

Economic Forecast Using the “Yield Curve”

A Real Estate Perspective

 Frank Carr from Maine Realty Advisors

FREE 1 Hour Brown Bag Lunch + Learn event

Noon on September 19, 2019



Union + Co Extended Shared Office Space

48 Front Street Bath, ME



Hines



4tell



No Hype Consulting, LLC

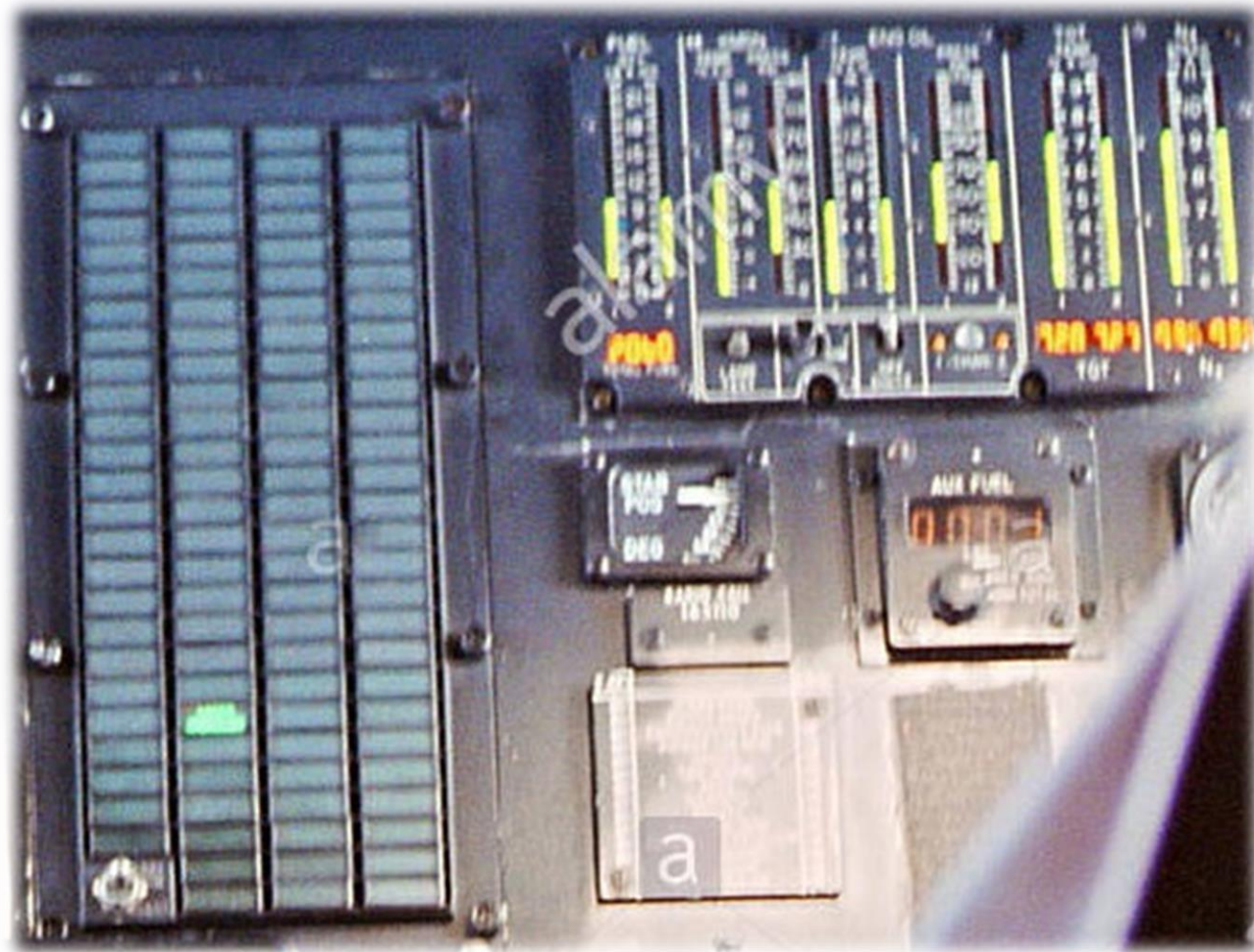
All About Me!



