MONTHLY ECONOMIC INDICATORS

Planning and Regional Development Department

THE PORT AUTHORITY OF NY & NJ

July 2017

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Auto Loans: The Next Financial Bubble?

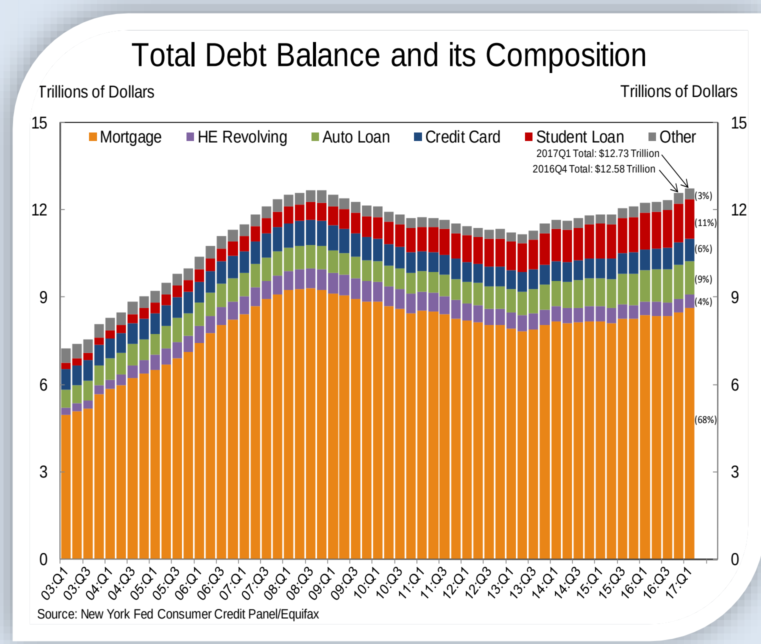
For a few years following the crash of the housing market in 2008, consumer debt levels declined steadily. Households rebuilt their balance sheets and the result was a much healthier financial environment. Specifically, between the third quarter of 2008 and the second quarter of 2013, outstanding household debt declined by more than 12%. Since then, however, households have shown a renewed appetite for financing purchases using debt, and outstanding debt in the first quarter of 2017 surpassed, for the first time, the previous high-water mark set in 2008. Considering the overall growth in the economy, this may not necessarily be a problem. The composition of that debt, however, has changed significantly since the pre-recession high; mortgage debt is still more than 7% below 2008 levels while all other debt has increased by nearly 23%. The composition of this debt can shed light on potential future problems in the event of economic uncertainty or an adverse employment environment.

Much ink has been spilled discussing the impact that increased levels of student loans may have, and with good reason. By Q1 2017 outstanding student loan balances reached $1.3 trillion, more than double the pre-recession number. As high as that number is, it can be considered economically productive debt; much of it is held by students studying to become doctors, lawyers, and other highly trained professionals. The concern is the increasing share of debt taken on by students at some for-profit institutions that have been shown to not necessarily provide the best path towards gainful employment post-graduation. Here at the Port Authority, we're more interested right now in the troubling trends appearing in outstanding auto debt. This debt, and more specifically the vehicles obtained by these means, can, of course, connect workers to jobs and thereby provide an economic benefit to the family. That said, this debt is being used to finance capital goods whose value will never appreciate – the value of an automobile only falls after a new owner drives it off the lot. Mortgage and education debt, on the other hand, can respectively provide returns in the forms of replacing rent and opening higher paying career paths.

