thoughts

FROM HANSON+DOREMUS APRIL 2024

Owning a car is getting more expensive...

With the freshly minted 2024 edition of the Hanson Index (*see page 2*), inflation is on our minds. Surging used car prices got a lot of attention during the pandemic. While prices at the dealership have moderated, the all-in cost of car ownership has crept steadily higher (*chart on right*).

As it turns out, each year you drive now costs around $12,182 on average (for a $34,876 MSRP vehicle driven 15,000 miles/year). And you thought buying the car was the expensive part. How did we get here?

Every year, the American Automobile Association (AAA) sets out to measure the all-in cost of car ownership. AAA digs into insurance, maintenance, repairs, tires, gas, registration, taxes, depreciation, and the interest portion of financing. The big-ticket item is always depreciation, or the loss in the car's value each year—and that matters if you plan on selling the car or trading it in for your next car. But if we focus just on the expenses that you have to shell out for, they've risen by over 30% since the start of the pandemic to around $7,600 per year. The biggest bumps have come from financing, insurance, and gas (*see table at bottom*).

Inflation in some of these items is straightforward, such as financing costs (car prices up, interest rates up a lot) and gas (tracks crude oil commodity prices), but insurance is harder to decompose. Inflation has meant the cost of paying out claims is higher, but insurers also set premiums to account for the frequency and severity of accidents. A recent *Wall Street Journal* article reported that the severity of claims—for whatever reason—is up since the start of the pandemic. All of that has amounted to a pretty steep jump in auto insurance.

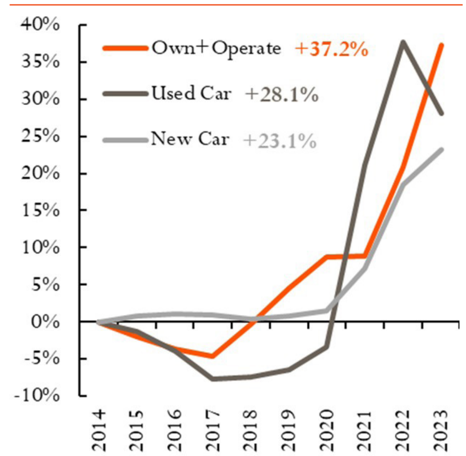
So owning and operating a car is much more expensive. What are we supposed to do about it? Public transit as a substitute is, unfortunately, not a reasonable option for much of the country. Of course, we can do the obvious thing, which is to drive less, since fuel, maintenance, and tire costs are all driven by mileage.

We could also pick a vehicle that is less expensive to own and operate. AAA's report breaks down costs by vehicle type, and, unsurprisingly, small sedans are the least expensive overall. From there the costs work out about as you might expect, with the most expensive category being the half-ton pickup truck. Electric vehicles are the clear standout in operating costs per mile since electricity is generally cheaper than gas and maintenance costs are lower with no engine or related fluids.

A final point is to think about how you own a car. If you plan on driving the car until it stops working (i.e. it is "fully depreciated"), you might not care about the depreciation expense. There, again, electric vehicles are the standout, with relatively more of the cost of ownership coming from depreciation. All told, the least expensive car to own and operate, for a given purchase price, is going to be an electric vehicle that you drive into the ground.

- Mark Andrews

INFLATION IN CARS & CAR OWNERSHIP



Source: AAA, Bureau of Economic Analysis

COMPONENTS OF THE ANNUAL COST OF CAR OWNERSHIP

Category	2020	2021	2022	2023	Inflation**
Depreciation	3,721	3,900	3,656	4,538	+7%
Fuel*	1,635	1,608	2,699	2,390	+13%
Insurance	1,202	1,342	1,588	1,765	+14%
Maintenance, Repair, Tires*	1,333	1,433	1,452	1,475	+3%
Financing	819	712	658	1,253	+15%
License, Registration, Taxes	851	669	675	762	-4%
Total	**9,561**	**9,664**	**10,728**	**12,182**	+8%

Source: AAA; *based on 15,000 miles driven; **annualized from 2020-2023

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THE HANSON INDEX

By Art Wright

It's now mostly quiet on the local inflation front...