Dealing With Complexity



Dealing With Complexity

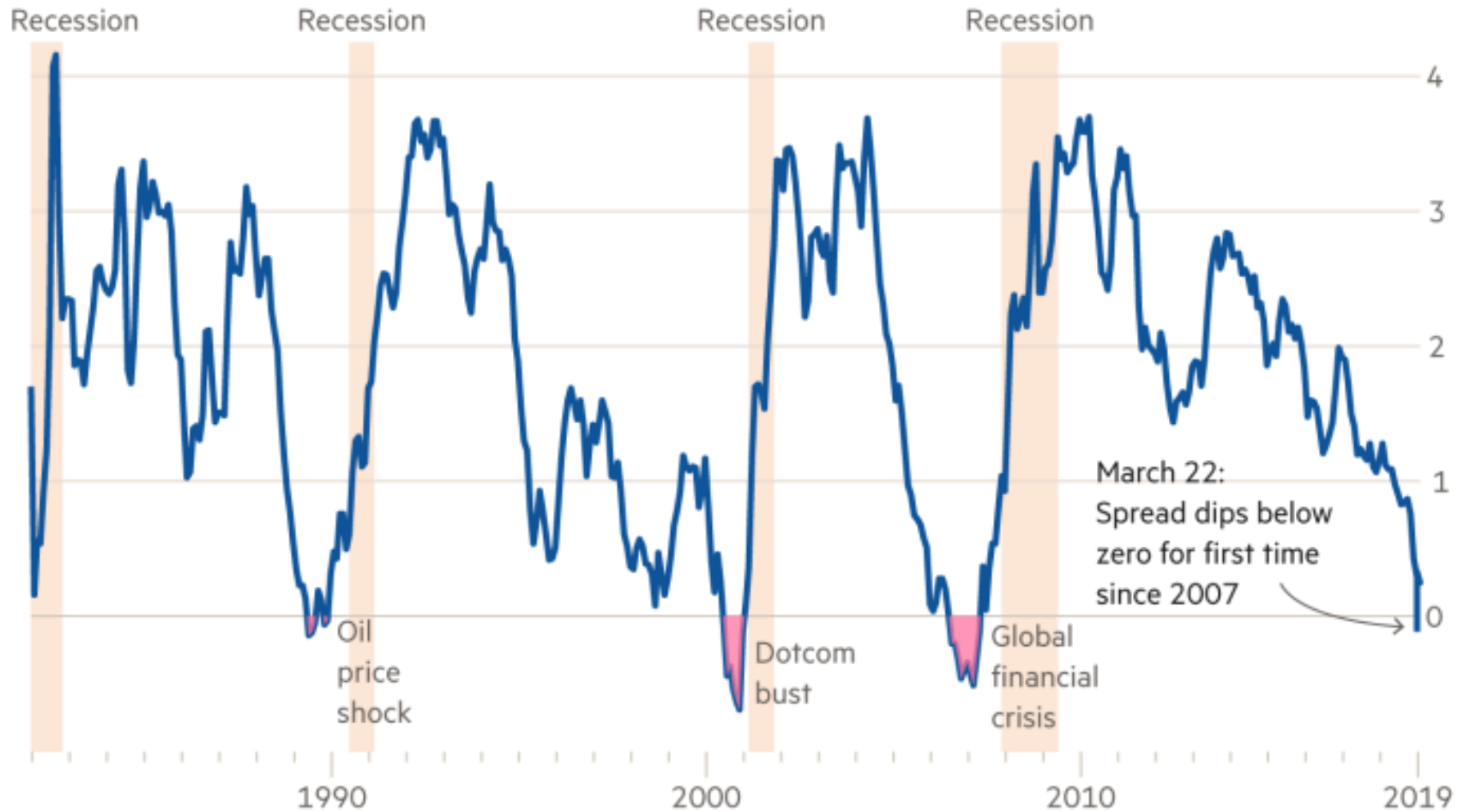


Dealing With Complexity – Pilot's Scan



The yield curve's track record is impressive

Spread between three-month and 10-year Treasuries (% points)



Source: Federal Reserve Bank of St. Louis

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Yield Curve – What is it?

- A Chart, Graph, or Snapshot Picture of:
 - Safe Investment Instruments
 - Maturities
 - Interest Rates
 - Think Prices and Costs
 - Standing in a Line at a Bank Buying CDs

Yield Curve – What is it?

- US Treasuries
 - Month
 - 1 .. 2 .. 3 .. 6
 - Year
 - 1 .. 2 .. 3 .. 4 .. 5 .. 7 .. 10 .. 20 .. 30

US Treasury - Source Data



U.S. DEPARTMENT OF THE TREASURY

<https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yield>

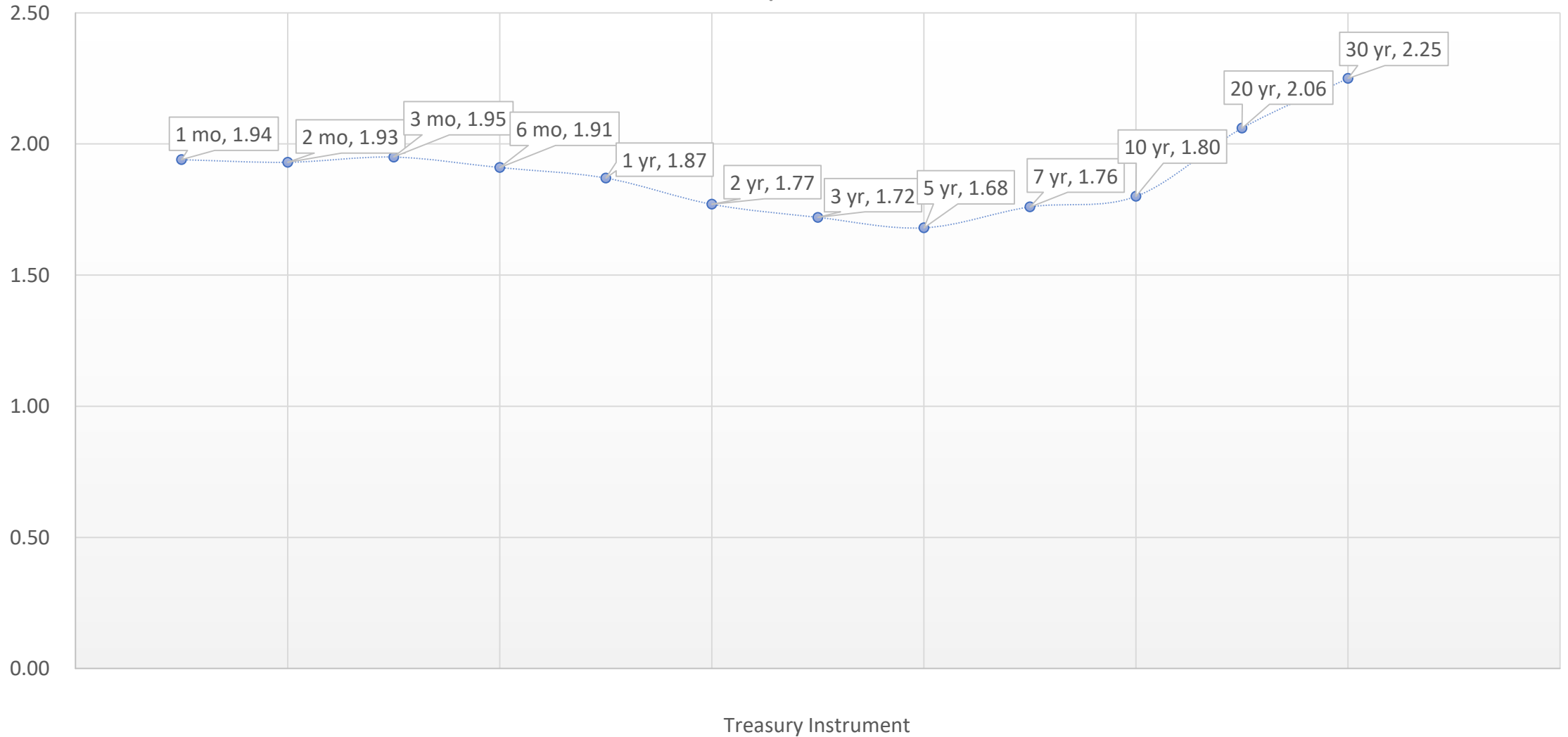


Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
09/03/19	2.06	2.01	1.98	1.88	1.72	1.47	1.38	1.35	1.42	1.47	1.77	1.95
09/04/19	2.05	2.02	1.97	1.87	1.69	1.43	1.36	1.32	1.40	1.47	1.77	1.97
09/05/19	2.05	2.01	1.97	1.88	1.73	1.55	1.47	1.43	1.51	1.57	1.86	2.06
09/06/19	2.05	2.00	1.96	1.88	1.73	1.53	1.46	1.42	1.50	1.55	1.83	2.02
09/09/19	2.04	1.99	1.96	1.87	1.74	1.58	1.52	1.49	1.57	1.63	1.91	2.11
09/10/19	2.04	1.99	1.95	1.89	1.81	1.67	1.61	1.58	1.66	1.72	2.00	2.19
09/11/19	2.01	1.97	1.96	1.88	1.79	1.68	1.62	1.60	1.68	1.75	2.02	2.22
09/12/19	1.99	1.97	1.95	1.90	1.82	1.72	1.67	1.65	1.72	1.79	2.06	2.22
09/13/19	1.99	1.98	1.96	1.92	1.88	1.79	1.76	1.75	1.83	1.90	2.17	2.37
09/16/19	2.08	2.02	1.99	1.93	1.86	1.74	1.71	1.69	1.77	1.84	2.11	2.31
09/17/19	2.10	2.06	1.99	1.93	1.87	1.72	1.68	1.66	1.75	1.81	2.08	2.27
09/18/19	1.94	1.93	1.95	1.91	1.87	1.77	1.72	1.68	1.76	1.80	2.06	2.25