Prior to the 2008 recession, outstanding auto loans stood at roughly $800 billion. That number has today grown to $1.2 trillion, an increase of roughly 44%, making it the second highest category of non-mortgage consumer debt (behind student loans). Perhaps even more troubling, 6% of the outstanding debt in Q3 2016 was held by consumers with credit scores below 600, and 43% by consumers with credit scores below 660. As a point of reference, the median score for all US households is just over 700. These consumers with troubled debt histories are at risk of defaulting on their auto payments should economic winds blow differently. And indeed, default rates on auto loans have increased from 1.52% in Q4 2012 to 2.30% today. As housing costs in urbanized areas with good access to transit continue to increase, some households may have to relocate to suburbs farther away, also lengthening commutes and making car ownership a necessity. Financial trouble such as unemployment and a repossessed automobile in outlying areas can spell severely curtailed mobility for its respective owner, be it a household or a small business. Writ large, a recession resulting in a debt crisis in the automobile finance industry could have major repercussions for employers throughout the country.

THE WATCHLIST

Economic Variables		Current	One Year Trend (July 2016 - July 2017)
UNITED STATES			
Real GDP [Annual Rate]	Q2 2017	2.6%	
Unemployment Rate	Jun-17	4.4%	
Consumer Price Index [Annual]	Jun-17	1.6%	
Gasoline Price [Regular]	Jul-17	$2.31	
PORT AUTHORITY REGION			
Regional Employment [NY MSA]	Jun-17	9,655	
Consumer Price Index [Annual]	Jun-17	1.8%	
Port District Exports [$Bill]	May-17	$11.05	
Port District Imports [$Bill]	May-17	$23.15	
Case-Shiller Home Price Index	Apr-17	4.0%	
Commercial Real Estate Asking Rent			
Midtown	Q2 2017	$84.64	
Downtown	Q2 2017	$61.28	



There is also a possible negative consequence that would affect the finance industry in the New York metropolitan region. Similar to mortgage securitization, i.e. the creation of mortgage backed securities and other financial instruments out of consumer home loans, auto loans have been combined into bonds and resold to financial investors and institutions.

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AVIATION	May '17	YTD	May '17/'16	YTD '17/'16
Revenue Passengers (000's)	**11,543.5**	**51,782.6**	**1.5%**	**2.7%**
John F. Kennedy International Airport (JFK)	5,142.6	23,097.0	-0.1%	1.4%
LaGuardia Airport (LGA)	2,636.6	11,457.0	-0.7%	-1.7%
Newark Liberty International Airport (EWR)	3,738.8	17,114.3	5.4%	7.8%
Stewart International Airport (SWF)	25.5	114.3	15.9%	6.5%
Revenue Freight (Short Tons)	**188,125**	**876,460**	**12.1%**	**6.7%**
Domestic	66,389	308,226	11.7%	6.0%
International	121,736	568,234	12.3%	7.1%
Flights	**112,015**	**519,549**	**1.2%**	**-0.7%**
Domestic Air Carrier	79,217	373,824	-0.4%	-1.4%
International Air Carrier	25,908	118,331	0.9%	-0.7%
General Aviation	6,890	27,394	24.7%	8.1%
Paid Parked Cars	**602,683**	**2,774,708**	**-15.2%**	**-14.0%**
Revenue AirTrain Passengers	**929,210**	**3,976,251**	**0.3%**	**3.0%**

FERRY OPERATIONS	May '17	YTD	May '17/'16	YTD '17/'16
Passengers (000's)				
New Jersey Ferries	758.6	3,354.8	3.4%	-0.3%

PATH	May '17	YTD	May '17/'16	YTD '17/'16
Passengers (000's)	**7,139.0**	**33,144.0**	**6.5%**	**3.6%**
Average Weekday	284.1	1,373.3	4.5%	4.3%
Average Saturday	110.6	547.3	-6.0%	0.4%
Average Sunday	93.0	423.4	4.6%	4.6%

PORT COMMERCE	May '17	YTD	May '17/'16	YTD '17/'16
Port Trade				
Container Imports (TEUs)	283,466	1,335,722	5.4%	4.9%
Container Exports (TEUs)	119,287	570,402	3.5%	1.7%
Containers lifted on/off Express Rail	48,287	225,258	5.4%	2.4%

