

Hello Everyone,

Some things are obvious after the fact.

For example, let's say you are behind someone at a stop light and the light turns green. The car in front of you sits there. Studies have proven if the driver in front of you is driving an older model car, you are far more likely to honk at him/her than at someone who is driving a brand-new Mercedes.

When people hear of these studies they say, "Sure, that makes sense." But would they have realized that before being told? Probably not.

Today's missive goes down this same "intuitive after the fact" road.

Can RV sales predict recessions? We'll theorize.

I hope you find this educational---and even a bit enlightening. :>)

Signed, Your Grips-The-Steering-Wheel-Hard-But-Rarely-Honks-Because-You-Never-Know-What-That-Driver-In-Front-Of-You-Will-Do, Financial Advisor,

Greg

KKOB 08.26.2019 Recessions and RVs

Bob: Well, Greg, when I saw your topic this morning, I kind of laughed. My understanding is you want to talk about RV's --- recreational vehicles. OK, what do RVs have to do with Wall Street?

Greg: I can sense your skepticism; but with summer coming to a close and thousands of RV's about to go into storage, I thought your listeners would get a kick out of knowing that, over the years, one of the most accurate predictors of a recession has been.....RV sales.

Bob: Really? I guess I kind of get that, but kind of not. I mean, to me, RVs are mostly sold to retirees and suburbanites. That doesn't seem to be a big enough demographic to predict recessions.

Greg: You're right—it's an odd linkage. Here are some of the theories.

RVs are expensive...and a discretionary purchase. But you can finance them, so RV sales give you a look into the lending market. However, you can also easily delay, or cancel, an RV purchase if you start to worry about your finances. So, there's some consumer psychology here as well.

Plus, a lot of parts go into an RV. Think tires, motors, appliances, furniture, plumbing, glass, and so on. That gives you a nice product-demand-snapshot across a lot of industries.

Oh, and before I forget, you can add "adventurous millennials" to today's RV buyer list. That's a new trend. So, the demographic is wider than most think. Anyway, if you compare charts, you will see RV sales are a pretty good predictor of where the economy is going.

Bob: So, someone—or some group—must track RV sales and then publish a report. Right?

Greg: Right. The guy I like is Michael Hicks. He is an economist at Ball State University and is considered the swami of the RV markets.

And, here's what he does...

He goes to the heart of RV manufacturing land—Elkhart County, Indiana---and follows the statistics. Yup, Elkhart County—population 200,000-- is the center of the RV universe. They make about 65% of the RVs in America...and they pride themselves on making great products.

Anyway, during the last recession (in 2009), Elkhart's unemployment rate hit a high of 20%. As of this past June, unemployment there was 3%. That's good. However, that 3% rate is up from 2.1% only 15 months ago. Oh, and weekly hours are being cut.

Bob: So, is he predicting a recession based on those numbers? Or, is it still too early to tell? Plus, I know President Trump wants to win Indiana next year, so he wants America RV-ing.

Greg: I agree. And no, Mr. Hicks isn't flying the recession flag quite yet. But he has concerns. RV shipments to dealers are down 20% this year. Now, part of that can be traced back to late 2017, when there was a significant increase in RV demand, so the good folks in Indiana ramped up production...maybe a little too much.

Thus, in 2018, RVs began piling up on dealer lots. That required some clearing out of excess inventory. Looking ahead though, industry reps are projecting a 2.5% increase in 2020 RV deliveries.

But remember, industry reps are always the rah-rah guys for their industry, so assess their projections accordingly.

Bottom line---RVs sales are saying this----the wheels of slowdown are in motion, but the recession isn't here yet.

Bob: So, one last question. Did the tariffs affect any of this?

Greg: Great question. Hicks thinks so. As you might guess, many RV parts are made in China. Everything from toilet-seat covers, to cow hides for leather furniture, to aluminum & steel have all been affected. Suppliers were forced to raise prices. I'm sure President Trump is aware of this as well.

OK, so what did you learn today?

Bob: RVs sales have historically been a good indicator of economic health. And, I learned you read RV reports from some guy at Ball State University.

Greg: Sad isn't it? Clearly, I need a hobby.

Bob: No, it was a fun report. We'll talk in two weeks ---after Labor Day. Until then, how do people reach you?

Greg: My number is 508-5550. Or, go to my website at zanettifinancial.com

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