Wednesday Sep 18, 2019

Yield Curve September 18, 2019

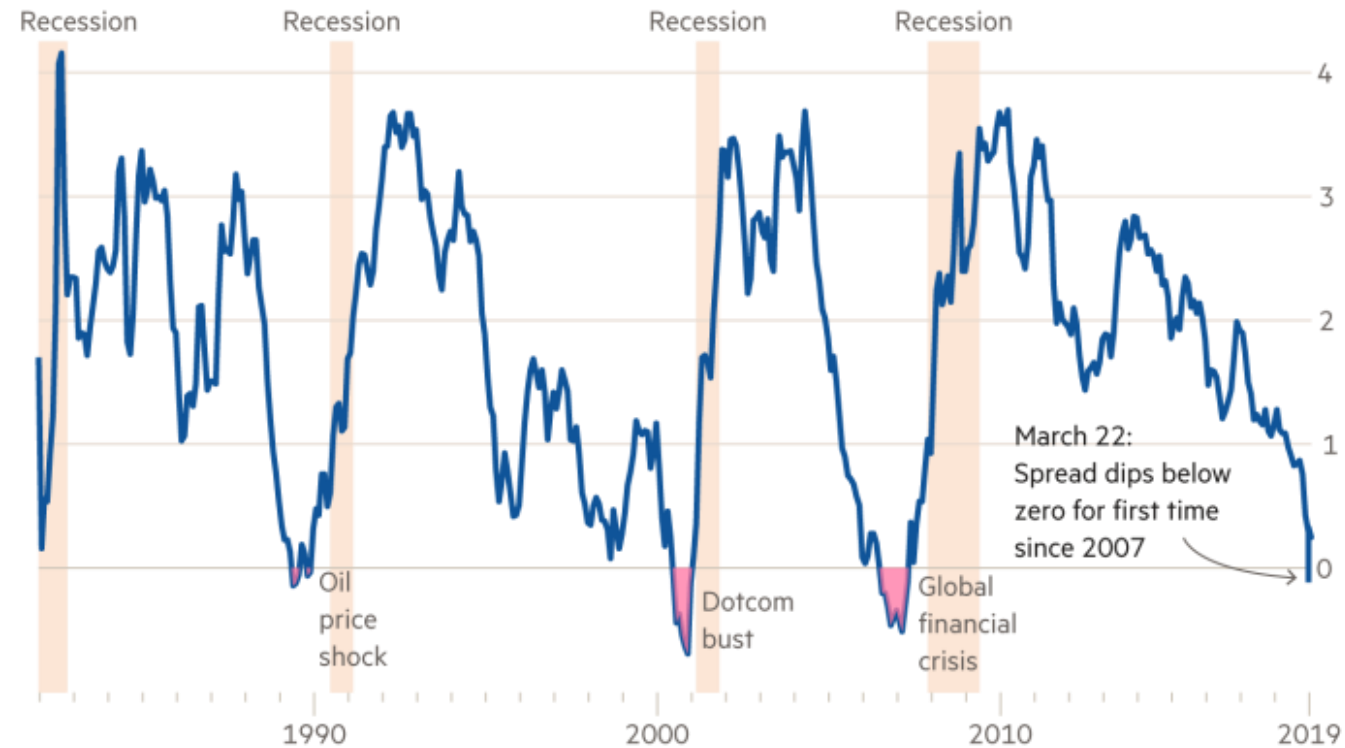
Yield Curve September 18, 2019



Remember This Slide? “The Spread”

The yield curve's track record is impressive

Spread between three-month and 10-year Treasuries (% points)



Source: Federal Reserve Bank of St. Louis
© FT

Remember This Slide? Calculate “The Spread”

Date	1 Mo	2 Mo	3 Mo	6 Mo	1 Yr	2 Yr	3 Yr	5 Yr	7 Yr	10 Yr	20 Yr	30 Yr
09/03/19	2.06	2.01	1.98	1.88	1.72	1.47	1.38	1.35	1.42	1.47	1.77	1.95
09/04/19	2.05	2.02	1.97	1.87	1.69	1.43	1.36	1.32	1.40	1.47	1.77	1.97
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09/18/19	1.94	1.93	1.95	1.91	1.87	1.77	1.72	1.68	1.76	1.80	2.06	2.25

Calculate “The Spread”

- **Formula**

- 10 Year Note – 3 Month Note = “The Spread”

- $1.80 - 1.95 = (-0.15)$

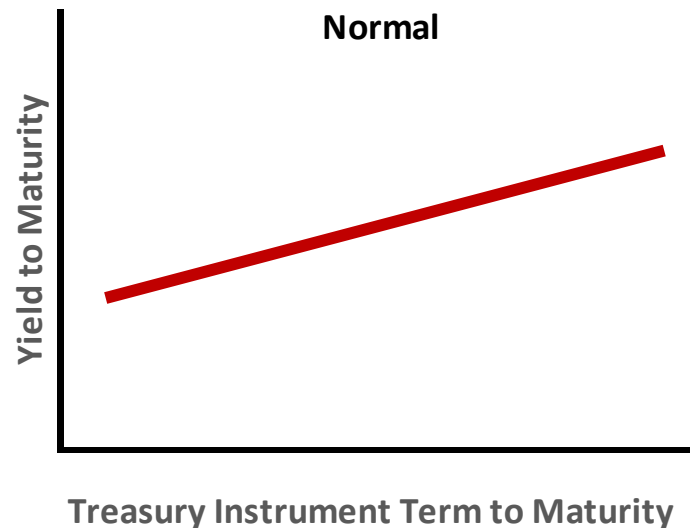
- On March 22, 2019 “The Spread” = (-0.02)

