

# Thriving in Wartime Conditions

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# **The American Economy Continues to Expand Despite Fighting Wars on Five Fronts**

- Hot war in Iraq, Syria and Afghanistan
- Cyber war with Russia, North Korea
- Currency war with China, Japan and Europe
- Carbon war with OPEC
- Mortgage war with Dodd-Frank regulators

# **Nationally the Bullish Outlook Continues**

# Ten Recessions Since 1950

## Average Duration: 11 months

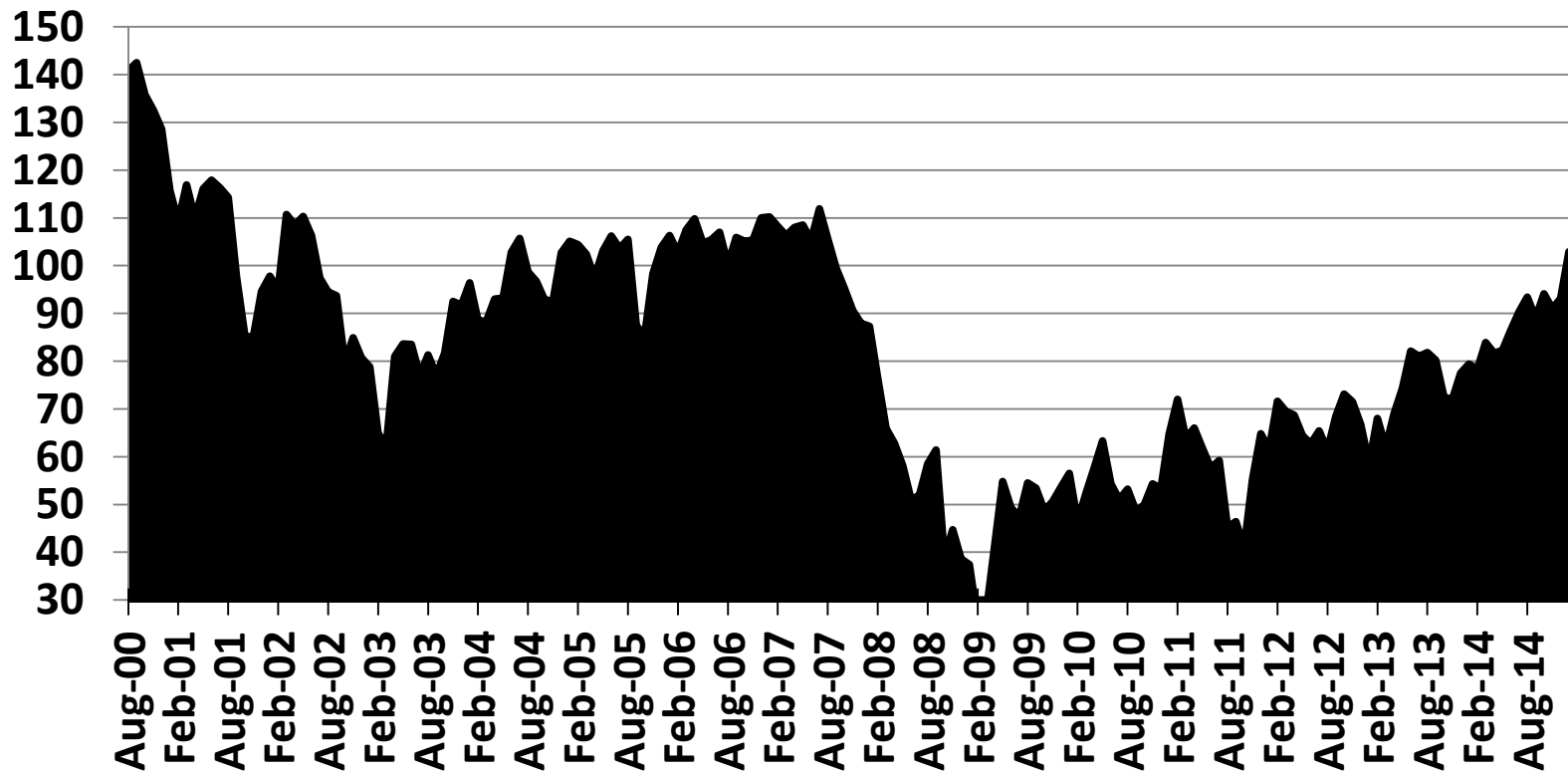
• Aug 1953	May 1954	10 months
• Sep 1957	Apr 1958	8 months
• May 1960	Feb 1961	10 months
• Jan 1970	Nov 1970	11 months
• Dec 1973	Mar 1975	16 months
• Feb 1980	Jul 1980	6 months
• Aug 1981	Nov 1982	16 months
• Aug 1990	Mar 1991	8 months
• April 2001	Nov 2001	8 months
• Jan 2008	Jun 2009	18 months

# Eleven Expansions Since 1950

## Average Duration: 61 months

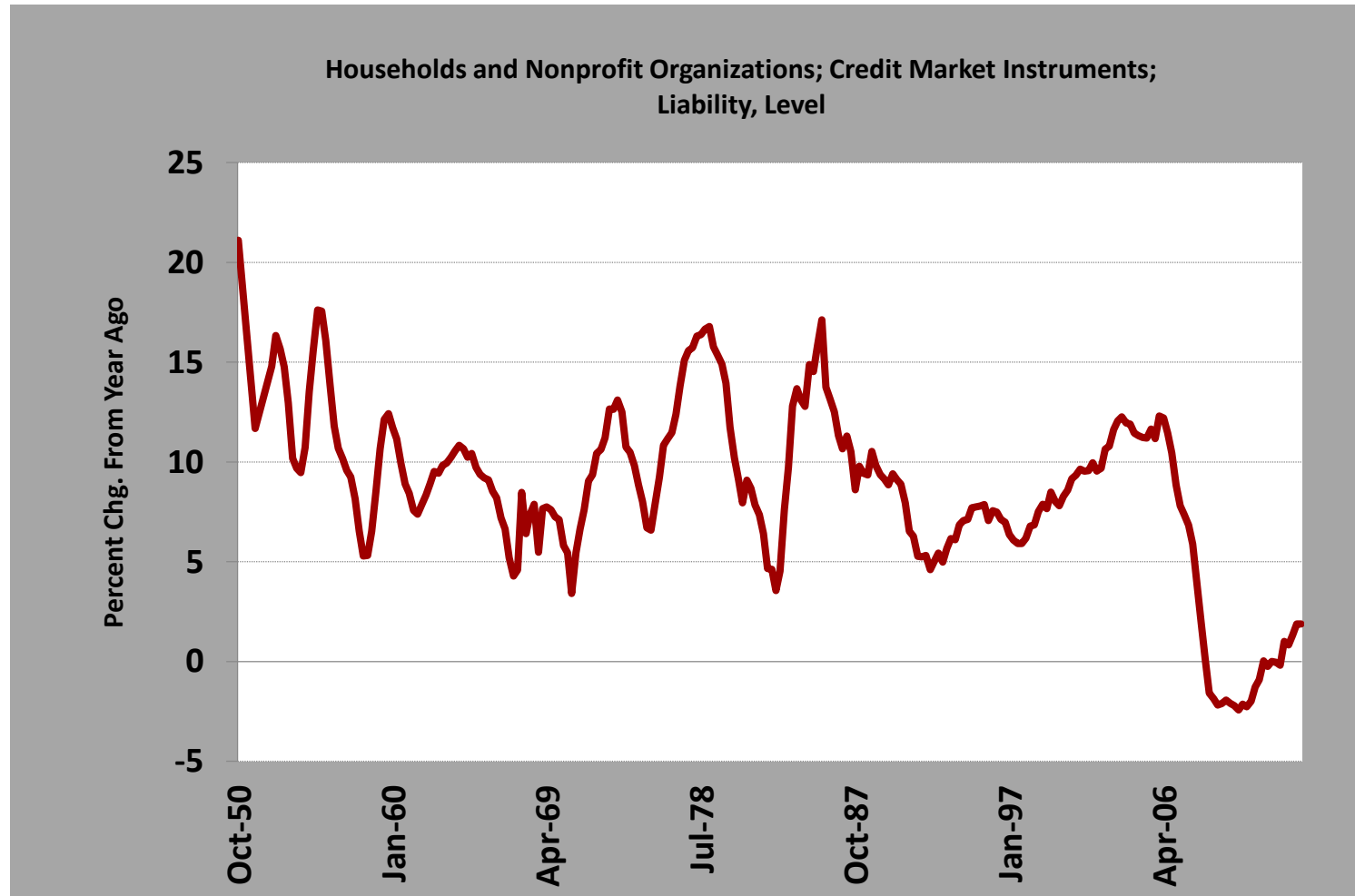
• Nov 1949	July 1953	46 months
• Jun 1954	Aug 1957	39 months
• May 1958	Apr 1960	24 months
• Mar 1961	Dec 1969	106 months
• Dec 1970	Nov 1973	36 months
• Apr 1975	Jan 1980	58 months
• Aug 1980	Jul 1981	12 months
• Dec 1982	Jul 1990	92 months
• Apr 1991	Mar 2001	120 months
• Dec 2001	Dec 2007	73 months
• July 2009	present (Feb)	61 months

