WFG National Title

ECONOMIC OUTLOOK

WEBINAR
4th Quarter 2024

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

FULL TRANSCRIPT

Welcome with WFG Chairman and Founder Patrick Stone

“Good morning everybody and welcome to the fourth quarter event. I'm very pleased today to have an old friend with me again, Bill Conerly. I've known Bill now, I think 41 years. I met Bill when he was the economist for First Interstate Bank, and I will share this with everybody present. He is the most business-oriented economist I have ever met and speaks with more common sense than any other economist I've ever talked to. So with that, I'm going to let Bill kick today's event off. Bill?”

Opening Commentary from Economist Bill Conerly, PhD

“Well, thank you Pat. These are wonderful times to be an economist. As an economist, I really like interesting stuff going on. We learn a lot from weird things happening in the economy. It's maybe not such a wonderful time if you're trying to run a business, especially a real estate oriented business in this environment. So Pat and I are going to try to give you some information that will help you make the decisions that you have to make in the coming year.

“And for those of you who are new to these webinars, welcome. For those of you who show up every quarter, you're probably wondering, 'Gee, do we really need one in December? I mean, has anything changed since September?' And yeah, we had an election. Now I'm not going to tell you whether the new President is good or bad. I am going to take a forecaster's perspective and say, 'Hey, this possible policy change. Does it warrant me changing my forecast for economic growth, for inflation, for interest rates?' And just roll through it like that. And there'll be a number of changes from the new administration that do not have economic impacts. I'm not going to discuss them because I'm just doing the economy. And so you'll be able to maintain your belief that either Donald Trump is great or Donald Trump is evil. After this, I'm not going to try to shake your opinion on the man overall, but talk about a forecast. So I will discuss new policies and then roll into what my economic forecast is, then leave it to Pat for more detail on real estate and your business.

“Now, I have watched a number of presidential elections as an economist because I've been doing this since I had thick, dark hair and a long beard. And one of the things I've seen is that there is not a strong correlation between what a candidate says on the campaign trail and what actually happens. Many campaign promises are forgotten, and this is true of Democrats and Republicans. Both campaign promises are forgotten. Or the person wins, gets into the White House and some of those campaign promises need congressional action and Congress won't go along, so nothing happens. I've seen some cases where the president actually takes the promised action, but does not get the anticipated result. And then a small portion of the time the candidate has made a promise, follows through, and we get the result that was promised. But that's a minority. So, take everything that you've heard about what Donald Trump will do with a grain of salt. You might want to get the big economy size salt shaker, perhaps a case of them, because things are fairly uncertain. With that, let me roll through the changes I'm looking at first on taxes.

“In the first Trump administration, there were tax changes. The business income tax changes were written as permanent changes in the tax code. The personal income tax changes will expire at the end of 2025. I think the new Congress will extend those, so we will be under the same tax regime. There may be some other minor changes on things like 'does a corporate expenditure get expensed or depreciated?' but I don't think there'll be big economic impacts from tax changes.

“But connected with taxes are tariffs. A tariff is a kind of tax, and this is an area where we have a good bit of uncertainty. Now, I'm an economist and virtually all economists think taxes are a bad idea. My challenge here is not to say good idea, bad idea. I'm one of us economists who thinks tariffs are a bad idea, but my forecasting perspective is, 'how bad is it? Is it a little bit bad or really big bad?'

“So a ‘big bad,’ to put it in terms you might understand, is your escrow account gets hacked, you lose millions of dollars and maybe the future of your business is in danger. That's a big bad. A small bad is you go to lunch and you forget to ask for the senior citizen discount. Okay, that's bad, but it's a different magnitude of bad. And incidentally, I've tried to explain to Pat that you can only ask for the senior citizen discount if you're actually picking up the tab. I've said that to him several times, but it’s just boom over his head.

“So anyway, how bad are these tariffs going to be? And you heard the President announce 25% tariffs on all imports from Mexico and from Canada. Well, the President is a deal maker. He likes to negotiate. I've read his book, ‘The Art of the Deal.’ I recommend it for one-off transactions, not for relationships, but I think that the President will deal. He's already taken a call from the President of Mexico, had a visit from the Canadian Prime Minister at Mar-a-Lago. What Donald Trump wants to do is threaten big tariffs, maybe impose big tariffs and then cut a deal, get a concession, and I think he will. Some of the concessions may be substantial, some of them may be cosmetic. There will be retaliation from other countries. So when the day is done, we will have higher tariffs on imported goods. It will not be nearly as severe as the early indications may suggest, but there will be higher tariffs that will tend to raise consumer prices as well as business costs a little bit, a small amount, but it's worth keeping in mind that the increase in the tariffs will increase consumer prices, but not permanent inflation. So inflation is the rate of change. We'll have a one-time shift to a higher price level, then we'll return to what is the old rate of inflation. It'll feel like higher inflation for that year of transition. And after that we'll go back to something like two and a half percent inflation and it will not be permanently baked into the rate of change. So that's one impact on the economy.