Yield Curve – Shapes

- **Normal**
- **Flat or Humped**
- **Inverted**
- **Steep**

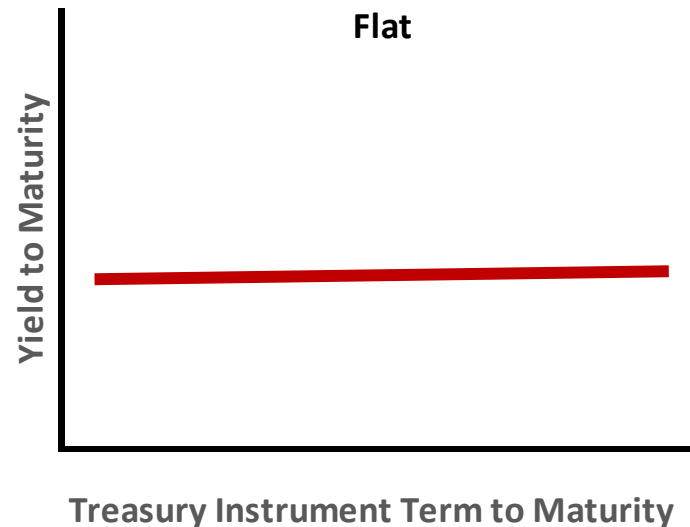
Yield Curve – Shape: Normal

- Long-term rates are above short-term rates
- The longer you tie up your cash, the theory goes, the more you should be rewarded for the risk you are taking.



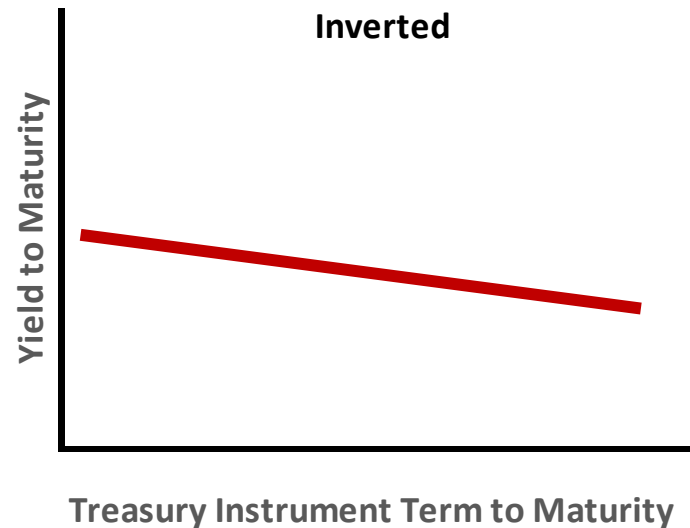
Yield Curve – Shape: Flat or Humped

- Short and long-term rates are the same
- Not all flat or humped curves turn into fully inverted curve



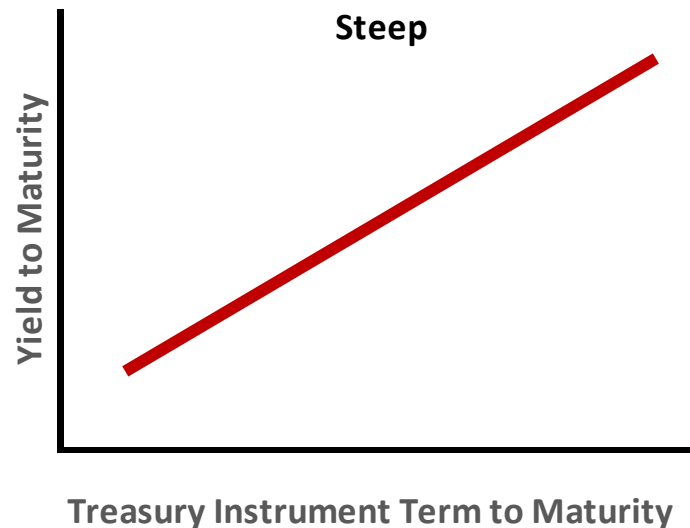
Yield Curve – Shape: Inverted

- Long-term rates are below short-term rates
- Long-term investors are betting that this is their last chance to lock in rates before the bottom falls out



Yield Curve – Shape: Steep

- Long-term rates are above short-term rates
- Long-term bond holders are sending a message that they think the economy will improve quickly in the future



Yield Curve – In Context

- **Stockcharts:** Jan '99 – Today with Splitscreen of S&P 500
 - <https://stockcharts.com/freecharts/yieldcurve.php>
- **Free Range Stats:** Dec '90 – Today
 - <http://freerangestats.info/blog/2019/04/20/yield-curve>
 - or
 - https://www.youtube.com/watch?time_continue=4&v=fJ6BqrihUBA

Yield Curve – In Context

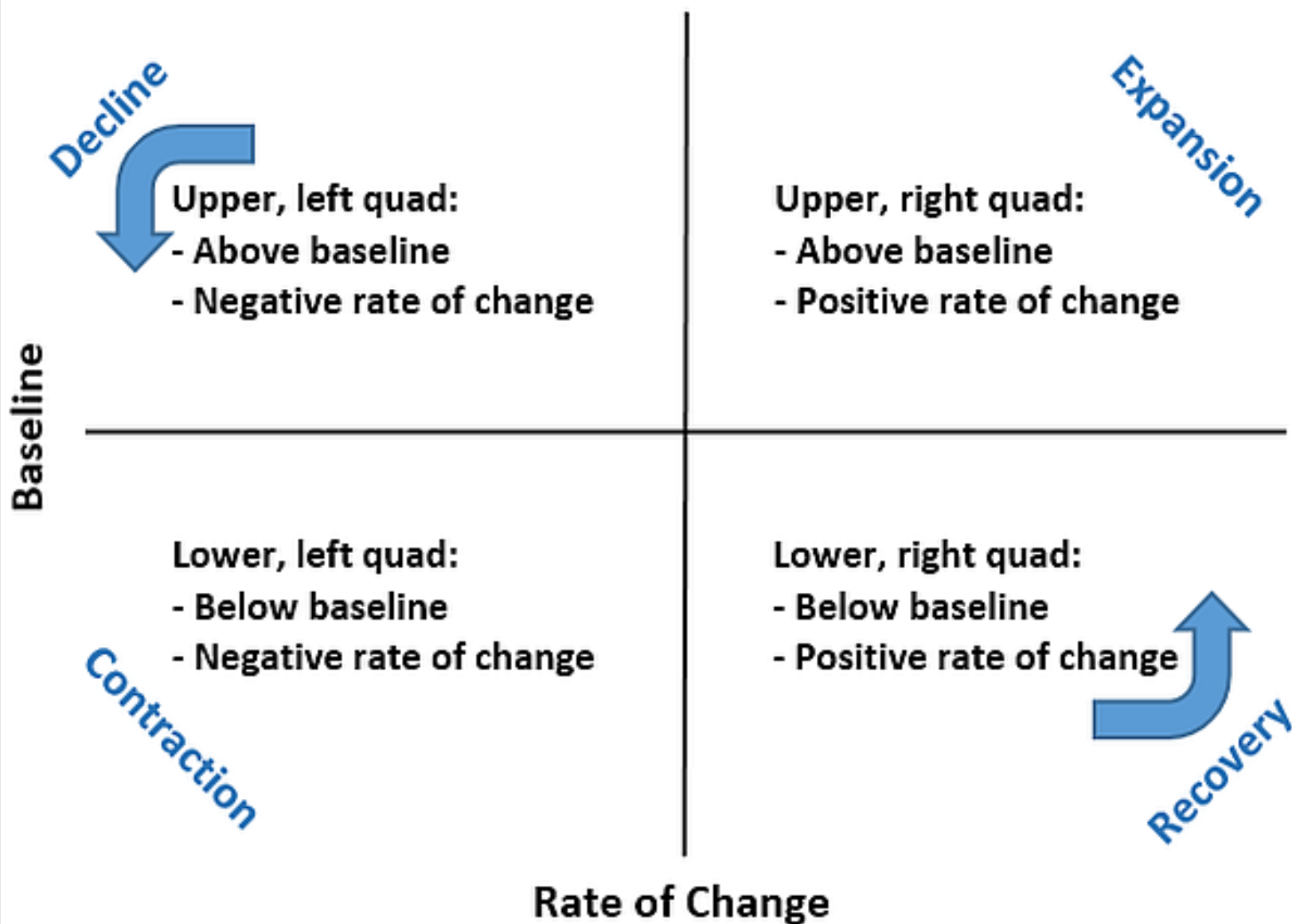
- **Baseline and Rate of Change (BaR) Analysis Grid[©]**
 - The BaR Analysis Grid[©] clarifies current economic conditions and signals how near the economy is to a recession. The mean of coordinates (MoC) is the average of all plotted points. It indicates the overall health of the economy. Leading indicators (LD) are a unique subset that apply strictly to the BaR, providing insight into emerging trends (business cycles are comprised of multiple mini-cycles). [Click here to learn how to read the BaR grid.](#) The BaR is updated every Friday.

