

Recovery Begins Later in 2023

North State BIA
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NAHB Chief Economist



Macro/Housing Outlook



Federal Reserve to stop tightening cycle at end of first half of 2023
2022 rate hikes now challenging liquidity and regional banks



Forecast includes a recession in 2022/2023 recession
Mild recession but some unemployment



Inflation is declining off peak but will remain elevated into 2024
Fed needs to slow or pause actions



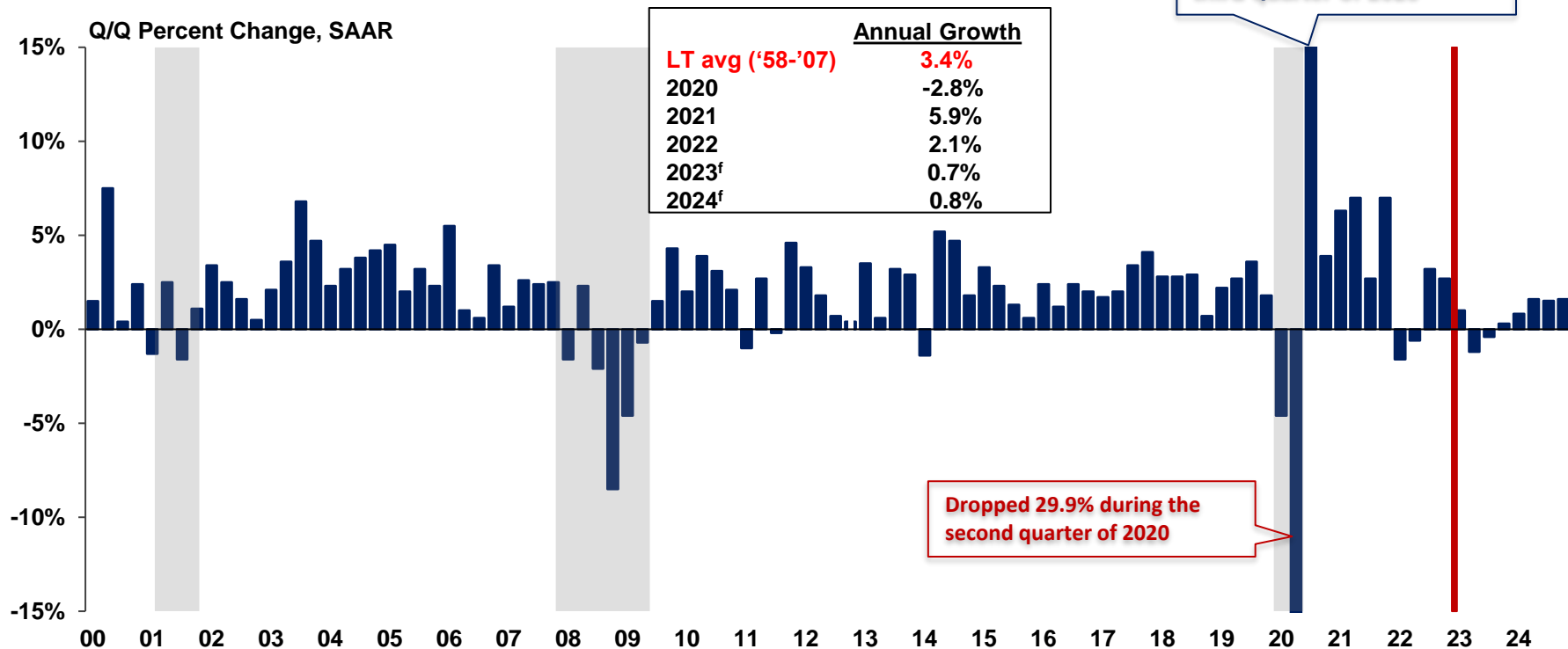
Single-family, multifamily construction to decline in 2023
Remodeling more solid



Single-family construction to recover in 2024
Communities with ability to add affordable housing will grow

GDP Growth – Recession Risks Rising

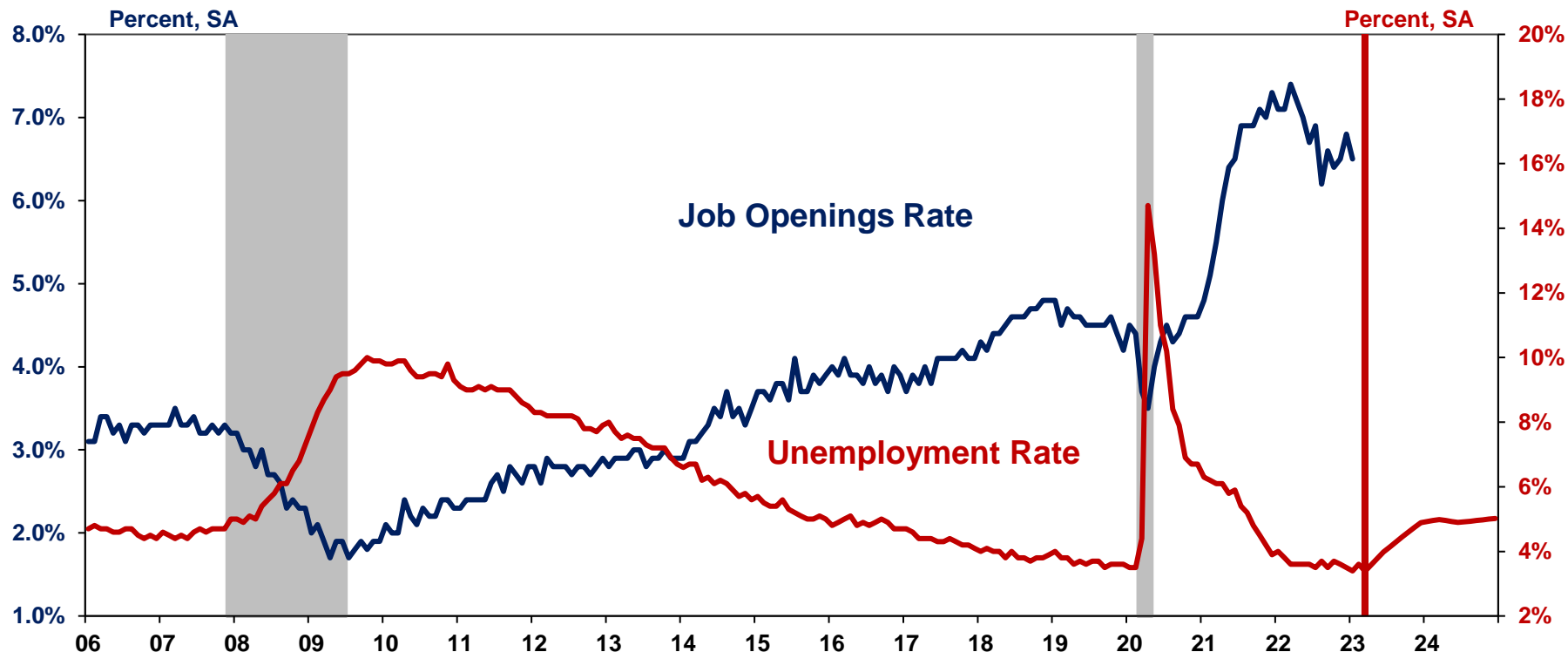
A mild recession during the first half of 2023



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

Job Openings

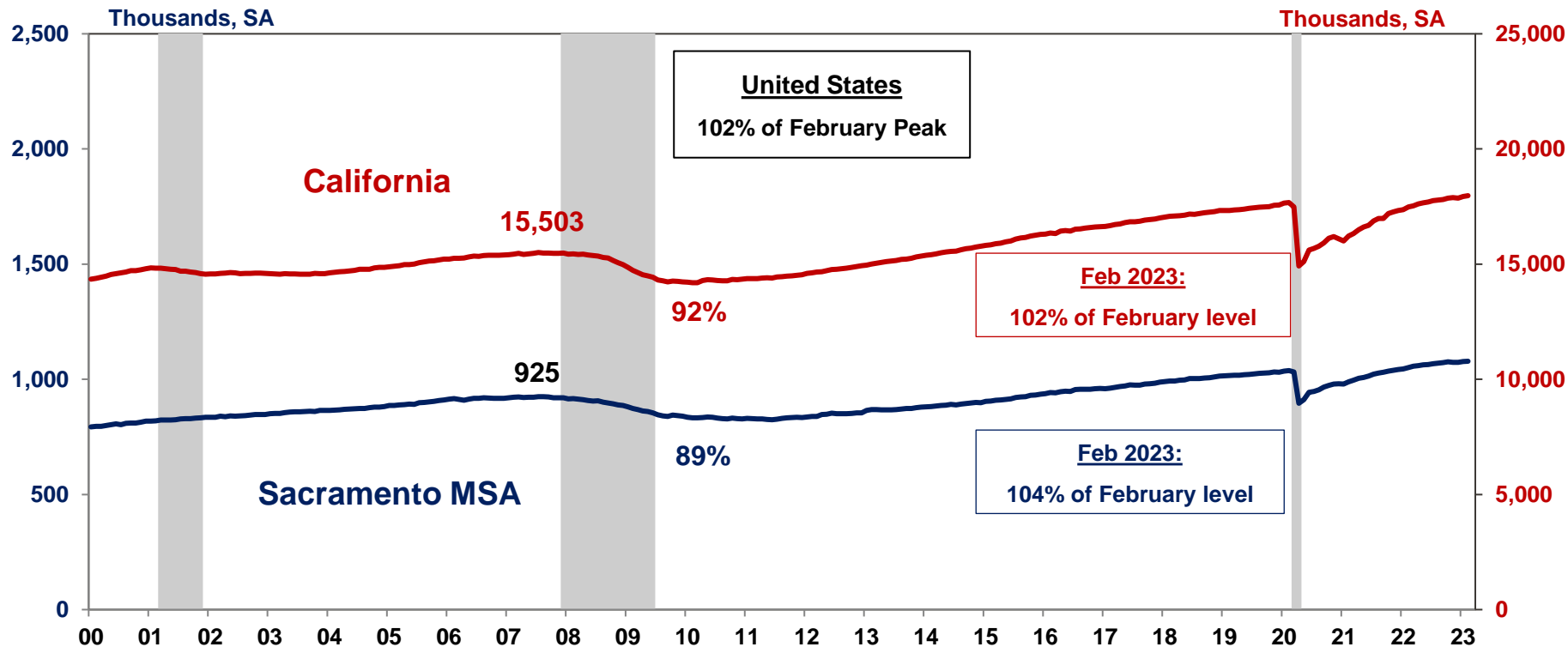
Falling to 9.9 million in February --- Fed wants lower



Source: U.S. Bureau of Labor Statistics (BLS) and NAHB forecast.

/ Payroll Employment

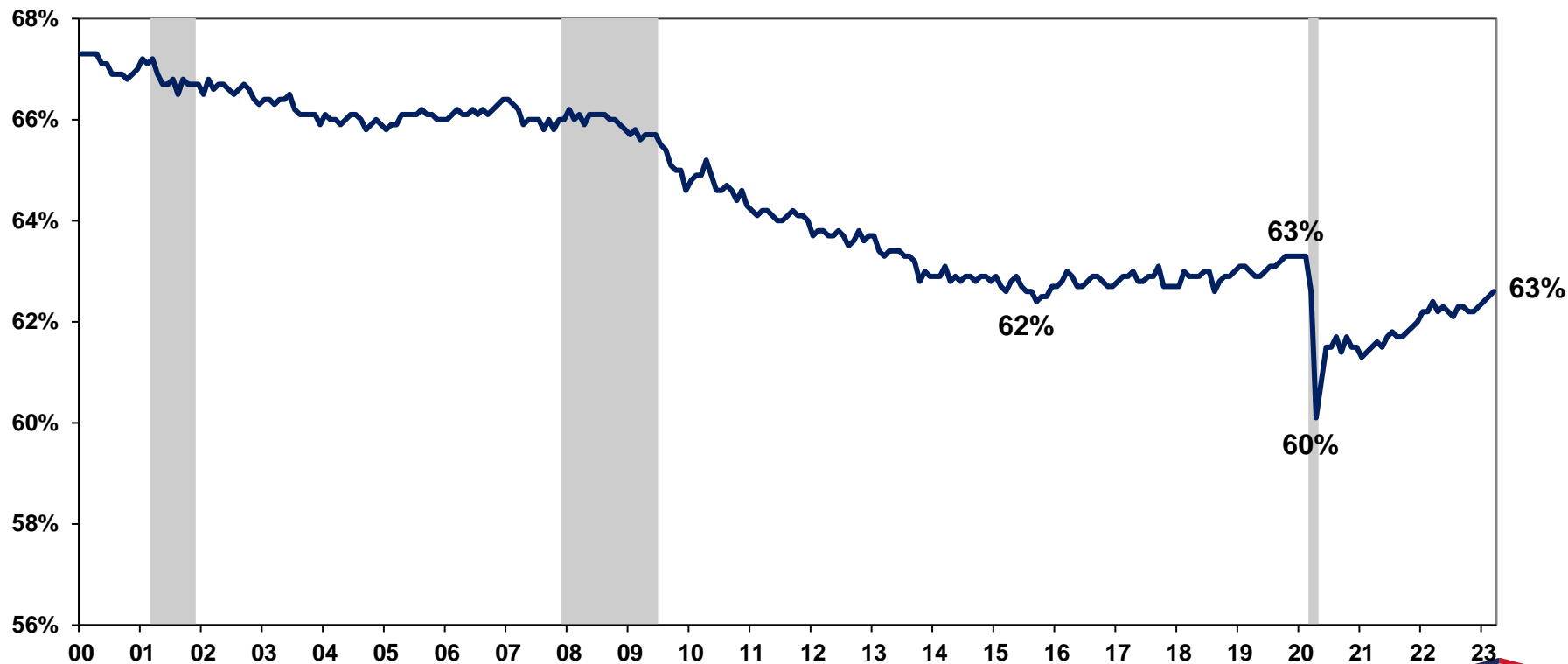
Sacramento MSA recovered from COVID-19 recession



Source: U.S. Bureau of Labor Statistics (BLS)

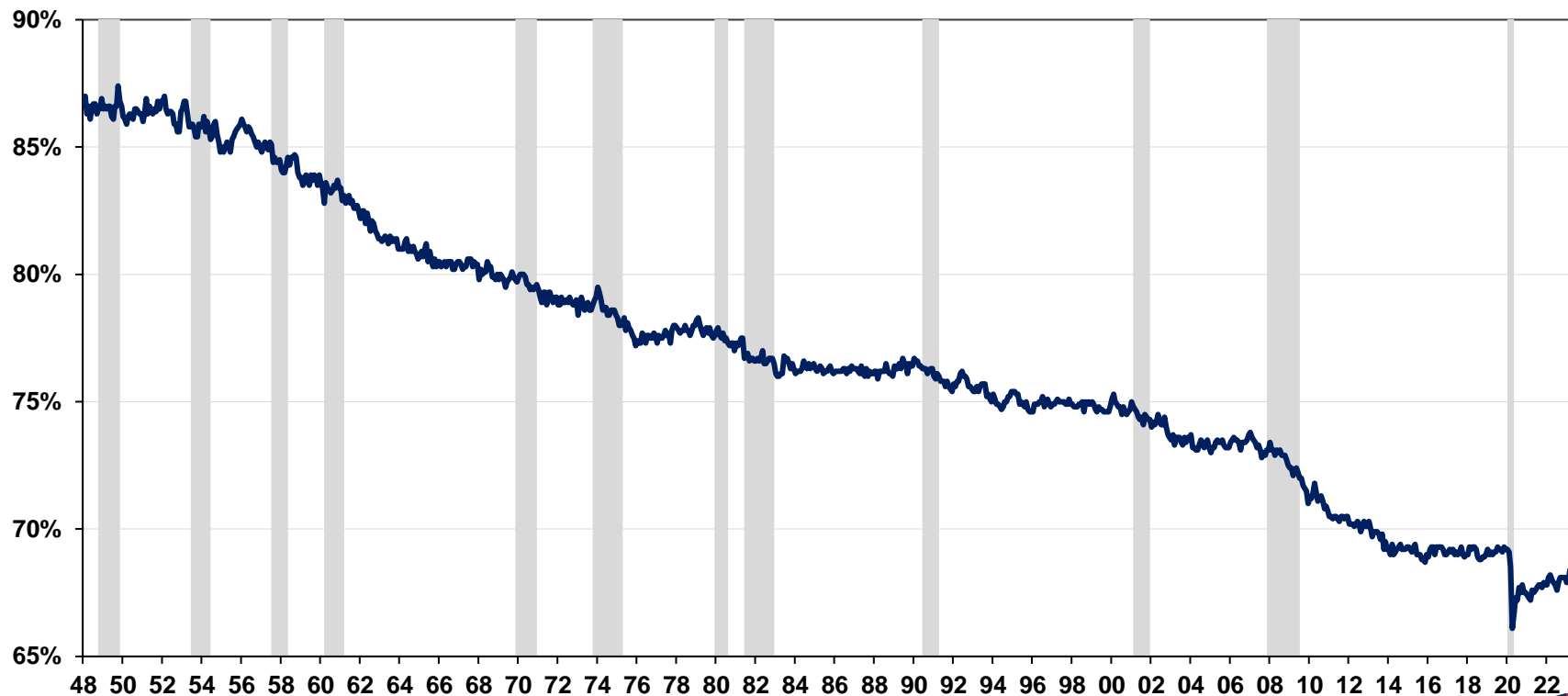
Labor Force Participation Rate

Labor force participation must be repaired as part of job market recovery



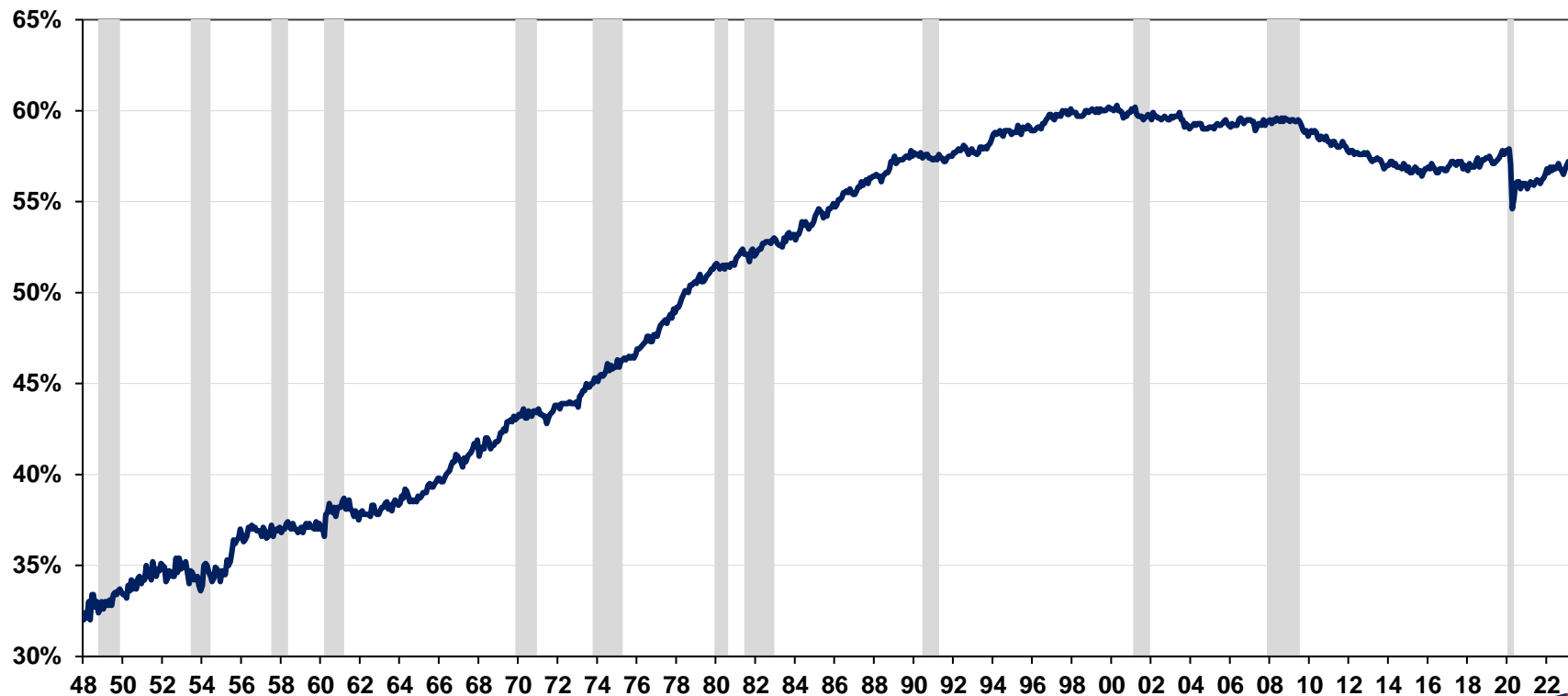
Source: U.S. Bureau of Labor Statistics (BLS).