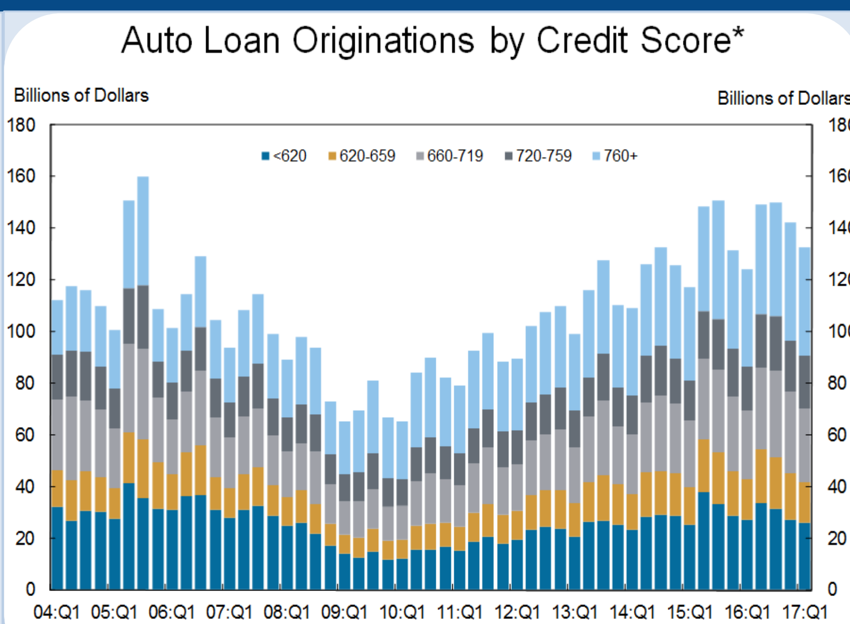
TUNNELS, BRIDGES & TERMINALS	May '17	YTD	May '17/'16	YTD '17/'16
Eastbound Vehicle Volumes (000's)	**10,331**	**47,280**	**0.1%**	**0.0%**
George Washington Bridge	4,493	20,461	0.6%	0.2%
Lincoln Tunnel	1,647	7,671	-2.4%	-1.6%
Holland Tunnel	1,272	5,960	-4.9%	-4.4%
Bayonne Bridge	220	846	44.8%	25.3%
Goethals Bridge	1,368	6,244	-0.6%	0.7%
Outerbridge Crossing	1,331	6,098	1.6%	2.5%
Eastbound Volumes by Vehicle Type (000's)				
Autos	9,428	43,155	-0.3%	0.1%
Trucks	644	2,939	4.9%	-0.4%
Buses	260	1,184	1.4%	-1.5%

PORT AUTHORITY PULSE (Seasonally Adjusted, 2010=100)	Apr '17	Mar '17	Change
PA Pulse (Transportation Activity Index)	100.7	98.2	2.5%
PA Freight Pulse	97.1	95.3	1.9%
PA Passenger Pulse	104.2	101.1	3.1%

U.S. TRANSPORT. SERVICES INDEX (Prelim., Seasonally Adj., 2000=100)	May '17	Apr '17	Change
TSI - Combined Index	126.7	124.9	1.4%
TSI - Freight	126.8	124.1	2.2%
TSI - Passenger	126.0	126.3	-0.2%

TRANSPORTATION **FOCUS** *[Continued]*

While outstanding auto debt, and the secondary debt market for these bonds, is nowhere near as large as mortgage debt in 2008, financial markets will react to the debt turning sour when loan default rates increase significantly. Due to the high concentration of banks and financial firms in the city, these impacts will likely result in lower employment in the financial sector. Moreover, as individuals lose their cars and, therefore, access to transportation, there will likely be wider labor market implications. If workers are unable to get to their jobs or prospective employers, labor productivity is likely to take a hit. Based on current data, it might still be too early to ring the alarm bells over a financial crisis in auto loans. But it is worth monitoring this market and the financial relationships that may stretch around the entire banking and finance industry in the city and nationwide.



Source: New York Fed Consumer Credit Panel/Equifax
* Credit Score is Equifax Riskscore 3.0

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