“Probably the biggest impact will be limitation on immigration. This is a fundamental plank of Trump's proposals and, for perspective, back in the Obama administration, we were getting about a million and a half immigrants net of people moving out, and this is an estimate that includes undocumented illegal entrants. So a million and a half under Obama. It went down to half a million in the first Trump administration and then up to over three million in the Biden administration. So one and a half, to a half, to over three, and I saw that in the employment data. It has enabled a lot of growth of total employment in the country, incomes and spending. I don't know that there'll be mass deportations, but there'll certainly be far fewer people entering. There'll be less growth of the labor force, less growth of employment, but it will not be a recession. It's not like we're going to be worse off. It's just that the growth rate we had in the last three years is not sustainable for the coming three years.

“Regulations. I think that Trump was not a deregulator in his first term, but we had very few new regulations added in Trump 1.0. In Trump 2.0, I think that'll be the same. The progress of new regulations will slow down. There may be some cuts, but not significant ones. It's a long bureaucratic process to actually cut regulations, as it is to start them, but I think for business development, things will be better and we will be less bad going into the future from a business perspective.

“On total government spending. Trump is not a fiscal conservative. In fact, I don't think there are any fiscal conservatives left anymore except maybe me and a couple of other oddballs who worry about the Federal deficit. Certainly neither the Republicans nor the Democrats running for President talked about the deficit and very few people in Congress talk about the deficit. And President Trump did a lot of spending in his first term. After his first year in office, that was pretty much the Biden budget. His second year, 2018, spending went up a little faster than inflation. And then in 2019, Federal spending went up over 8%, with 2% inflation, over 8% growth, and that was before the pandemic. And then President Trump was supportive of checks being sent to people, and more generous benefits for businesses and unemployed people in the pandemic. So what's going to happen going forward? I think we're going to continue to have large Federal Government deficit spending. And that rolls into my forecast.

“We do have DOGE, the Department of Government Efficiency, with Musk and Ramaswamy saying that they'll bring the total Federal spending from $7 trillion to $5 trillion, a cut of $2 trillion. A friend of mine, Katherine Mangu-Ward, was asked if she thought that was likely. She said, ‘$2 trillion in cuts?’ She would bet on the under, but pray for the over, and I'm sort of with her. I don't think they're going to get that because every dollar spent by the Federal Government has a constituency supporting it and they will be in Congress yelling.

“So that takes me into an economic forecast. We have great momentum right now. The employment situation is strong. We've added jobs every month this year. Unemployment is low, incomes are up, spending is up. We have really good momentum. We are in a very good place going into 2025 and inflation has come down, but not yet to the Federal Reserve's target. So we'd been up high at 8%. We are now down using the Fed's preferred measure to two and a half percent inflation, but their target is two. And for the last six months, inflation has been stubbornly above target by about half a percent. Like it stopped coming down. And the Federal Reserve, they'll have a meeting in a couple of weeks. They are going to look at good momentum in the economy, a healthy employment market, and, in the future, big government deficit spending, which they believe is stimulative, and this persistent above-target inflation rate. I think the Federal Reserve will be very hesitant to cut rates. The markets are now saying it's about 50-50 whether they cut a quarter point later this month. A quarter point, by itself, doesn't make much difference. But I have changed my interest rate forecast to be less of a decline. I think by the end of next year short-term rates that the Fed controls directly will be down three quarters of a percent from where they are. So they will be cutting, but not at a very rapid pace, and that helps mortgage rates come down a little bit, but just a little bit.

“Mortgages are not just Federal Reserve policy, but also global demand for credit. And the US Treasury is a big demander of credit. So I think mortgage rates at the end of next year will be down below 6%, but just a little bit below, like 5.9% is what my computer is spitting out based on my assumptions. So a little bit of decline. And then in 2026, my best estimate is flat at that point. So we have a good economy, low risk of recession, inflation eventually coming down, but don't expect those interest rates to come down too much. And in fact, if we get some bad news on the inflation side, we could even see the Feds snugging interest rates up. I think that's a low probability. A possibility. Maybe one chance in five or one chance in 10, but it's something that you ought to think about. There is a chance that interest rates will rise. So look for solid economic growth, but we are not going to see the big interest rate cuts that many of you would like to see.

“So that's my perspective. I'm going to turn it back to Pat and of course he has my permission to disagree. To tell you that I've got cauliflower where my brain ought to be and hopefully he'll also dial into the real estate market a little bit more deeply. Pat.”

