4th Quarter 2023 ECONOMIC OUTLOOK WEBINAR

with WFG's Patrick Stone and economist Dr. Bill Conerly

FULL TRANSCRIPTION

Welcome with Patrick Stone

“So, for today's presentation, myself and Bill Conerly and those of you who have been on the presentation before have heard me say this. I've known Bill for 40-some years now. I met him when he was the chief economist at First Interstate Bank. He is currently an economic consultant and a contributor to Forbes Magazine. He is also one of the most logical common sense economists I've ever met, and he actually makes sense when he talks. So with that, I'm going to turn it over to Bill, and Bill, you can kick it off.”

Opening Commentary from Dr. Bill Conerly

“Thank you, Pat. So, we're like halfway between Thanksgiving and Christmas. It's a time for hope. Many of us hope we will drop the pounds that we put on at Thanksgiving before we get to the next holiday and that there will be better news in 2024. I think that for many people there will be better news about 2024; the people on this call.”

“In order to talk about what's going on in your business -- in real estate and real estate transactions -- I need to give you a picture of the whole economy. Interest rates, inflation, recession, but I'm a little hesitant to talk about recession. Those of you who have been listening to this in the past know that I have been predicting a recession to begin in late 2023 or the first half of 2024 for some time, and it looks like we're not getting that in late 2023, thank goodness.”

“I kind of like my forecast to be right, but not when I'm predicting a recession. But I think that the national recession is being postponed and dampened. Postponed and dampened, but not eliminated. Maybe a 60-40 chance of a recession. Forty percent odds that we skip a recession, but I'm a little hesitant to say the ‘R’ word because you folks who handle real estate transactions have been in recession. The overall national economy has not been in recession in 2023, but your sector has been. What 2024 holds, I think, is a spreading of weakness into the rest of the economy, but not your sector. You've already been there. So, don't think about your business being infected by recession. You are the communicator, the infector of the other sectors of the economy, and I'll explain that.”

“The other thing I want to mention as I talk about the risk of recession is that people think of 2008, 2009. 2008, 2009 was two X the average recession. You measure changes in GDP, 2008, 2009 was twice as bad as the average recession.”

“What I am anticipating when I say probably a recession in 2024 is something much milder than average. So far cry away from 2008, 2009. With that, what's going on. The third quarter for the US economy came in very strong. Fourth quarter doesn't look as strong, but it still looks reasonably solid, but I think there will be an impact. When the Fed started raising interest rates, people said, ‘oh, we're going to have a recession. The world is ending.’ (Because there are always people who think the world is ending.) And maybe it is, but we're a few billion years away from the world ending. But the nervous people thought that the effect would be immediate, and I've studied the

time lags ever since the first bad forecast I made where I thought I figured out X would cause Y and I predicted X would cause Y like tomorrow, and it turned out X did cause Y, but it took months, quarters, maybe a year or so. And the time lag on monetary policy affecting the economy is typically monetary policy, and then a year later spending, employment and production change, and then in another year or three-quarters of a year inflation comes down."

"We've had some factors in the economy that have delayed or mitigated the downward effect of the monetary tightening, and I'm going to run through those briefly even though those sectors are not critical to you for the most case, but they tell a story about why we're having some weakness in the economy next year and how the Federal Reserve will respond."

"So, first of all, new car sales usually go down when interest rates go up. That didn't happen so far this year because there was pent-up demand for new cars. Previous years had supply chain problems. Now the new cars are available and car sales have been delayed. Their response to tighter interest rates has been delayed, but not ended. The second factor that is different this cycle is business capital spending. Companies usually cut back on their spending for computers, equipment, and machinery, partially because their financing costs are higher with high interest rates, but also because they don't think they need to add capacity if the interest rates will have an effect on the economy."

"But this time around, the big thing is businesses have been adding computers, equipment and machinery to make up for the humans they have been unable to hire. So that's a delaying factor and maybe a bit of a mitigating factor as well. The third thing is that layoffs in this economy have led to hiring. That's kind of strange. I've never thought I'd say that layoffs lead to hiring, but we have so many open positions. The new report came out today that the number of open positions is down a little bit, but it's still well above normal. So, somebody gets laid off, that person drives home passing three or four help wanted signs, and if the person's skills are not highly specialized, that person gets a job tomorrow. So we have seen month-by-month employment gains, even though we've also seen headlines about layoffs. That's a delaying factor that's not going to eliminate the eventual cutbacks on employment."