Labor Force Participation Rate -- Men



Source: U.S. Bureau of Labor Statistics (BLS).

Labor Force Participation Rate -- Women

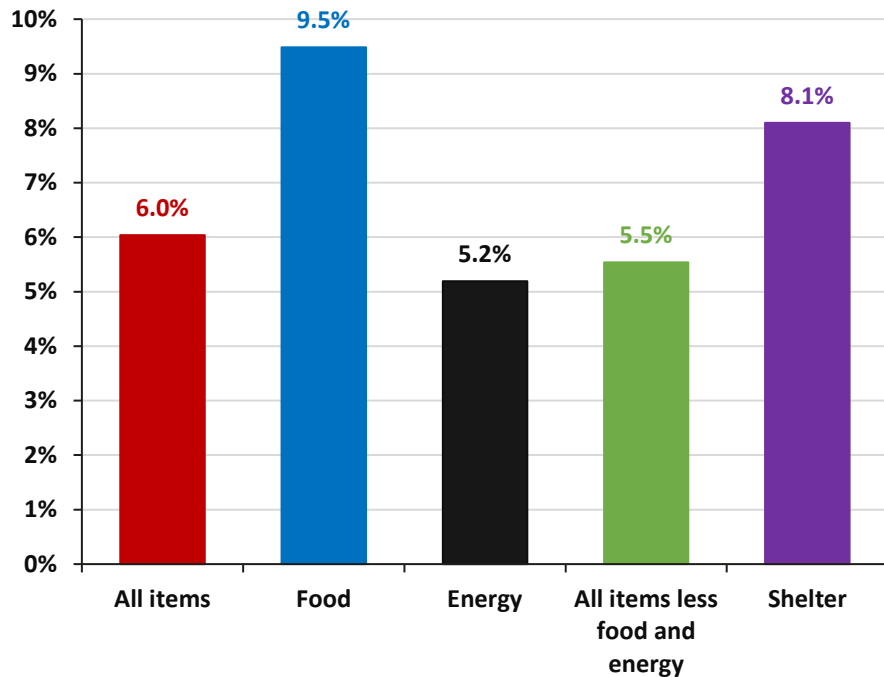


Source: U.S. Bureau of Labor Statistics (BLS).

Inflation

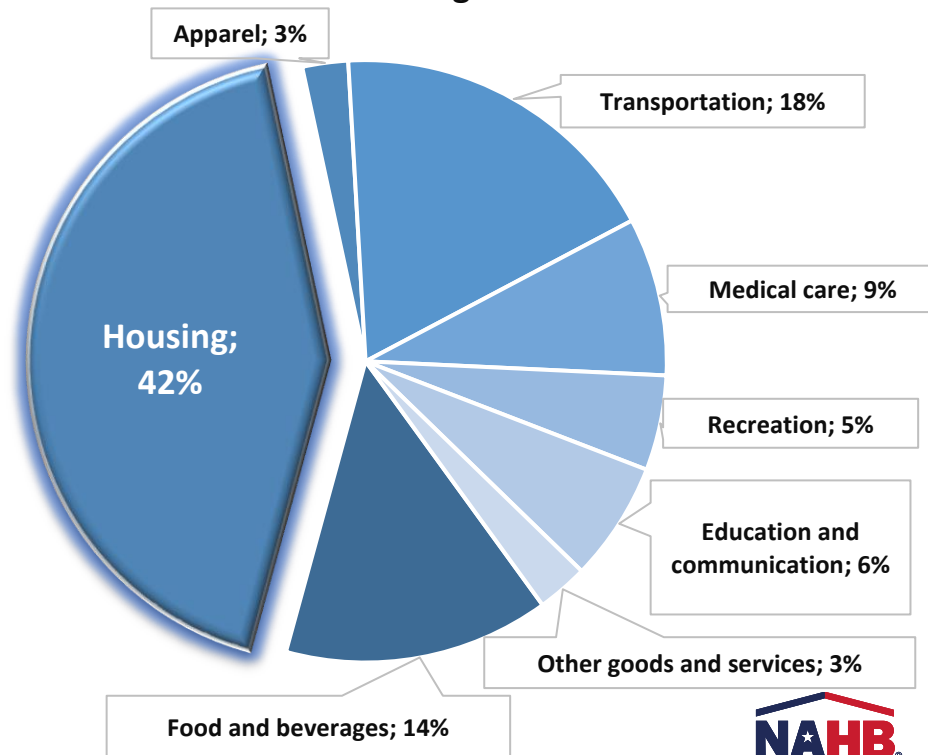
Broad-based rise in all prices; shelter effects will continue

12-month percentage change for CPI component items
February 2023, NSA



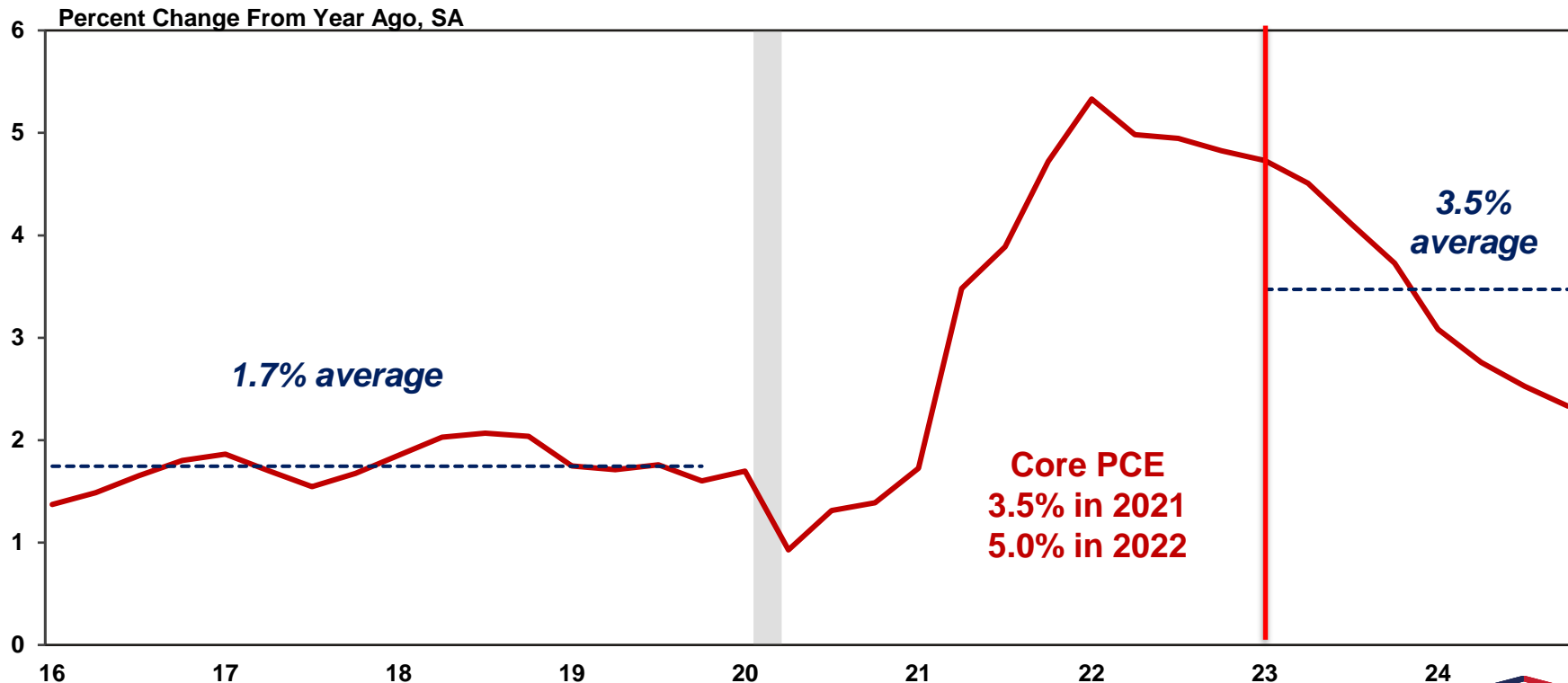
Source: U.S. Bureau of Labor Statistics (BLS)

CPI Weights



Core Inflation

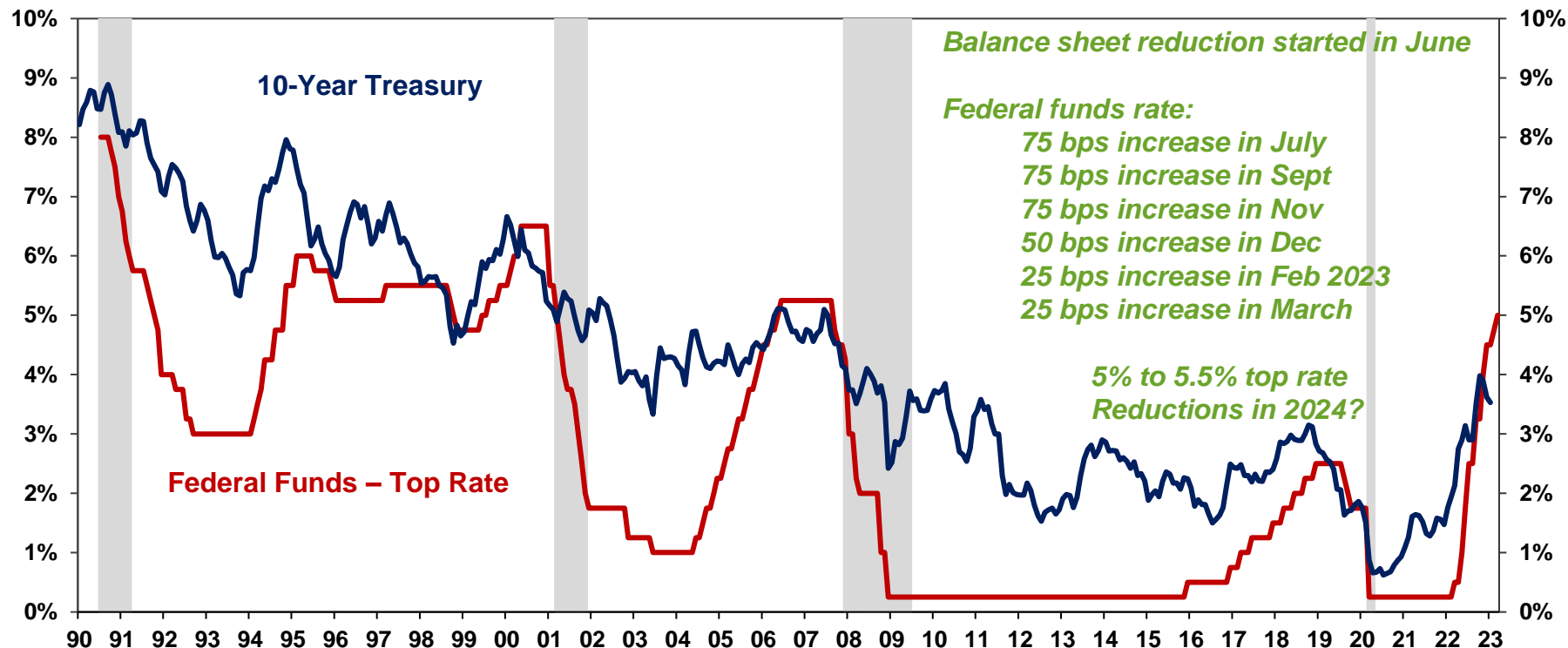
Inflation eased in February despite sticky housing costs



Source: U.S. Bureau of Economic Analysis (BEA) and NAHB forecast

Monetary Policy Tightening in Response to Inflation

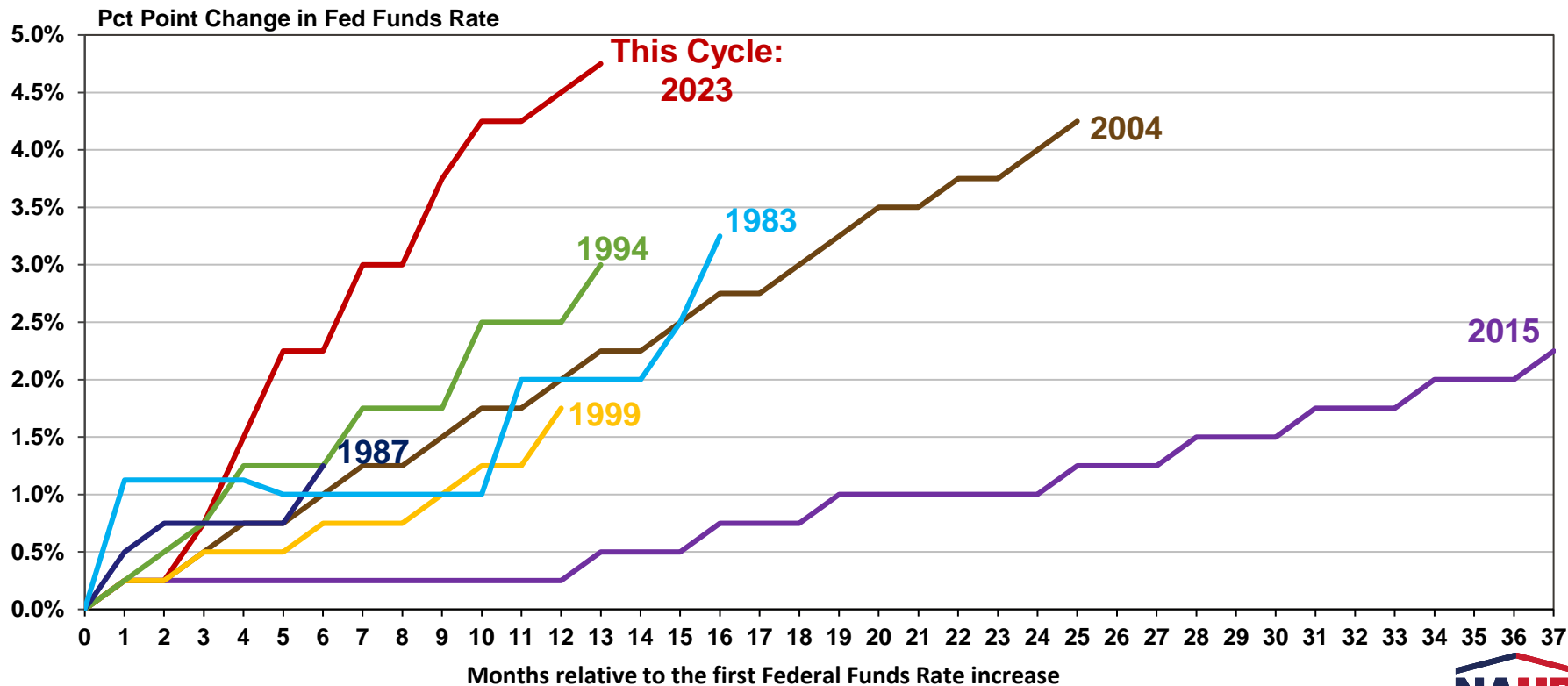
Downshifting the pace of tightening of monetary policy



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

Fed Funds Rate Hikes: 1980 to 2023

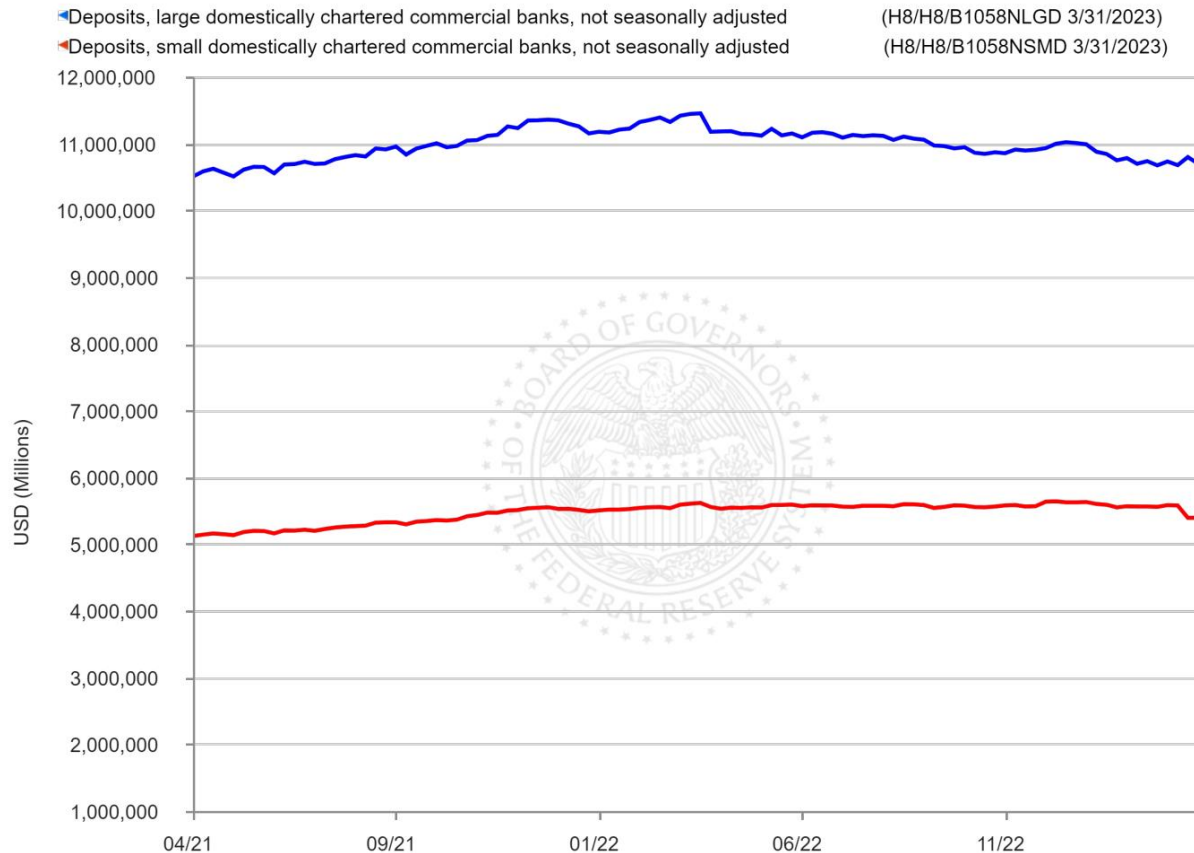
The most aggressive tightening cycle in decades



Source: U.S. Board of Governors of the Federal Reserve System (FRB) and Bloomberg.

