

Higher Rates for Longer

Anchorage HBA
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Outlook: Reasons for Concerns and Optimism

- *Macro political and economic concerns*
 - *Fed appears to want to break something to end inflation*
 - *Regional bank failures? Commercial real estate?*
 - *World is becoming more chaotic regardless of what we would wish*
 - *Flashpoints: Ukraine, Israel, Taiwan, Korea*
 - *US: crime and border issues*
 - *Global trade system in decline*
 - *Insurance and national debt domestic challenges*
 - *Aging populations and declining growth*
- *Reasons for optimism*
 - *Productivity revolution coming? (AI)*
 - *Changing geography of work and home*
 - *Markets find a way*
 - *Rule of law and elections*

Macro/Housing Outlook



Federal Reserve to stop tightening cycle in 2023
2022 rate hikes now challenging liquidity and regional banks



Rolling recession affecting different sectors at different times
Rising unemployment in quarters ahead



Inflation is declining off peak but will remain elevated into 2024
Fed needs to stop and add certainty to markets



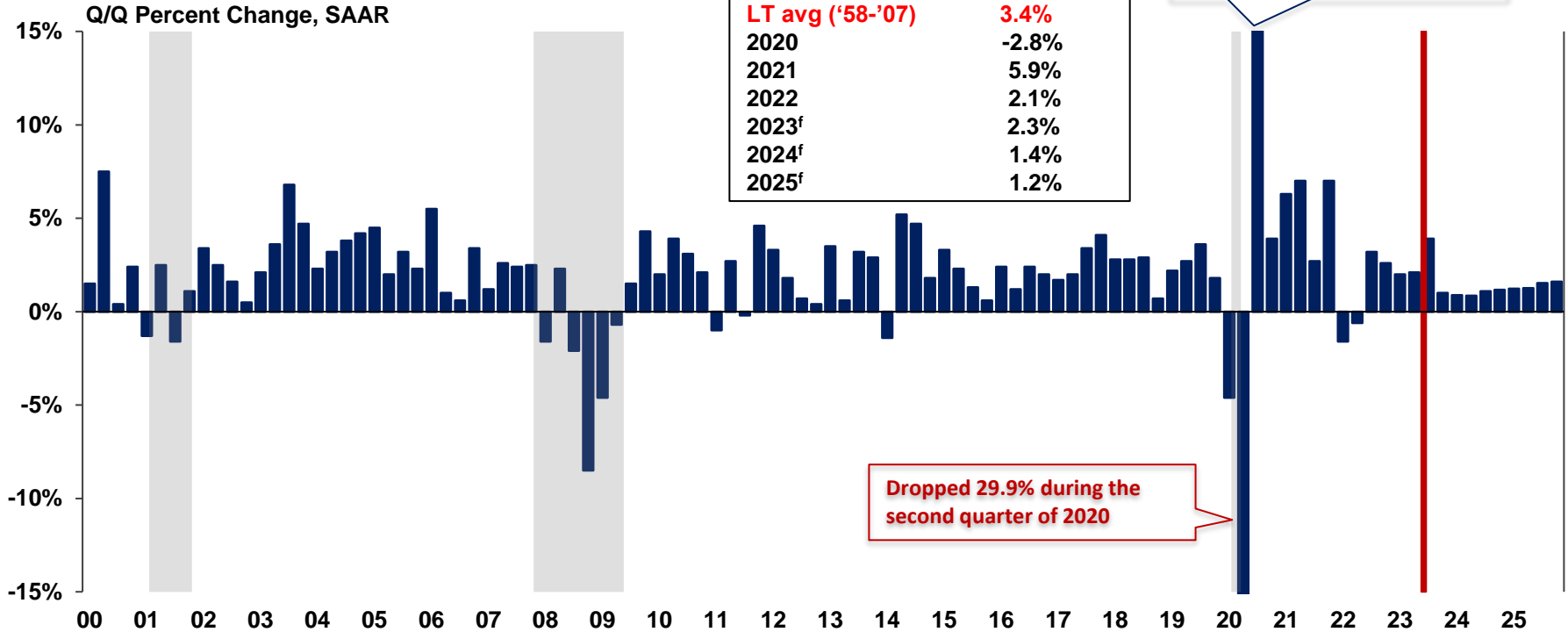
Single-family better than expected 1H23, worse in 2H23
Remodeling more solid, multifamily weakening