"It's a delaying factor. Then the fourth thing is consumer spending has held up very well. Typically, when a person is laid off, that family cuts back on discretionary spending, and also, the people who are worried about getting laid off, cut back on their discretionary spending but there's a lot of money that has been saved up from the pandemic stimulus and people will be able to keep spending that for a few more months. So those factors mitigate to some extent the likely recession, but also delay it. So I'm still saying mild national downturn, but the Federal Reserve is committed to keeping inflation down and they won't let an uptick in the unemployment rate deter them from that step. So I believe that the Fed is going to keep interest rates high. The models that I have run on inflation say the Fed needs to keep short-term interest rates up through the summer or into the summer. Sometime mid-year 2024, I think the Fed will be ready to start easing."

"But the short-term interest rates that the Fed manipulates are not what you're curious about. That's mortgages, and the intermediate step between federal reserve policy and mortgage rates are long-term bond rates, like the 10-year treasury bond that has edged down a little bit as more and more of the Bondo say, 'oh, the fed's next move will be down.' By spring of next year, I think there'll be a general very strong consensus in the bond market that the fed's next move will certainly be down, not up, and then bond interest rates will start coming down."

"At times in the past, mortgages have moved in lockstep with bond interest rates, but that's not happening this time. The institutional investors who do bonds or mortgage-backed securities, they're looking at these interest rates and saying, 'it's probably about as high as it's going to be. We want to lock in the high interest rates as investors.' But if you buy a mortgage-backed security, you are not locking in high interest rates, because once interest rates come down, those

mortgage holders will refi and all of a sudden what started out as a 30-year mortgage ends up being a two-year mortgage."

"Nobody's locked in. So the gap between bond rates and mortgage rates has been high, and I think it will remain high for a while, but we will see the beginning of declining mortgage rates maybe in the spring, but do not expect a very sharp fall in those interest rates. So the big picture is I think the rest of the economy is going to feel pain, but it will probably be a little bit better for those of you who are facilitating real estate transactions as we move from the tightening phase to the easing phase of the economy. Keep that in mind. Be prepared for forecasts to be wrong and work on those pounds that you put on at Thanksgiving. Pat, why don't I throw it back to you."

Opening Commentary from WFG Chairman and Founder Patrick Stone

"Alright, thank you. Hello everybody. And I'm just going to start out by saying Bill and I've done this multiple times, and this has been one of the more difficult presentations to prepare for because of the degree of uncertainty and a lot of issues going on that are hard to define or hard to really put in the proper place. We have a political dysfunction; we have global political, geopolitical issues, we have a couple of wars going on, and we have questions about our ability to fund our own government. There's just a lot of stuff going on right now, but I will tell you this, and I mean this sincerely. I'm starting to see indications of a turn in the real estate market. You have to look pretty hard, but it's there. I'll give you some examples. The percentage of people waiting for home prices to drop before they bought a home in April this year, 85 percent of those people surveyed said they were going to wait until home prices or mortgage rates dropped before they did anything. In October, it was down to 62 percent. That's still a lot, but that's a fairly significant change in attitude."

"Home purchase sediment index in October 2022 was 56.7. In October of this year, it was at 64.9. So, people got much more positive about buying a home. Newly constructed home sales were up in September 759,000 versus about 679,000 in April. Historically, the spring, of course, is usually a hotter or more vibrant market. We are seeing sort of an unusual change where we have improvements in the market occurring this late in the year. November saw the first annual growth in newly listed homes in 17 months. That's just amazing to me. November home price at a median of $420,000. So overall, you're starting to see some indications that we may be improving economically in the real estate market and I'm kind of encouraged by that. Yes, we still have a long way to go."

"Existing home sales this year: there's a lot of arguments whether they're going to top 4 million or not. I think there'll be right around 4 million. I will tell you this, I am much more optimistic about where we're going now than I was a couple months ago, and I do believe it will start picking up and, as Bill indicated, that the next movement by the Fed will be a decline in rates. I think we're done raising rates. We'll start to see rates come down. So again, it's a little bit iffy, a little bit hard to be absolutely certain about, but you're starting to see some ideas and some indications that things are getting better."

"I got to share something with you, and this is just off track a little bit, but I was reading a lot of stuff in preparation for today's presentation, and I was stunned to find out that single women now buy more homes than single men by a considerable amount. Single women are 22 percent of the homebuyer market. Since 2021, women applicants have gone up 10 percent. Male applicants have gone up 7 percent. Single women own 10.76 million homes, or 12.9 percent of all homes. Single men own 8.1 million homes or 10.6 percent of all homes. So this is a lot different than it was when I was younger and it's good, it's encouraging, and I'm really happy with where we see that going."