Opening Commentary from Patrick Stone

“I will, Bill. Thank you very much. And just real quickly, I'm going to say that in all the times that I have spoken publicly about the real estate market, I probably have never been in a situation where I am as confused as I am right now and, just being honest with you, I mean there's good news and bad news. On the good news side, the need and desire for home ownership is still there. Affordability continues to be a problem. Rates have trended down a little bit and I think I kind of agree with Bill's projections on interest rates. I think they'll come down a little bit more. Candidly, if they get under six, Katie bar the door, because that will dramatically increase activity. Home price appreciation has returned to more normal levels. It is no longer going through the roof without reason. The supply of single family homes is increasing, albeit somewhat slowly.

“Commercial real estate is recovering and I think we were all very concerned about where commercial real estate was going, but it seems to be recovering now. We have a lot of wealth in this country and I think sometimes the impact of that's understated. I'll talk a little bit more about that in a minute. And then finally, I don't see any threat of a foreclosure crisis or any sort of collapse in residential real estate at all. So that's the good news.

“The bad news really is more around the uncertainty that we're dealing with right now. Uncertainty, and Bill mentioned some of these things, uncertainty over tariffs. What will actually be implemented and what will the impact be?

“Taxes. There has been a lot of talk about increasing or continuing the tax cuts that were enacted in 2017, and then deportation, and we will talk a little bit about that. So a lot of uncertainty over those factors.

“I am concerned candidly over the national debt. It has gone through the roof and I think we're paying for it right now and I'll explain that in a little bit more detail. And then we have international geopolitical issues. Ukraine's war is still going, Gaza is still going, and we had an announcement today that South Korea is basically going, if not on alert, at least into a very, very protective posture because they're concerned about things happening from the North.

“So need, desire and affordability. Some of you have heard me say this before, there's about 140 million people in our country between the ages of 11 and 42. Now, 11-year-olds don't buy homes, but they'll buy homes in about 10 to 15 years, so about 140 million. The best I could figure out coming at that from a couple of different ways is there's about 50 million people out there that would like to own a home. Will they all buy a home? No, because some won't be able to do a down payment, some won't be able to afford a mortgage, some won't have the income, sustainable income or consistent income, but there is a tremendous amount of demand out there, or need. Desire remains very high. I haven't seen any downturn in desire. I think because of the pandemic people became very, very aware of the value of controlling your environment. So consequently they want to own a home. A home where they can raise their family, be secure, have all the amenities that they need. Obviously working from home increased that, too. We're going to probably end up a little bit short of 4 million homes being sold this year, and this is a low. I mean this is a very low depressed state, if you will. I do think it goes up from here. I think we've seen the bottom of it.

“Again, the rates are trending down a little bit and I tend to agree pretty much with what Bill said. I think though once we get under 6%, that makes a tremendous difference. That makes a lot of difference psychologically. That makes a lot of difference in people stepping up and taking a mortgage. I do think we will see a significant increase in volume if you get mortgage rates under 6%. Just giving you a sense of perspective on that, the biggest year for home resale was 2005 at 7.2 million. The average mortgage rate that year was 5.67%. So anything under six is very, very attractive and I think will work very, very, very well.

“Existing home sale prices. We've really, really slowed down. It was up 3.9% in September year-over-year. October was up 3.4% year-over-year. So we're getting back into what has been a historical average of about 3.6% annual appreciation. Price ranges are still fairly dramatic as you go around the country in difference. The West coast is about twice what the Midwest is. I think that results in quite a few young people moving to the Midwest, but you've got to go where you can afford to go. So I do think you'll see a little bit more improvement there.

“In terms of number of homes on the market, we're looking at about 32% more this year at this time than there were last year in terms of single family inventory. So it has picked up dramatically. Some of that is a slowdown in sales, but I think also we're returning to a little bit more normal of a market. Single family new listings, are at about 60,000 right now. So we are getting back to a little bit more rational level.

“One thing that's happened is that we had homeowner tenure peak out in 2020 at 13.4 years. It's back down to about 11 years right now and I think it'll continue to come down a little bit more. So we're getting a little bit more turnover in home ownership and I think the inventory will get a little bit more realistic.

“New homes are at about a million being built this year. They won't all be sold unfortunately, but there'll be about a million built this year, and we will see what happens there. New homes typically are more expensive than resale, by and large. We are seeing a little bit of a movement now towards building smaller homes. We'll talk about that more in the Q and A session. And then home sale inventory, months of supply. For new homes we're at about seven and a half months on inventory. Existing homes were at about four months, so in a lot of ways we have made some progress towards returning to a little bit more normal environment than we were in before.