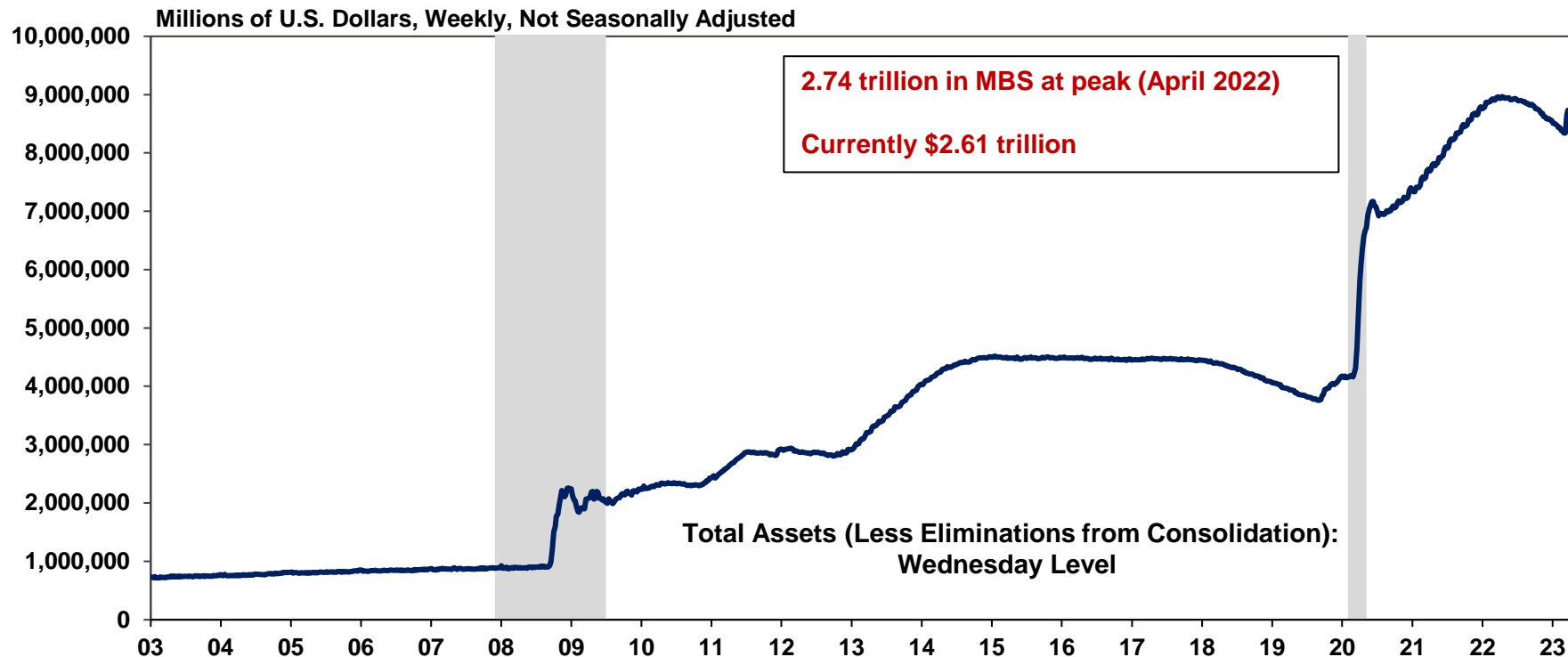
Bank Deposits --- A Moderate Move in Funds

Little change for large banks through March; 3.5% loss for small banks



Federal Reserve Balance Sheet

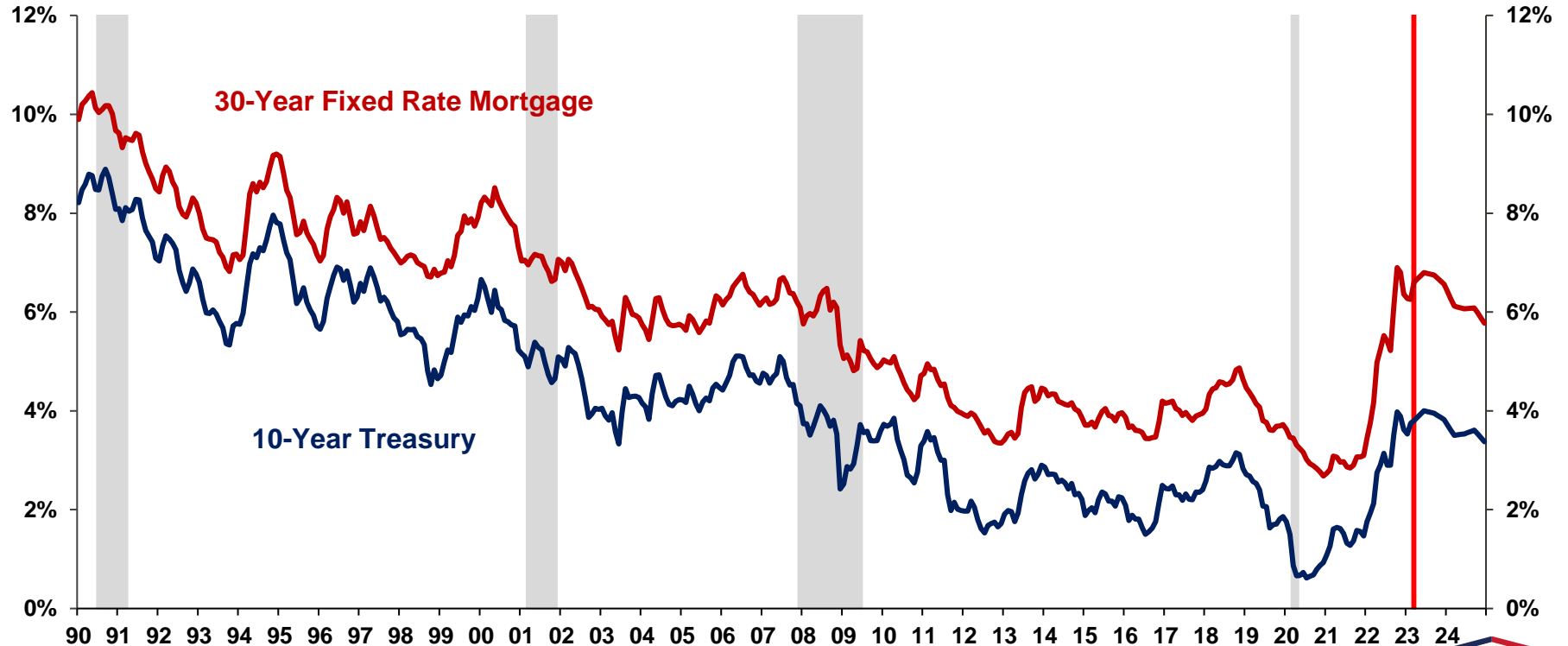
Quantitative tightening underway



Source: Federal Reserve Bank of St. Louis

Interest Rates Moving Lower

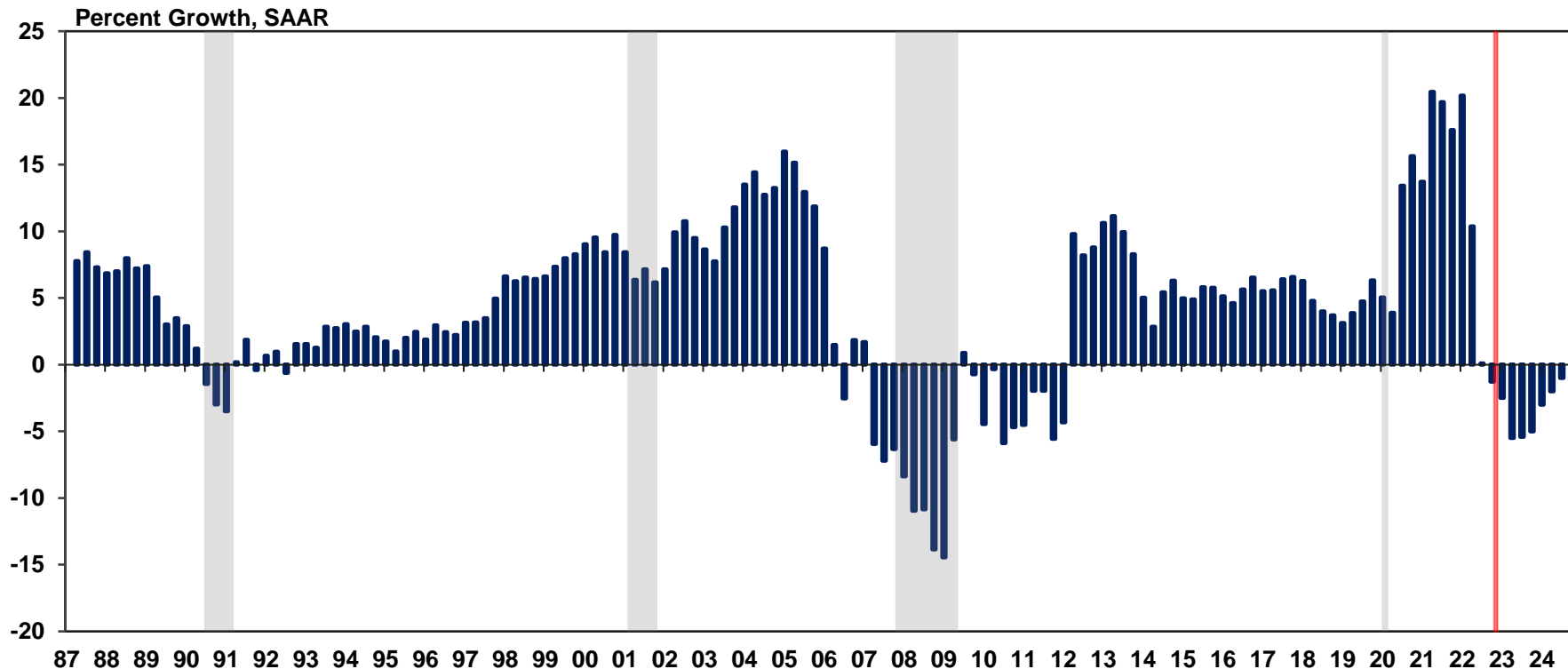
Federal Reserve is tightening monetary policy



Source: Federal Reserve and Freddie Mac data and NAHB forecast.

S&P CoreLogic Case-Shiller National US Home Price Index

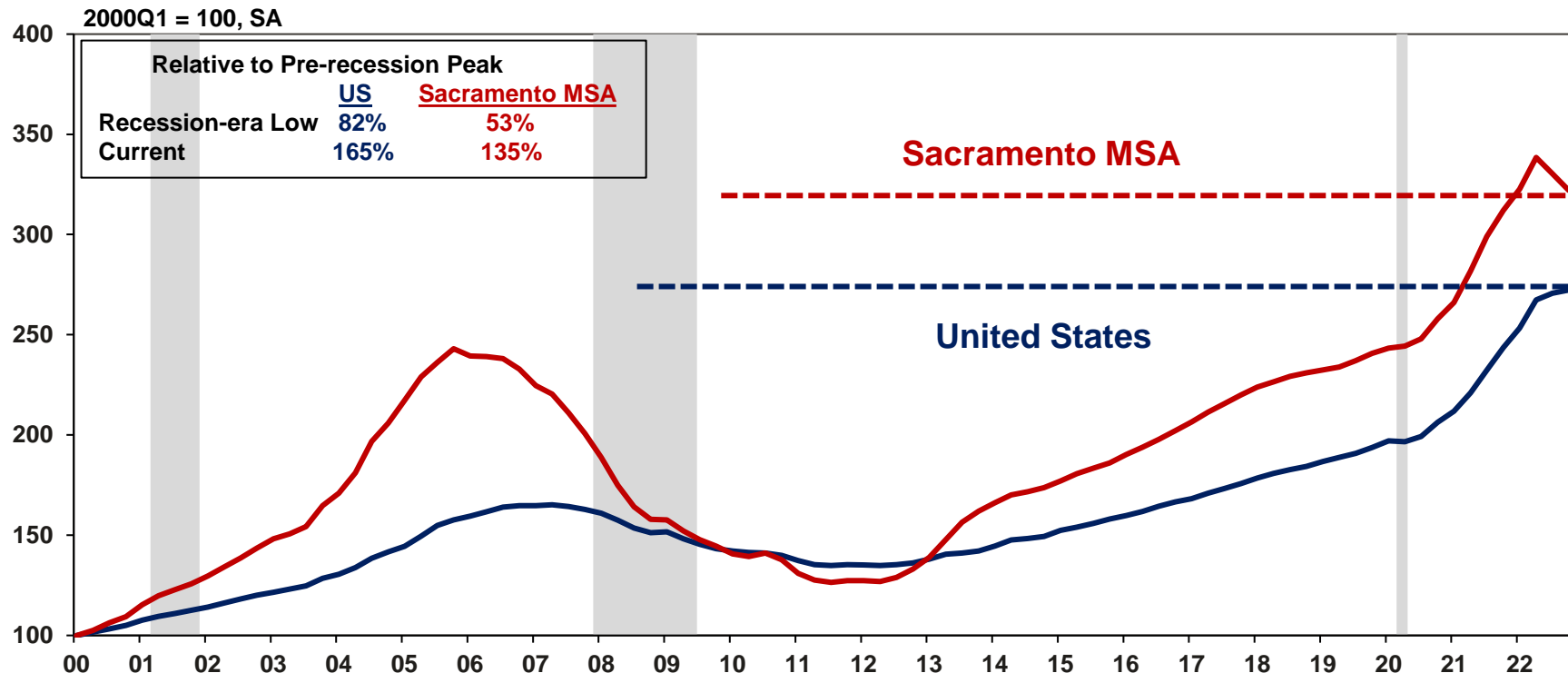
Home prices are slowing, 5% decline for NAHB forecast



Source: NAHB forecast and S&P Dow Jones Indices LLC; CoreLogic, Inc..

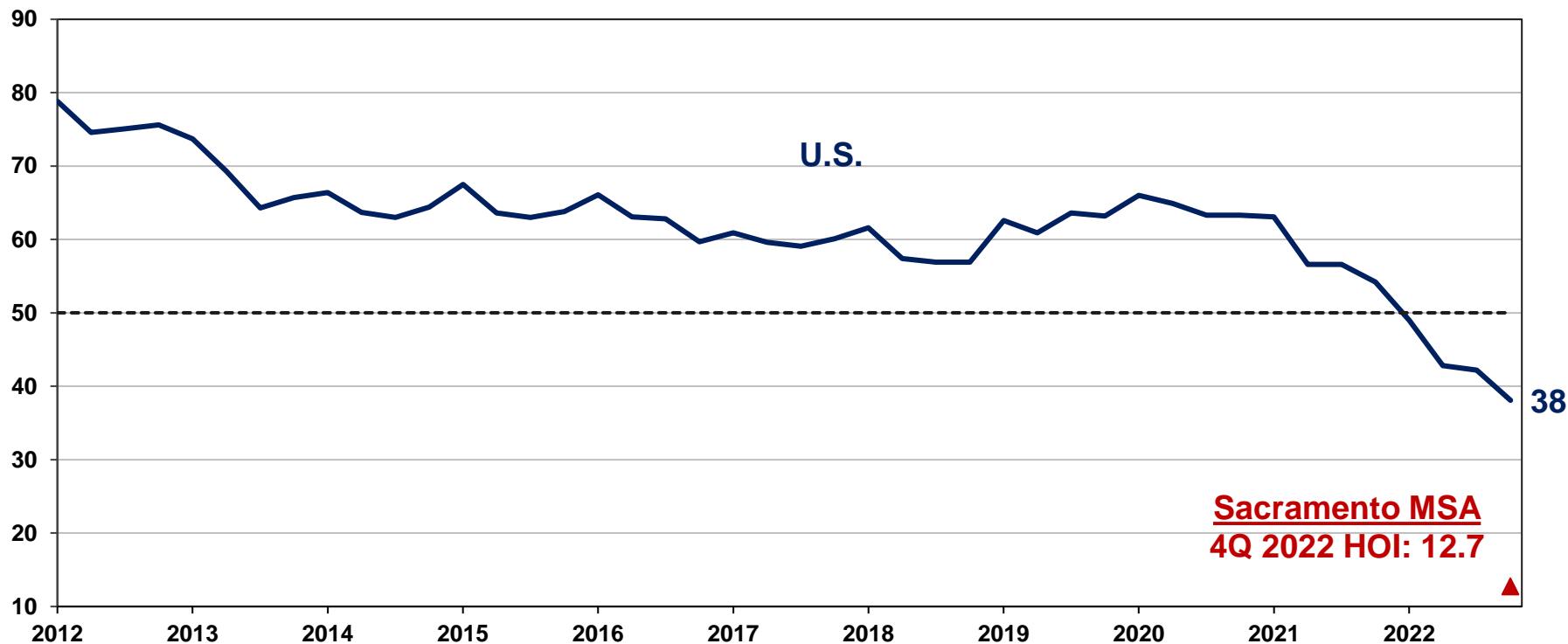
Existing House Price Index

Sacramento MSA 32% home price gain since covid, 38% for U.S.



