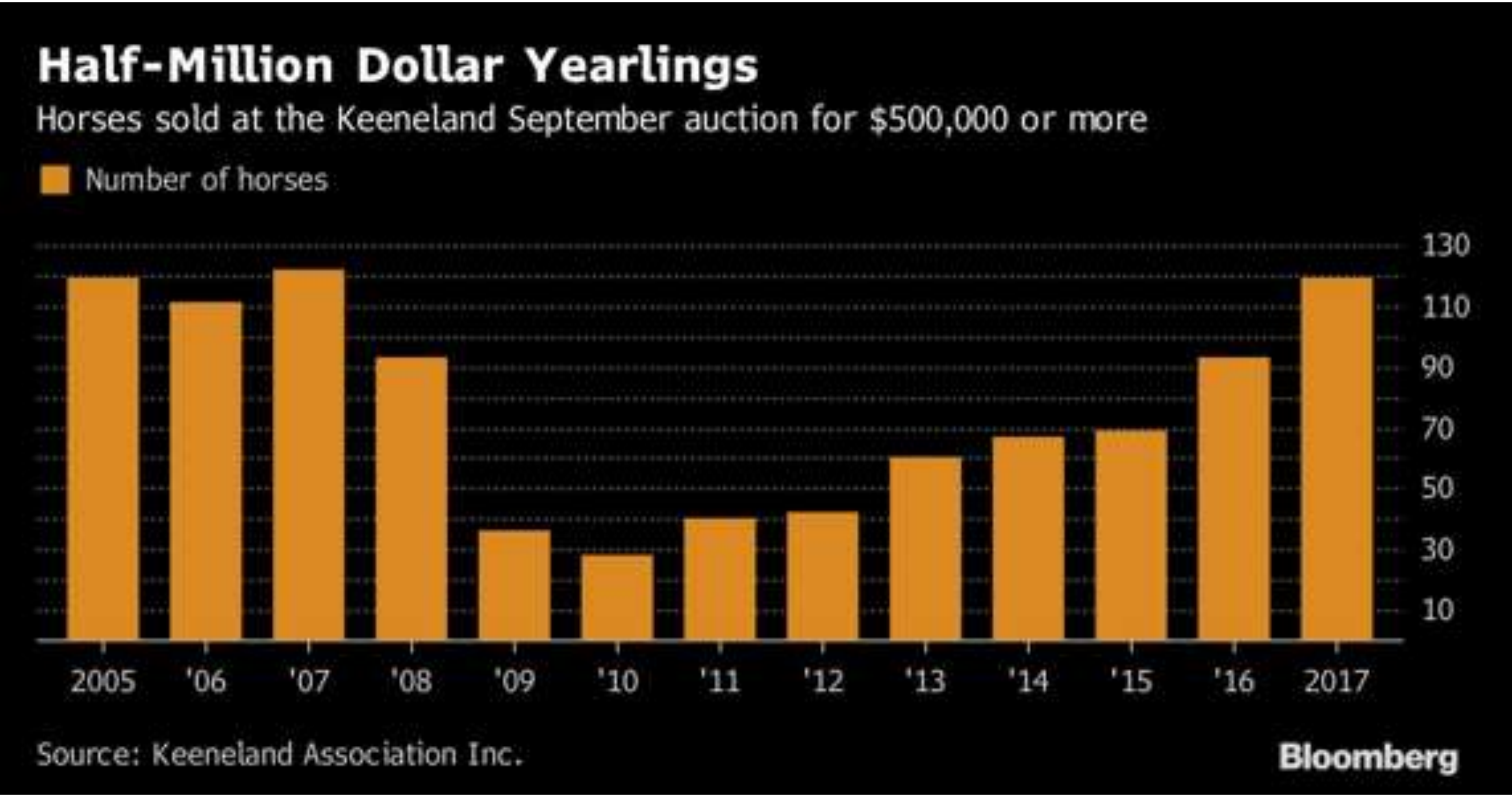
Residential Remodeling –Rising Nicely

Owner-Occupied Improvements. Higher prices and less sales boost renovation



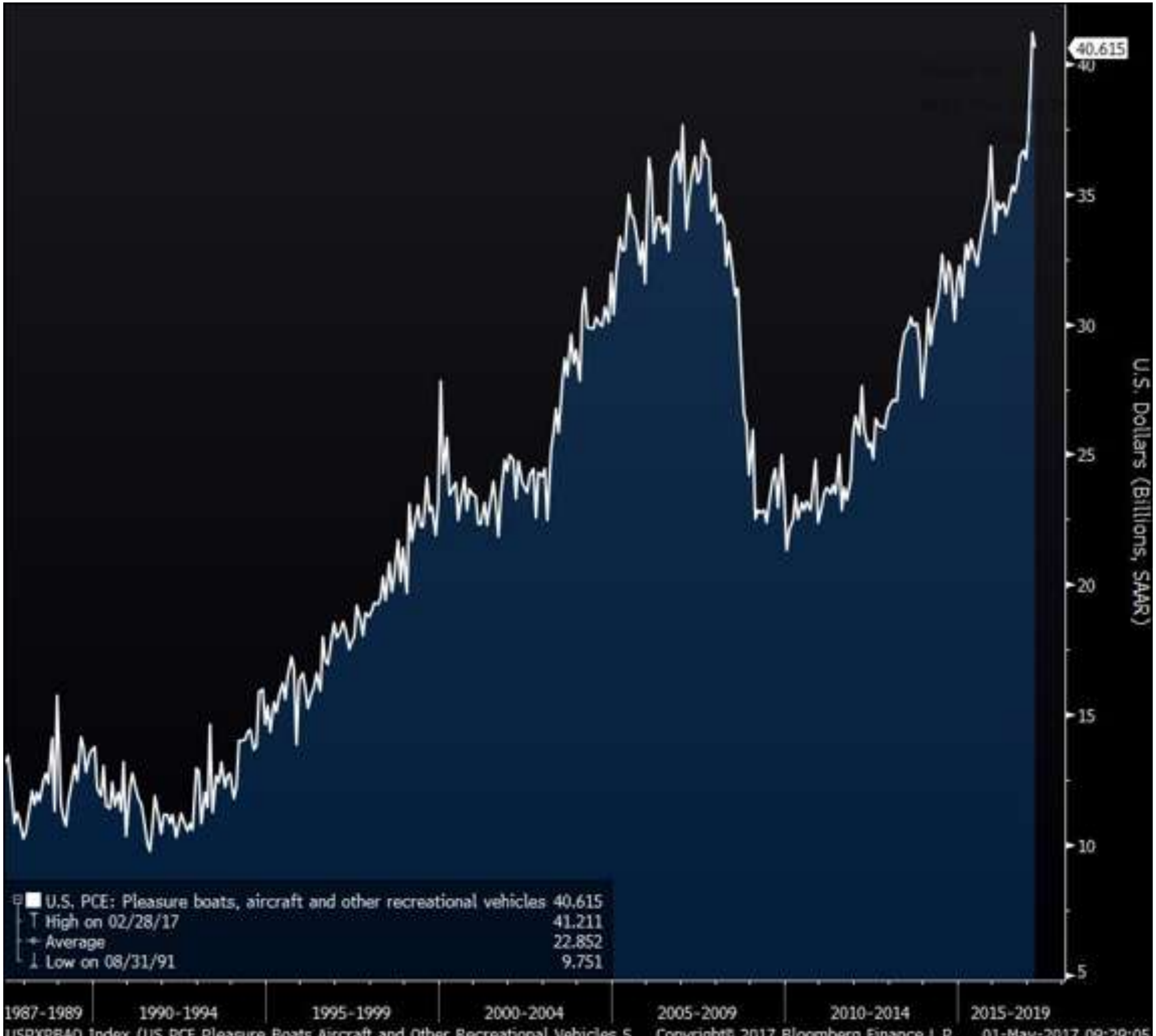
Notes: The former LIRA modeled homeowner improvement activity only, while the re-benchmarked LIRA models home improvement and repair activity. Historical estimates are produced using the LIRA model until American Housing Survey data become available.
Source: Joint Center for Housing Studies.

Let’s Buy a Horse



Let's Buy a Plane

The percentage is now as high as it was during the Housing Boom

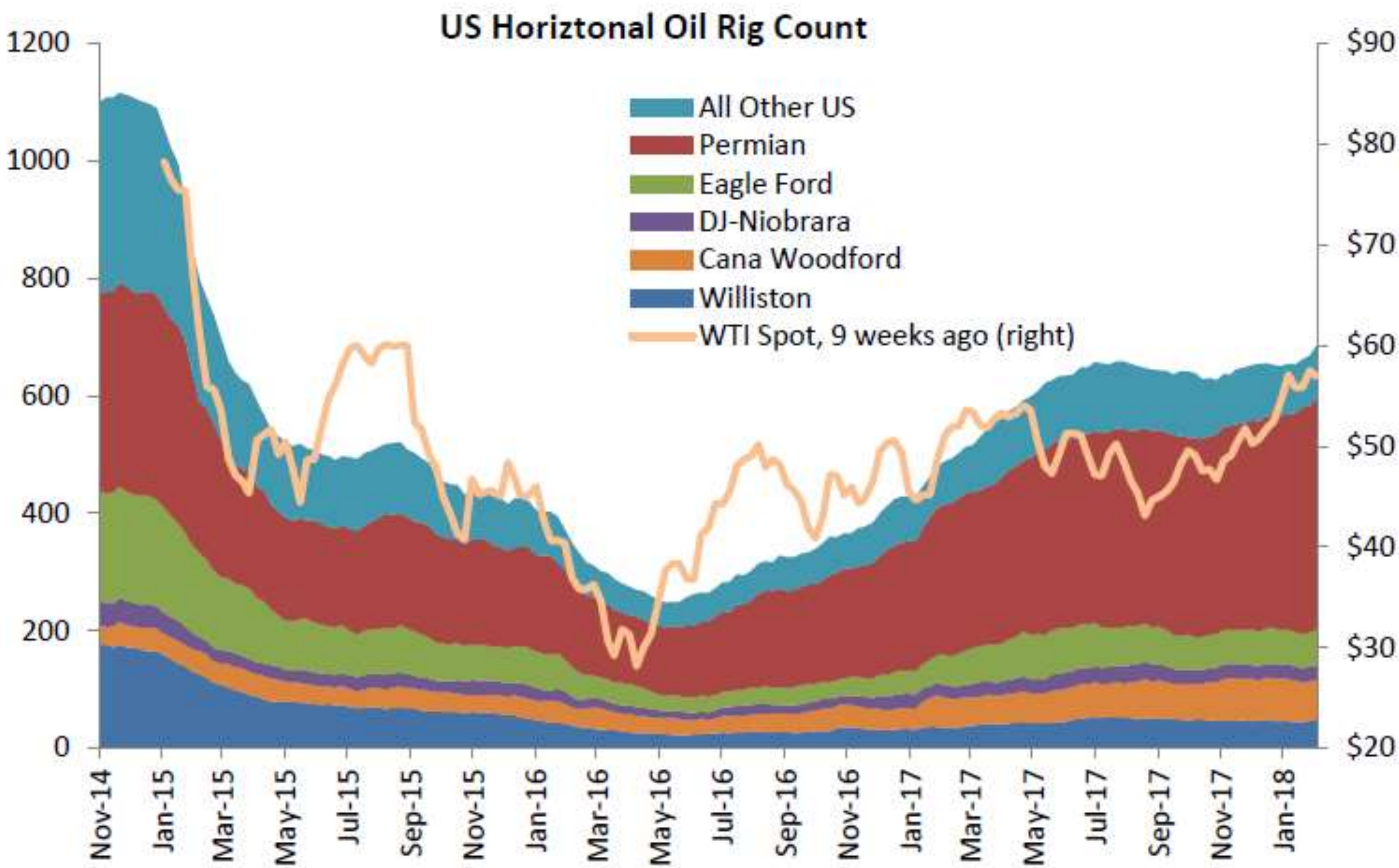


Annual Y-o-Y Percent Change in PCE

A solid albeit mildly lackluster growth rate of 2.7%

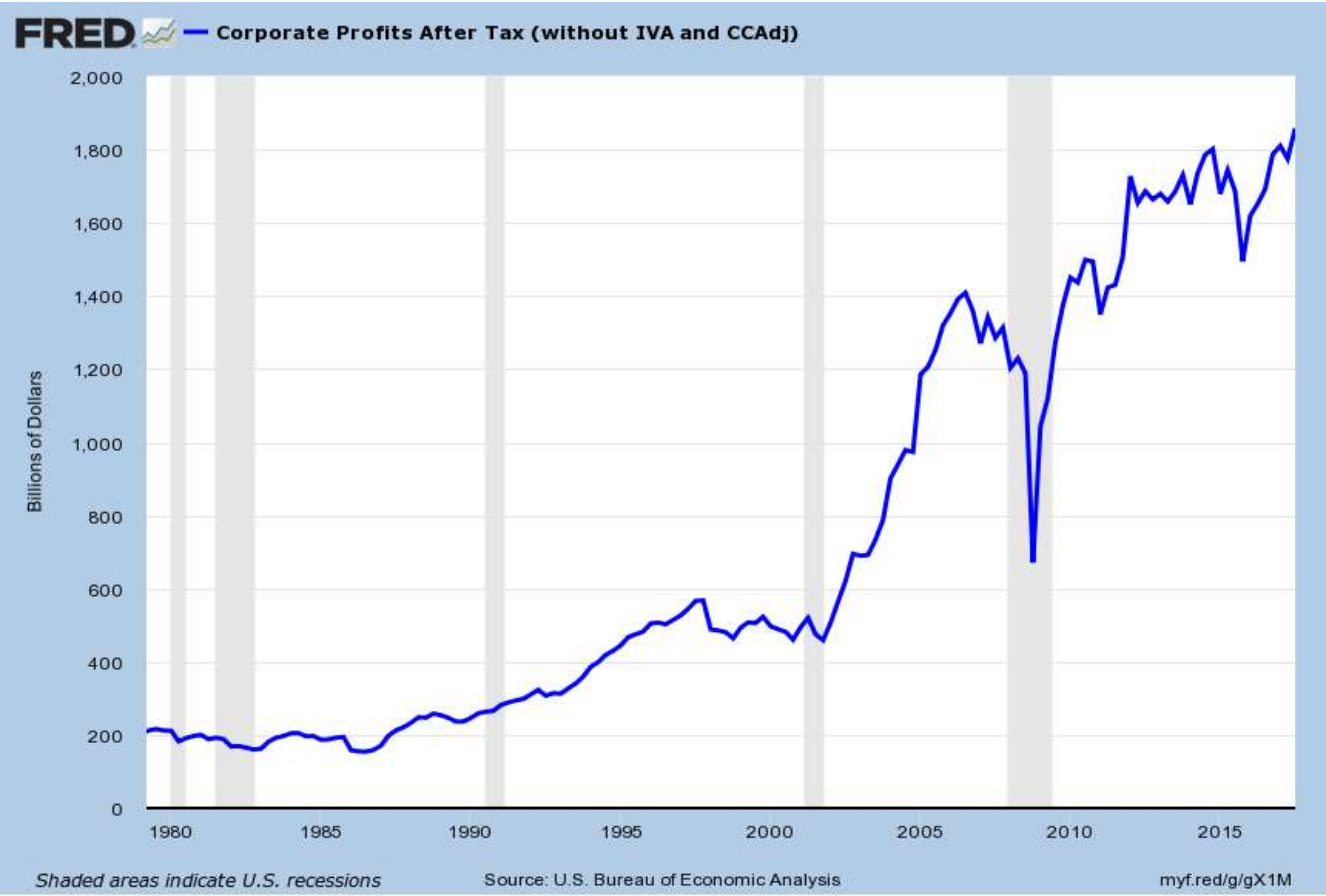
Drilling Activity is Up

Number of oil rigs is now rising as a result of the rising price of crude



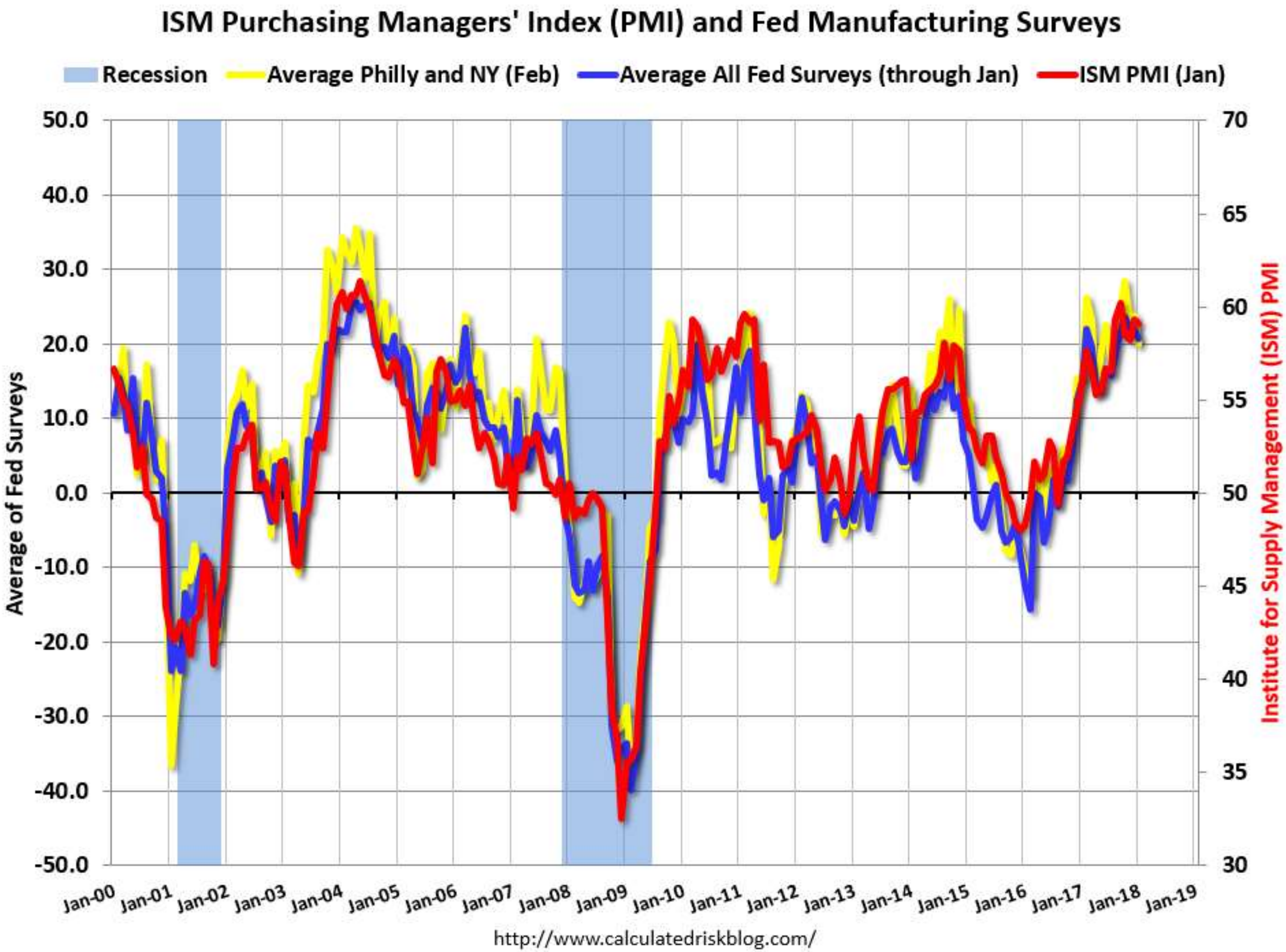
- Horizontal oil rigs: +18 to 686

Corporate Profits are Again Rising After Weakening



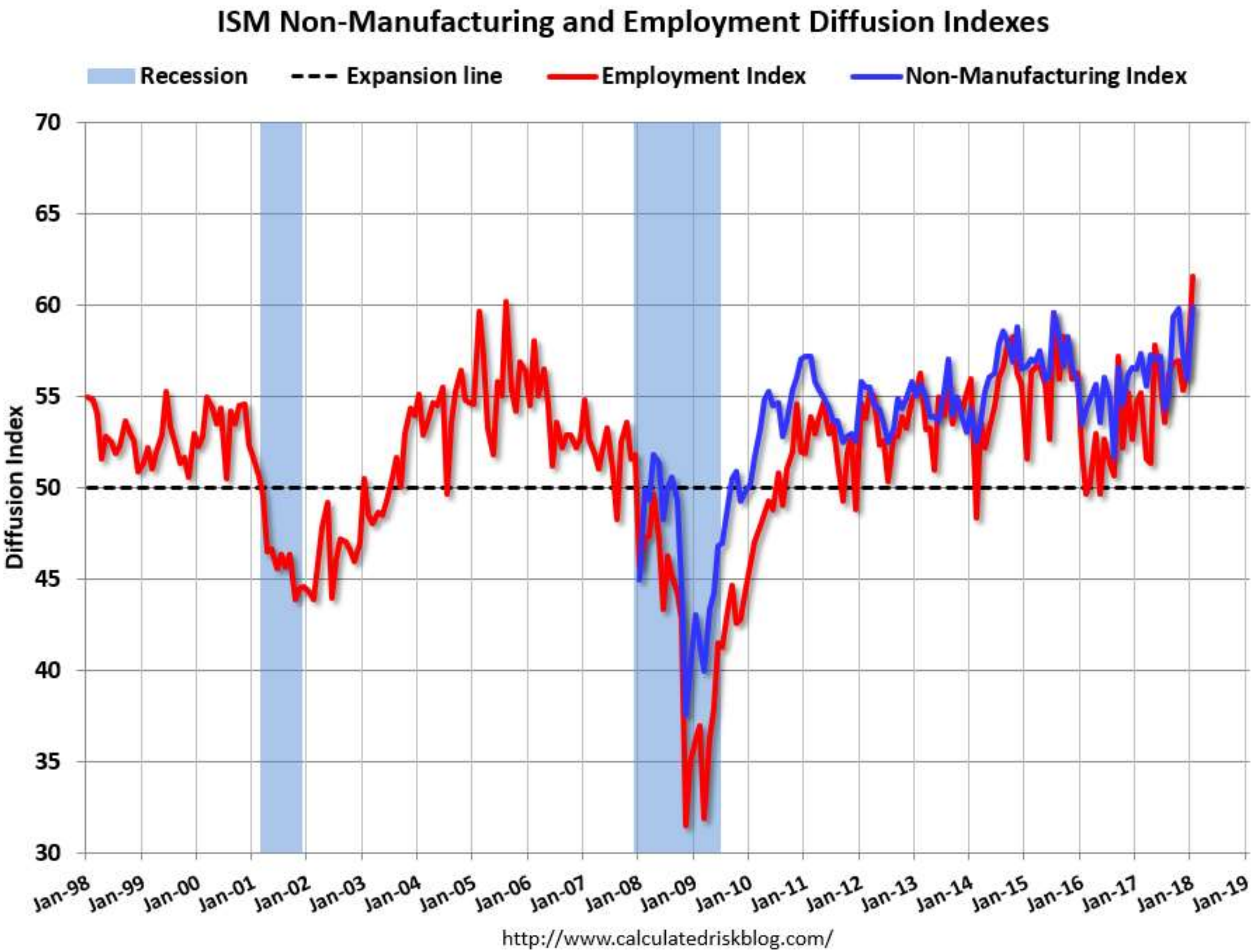
ISM Manufacturing Numbers are Strong

Manufacturing is not as important as it was in the past. It is however booming!