# Consumer Confidence Index



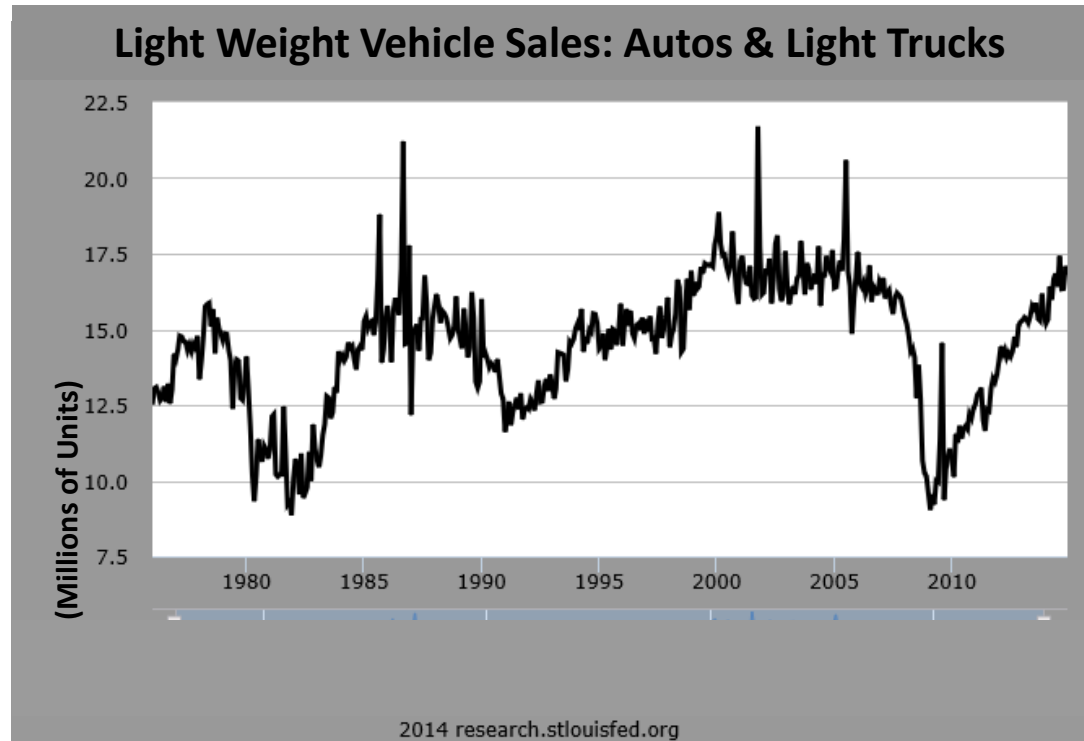
Source: The Conference Board

# Consumers Paying Down Debt for First Time in 50 Years



Source: Board of Governors of the Federal Reserve System/FRED

# Light Weight Vehicle Sales: Autos & Light Trucks



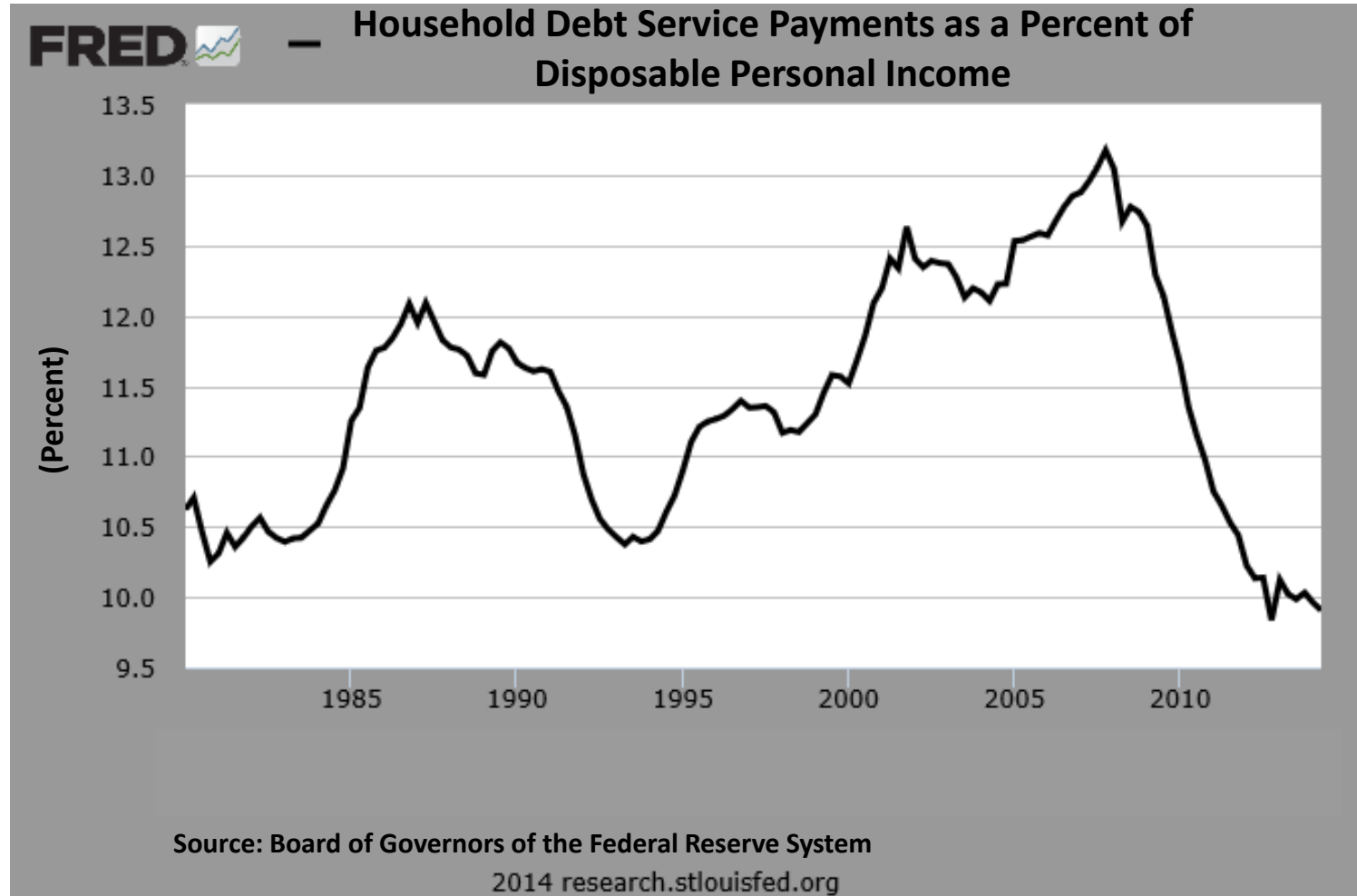
Almost 40 percent of all auto and credit card loans in 2014 went to sub-prime customers.

More than 2.6 percent of car-loan borrowers in 1Q14 have missed one payment. Highest since 2008.

In 2014, 2.1 million new cars and trucks were built in the US and shipped to other countries. This is a 74% increase from 2004.



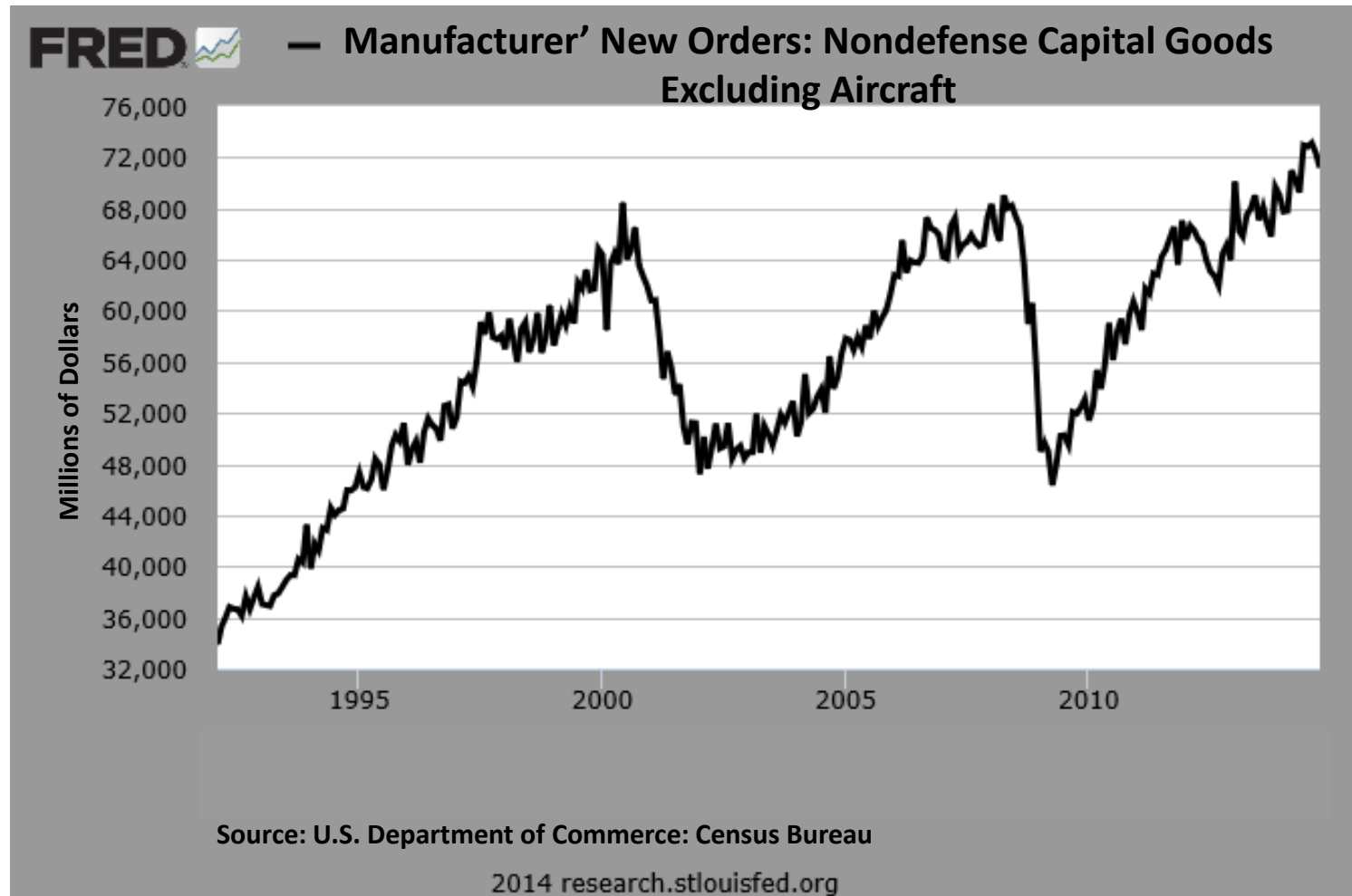
# Household Debt Service Payments as a Percent of Disposable Personal Income



