Time Stops For No Man, Not Even in Argentina

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Think you can afford a new car?

If you're like the average American… you can't.

To start, cars are expensive these days. According to automotive market intelligence firm LMC Automotive, the average price for a new car recently rose to a record $32,000.

That's probably a big chunk of change for you, if you're the average American… Most people don't have enough spare funds to buy a washer and dryer, let alone a new car… Nearly 70% of Americans have less than $1,000 in their savings accounts, according to a recent nationwide survey.

But hey, you need a car. You've got to get to work. You've got to get the kids to school. You need something to get you to and from the grocery store.

So what do you do? You borrow, of course.

According to auto shopping and information firm Edmunds, nearly 50% of retail auto sales are financed at the dealership. That's up from about 40% in 2006.

An auto loan can put a car within reach for you. But the average monthly car payment of $500 still breaks the budget for many people. So the car dealerships have gotten creative. There's no need to direct you to a cheaper car… All they have to do is extend the term of your loan, knocking down the monthly payment.

In 2016, the average loan term was 69 months – almost six years. That's up from 64 months a decade ago. And according to the latest data from credit-reporting firm Experian, nearly a third of new auto loans are between 73 and 84 months – around seven years.

Those are hopelessly long terms for an auto loan. Making payments for seven years on a rapidly depreciating asset isn't smart. You'll have negative equity – meaning you'll owe more than the car is worth – for *all but the last year or two of the loan*.

But perhaps you still want to use financing to buy a new car.

You wouldn't be alone…

The total amount of motor vehicle loans outstanding in the U.S. soared to a record $1.1 trillion at the end of 2016, up from $700 billion in 2010.

And auto loans are now the equivalent of 5.9% of U.S. economic output (as measured by gross domestic product, or "GDP"). That's up from 4.6% during the depths of the financial crisis in 2009. But back in the early 1980s, car loans were only about 3.5% of GDP. So auto debt is slowly but surely growing.

So perhaps your best bet is to lease the car – which is essentially renting a car for the long term – instead of owning it. An average lease lasts 36 months and, unlike with financing, you don't end up owning the car after the term is over.

It would make sense for the average American… Monthly lease payments are nearly 25% less expensive than monthly financing payments.

And the average American is taking advantage… Annual lease volume in the U.S. grew to a record 4.3 million units in 2016. That's up from just 2.6 million in 2006 – an increase of about 65%. Once primarily used to obtain expensive luxury cars, leasing is becoming commonplace for compact cars and pickup trucks.

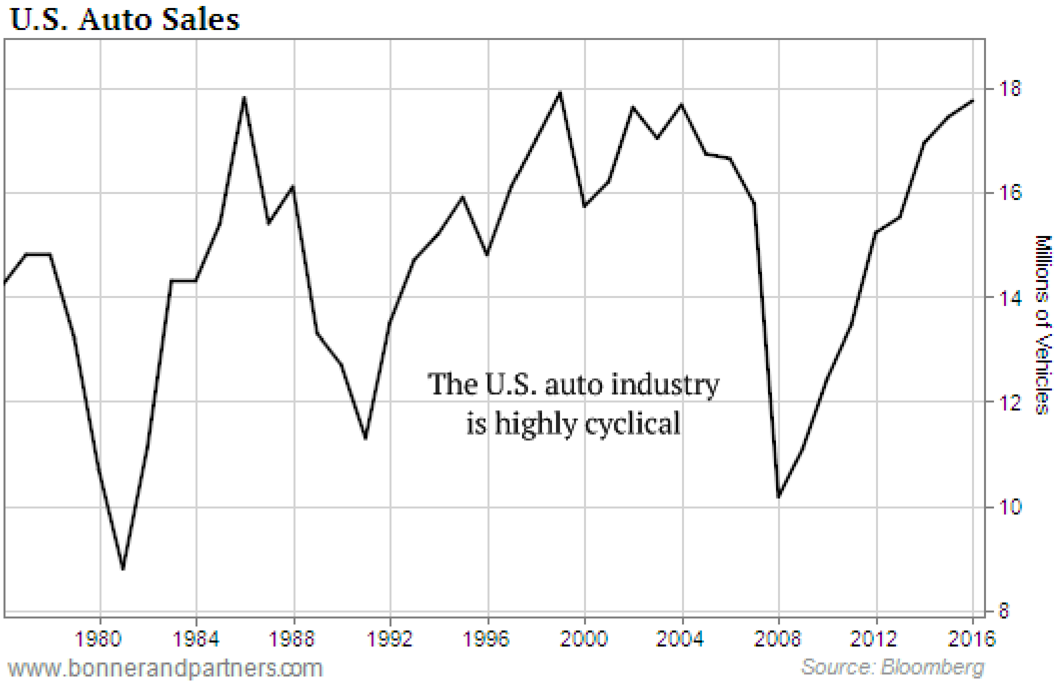
The data is clear… We've had a spectacular auto-lending and leasing boom. Fewer and fewer people are paying cash for cars anymore. Today, about 80% of new cars are either financed at the dealership or leased. That's up from roughly 60% 10 years ago.

And as you might expect, this surge in auto lending and leasing has fueled a car-buying bonanza. New-car and light-truck sales are running at around 17.5 million vehicles a year in the U.S. During the last recession in 2009, that rate had dropped to around 10 million.

All of this lending and leasing activity – aided by low interest rates – has played a big role in the dramatic auto industry recovery since the credit crisis.

But there's a problem… The U.S. car market has always been highly cyclical.

As you can see in the chart below, the auto industry regularly jumps between sales booms of more than 15 million and busts of less than 11 million.



The auto-lending and leasing boom over the past few years has set the auto industry up for yet another bust.

Remember, the average American can't actually afford the car that was sold to him. The extended loan terms didn't really make it affordable. They just trapped him in a loan with a less-valuable car down the road. And if the buyer is like millions of Americans who have subprime credit scores, he can't afford the lower monthly payments, either…

Last November, according to Federal Reserve data, 6 million subprime borrowers were at least 90 days late on their auto loans. The delinquency rate has reached its highest point since 2010.

Auto lenders are doomed.

Regards,

Porter Stansberry

Editor's Note: Porter says a secret civil war is happening right now in Washington. You won't hear about it on CNBC or read about it in *The Wall Street Journal*…

But it's about to cause a chain of events that will have a huge impact on the U.S. economy and stock market before the end of

2017.