“Looking into a few other things on this. Existing home sales in October were at an annual rate of about 3.96. Commercial real estate. I am absolutely relieved and happy to see that commercial real estate didn't go down the toilet like everybody said it was going to. And actually there is some optimism building out there. Green Street Advisors, which is, in my opinion, one of the best analytic firms, has gotten fairly positive about commercial real estate except for the office space, and that's pretty understandable. Values are down from the 2020 peak, but about 68% of all respondents to a Deloitte survey expect the global commercial real estate market to improve in 2025. And I think overall we're going to see a much better and more sustainable commercial market. Office will continue to be a problem, but everything else seems to be coming back into line, if you will.

“One thing that does concern me is the Basel III. This is going to require banks to have more reserves. I think what you're going to see, and this scares me a little bit, is banks will be funding private equity firms. They'll be making commercial real estate loans to get around all this. So watch that one because that could be a problem if it gets out of hand, hopefully it will not, but it is a little bit of an issue.

Retail vacancy rates are about 4%. Industrial vacancy rates are about 7.2%. Office vacancy rates are 19.4% and then multifamily is about 6.9%. So office is the real area where there is concern in the commercial real estate market. Everything else is coming back into line pretty well.

“Talking about wealth growth, the reason I bring this up is for most young people who are impacted by the current prices of single family homes and can't afford the down payment, they're fortunate to have parents who can help them. And right now about 44% of adults in their twenties and thirties are getting help from their parents for down payments on buying a home. I fall in that category, having helped my kids. I think a lot of you do also. The amount of wealth though is just incredible. There's an estimated $78 trillion worth of wealth in baby boomers. I mean that just blows me away. About $39 trillion in Gen X. So there's a lot of wealth out there and it will come into play in helping finance single family. I don't think we have as much of an issue with household debt as we had during the financial crisis. It got up to 140% of income. Now it's running right around 100%, so I think that's sustainable.

“Total equity in US homes is about $35 trillion. I mean that's just incredible. The average mortgage holder has about $315,000 in equity right now and that wealth manifests itself a little bit in what is selling and what isn't. If you look at the price ranges and how the sales have changed year-over-year, homes over a million have 8.3% more sales this year than last year. Homes of $100,000 or less had 22% less sales than they did last year. So there is a direct correlation between the price and what's selling because of the underlying wealth. And again, we continue to have a lot of homes out there with very low mortgage rates. So we don't really have any concerns about foreclosures.

“Bill talked about tariffs, so I'm not going to spend a lot of time on tariffs. There are some very good statistics that show that a lot of the economic growth in the world occurred because of free trade agreements and all that happened after World War II. Just for fun, if you want to read about tariffs, Cato Institute has a wonderful, wonderful document out. It actually came out in September of last year. It is well worth reading if you care about tariffs. The Cato Institute called ‘The Problem of the Tariff in American Economic History, 1787 to 1934.’ If you want to know about tariffs, that's a really good document to read.

“The tax cuts. By and large, most people feel that the tax cuts, they create some issues, but the improved sentiment and the additional spending offsets whatever problems occur because of it. So we'll see what happens there. I'm not against them. I benefited from them. I do worry about government debt though, that really scares me.

“Deportation. We are going to go negative on internal population growth in the year 2039 if we have no immigration. In other words, we're going to have more deaths than births in the year 2039. This is happening in a lot of places. China has been going negative. We'll go negative. So we do need immigration and we really depend on immigration to a large extent to help us do construction and agricultural work. That's the two areas that will probably be impacted the most if we have massive deportation. So that is just a little bit scary.

“Real quickly, I’ve got to just say something about national debt then I'll shut up. I mean this one just drives me crazy. So, 1981. National debt passed $1 trillion in 1981. In 2000 it was $5.6 trillion. 2010 it was $13.6 trillion. 2020, $26.9 trillion. Today it's $36 trillion. That is pretty staggering, to be honest with you, and it's going to result in fairly high debt payments. $892 billion in interest this year on Federal debt, $1 trillion next year in interest in Federal debt, and by 2034, interest on our Federal debt, we'll be paying about $1.7 trillion in interest. Now if you think, as Bill indicated, that the Federal budget's about $7 trillion, that's going to get to be a real factor. So I sincerely hope we decide to balance the Federal budget and I hope not only to eliminate the growth in debt. Candidly, I think we're paying for it because we are seeing a little pressure on interest rates because of the debt. I think we have to pay a little bit more on our Treasury bills and notes now than we used to and we are seeing the impact on interest rates.

So I think that's about all I have to say, Bill. So why don't we go to questions? Are you ready?”

Question and Answer Segment

Please discuss how global economic conditions may affect domestic economic conditions and, of course, mortgage interest rates.

Bill Conerly's response:

"Yeah, a good question, and I want to thank everybody who submitted questions. We don't have time to answer all of them, but we've sort of curated what we think will be most useful to the entire audience.