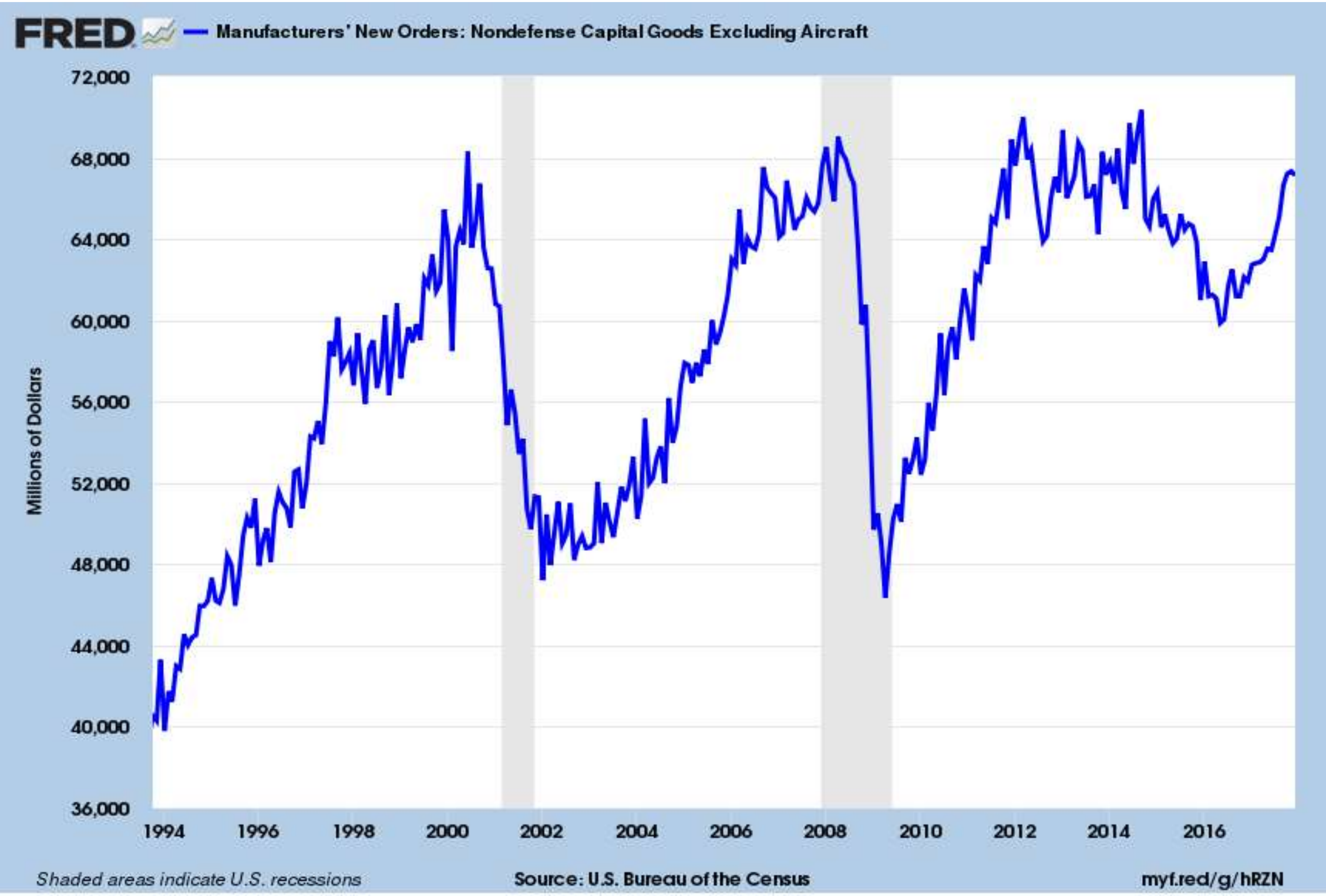
ISM Non-Manufacturing Numbers are Good

Service sector is doing well



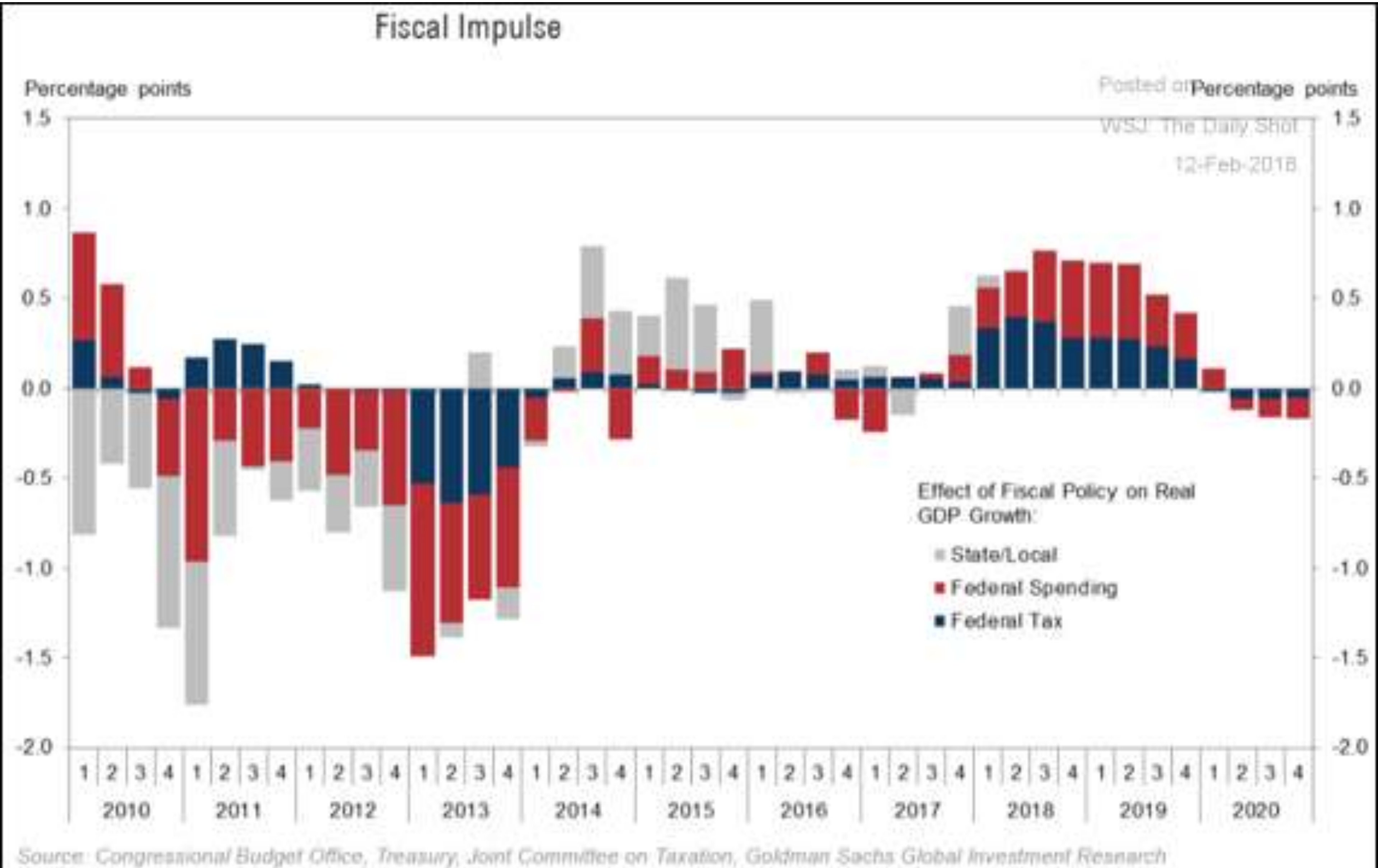
OK. Now, Look at Capital Goods Orders!

Minus defense and aircraft



Tax Cuts Are Going to Supercharge the Economy

But, only in the short run

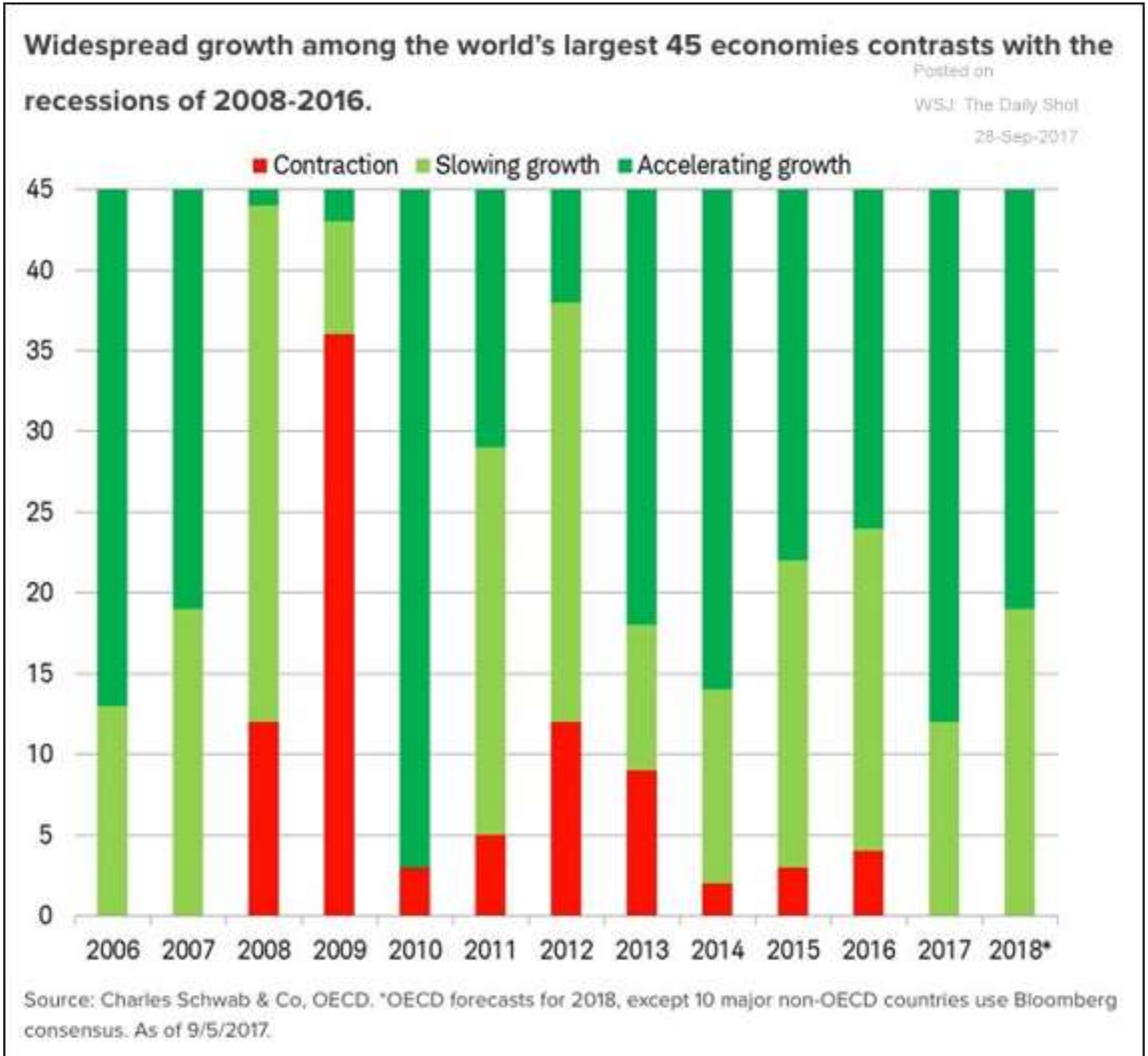


The Dollar is Weakening Against all Currencies

Peaked in January 2017. A weaker dollar is a concern

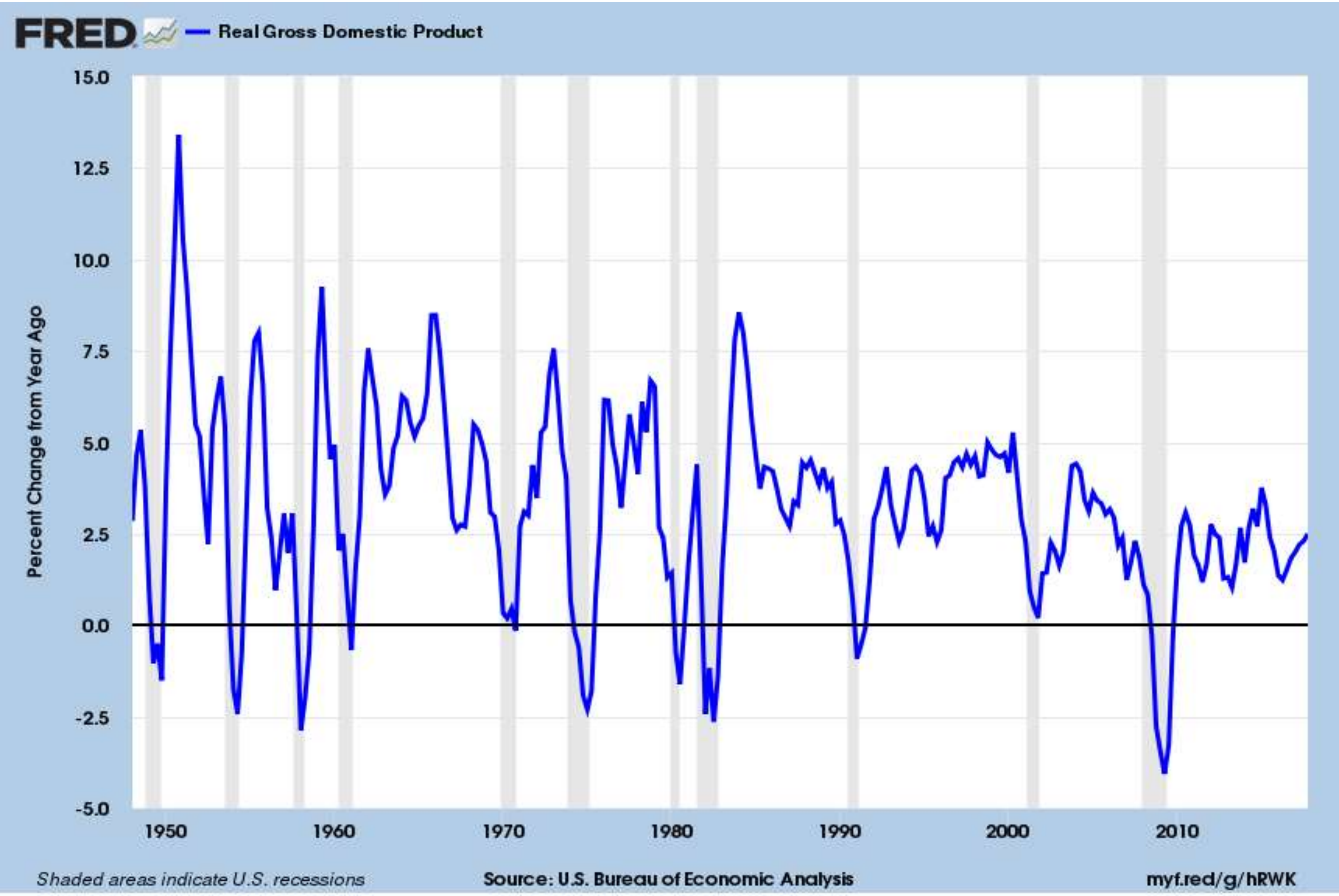
Western Democracies are All Growing!

Both emerging markets and developed look increasingly better

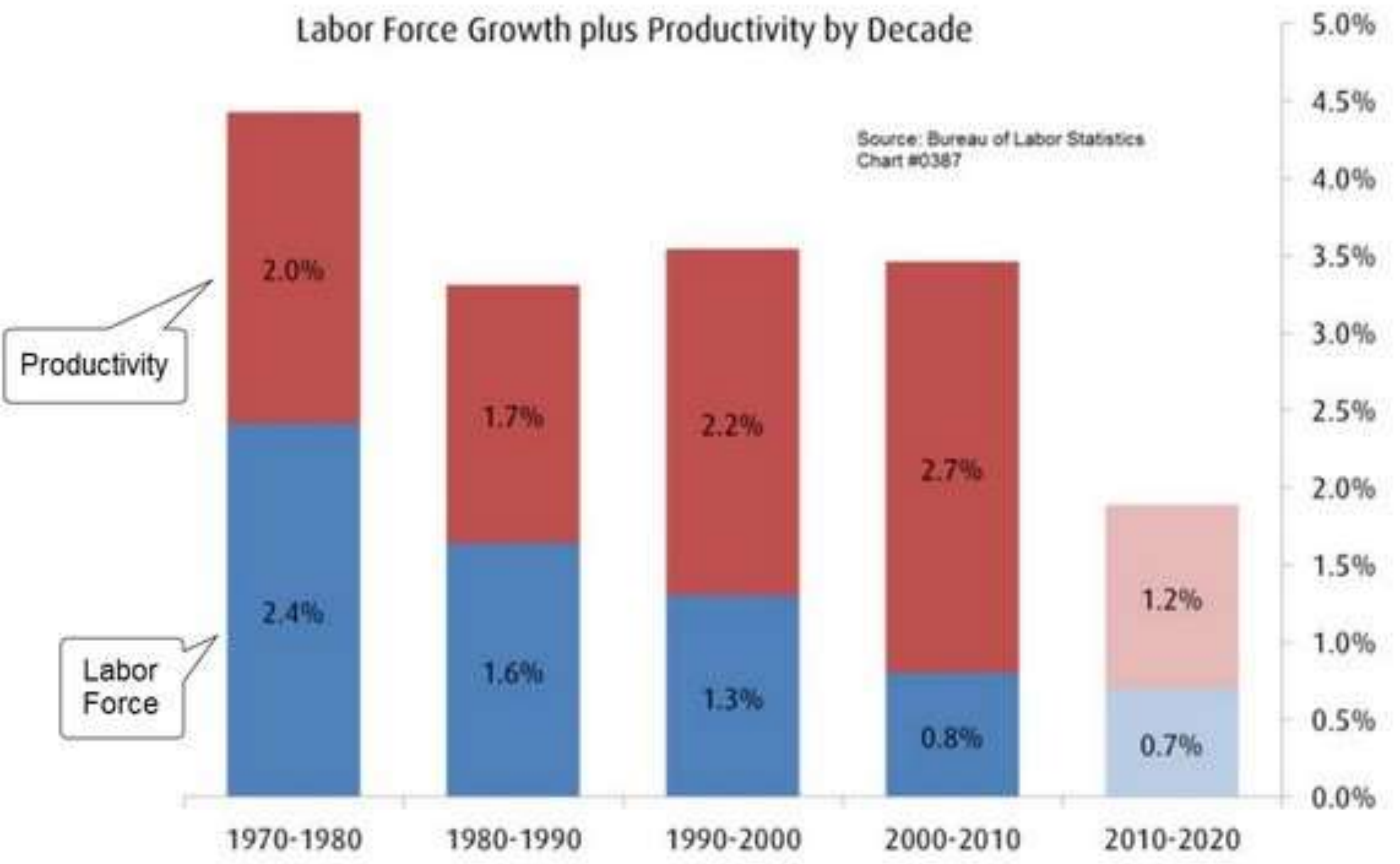


GDP Growth Goes Nowhere Slowly

Trump tax cuts should boost GDP by 40 bps in 2018

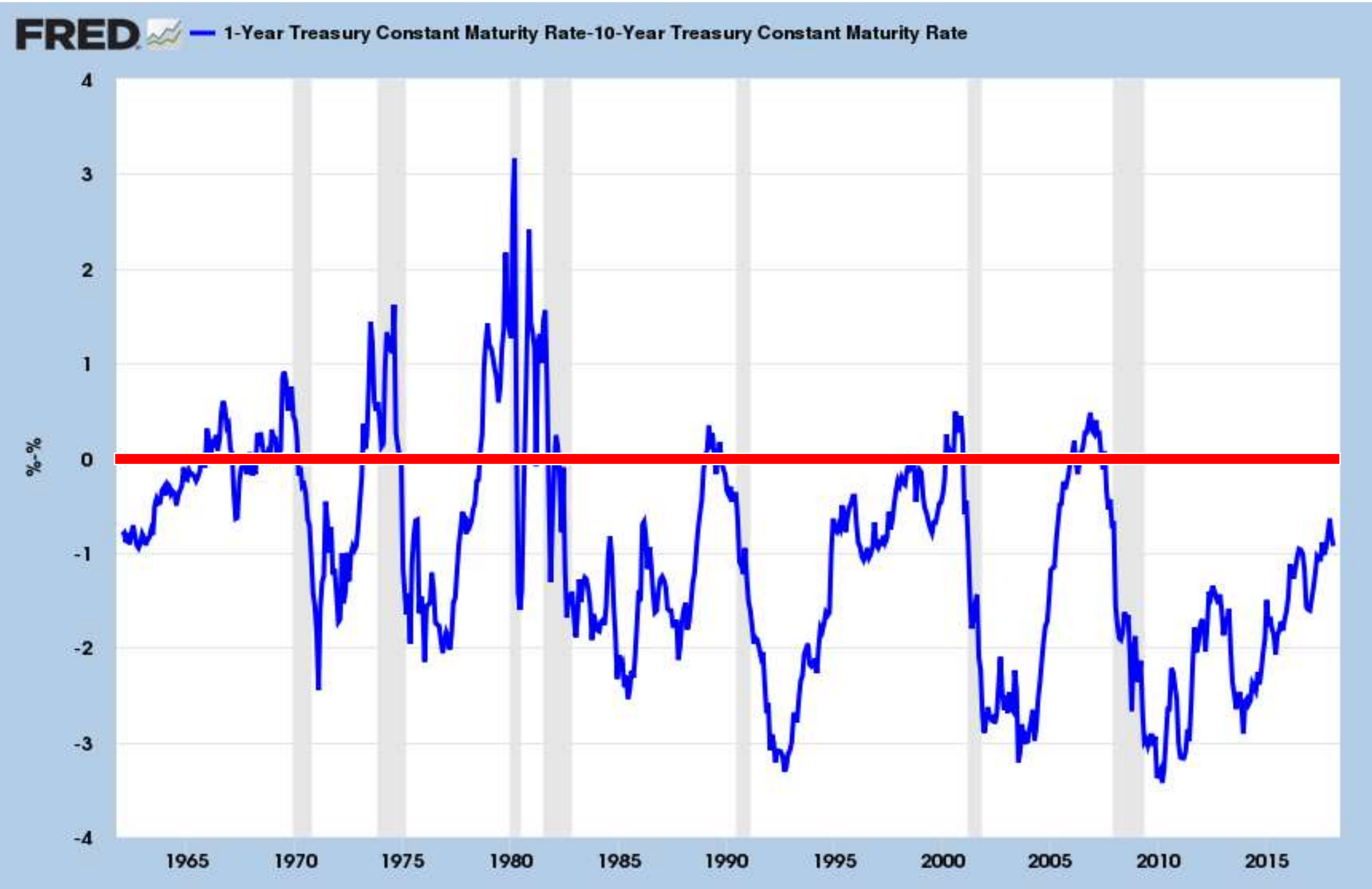


GDP Can't Grow Much Faster!



Best of All, No Recession is in the Cards!

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



Shaded areas indicate U.S. recessions Source: Board of Governors of the Federal Reserve System (US) myf.red/g/ipdh

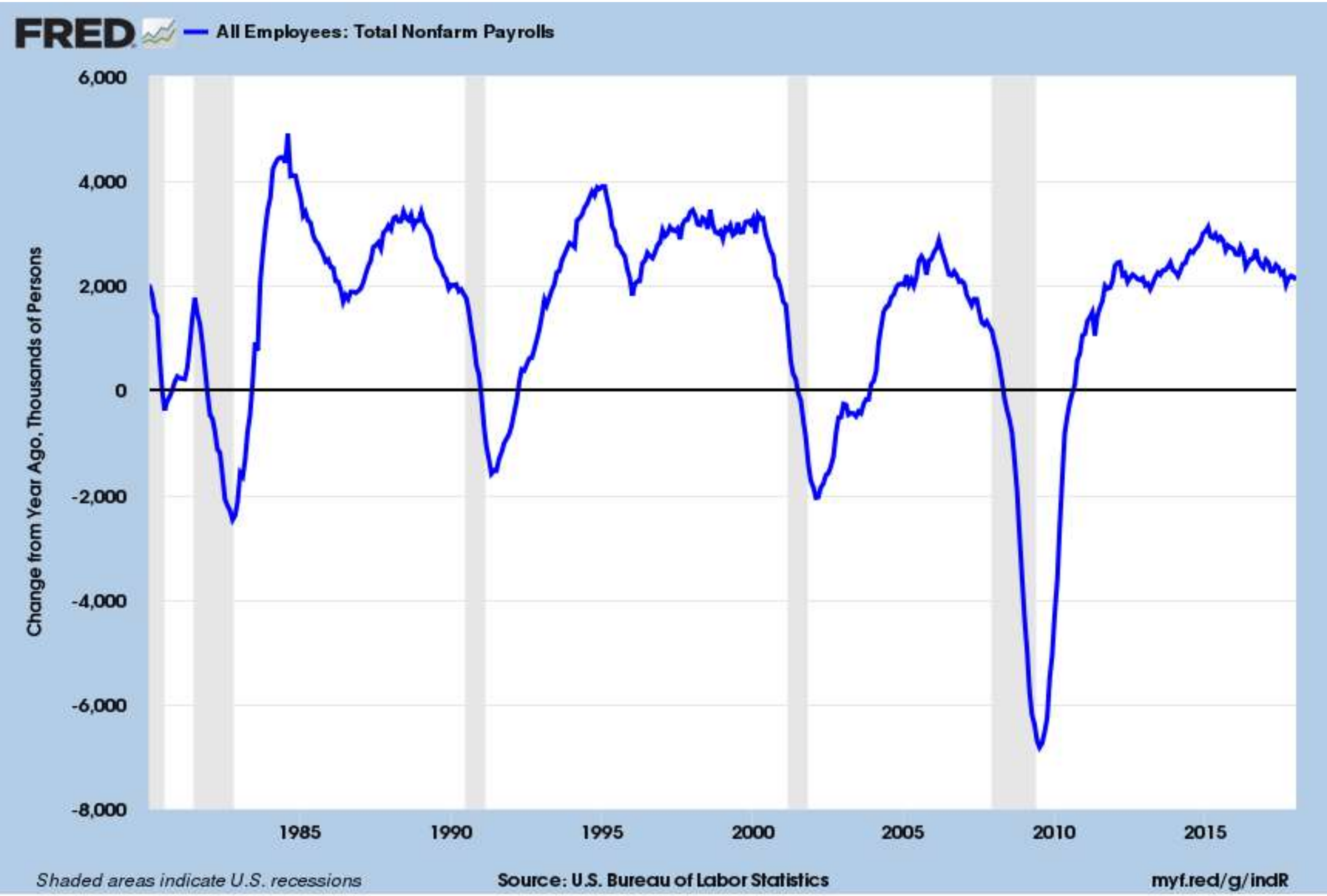
Labor Markets:

They’re on the mend

GRAPHS and LAUGHS

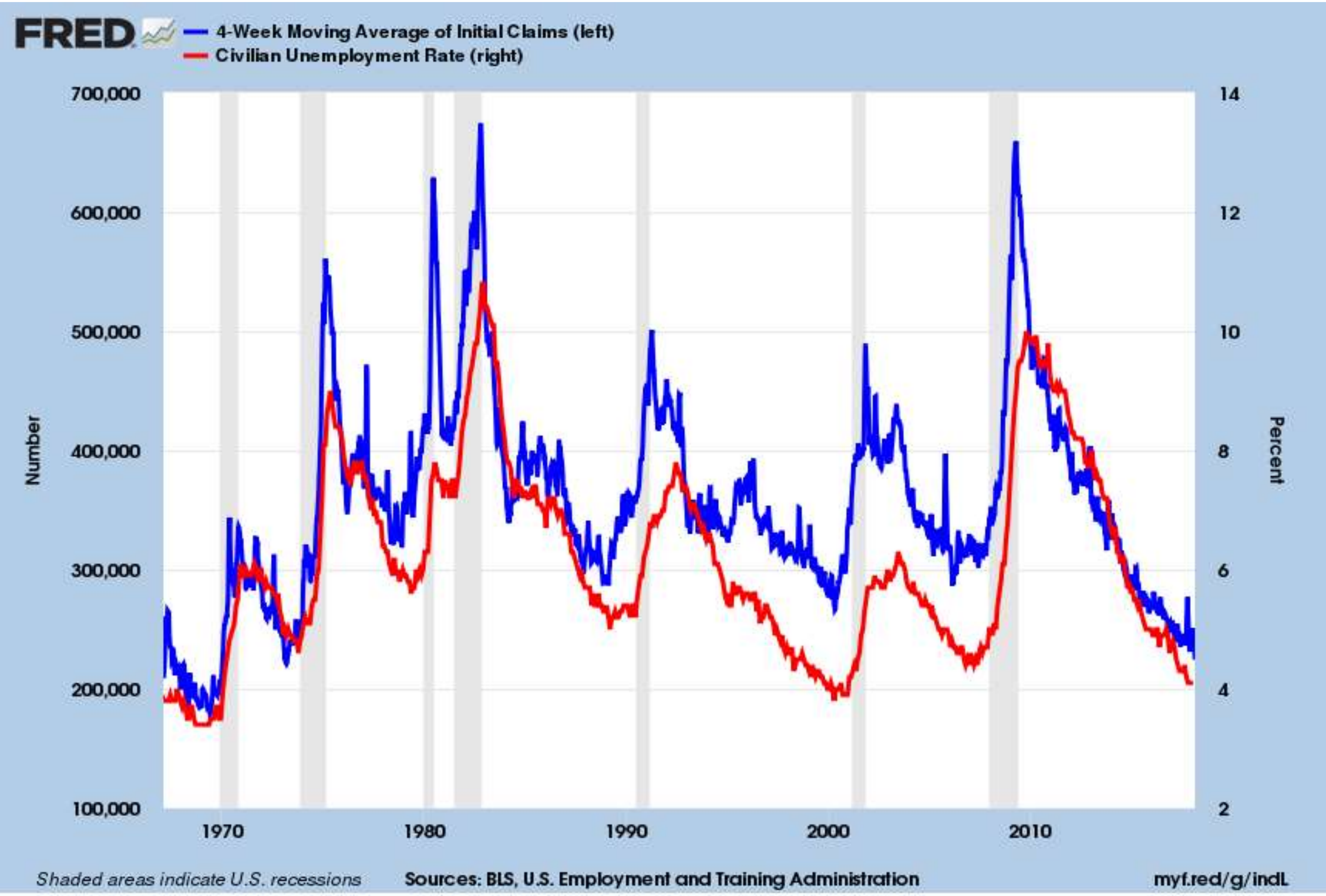
Historical Job Growth

Y-o-Y Total employment growth is slowing. We are running out of workers



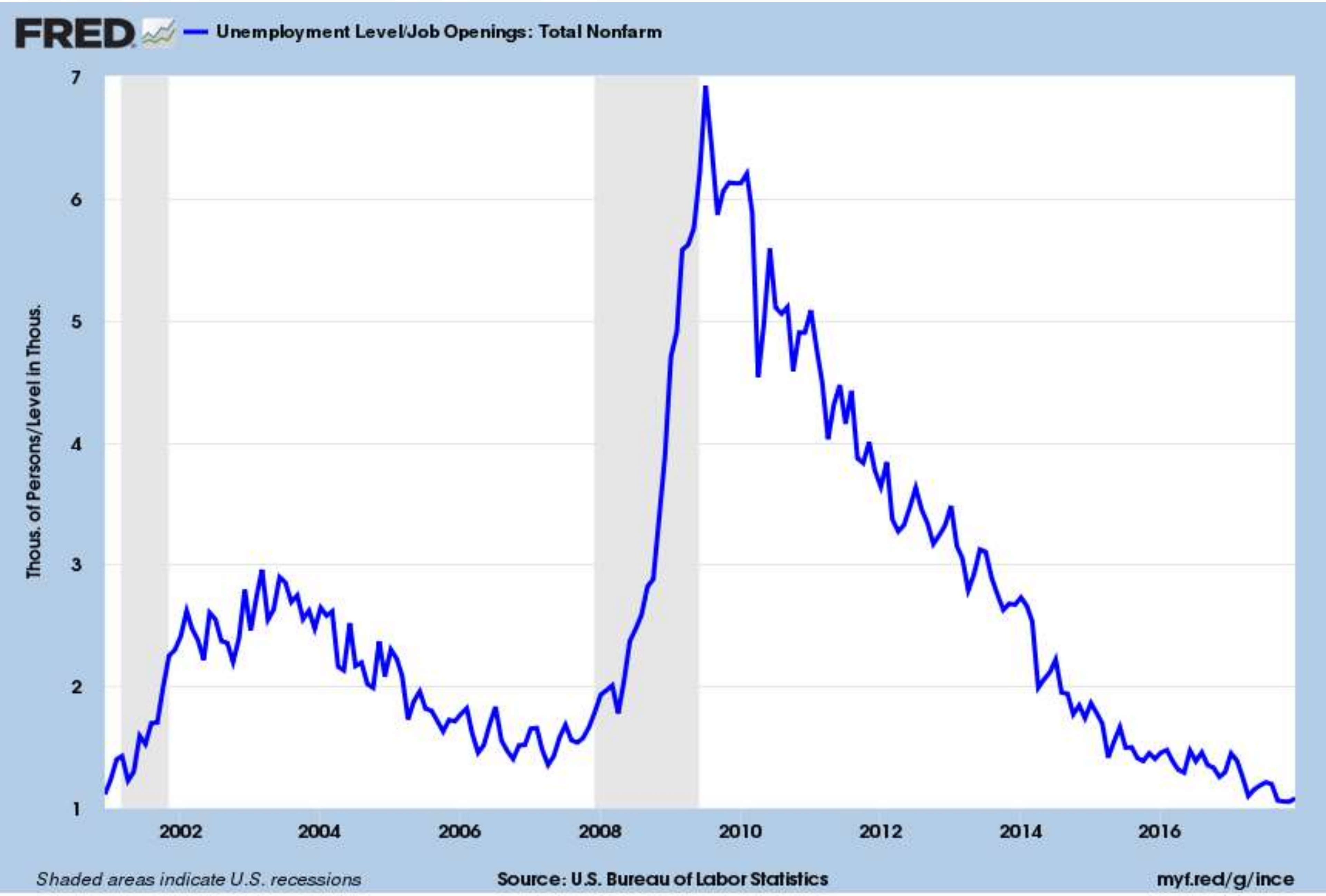
STEADY Labor Market Improvement: Involuntary Separation

Long Term Trends: 1967-2017 Initial claims below 300K for 152 straight weeks!



Tighter Labor Market than Perceived? For Sure!

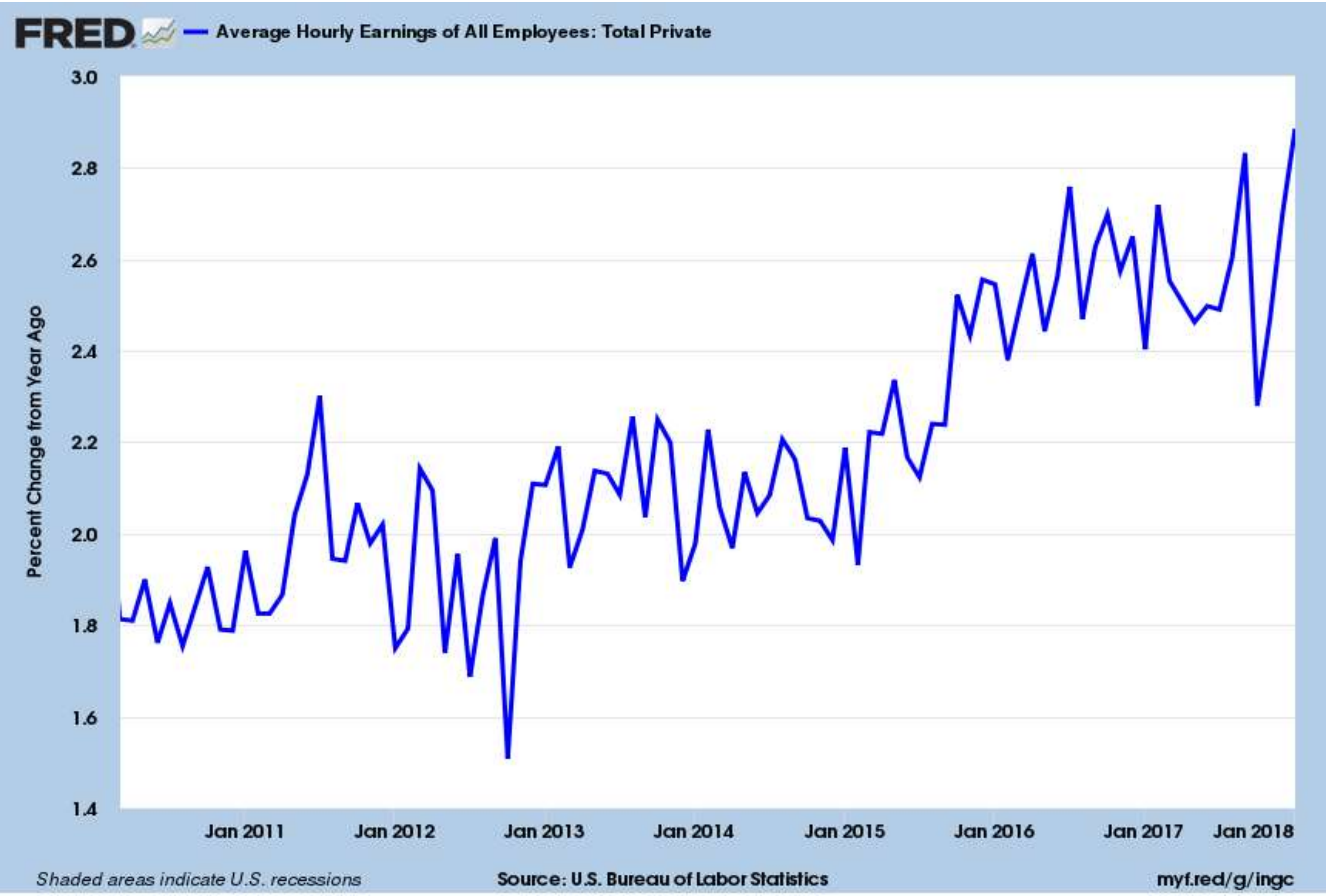
The number of unemployed per job opening is at a record low!



Wage Growth is Weak, But...

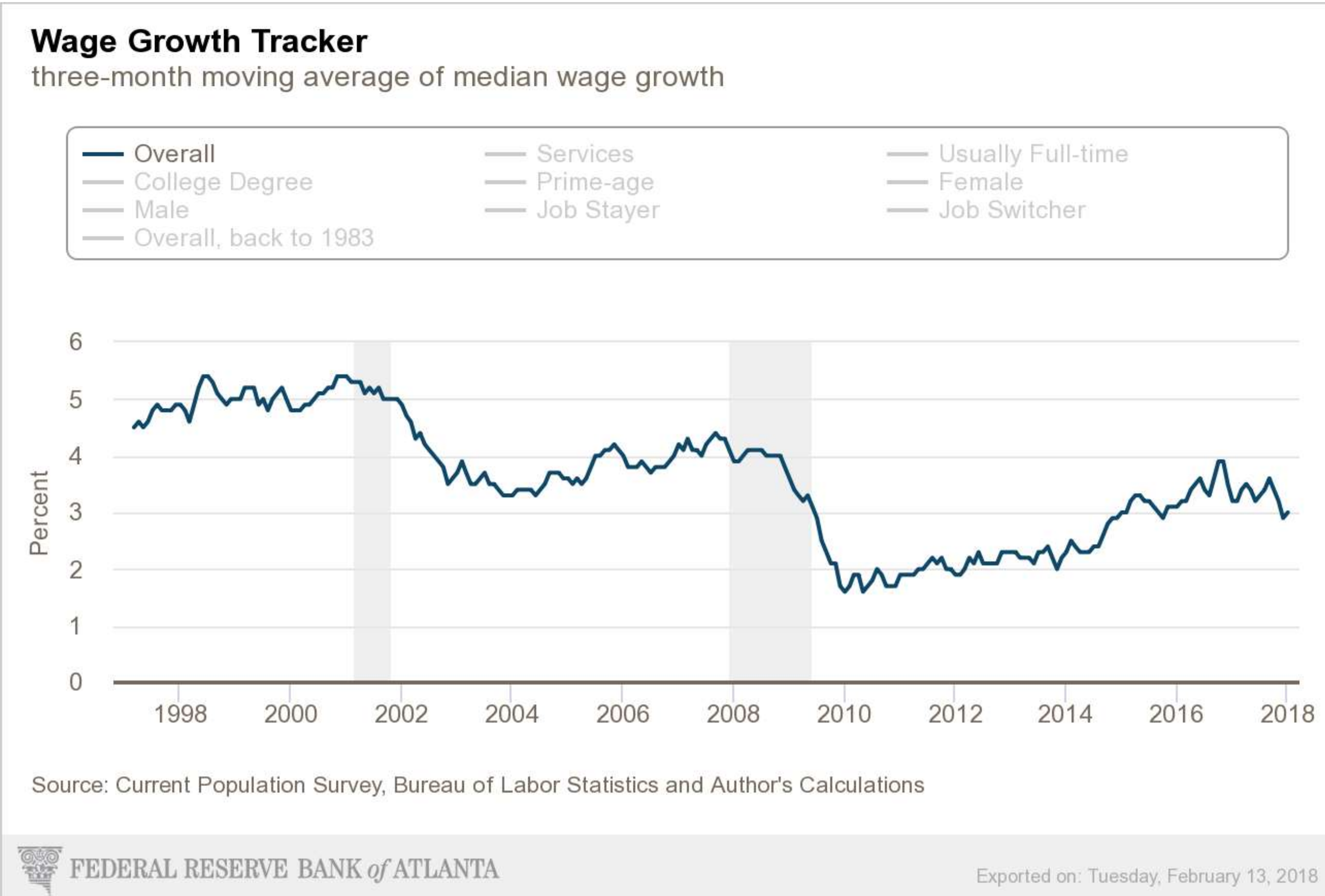
Y-o-Y Percent Change in Hourly Earnings

Despite a very low unemployment rate, wages growth is weak

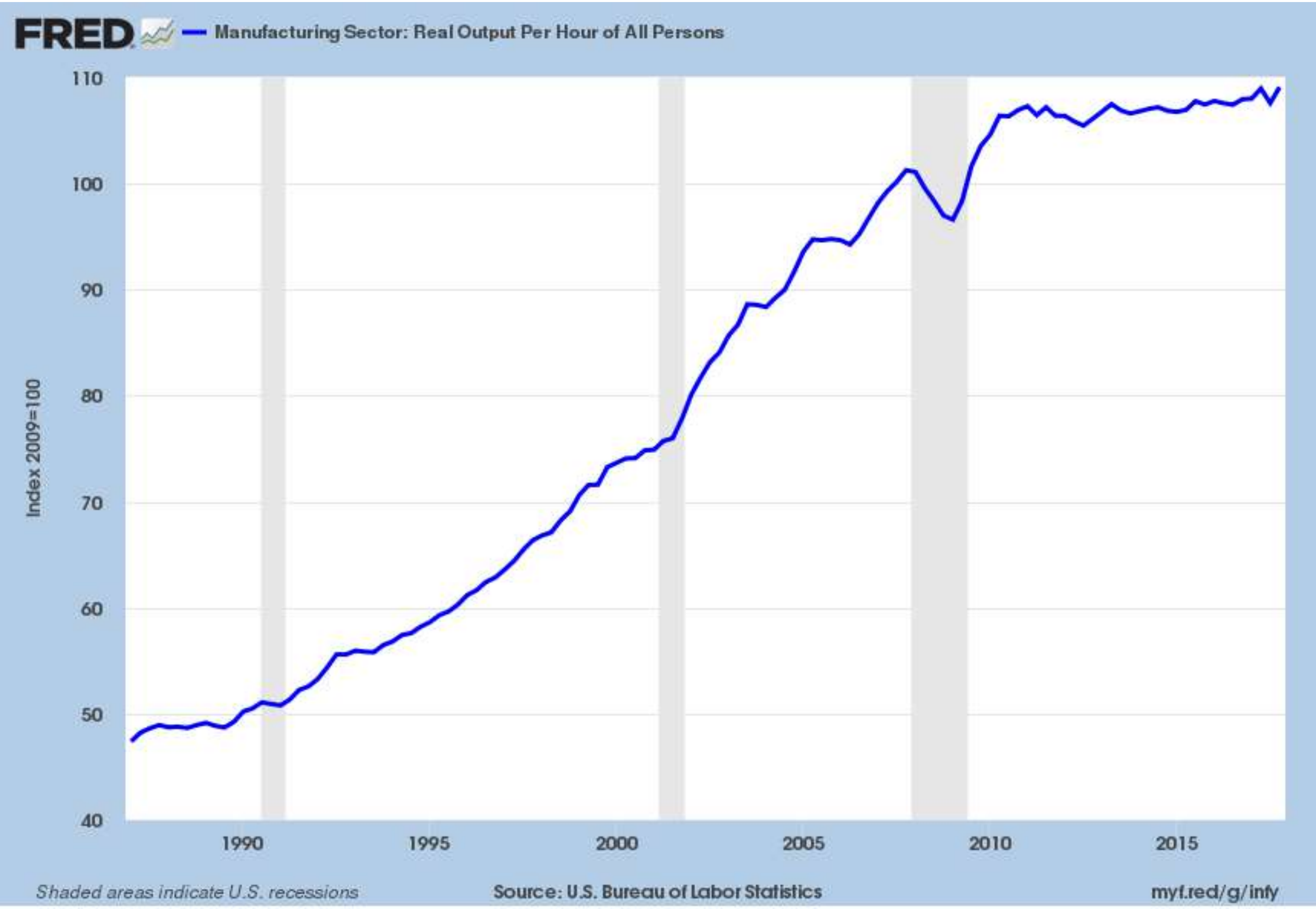


Changes in Median Wage Growth Looks OK!

Looks only at those continuously full-time employed

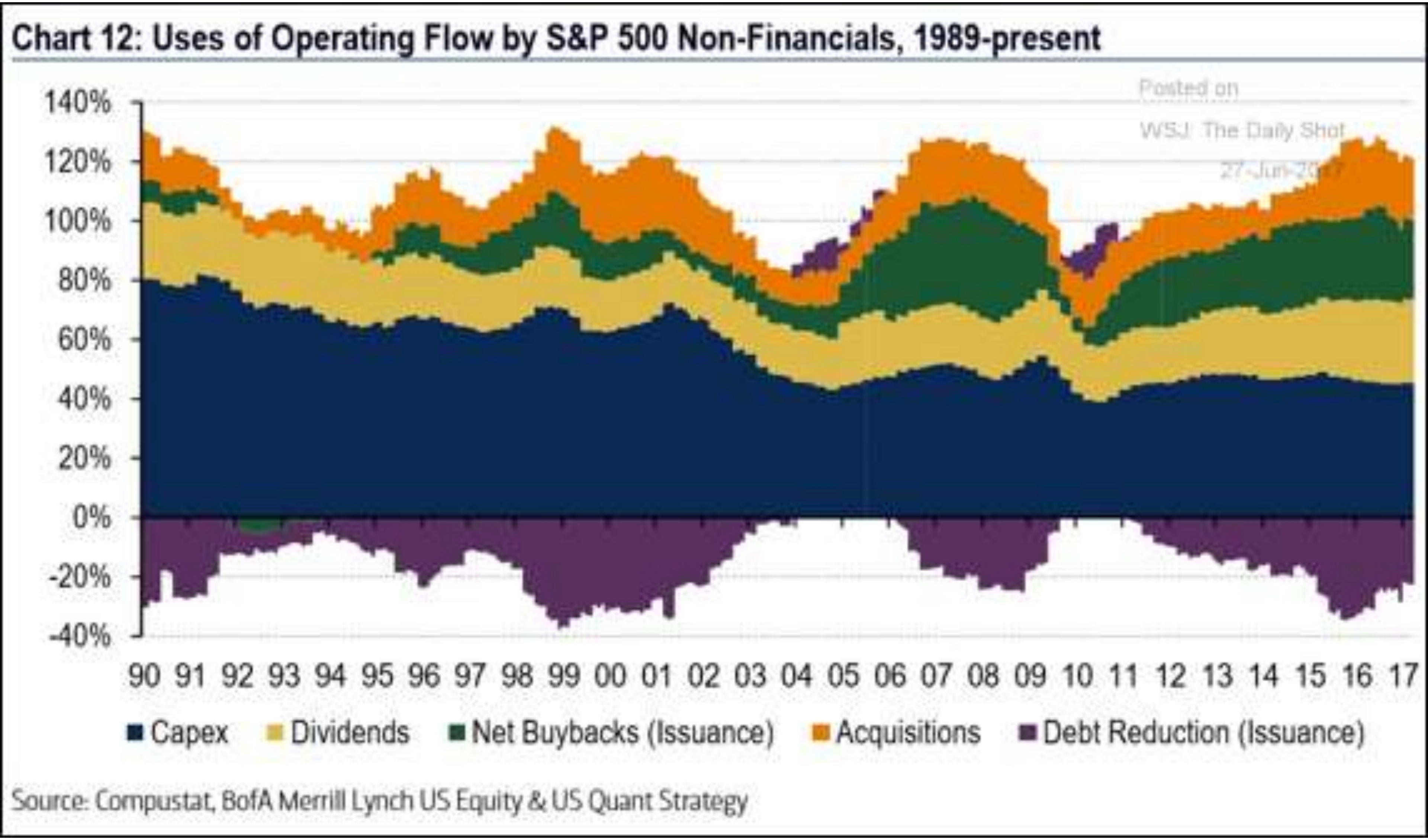


Labor Productivity Growth is Dismal



Labor Productivity Growth Remains Dismal

Maybe this is why

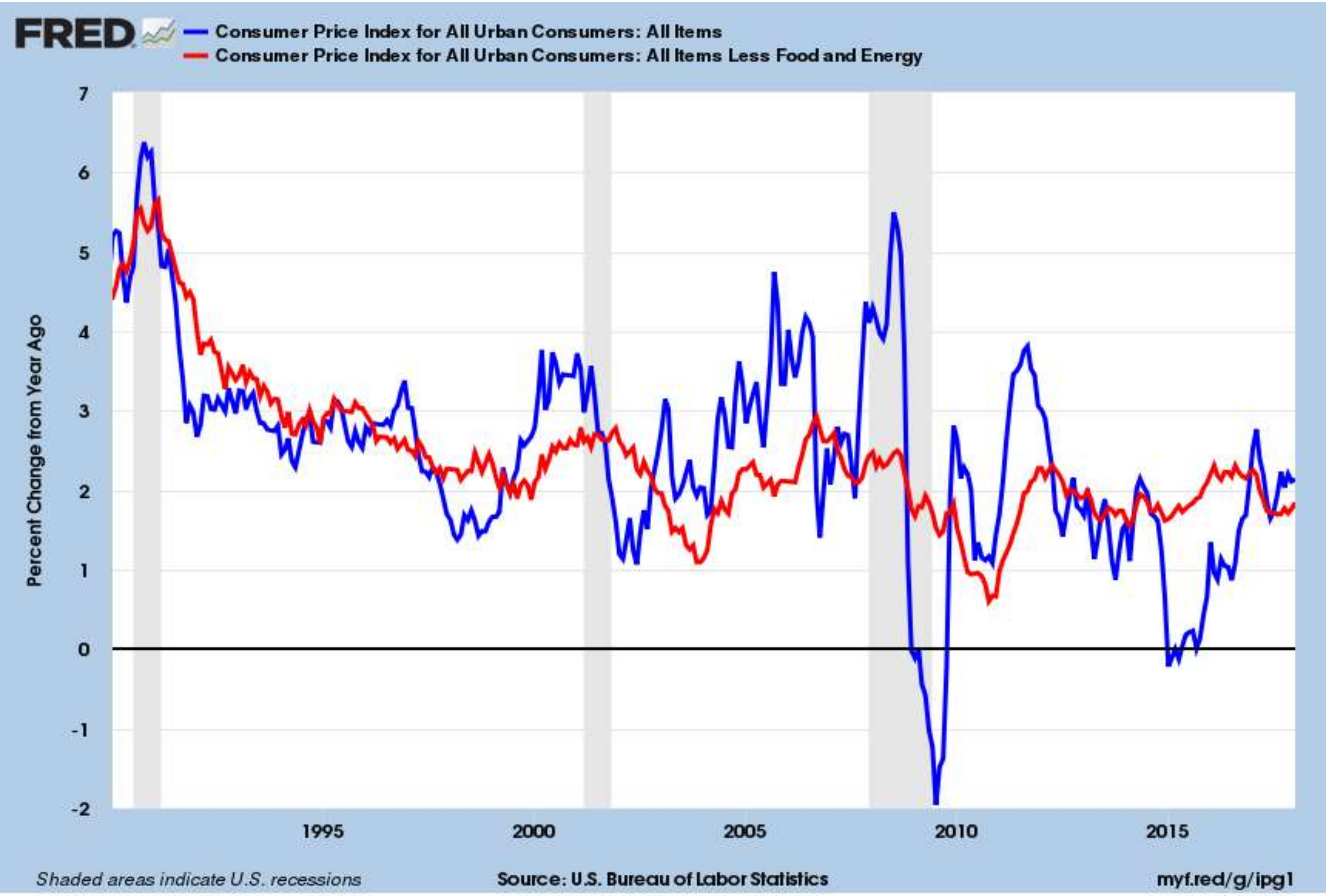


Inflation?
What Inflation!

GRAPHS and LAUGHS

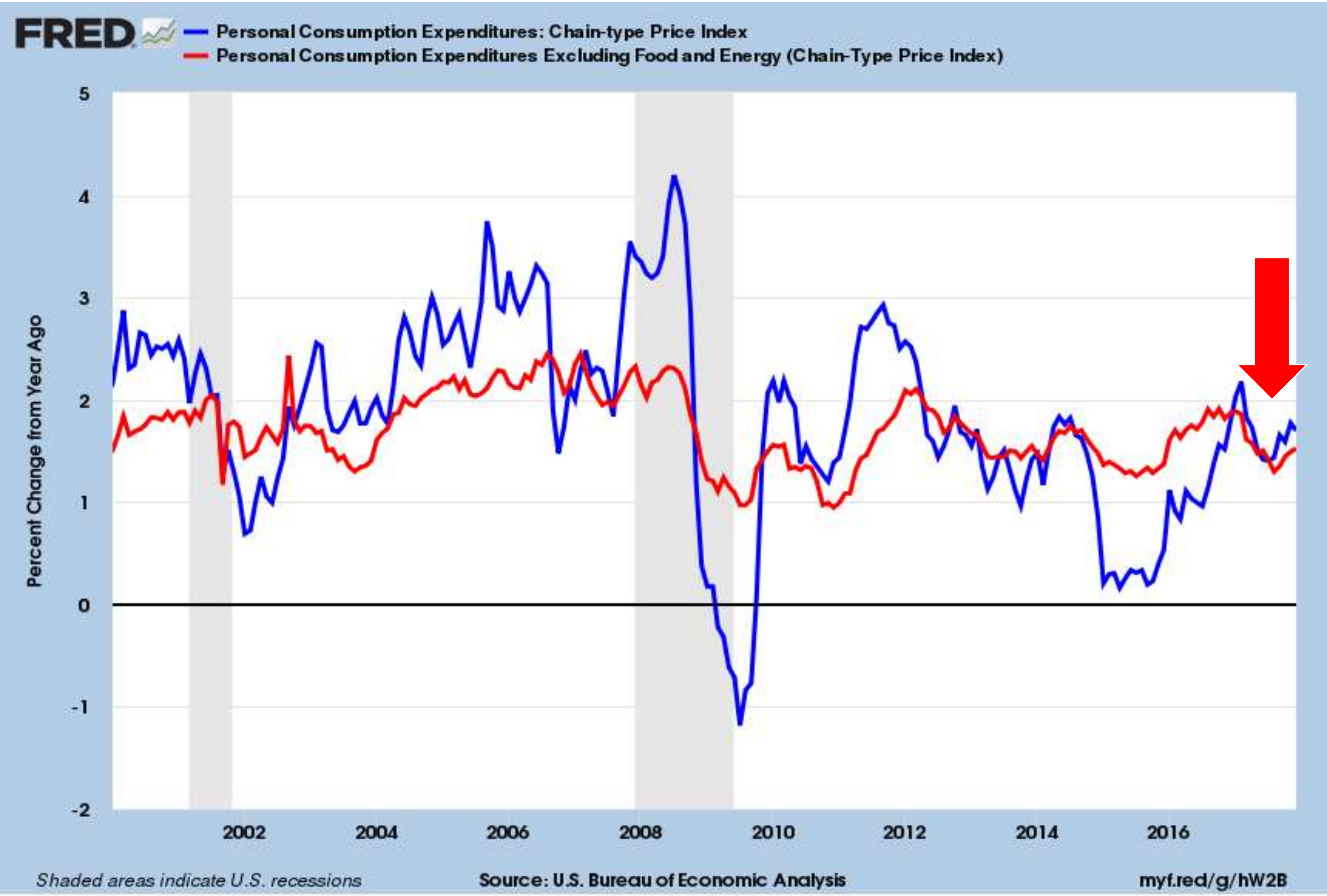
CPI: Inflationary Pressures are Weakt

Remove Healthcare, and apparel are now weak. Was drugs, cellphones and autos



Core PCE Price Index: Inflation is Up a Bit

Surprising this late in the business cycle.