"Getting back to real estate, there's still a lot of conversation, 'will home prices come down?' No, they won't come down. Alright, just straight up, we had a tremendous increase in home prices, and consequently people say, 'well, if they go up that fast, they got to come down.' Real estate, in

terms of markets, is probably one of the truest places in terms of supply and demand, and supply-demand actually determining the price. And supply typically is new construction and resale. Demand is a combination of need, desire, and affordability. We saw home prices skyrocket because the rates were low and people wanted to own a home. Demand went through the roof, home prices went up, it came down a little bit but not much and they're still running over $400,000 as a median price. I don't think they're going to come down much because I do see demand staying very, very high. We had a total amount of home sales in 2021 of about 6 million. All time record was 2005 at 7 million. This year we'll probably end up at about 4 million. Uncle Pat thinks we're going to go up next year. I'm a little bit more optimistic than Uncle Bill. I actually think we're going to see mortgage rates come down, not horribly fast, but they will come down. I think they may break seven before the end of the year. They're running about 7.1 percent this morning, so I think they could come down under seven percent by the end of the year. I see them at six and a half percent by mid-year 2024, six by the end of 2024, and down in the fives in 2025. So I do see sales going up next year, not like a rocket ship, but they will go up. The one thing that has happened that causes somewhat of that supply-demand issue is that we really underbuilt new homes. We had like 14 straight years where we built less than a 52-year average, and that was from 2008 through 2022. We are really underbuilt. So consequently, the demand is still strong and supply is still weak. So I don't see home prices coming down, and I think they're going to stay up and maybe even go up a little bit more."

"A lot of talk about the low interest rates causing people to stay in their homes. Real quickly on that one, from 1985 to 2009, the average tenure was 6.1 years. From 2010 to 2022, the average tenure was 9.3 years. Yeah, I think interest rates had some effect on that, but we've seen historically a drop in movement, a sociological change, if you will, started in about 1985. It ran about 18 to 20 percent of all the population moved at least once a year back in the mid-eighties. It trended downwards in a progressive manner all the way through 2019 prior to the pandemic, and it was down to about eight and a half percent moving. So we basically lost about 10 percent movement of the population on an annualized basis. So a sociological change where people became more settled and so movement just really declined dramatically."

"Getting over to the demand side, the thing that gets me a little bit excited going forward is you have a tremendous amount of people in the need category. Millennials, 27 to 42 years of age, there are 72.1 million millennials. Gen Z, which is 11 to 26, and I know there's not many 11-year olds to buy a home, but Gen Z -- 11 to 26 years -- is 69.6 million. So the total of those two is 141 million people that are going to be present in the market over the next 10 years looking to buy a home over the next 15 years. So we've got a tremendous desire and demand for home ownership that will be there for a long time."

"Ninety-five percent of people 20 to 42 say they want to buy a home. Seventy-five percent think home ownership is a part of the American dream and 68 percent think home is the first step towards intergenerational wealth. So I do think the demands there. I do think that you'll see continued strong market for homes. I am hoping that I'm right about mortgage rates coming down. Bill indicated he thought that the first drop in the fed rate would be midsummer. I'm hoping it'll be in the spring, but it may take to summer, but I think you'll see mortgage rates come down in the mid sixes by the summer. And then, if you look at the home prices, one of the things that is often confusing is that our media tends to talk about median price being universal around the country and it's not at all. And just to give you an idea, in the west median price in September was $620,000, in the south $366,000, in the Midwest $295,000, Northeast $449,000. Overall in the country, right about $400,000."

"So, you see a tremendous disparity in pricing, and consequently the amount of movement and the amount of purchases vary based on the pricing and the ability to buy. So existing home sales year-over-year looking at September, the west was down 12%, the south was down 16%, Midwest was down 17%, Northeast was down 24%. US as a whole was down about 19%. Again, my personal

opinion is we have seen the bottom and we're going to start going up, and I'm confident that that's going to happen in a fairly orderly, progressive manner. And again, I hope the rates come down a little bit faster than Bill says, but I do think they're going to come down one way or the other here in this coming year."

"Should we be worried about any sort of economic failure in the real estate industry or any sort of a significant foreclosure wave or drop? No, not at all. We do not have anything hanging over our head out there. If you look at the average credit score, about the last five years over two thirds of all mortgages have had FICO scores over 760. I mean it's just that we have really, really solid mortgage behavior out there. Very low credit or borrower issues. We really don't have any problems there that I can see. And delinquency is very, very low. About 70% of all mortgages are currently under 4% and about 50% of homes have a majority in equity. In other words, more equity than they have loans. Distressed property sales, again around 2%, which is historically very, very, very low. And I think we'll continue to stay low. Anyway, I'm pretty positive about that and I don't see any real issues happening. Again, going back to my projections on mortgage rates, for what they're worth, I think six and a half percent by the middle of next year, 6 percent by the end of next year and, five and a half percent by 2025. I think 25 is going to be a very good year."