"When I look at global economies, I am not a specialist in everything, but I subscribe to a service that looks at what specialists in different countries are saying and then 'adds 'em up.' So they survey all the specialists on the German economy, all the specialists on the Chinese economy, all the specialists on the Brazilian economy, and I end up looking at an aggregate for the world GDP growth and it looks very stable. There's certainly more growth in Asia, less growth in Europe, but not a lot of cyclical fluctuations. No recession going on, no boom. But all of that is predicated on the geopolitical side being fairly stable. So I would say the global economy, stable unless we get a blowup in say the Ukrainian-Russian War or a blowup in the Middle East. Can you imagine a blowup in the Middle East? Blowup is probably a bad word to use. Or you've got the challenge of China wanting to bring Taiwan back into the fold and you've got a strongman leader who is facing very difficult economic times in China, and is he going to do something militarily to prop up support for him in a weak economy? I don't know, but keep your fingers crossed. If the global geopolitical stuff is calm, then the global economy looks very good to me and I think it'll be basically a neutral for the US economy."

Will the market in 2025 be better than 2024?

Patrick Stone's response:

"Absolutely. Again, notwithstanding any unusual and unexpected occurrences that may screw up the world, I do think the market will be significantly better. And there's a couple reasons for it candidly. One, we had a resistance to higher mortgage rates because people got real excited about lower mortgage rates. Well, that's wearing off and we're getting more used to higher mortgage rates now, and it's really funny how this works. As a society or as human beings, we tend to remember what was good and we let go of it very slowly. And so consequently we heard about 3% mortgage rates for about three or four years past having 3% mortgage rates. We get mortgage rates under 6%, I'm going to tell you something, it will take off dramatically. I think Bill is very correct in his estimate of mortgage rates coming down to slightly under 6% by the end of next year. So in other words, first half, we're probably still over 6%, maybe getting under 6% the second half. If that occurs, I see home sales going up about 9% next year, and I see very little downturn to it. If we get mortgage rates under 6% in the first quarter, it'll go up even more than that because the demand is there and we have sufficient supply out there now that we will have a very significant increase in sales if mortgage rates go under 6%. Having said all that, I think in all honesty, 9% is probably a good estimate for next year. That is what I'm using personally for budgeting and planning purposes, looking at 9% as being the expectation for 2025 in terms of resales.

"I think commercial real estate will pick up, and we have quite a lot of commercial RE loans coming due in the next couple of years. About $2.2 trillion by the end of 2027. I think 2025 will be a better year for both the residential and commercial real estate markets."

Is the commercial outlook the same as residential or better?

Dr. Bill Conerly's response:

"Commercial is different and I hate to make a generalization about commercial. Downtown office is still not looking very good, and I'm not very optimistic, but we saw retail was underbuilt the last few years. After the pandemic, a lot of people said, 'oh, retail is dead.' And certainly some of the older malls are dead, but people are still shopping and a lot of retail these days is activity-based. Yoga studios and that kind of stuff. And so we have fairly tight vacancy rates in many parts of the country for retail. Suburban office is doing okay; much better than downtown office. Industrial and warehouse seemed to boom a few years ago. I think in the markets I've looked at, the developers overdid the boom and they're now having to cut rates a little bit. But if you're interested in commercial, I would suggest going sector by sector. If I had to average it all together, I'd say pretty healthy, but you need to look at specific sectors.”

Do you see 2025 to be the chosen year for higher technology adoption and what is a good starting point?

Patrick Stone’s response:

“I think that one thing I would say to everybody candidly is get on the train, get on the bus, because technology is impacting our business and every business to a much larger degree every year. And we're seeing and hearing a lot about AI and it really is being implemented in a lot of the technology we use, be it CRMs or whatever. So, at WFG we have what we call Marketing Technology Directors and they will help you understand what technologies are out there that you can implement. And the amount of improvement in these technologies is really outstanding because of AI and we're going to see more and more and more implementation and it's going to make a difference. If you're not using technology, you're going to fall behind, you're not going to be as efficient. And candidly, if the market takes a while to recover completely, and I think it will, if it increases 9% next year, that's nice, but that's not getting us back to a level where we can sit back with our feet up on the desk and plan on making a profit. You're going to have to work at it. You're going to have to be efficient, you're going to have to pay attention. So embrace and implement technology. Don't go out and make guesses. Talk to somebody that knows. Again, our Marketing Technology Directors are more than happy to help you and they will engage with you and help you use technology in a useful and meaningful way.”

How will home builders be impacted by potential tariffs?