Welcome to the 38th year of the Hanson Index, our annual snapshot of prices in the local Vermont economy. From an espresso at Leunig's to a trip on the new Amtrak route from Burlington to New York City, our index provides a non-scientific yet insightful view of inflation trends.

Inflation rates in the United States have sharply declined since reaching their peak in the second half of 2022. However, certain prices are still pressing higher across some goods and, mostly, services. But the worst of the high inflation of the past three years seems to be behind us, giving Powell & Co. at the Fed comfort in penciling in interest rate cuts later this year.

So now that we are mostly through it—how did our local index fare versus the national average, CPI? Well, since we started the index, prices on the ground around Burlington have generally increased at a faster pace. That is true for all items except Leunig's espresso, a bag of coffee beans, and dock space at Shelburne Shipyard. Good for you if you are an early-morning mariner, your dollar has gone far these many years!

"Coffee prices sit tight, sailor's delight!"

Source: Mark Andrews with ChatGPT/ DALL-E

When we look at the last three years since inflation really took off, local prices are looking pretty good, most of them below CPI. Notable exceptions are prices for babysitting and meals at Handy's and Al's. If you are a parent trying to go out for a meal, good luck.

Zooming in to the past year, the thing that stands out most is the number of prices that have not changed. And how about that massage? The price was totally unaffected by the 18% cumulative inflation since 2021. You might think with labor the main input to something like a massage, and wages experiencing strong growth, the price would go up. Huh.

What looks relatively smooth in a national inflation index can be anything but on the ground. Which raises the question: at what point does a local business decide rising costs need to be passed on to their customers? Sometimes it is volatility more than inflation that challenges businesses. For instance, the cost of a meal comprises various inputs such as potatoes, beef, frying oil, electricity, rent, and wages. If potato prices fluctuate from one month to the next, does the local restaurant change its menu each time? How can you tell if the price is going to go back down or if the increase is here to stay? It has got to be tough to navigate as a business owner and it is a good thing the roaring inflation of the past few years is mostly in the rearview mirror.

In a nutshell, the Hanson Index isn't an exact numbers game—it's a fun snapshot of how inflation shapes our day-to-day lives here in Vermont. While the pace of price hikes may have slowed, don't hold your breath for a return to pre-pandemic prices anytime soon. So, why not treat yourself to that Ben & Jerry's cone? After all, it's still the same sweet deal as it was this time last year!

THE HANSON INDEX 2024

A comparison of local prices to the Consumer Price Index (CPI)