"As I said earlier this year I'll come in around 4 million sales, maybe a little bit more, maybe a little bit less. Next year I think it's going to be four and a half million or a little bit higher in sales. And then I think 2025 are going to be up to five and a half million, or maybe closer to six million. Again, there's a lot of variables out there that could change that, but I think overall I'm pretty confident things are going the right way. We've bottomed and we're heading the right way."

"Real quickly on commercial real estate, I'll just touch on this a little bit. CRE, commercial real estate debt is increasing, but both the size and who holds it are kind of interesting to me. The one thing that does concern me a little bit is the amount of commercial real estate debt held by smaller banks. If you look at it about $1.95 trillion is held by small banks, about $883 million is held by larger banks. So we really have a lot of regional and local banks holding commercial real estate loans and there's about $1.5 trillion in commercial real estate loans that come due by the end of 2025. I will tell you this, and I'm confident that there are a lot of investors out there willing to step up and buy these properties, but that is a little bump in the road that I'll watch real carefully, and I'm a little bit concerned about delinquency rates on commercial versus residential loans. Commercial loans have a lower delinquency rate that residential. As I said earlier, residential is under 2%. Right now it's about 1.72% delinquency rate on residential loans. Commercial loans 0.84% delinquency rate. So, commercial loans are still performing at a very good level. Multifamily, I don't think there's any issue here. We've built a lot of multifamily. In fact, we've built so much multifamily that we're actually seeing apartment rent prices leveled off and declining a little bit, and that's good because rent and owner's equivalent rent are a big part of both the CPI and PCE indexes, and the rent is coming down. And so the only problem is I think they only check those rents about once every six months. So, it takes a while for them to show up in the indexes."

"Big area in commercial is probably causing most people concern are the offices, or office space. Net absorption has been down the last 12 months about 50.1 million square feet. So it has dropped. Office utilization has dropped because of the pandemic and that remains a concern out there. We'll see what happens with it. I don't think it's a crisis, but it's something we need to watch. Industrial warehouses, that's good. They have leveled off a little bit. Quit going up quite so quickly. But the e-commerce really benefited warehouses. NAFTA and e-commerce really benefited warehouses. The one area of retail that is a concern is malls. If you look at net absorption by type on retail, the only area in retail that's actually had negative growth is malls. Everything else has been positive on retail. Again, that surprises me a little bit, but that's encouraging. I don't think we have any issue there. So overall, I don't think commercial is in bad shape, but I would watch the office space a little bit and we'll see what happens there."

"The debt outstanding has dropped fairly considerably in commercial. I mean new debt that's slowed down dramatically. And commercial real estate construction has slowed down. Multifamily units got built at a tremendous level. Now that has leveled off and started declining also. So I think the market itself is making that come back into balance."

"Bill mentioned debt and government debt. I got to tell you that one thing that does really concern me is the amount of federal government debt. We're at $33 trillion in US government debt, which is just ridiculously high. Now the irony of it is about 25% of that is held by the US government, so that mitigates some of the problem, but it's still very, very high. About $7.7 trillion is held by foreigners. The problem here is that this service on this debt, because new debt is being issued at higher rates, the debt service on the US government debt is going to be about $1 trillion a year. Over the next few years, I'll be real surprised if it doesn't drop $1 trillion a year. That's a lot of cheese and that something has to be done there. We just seem to have ignored the fact that you actually have to pay for the debt you incur, but let's hope we get that fixed here because that's not sustainable long-term. With that, I'm going to ask Bill a question and I'll shut up for a while."

Question and Answer Segment

Most often when experts agree the economy or interest rates are heading a certain way, they end up saying, "we could not have predicted the things that happened that made our predictions wrong." What is being missed or overlooked right now that would cause mortgage interest rates to stay where they are or increase over the coming one to three years?

Dr. Bill Conerly's response:

That's a good question, and I think it's worth talking about. Where we might go wrong, the Federal Reserve holds the key, and even though they don't directly manipulate mortgage rates, if they start pushing short-term interest rates up, then the bond market and mortgage rates would go up. So what would lead the Fed to change from cutting rates, which Pat and I think will happen at some point, to raising rates? It would have to be inflation and I don't see inflation going up, but let me tell you how I could be wrong. Our models of inflation have not worked very well. Those of you with a bit of a memory for the 2000 teens know that inflation was running below the Federal Reserve's 2% target, and they didn't understand why. Many people did not understand why the quantitative easing after the 2008-2009 recession why that did not cause higher inflation. So we economists are not very good at forecasting inflation, and it could be we're just missing something. So I think, though I'm highly confident that we're not going to see rising mortgage rates over the course of 2024 and 2025, if we're totally wrong on inflation, that could cause it.

