Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Dr. A. Gary Shilling

Date: November 1, 2020

Produced by:

Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

Dennis Tubbergen:

Welcome back to RLA Radio; I'm your host, Dennis Tubbergen. Joining me again on today's program is returning guest, Dr. A. Gary Shilling, Dr. Shilling publishes a, what is in my mind, must-read newsletter, it's titled INSIGHT, it is a 30 to 40-page report that has extensive overviews of the economy. You can learn more by visiting www.agaryshilling.com or calling Dr. Schilling's office at 888 346 7444, and I will give that information out again during the interview. Gary, welcome back to the program.

Dr. Gary Shilling:

Glad to be back with you, Dennis; it's always a pleasure.

Dennis Tubbergen:

Well, likewise, Gary, in your October INSIGHT newsletter, the one that I just mentioned, you lead with a headline that says, Real Estate IS Now A Zero-Sum Game. Can you explain?

Dr. Gary Shilling:

Yeah, in the past, real estate, the various sectors tended to move together. When you had a strong economy, people were buying single-family houses; they had jobs, they were renting apartments, they were shopping, going to malls, office employment was increasing, students were occupying more rental dorms, the whole real estate sector was pretty well moving together. But since the pandemic, it's really changed, and we've had this tremendous rush into single-family housing; people want to get out of cramped apartments in cities, they want more space, they want a home office, they want a place where their kids can be if they can't go to school, they want to get away from close encounters with other people and so on.

Dr. Gary Shilling:

So you've had that, and of course, you've had that reinforced things like the Amazon effect, more people ordering online. Those are things that have been winning, but then you look at the other side of the coin, malls are in terrible trouble, office buildings' occupancies are declining, rentals are in trouble, we may have a lot of foreclosures coming up when mortgage moritoriums run out at the end of this year, student housing, people, aren't there, so these outfits that build private student housing residences, they're in trouble. You go down the line, and the things related to shingle family housing have done well, but almost everything else, including rental apartments, have really suffered.

Dennis Tubbergen:

Gary, let's look at the boom side of this real estate equation for a moment. To what extent would you say that the stampede to single-family housing in certain areas is geographic? In other words, people wanting to escape, maybe some of the turmoil we've seen in some of the big cities around the country, and to what extent is it driven by the COVID situation in your view?

Dr. Gary Shilling:

Oh, I think that's the primary driver, and this is an area that is extremely volatile. Dennis, I'm sure you recall that after the financial crisis, the subprime mortgage meltdown, a lot of younger people, millennials, couldn't afford single-family housing. They wanted to be in cities, now whether that was making a virtue out of necessity is a good question, but they were in rental apartments, and that became a great area, and even single-family houses that were bought up by various financial institutions and then rented out.

Dr. Gary Shilling:

You had that rush into the cities, into apartments, and now it's completely reversed. Now, the reason I mention that is that it certainly points out that what's going on now, it may have legs, but it's not permanent, you've got to be careful about getting carried away about single-family housing, but at least for now, that's the game in real estate.

Dennis Tubbergen:

Gary, you mentioned this at least for now, it's not forever, and when you look at interest rates on new mortgages, there are all-time lows, if not at all-time lows, the average down payment, according to some numbers I was looking at on a home is actually a lower number than it was during the real estate bubble that eventually burst at the time of the financial crisis that you just mentioned. Is it your view that we are seeing another real estate bubble when it comes to single-family, residential homes or what's your take?

Dr. Gary Shilling:

Well, it's a boom; I'm not sure it's quite a bubble, it's not quite up to the subprime mortgage hysteria that we saw leading up to, really the collapse that started in 2007, but it's getting close. I think it probably will cool off one way or the other. Now you say, why will that happen? Well, first of all, people are encouraging an awful lot of mortgage debt, and that has not come to the fore previously because you had a moratorium on foreclosure, but a lot of those at the federal state and local level, those forbearances are running out. Push is likely to come to shove early next year.

Dr. Gary Shilling:

Also, the rental apartment area isn't exactly dead. You still have these various outfits buying up houses, single-family houses, even building single-family housing that is for rental, it's not for sale, it's for rental, and they haven't gone away. Obviously, like anything else, as the prices adjust and the single-family house prices are going through the roof, and the price of apartments have declined, you got to the point where people say, "Hey, regardless of risk, I think I would go for an apartment, that's all I can afford" and then with the lingering virus, the pandemic, and you know, Dennis I've been strongly at the belief that this is going to be an extended recession lasting into the next year, that the idea of reopening the whole thing was going to go away was simply wishful thinking.