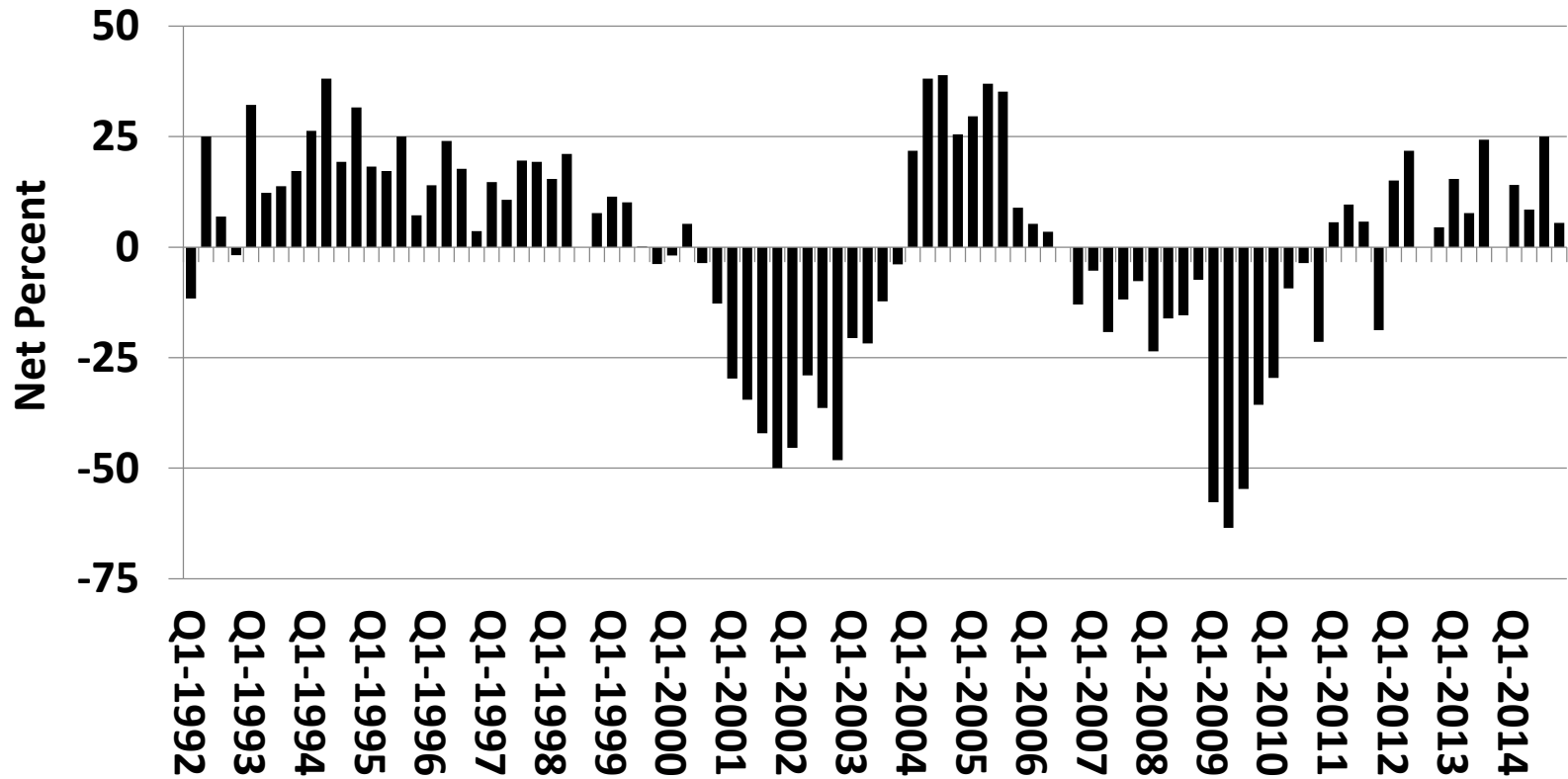
# Household Net Worth Recovering After Stock Market Rally



# Manufacturers' New Orders: Nondefense Capital Goods Excluding Aircraft



# Banks Reporting Stronger Loan Demand From Small Firms



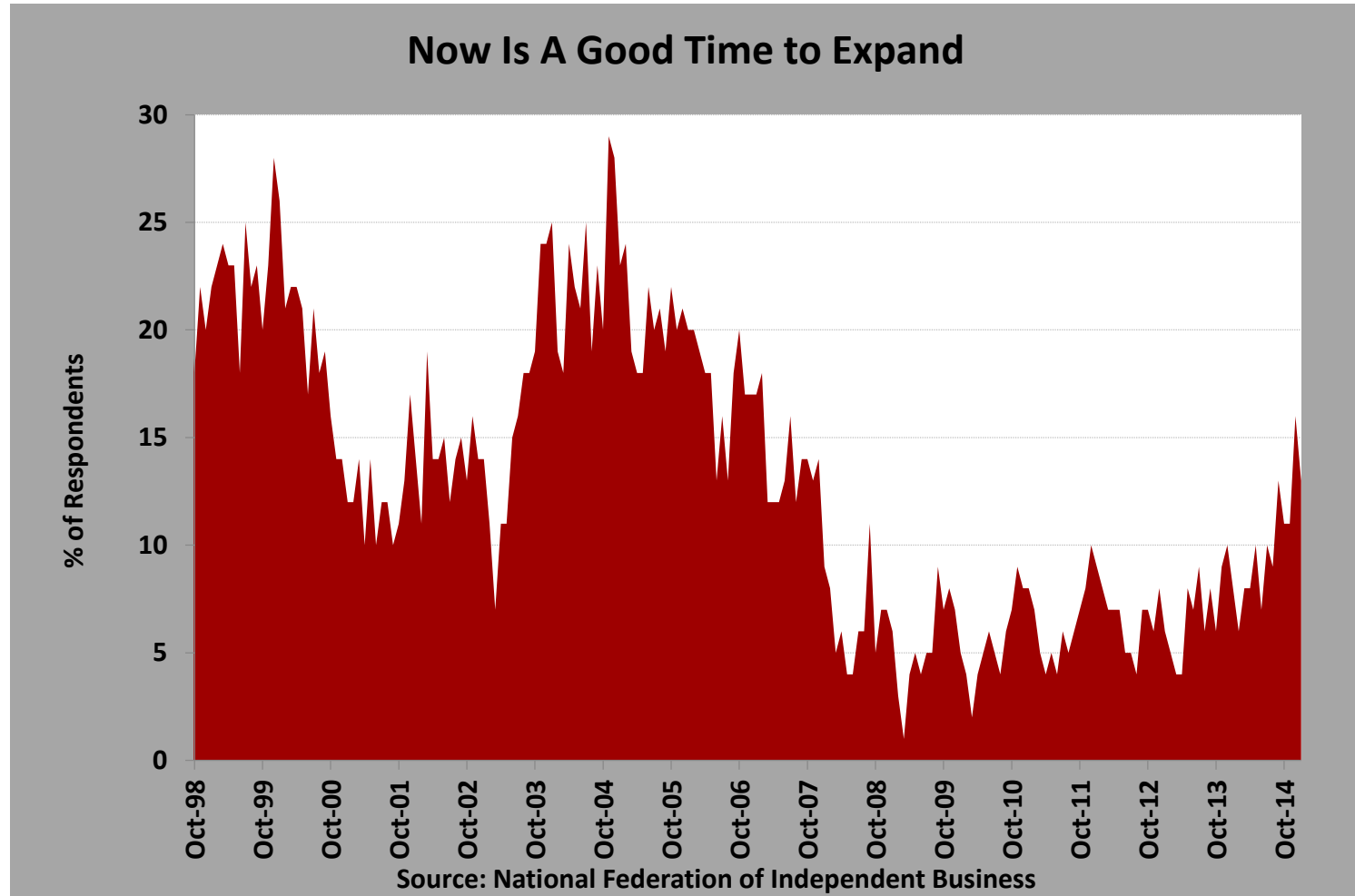
# Small Business Outlook

## “Planning To Hire People In The Next Three Months”



# Small Business Outlook

## “Now Is A Good Time To Expand”



# Corporate Hiring Plans: Next 6 Months

	<u>Q4-14</u>	<u>Q3-14</u>	<u>Q2-14</u>	<u>Q1-14</u>
<b>More Jobs</b>	<b>43%</b>	<b>34%</b>	<b>43%</b>	<b>37%</b>
<b>Less Jobs</b>	<b>14%</b>	<b>20%</b>	<b>14%</b>	<b>19%</b>