What's driving your interest rate predictions? Is it the US economy, Chinese debt, wars? What other things are you looking at that we should be looking out for?

Patrick Stone's response:

Well, I think obviously the impact of inflation abating is beneficial to the interest rates. But I also think we are in a globalized economy. We hear these politicians talking about, 'well, I'm against globalization, we need to prevent globalization.' Globalization is already over. I mean, we are in a global economy and the US is the biggest player in the global economy by far. And consequently I think we demand as it abates globally also causes demand to abate here in the US. So, I do think globalization and the global economy is slowing down. You said, I think you articulated very

clearly earlier that you feel we'll have a minor recession next year. I agree with you. I think because we have both Europe and China going negative, it is going to be almost impossible to avoid a recession. I don't think it'll be particularly painful, but I do think it'll cause rates to come down and rates come down, mortgage rates to come down.

How do you expect the political turmoil in the US and overseas will affect Q4 and 2024 also effects on cryptocurrency?

Dr. Bill Conerly's response:

Yeah, political turmoil, let's start with overseas. The easiest way for my forecast to be colossally wrong is through international conflict. And we've got conflict in Israel. We've got the Ukraine-Russia war. Who knows what the heck China is going to do with respect to Taiwan and shipping in the Red Sea is being attacked. There are all sorts of geopolitical problems that could cause major turmoil for the economy. That said, most of the things that you see in the news where somebody says, 'Hey, this could happen, that could happen.' Most of those things don't happen and it's just a hand ringing, 'Hey, let's worry about something.' And some of you out there, I know you want something to worry about. Okay, worry about that. But I think that we will probably avoid a colossal international problem, but it is certainly a potential. And I think the Ukraine-Russia war did a lot to put Europe in a very poor position, though they had positioned themselves poorly for higher energy prices.

In terms of domestic policy, a lot of people have theories about what the coming election means. Many people think the Fed always tries to help the incumbent by cutting interest rates. Nope. They're likely to raise interest rates in an election year as cut interest rates. And I've looked back at all the post-World War II elections. I cannot see an effect on the economy. If you're a local TV station selling advertising, it's good for you, and maybe there's some entertainment value in the election, but I do not expect the election to have that.

The political discord that we have that I think is not good for the economy, but I think it's a small effect. I think most decisions by consumers, by businesses, are made based on the cold hard facts and not the politics. So, I think that's only a minor issue. And cryptocurrency. I still think there is a use case for cryptocurrency. Transfers of assets internationally and smart contracts, I think, are going to become very popular at some point. But cryptocurrency as an investment? Maybe it's not completely gone, but I think that people are less enthusiastic about that and don't see that having a big effect on the economy.

Will home price affordability come back into a better range anytime soon?

Patrick Stone's response:

The answer to that is not real quickly. So basically, let me just give a frame of reference if I may here. I had a friend the other day, we were both in the business back in the eighties and we were talking about interest rates, and he says, 'Well Pat, I don't know why people are so upset about 7% interest rates. Heck in 1985, interest rates were 12%.' And I said, 'Well that's true, but it was a little bit different deal.' And he said, 'What do you mean?' I said, 'Well, in 1985 the median price of a home in the US was $86,800, and that was approximately three times the median income. Today the median price is about $400,000 and that's about six times the median income.' So I said, 'Consequently, homes are three times more expensive. Even though the interest rates are lower, it precludes people buying because of the cost compared to the income.'

So I think that's an issue and we need to have home prices go back to a little bit more normal appreciation rate -- one to three percent annually -- and then income, savings and so forth

increases. And over time we get back to the point where affordability increases. Right now, the cost of the homes compared to the annual income or savings of people is still prohibitive. It is not precluding people buying homes, but some people need help. Other people need the ability to make more money before they can buy a home. So long story short, it's going to take a little while to get back to where we consider homes to be affordable. I think we'll head that way, but it'll probably take three to five years before we really feel like we've made significant progress there, if that makes sense.

Please speak to the consequences of continued unchecked growth and government spending in the deficit.