Dr. Bill Conerly’s response:

“Good question. There are many imported goods in a typical house. It's a small portion of the total. I replaced a toilet seat and believe it or not, I can actually do that myself. I'm a real handyman. And it came from an old name American company, but the toilet seat was made in China. So there are many foreign-made products in a house. They tend to not be the dominant costs of home building; they are a relatively small portion. So I don't worry too much about tariffs directly for home building. What I worry about is the supply chain. Now, the global supply chain has been very, very good in the last year, but if we get into a trade war, we could have disruption. The thing is, even if plumbing fixtures are a small portion of the total cost of a house, if you can't get the toilet, you can't sell the house. You can have everything else in perfect condition ready for occupancy, but you can't sell a house without a toilet. The supply chain is what I worry about, not so much the cost of the tariffs.”

What are some good investing opportunities for 2025?

Patrick Stone’s response:

“Well, I want to be careful here. My job is not to offer advice on investing. I will tell you on a personal level where I'm investing in real estate. I'm actually involved in building some homes. So I'm investing in single family construction, being careful where though because the market's not the same all around the country. There are some parts of the country where the market is strong and very desirable, if you will. Then also by price range. I mean there are some markets where high price range properties are going very, very well. So single family construction. The demand I think will be there. I think if you're careful about where you do it and how you do it, you'll be fine. The other area I'm still investing in is industrial, basically warehouses. You mentioned earlier about retail, Bill. I saw a number the other day that 16% of retail was online and I thought it would be much higher than that, but only 16%. So I still think you're going to have a tremendous amount of need to ship and store products. I see industrial property or warehouses as still being a desirable investment. I'm still looking to do investments in that area."

How realistic is it for us to consider Bitcoin to be a digital currency that the US will use in the future?

Dr. Bill Conerly's response:

"I don't think it's going to be Bitcoin, but I think cryptocurrencies in general are going to expand their use. There are many cryptocurrencies. Bitcoin was the first one. You've got Ethereum, you've got Tether and there are dozens, hundreds, maybe thousands. What I like about them is they can make transactions transferring wealth from one person to another much more efficient. I sometimes outsource work to a woman in the Philippines and to send a hundred bucks costs me five, and that's a ridiculous fee for a transfer of assets. Cryptocurrencies will help solve that and even in the US our payment system is sort of laggy and relatively expensive. So cryptocurrency can be the solution. Bitcoin itself is kind of expensive and not the best choice, I think, for small transactions, but I think we're going to see more cryptocurrencies and we also have programmable cryptocurrencies. Ethereum is the leader or was the originator of that. So you can basically have a cryptocurrency with an 'if-then' statement attached to it. So if there's a triggering event, the transfer automatically takes place and there is a way to verify that the trigger is a legitimate trigger. So it's almost like a contract that is executed automatically. So that could even take some of the escrow business away, but we are not quite ready for all of that. But I think cryptocurrencies will grow, but not become the dominant form of currency maybe ever. But certainly there's going to be room for growth."

What is going on with the Federal government's efforts to not require lenders' title insurance on federally insured loans? And I'm just curious if you're going to address how that might change after the new administration comes in.

Patrick Stone's response:

"Well, I'll start by saying that I doubt that we'll hear title insurance mentioned in the state of union address again. I think that was a one-off. One of the problems here, just to be real candid with you, is a lack of understanding of title insurance by virtually everybody, let alone the Federal government. And my interaction, I've had some interaction with Fannie Mae people and some other people that have been involved in looking at alternative title products. Alternative title products have some use. They can facilitate, they can help decide how much time you need to spend on any particular examination. I think where there's a high FICO score and a very solid database, looking at using alternative title products for refis makes sense. But I don't think that they will replace title insurance across the board and I think there'll be tremendous losses if they're misused. So I'm a little bit skeptical about where it's going to go and how it's going to be used, and I don't know that people understand.

"I am stunned at how few people understand the amount of losses in our industry. There have been over $14 billion in losses in the last 20 years. This is after we do all this work doing risk elimination. And part of that is because the underlying databases are so different and with different ways to access them, but also different quality on the databases back East versus the West. A lot of things go into this, and there is a lot of misunderstanding about it. One thing happening right now that scares the, well, let's just say it concerns me. One thing happening right now that concerns me is the percentage of losses that are attributable to fraud and forgery. About 33% of all the losses in our industry now are fraud and forgery. They don't have anything to do with quick title or alternative title products. Fraud and forgery are going to be a major problem for a few years. So we'll see how all that plays out."

Has the price of lumber gone down and if so, why has the new construction of homes not decreased in price?