Source: Business Roundtable

# Job Openings in America

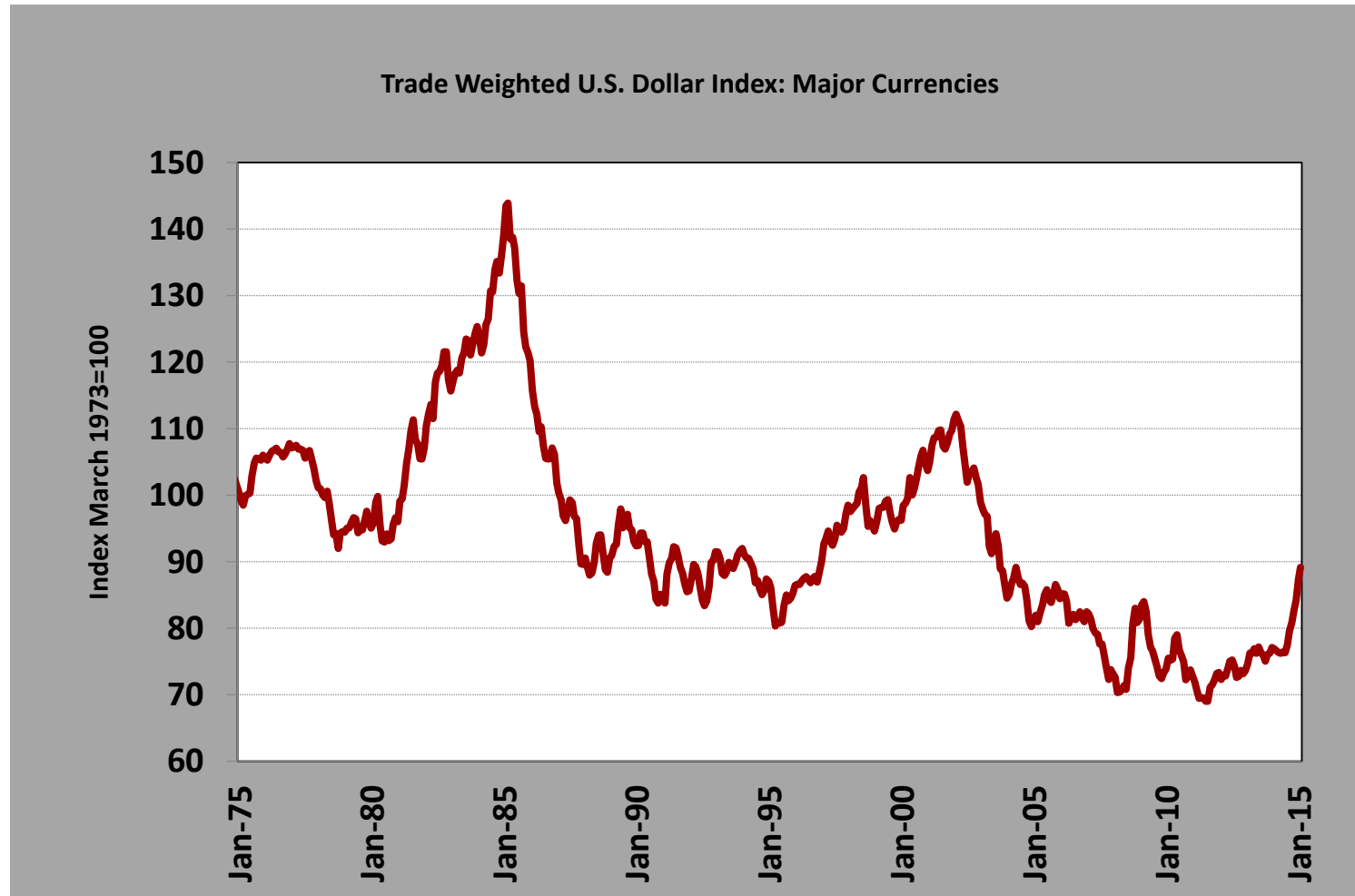
## Looking for Workers

<b>Total Job Openings</b>	<b>5,028,000</b>
Construction	147,000
Manufacturing	306,000
Trade, Transportation, Utilities	892,000
Professional & Business Services	1,028,000
Education & Health Care	921,000
Leisure & Hospitality	646,000
Government	518,000

Source: Bureau of Labor Statistics  
BLS release on February 10, 2015



# Trade Weighted Exchange Index: Major Currencies



Source: Board of Governors of the Federal Reserve System

# Interest Rates to Remain Low

Fed likely to increase rates, but not very much

Strong US dollar will keep all commodity prices in check

Weak global economy will keep demand in check

Quantitative easing in Europe will keep bond yields low.

# The Exogenous Shock

# **The Oil Market: “Let’s Play Hardball”**

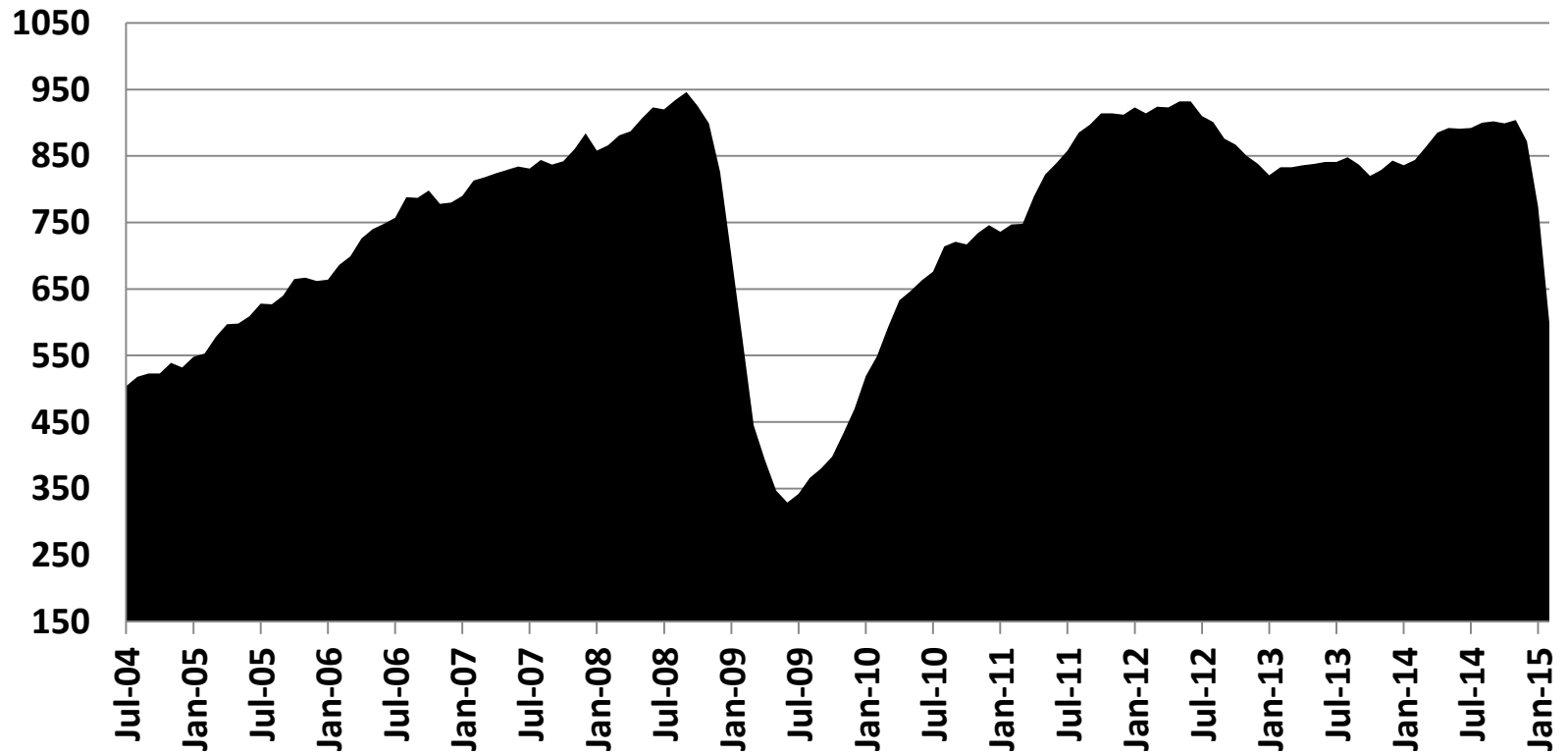
# Nobody Knows How Low

- Oct3 Drops below \$90 after Saudi price cut
- Oct13 Kuwait oil minister says “natural floor for prices at \$76 to \$77
- Oct15 Price drops to \$81.84
- Oct1 Saudi prince says Arabia needs \$80 to \$90
- Oct28 Goldman cuts price target for oil for 2015 from \$90 to \$75 for WTI
- Oct 28 Citigroup expects Brent to be \$92 in 1Q15
- Oct 28 Deutsche predicts Brent at \$88
- Nov4 Saudi price cut moves WTI to \$77

# 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 near term
- Nov13 Brent fell below \$80 for the first time in four years.
- Nov13 EIA forecasts WTI to average \$77.75 in 2015, down from previous \$94.58.
- Dec4 Saudis say oil could stabilize at around \$60, a price they believe they could withstand
- Dec9 Morgan Stanley sees Brent average of \$70 in 2015.
- Dec12 “Prices set to drop toward \$50.”
- Jan6 WTI trades at \$48