Dr. Bill Conerly’s response:

I'm unhappy with it, but I'm not sure when the chickens will come home to roost. The debt, you mentioned the burden of the interest expense to the federal government, and that's rising. One of the mistakes our government made was when interest rates were low, they kept borrowing short-term, whereas they could have locked in a 30-year debt at 2%. It's like, why wouldn't you do that? Amazing. But the first question I get asked a lot is, ‘Will the folks in Congress and the White House have to cut other spending because of the interest expense?’ And I don't see anybody in Washington DC concerned about total government spending being too much or the deficit being too much. And whether you live in a red state or a blue state, your state elected people who don't give a flying anything about too much spending. So what happens? At some point, there will be hesitancy on the part of investors to buy treasury securities. They will be afraid, maybe of a default, but perhaps more afraid that the value of that currency will be deflated. Inflation will cause diminishing value of the currency and people will say, ‘Hey, we're just not going to buy.’ Interest rates will go up on government securities. But usually that takes a long time and I think we're not there. But it's very hard to predict, and I've looked at what happened with less developed countries, Argentina, Brazil, Mexico, Russia with their debt crises, and it usually creeps up on them and then suddenly hits 'em like a ton of bricks. I don't see the ton of bricks coming, but it makes me nervous that we will probably not get a lot of warning, but it's something that really should be addressed. But in terms of how we make decisions for the next year, I don't think it should be part of our decision-making process except when you go to elect one of these clowns who wants to spend, spend, spend.

We are seeing consequences of 12 years of artificially low rates in housing. So what do you think it will do to stocks?

Patrick Stone’s response:

I don't know that most of the US corporations really took advantage of the low rates and US corporations are well-financed, well-capitalized, and in a very good position candidly. So those low rates actually benefited us in terms of our ability to function and compete internationally. It’s kind of fun because if you look at how people react, and some of you've heard me say this before, if you look at how people react or how corporations react to what's going on in the world, large US corporations are more negative than mid-size corporations and investors. And they're a little bit more negative because they operate in the global marketplace, and they see the global market slowing down. Mid-size companies and investors are very positive. So the low rates have actually been beneficial, I think, overall for business. I don't think they've created an unusual amount of corporate debt or an unnecessarily risky amount of corporate debt. So, I think by and large, it's been beneficial overall for corporate America.

How will personal debt and the US' ability to lower tax debt while their debt credit ratings drop affect US citizens?

Dr. Bill Conerly's response:

Well, I've talked about the federal government, the federal deficit a moment ago. So let me talk about what's going on with personal finances and there's always plenty of hand-wringing about it, but I was just looking at the total indebtedness of households, it's up by something like 4%, which is about consistent with the overall economy and incomes not adjusted for inflation. So I think consumers are being reasonably responsible. Now, that's on average. There are certainly some irresponsible people. I was once one of those. But I don't think that's going to be an issue. And one of the other things we do not see in the statistics, but it's something Pat that you and I were talking about not long ago, was intergenerational wealth transfers. And when you think about debt, particularly people in their thirties, keep in mind there are a lot of parents, grandparents who are helping the younger generation build assets. And that is something that you don't see, and I think it mitigates some of the high debt. But the numbers I'm seeing is that we don't really have a problem with too much consumer debt on average.

How do you see the upcoming 2024 elections possibly affecting the housing market?

Patrick Stone's response:

Oh man, that's a really good question and one that's kind of hard to answer. Obviously, unless there is a sweeping majority, I don't think it will affect the housing market much. I think if we have a fairly balanced representation in the House and Senate from both parties, I don't see much changing. I do think if the Democrats get significant control over Congress, I do see some more liberalized laws being passed or initiatives being implemented to make mortgages more accessible. That particular trait got carried away obviously prior to the Great Recession. I still laugh and I shouldn't, but I still laugh at the idea of stated income loans. 'Hi, I make $500,000 a year. Yeah, I know I'm not employed, but I make $500,000 a year.' I mean, we don't want to go there again. And would I like to see some things change with the mortgage market? Yes. Would I like to see some variation in product types? Yes. Do I want to see it get really liberalized? No, we don't need to do that. So, I don't think the elections are going to have much impact. I do not at this point in time see either party really taking over a significant majority and being able to implement policy one way or the other. Knock on wood. Let's hope that continues.

Why is the Fed so focused on a goal of 2% inflation?