Dr. Bill Conerly's response:

"Yeah, the price of lumber has gone down with the slowdown, especially in single family construction. Lumber and plywood are cheaper than they had been. But when you look at the total cost of building a house, lumber is a relatively small part. And you see a house under construction and you see the framing up, maybe some sheathing with plywood and you think, ‘oh, it's almost done.’ Well, it's actually just beginning because the labor involved is much bigger than the lumber material costs. And let's not forget land. Land is 20% to 25% of the value of a new home. In some places, permits and fees associated with development are large. And then the installation of floors, walls, electrical, plumbing systems, HVAC. Just the labor component, counting all the subs, is very large. So lumber ends up being a fairly small amount and although we've seen lumber prices go down, labor costs are going up and we'll maybe see with tariffs the steel-based and some of the other imported products offsetting some of that lumber decline.”

What is your take on the initiative tiny homes as affordable housing?

Patrick Stone’s response:

“Well, I think it has some applicability, especially in some markets and I think it also facilitates first time buyers. With tiny homes, obviously you're appealing to people that don't have a large family. And so they are really targeted at first time buyers or singles or couples without kids, or even one kid. I think it has some appeal and I think it has some use. Do I think it's going to be a major wave? I doubt it seriously. I could be wrong, but I doubt it. I do think it will have applicability again in certain areas.

Bill, to be honest with you, one thing that's always amazed me is how different we are in our outlook towards kinds of homes we want to buy compared to where they are in Europe. If you travel in Europe, town homes, basically wall-to-wall homes, are not only common, they are the standard, especially in metropolitan areas, and there's no issue about having a yard or anything else. So I've always wondered when that was going to catch on in the US, and it hasn't to date. We'll see what happens there. I do think it is a solution, especially in major metropolitan areas where you don't have a lot of land, but tiny homes will have some applicability. Will they be a massive solution or a massively applied solution for home ownership? I don't think so, but I do think they will have some traction.”

What needs to happen to increase housing supply?

Dr. Bill Conerly’s response:

“Yeah, good question. And it depends on where you're located. If you're on the coasts. If you're in Connecticut, you're in California, or my home state of Oregon, land use regulations are really huge. And I heard a debate a few years back, a conservative economist was saying people were moving from the Northeast to Florida and Texas because Florida and Texas had lower income taxes. Actually they have no state income tax. The liberal economist Paul Krugman said, 'no, no, no. It's that the Northeastern states have rigid land development rules and have made it very expensive to create new housing, so people have moved to Florida and Texas to get inexpensive housing.' And I thought both of them were right. Taxes make a difference, but housing regulations make a difference. So the first thing, if I were given complete authority over everything and asked to make housing less expensive, I'd say eliminate or significantly reduce restrictions on land use and associated with that are the impact fees. So if there's a new development, there are, in many places, fees charged for bringing in schools and parks, for this kind of thing. But I grew up in one of those post-war developments that was brand new housing that was affordable to lower-middle class people and the burden that the development put on the community was born by all taxpayers evenly. So I was the beneficiary of a program that said we don't charge development fees to the developer. And now I'm of a generation that says, 'no, I don't want to pay for the new development like the people years ago did. I want the home buyers to pay for that.' So that's another issue. There are also some building codes that are maybe unnecessarily raising the cost of housing. And I'll also add the labor component because labor costs are very high and part of the reason is we have for decades told people, high school students, that they need to go to college and they should not take a blue collar job. And I think that's been a mistake and we end up with too few people in the trades and maybe too many people using their college degrees to pour coffee.”

What positive impacts on real estate do you foresee with Trump coming back?

Patrick Stone's response:

"Well, I sincerely hope that we see a little less regulatory pressure on the real estate industry, and I think that's reasonable to expect because I do think that the Trump administration will be a little less regulatorily-oriented, if you will. And I think one of the problems we've had is that people in regulatory agencies don't take the time or effort to learn the underlying industry. And the title insurance industry, candidly, is a well-kept secret. You talk to almost any government person or elected official, and they do not understand how much the industry changes state-to-state based on different databases, based on different business practices, how insurance is regulated state-to-state. We are a very complex business. Now, I will give Diane and the ALTA staff a lot of credit for working hard to educate Congress on title insurance, on alternative products, and so forth and so on. I am hoping with the Trump administration that we get the benefit of his anti-regulatory perspective and that we back up a little bit on trying to enact new laws or regulations on industries, especially by people that don't even understand what the industry does. I'm sounding a little bitter here, aren't I? Just a hair."

Will recent storms affect local real estate markets?

Dr. Bill Conerly's response:

"Yes, they certainly will. And I spent four years in Sarasota, Florida and looked at places that I was familiar with destroyed by that hurricane. Rebuilding will stimulate demand for construction. Now there are some cases where there should not be rebuilding in dangerous areas, but the new building codes, as I understand them, are pretty good for protection in some areas. But no doubt there will be more construction. But this is happening in a labor-constrained economy. And if it happened in an area with a lot of unemployed construction workers trying to rebuild, say retirement homes, okay, that would be a positive for the local economy. But of course a loss for insurers and homeowners. But we don't have a lot of unemployed construction workers anywhere before hurricane season, so this just strains the market more than does any good. So yeah, I hate to say it, but hurricanes are bad in net effect, although there will be some folks who benefit from that."