Dr. Gary Shilling:

I think we're seeing that now with renewed cases. We're going into the winter when people are inside; flu is always a problem when people are confined anyway. I think when you put that together, we may see a cooling off in the single-family housing area and a rebalancing. At this point, I don't see a collapse. We're not really to those tippy-top levels that we were with the subprime nonsense, where people were buying houses with nothing down, and they were sure they'd never have to make a payment because the house would appreciate, it could be refinanced, money could even be taken out, they never actually had to make a dime in a monthly payment. That nonsense is not there, but we're certainly getting up there into the speculative end of the spectrum.

Dennis Tubbergen:

Well, if you're just joining me, I'm chatting today with Dr. A. Gary Shilling, dr. Shilling is the publisher of the terrific newsletter INSIGHT. We're chatting with him about some of the topics he wrote about in the October issue. You can learn more by giving his office a call at 888 346 7444, or visiting his website at www.agaryshilling.com, and Schilling is spelled S-H-I-L-L-I-N-G.

Dennis Tubbergen:

Gary, in your October INSIGHT, there was a statistic that kind of jumped out at me, and it was a staggering statistic to me, really. You wrote that in New York City, the price of high-end condominiums are collapsing as much as 46% from almost 20 million to just over 10 million, and you cite an example of West Chelsea as the neighborhood that is happening. From a geographic perspective, would it be fair to say that this boom in single-family housing is benefiting more rural, maybe suburban areas, and it's at the expense of city real estate?

Dr. Gary Shilling:

Oh yeah, I think very much so. If you look at New York City, of course, very dense population, apartments, but you also have effects in Los Angeles, much more spread out, but still dense population and Chicago. These are areas that are really suffering, but where are people moving? They're moving to the suburbs, they're moving to the suburbs of these cities, they're moving to rural areas, they're even moving to resort areas.

Dr. Gary Shilling:

You're looking at what's happening on the outer banks of North Carolina resort area, how sales have gone through the roof, as have prices, vacancies have collapsed, the same thing if you look at the Eastern end of Long Island, a lot of people have vacation places there, and they moved out there. This is sample one, we have a beach house on Fire Island, which is a barrier beach off the South coast of Long Island, and it's a seasonal community; you've got to take a ferry to get there, the houses aren't heated, so it's really a seasonal affair. Normally, it runs from April to Columbus day, early October.

Dr. Gary Shilling:

I looked at the parking lot now there, and the place is still jammed. There are a lot of people who have basically moved out of their New York apartments that are hanging on out there, hoping they can last until the weather freezes them out. It's a very, very different situation, and people are just fleeing from this. It's very much like they did in 1666 with the great plague in London and the fire. Anybody who had a couple of shillings, some pounds, fled to the countryside. They didn't understand the bubonic plague, and that was a bacterial disease, very easily spread, but they knew getting out of town was one way of avoiding it, then it's the same thing today.

Dennis Tubbergen:

Well, Gary, we have time for just one more question in this segment. You had mentioned in your October INSIGHT newsletter that going into this year, about 24% of people worked from home, but now in light of COVID-19 has jumped to 31%, so almost a one-third increase. To what extent do you see that trend continuing, and how will that continue to impact the sale of maybe single-family homes with more square footage to do everything you need to do in a house?

Dr. Gary Shilling:

Yeah, well, I'm sure the whole thing is being overdone; there is a fad aspect of this. There are self-calibrating aspects of the economy all the time. Every time you think things are going to go one way or another forever, you forget that there are things that are self-correcting. As I mentioned earlier, I think that we will probably see apartments cheaper, people are really going to get a callous to this, as a matter of fact, that's one of the problems, they're not as fearful as they should be. But I do think that there is a bit of a permanent shift here, not to the extreme we have it now.

Dr. Gary Shilling:

People are finding out that they can catch up with technology, that they don't need to go to the office, they don't need to commute for an hour or two hours or more each way, every day. They can work from home, at least part-time. The technology has been there, but we just have not used it; we haven't been forced to. I think now, rather than a lot of face-to-face meetings, which may make clients and friends feel good, but are not really necessary, people are saying, "Hey, wait a minute, we don't need that." Some of that is going to stick, now, to what extent remains to be seen, but I do think there is a bit of a permanent change.