Source: U.S. Federal Housing Finance Agency (FHFA)

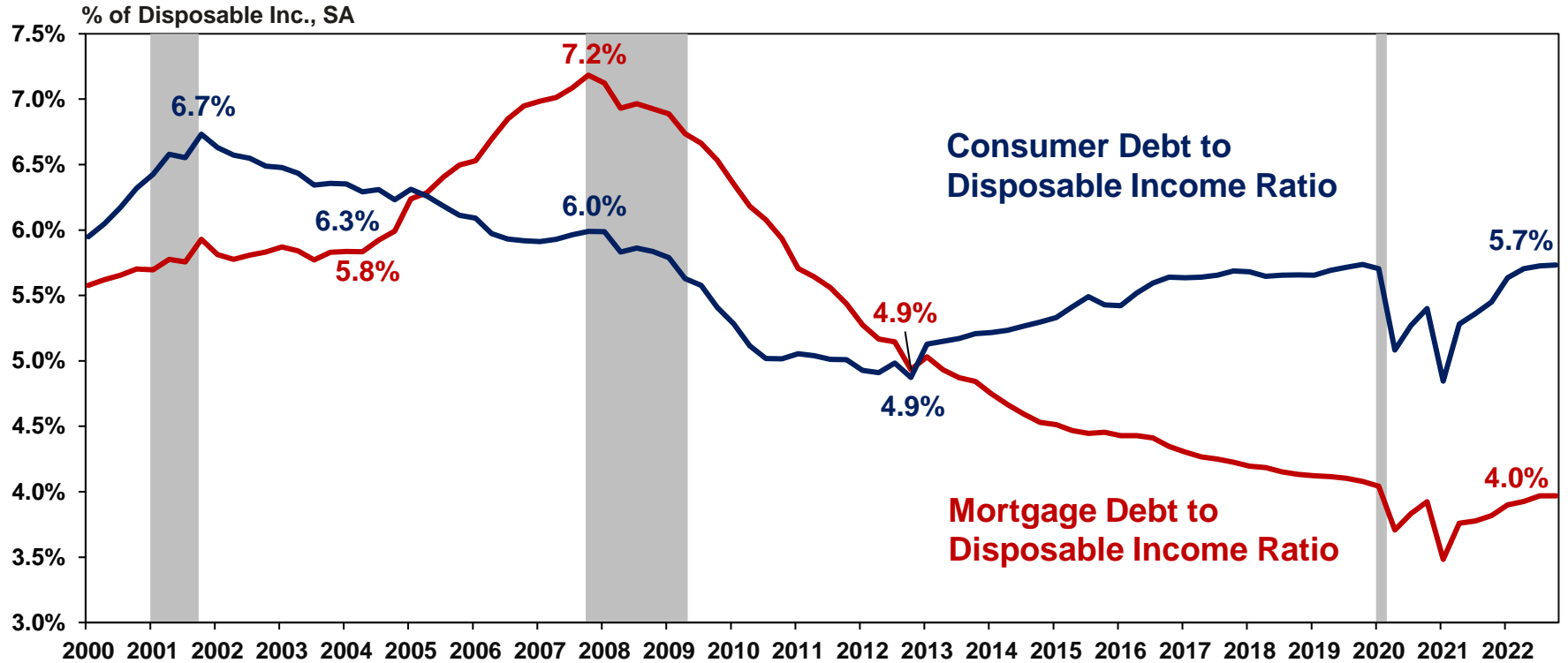
Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

Household Balance Sheets

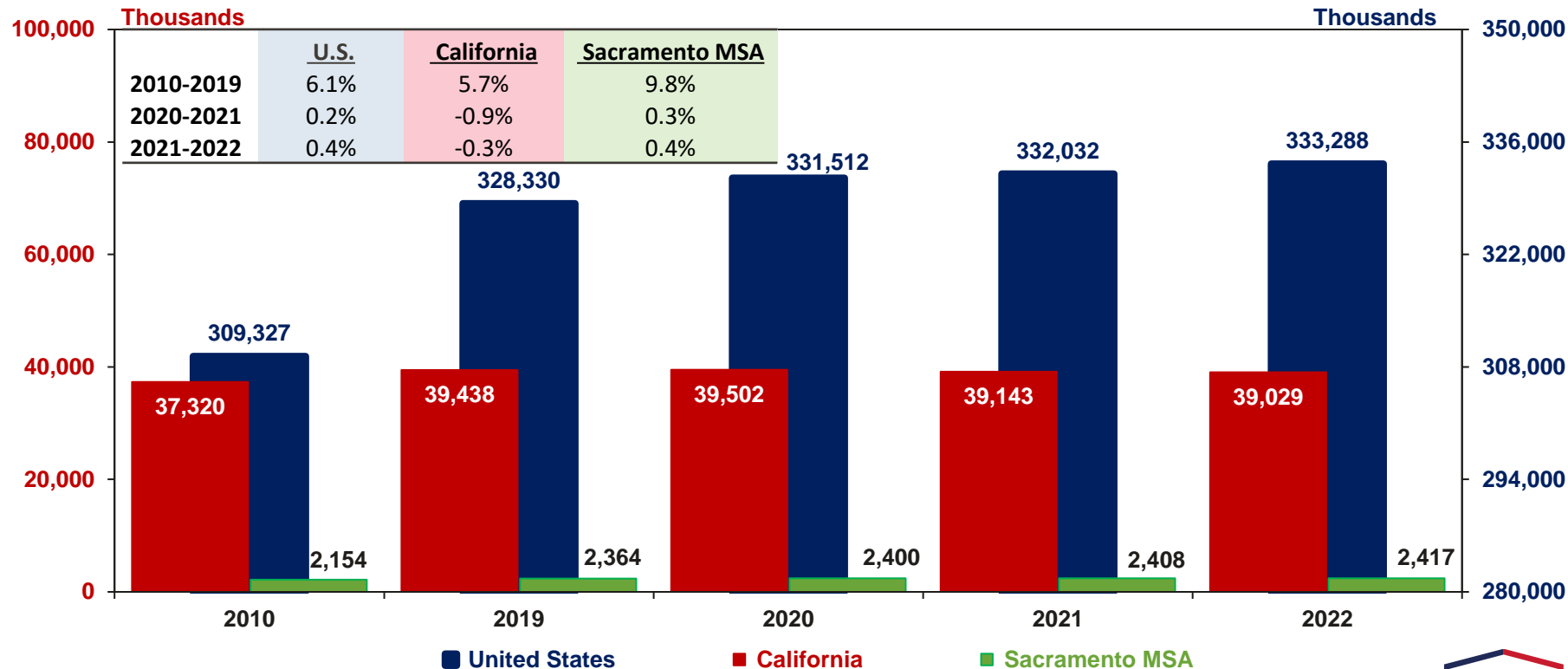
Debt-to-income ratio increasing as economy weakens



Source: U.S. Board of Governors of the Federal Reserve System (FRB).

Population Growth

Sacramento MSA population grew faster in 2022

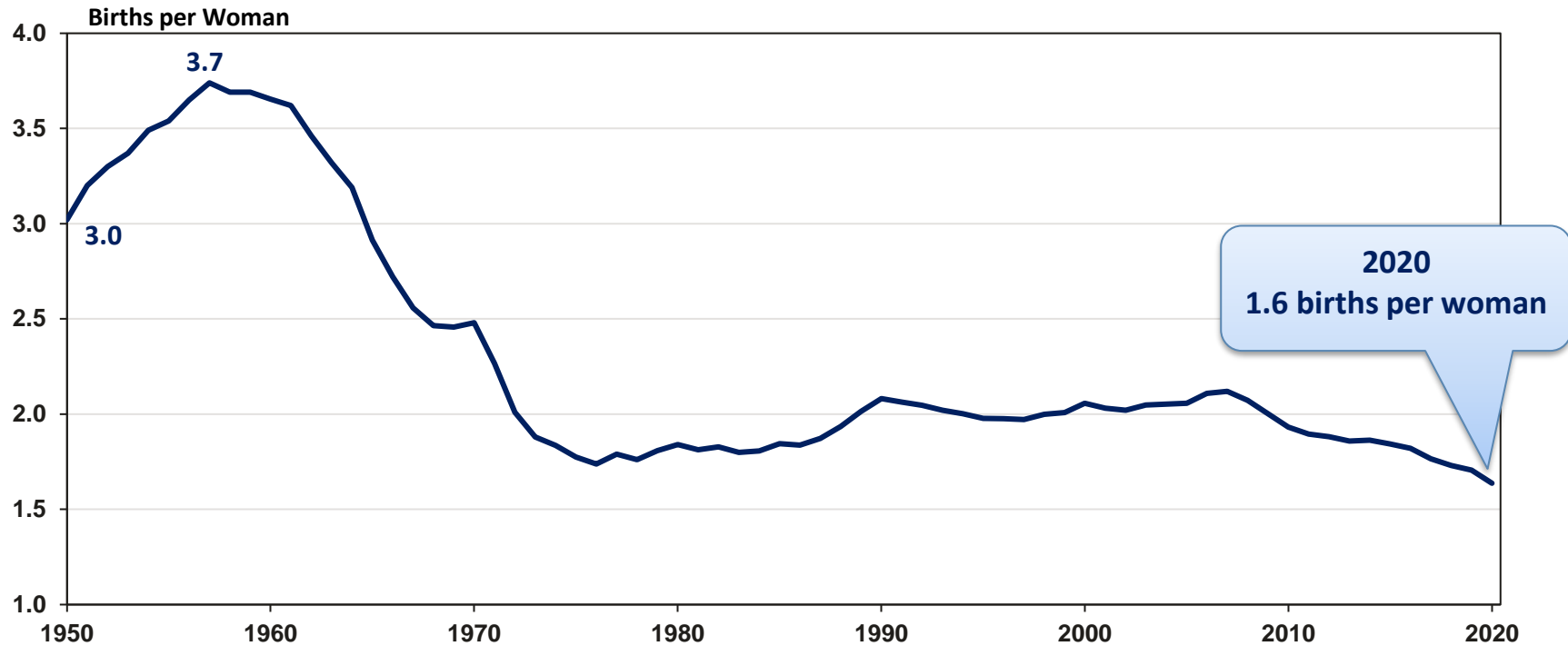


Source: U.S. Census Bureau (BOC).

Note: 2020 data are updated based on new vintage 2021 population estimates. However, the previous data (2013-2019) have not been revised, so comparisons to previous years are not recommended by Census.

Total Fertility Rate

U.S. fertility rate hit an all-time low in 2020



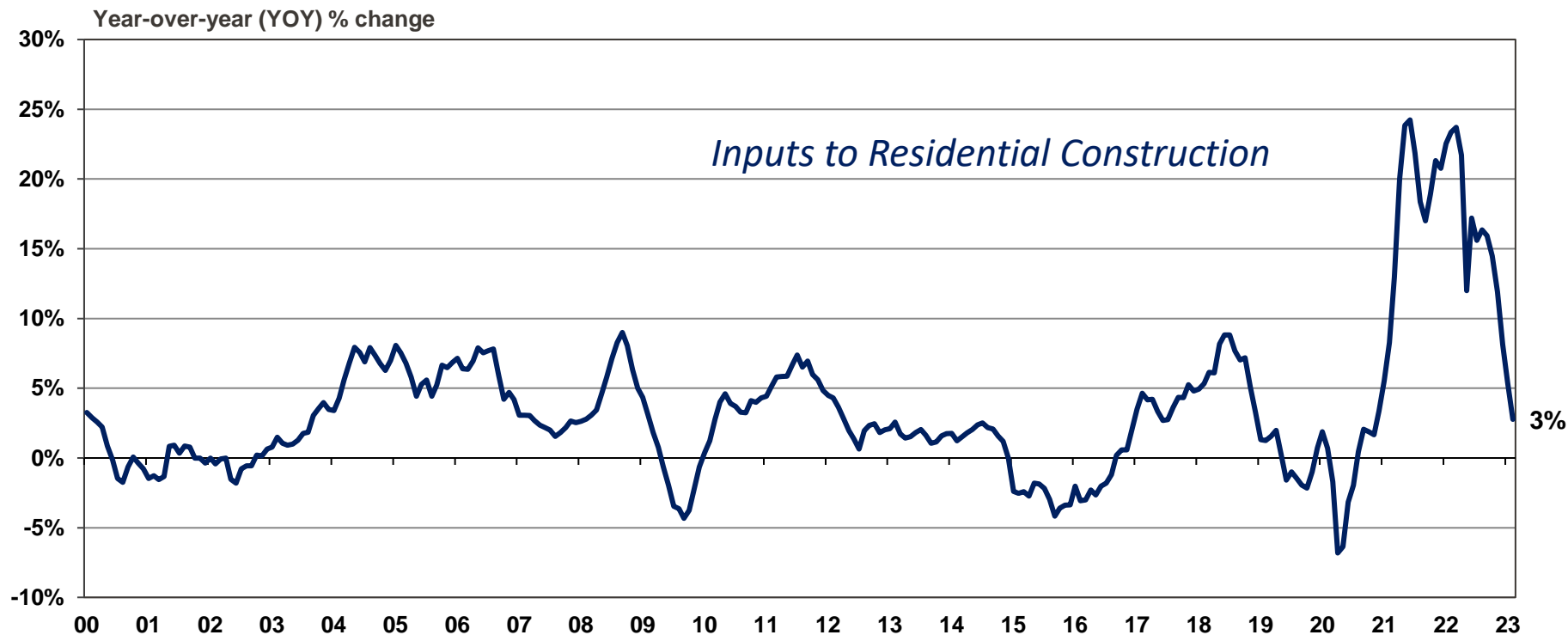
Source: The World Bank and <https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/>



Supply-Side Factors



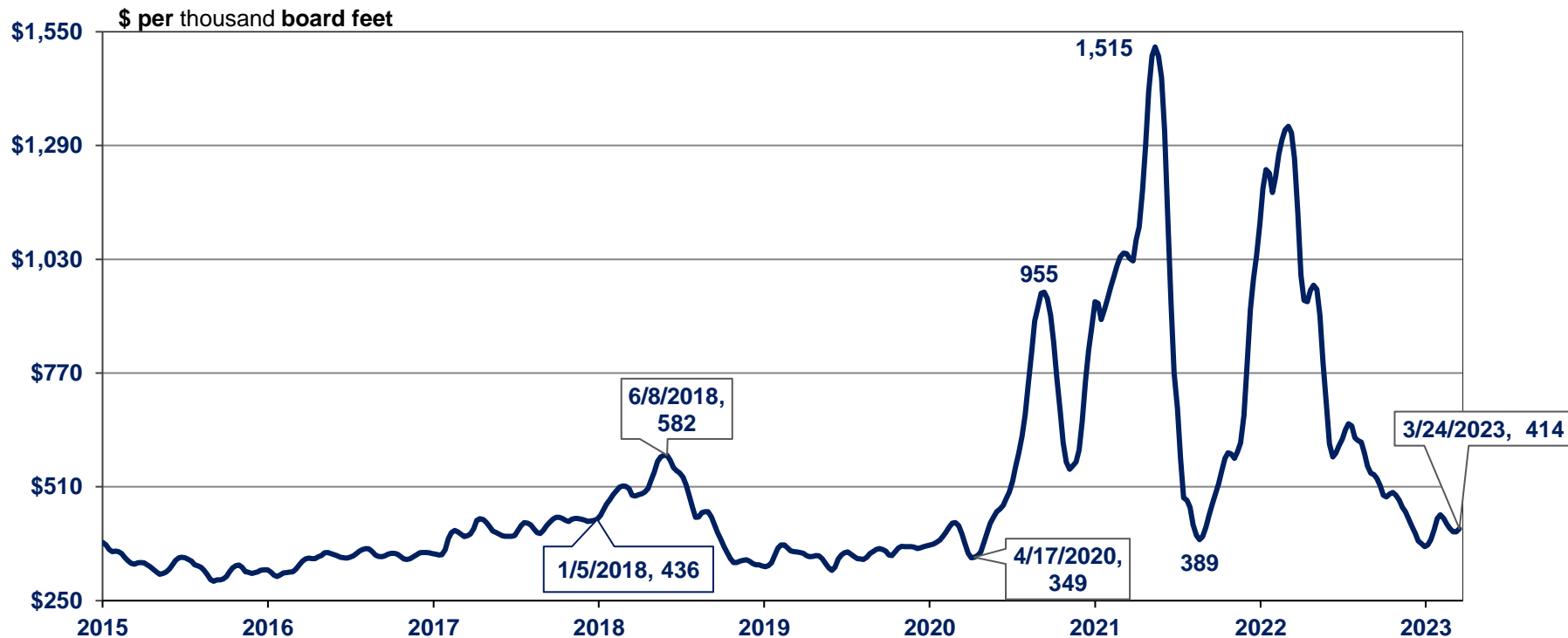
Building Materials - Residential Construction Cost



Source: U.S. Bureau of Labor Statistics (BLS): Producer Price Index (PPI)

Lumber Prices Ticked Up

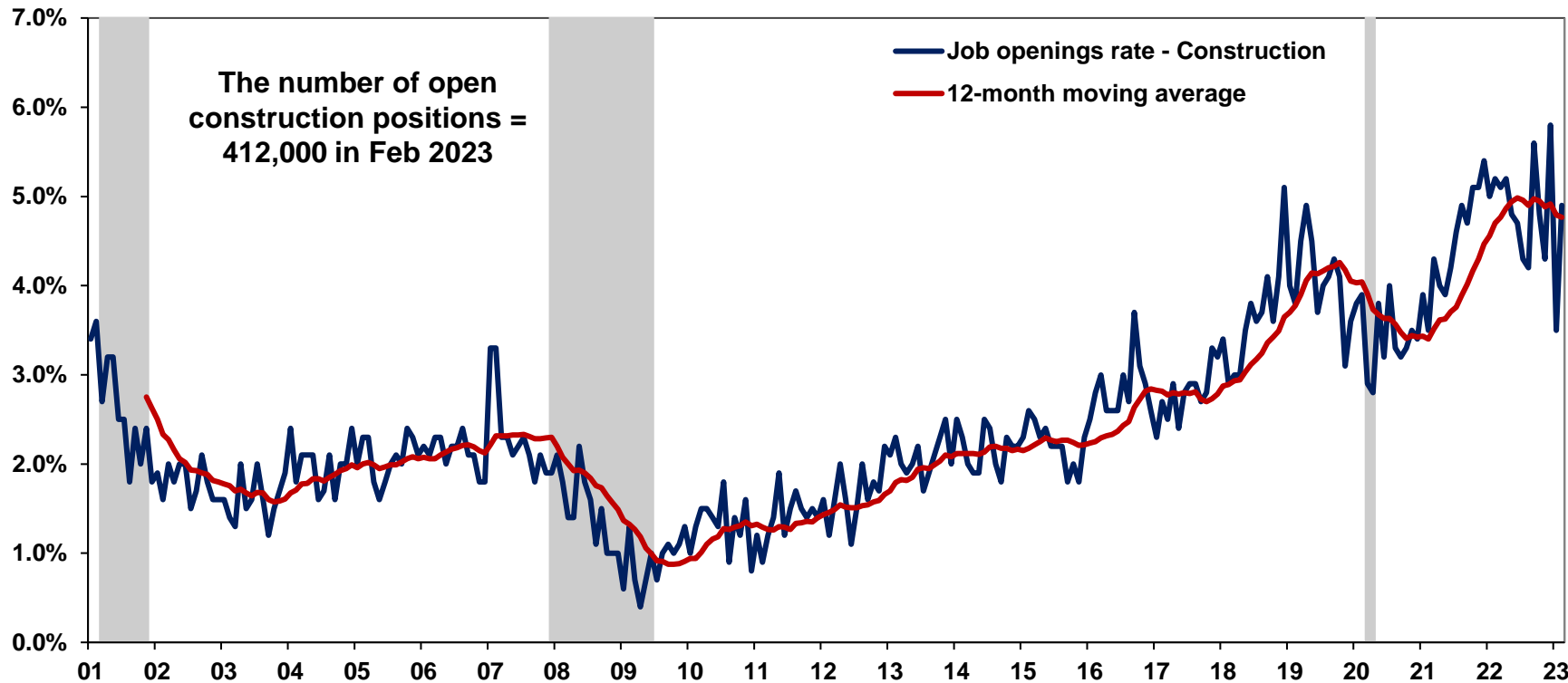
Current March price is \$414; up 2% over the past week



Source: NAHB Analysis; Random Lengths Composite Index

Labor – Construction Job Openings Peaked for Cycle?