What is the expectation for the default market sector?

Patrick Stone's response:

"I don't see a lot of change, Bill. I have made a point in a lot of public speeches to draw attention to the fact that about two thirds of all loans over the last six years have been to people with FICO scores above 760. And that's no guarantee that you won't have a foreclosure, but you're talking about people that are in very, very, very good financial shape, have really good credit and will make their mortgage payments. So I just do not see an issue with foreclosures out there. We do not have all the crazy products that occurred during the financial crisis or prior to the financial crisis. We don't do stated income loans anymore. We don't do all the various products that had no common sense behind them. And so consequently, we don't have a lot of garbage out there. We have very little credit risk and very little product risk. So I don't see any meaningful increase in foreclosures. As volume picks up there will be some, but it will not be significant. It will be something we deal with. Will it get over 3% or 4%? I doubt it. So I just don't see a major movement there because there just isn't the product risk out there that precipitated the last foreclosure crisis."

What are your expectations for year-over-year property value appreciation?

Dr. Bill Conerly's response:

"When I am asked this question, I begin with sort of a long-term view and, on average, real estate values go up and they go up more than inflation. The long run data suggests not as much as say stock market investments do on average, but real estate does go up. And then I start thinking, 'Hey, what's going to be different about 2025 versus the long run average?' Mortgage rates coming down, interest rates in general coming down are always positive for real estate values if that's the only thing happening. If interest rates go down because we're in a recession and nobody feels it's safe to borrow, that's obviously negative. But with a strong economy and even slightly lower mortgage rates and commercial lending rates, I think there'll be a better than average appreciation in 2025, but I'm not looking for a boom. One of the points on housing prices is, yeah, I'm forecasting interest rates reaching less than 6%, but 6% when your recent history was 4% is different than 6% when your recent history was 8%. And I think that may slow down the demand for property. So I would say a little better than average in 2025, but just a fairly small change."

What gives you the most hope for 2025?

Patrick Stone's response:

"Well, I think if you really step back and look at the economy, you look at the country, you look at the amount of wealth, you look at the overall financial health of the country, and obviously there are places that aren't, but you look at the overall financial health of the country. Unless something bad happens, I firmly believe that we are going to have increases in real estate activity, new home construction, sales and so forth. So, I think if I was to sum up what gives me the most hope, I would probably say that it's the amount of wealth that is available in our country to make acquisitions. We talked a little bit about that earlier. There is a tremendous amount of money out there. And so I think that can and should continue to enable the economy to grow and for people to participate in real estate and other activities in the process."

Dr. Bill Conerly's response:

"I'm going to answer that in two parts. The short run part: for 2025, we're entering the year with really good, solid momentum. We've got the economy doing well, job growth, income growth, spending growth. I feel very good about where we're going in 2025. And when I look more broadly, I'm just amazed at how technology is improving so many lives and, are we on a Zoom call? I am proud that I got a Zoom subscription in 2019. I was an early adopter, but we've just done amazing things. I walk through factories, I have consulting clients and they'll give me a tour of their facility. And whether it's an office or whether it's a factory or a construction project, I'm seeing technology that didn't exist five years ago in use, making jobs easier to do, more productive, and that tends to make the cost of what we do lower. When ChatGPT came out, I returned to an old topic I had studied years and years ago: 'Economic History: What happened during the first industrial revolution, textiles in Manchester, England.' And what happened with the development of steam engines, electrification, railroads, computers, and the pattern is consistent; that it brings down cost of goods. The producers compete with one another and bring those costs down to consumers. And although there are some problems for individual occupations, the great mass of people end up better off and I'm looking forward to being better off."

Closing Thoughts

Patrick Stone:

"I love it. Well Bill, thank you very, very much for your time today and your input, and I hope everybody in attendance has a wonderful holiday season and a very successful and rewarding 2025. Thank you very, very much."

Dr. Bill Conerly:

"And I want to thank everybody for participating; either watching, viewing the recording later, and especially those of you who submitted questions in advance."

Patrick Stone:

"Take care. Bye-bye."

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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 Pat was named one of the "100 Most Influential People in Real Estate" by Inman News and as one of the "Top 101 Real Estate Industry Doers" in 2015 and again in 2021. Other accolades include receiving HousingWire's coveted "Vanguard Award" in 2019 and again in 2021, Progress in Lending's "Lending Luminary Award" in 2019, 2020, 2023 and 2024, Inman's "Best of Finance" award in 2023 and 2024, and 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 subscribe to Conerly's monthly newsletter, visit: https://conerlyconsulting.com/newsletter/

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