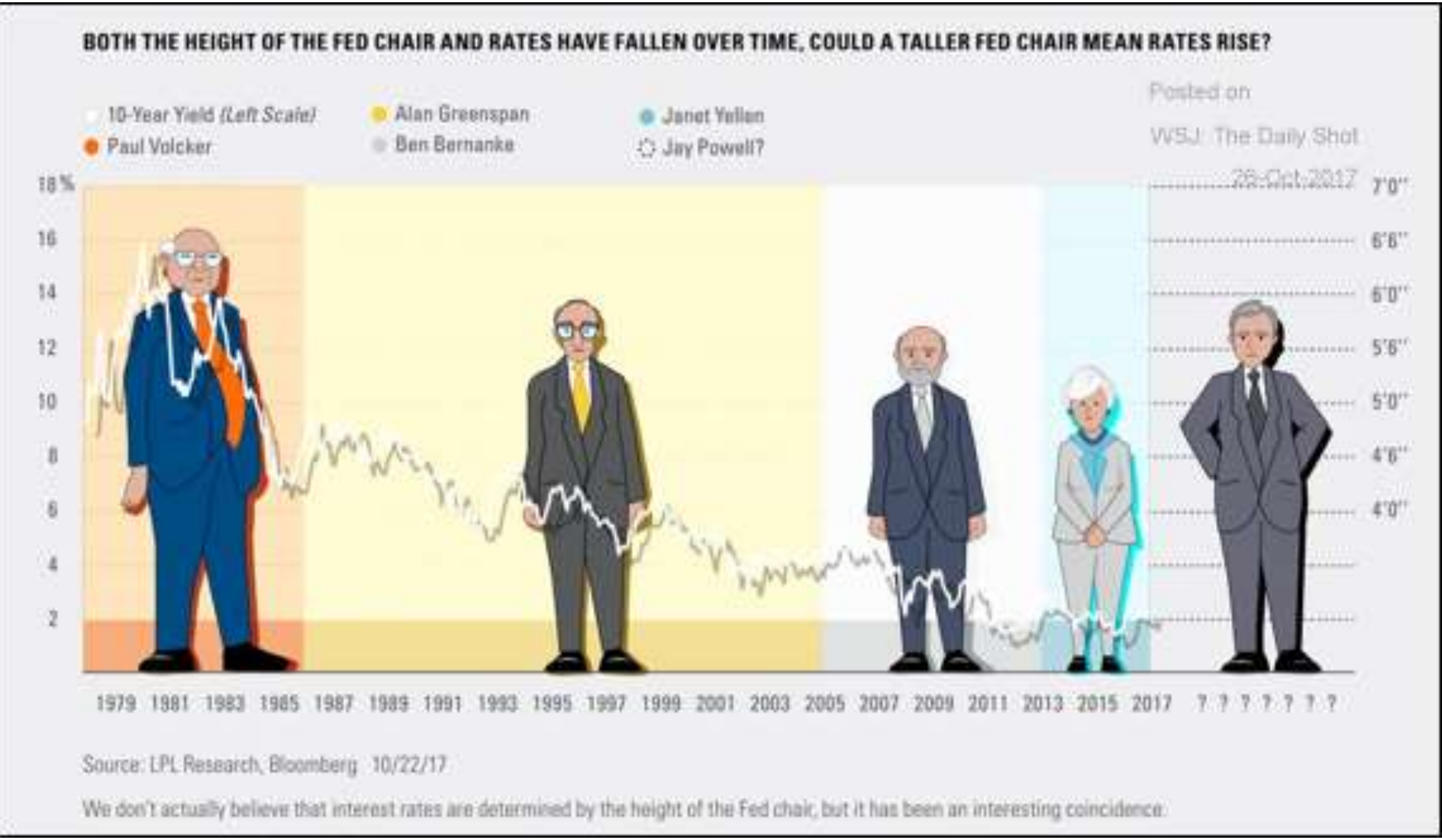


Federal Reserve Behavior

Rates Will Rise.

But, How Fast?

Taller Fed Chair, Higher Rates?



Federal Reserve Behavior

Most likely scenario

- Fed funds is currently 1.375%

- 12/31/18: 2.125% (50%/50%) 10-yr Treasury @ 3.10%

  12/31/19: 2.625% 10-yr Treasury @ 3.40%

- 12/31/20: 3.125% 10-yr Treasury @ 3.55%

- Balance sheet keeps shrinking.

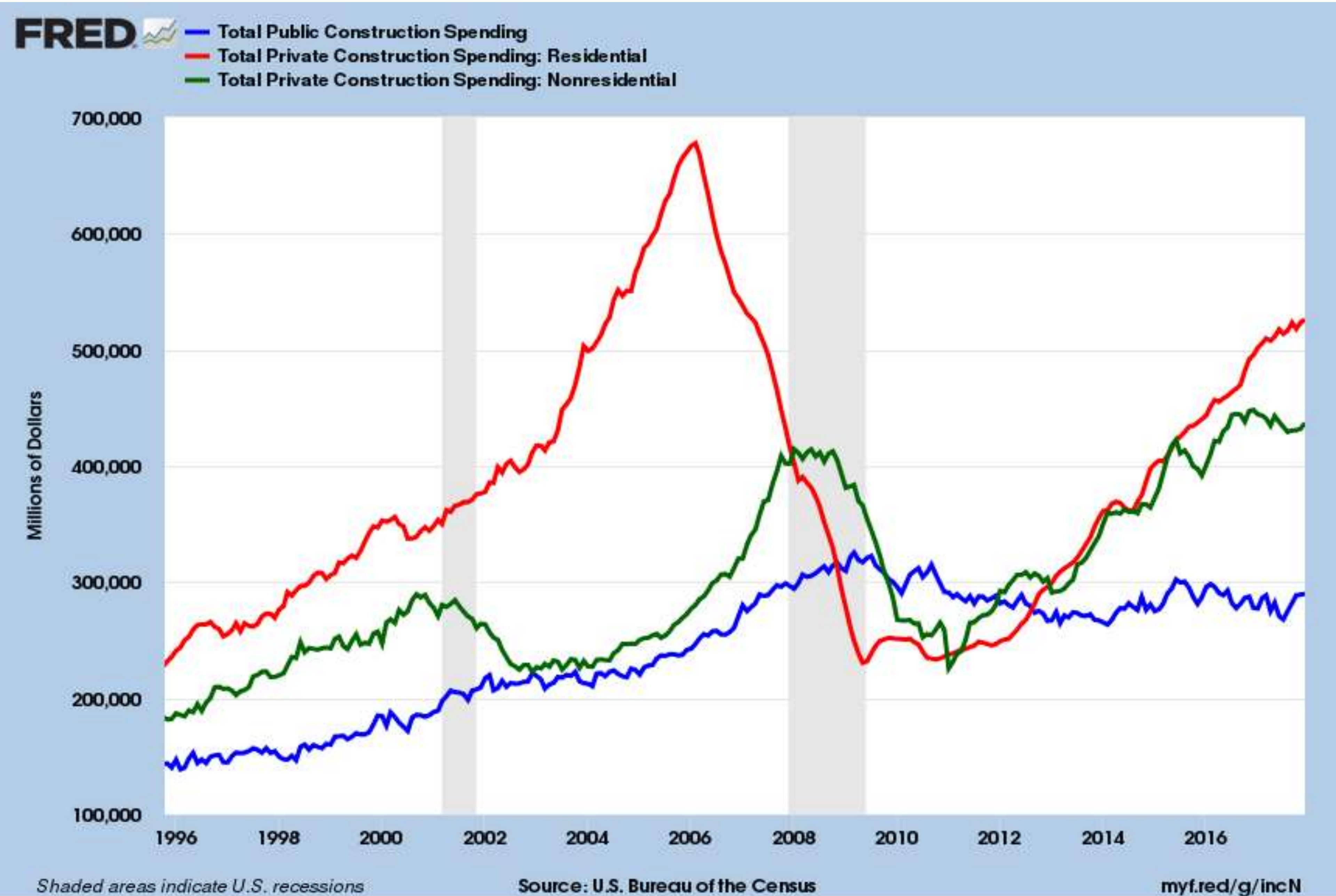
Housing?

It’s Improving but In Fits and Starts!

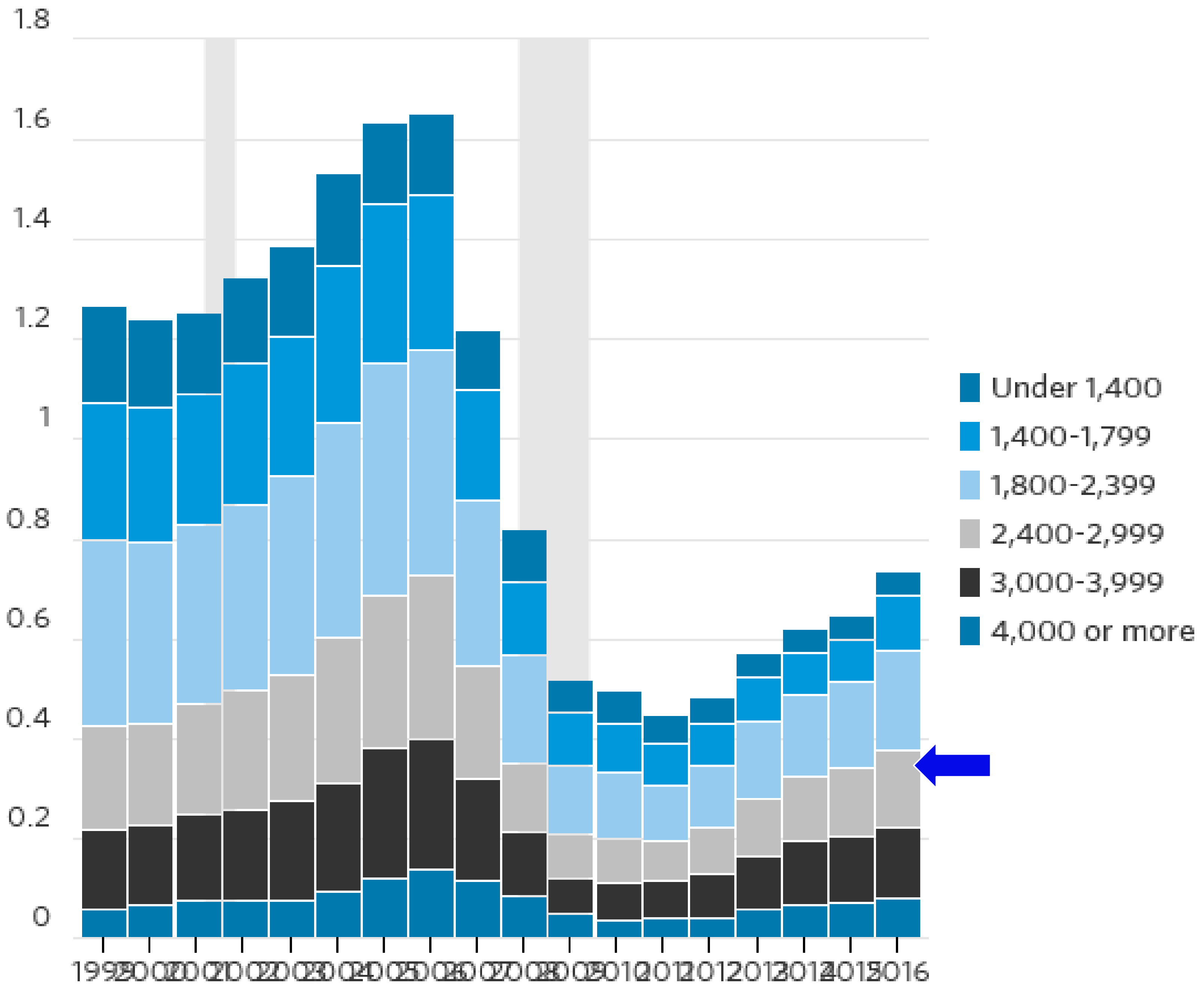
GRAPHS and LAUGHS

Residential Fixed Investment Slowly Rises!

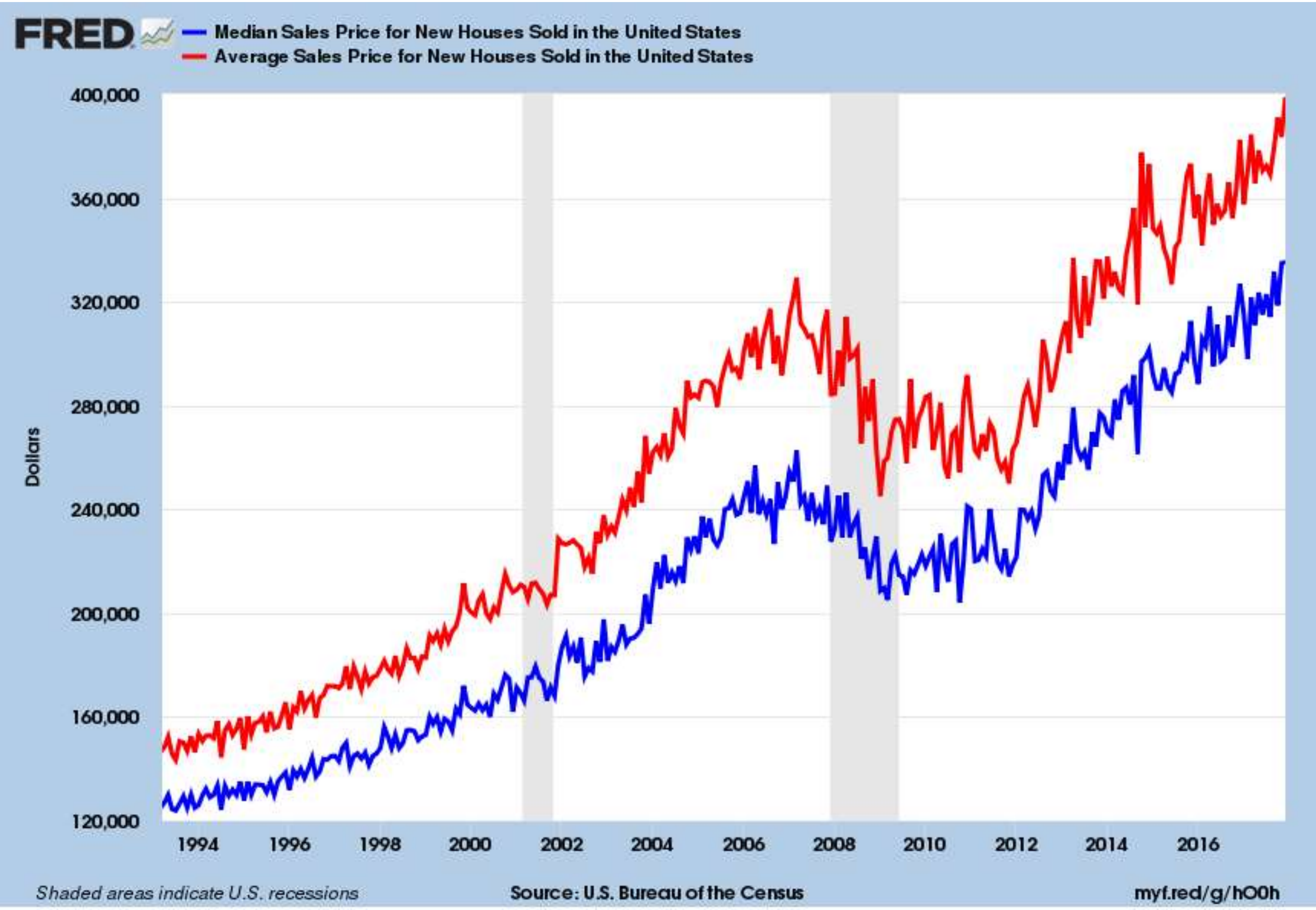
Non-residential is up 5%, public is down 11% and residential is down 22% from peak



Bigger Houses Only!



New Home Prices Are Recovering Too Nicely

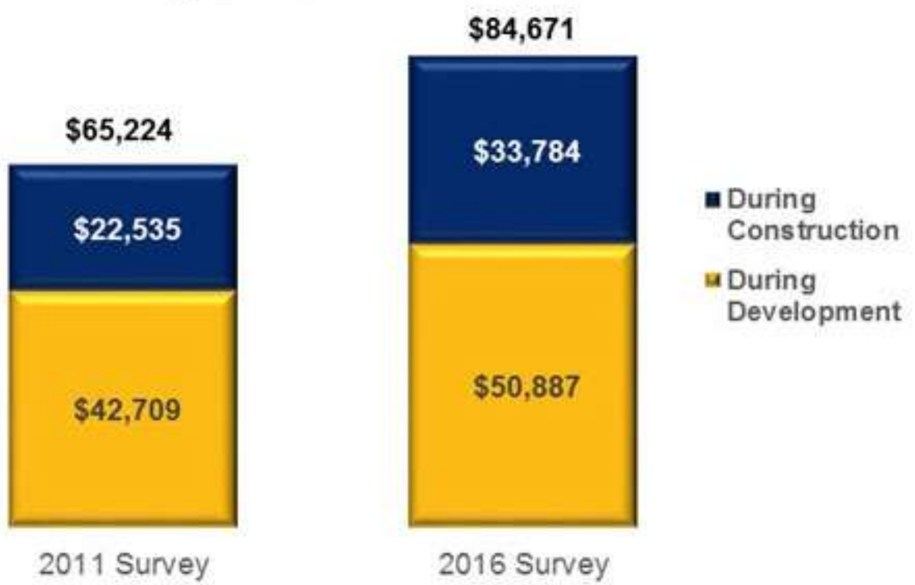


Regulation is a Killer

Figure 1. Regulatory Costs as a Share of Home Price

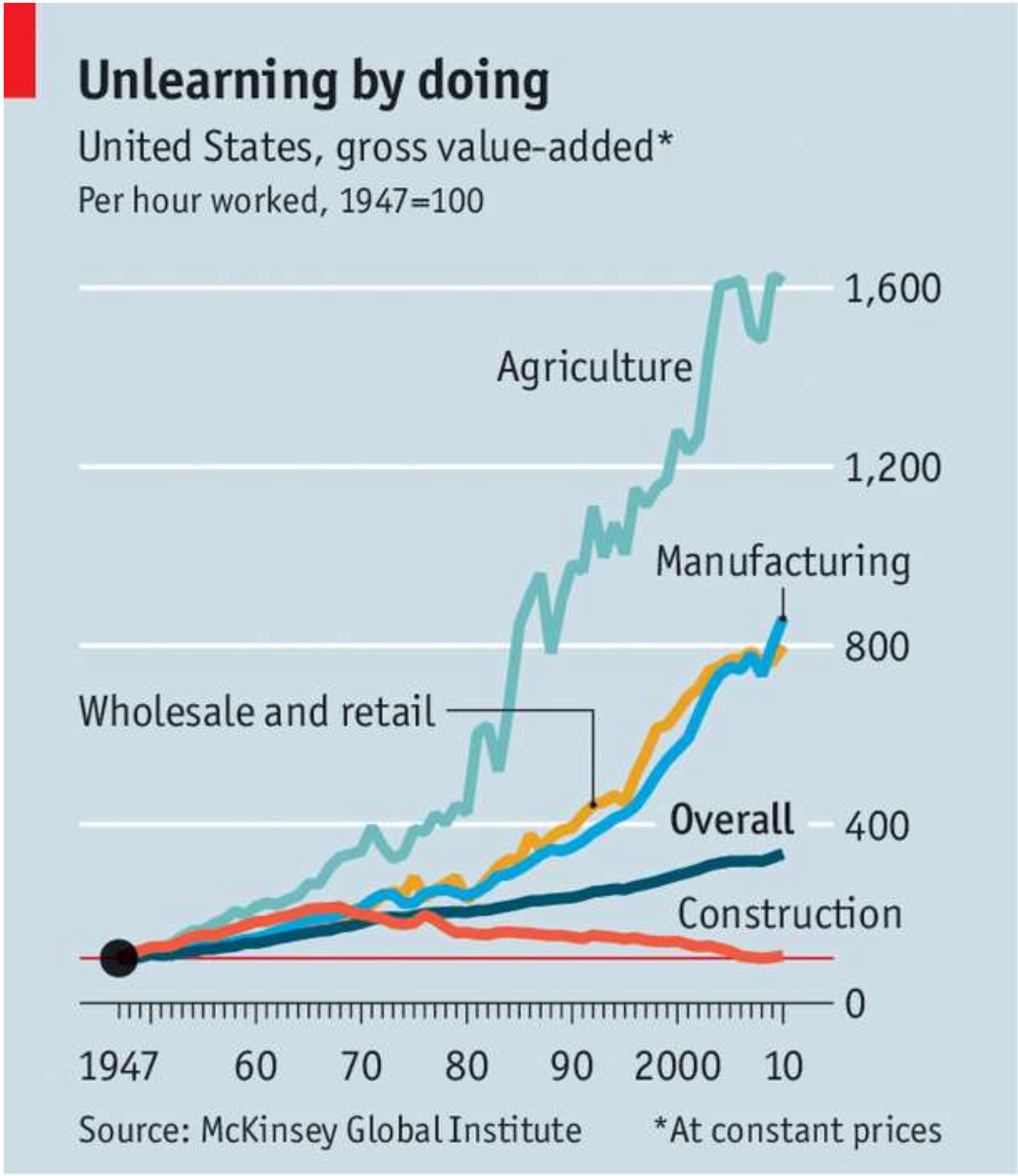
* For quartiles, construction and development costs do not sum to the total.
Source: NAHB/Wells Fargo HMI survey, assumptions described in the Appendix.

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 avgerage new home prices: New Residential Sales, U.S. Census Bureau.: .

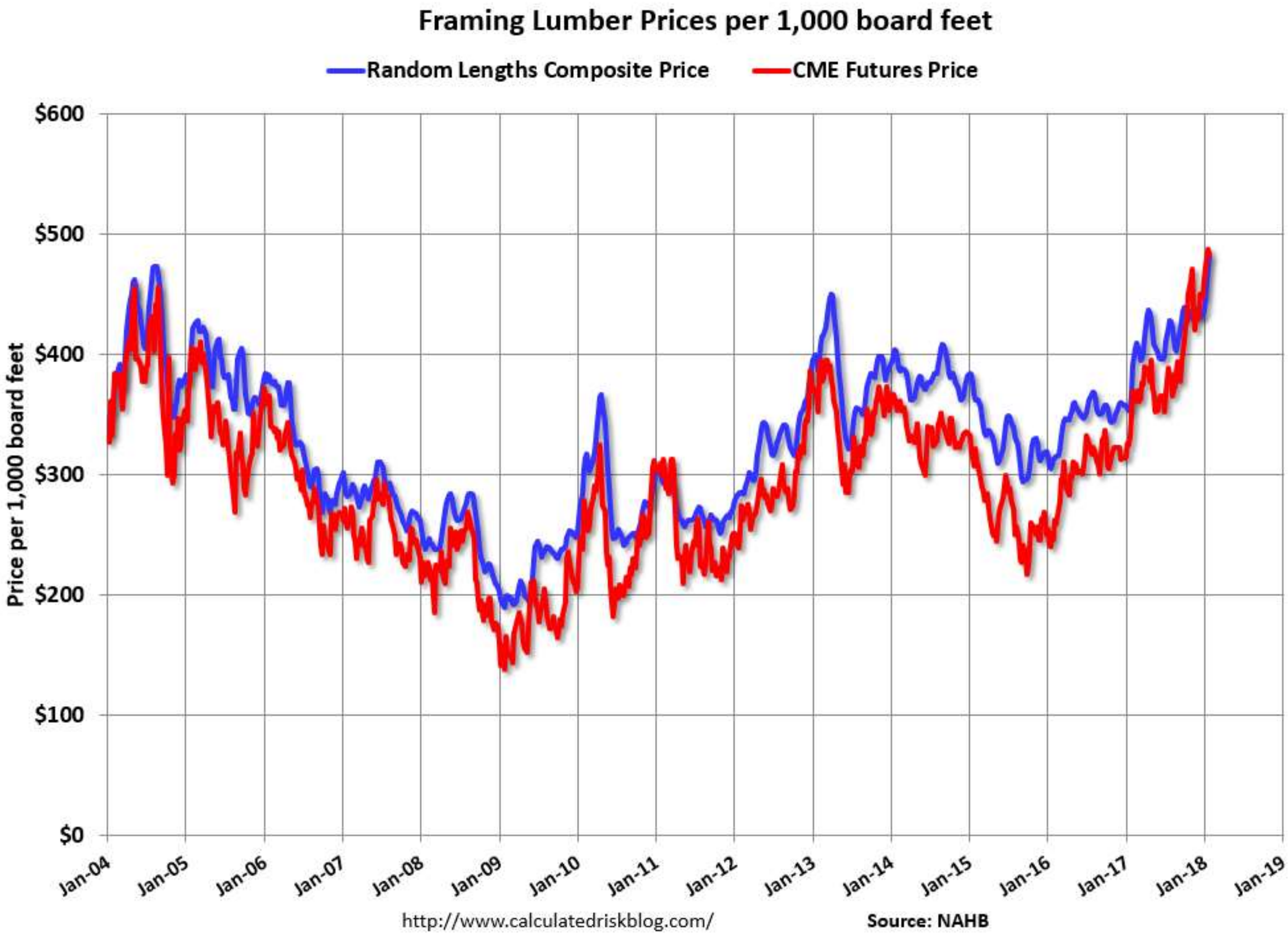
No Productivity Gains in US Construction!