# Working Rigs In Texas



Baker Hughes

# Oil Market Volatility

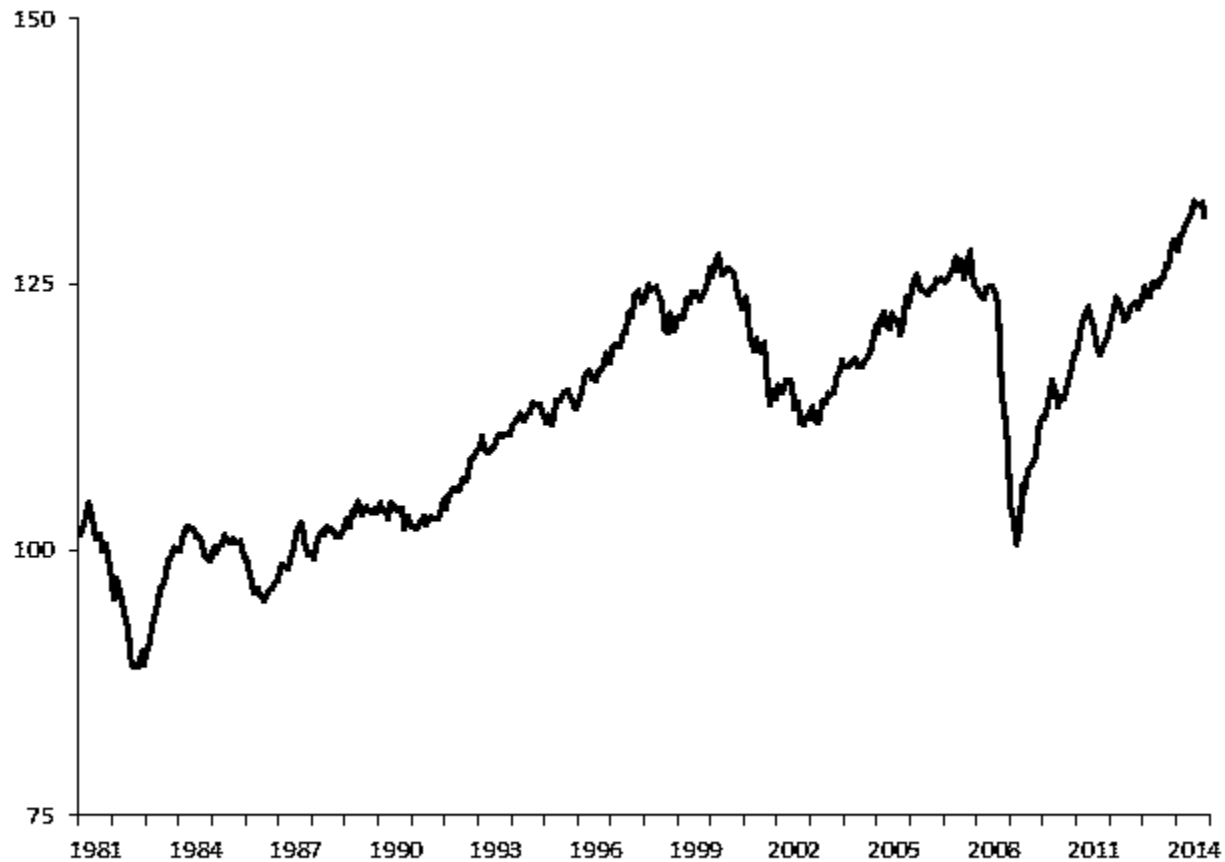




# Texas Leading Index

## Texas Leading Index

Index, 1987 = 100\*

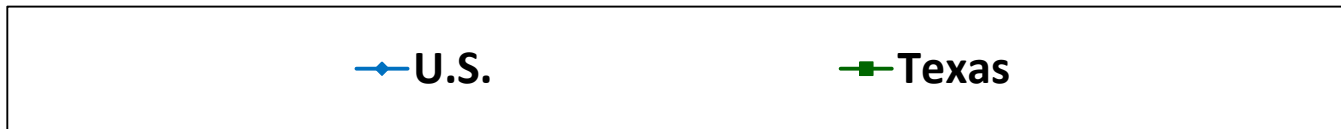
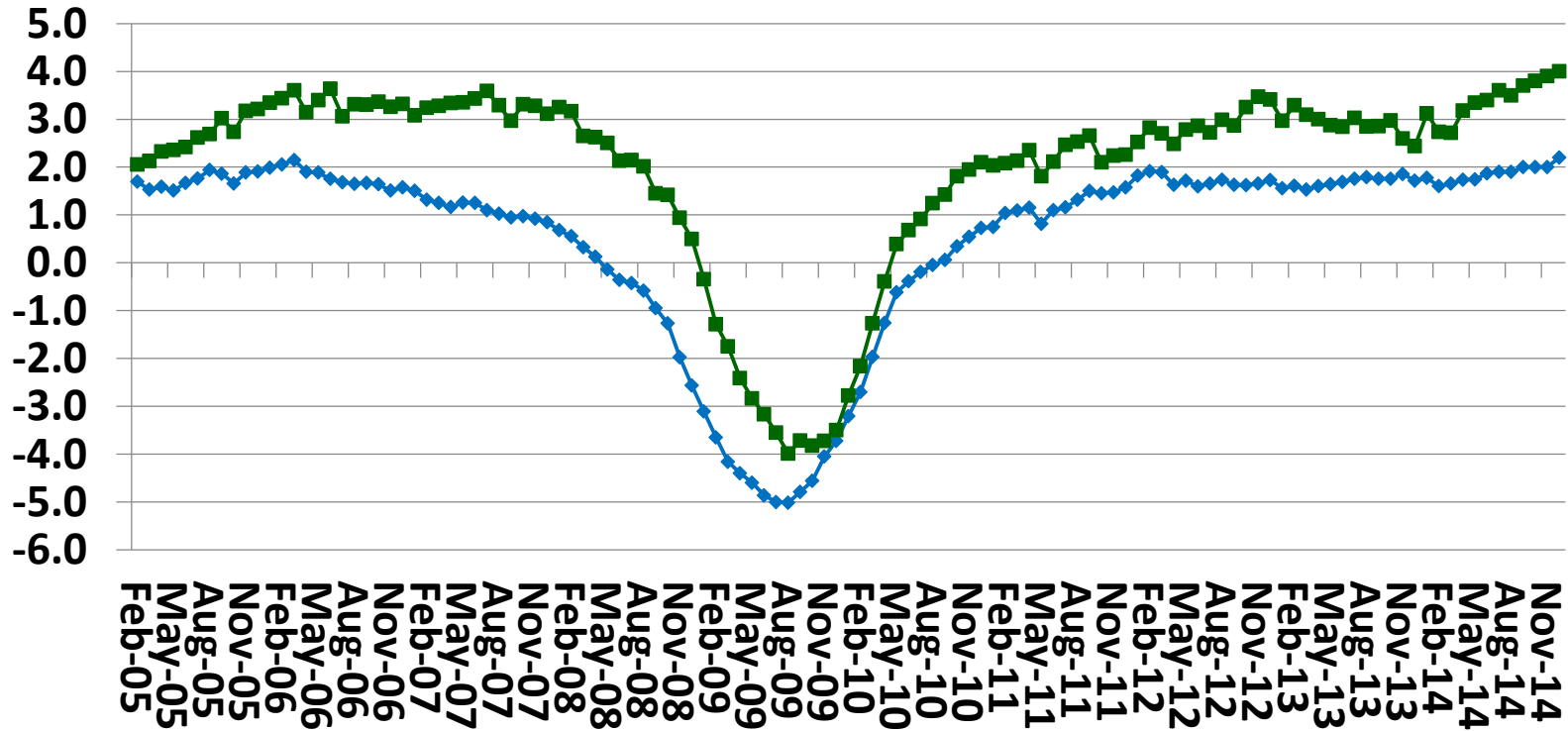


\*Monthly, seasonally adjusted.