Communities with ability to add affordable housing will grow

GDP – Moderate Growth in 2023

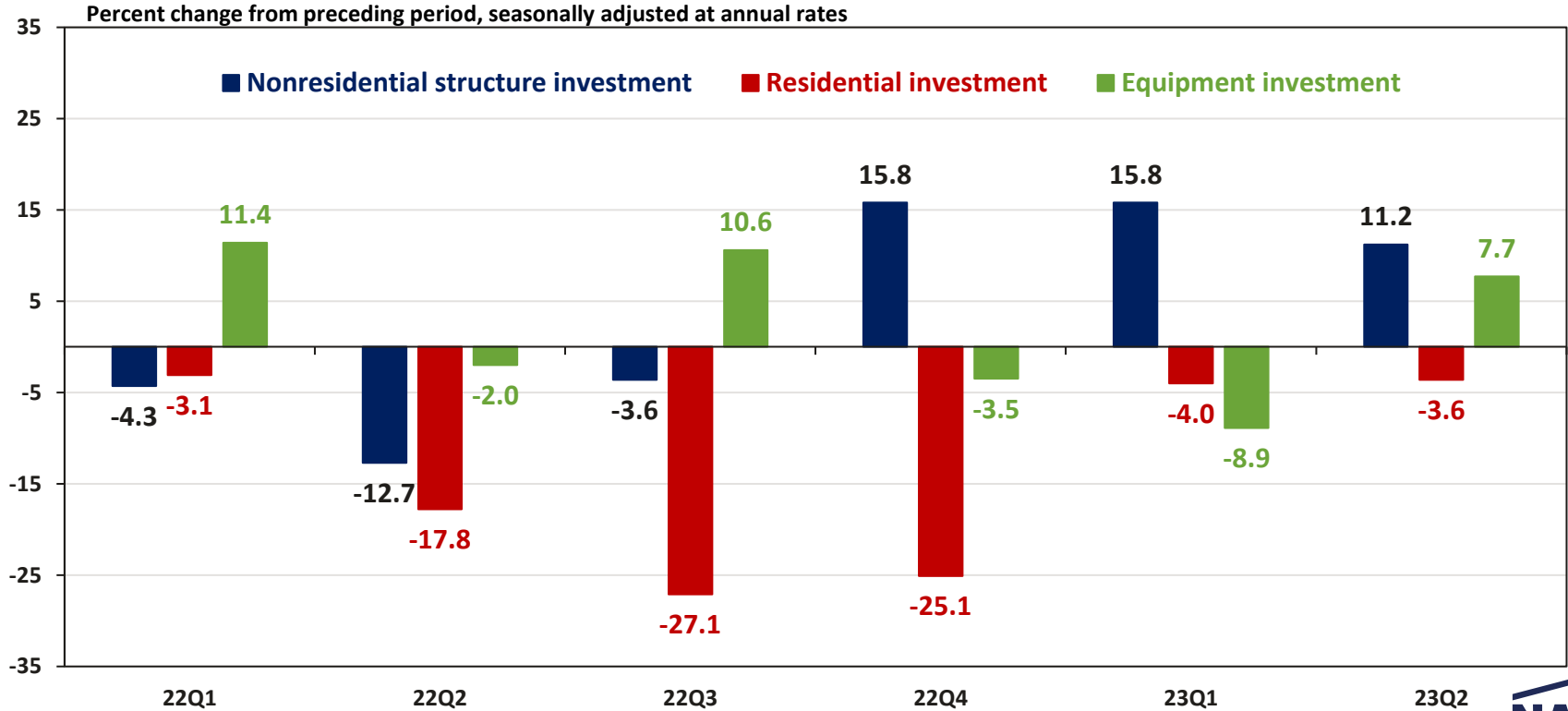
A mild, rolling recession for 2022/2023?