Economist.com

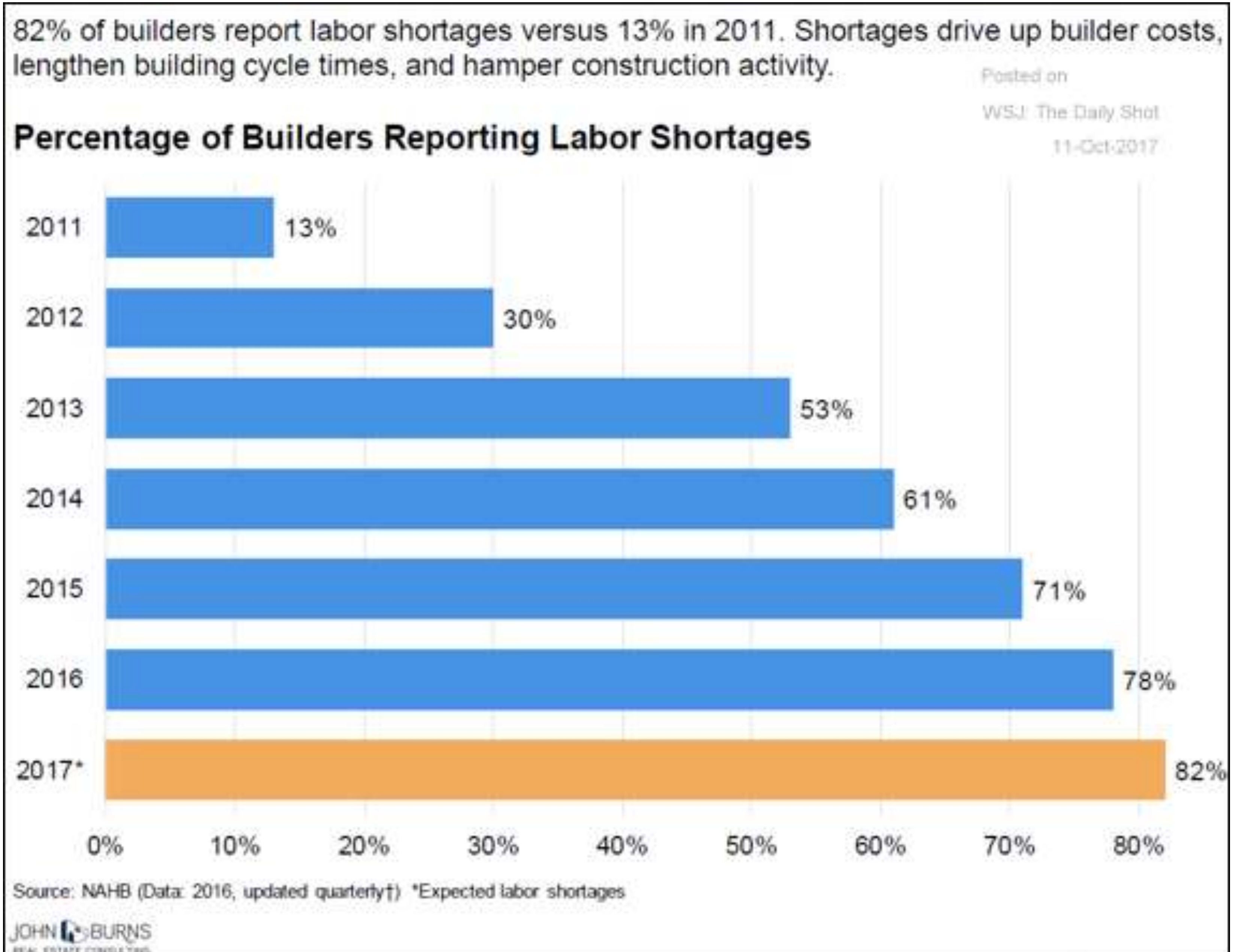
Input Costs are Way Up due to Policy and China

Prices are up 31% to 39% Y-o-Y. End of NAFTA is making this worse



Labor Shortage is Quite Serious

Average annual wage increase for construction workers is still just 3.5%



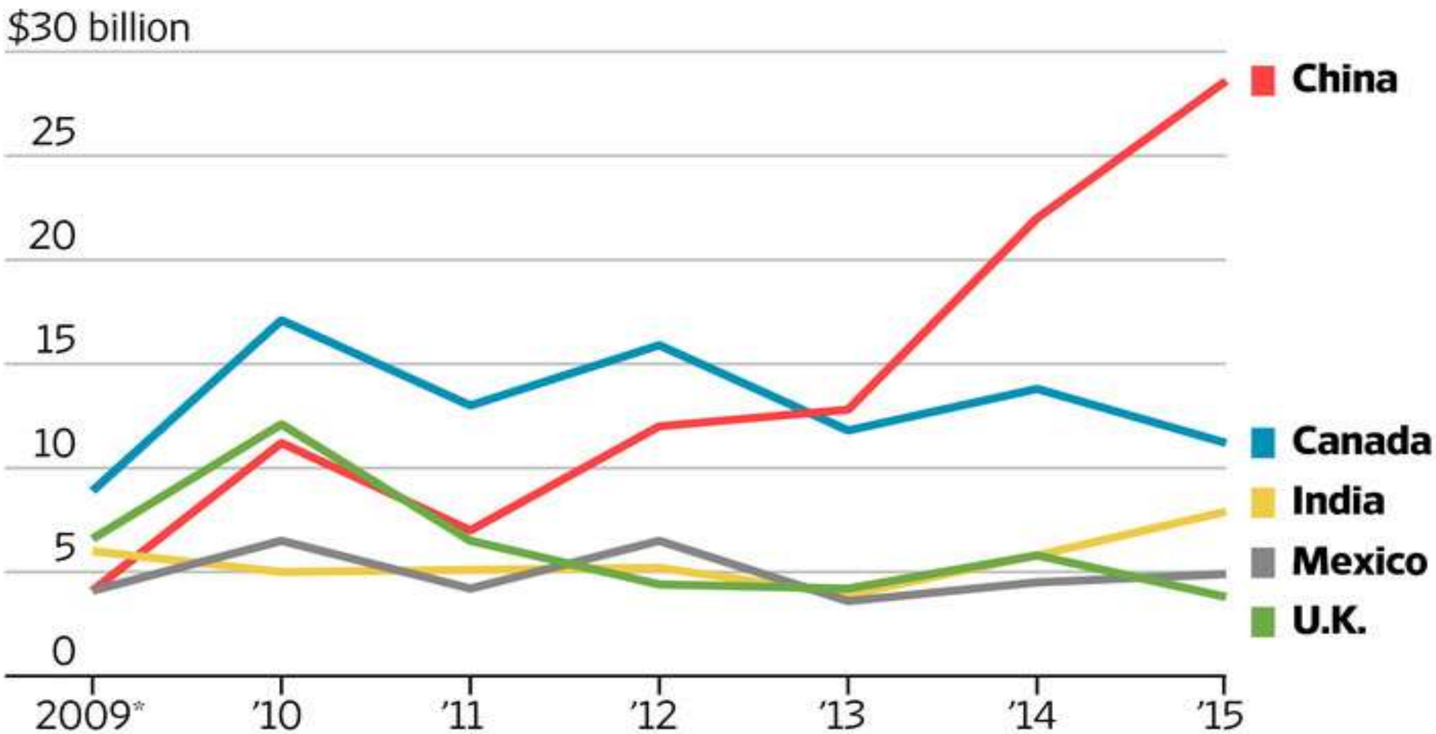
Huge Influx of Chinese Buyers Will Persist

Top destinations: CA 38%, WA 8%, NY 7%, IL 4%, TX 4%, NC 3%, FL 3%.
The Chinese account for 16% of foreign buyers, Canadians are now 14%

In the Market

For the past few years, clients from China exceeded all other buyers in terms of U.S. property purchases.

Estimated value of sales to international clients



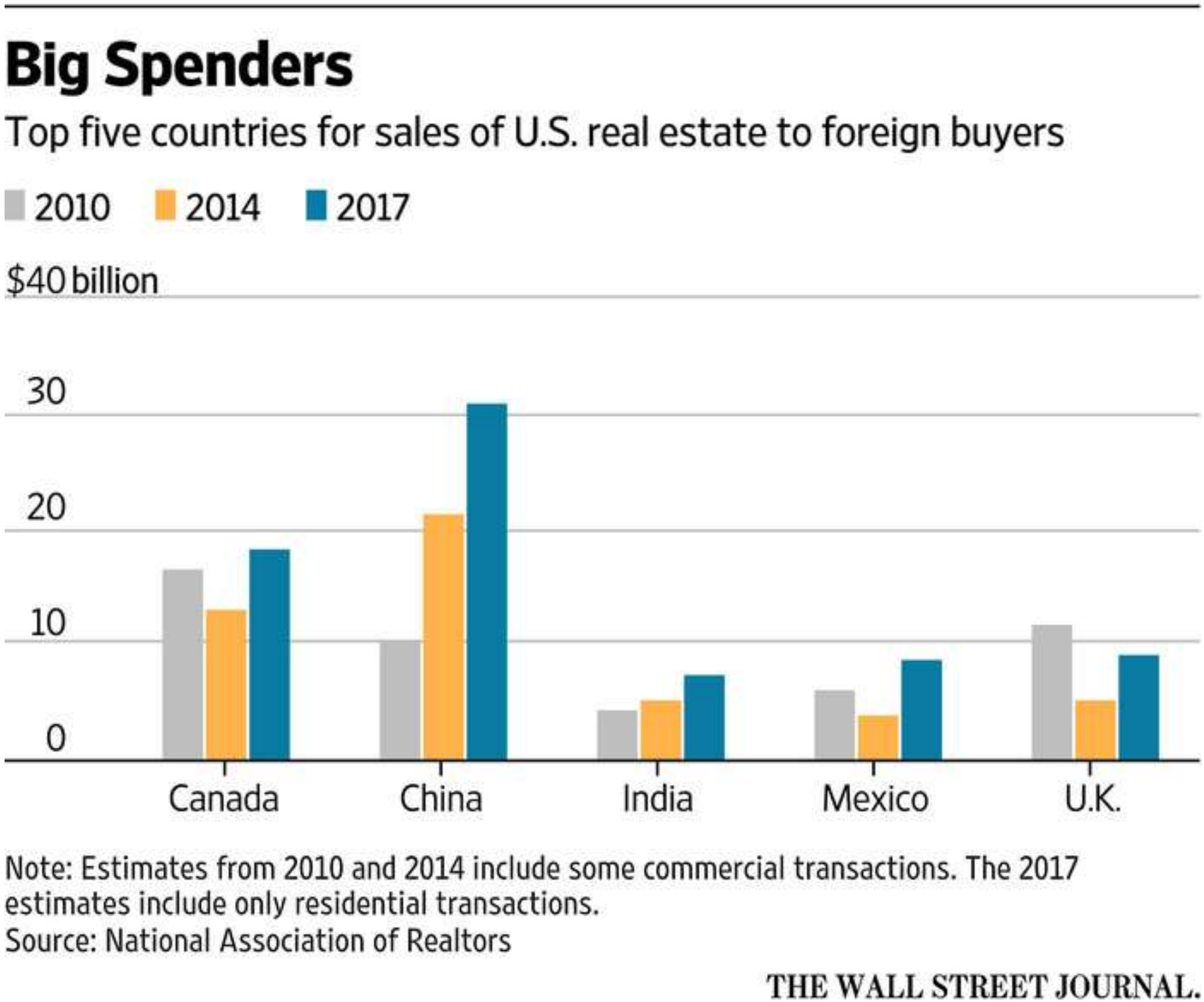
*Figures for non-resident clients only

Note: Figures for 12-month period ending in March; China includes Hong Kong and Taiwan

Source: National Association of Realtors

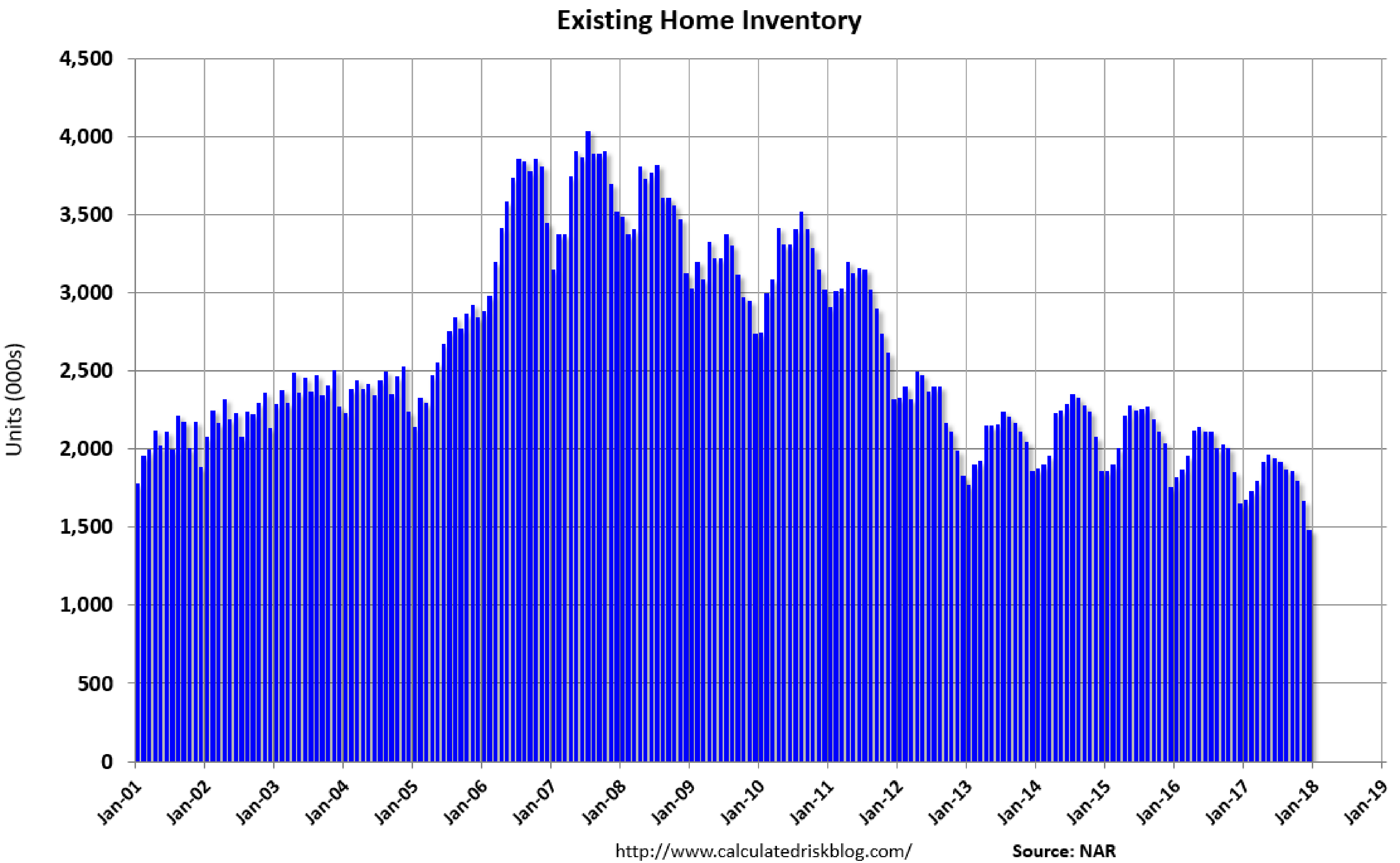
THE WALL STREET JOURNAL.

Huge Influx of Foreign Buyers



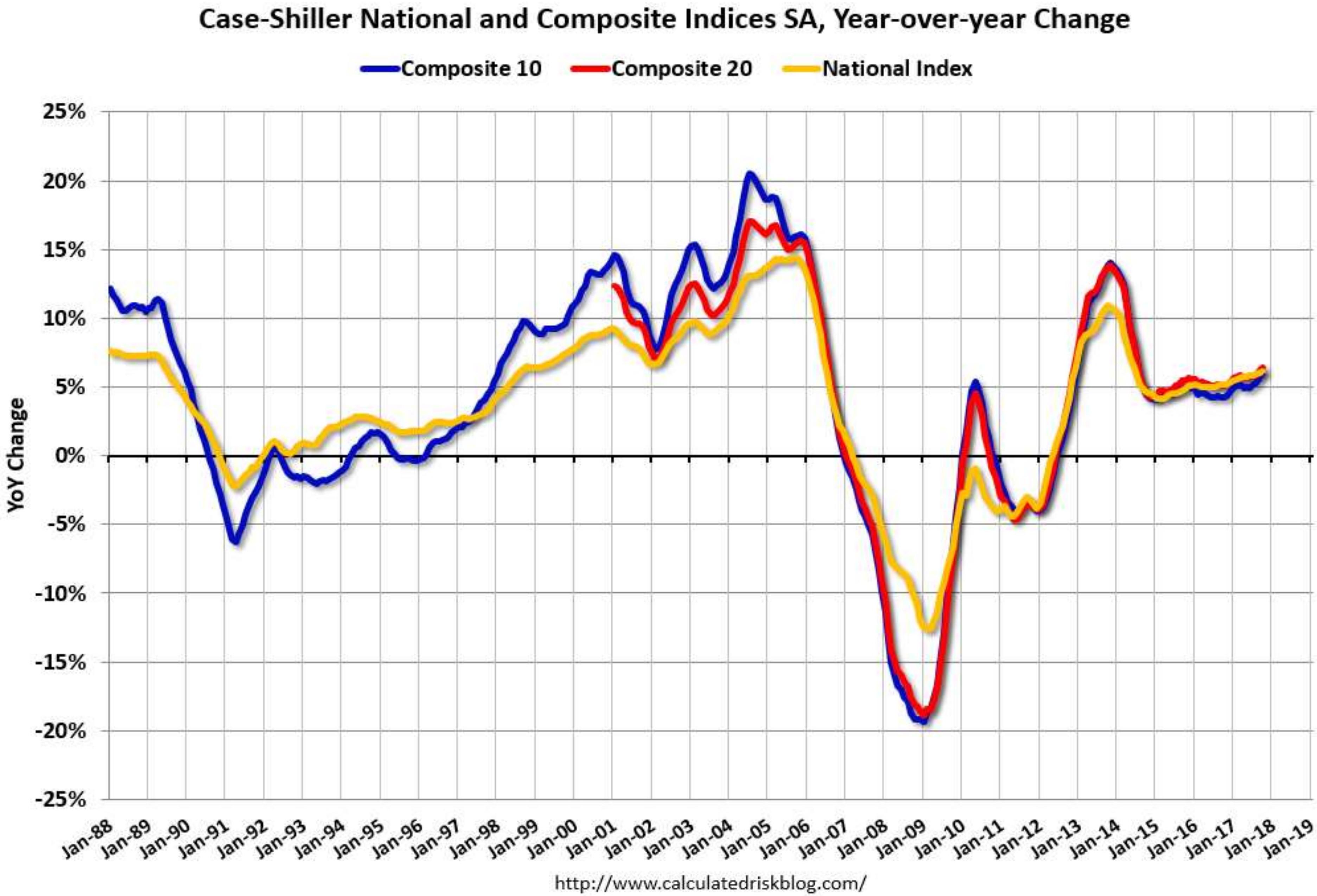
Existing Inventory is Shrinking

Down 6.4% Y-o-Y and down for 31 straight months . Higher prices should help, but rental conversions especially at lower price points, aging in place & mortgage lock-in are hurting



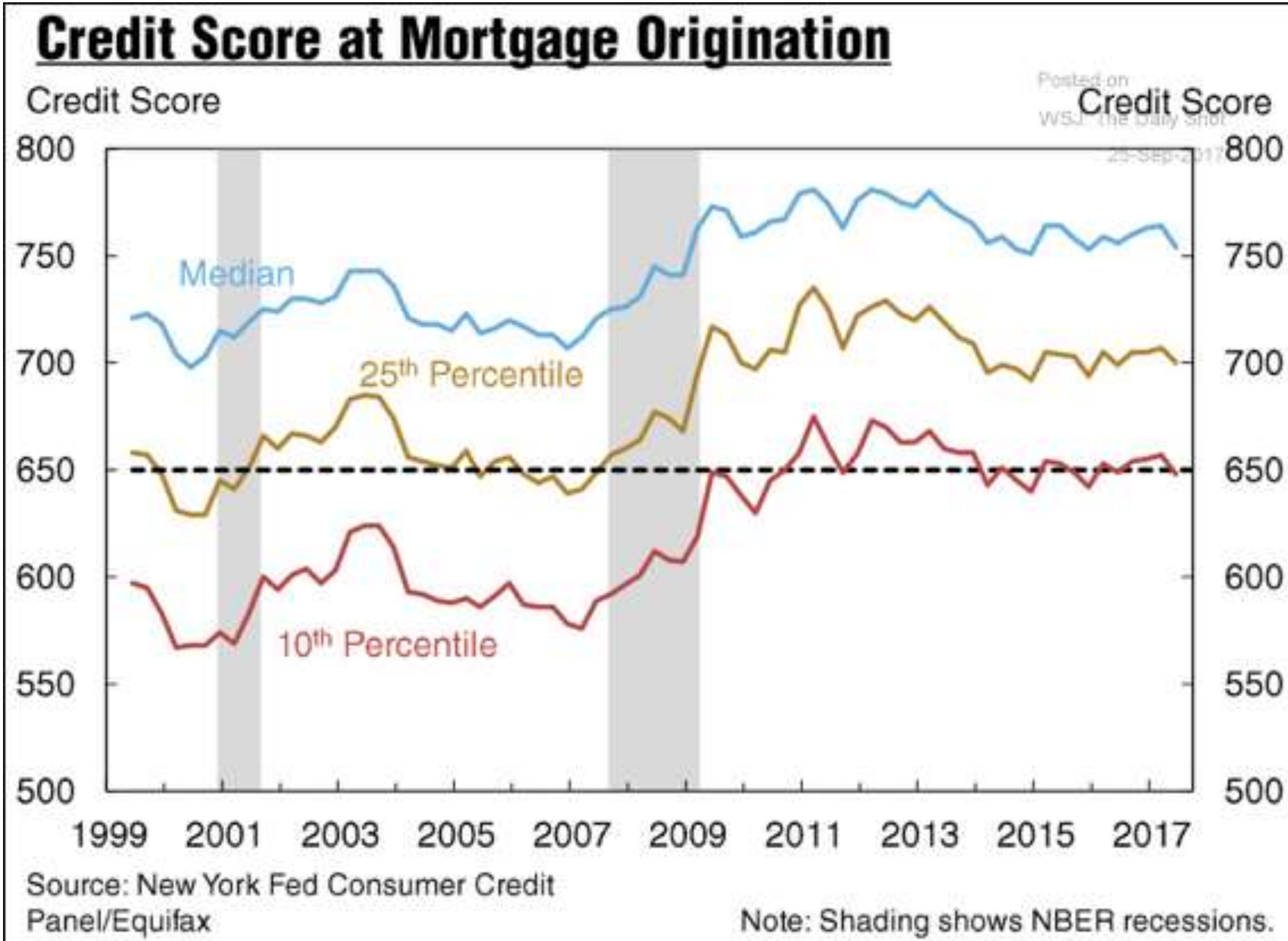
Price Growth Appears to be Rising?

Prices rise faster than wages! Y-o-Y prices up 6.0%, 6.4% or 6.2% depending on the measure

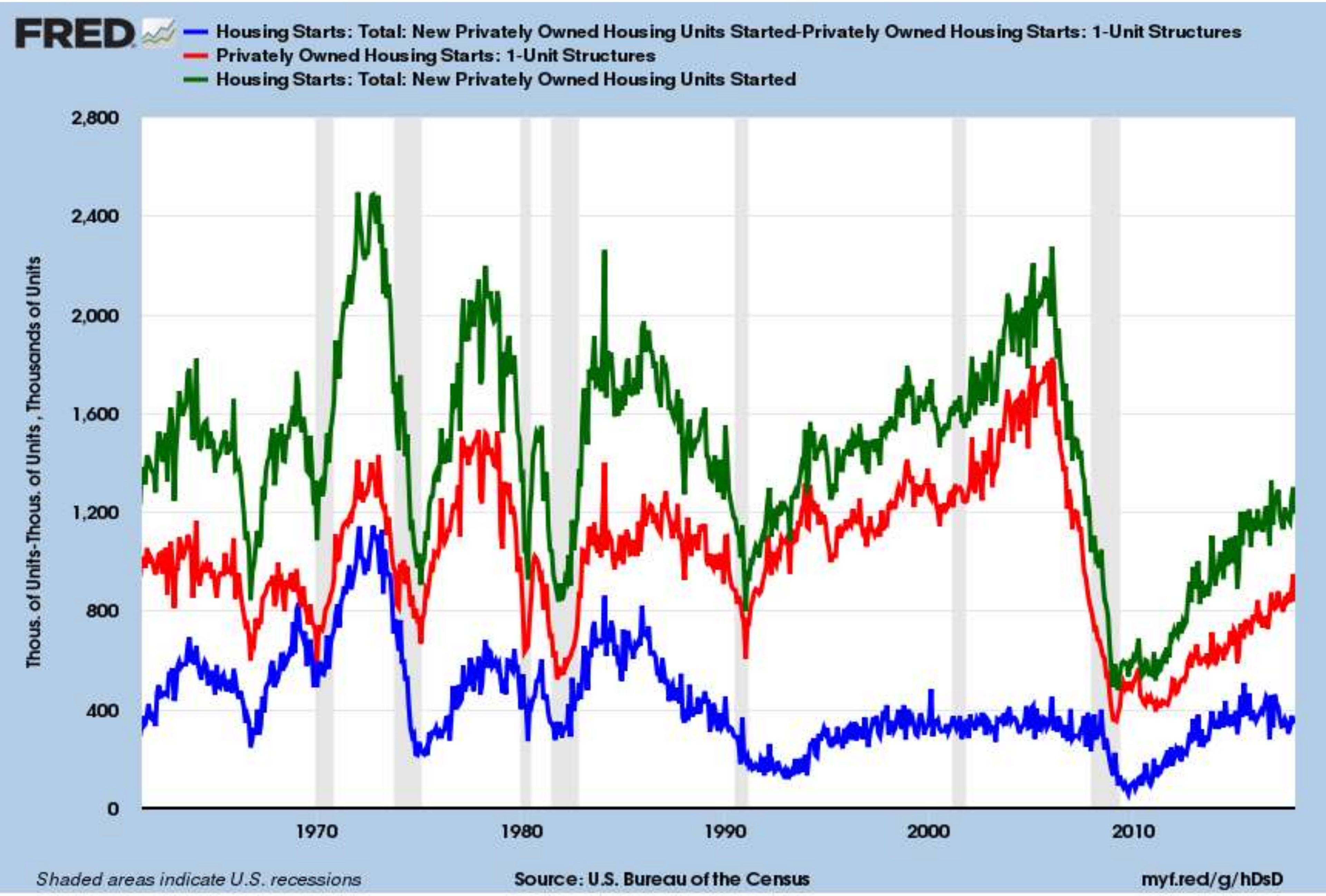


Credit is Tight: Thus, No Housing Bubble

All FICO Scores are up about 40 points

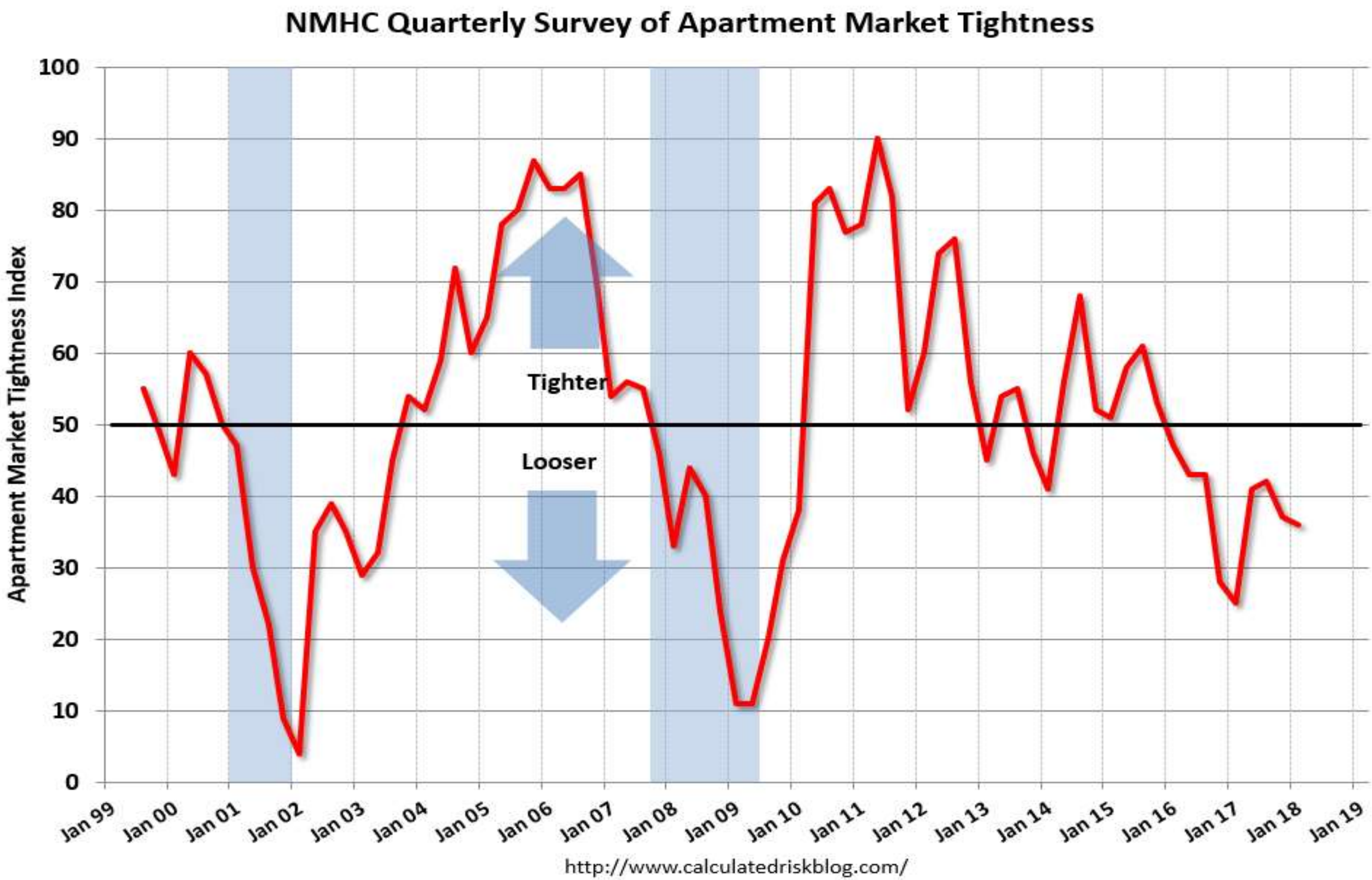


Single-Family and Multifamily Starts – A Slow Recovery
Lack of lots, gun shy lenders, high prices, SF looks decent