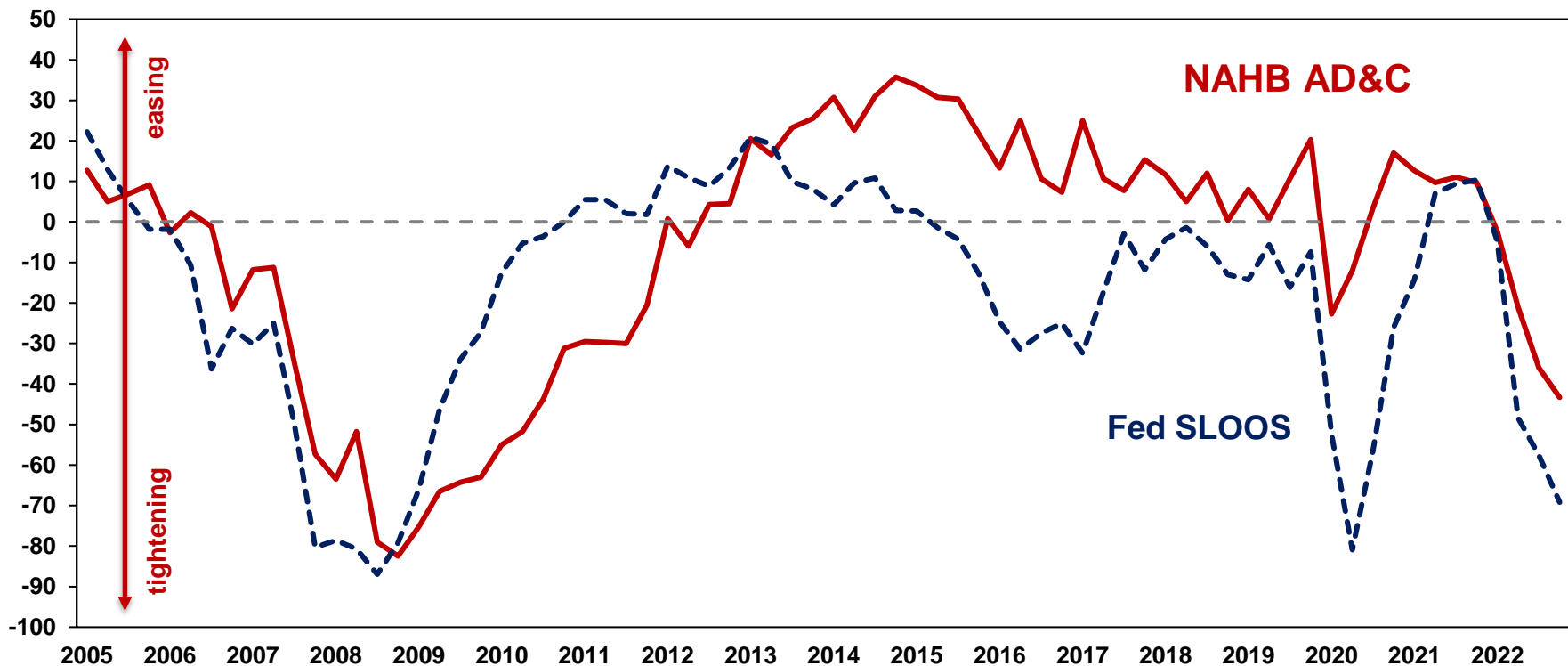
Skilled labor shortage persists; 301,000 net gain for residential construction since Jan 2020



Source: U.S. Bureau of Labor Statistics (BLS).

/ Lending – AD&C Loan Conditions

Credit for builders tightens as rates climb



Source: NAHB survey; Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS)

Regulatory Costs \$93,870 Per New Home (11% Gain 2016 to 2021)

Total effect of building codes, land use, environmental and other rules

23.8% of price



Source: NAHB/Wells Fargo Housing Market Index (HMI)

Economic Research to Support Advocacy for NAHB Members

- Housing's share of GDP
 - 16.1% of the economy in 3Q22
 - Housing is the business cycle and leads the economy
- Economic impact of home building
 - 1,000 single-family homes built supports 2,900 jobs
 - 1,000 apartments built supports 1,250 jobs
 - \$100 million of remodeling supports 750 jobs
- Economic impact of home buying on consumer spending
 - \$9,250 spending for new home buyers
 - \$5,240 spending for buyers of existing homes
- Costs of excessive, inefficient, and harmful regulatory policies
 - 23.8% of the price of a single-family home (\$93,870 average)
 - Up to 41% of multifamily development costs



NAHB @NAHBhome · Feb 9

In its first hearing of the year, the @SenateBanking Committee focused on housing! NAHB Chief Economist Rob Dietz told Senators, "Building more homes and apartments is the only way to tame #inflation and ease America's #housingaffordability crisis."



nahb.org

Boosting Housing Production is Best Way to Ease the Affordability Cr...
NAHB today commended Senate Banking Committee Chairman Sherrod Brown (D-Ohio), Ranking Member Tim Scott (R-S.C.) and ...



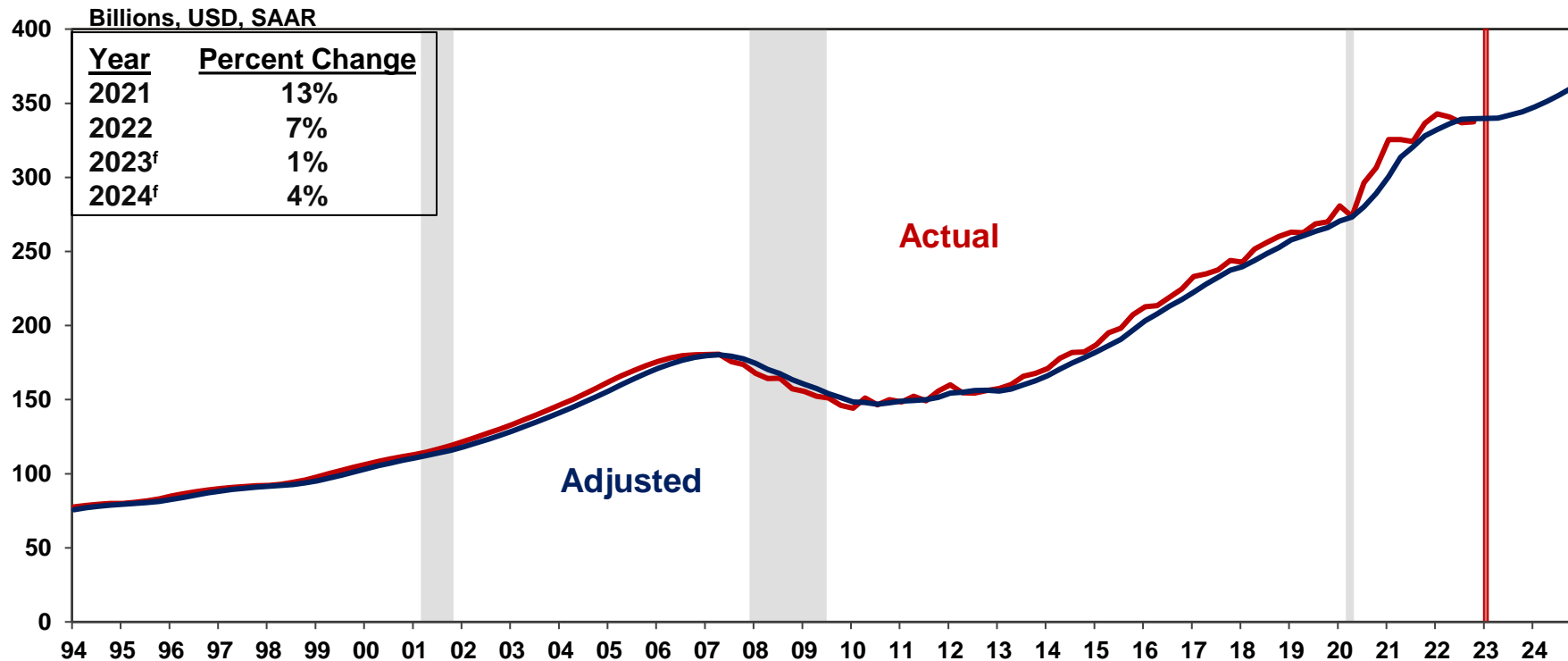


Construction Outlook



Residential Remodeling

Remodeling growth is expected to soften as housing demand is weakening

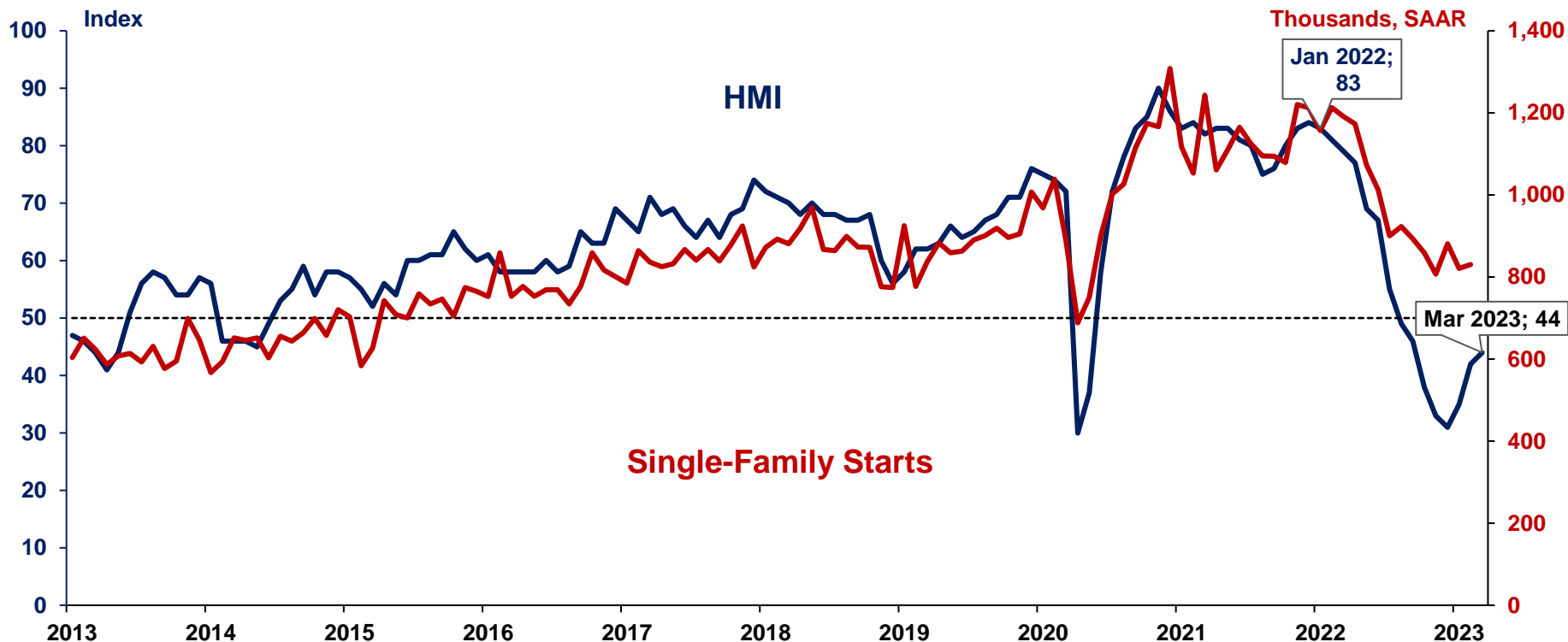


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

Note: In the analysis, 1-year moving average is used for adjusted data to smooth the trend.

NAHB/Wells Fargo Housing Market Index (HMI)

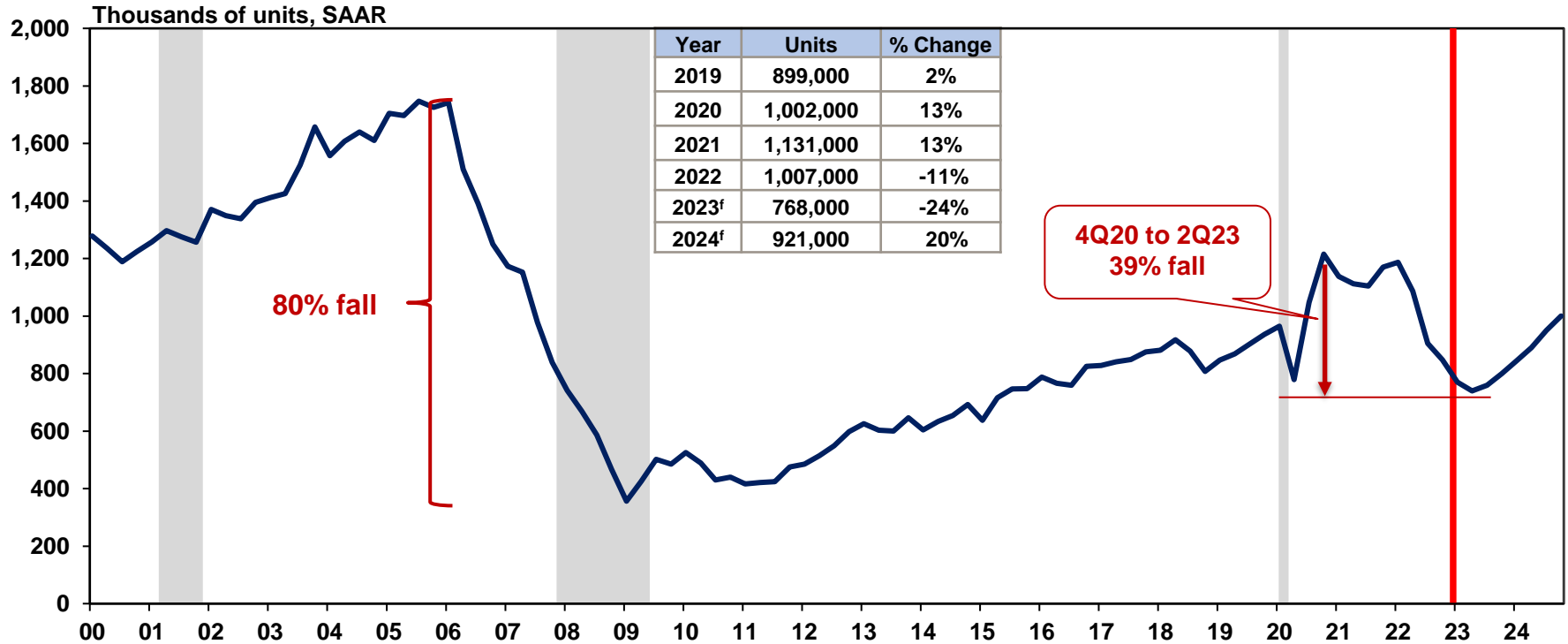
Builder confidence edged higher in March but outlook uncertain



Source: Census Bureau and NAHB/Wells Fargo HMI survey

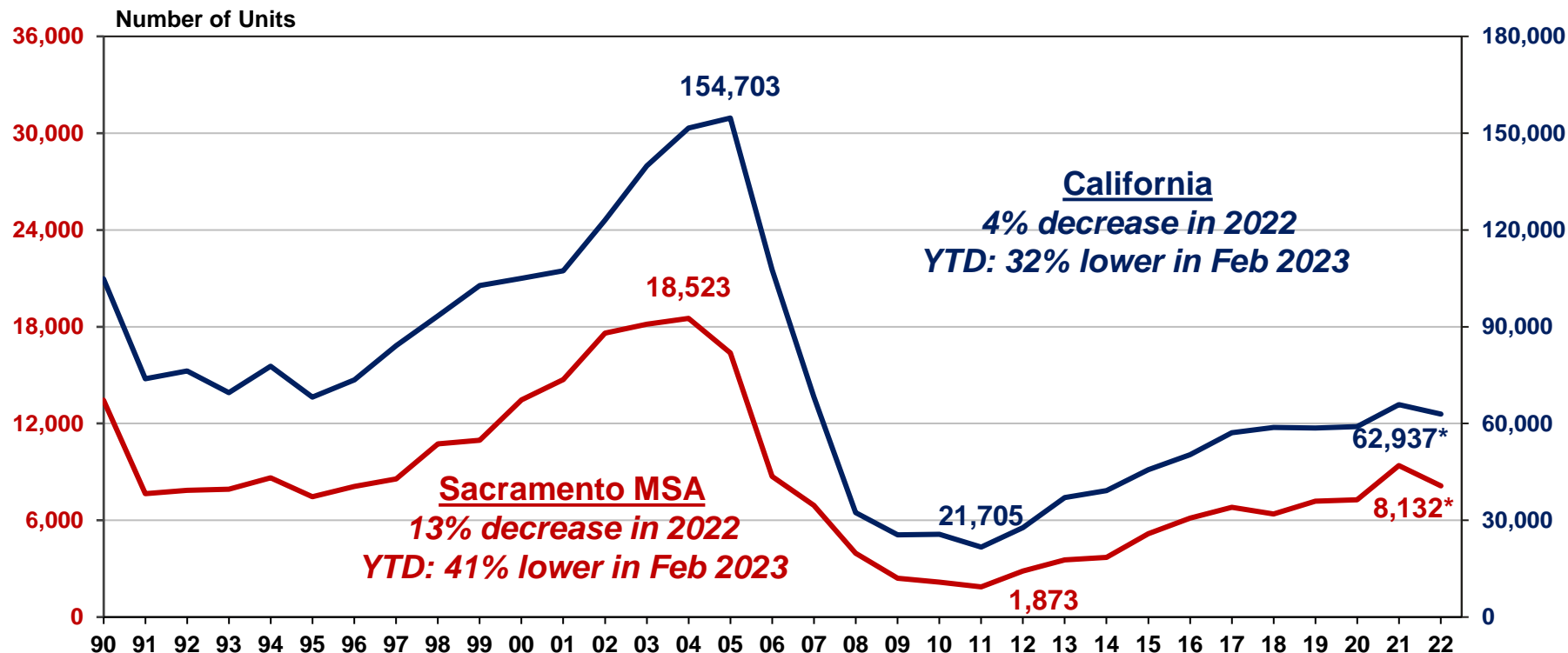
Single-Family Starts

Home building declines as interest rates increase



Source: U.S. Census Bureau (BOC) and NAHB forecast

Single-Family Building Permits – CA and Sacramento MSA



Source: Census Bureau.