Dr. Bill Conerly's response:

I get asked that question a lot, and we have the question obviously from the people. A little trip down economic history. We once thought there was this fixed trade-off between inflation and unemployment, one up the other down, and so forth. And the policymakers in the 1960s said, 'Oh, well unemployment is a bigger problem than inflation, so let's manipulate this trade off so that we have low unemployment and we'll accept some high inflation.' Well then we got the high inflation and high unemployment stagflation. Milton Friedman and another economist, Ned Phelps from Columbia, they said, 'Whoa, whoa, whoa, this fixed trade-off only works if people do not expect rising inflation. If they expect rising inflation, they're going to demand higher wages, be willing to pay higher prices, and there's no long-term trade-off. It may appear that. So then they said, 'Well gee, what inflation rate should we want if high inflation doesn't help lower unemployment?' And then a number of economists did studies all around the world as well as US economic history, and they said, 'When inflation gets up, then we have an unstable economy.' The

monetary authority, the Federal Reserve here or another central bank, they'll tighten to fight inflation, we have a recession, they'll ease to solve the unemployment problem when we get more inflation. And they said the economies that do the best long-term have steady low inflation. Steady low inflation. So 2% is not a magical number. It could be 1%, could be 3%, could be zero. But the Federal Reserve really, really believes deeply, deeply down in their hearts that a stable low inflation rate is best for people, best for workers, best for businesses. And that is what's driving their belief. There's been some talk that maybe it ought to be 3%, and I don't have a strong opinion on that except if you've got a 2% target and we are above that target and then you say, 'oh, the target isn't two, it's three,' then you don't have a target. Then you've lost all credibility and the Fed needs to have credibility. If they get the inflation rate down to 2% and hold it there for two or three years and then say, 'Ah, we think three percent's a better target,' that's fine, no big deal. But it would be, I think, very foolish and more importantly than what I think, they think it would be foolish to change their target now. So, stable low inflation is the key to long-term growth. And Friedman put it this way. He said that we don't want inflation to be part of business decisions. We don't want inflation to be part of business decisions. And for a long time, nobody was interested in inflation. I'd give a speech to business audience. Nobody was asking me about inflation. When inflation is low, nobody thinks about it in their business decisions and that's the goal.

Do we expect to see a lot of foreclosures next year?

Patrick Stone's response:

No, I don't. There's nothing right now on the horizon that alarms me or concerns me. Typically you would have to have a fairly significant recession and a tremendous amount of job loss to really dramatically increase the foreclosure rate. I don't see that happening, on top of which about 50% of all homes have 50% equity. So we just do not have the same circumstances or detail that we had prior to the great recession. We just don't have all those junk loans out there. Again, as I mentioned earlier, over the last five years, two-thirds of all mortgages have been to FICO scores over 760. You've got a FICO score over 760, you're not going to have a foreclosure. So I don't see a problem there. I don't see anything happening or anything on the horizon that I think will impact that in a meaningful way. So I'm not concerned about that at all.

Why does it appear that the unemployment numbers are always so far off?

Dr. Bill Conerly's response:

We're going to get new employment numbers on Friday and that will include a revision of the previous months and the month before. And this is actually an important question, not just for employment numbers, but all of you who sort of keep half an eye on the economy know that the first numbers that are reported get revised, and you can make a decision, you can make a choice. Do you want accurate numbers or do you want speedy numbers? You cannot have both. And actually that's kind of true in a lot of business situations, as well as government statistics. So the employment numbers are a complete 100% canvas of the large employers, and it's a sample of small employers, small and medium-sized employers. They look at data from that. Eventually, by the end of the year, there will be tax forms for the unemployment insurance tax that every business will have filed and we'll have really good numbers. The employment numbers end up being very, very accurate after the end of the year. But, in the meantime, the question is do you want to take an estimate based on a survey, a sample, or do you want to have no information at all? The GDP numbers are even worse. There are samples and surveys of widely scattered parts of the economy. And I won't say that the government statisticians are flying blind, but they're flying visibility impaired and they're doing the best job they can. I periodically get on the phone and talk

to one of them about one or another, about, ‘Hey, how do you come up with these numbers?’ And they're always very helpful. They're smart people, but we do not track every transaction in the economy. So, the economic statistics are a little bit soft. And let me throw in at this point the recession. There's a committee of academics that determines whether we have a recession, but they are not in the business of providing you up-to-date information. They're in the business of assessing for future generations of scholars. When did the recession begin? When did the recession end? So take all of this with a grain of salt. That's good advice for long-term.

Do you project a refi boom and, if so, when?

Patrick Stone’s response:

I don't project a refi boom, because I don't think rates are going to come down fast enough to cause that. I think there will be refis of a lot of mortgages made over the last couple of years at a higher rate. But I think that will be progressive and it will occur over a period of time. It won't be all at once. So, people will be taking advantage of lower rates at reducing their mortgage payments. But again, I don't think rates are going to drop fast enough to cause it to be an instantaneous or significant one-time event. I do think it'll take a little bit of time.