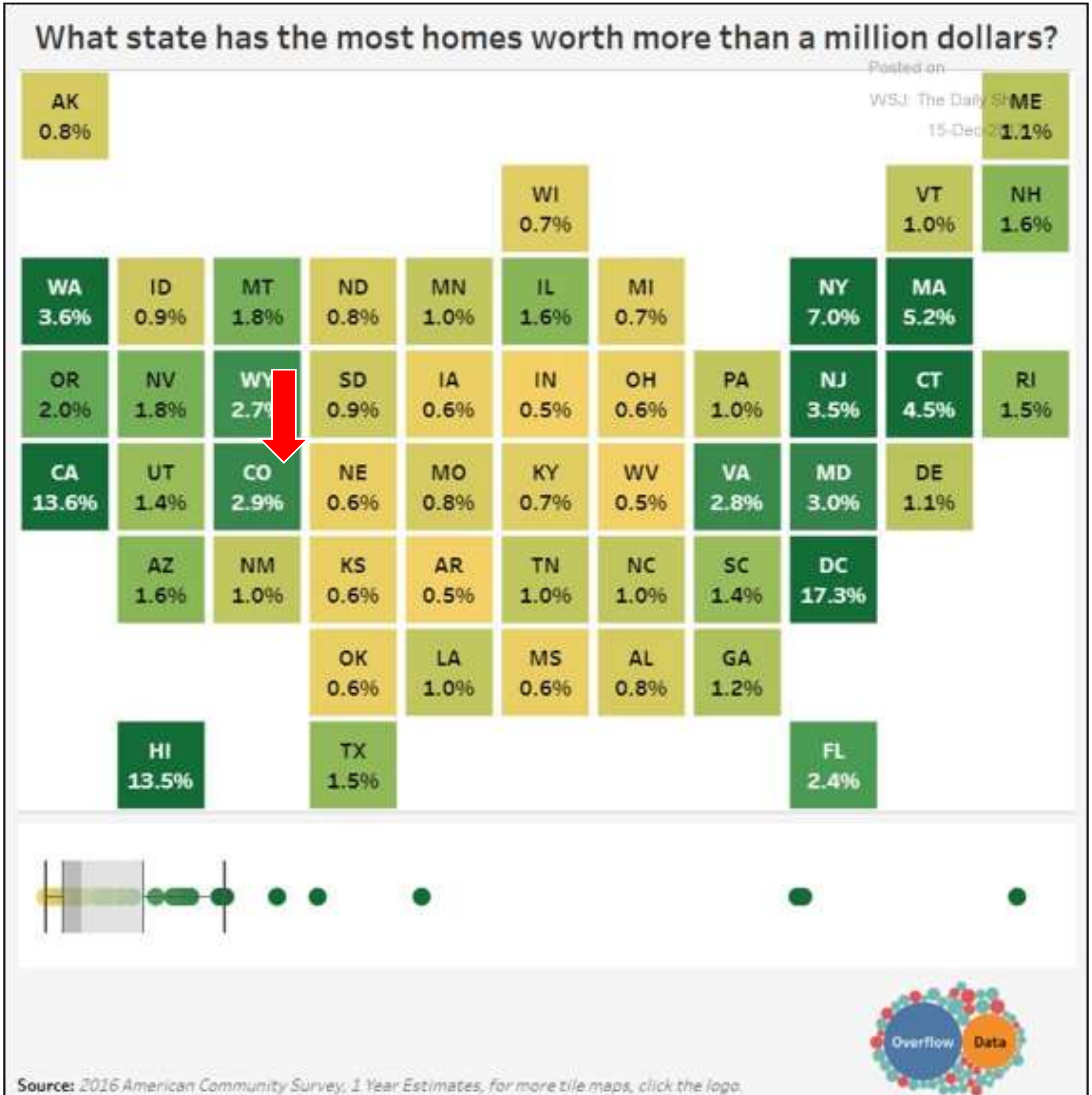
Apartment Vacancy Rates

The multifamily party is winding down especially at the upper end! S > D. Rent growth should slow and vacancy rates will rise. 9 quarters in a row below 50



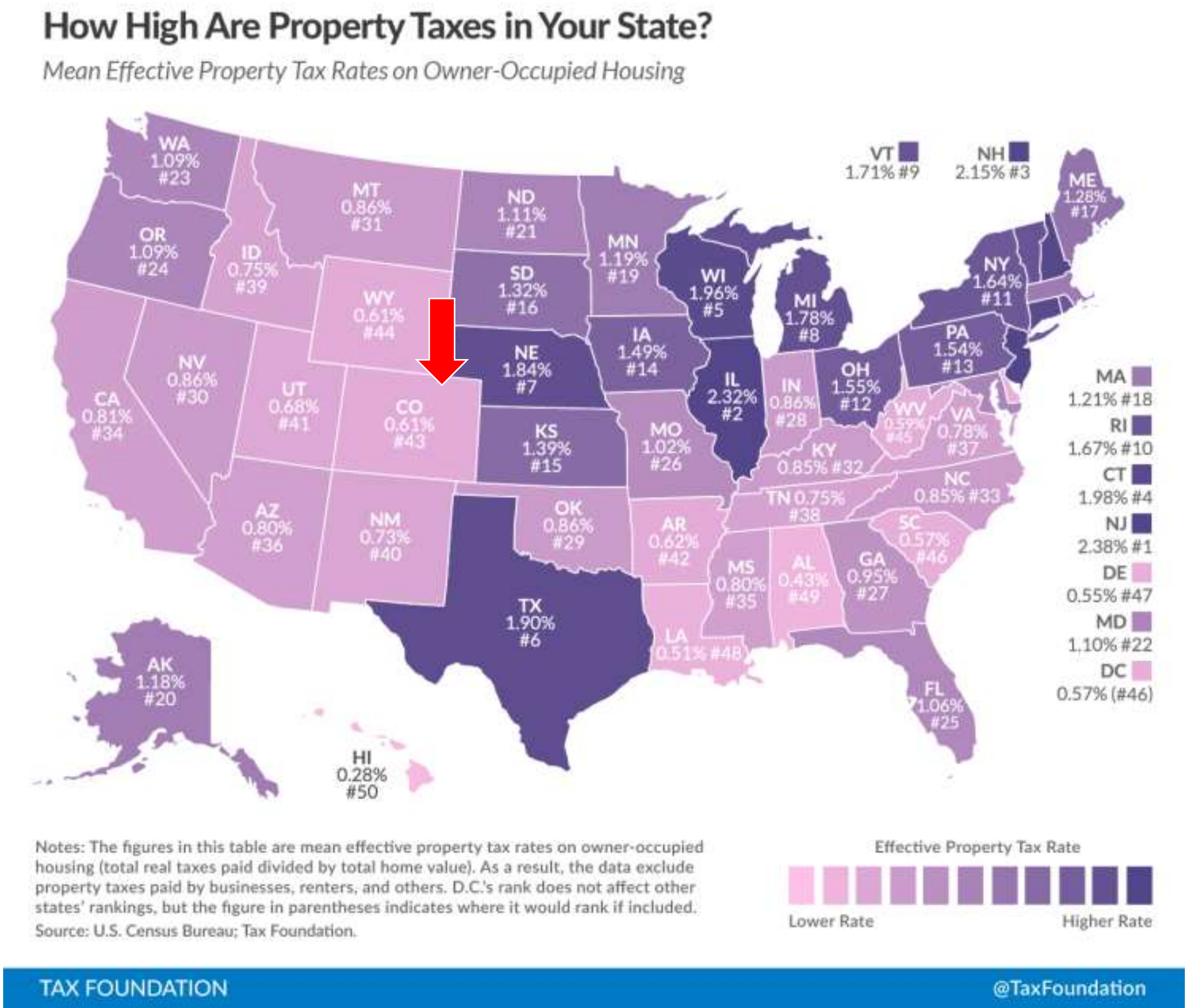
House Prices by Geography

DC, CA and HI are the most expensive. NY, MA and CT follow

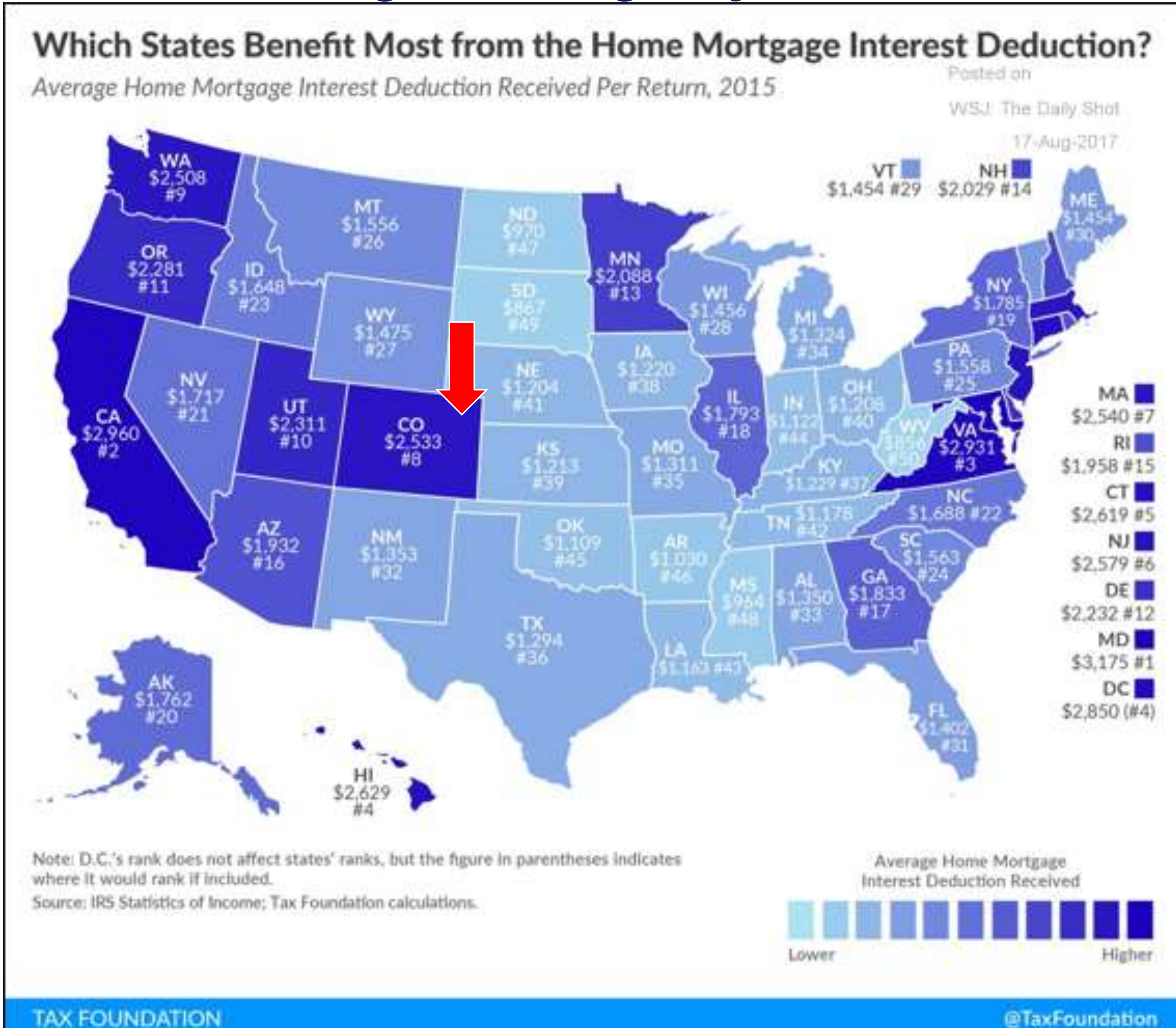


Average Property Tax Rate by State

Minnesota is close to the middle



MID Average Savings by Homeowner

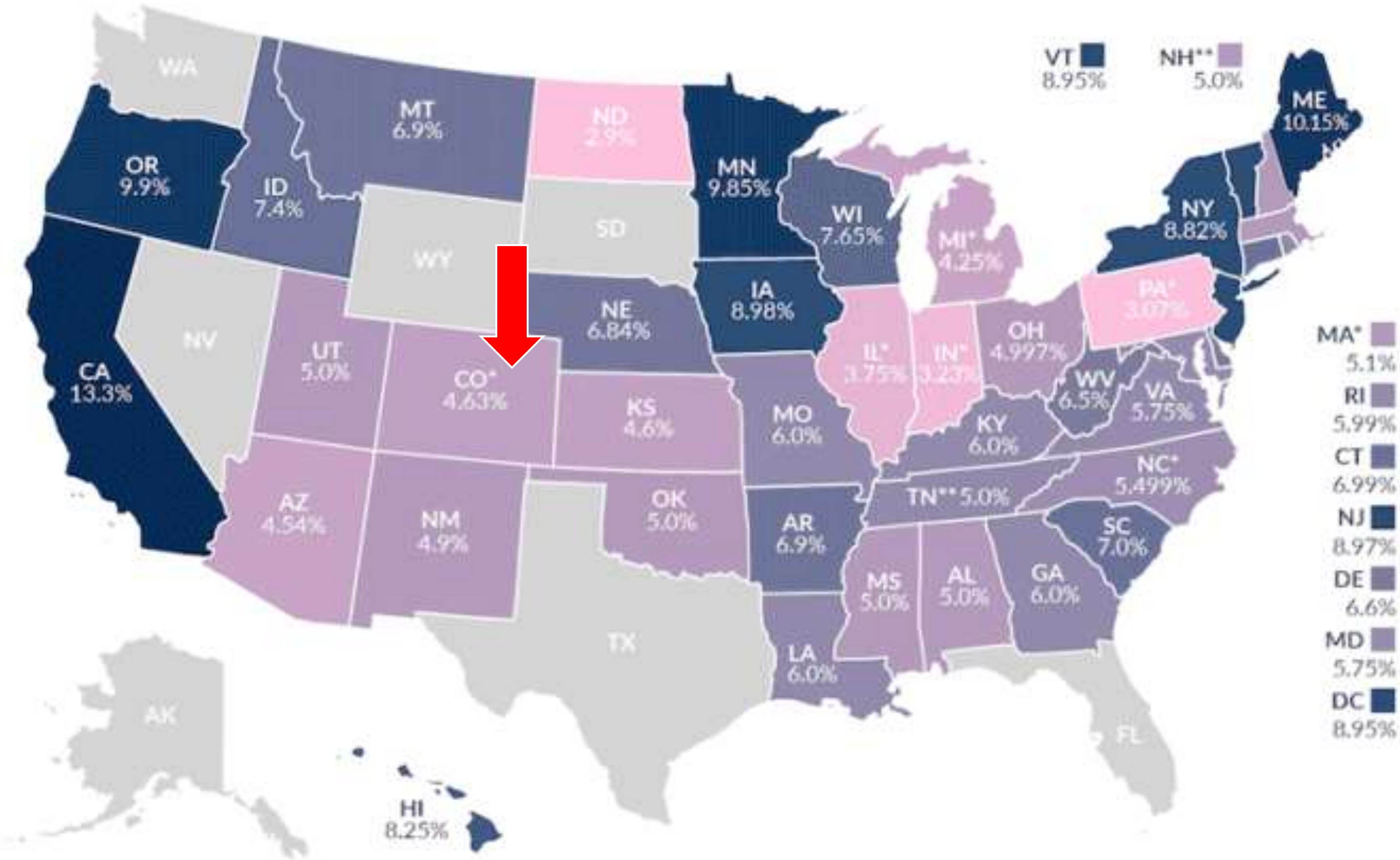


Top Marginal Income Tax Rate by State

Minnesota is fourth highest!

How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates as of January 1, 2017



Note: (*) State has a flat income tax. (**) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.

Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.

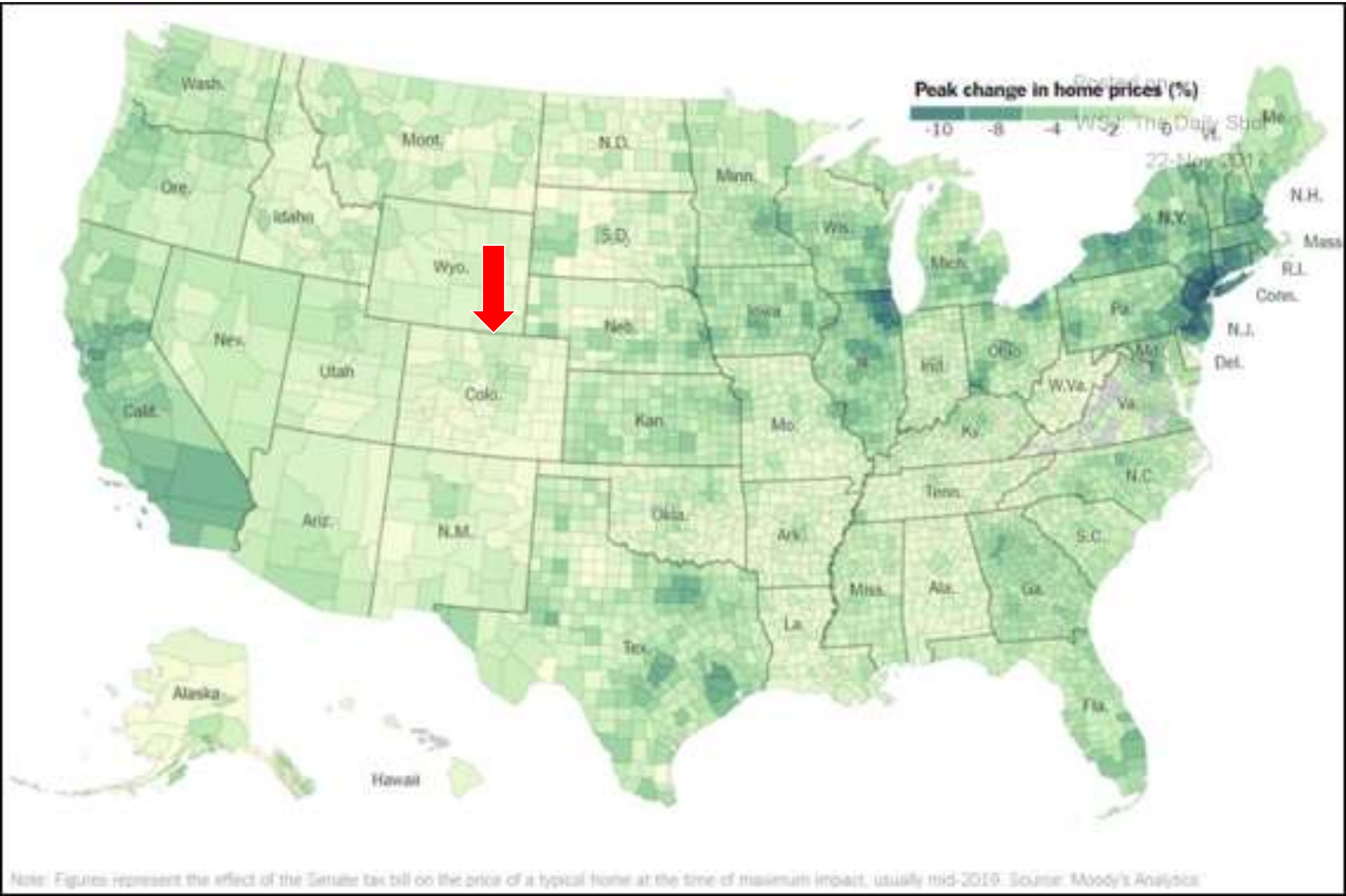
Top State Marginal Individual Income Tax Rate

Lower — Higher

TAX FOUNDATION @TaxFoundation

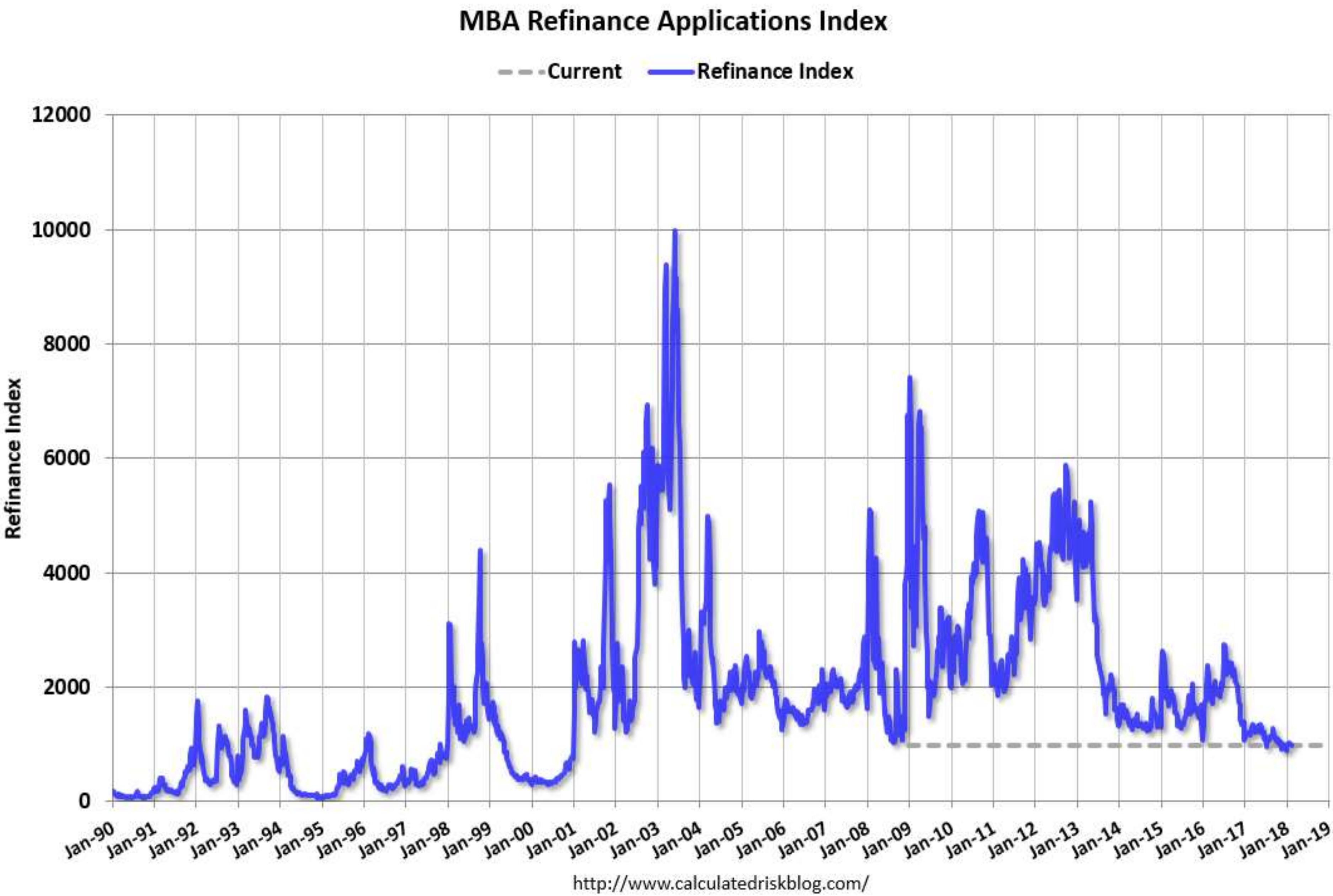
Impact of the Mortgage Interest Deduction by Geography

A house costing up to $900,000 is still somewhat protected.