Note: * 2022 permits are 2022 December YTD data as annual permits for 2022 are not available yet.

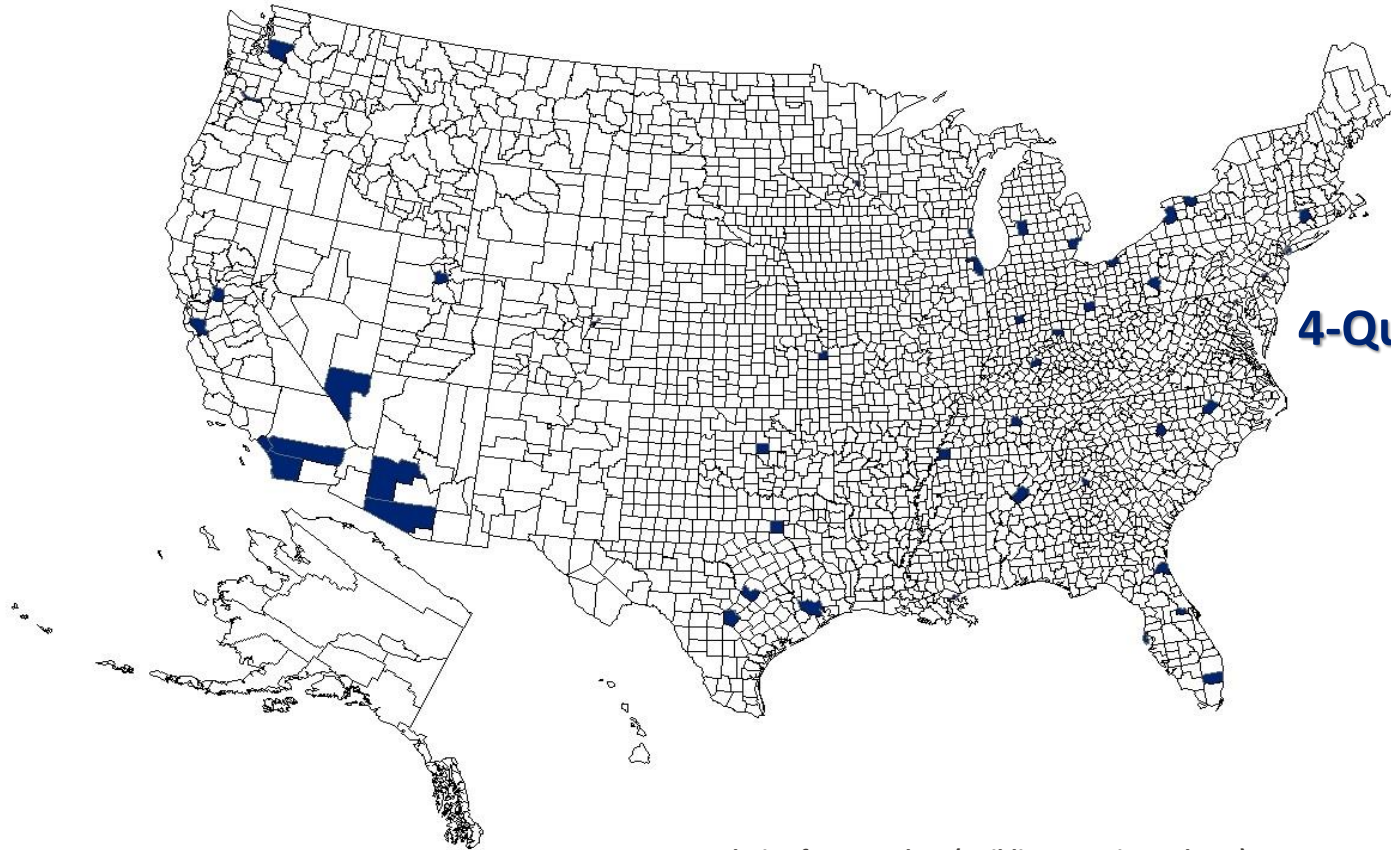
Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	December 2022 (# of units YTD, NSA)	YTD % Change (compared to Dec 2021)
Houston-The Woodlands-Sugar Land, TX	47,633	-9%
Dallas-Fort Worth-Arlington, TX	43,574	-13%
Phoenix-Mesa-Scottsdale, AZ	26,828	-24%
Atlanta-Sandy Springs-Roswell, GA	26,382	-17%
Austin-Round Rock, TX	21,358	-13%
Charlotte-Concord-Gastonia, NC-SC	18,932	0%
Orlando-Kissimmee-Sanford, FL	16,194	-9%
Tampa-St. Petersburg-Clearwater, FL	15,667	-19%
Nashville-Davidson-Murfreesboro-Franklin, TN	15,311	-6%
Jacksonville, FL	14,368	-13%

Source: U.S. Census Bureau (BOC).

/ NAHB Home Building Geography Index

16.0% of single-family construction takes place in Large Metro – Core County



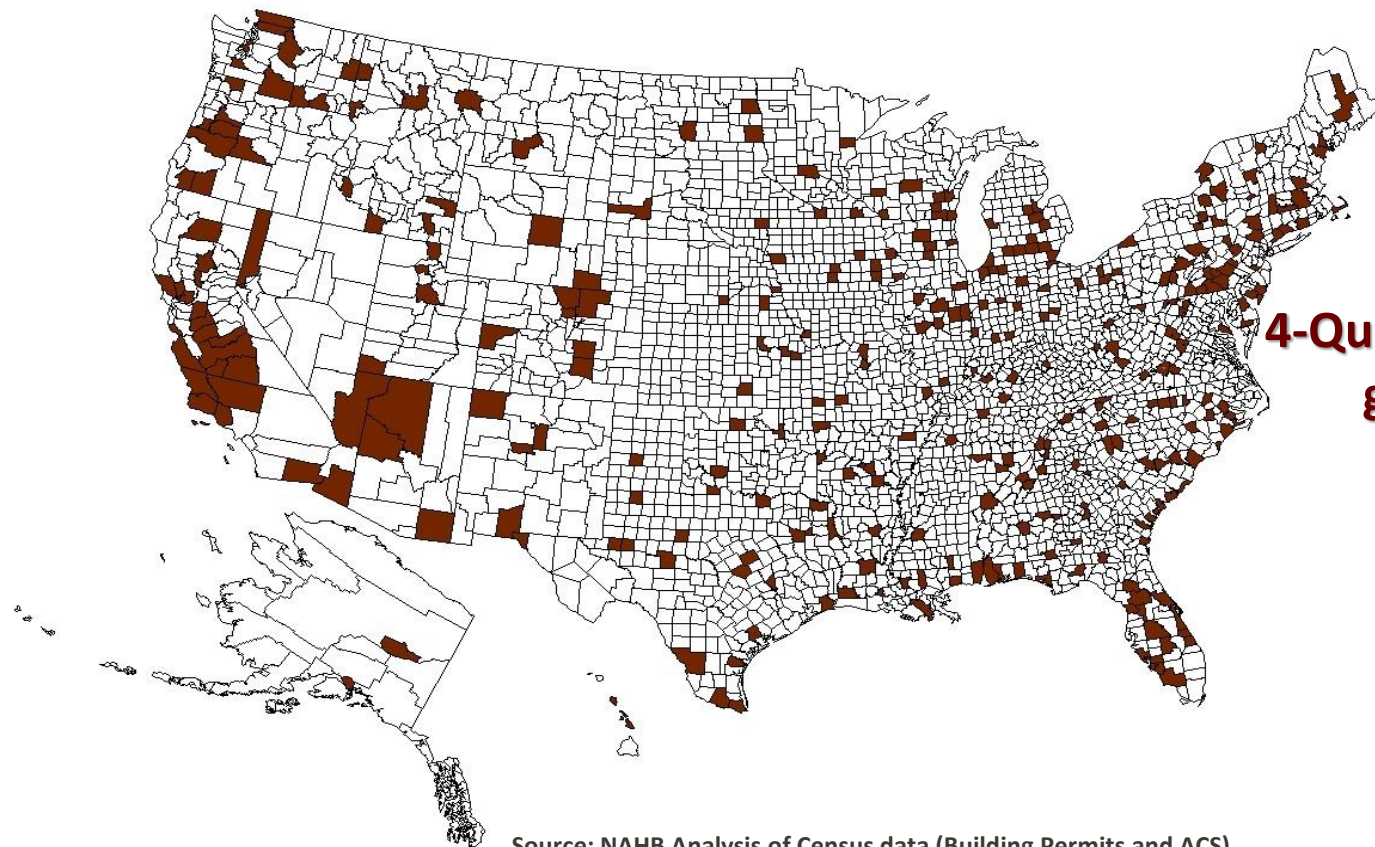
Q4 2022

**4-Quarter MA of YoY
growth rate:
-16.0%**

Source: NAHB Analysis of Census data (Building Permits and ACS)

/ NAHB Home Building Geography Index

*28.5% of single-family construction takes place in **Smaller Metro – Core County***

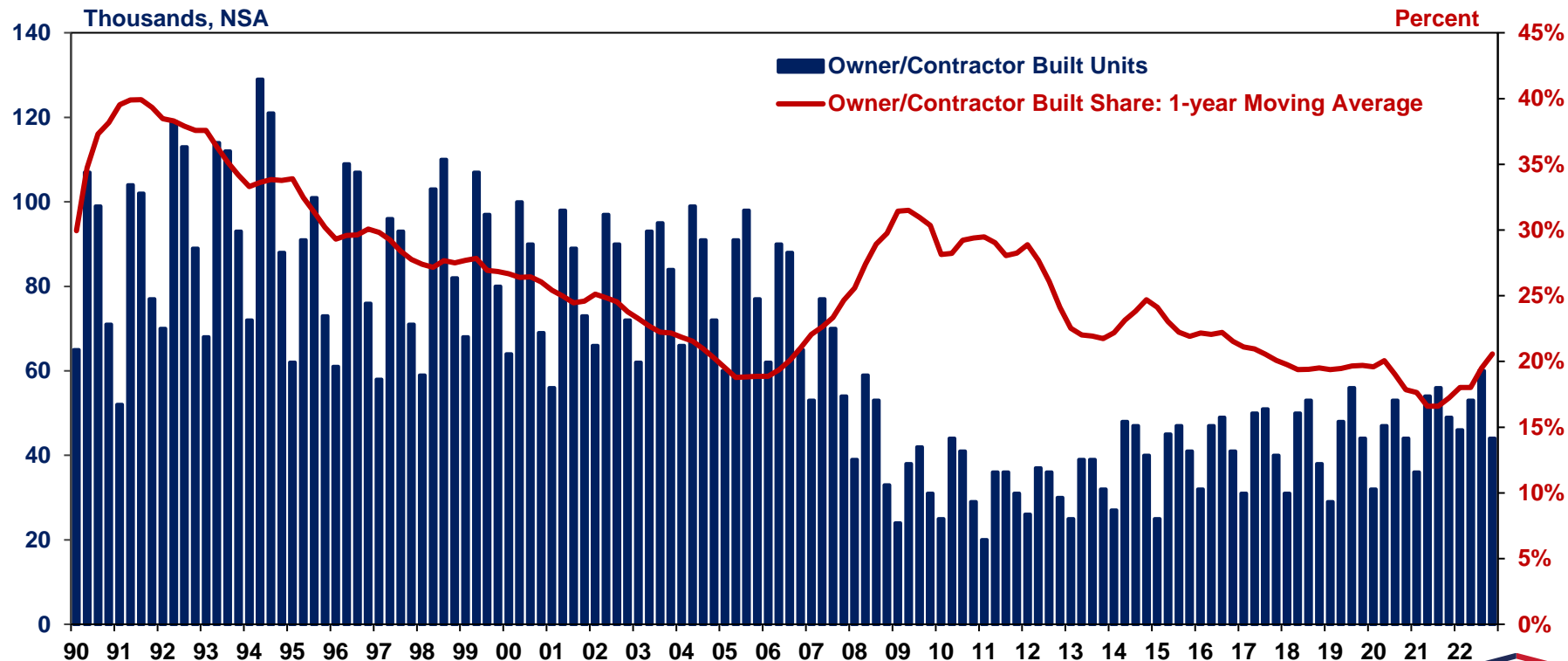


Q4 2022
4-Quarter MA of YoY
growth rate:
-14.0%

Source: NAHB Analysis of Census data (Building Permits and ACS)

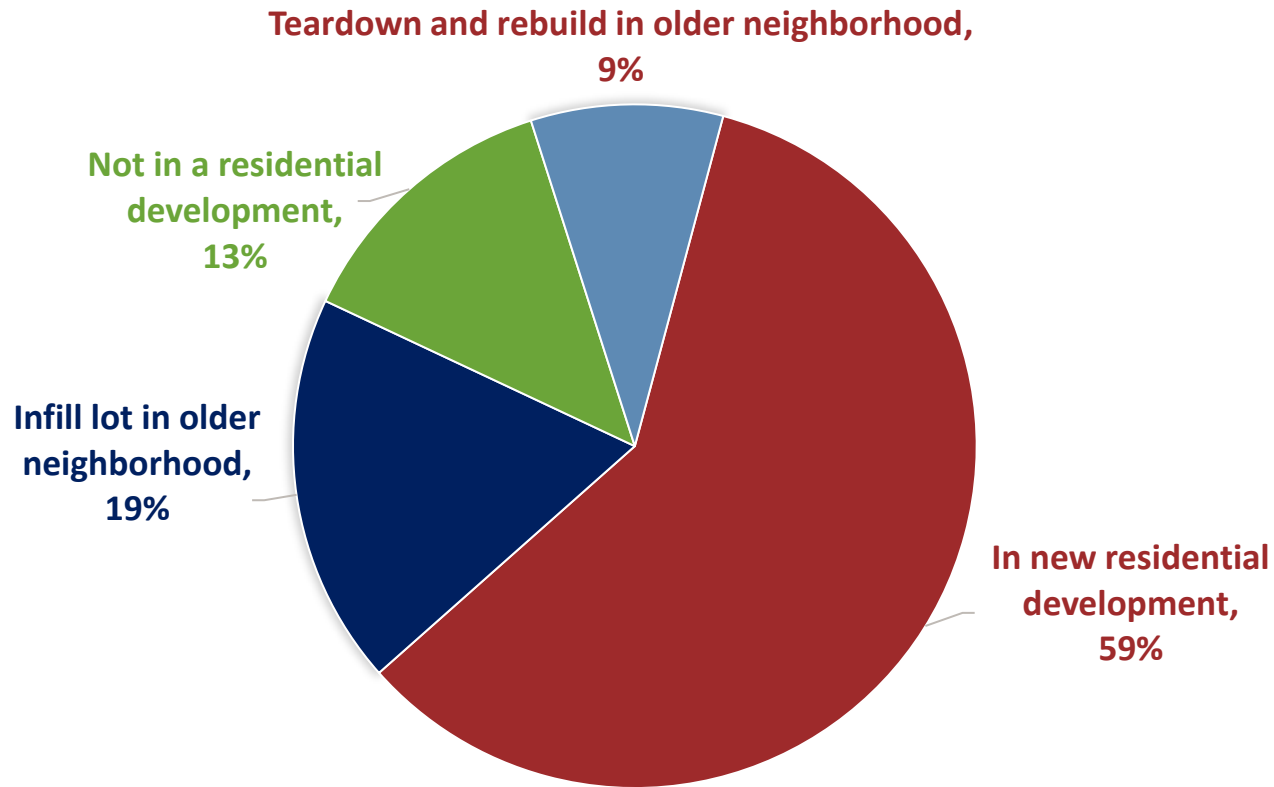
Custom Home Building Market

Solid gain in 2022



Source: U.S. Census Bureau (BOC)

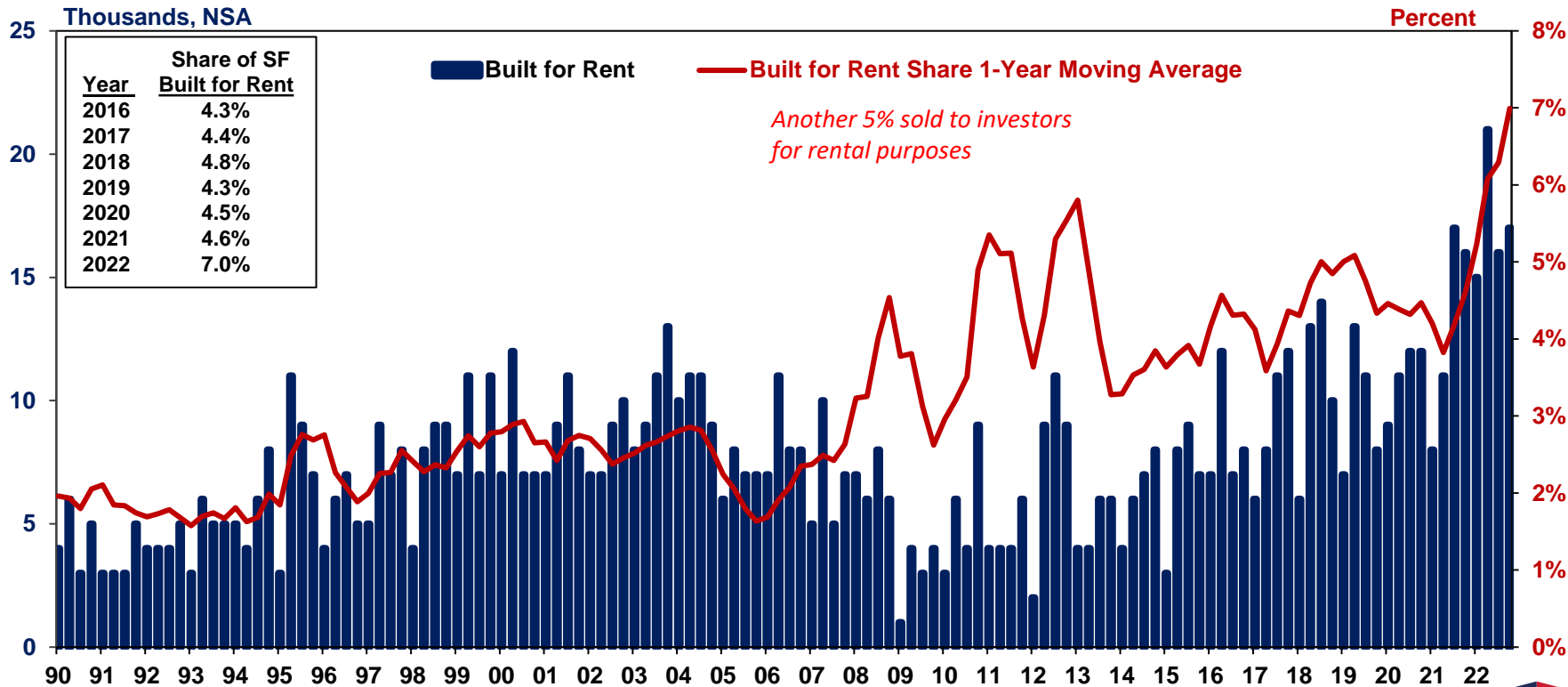
Shares of New Single-family Homes Built in 2021