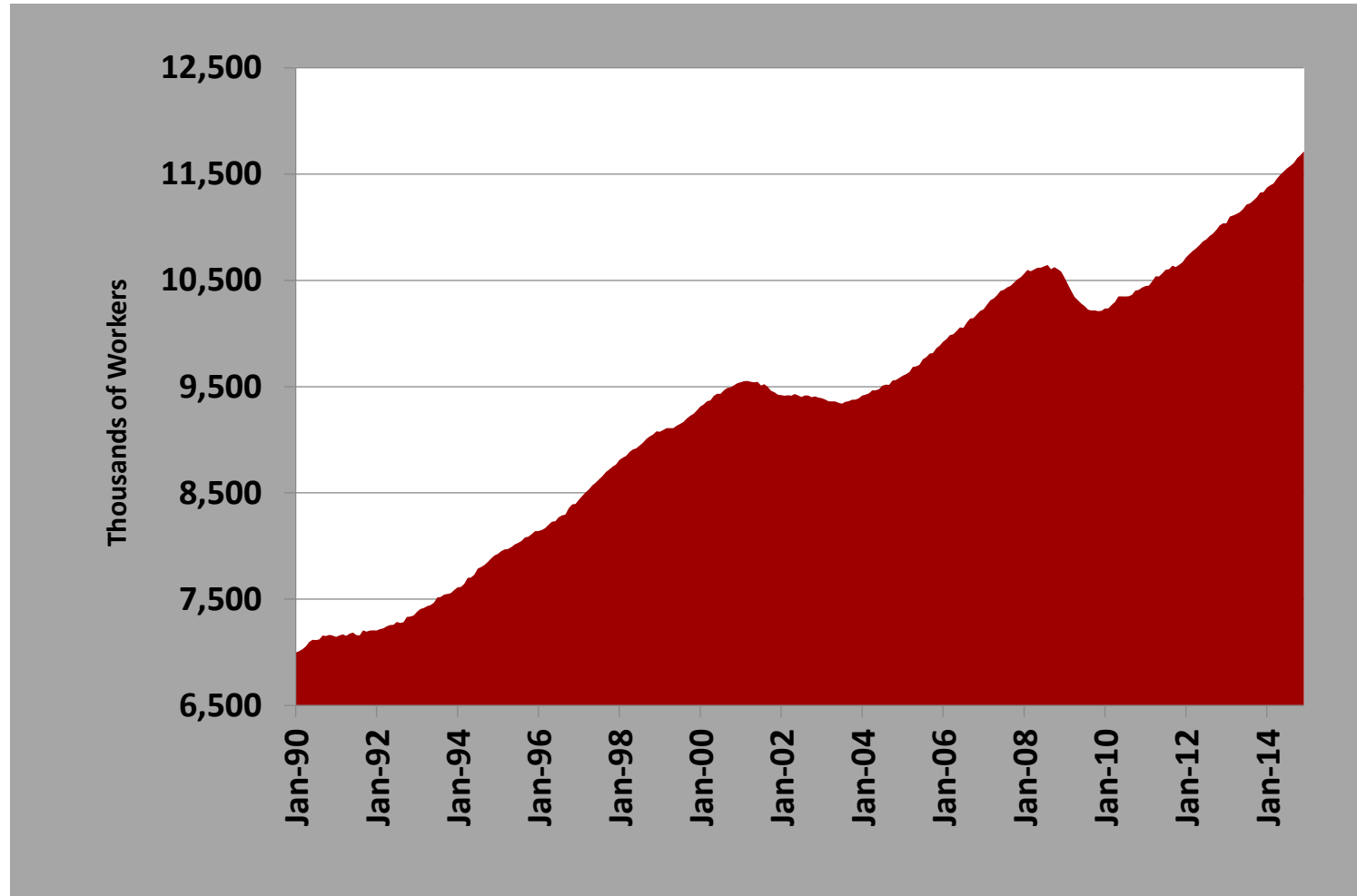
Last data entry November 2014.

SOURCE: Federal Reserve Bank of Dallas.