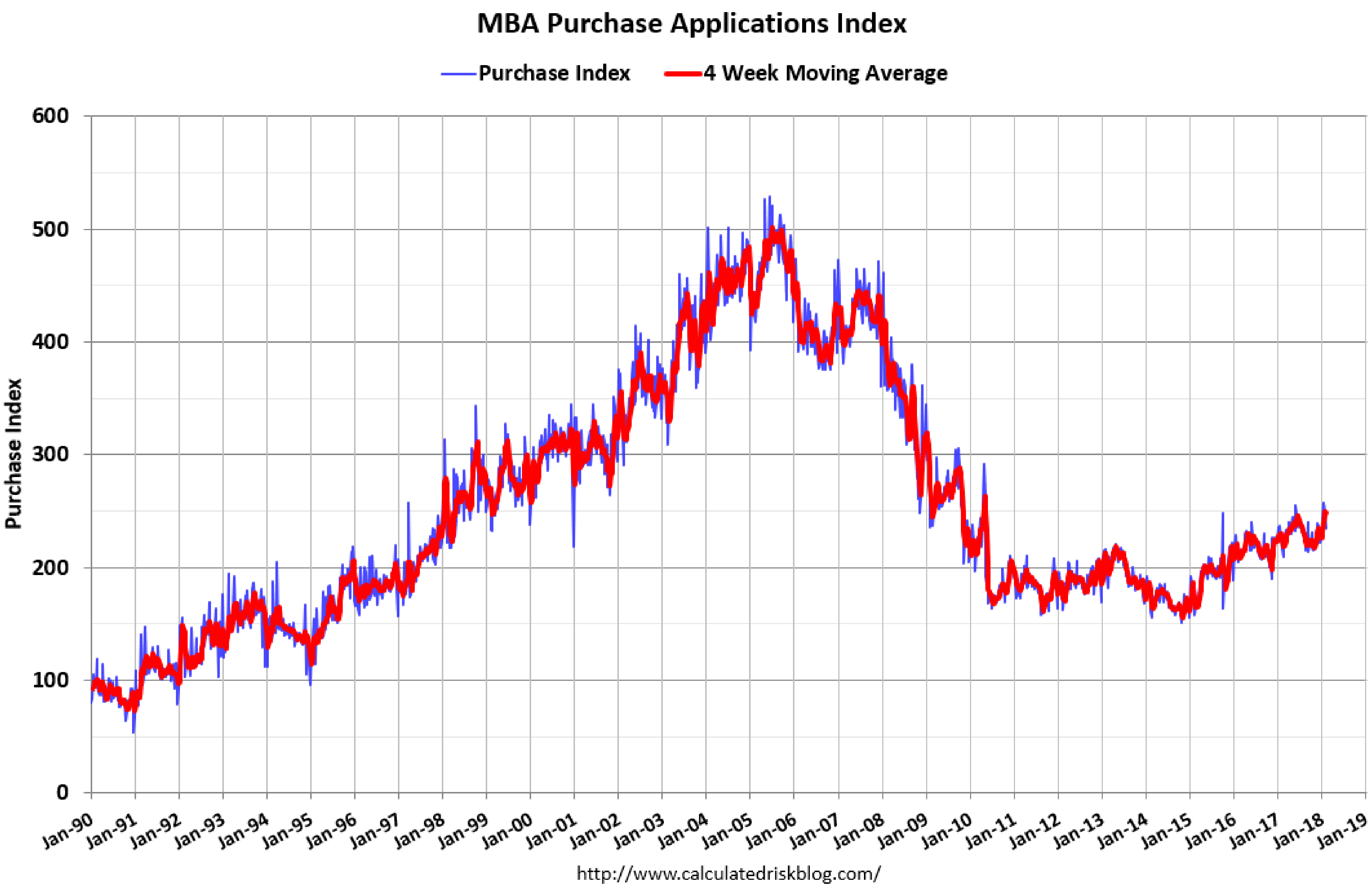
Refinance Activity Keeps Slowly Declining

2018 refi activity falls to $450 billion from $600. Share falls from 37% to 27%.



MBA Mortgage Purchase Apps Flatten

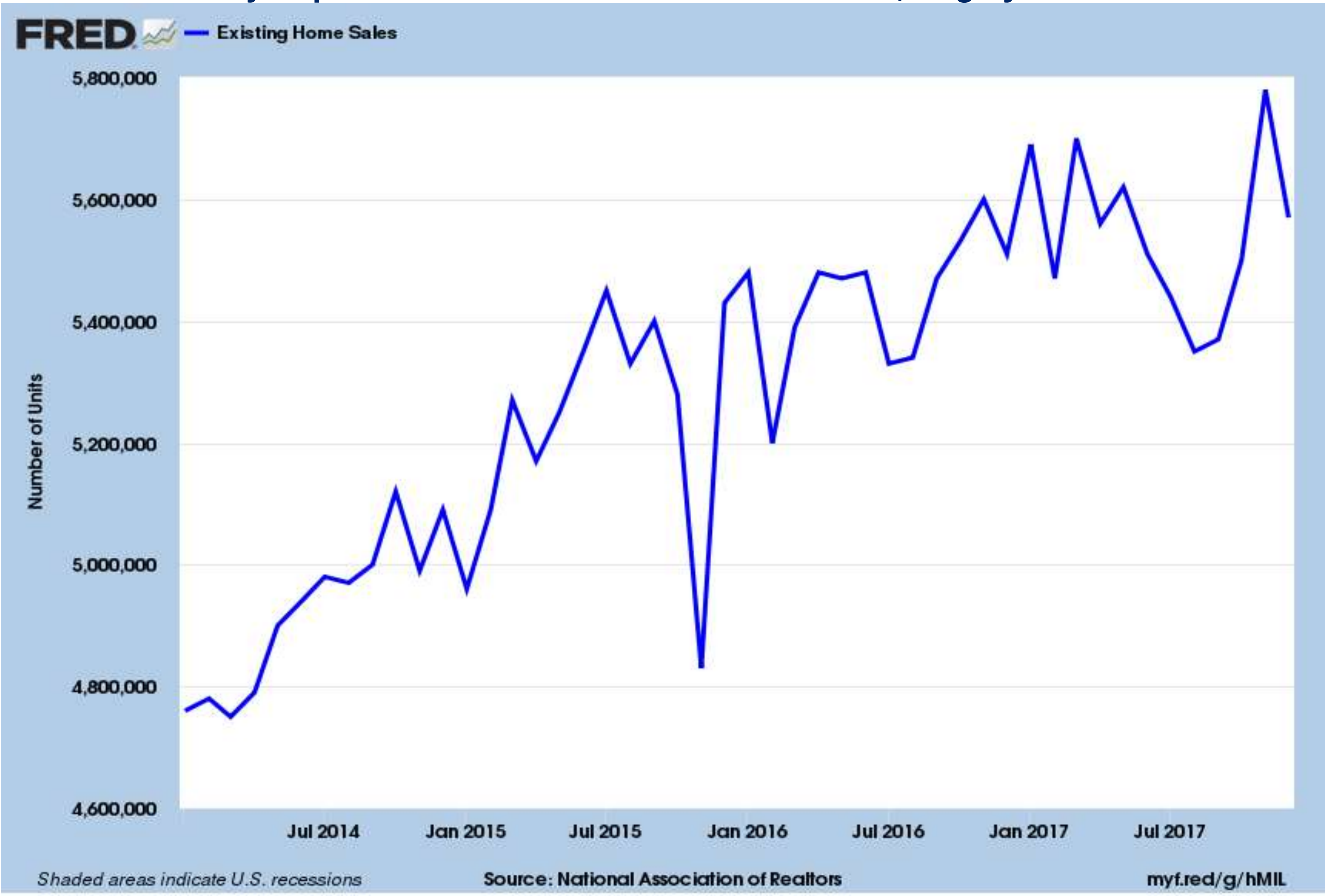
1st time applications up 4% Y-o-Y, at level of late 1990s!
The recent decline has reversed. 2018 volume looks to be slightly better than 2017



But Existing Home Sales?

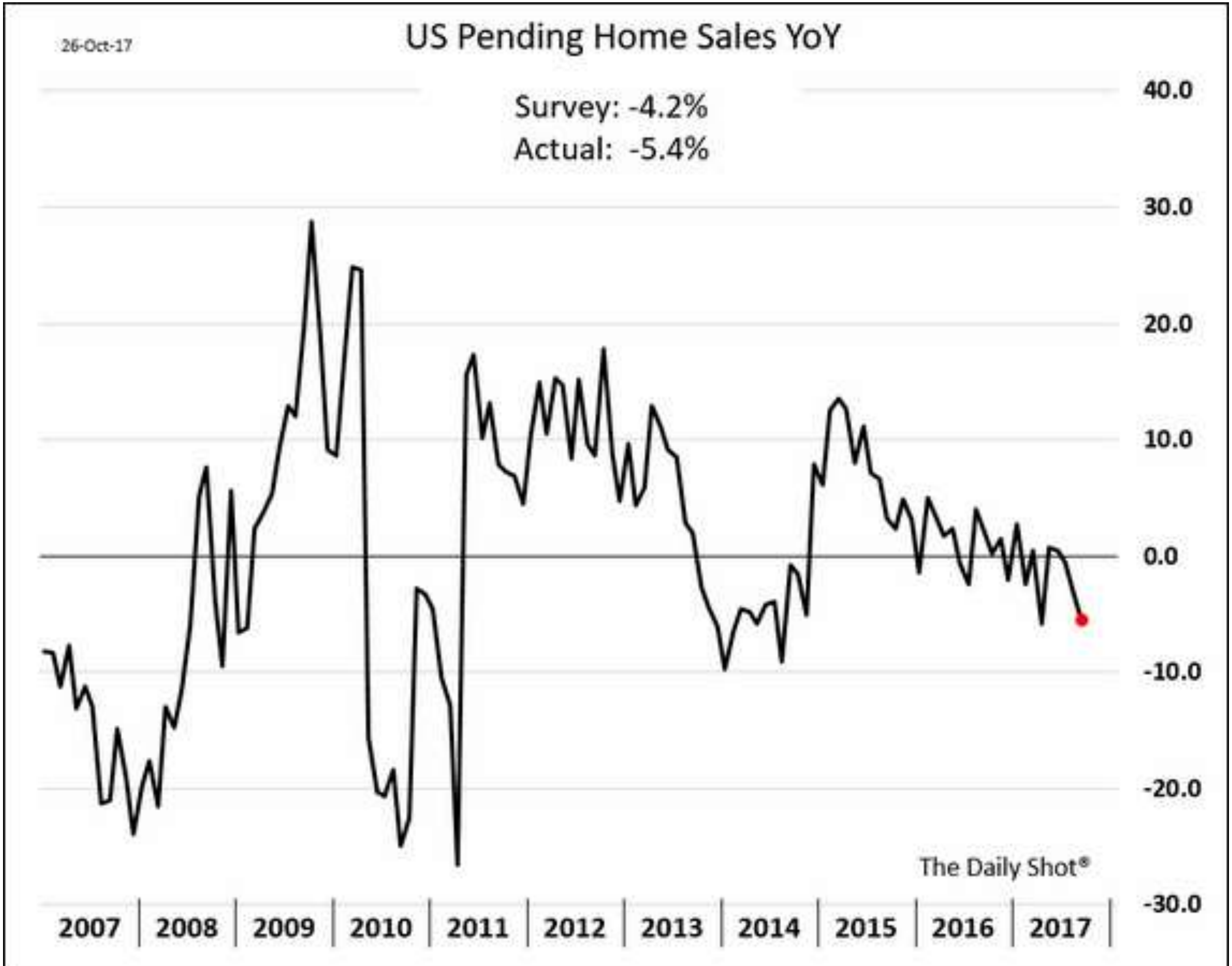
Recent Existing Home Sales

Solid and steady improvement until late 2016. Since then, largely flat.



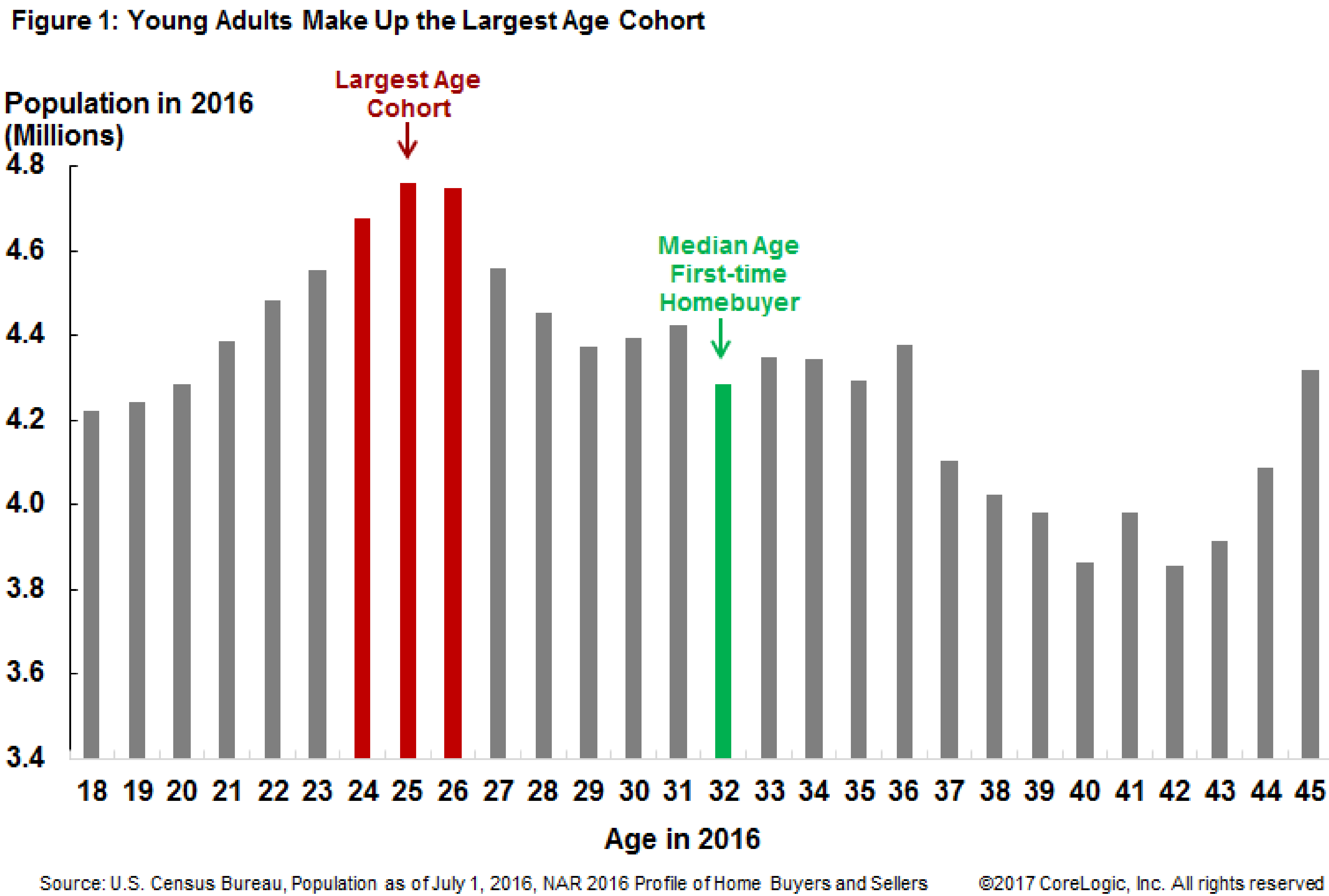
Pending Home Sales are Flat

High prices due to low inventories are finally being felt



Demographics Will Start to Really Help

Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

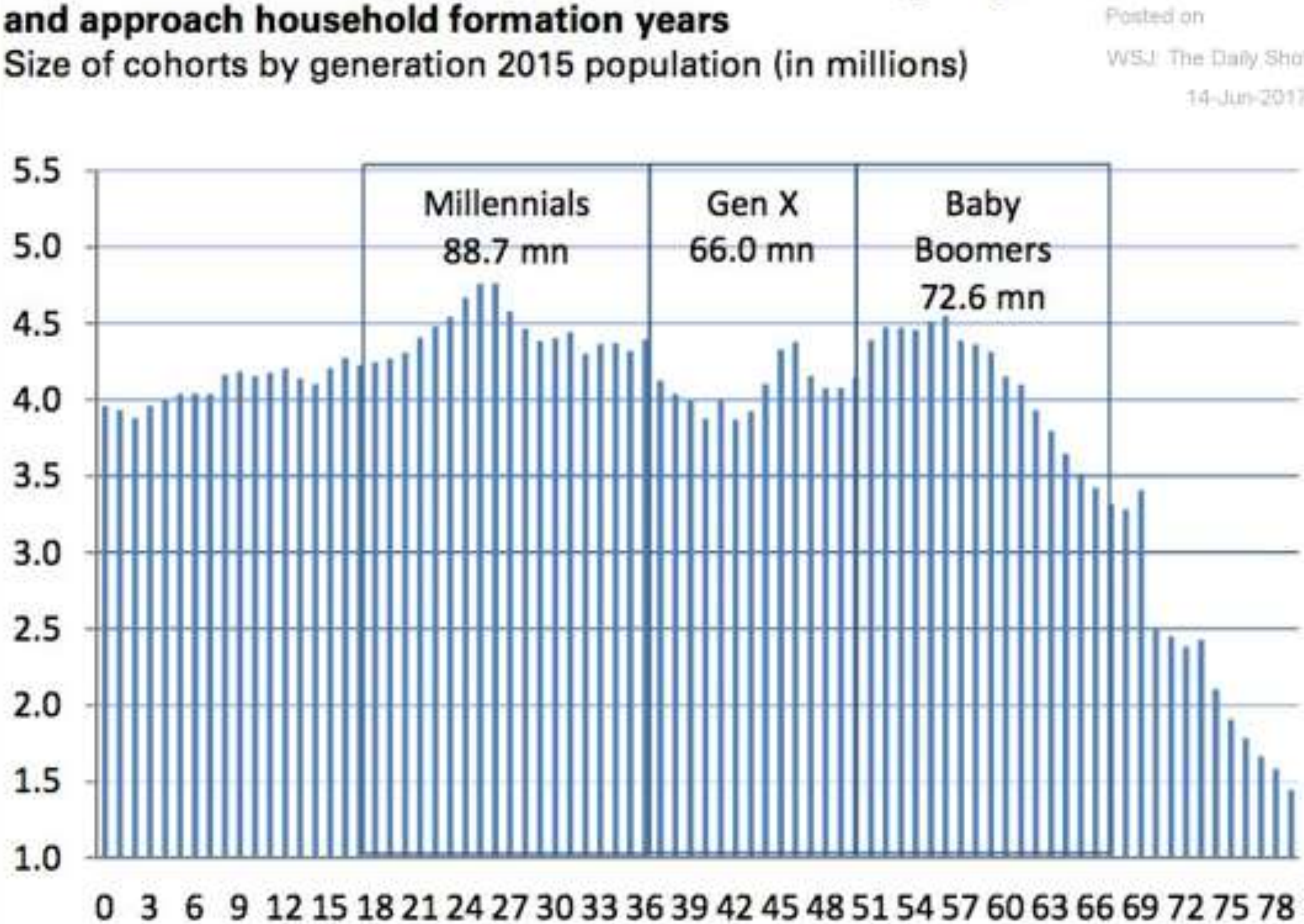


Demographics Will Start to Really Help

Beginning to approach the Peak. Chase Millennials, move-up buyers and Boomers

Exhibit 8: Millennials (roughly 18-34) remain the largest generation in the US and approach household formation years

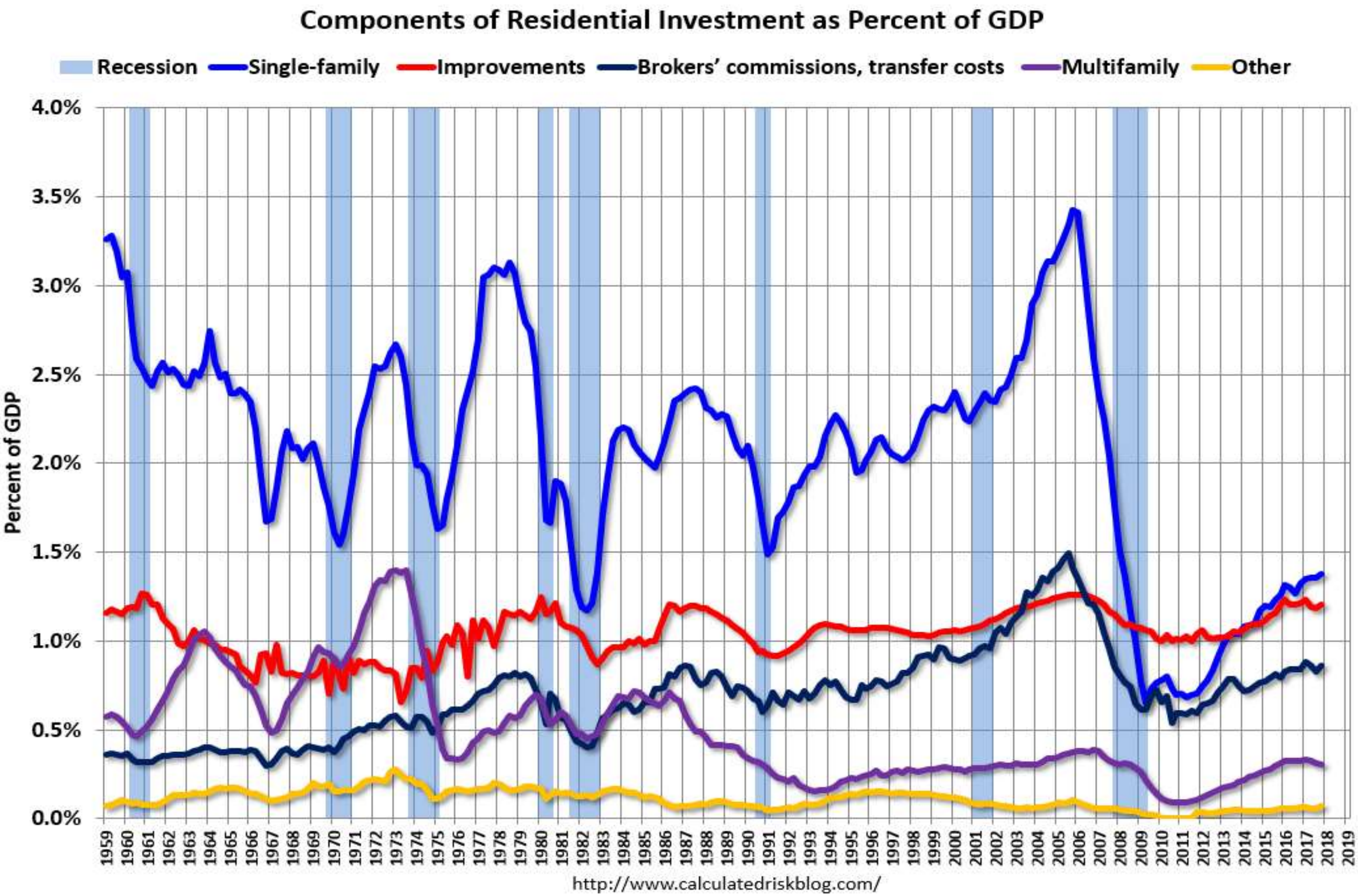
Size of cohorts by generation 2015 population (in millions)



Source: Euromonitor, Goldman Sachs Global Investment Research

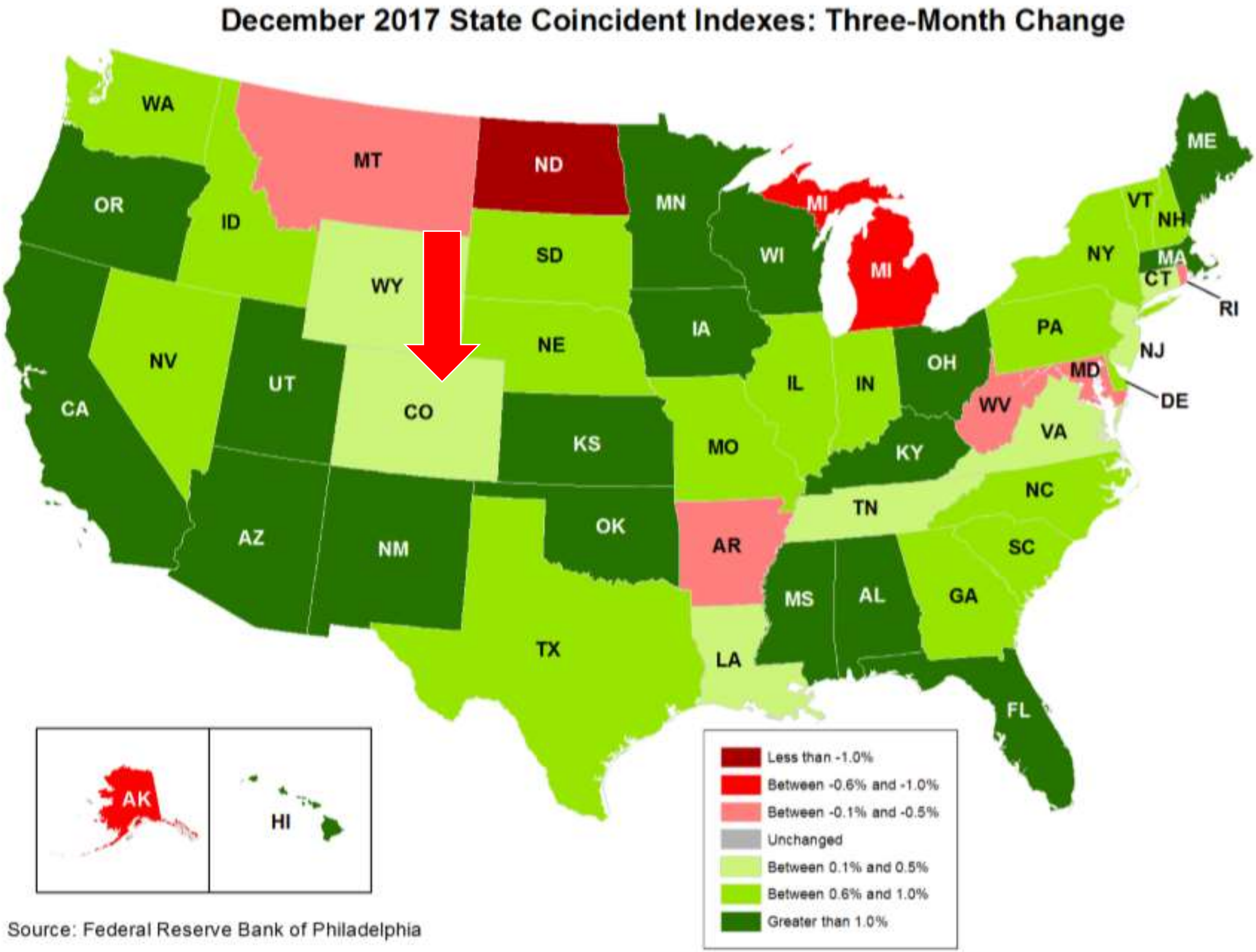
Housing Recovery Probably Has Legs!

Single family is what will propel housing. Other components have recovered.



What About Things Here?