Source: 2022 Builder Practices Survey

Single-Family Built-for-Rent Construction

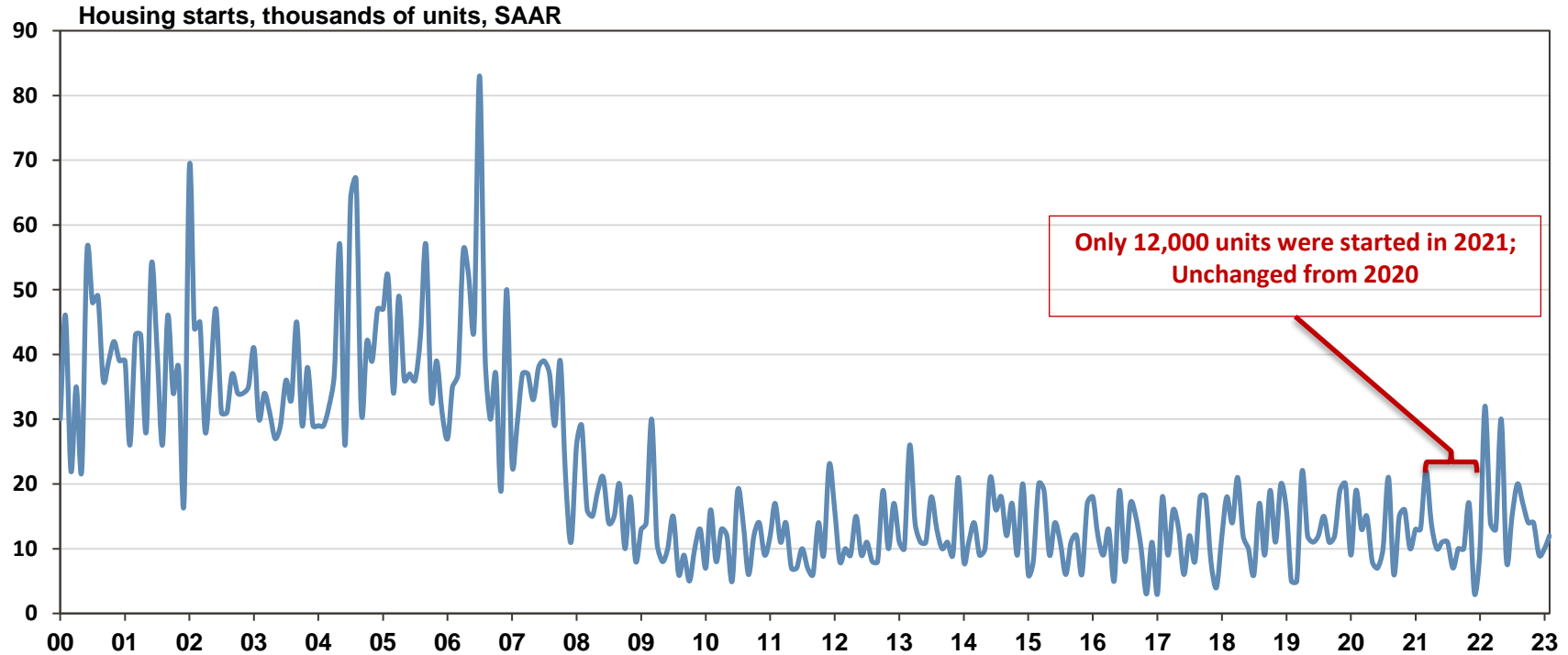
A window of opportunity



Source: U.S. Census Bureau (BOC)

Multifamily Missing Middle

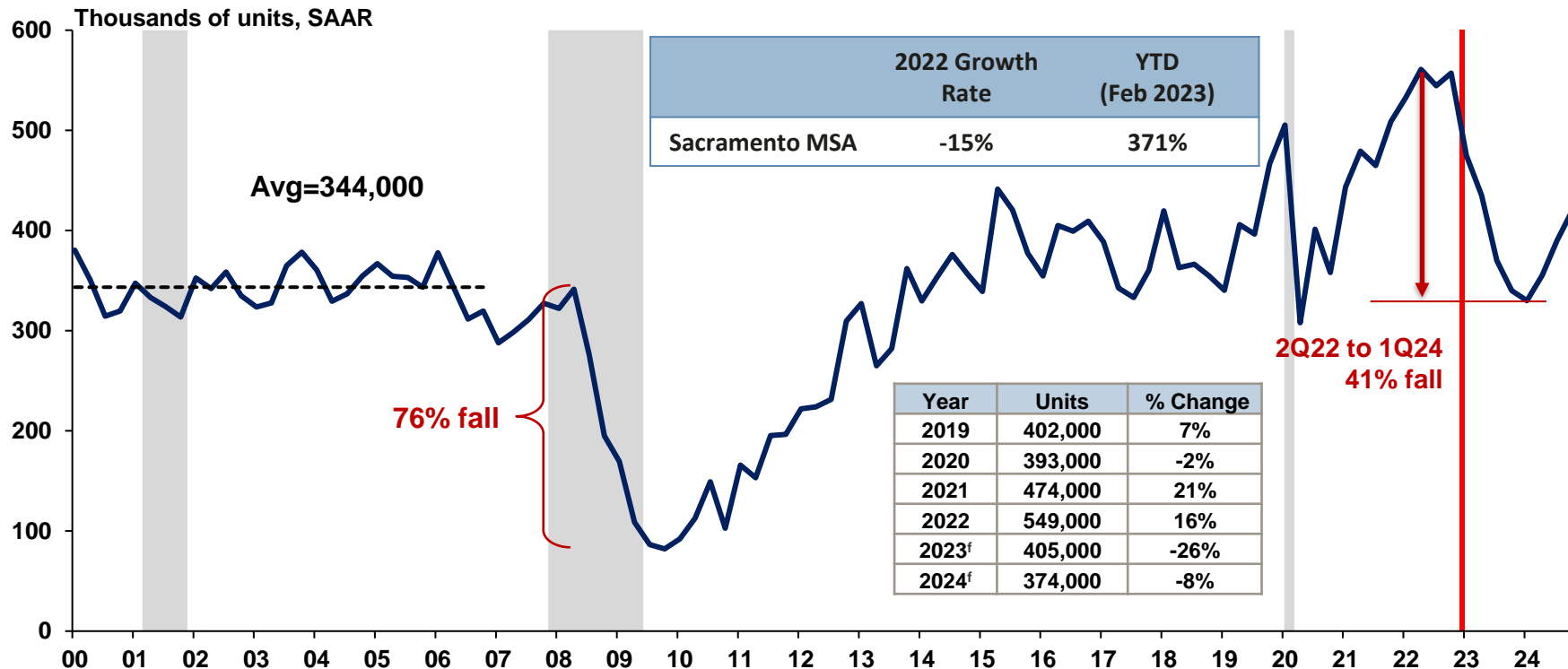
2- to 4- unit production disappointed in 2021



Source: U.S. Census Bureau (BOC).

Multifamily Construction Growing

Multifamily strong in 2022 and then weakening

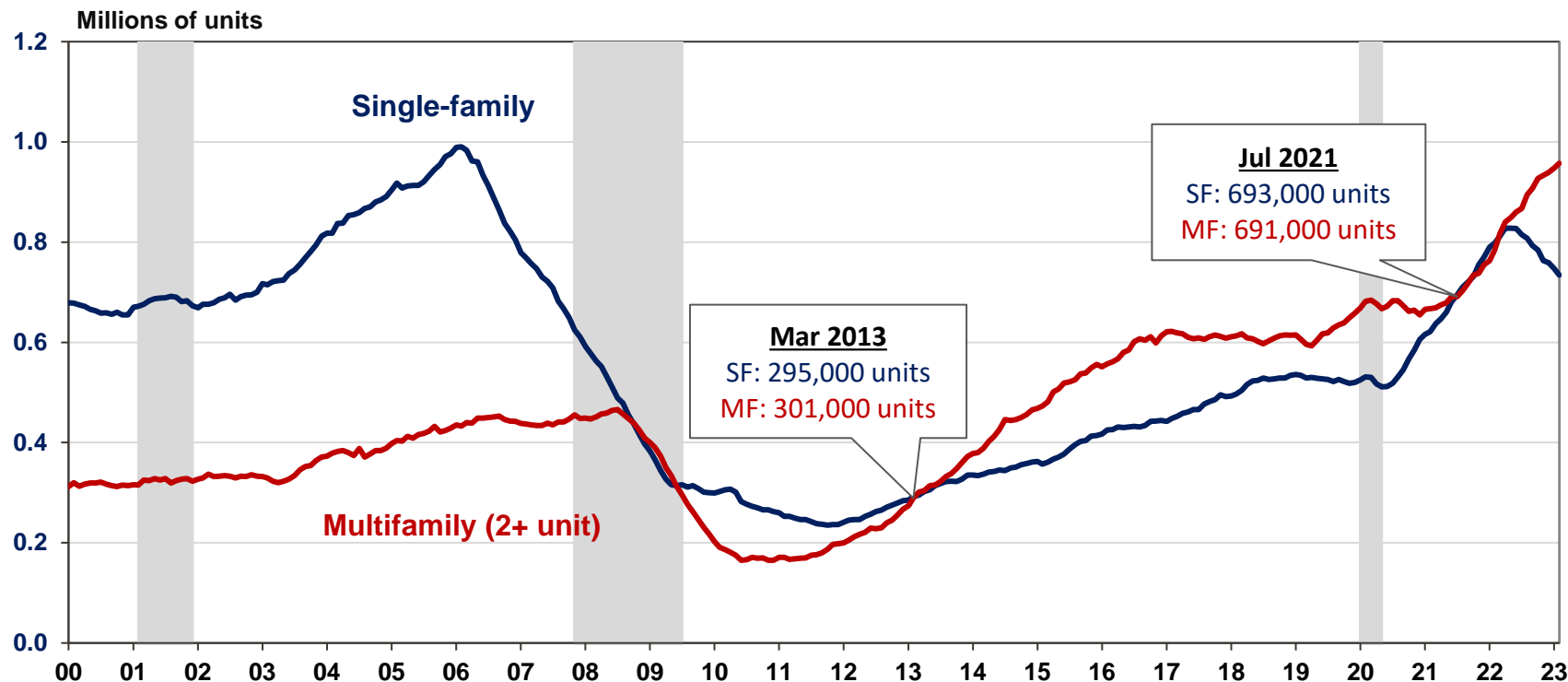


Source: U.S. Census Bureau (BOC) and NAHB forecast

Note: * 2022 permits are 2022 December YTD data as annual permits for 2022 are not available yet.

Housing Units under Construction

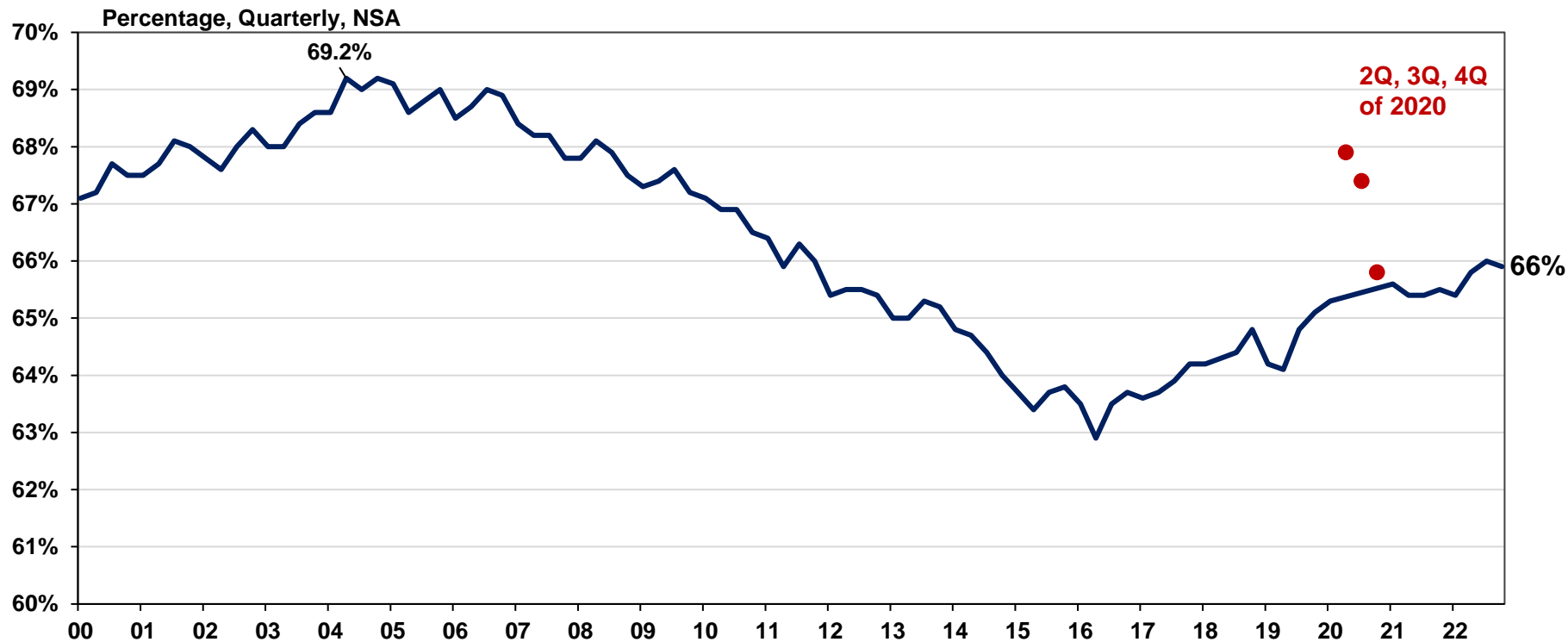
Highest count of apartments under construction since 1974



Source: U.S. Census Bureau (BOC)

Homeownership Rate

Homeownership will decline in 2023 and 2024

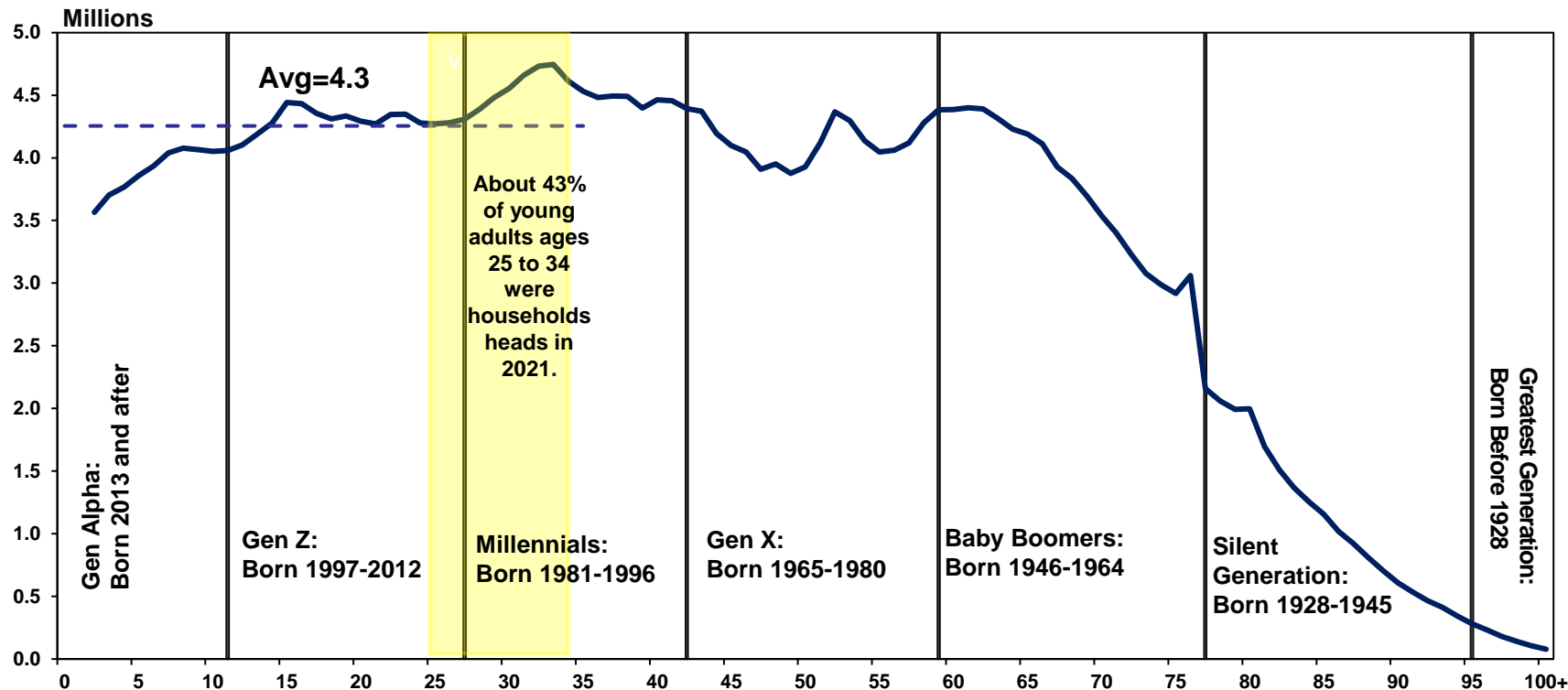


Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership

Note: Red dots denote technical issues for the last four quarters.

Rising Population Entering Housing Demand Years: 2023

Gen X the majority of new construction home buyers



Source: U.S. Census Bureau (BOC).