Dennis Tubbergen:

Well, my guest today is Dr. A. Gary Shilling, he publishes the newsletter INSIGHT. You can learn more at agaryshilling.com or call 888 346 7444. I'll continue my conversation with Dr. A. Gary Shilling after these words.

Dennis Tubbergen:

Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. I'm chatting today with the publisher of INSIGHT newsletter, Dr. A. Gary Shilling. If you're just joining me, I'd encourage you to check it out at www.agaryshilling.com, and you can call his office as well at 888 346 7444.

Dennis Tubbergen:

Gary, let's jump back in where we left off. Your October INSIGHT talks about the fact that real estate is now a zero-sum game, and we talked about the boom that we're seeing in single-family homes. You, in your newsletter, have another statistic that I found hard to believe, Las Vegas Sands reported a 97% plunge in occupancy rates. Obviously, we're going to see a lot of trouble in the leisure and hospitality sector if that trend continues.

Dr. Gary Shilling:

Oh yeah, what we're really discovering is how much of consumer spending is discretionary. We took a look at the various categories of food you buy in grocery stores, as opposed to food you buy in restaurants, travel and entertainment, sporting goods, you run down the list. We categorize these as essentials, medical care, groceries, and things that are discretionary, airline travel, and so on, and then things are somewhat mixed. We came to the conclusion that 47% of consumer spending was discretionary. That's a huge, huge chunk. You don't have to have that cut back very much to do tremendous devastation to the economy.

Dr. Gary Shilling:

Bear in mind that in a recession, if the economy declines 3%, that's a major recession; you're not talking about complete collapses. When you get numbers like this, it's really staggering. This is, I think, without question, the most devastating event hitting the world economy since World War II, and we're continuing to see that. What we're really finding is that a lot of these things are strictly discretionary, that people had thought that they were in secure jobs, people had to go out to eat, they had to go out to gamble, they had to go out and spend money here or there, racetracks or whatever. They don't need to, and when they're faced with the prospects of contracting the virus, they say, "wait a minute, I think I'll stay home."

Dennis Tubbergen:

Gary, if I can shift gears for a minute, the fed has engaged in massive money creation this year. How do you see that impacting our average listener and the economy?

Dr. Gary Shilling:

Well, that obviously has been the case. You've had the fed creating a lot of money. It hasn't had a great deal of impact. Without getting into the gory details, what's happened is a lot of the reserves that the fed has created for banks have just sat there. They haven't been lent and relent in a normal pattern, great multiplier effects, and so what they call the velocity of money turnover has virtually collapsed. That has done not much good, I think some of that money has gone into stock, and that's very much what propelled them in the decade after 2007, when the fed went into quantitative easing, similar kind of trends.

Dr. Gary Shilling:

What's been more effective in terms of people's incomes and spending has been a fiscal stimulus, is that $1,200 that people got earlier in the spring and then the $600 supplemental unemployment benefits. That meant a lot of people, between their regular state unemployment benefits and the extra federal benefits, they were making more money staying home than they were working and that's been one of the reasons that they're struggling to renew this kind of thing.

Dr. Gary Shilling:

The point is that you have had a lot of this money pumped out, but for the same token, people are scared. They've used a lot of that money to pay down their debts, to rebuild their assets. There's real concern out there, and so you haven't seen a massive response. Now, there's probably going to be another round of fiscal stimuli, but what's really amazing is that here we are right up to the election, and you would think that's the one time that politicians want to indicate to everybody that they're being very generous and nothing has happened.

Dr. Gary Shilling:

I'm not sure how you completely explain this except for political infighting in Washington, but the point is that there probably will be more of this, but will that offset the continued weakness in the economy because of the virus. What we're seeing is renewed lockdowns in Europe. We're probably going to get that in the US as well. I rather suspect that one way or the other, regardless of what they do in Washington, that this whole recession is going to drag well into next year, and it'll certainly be the most severe recession since the 1930s.

Dennis Tubbergen:

Gary, when you take a look at the level of money creation that's occurring, and I've been asking all my guests about this particular topic, because there's a big disparity in opinions. To what extent do you think continued money creation poses a risk of significant inflation? Do you see that as a possible outcome?