BaR Analysis Grid © - Source Data

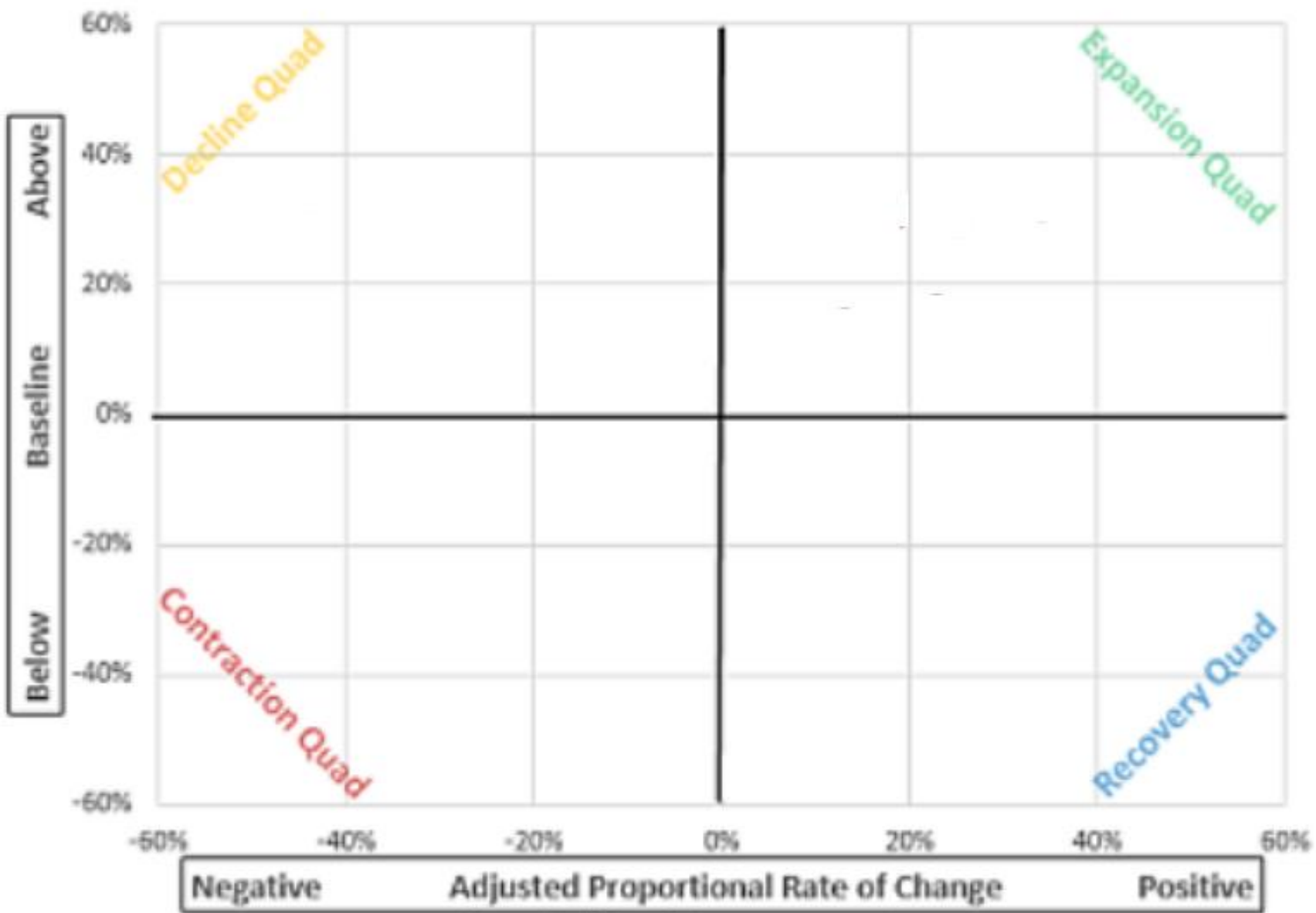


Economic Indicators	Grid Abbreviation	Sector
Consumer sentiment	Cnsmr Sntmt	Consumer
Existing home sales	Ex. Home Sales	Consumer
Real retail sales per capita	Rtl Sales	Consumer
Total vehicles sales	Vehicle Sales	Consumer
ISM Non-manufacturing	Non-Mfg	Services
New private building permits	Bldg Permits	Manufacturing
ISM manufacturing	Mfg	Manufacturing
Industrial capacity utilization	Ind. Cpcy Util.	Manufacturing
Industrial production	Ind. Prod.	Manufacturing
Small business optimism	Small Bus. Optm	Services/Mfg
Chicago Fed National Activity Index	CF Nat. Act. Indx	Services/Mfg
Total nonfarm hires per 100 workers	Hires	Services/Mfg
Total nonfarm job openings per 100 workers	Job Openings	Services/Mfg
Real nonfinancial corporate profits ¹	Nonfin. Profits	Services/Mfg
Temporary employment	Temp. Emplmnt	Services/Mfg
Unemployment claims ²	Unemp. Claims	Services/Mfg
Credit managers' index	Crdt Mgr Indx	Financial
St. Louis Fed Financial Stress Index ³	STL Fin. Stress	Financial
Yield curve spread (10-yr minus 3-month)	Yield Crv Sprd	Financial