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

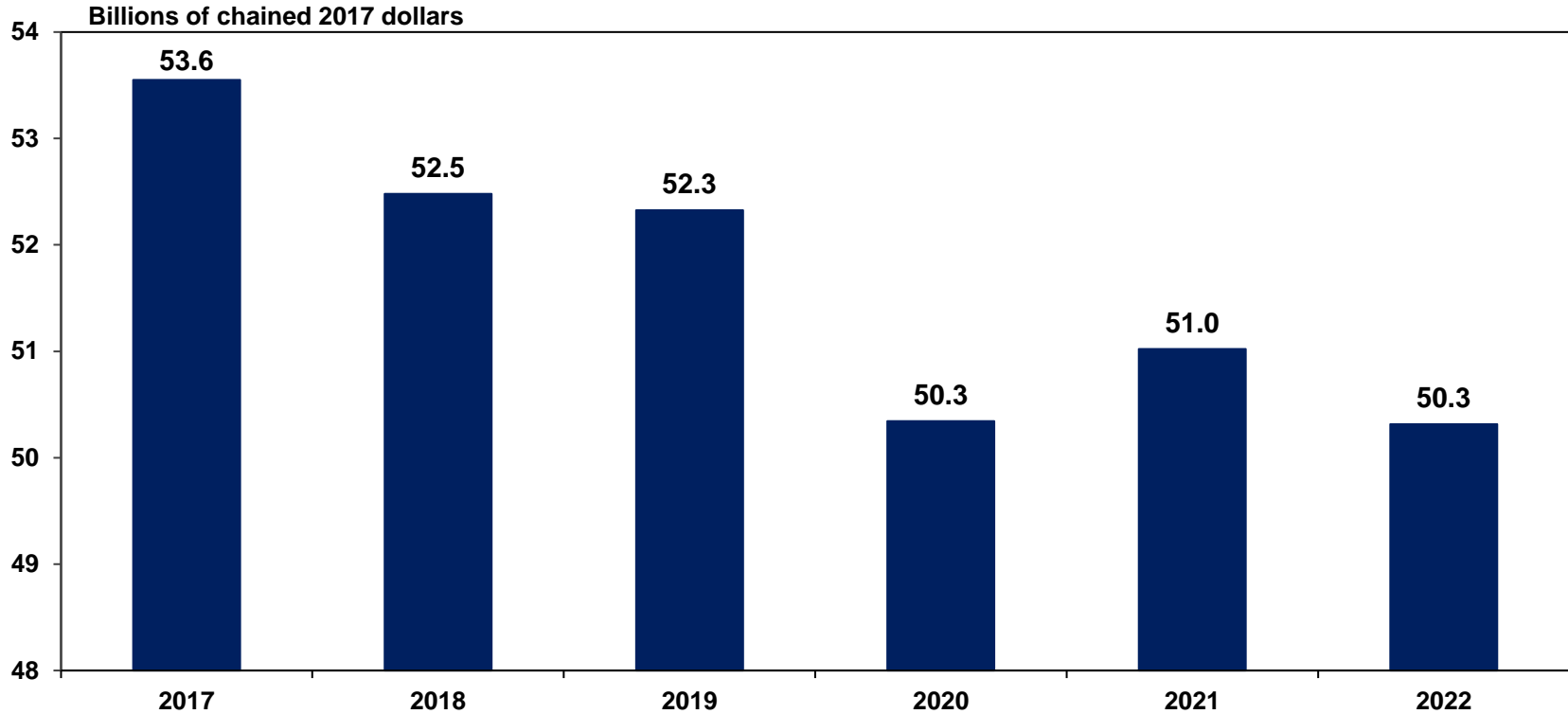
The Rolling Recession of 2022-2024

Housing and nonresidential structures declined, then equipment production



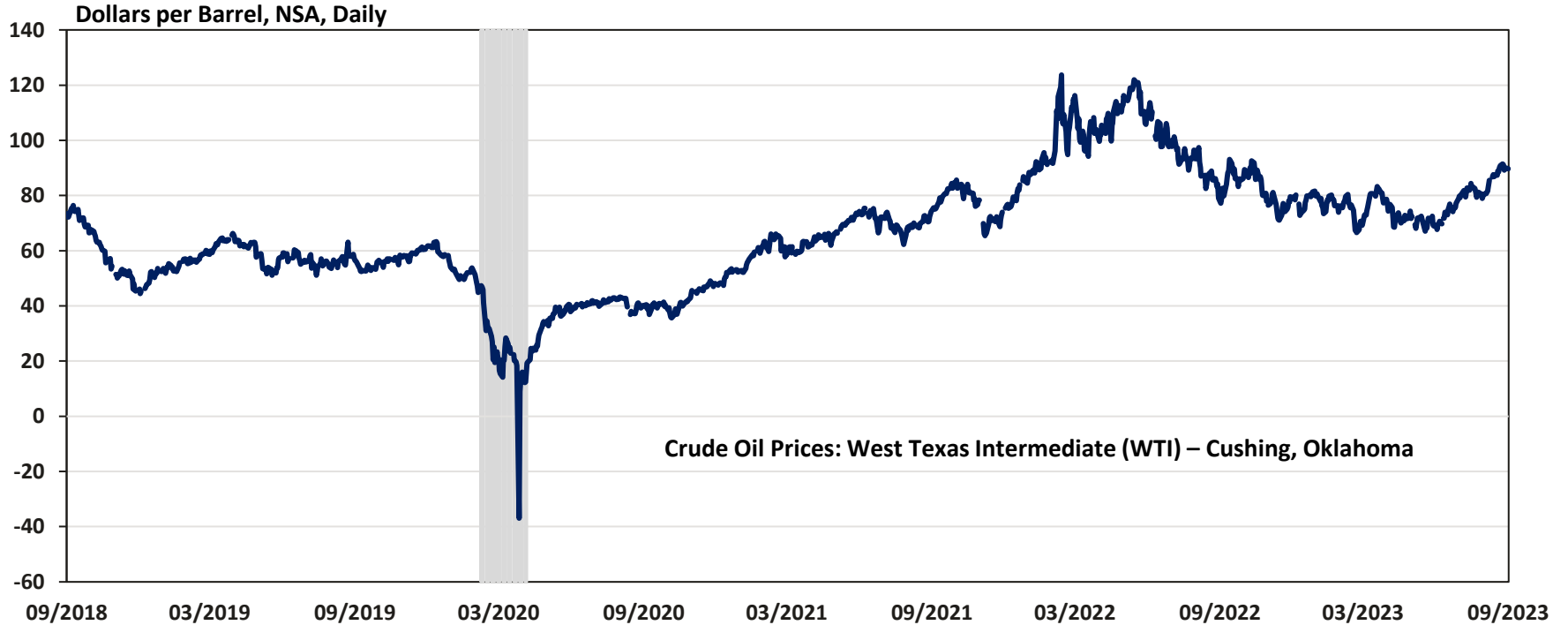
Source: U.S. Bureau of Economic Analysis