Medium-Term Outlook for Residential Construction

- 2024
 - *Fed will ease, interest rates will normalize*
 - *Single-family home building will lead a recovery*
 - *Demand will return, but supply-side issues will increase*
 - *Lack of lots*
 - *AD&C availability*
 - *Building material constraints*
- 2025 through 2030
 - *Demographics yield a good runway for home building growth*
 - *Structural housing deficit will be reduced*
 - *Single-family home building volumes near or above 1.1 million per year*
- 2030 and after
 - *Declining demographics weaken multifamily and single-family demand*

Thank you

Questions?

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Economic Leadership Sponsor

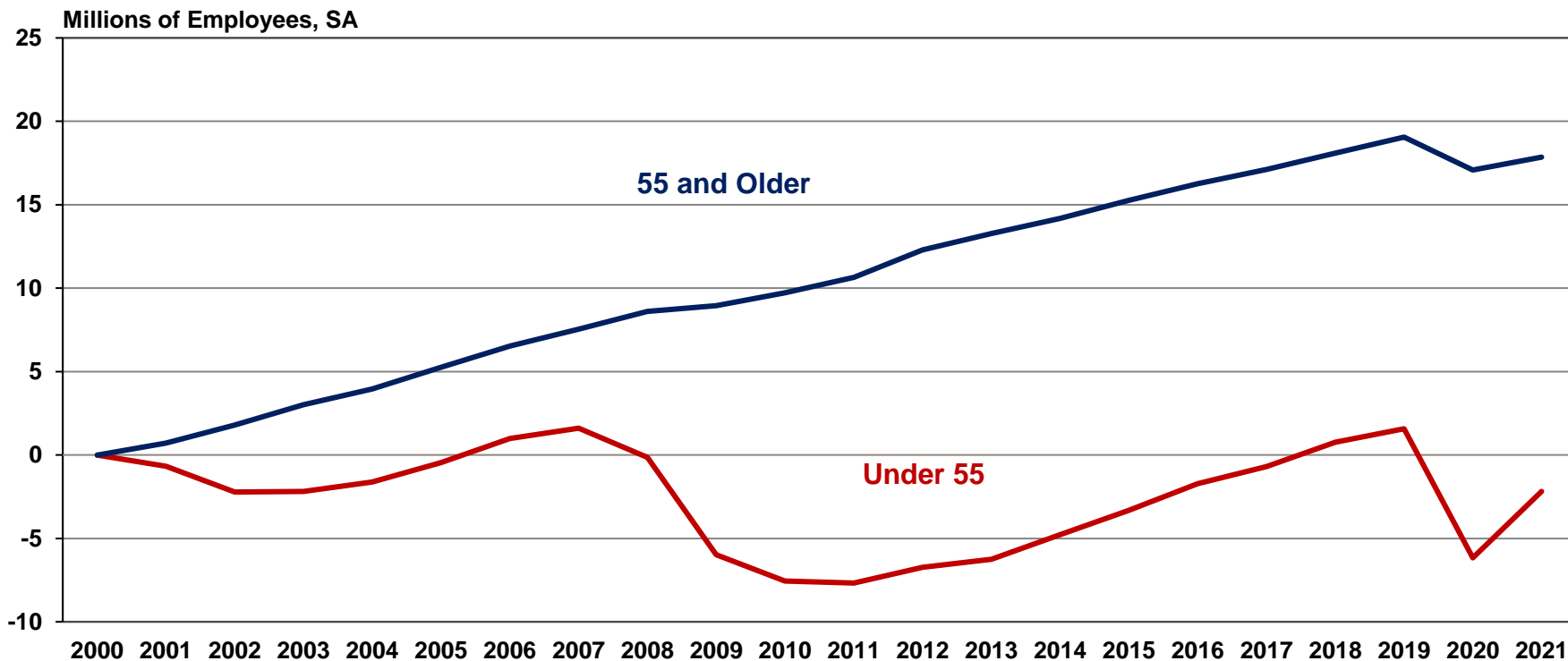


Home Mortgage

eyeonhousing.org
housingeconomics.com

Cumulative Change in Employment by Age Group

Mind the Gen-X gap



Source: U.S. Bureau of Labor Statistics (BLS).

Construction Labor Market Projections/Needs



7.8 million workers in construction
3.2 million in residential construction



740,000 occupational openings per year
Based on industry growth and permanent worker exits



Keep in mind: 22% of workforce is self-employed
Immigrant share now 24%



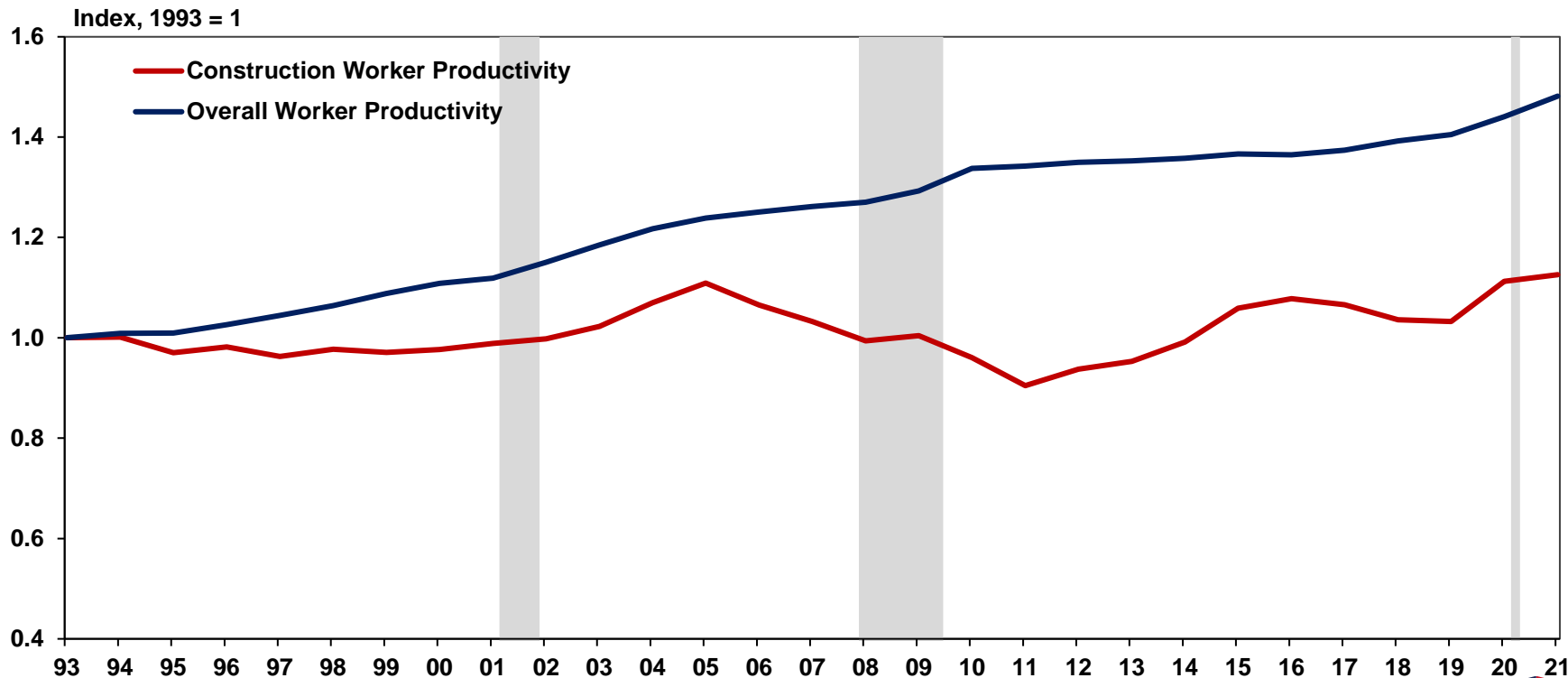
Median age of construction worker is 41



Workers aged 25 to 54 make up 69% of sector in 2019
Down from 72.2% in 2015

Construction Sector Productivity Lags

12% gain for construction compared to 48% gain for overall economy



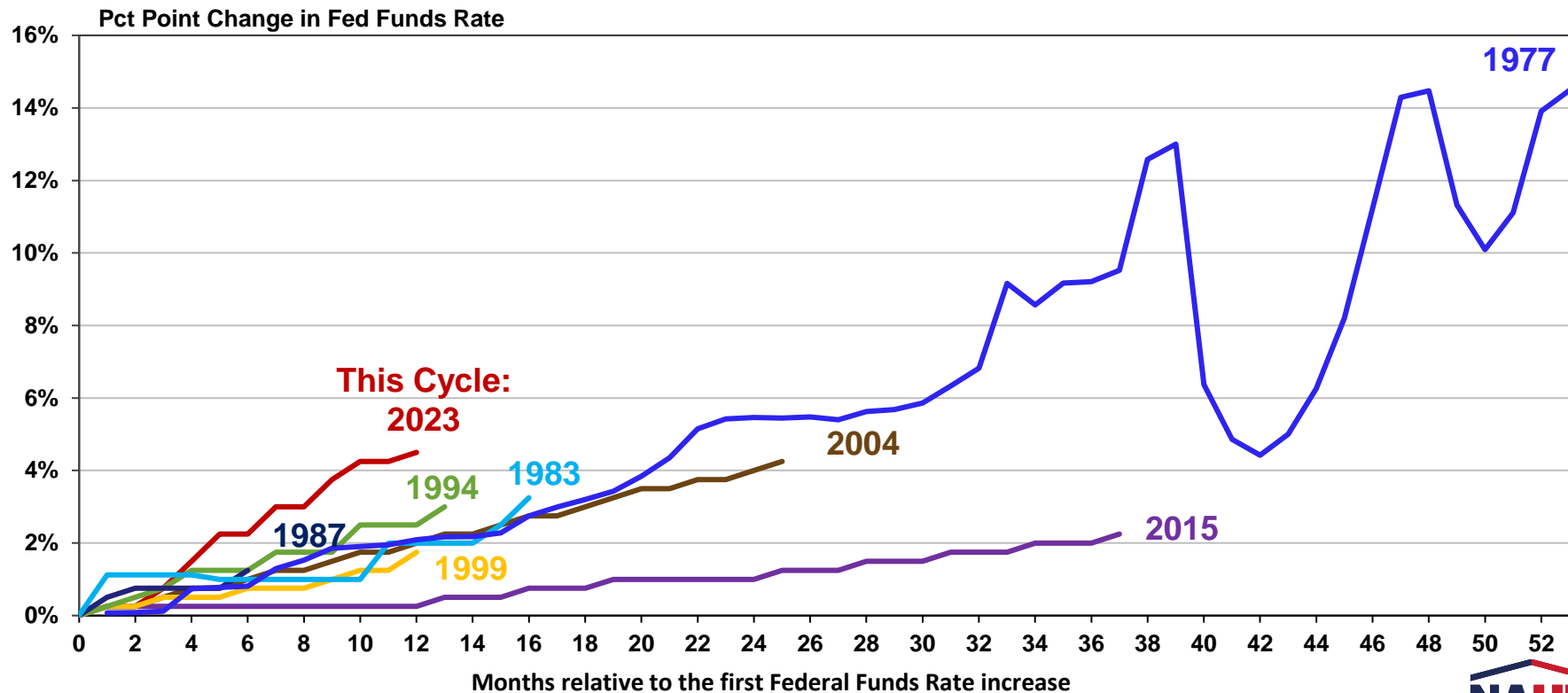
Source: U.S. Bureau of Labor Statistics (BLS).

What Should the Fed Do?

- *Pause sooner rather than later*
 - Inflation has peaked, housing is in recession, economy is slowing
 - Greater risk now of going too far
- *Will the Fed tighten until something breaks?*
 - *“Break” definition: financial crisis*
 - *Domestic risks*
 - *Bank or financial institutional failures*
 - *Balance sheet weakening from asset price declines*
 - *Global risks*
 - *Currency issues (dollar too strong, inflationary elsewhere)*
 - *Recession risks in Europe and China*

Fed Funds Rate Hikes: 1977 to 2023

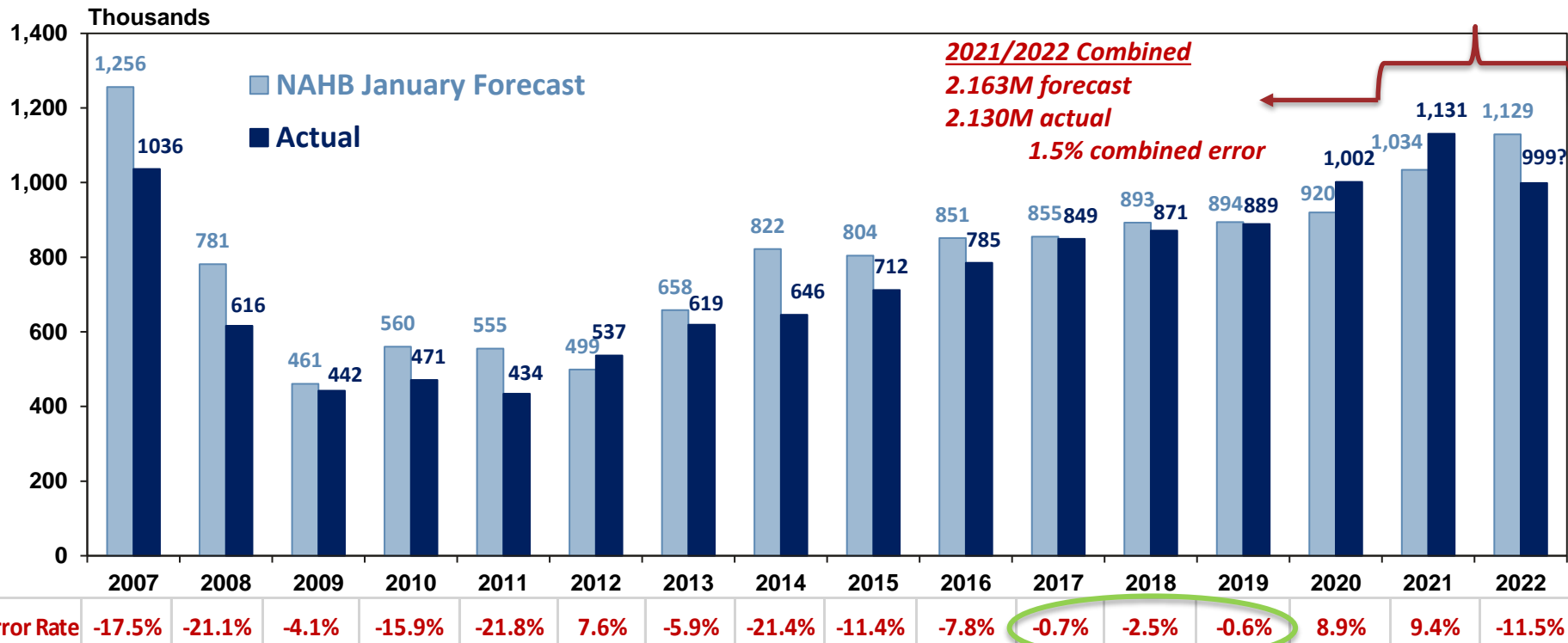
The most aggressive tightening cycle in decades



Source: U.S. Board of Governors of the Federal Reserve System (FRB) and Bloomberg.

NAHB Single-Family Starts Forecast Error Rate

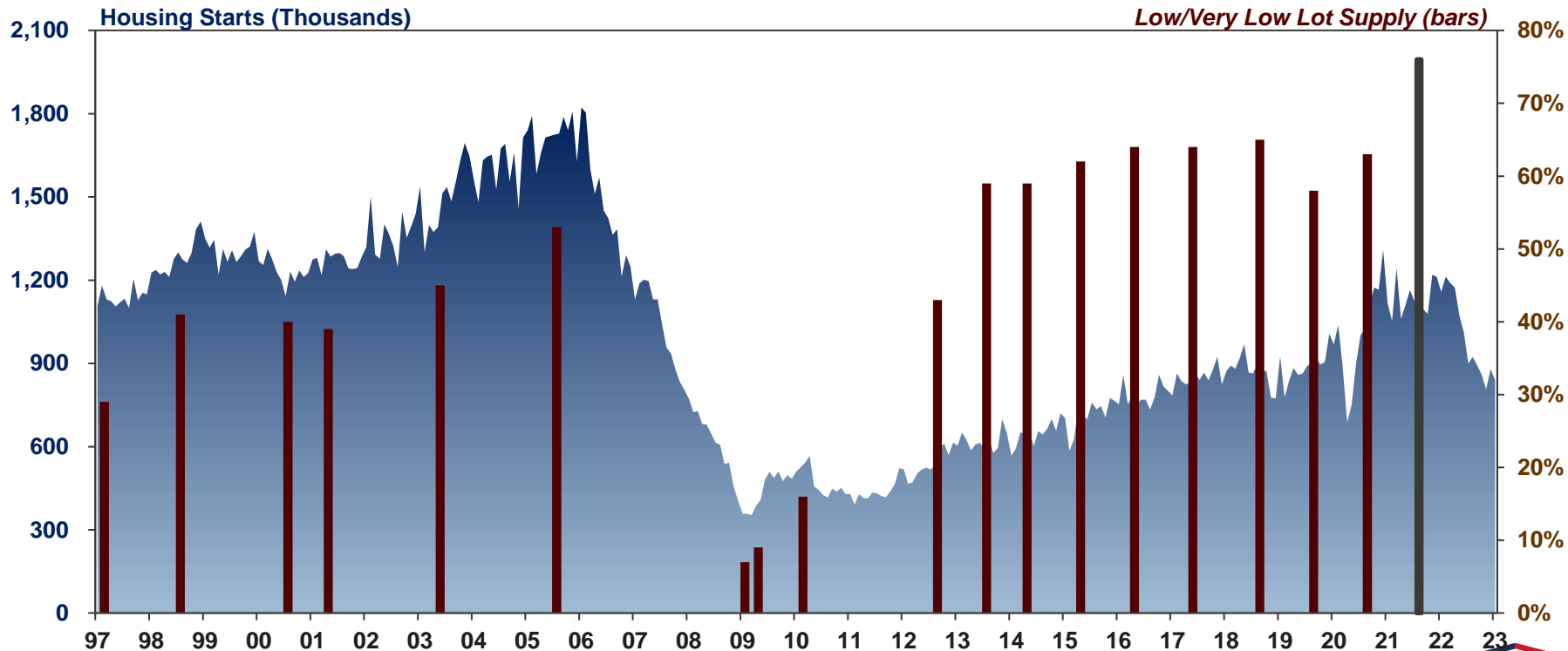
*Post-Covid timing error:
too high in 2022
too low in 2021*



Source: NAHB January forecast and Census

/ Lot Shortages Reported by Single-family Builders

Shortage of lots reached a new record in 2021



Source: Census Bureau and NAHB/Wells Fargo HMI survey