



Economic and Market Insights

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Housing Market Steps into the Spotlight Just as New Auto Sales Begin to Fade

As the Fed was cutting short-term interest rates to nearly zero in the early part of this decade, the cyclical parts of our consumer-led economy began to slowly recover. (Autos and Housing – Figures 1 and 2)

From 2000 to 2007 we sold nearly 17 million light vehicles annually in the United States (Figure 1). But at the bottom of the Great Recession the annualized sales rate was only 9.4 million.

The collapse in auto sales created pent-up demand propelling auto sales even higher than early decade norms. The recovery in auto production has helped boost the economy and is a key reason for our bullish outlook on growth of late.

In 2015, the United States sold 17.4 million units, an all-time yearly high that we surpassed slightly in 2016. With gas prices up slightly, interest rates in the short part of the market higher, and some concern regarding “sub-prime” auto lending, we expect car sales will remain near-record levels, **but it will be difficult to surpass the 2016 record.** With car sales peaking, we will likely lose some of our cyclical momentum in this sector.

We historically have been a “car-centric” nation, buying more cars per year than the entire European Union market, but **China has surpassed both the United States and the European Union in terms of auto sales, and will likely purchase 24 to 26 million light vehicles this year.**

While the U.S. auto industry recovered fairly quickly in a typical cyclical pattern, the housing recovery had been much more subdued. From 2000 to 2008, homes were built much faster than households were forming, creating a dramatic oversupply. Since our housing market was overbuilt, it took a long time to work off this excess.

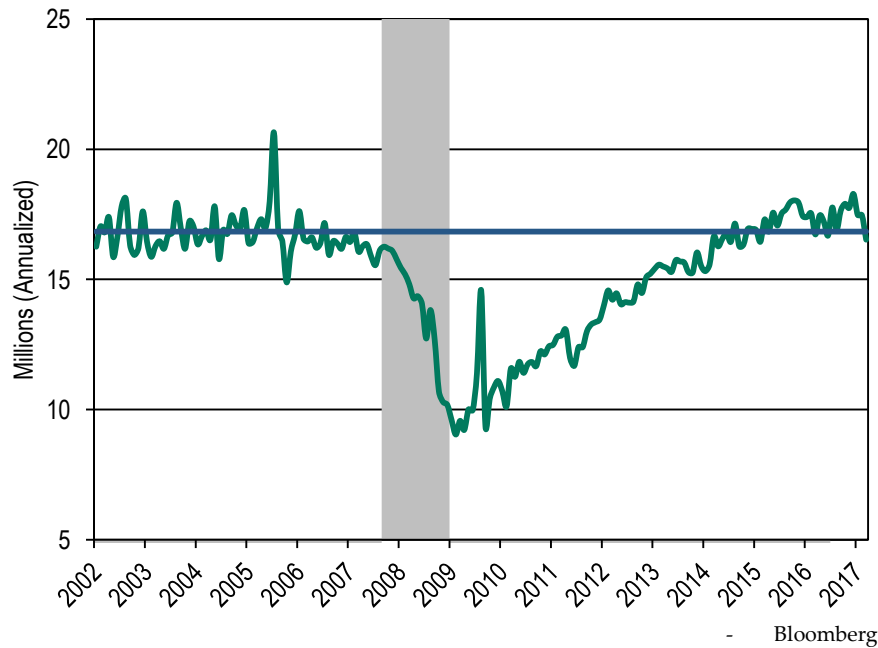
But look around – just try to find a house in the U.S. market now in a major metropolitan area. Housing inventories have been reduced dramatically and pent-up demand has accrued. With average home prices now back to their earlier cyclical peaks, and interest rates still very low relative to historical norms, **we expect**



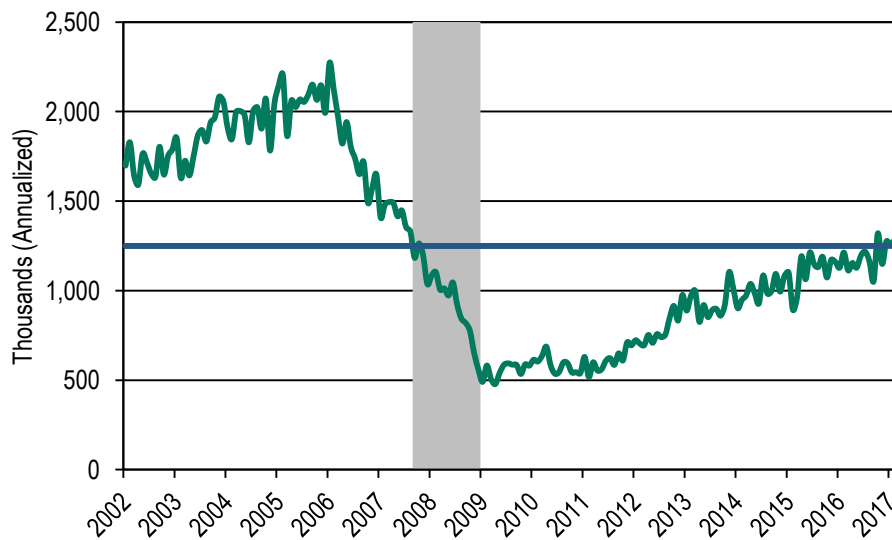
continued improvement in the housing sector that will more than make up for the slowdown in the auto space. (Figure 2)

Recently, most new home starts were in the “multi-family” sector. Fortunately, now single-family home starts are accelerating and they contribute almost three times the positive impact to GDP relative to apartment construction.

Total Auto Sales 2002-2017



Total Home Sales 2002-2017





Takeaways

- As vehicle production levels off in the United States, manufacturers are already giving dealers more latitude to move cars with rebate and incentive programs, and this will only increase in the future.
- With the Fed likely to raise interest rates another quarter point in June, look for new car inventories to sit a while as lenders adjust their rates and buyers recalculate the cost of their big-ticket purchases.
- Single-family housing inventories continue to shrink and average home prices will likely trend even higher.
- Home lending rates are still very low relative to historical norms, so a Fed interest rate increase in June should not dampen home demand at this point.

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