Dr. Gary Shilling:

No, not at all. Inflation is caused by demand exceeding supply. Now, right now, what we see is supply being hyped, particularly by Asia. The Asians are big producers, but they're not consumers. For example, in China, their consumer spending is 39% of GDP; in this country, it's 68%. They are producing, but they're not spending, there is a savings glut, and when you get that excess of supply over demand, what happens with prices? They go down. I don't think that all this stimuli is going to make much difference. Now, the one thing that could recreate inflation is if, and I'm not saying this is going to happen, but it's a possibility, if you had a complete tariff wall built around the US or maybe around North America and where they'd basically cut off these cheap imports from Asia, and then continue with huge monetary and fiscal stimuli, in other words, they're creating a lot more demand and curtailing supply, then you could see a resurgence of inflation, but that's the only viable route to renew meaningful inflation that I can see.

Dennis Tubbergen:

Well, we're chatting today with Dr. A. Gary Shilling. He is the publisher of INSIGHT newsletter. You can learn more agaryshilling.com or call his office at 888 346 7444. Gary, in the time we have left, I'd like your take on certain investment classes. I had you on about six months ago, and at the beginning of the year, you had suggested that US treasury bonds were going to be good to own, which turned out to be a really good place to be. Give us your take right now on US treasury bonds, given where interest rates are and what's transpired.

Dr. Gary Shilling:

We're still very bullish on the treasury bonds, Dennis. I have been since literally 1981. The yield on the 30-year bond was then 14.6%. It's now 1.4%, and as yields go down, prices go up. During that time, long-term treasury bonds have out-performed, have out-performed the S&P 500 by six and a half times. Now, people say, "Why would you buy a treasury bond with a yield that low?" Well, I buy them for the same reason we manage money; we have them in our own accounts, and in our money accounts that we manage for outside clients, we buy them because yields are going lower. If we go from where we are now down to the low, we had back in March, which was 0.98, if you went down there, you'd probably have a return of about 15% in those treasuries.

Dr. Gary Shilling:

Now, why people somehow look on treasuries and say, "Oh, well, I wouldn't buy them if the yield is so low," but they don't buy stocks for low yield; they buy a stock because they think they're going to appreciate, but that's why I buy treasuries, it's the same argument. I think that deflation, soft world economies, a lot of monetary stimuli, I think these are going to continue to push down treasury bond yields and make this an attractive investment area as it has been.

Dennis Tubbergen:

Gary, give me your take on stocks. I often talk about the fact that Warren Buffett's favorite valuation indicator is market capitalization over GDP, and by that measure, stocks are extremely overvalued. What would your position be?

Dr. Gary Shilling:

Yeah, I think they are very, very expensive. You had a big departure here; investors somehow believe that monetary and fiscal stimuli were going to propel the stock irrespective of the economy. Here you have a very weak economy, which is getting weaker, renewed recession, likely to continue to the next year. Stocks have leveled off in the last month or so, and I think that's a prelude to probably a 30, 40% decline in the S&P in the coming months. The valuations are just... There are a lot of ways you can look at it, but they are way overvalued right now, and particularly in view of what I think is a very weak economy. Our portfolio is we're short of stocks; let me just make that clear.

Dennis Tubbergen:

The last question, when you take a look at commodities, what's your take on commodities?

Dr. Gary Shilling:

If you've got a world of excess supply, which I think you do, commodity prices are under downward pressure, and they are traditionally. The world, they always talk about running out of copper or whatever, but there's plenty of it. If you look back in the last 150 years, the inflation-adjusted prices of commodities just continued to decline, and I think it will. Particularly now, since you have this excess supply situation, weak economies, my favorite on the downside is copper because it goes into almost anything manufactured, and there's no cartel on the supply or demand end like there is in oil to really screw up a fundamental forecast. I think copper, on the short side, continues to be very attractive.

Dennis Tubbergen:

Well, we're going to have to leave it there. My guest today has been Dr. A. Gary Shilling, I would encourage you to go to www.agaryshilling.com and get more information about his INSIGHT newsletter. You can also call his office at 888 346 7444. Gary, always a pleasure to catch up with you. I appreciate your insights and perspective and would love to have you back down the road.

Dr. Gary Shilling:

I hope we can do it again soon, Dennis. Thank you very much.

Dennis Tubbergen:

We will return after these words.