	2024	2023	1986	1-yr change	3-yr change	Change since 1986
Babysitting - 4 hours	$92.00	$80.00	$7.00	15%	53%	1214%
Burlington Free Press (newsstand)	$3.50	$3.50	$0.35	0%	40%	900%
Cable TV and Internet (monthly)	$90.00	$90.00	$10.50	0%	13%	757%
Ben & Jerry's small cone	$6.50	$6.50	$0.94	0%	17%	591%
Burlington Parking ticket	$15.00	$15.00	$3.00	0%	0%	400%
YMCA adult membership (1 year)	$767.00	$743.00	$190.00	3%	14%	304%
Al's French Frys- Double cheese, pint of fries, medium Coke	$12.18	$12.18	$3.15	0%	20%	287%
Funeral	$10,800.00	$10,400.00	$2,950.00	4%	2%	266%
Handy's Lunch (Big Daddy & Coffee)	$14.25	$13.25	$3.90	8%	21%	265%
Fishing License	$28.00	$28.00	$8.00	0%	0%	250%
Gallon unleaded gas	$3.21	$3.30	$0.95	-3%	15%	238%
Beach permit	$50.00	$50.00	$15.00	0%	11%	233%
Movie	$12.75	$12.25	$4.00	4%	13%	219%
Shoe repair (half sole and heel)	$80.00	$70.00	$26.00	14%	5%	208%
Massage (1 hour)	$90.00	$90.00	$30.00	0%	0%	200%
Bounced check	$35.00	$35.00	$12.00	0%	0%	192%
Taxi (airport to Hilton)	$19.00	$19.00	$6.75	0%	-5%	181%
Dock space Shelburne (30 ft. boat - season)	$3,600.00	$3,450.00	$1,425.00	4%	12%	153%
1 lb decaf beans	$11.79	$11.19	$5.50	5%	-6%	114%
Leunig's espresso	$2.75	$2.75	$1.50	0%	10%	83%
L.L. Bean Men's 8" Duck boot, basic	$149.00	$149.00	n/a	0%	n/a	n/a
2 in x 4 in x 8 ft prime whitewood stud	$3.65	$3.35	n/a	9%	n/a	n/a
1 gallon Vermont Maple Syrup	$55.00	$55.00	n/a	0%	n/a	n/a
8 oz block of Cabot Extra Sharp Cheddar	$3.09	$2.99	n/a	3%	n/a	n/a
4 Pack - Heady Topper	$13.00	$13.00	n/a	0%	n/a	n/a
Uber - (airport to Hilton)	$13.98	$14.95	n/a	-6%	n/a	n/a
Burlington --> NYC via Amtrak	$226.00	$214.00	n/a	6%	n/a	n/a
Increase in CPI				**3.15%**	**17.99%**	**183.92%**

Source: Hanson + Doremus Investment Management

SAVING FOR RETIREMENT

By Eric Hanson

Gen Z explained (at least a little)...

In 600 words I am not going to try sum up Generation Z, those born between 1997 and 2012, who are now aged 12 to 27. But I will lay out a big concern about them and also a big reason to be heartened.

First the concern. Gen Z is the first generation to grow up entirely in the smartphone age. Social media, video gaming, Reddit, You-tube, etc. rule their lives.

Jonathan Haidt is the author of a new book, *The Anxious Generation: How the Great Rewiring of Childhood Is Causing an Epidemic of Mental Illness.* According to Haidt, the addiction to social media and gaming is damaging young psyches and causing a marked increase in mental illness and depression. What is the solution? Haidt says ban smartphones before high school. All schools should be phone-free zones, which might help re-establish unsupervised play.

The problems caused by smartphones are real, but as *The Economist* recently pointed out, generation after generation have been worrying about the young. In 1935, Harper's magazine declared that mass unemployment, criminality and marijuana were, "rotting the young before our eyes." Fifty years later, Neil Postman worried in *The Disappearance of Childhood* that television was the evil that was leading young people astray.

The Economist also points out that the young eventually grow up, get jobs, get married, have children, and in some cases end up writing books about the problems of the young! I graduated from college at the height of the Vietnam war. Things were chaotic then and many of us had no long-term plan, but nevertheless we grew and developed. Gen Z will also.

Now on to the good. Gen Z is already starting to save. How much you need to have saved for retirement is a moving target, different amounts for different individuals. An old rule of thumb from Fidelity is you need to have 10 times your salary saved by age 67. So, if you make the median income of $75,000 you need to have $750,000 saved at retirement. Others argue that you need as much as $1.5 million in savings to ensure a comfortable retirement. The retirement savings "number" is stressful since the average American, according to the Federal Reserve in 2022, has saved only $333,940.

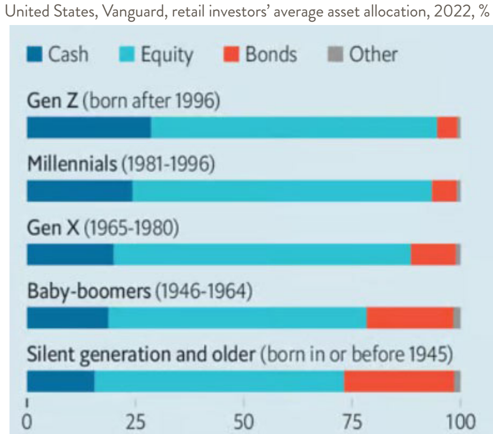
One thing is for sure, however. The earlier you start saving the more likely you are to have a solid nest egg. Baby Boomers on average didn't start saving until age 37 according to a study by Employee Benefit Research Institute in 2023.