Things Are Good Everywhere



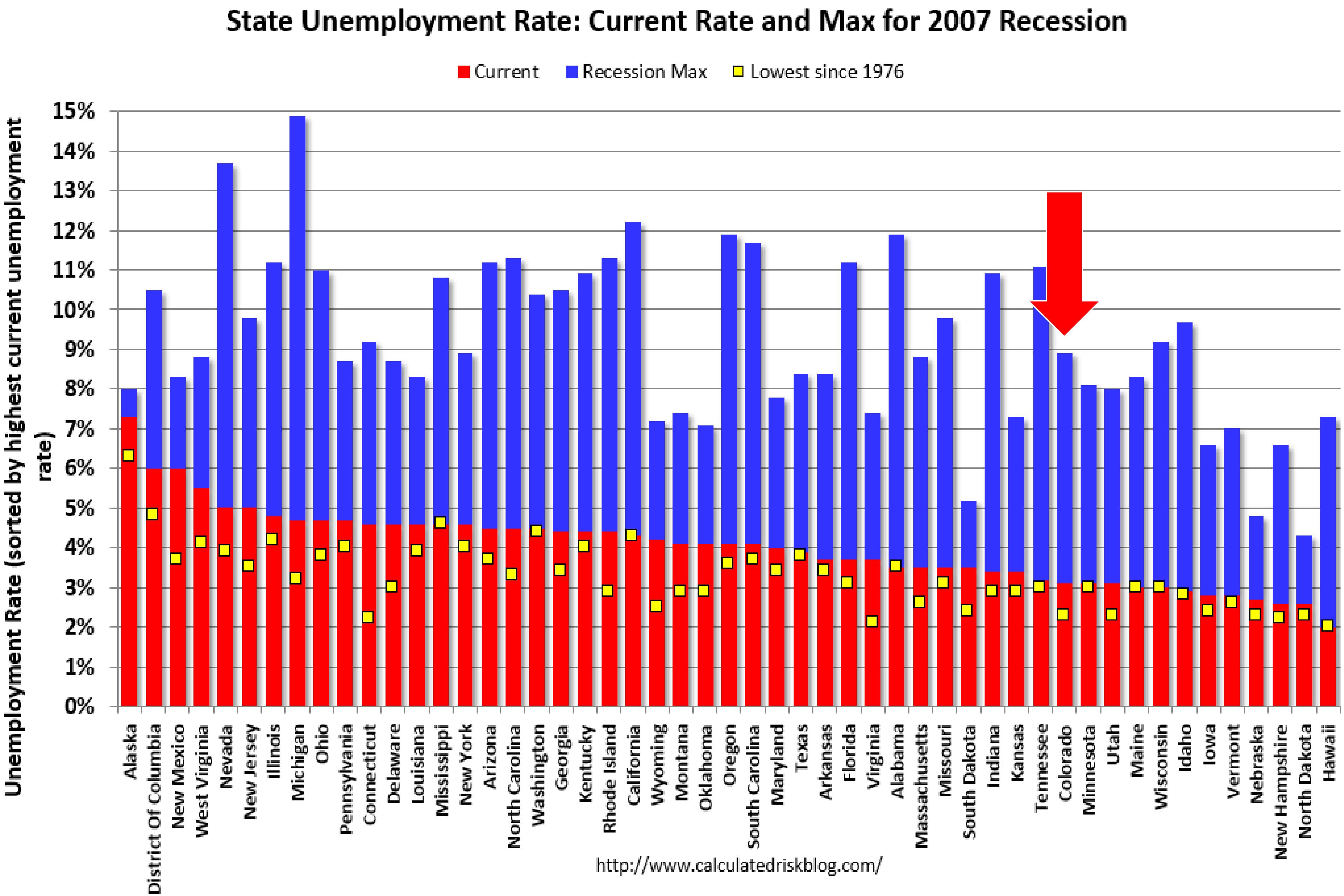
Source: Federal Reserve Bank of Philadelphia

The Future Looks a Bit Better Than the Present

Source: Federal Reserve Bank of Philadelphia

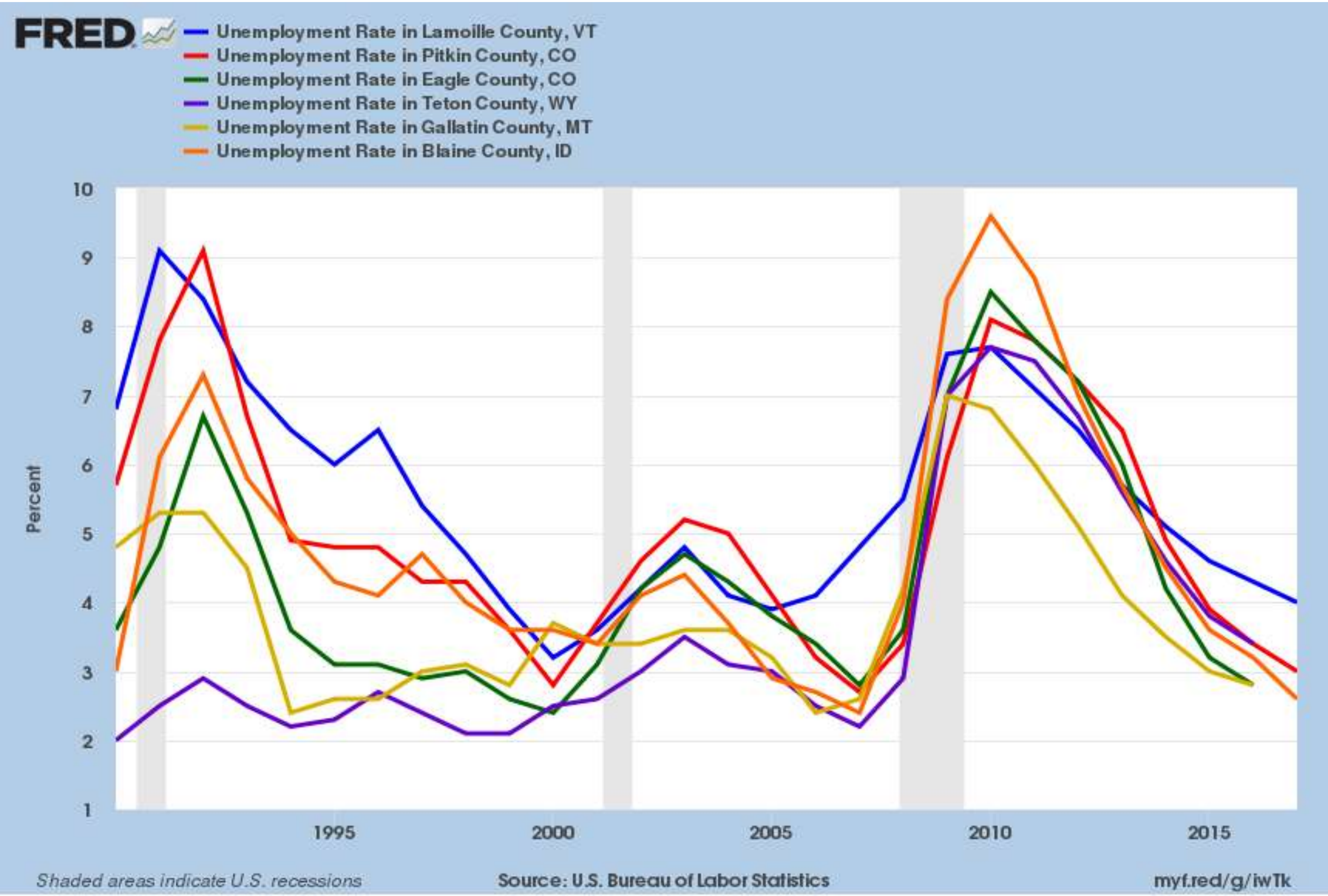
State Unemployment Rates

Only three states have rates that are meaningfully above 5%



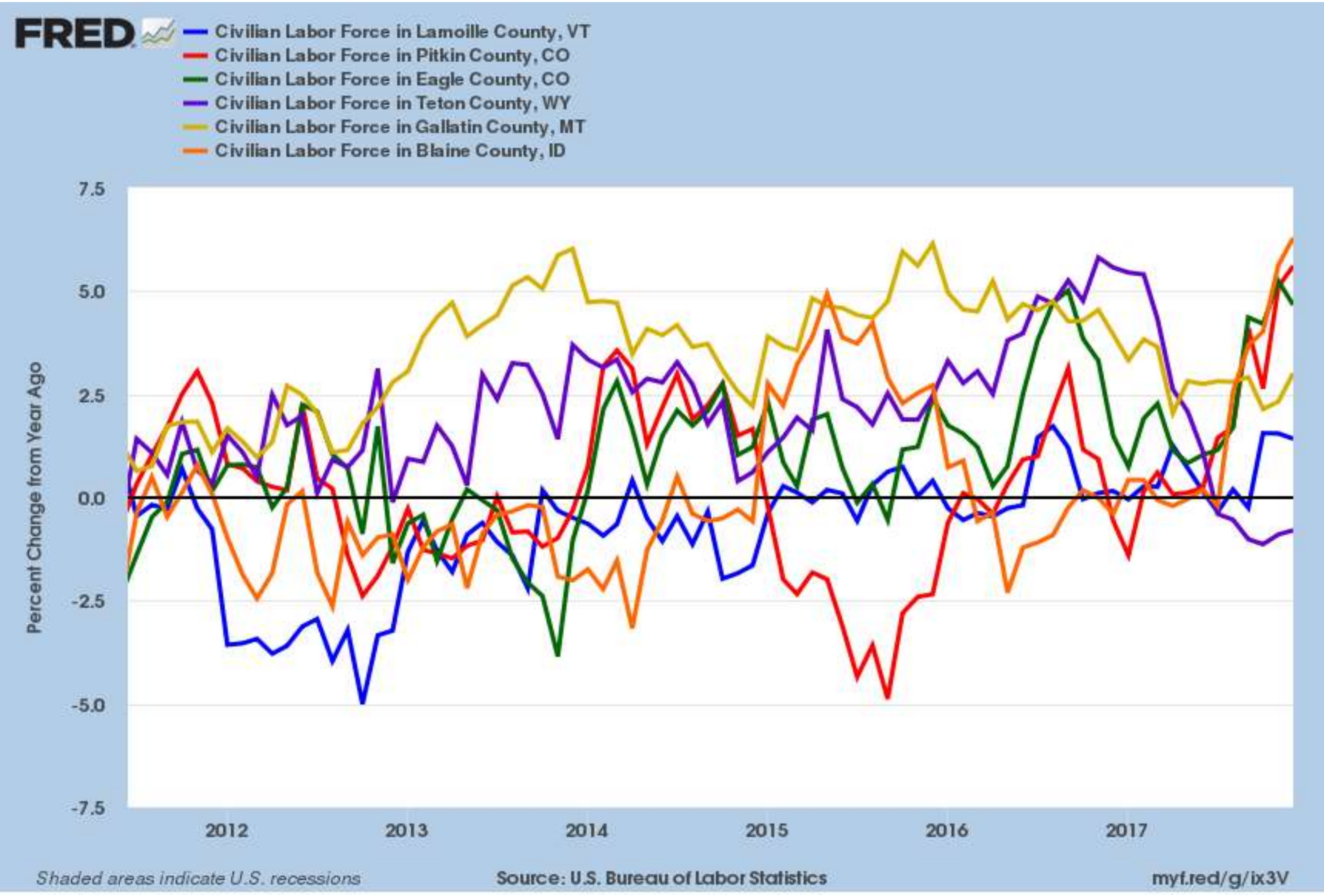
Unemployment Rates in Ski Towns

Convergence during the 1990s. Since the year 2000, all have largely moved in unison.



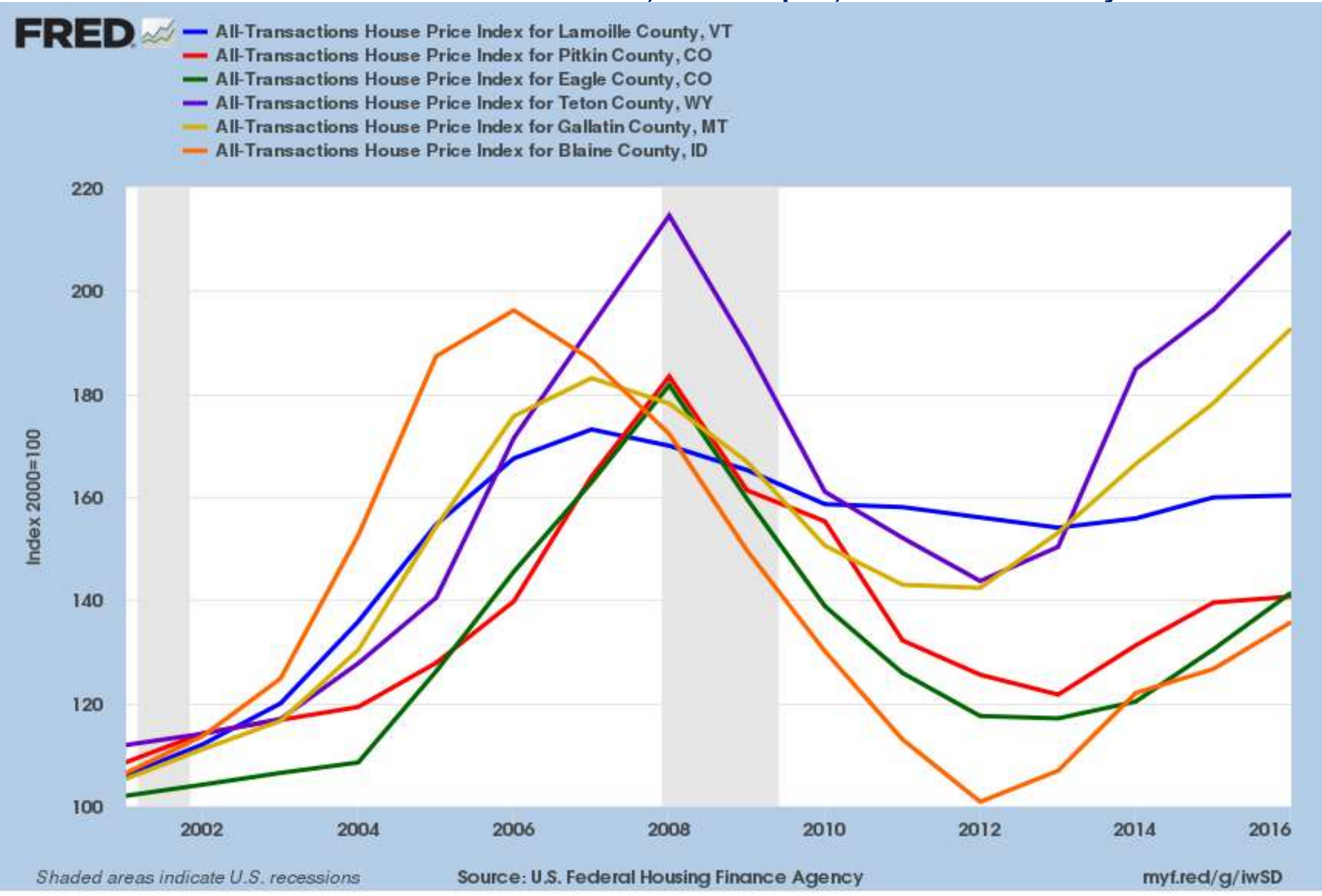
The Labor Force Growth Varies Considerably

Growth is weak in Stowe, Aspen & Sun Valley. Good in Jackson and Bozeman. OK in Vail



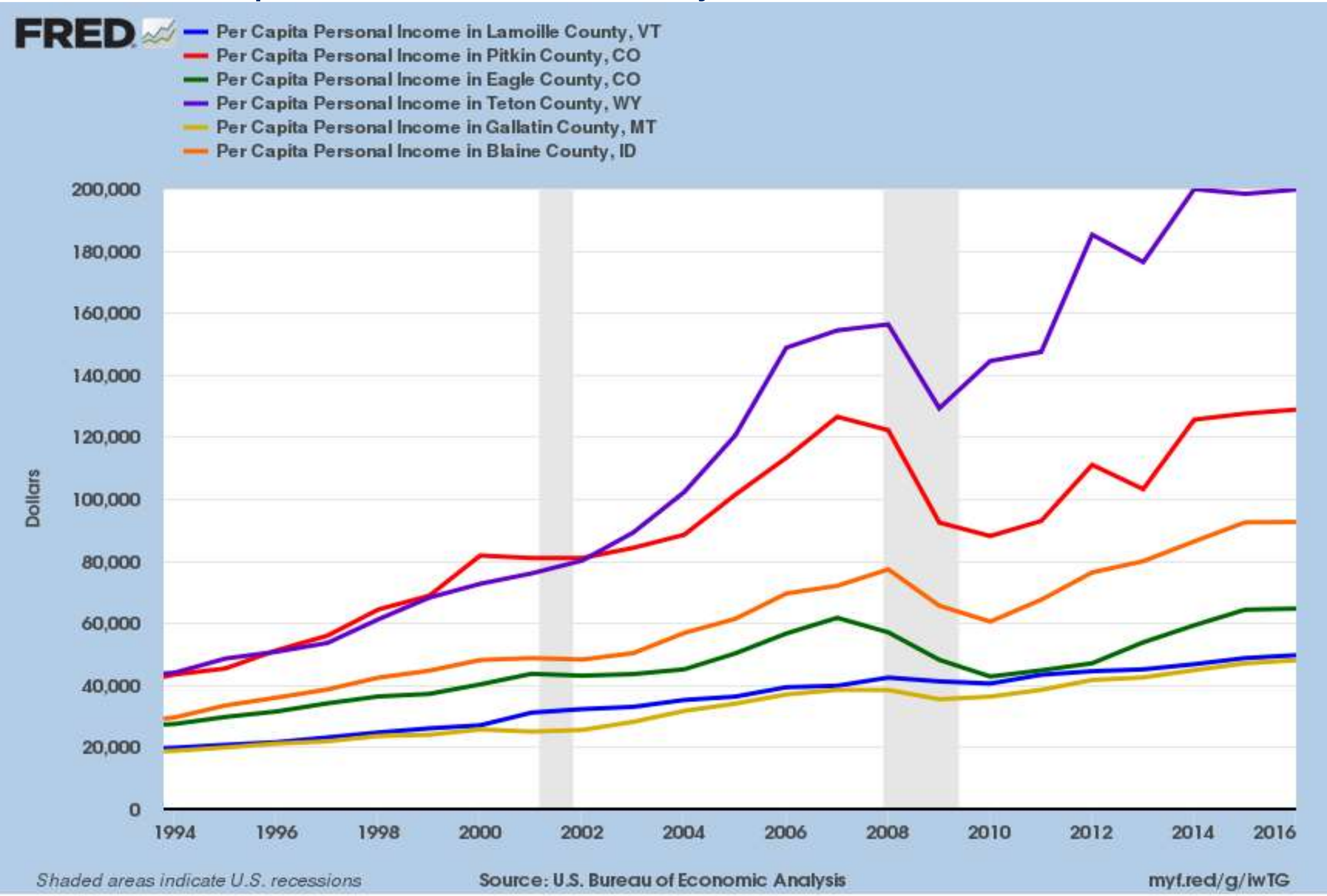
Housing Prices in Ski Resorts

Jackson & Bozeman rise fastest. Stowe is flat, while Aspen, Vail and Sun Valley do OK.



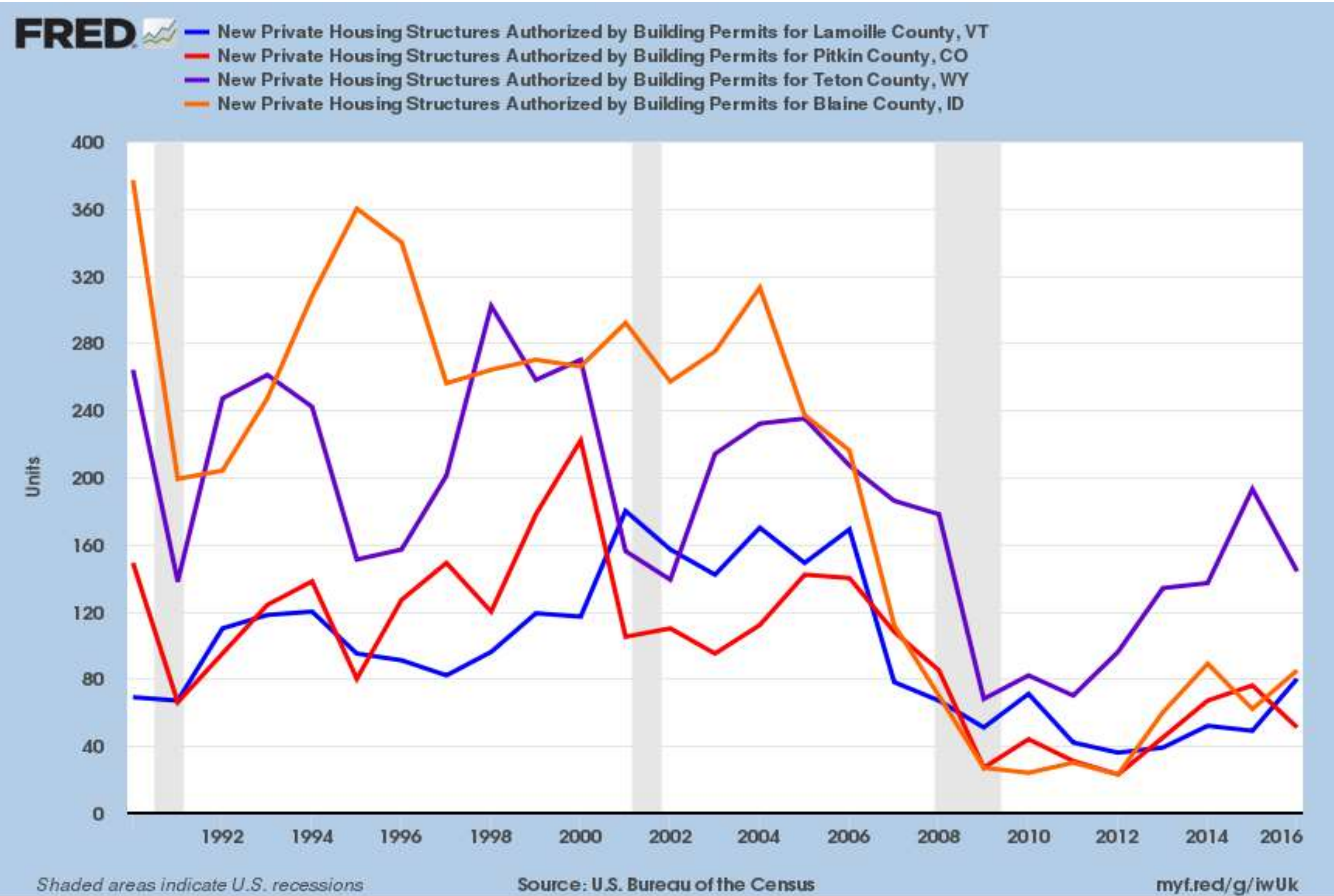
Per Capita Income in Ski Towns

Jackson is #1, Aspen a distant #2, then Sun Valley in #3. Vail, Stowe and Bozeman follow.



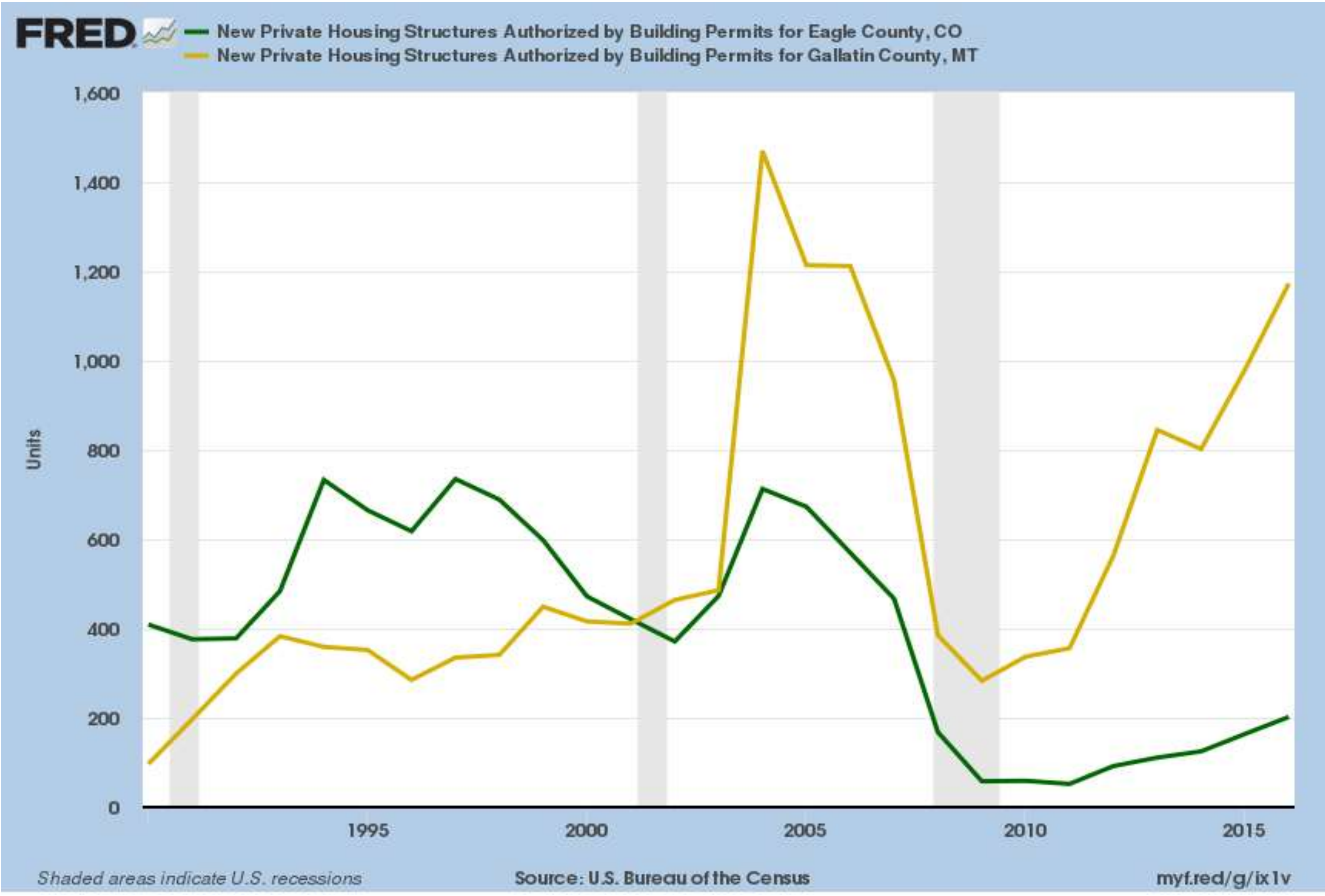
Housing Starts in Smaller Ski Resort Towns

In Jackson Hole starts are significantly above their trough; elsewhere its not the case



Housing Starts in Bigger Ski Resort Towns

Activity in Bozeman has rebounded nicely. Not so in Vail.



ANY QUESTIONS?

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