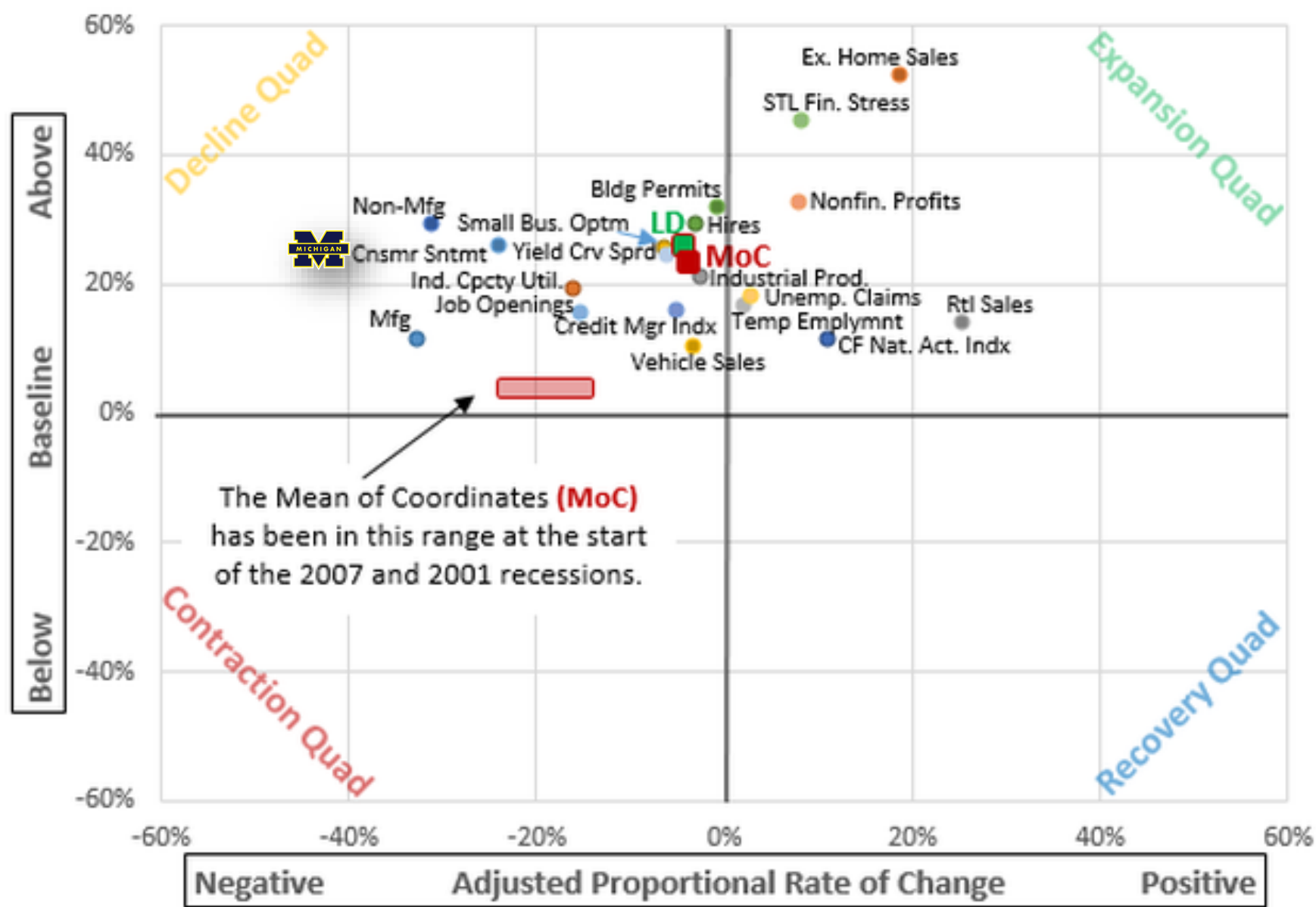
BaR Analysis Grid[®]



BaR Analysis Grid[®]

