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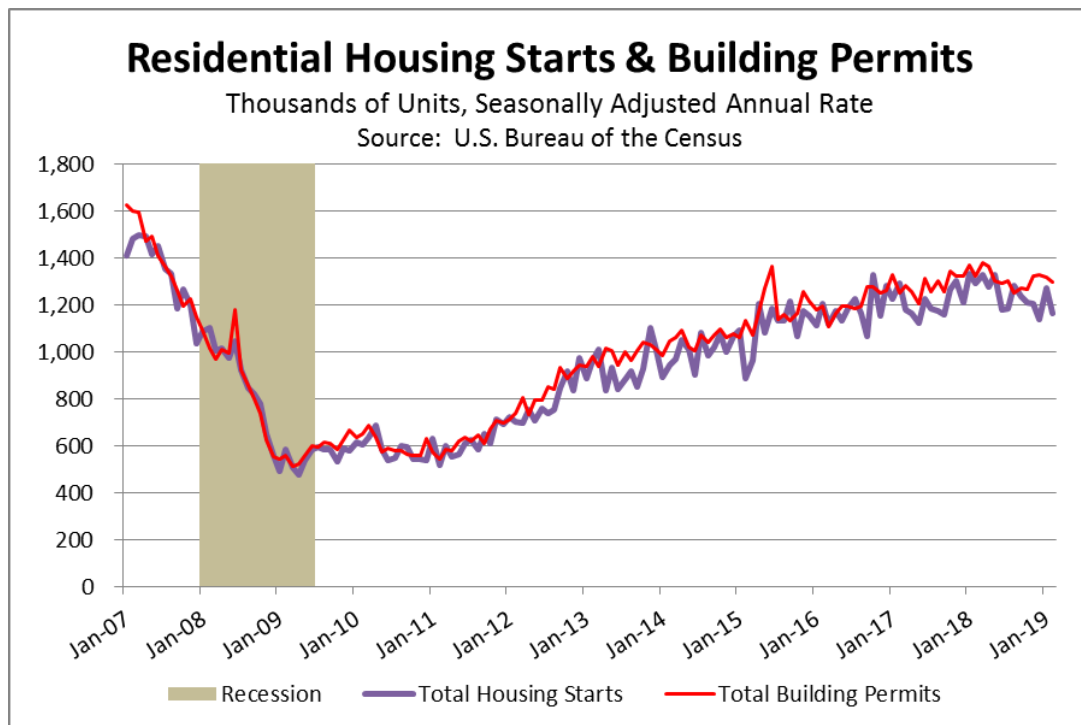
Proactive Investment Management & Financial Planning

Economic Chart of the Week March 27, 2019

Over the last week, the national media finally seemed to notice all the economic warning signs that we've been talking about for so long. There's a lot of chatter now about an impending recession. We still wouldn't say a recession is set in stone, but we do think it's valid to ask: If and when a recession comes, what kind will it be?

For the first time in decades, it doesn't look like the next recession will be the result of a major asset bubble or credit boom. That's good, since recessions like that are typically insidious, drawn-out affairs. Rather, we think any near-term recession will be the result of policy mistakes (like the Federal Reserve's interest-rate hikes through December or the administration's disruptive trade policies) coupled with the economy outrunning its slow-growing resource base. The poster child for this thesis is the homebuilding industry. Data this week showed January housing starts were down 9.4% year-over-year, led by a 10.7% drop in groundbreaking for single-family homes. Permits were down 2.1% on the year, including a 7.2% fall in the single-family category. We think these declines partly reflect policies in the 2017 tax reform, which reduced incentives for home ownership. In addition, rising mortgage rates have sapped housing demand until recently. Finally, homebuilders have been struggling with rising costs for workers, materials, and land, which have helped push prices out of reach for many potential buyers. If these issues spread throughout the economy, a recession is more likely and the financial markets would reflect that, so we're monitoring things closely. Fortunately, though, policy mistakes can be corrected (as the Fed did when it recently stopped hiking interest rates), and slower growth can reduce some of the frictions in the economy. Therefore, the next recession may be much less severe than the last one.

Patrick Fearon, CFA
Lead Portfolio Manager



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23131 North Lake Pleasant Parkway | Peoria, AZ 85383 | 623-875-5204 | 1-888-91-ASSET

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