# SIGNATUREFD

: SIGNATURE THINKING

live CONFIDENTLY

live fully | live purposefully

Asset Management

## News or Noise: Americans Hang Up the Car Keys

By David Fisher, Chief Investment Officer

When the economy and global markets went into a tailspin in 2007 and 2008, the total number of automobile miles driven by Americans declined significantly. High unemployment plus a surge in gasoline prices to well over \$4 per gallon in the first half of 2008 were the most likely culprits for the drop-off. Five years on from the crisis, however, the total miles driven by all Americans remains below the 2005 peak, while the miles driven per person in America are down even more. It is clear that a major shift in driving habits is underway, which will have major effects on the U.S. economy.

#### The American Economy and the Automobile

Since the debut of the mass-produced automobile in the early 20th century, America's economic and social systems have been tightly linked with the car. Since then, the cumulative and per capita miles driven have rarely dropped. The Department of Transportation began tracking the data in 1970, and since then there has only been one other period of material decline, in the late 1970s and early 1980s as gasoline shortages, super-high inflation and a double-dip recession pushed per capita miles driven down 6% from peak to trough, and it took 61 months for a recovery to occur.

Today, miles driven per capita are off 9% from the June 2005 peak. We are now 99 months from the peak and the figure is still declining. Much of the decline is attributable to young adults' changing automobile use. In a recent report, the Frontier Group provided data that showed that "vehicle miles traveled declined 23% among 16 to 34 year olds from 2001 to 2009."<sup>1</sup> A combination of 15% fewer auto trips and 6% fewer miles traveled on each trip contributed to the drop, according to Frontier.

#### **A Shift in Driving Habits**

The shift away from driving is likely to persist, and could even gain momentum. From a demographic perspective, the two largest population bulges in America are both likely to continue to reduce the miles they drive. As baby boomers age, they are likely to make fewer and shorter trips via car. Meanwhile, the younger generation is showing a tendency to drive less from the start. Several factors are behind the changing driving habits of young adults:

## : SIGNATURE THINKING

live confidently | live fully |

- **Transportation alternatives:** Today, young adults are more inclined to live in major urban centers and rely on bicycles, walking or public transportation. When polled, 45% of young adults say they make a conscious effort to use more efficient transportation alternatives compared to 32% for other age groups.<sup>2</sup>
- **Shifting technologies:** The use of communications technology is changing this generation's work, shopping and entertainment habits. New solutions such as car-sharing services have also provided alternatives to traditional car ownership.<sup>3</sup>
- **Redesigned city planning:** Many city planners are now focusing on creating more walkable cities. Last week, an article on CNBC.com spotlighted the efforts of Woodstock, Georgia, to develop a blend of living, work and retail locations around a walk-friendly core.<sup>4</sup>

Finally, young people are finding it more difficult to secure long-term employment at the earnings level comparable to previous generations. That, combined with increasing student debt and the high cost of owning a car, means that we don't expect the macro trends to reverse anytime soon.

#### Long-Term Ramifications of a Change in Driving Habits

After a decade of rising commodity prices, both supply and demand shifts are starting to materialize. On the demand front, advances in energy efficiency have the potential to lower the costs of oil, natural gas and other basic materials. In a recent issue of the *Kiplinger Letter*, several energy efficiency trends were highlighted:<sup>5</sup>

- Engine and aerodynamic improvements in long-haul trucks may increase miles per gallon from 6 to 10.
- Many appliances and commercial construction methods now reduce energy and water use by 10–30%.
- Computer data centers, users of almost 10% of all electricity, are shifting to optical computer chips, which will significantly enhance efficiency.

Automobile sales are in the midst of a resurgence, which historically would indicate both a return to increasing use of energy and miles driven. But given that the average car on the road today is more than 11 years old (a record high) and that new cars are likely to have substantially higher fuel efficiency ratings than the cars being replaced, the surge in automobile manufacturing could actually lead to reduced demand for energy.

#### The Rise of the "Mobility" Business

To summarize, the American lifestyle is changing and this is likely to lead to some permanent shifts in how we use our cars. The auto companies are taking note and are starting to wonder if they are in the "mobility" business or the "automobile" business. Urban in-fill development is likely to continue at a pace quicker than the building of new suburban sprawl. Finally, after 15 years of rising energy costs, oil may be at risk of a prolonged downturn due to drivers' changing habits. As was once said, "the solution to higher energy prices is … higher energy prices."

### : Signature THINKING

live confidently | live fully | live purposefully

#### Sources

- 1. Davis, Benjamin and Tony Dutzik. *Transportation and the New Generation*. Frontier Group. April 5, 2012. <u>www.frontiergroup.org/reports/fg/trasnportation-and-new-generation</u>.
- 2. Ibid.
- 3. Ibid.
- Overfelt, Maggie. "Ditch the Car? Dying Suburbs Revived by Walking." CNBC.Com. October 9, 2013. <u>http://www.cnbc.com/id/101096825</u>.
- 5. The Kiplinger Letter. September 20, 2013. Vol. 90, No. 38. Pg. 1.

#### What Is News or Noise?

Like most of you, we are inundated with information on our phones, in our email inboxes and on the Internet. Clearly, the world doesn't need another investing blog to re-process stale information or reformat the day's useless headlines. Thus, in our investment blog, "News or Noise," we've taken up the challenge of sorting through the infinite bits of background noise and seeking the few truly newsworthy nuggets of information, so that we can focus on the stories today that are likely to be meaningful for investors in the future.

Different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by SignatureFD, LLC), or any non-investment related content, made reference to directly or indirectly in this blog will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. Due to various factors, including changing market conditions and/or applicable laws, the content may no longer be reflective of current opinions or positions. Moreover, you should not assume that any discussion or information contained in this blog serves as the receipt of, or as a substitute for, personalized investment advice from SignatureFD, LLC. To the extent that a reader has any questions regarding the applicability of any specific issue discussed above to his/her individual situation, he/she is encouraged to consult with the professional advisor of his/her choosing. SignatureFD, LLC is neither a law firm nor a certified public accounting firm and no portion of the blog content should be construed as legal or accounting advice. A copy of the SignatureFD, LLC's current written disclosure statement discussing our advisory services and fees is available upon request.