Many Gen Z'ers are getting a much earlier start. Teens generally can't open brokerage accounts until age 18, but note how many custodial accounts parents have set up for children at Schwab recently (*see below*). A Bank of America survey reported that two-thirds of Gen Z investors first started learning about investing in middle school or high school versus 38% for millennials, the earlier generation. This reflects the fact that schools have finally seen the importance of teaching personal finance and also that younger people are thinking more seriously, and earlier, about their future.

The world is uncertain and there is no guarantee that starting your savings early will lead to a stress free retirement, but a diversified investment strategy has been successful in the past, and there is no reason to think it won't be in the future. Gen Z is heavily invested in stocks now and rightfully so (*see chart above*). They have the longest investment time horizon. They can wait out the tough times that invariably will come. Let's just hope that smartphones, which are causing anxiety for some, will also lead others to sensible investment information and choices.

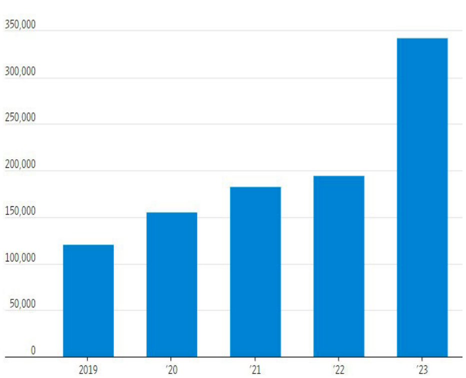
CASH IS TRASH

United States, Vanguard, retail investors' average asset allocation, 2022, %



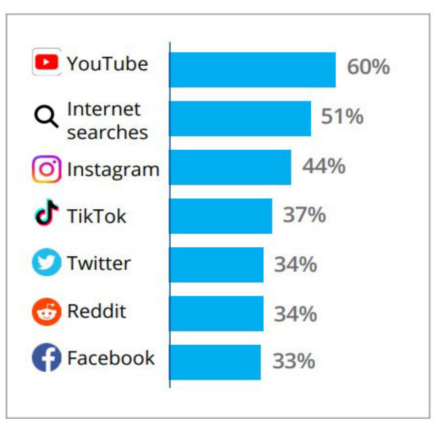
Source: *The Economist;* Vanguard

CUSTODIAL ACCOUNTS AT CHARLES SCHWAB, AGES 13-19



Note: 2023 includes accounts converted from TD Ameritrade integration Source: *The Wall Street Journal;*

TOP SITES GEN Z USE TO LEARN ABOUT FINANCE & INVESTING



Source: CFA Institute, FINRA

SPORTS GAMBLING

By Neil Macker

The rise of legalized sports betting - who profits?...

With the recent conclusion of March Madness and its associated bracket pools, many Americans will not place another sports bet until the Super Bowl next year. However, since the 2018 Supreme Court decision, legalized sports betting has expanded to 38 states (and D.C.), including Vermont, this year. This tremendous geographic expansion has made it easier than ever for sports fans to bet on the games they are watching.