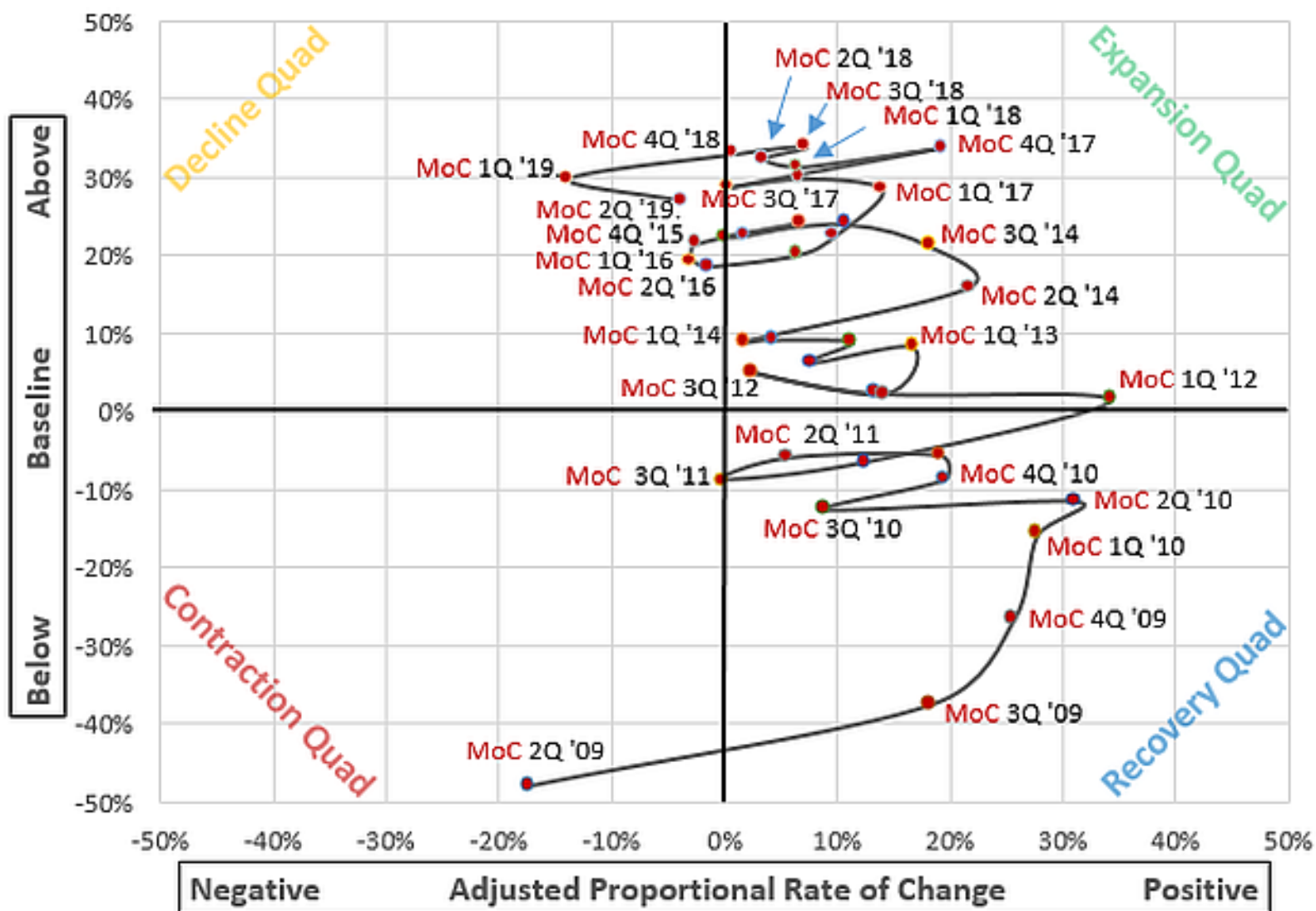


BaR Analysis Grid[®] - 9/13/19 Update



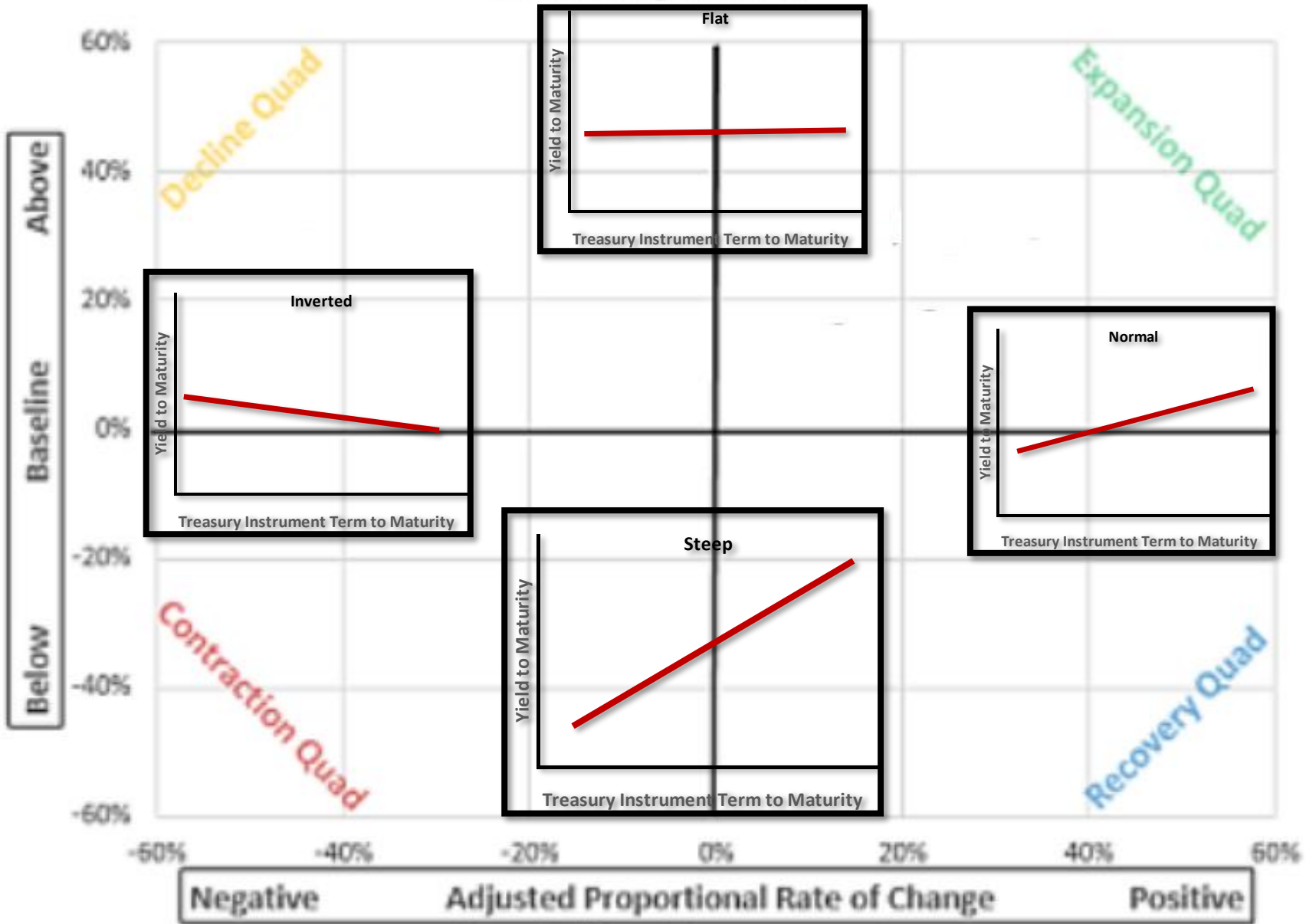
MoC 3-Month Average

BaR Analysis Grid[®] - Current Business Cycle



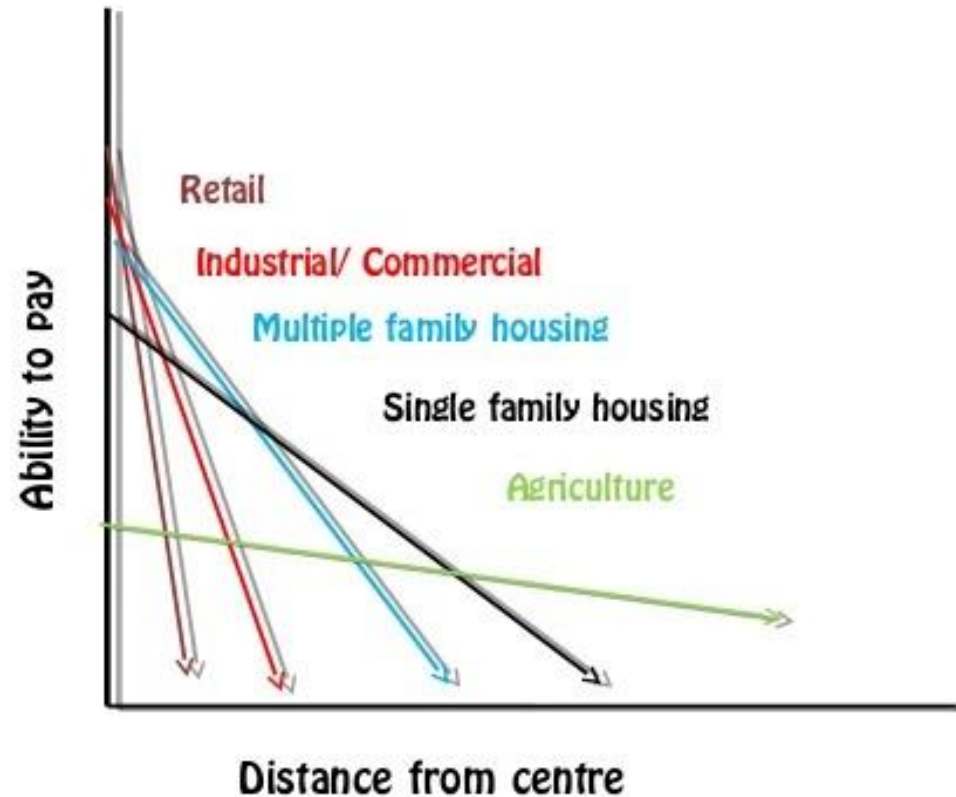
Compiled Econ P.I. - www.econpi.com

BaR Analysis Grid[®]



Yield Curve - Real Estate Perspective?

Land Value Variation from Center to outskirts of the city



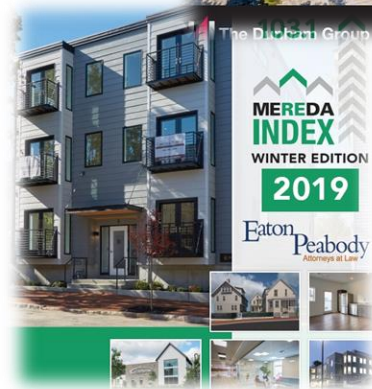
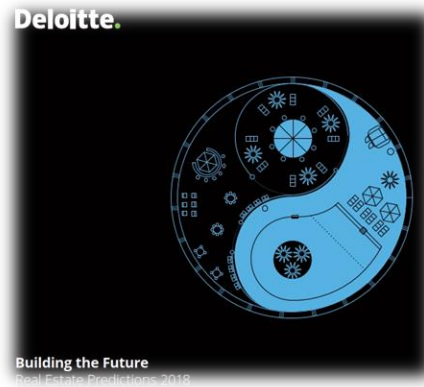
Yield Curve - Real Estate Perspective?



Yield Curve - Real Estate Perspective?

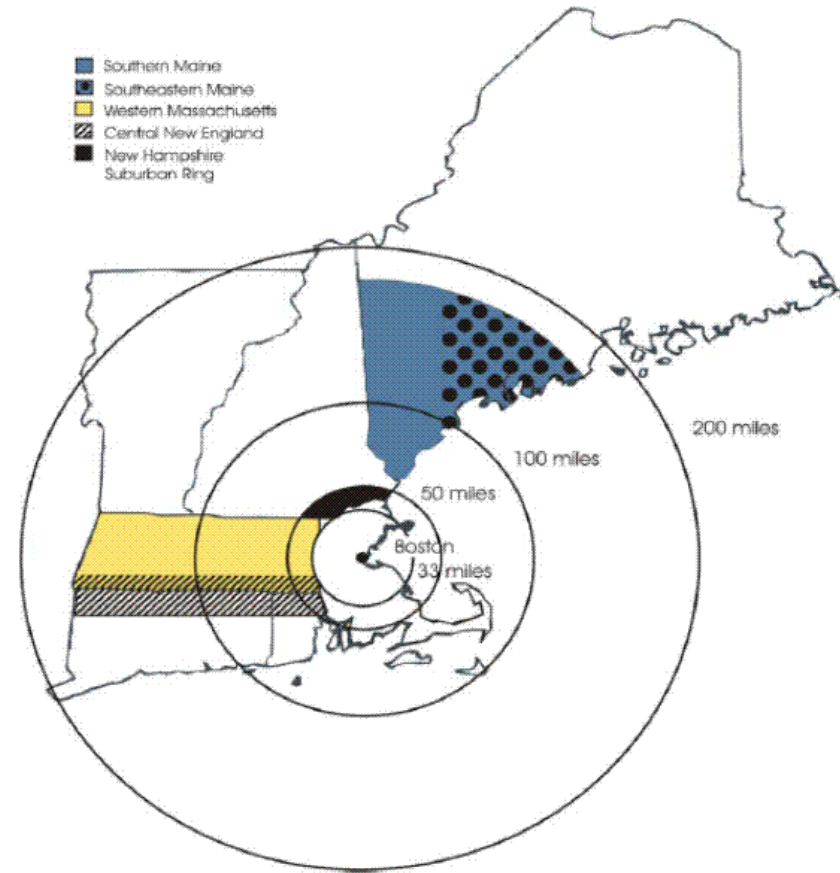
- Land
 - Hold - Continue with Due Diligence
- Single Family Residential Housing
 - Price and Emotion Sensitive
 - SFR – May be a little more inelastic
- Multi-Family Residential Housing
 - Acquire!
 - Rent Rolls afford flexibility
 - Lower prices to match current demand curve
 - Less sensitive to vacancy risk (Multiple units means diversify risk!)
- Industrial & Commercial Office
 - Monitor - Rent Roll, Have conversations, Read their industry literature
- Retail
 - Risky - Pricing pressure from vertical integration. Think service and experiential.

Yield Curve - Real Estate Indicators



Real Estate Indicators – View of Maine

- Maine is a “Sub Market” of Boston
- Portland is **beginning** to show up on the radar of these reports



Recession Indicators

- **Yield Curve Inversion**
- **Bubble in the Economy**
- **Statements from the Fed**
- **War**

References

- **US Treasury Source Data**

- <https://www.treasury.gov/resource-center/data-chart-center/interest-rates/pages/TextView.aspx?data=yield>

- **Awesome Macro Animations**

- <https://stockcharts.com/freecharts/yieldcurve.php>
- <http://freerangestats.info/blog/2019/04/20/yield-curve>

- **Incredible Aggregation of Economic Indicators *BaR Analysis***

- www.econpi.com/index.php

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