# Employment Growth Rates

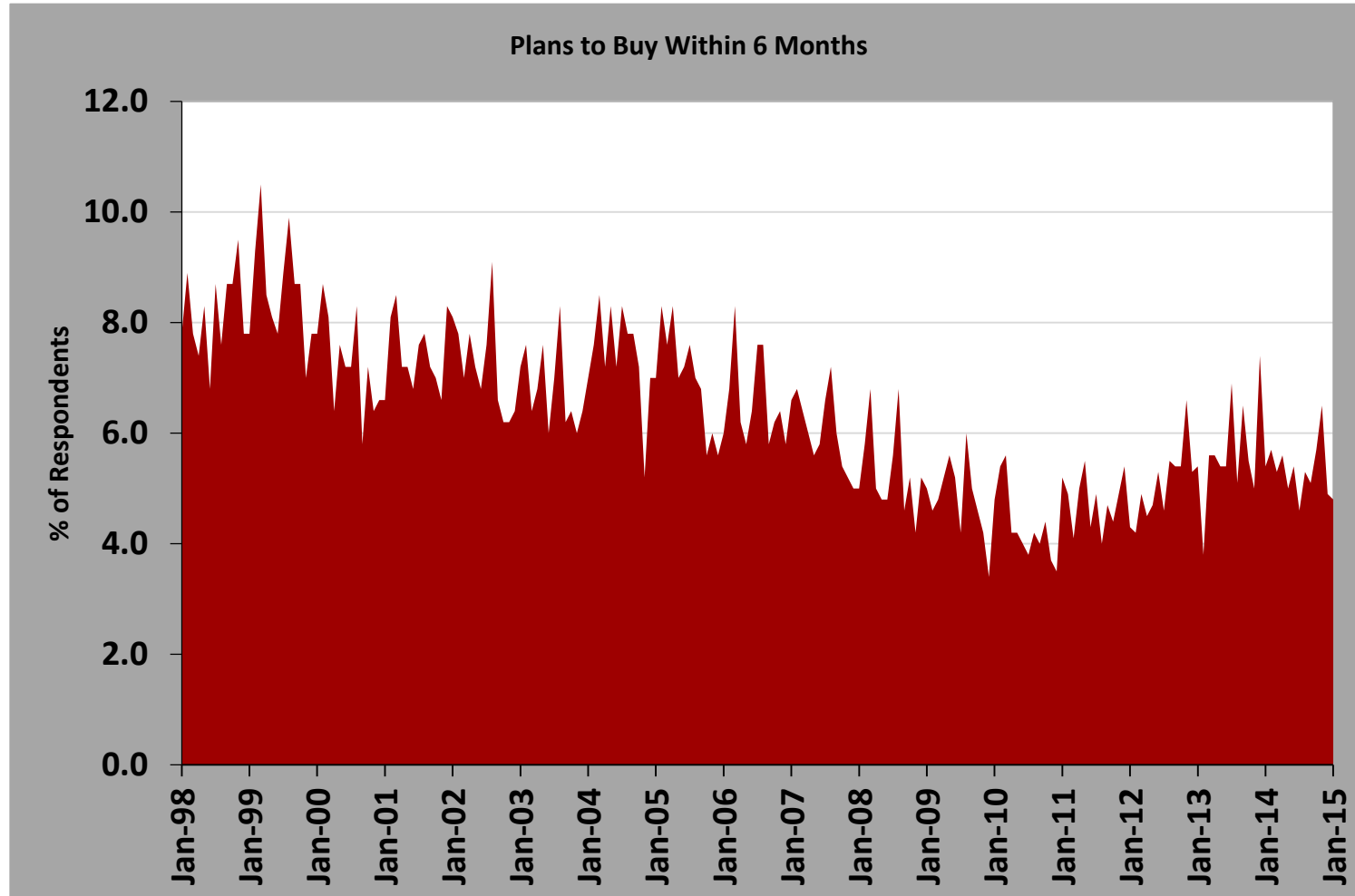


# Total Texas Non-Farm Employment



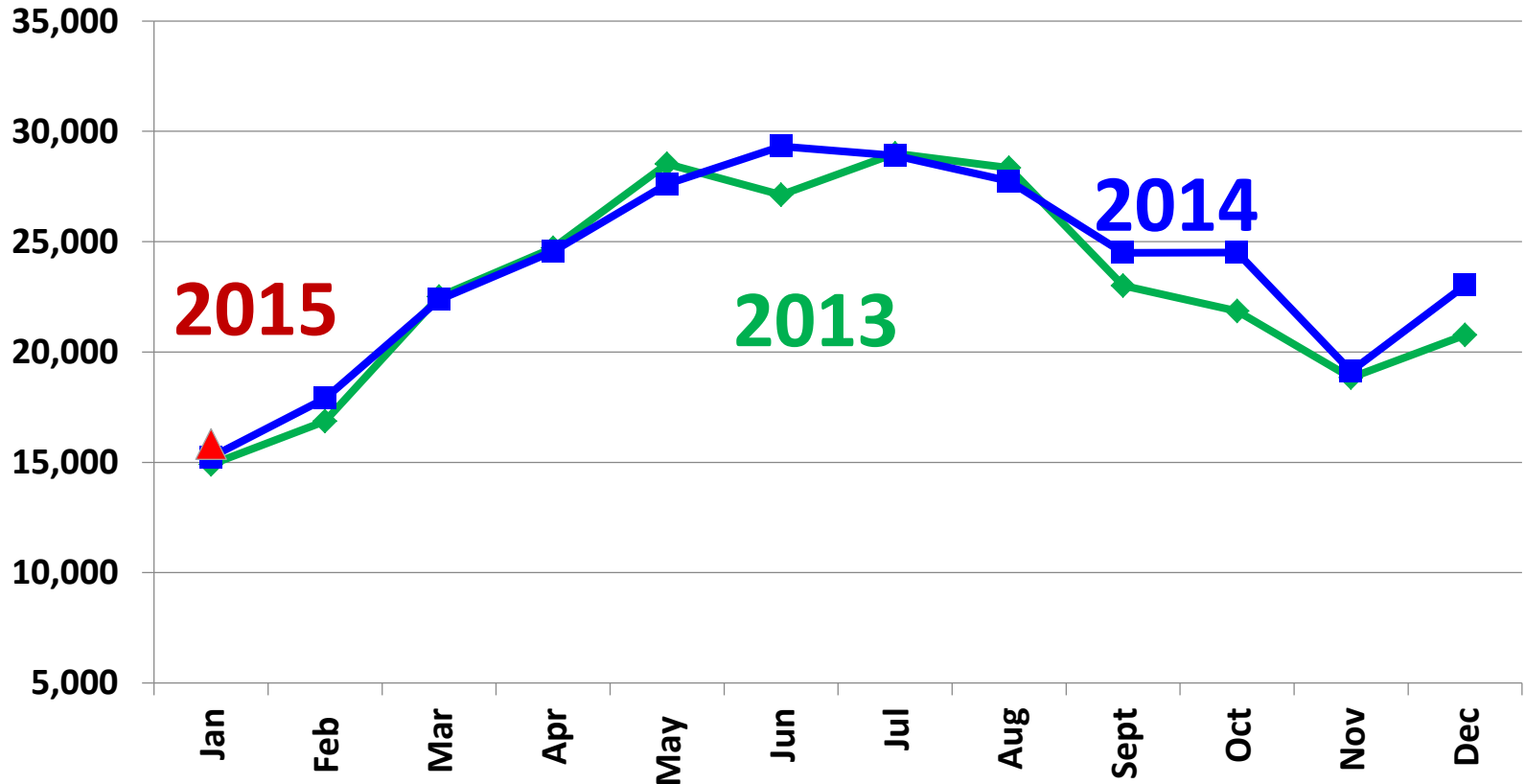
Source: Federal Reserve Bank of Dallas

# People Who Plan to Buy a Home in the Next Six Months



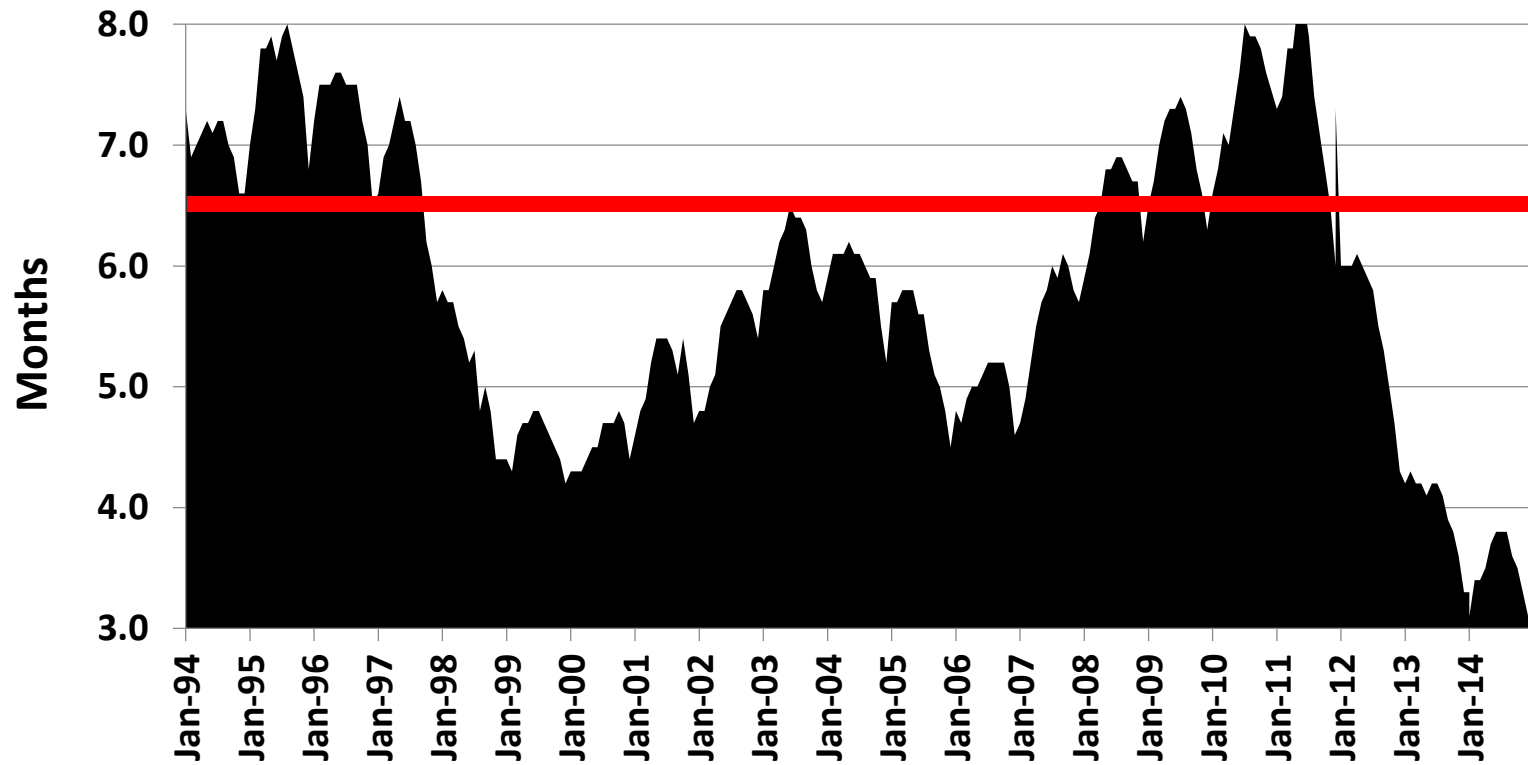
Source: The Conference Board/Haver Analytics