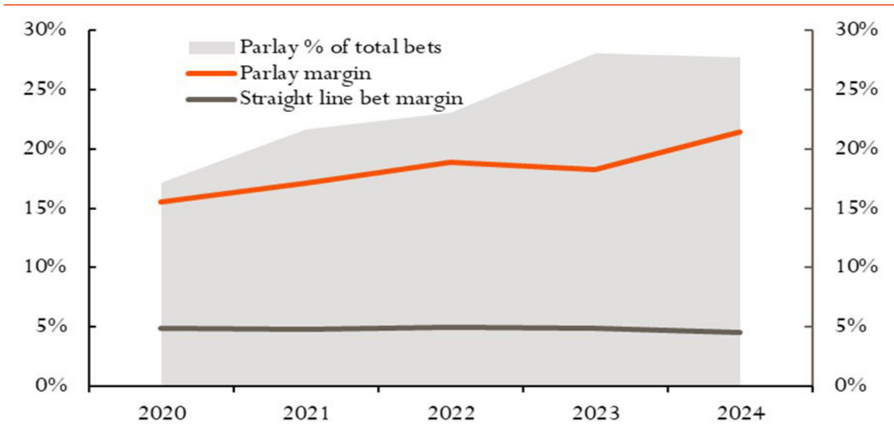
Americans wagered over $121 billion on sports in 2023, up 29% over 2022. Much of that was placed via mobile devices as sports gambling has become more convenient than ever. Apps such as FanDuel, DraftKings, and ESPN BET allow users to bet on everything from the NFL, MLB, and NBA to mixed-martial arts, golf, and NASCAR to almost any college sport—all directly from their phones. If there is a sporting event with any level of interest, the betting firms will make a market.

The rise of betting apps has not only expanded the reach and prevalence of sports betting but also the kind of bets, including parlays and proposition bets. A parlay bet is a series of two or more bets on one or more events, all of which must be won for a payout. For example, the Red Sox will beat the Orioles, Mookie Betts will have over 2 hits, and Tottenham will win outright over Newcastle. The payout if everything goes right can be huge, which is why many bettors prefer a parlay to a straight bet. But the house still makes sure that the odds are in their favor. In fact, sports books often add an "odds boost" to induce more action, and just like the casinos in Vegas, they are not doing so out of the kindness of their hearts but due to the much higher potential profit.

Data from the Illinois Gambling Board illuminates the difference, with parlays offering around 4 times more profit on average than straight line (bets on the outcome of the game) as shown in *the figure below*. Famed short-seller Jim Chanos publicly reversed his short stance on the industry in December, saying he, "underestimated…what bad bettors the U.S. gamblers are," due largely to parlays.

Along with parlays, proposition, or prop bets, have also gained in popularity. Props are bets on outcomes that don't directly relate to the outcome of the game. Examples include a specific player scoring a touchdown or making more than five three-pointers in a half. Prop bets have introduced new issues around both the integrity of games and the safety of players. In the last year, there have been a number of suspected wrongdoings, including an ongoing investigation into an NBA player for possibly helping associates win their prop bets. Gamblers have also been vocally blaming and abusing players for their lost prop wagers both in person and online via social media.

THE RISE OF PARLAYS AND PARLAY VS STRAIGHT LINE MARGIN



Source: *Illinois Gambling Board, 2024 through Feb., Author Calculations*

More broadly, the rise of sports betting has meant more scandals and more of gambling's associated issues including addiction and monetary losses. Sadly, the number of calls to gambling addiction hotlines doubled in many states in the years after legalization. For example, in Ohio in 2023, the first year of legal sporting betting, calls to the gambling hotline increased by 55% and sports betting overtook lottery and casino slot machines to become the top form of problematic gambling. State governments have to contend with the tradeoffs between these problems and the associated tax revenue generated from gambling.

As for the sports leagues, they seemingly have no trouble accepting the money. Despite historically ostracizing gambling, leagues have wholeheartedly embraced sports betting firms as a source of licensing and advertising revenue, and even as partners in the betting platforms. The ads are now everywhere. A recent study found that NBA and NHL fans see three gambling ads per minute on a TV broadcast due to the actual ads as well as the large number of logos!

From the leagues' perspective, growth in sports betting not only generates revenue but could also help to keep eyeballs on games. In our increasingly fragmented media environment, sports are competing for time—not only against other televised programming, but also video games, social media, streaming services, and even that old school notion of simply getting outside and maybe playing a sport.