Let me ask you the $64,000 question. What would cause your view to change?

Dr. Bill Conerly response:

What would cause my view to change would probably be, as I said before, inflation accelerating would cause the short-term view to change, and I don't see what would cause that. I could see it being a little bit reluctant to fall. That's anthropomorphizing an economic statistic, but if inflation is slow to come down, then things get stretched out. But that's sort of in the range of normal variation. Other things that would cause my view to change, obviously international crisis would be one thing. And something else I'm monitoring that I think will have economic impacts is artificial intelligence. We had a question about AI and the title insurance industry, but let me speak more generally. We know that AI is going to have an effect on most businesses one way or another. We're not sure of the magnitude or the timing of that, but that is something to keep an eye on, is how that's changing not just your business, but all the businesses around you, as well as governments and nonprofits.

Same question. What would make your opinion about the outlook change?

Patrick Stone’s response:

Well, I think you nailed it with international tension or international geopolitical issues. We’ve got two wars going on right now, and we've got the threat, as you mentioned earlier, of a third one with China and Taiwan. And, as I indicated earlier, and our media doesn't seem to understand this, we are part of a global economy, and the global economy impacts this country tremendously. So I think if we have an abatement of the geopolitical issues and the wars end, I get real excited about economic growth and how it will impact our country and our economy in a very, very positive manner. So, fingers crossed that we see that happen in the next year and I think that would be tremendous.

What will make 2024 a happy new year?

Dr. Bill Conerly's response:

I'll answer that and then throw it to you to close. What's going to make me happy is, first of all, family and friends. And I encourage everybody to put that above business. In terms of the economy, I am usually happy if my forecasts turn out to be right, but this time I'd be happy if I'm wrong about a recession. I expect to be happy about falling Interest rates, as we mentioned. One of the happy signs for 2024 is we're seeing increased interest of working-age people in actually working. Either working or looking for work. The labor force participation rate had been going down, it's going up now and that is good. If somebody is in a position to retire, I don't begrudge them retirement, but I think it's good for the economy and also good for people to work. And we're seeing more people get out of bed in the morning and go to work. And the last thing I'll mention in terms of what makes my Happy New Year happy is we're seeing a lot of technological innovation that is going to bring better products in healthcare, as well as communications, manufacturing, service production. A lot of technological innovation that's going to make life better for us. And what about you, Pat? What's going to make it a happy new year for you?

Patrick Stone's response:

Well, I am pretty sure it's going to be a pretty happy year because we put a pool in and we have seven grandchildren within 25 minutes. So I think I'm going to have grandchildren in my backyard all year. I think that'll be great. Make my wife happy, make me happy. I tend to agree with you. I think looking at it from a business point of view and to keep the conversation short, I will say this. If mortgage rates get down under 6% and 2024, Uncle Pat will be very happy.

So, with that, we're going to wrap it up. Thank you very much, Bill. Thank you everybody for attending and again, I hope everybody has a wonderful holiday.

About Patrick Stone

Patrick Stone is Chairman and Founder of Williston Financial Group, the Portland, Oregon-based parent company of several national title insurance and settlement services providers, including WFG Lender Services and WFG National Title Insurance Company. Stone's lengthy career in real estate and related services includes C-level positions with three public companies and serving as a director on two Fortune 500 boards. His senior executive management positions include nine years as president and COO of the nation's largest title insurance company, chairman and co-CEO of a software company, and CEO of a real estate data and information company. Stone also served as vice-chairman of Metrocities Mortgage, a 2005 top-20 mortgage lender, and as chairman of The Stone Group, an Austin, Texas-based tenant-represented brokerage company. In 2013, Inman News named him one of the year's "100 Most Influential People in Real Estate." Stone received HousingWire's coveted Vanguard Award for lifetime career achievement in 2019 and again in 2021, was recognized in 2019 and 2020 as a Lending Luminary by Progress in Lending, and was the recipient of October Research's annual Leadership Award in 2020.

About Dr. Bill Conerly

Bill Conerly has a Ph.D. in economics from Duke University and more than 30 years of experience helping companies adapt to changing economic conditions. He was formerly Senior Vice President at a major bank and held positions in economics and corporate planning at two Fortune 500 corporations. He is also an online contributor to Forbes, chairman of the board of Cascade Policy Institute, and the author of The Flexible Stance: Thriving in a Boom/Bust Economy (2016) and Businomics (2007), a book about economics for business leaders. To subcribe to Conerly's monthly newsletter, visit: https://conerlyconsulting.com/newsletter/