# Texas: Existing Home Sales



Source: Real Estate Center

# Texas: Months Inventory of Unsold Homes

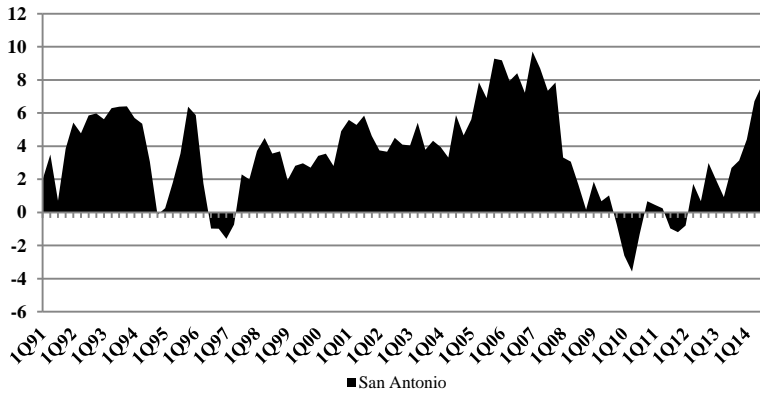


Source: Real Estate Center

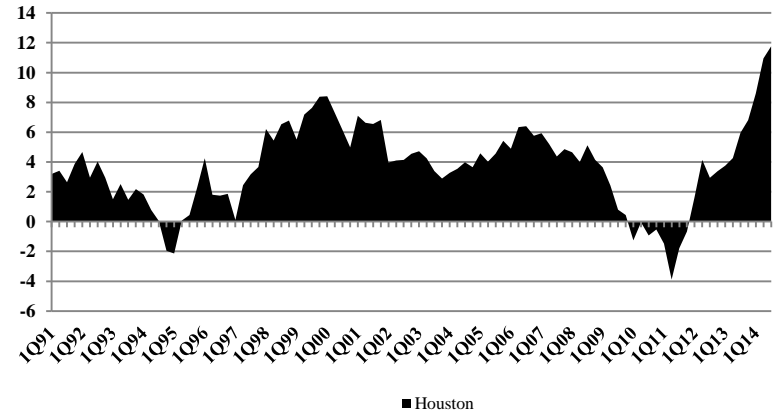
# HOUSE PRICE APPRECIATION

## PRICE CHANGE FROM YEAR EARLIER

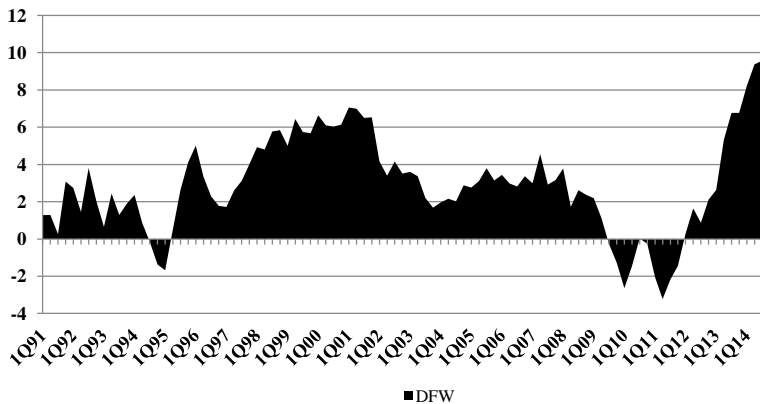
### San Antonio



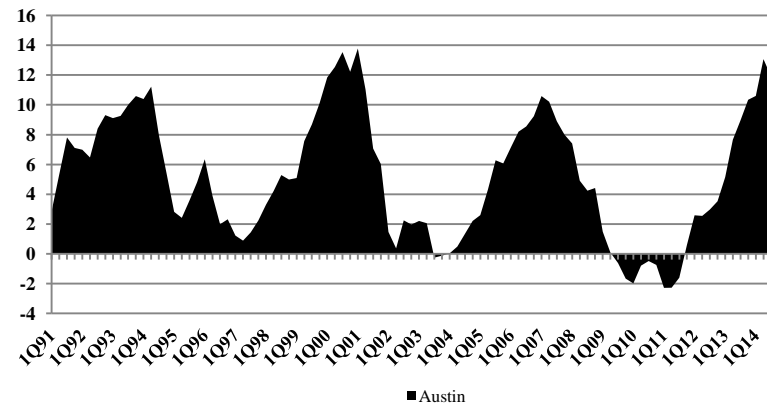
### Houston



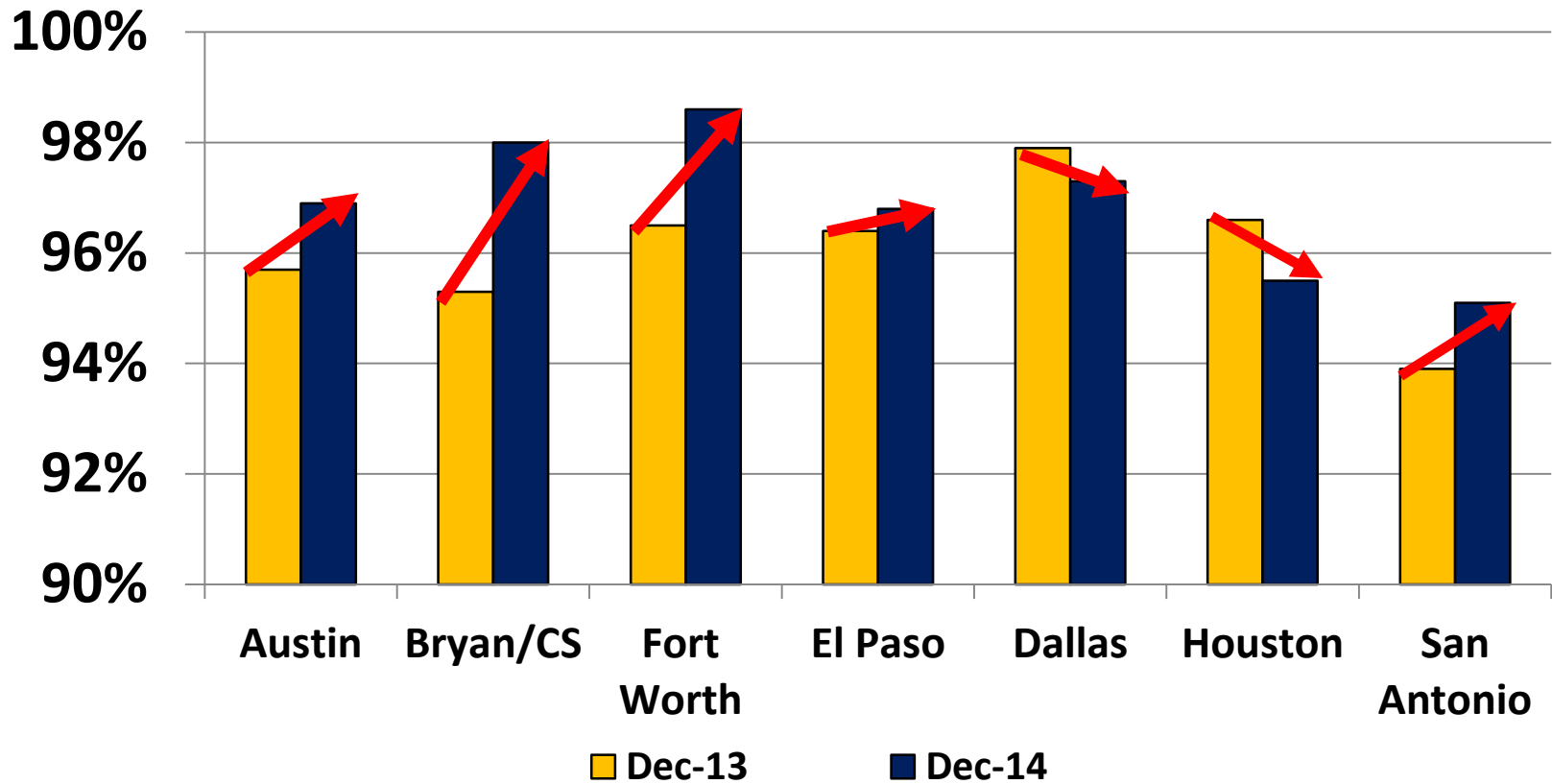
### Dallas/Ft. Worth



### Austin



# Apartment Occupancy Rates



Source: Apartment Market Data Research, LLC



# The Investment Environment

Bond prices at record highs

Stock markets at record highs

Margin debt in the stock market at record highs

Commercial real estate values at record highs

Even more money is ready to pour into CRE

CMBS underwriting standards getting “more aggressive”

# Interest Rates

# The 10-Year Treasury Rate: Other Countries Much Lower

- U.S. 10-year 1.92
- Italian 10-year 1.29
- Spanish 10-year 1.25
- Swedish 10-year .39
- French 10-year .48
- German 10-year .65
- Japanese 10-year .29
- Swiss 10-year **-.11**

Rates on March 24, 2015

# Negative Interest Rates Around the Globe

In February, Finland became the first country to issue five-year bonds with a negative yield.

In February, Denmark cut their interest rate to -.75 percent..

Yield on 5-year JGB hit zero for the first time ever. The 10-year hit record low of .255% in January.

On Jan 23, the ECB announced massive purchases of European government bonds through September 2016.

# Corporate Bond Rates at Zero

A French utility company GDF Suez sold a bond for zero percent interest in February.

“...raises the specter that companies may soon be able to issue bonds with negative interest rates.” WSJ 3/5

# The Investment Environment

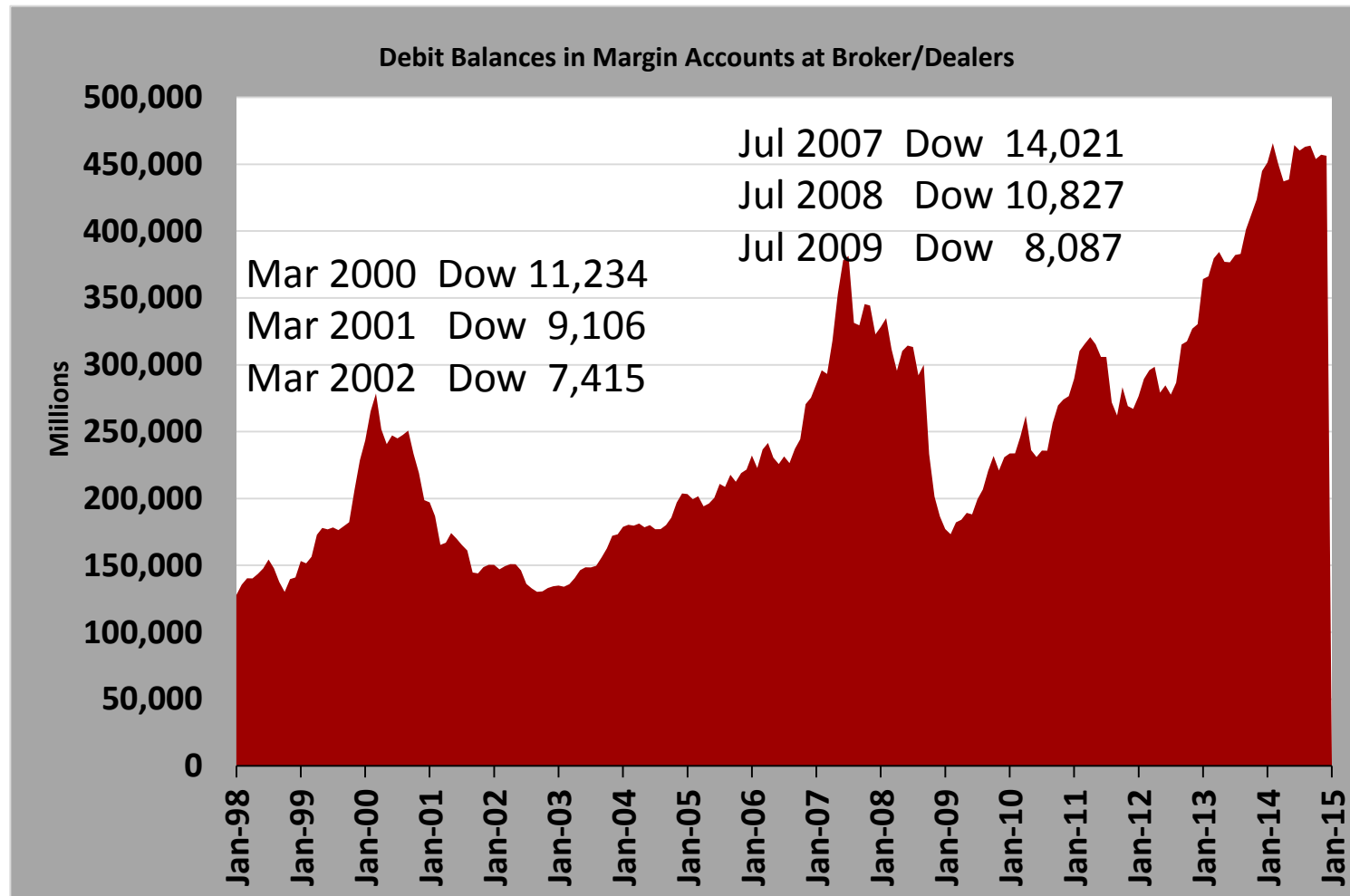
Our federal government continues to have no ability to encourage business expansion through fiscal policy.

Monetary policy continues to do its job:

MAKE RICH PEOPLE RICHER  
BY INFLATING THE PRICE OF STOCKS, BONDS AND REAL ESTATE

# Margin Debt

## Debit Balances at Broker/Dealers



Source: Standard and Poor's/Haver Analytics

# Hedge Funds Offer Low Returns

Hedge funds on average delivered a return of less than 3 percent in 2014 according to Hedge Fund Research. WSJ 3/6

Pension funds increasing allocations of real estate in their portfolios. Calpers nearly doubling their target.



# Foreign Real Estate Investment and Record Highs

- Foreigners invested \$10.63 billion in CDB office buildings in the first 9 months of 2014, up 69% from 2013. (RCA)
- Class A office buildings in DC are averaging \$611 per square foot. Boston, Manhattan and SF range from \$642 to \$701.
- Lafayette Tower in DC recently sold for \$948 per square foot.
- Chinese investors paid highest price ever for any standing US building, paying \$1.95 billion for the Waldorf Astoria in NYC in 2014.
- Loosening regulations in China and Taiwan have enabled insurance companies to direct ownership of real estate in other countries.
- Low yields in Gateway markets is driving up sales volume in places like Tulsa, Colorado Springs, Pittsburgh and Birmingham.
- Invesco purchasing 49% interest in Silicon Valley office complex for an estimated \$1,800 per square foot, a record high in the US for large suburban office properties. Jan15