Real GDP of Alaska



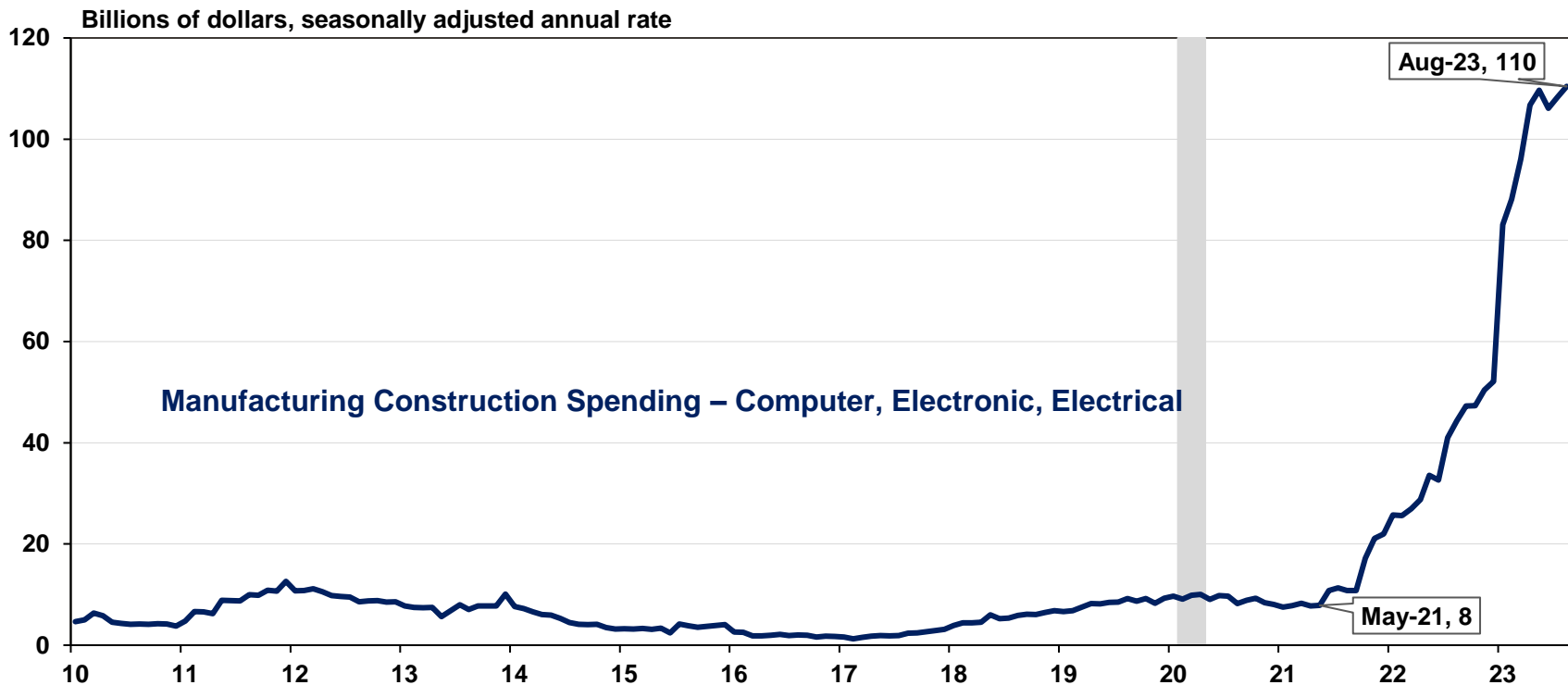
Source: U.S. Bureau of Economic Analysis (BEA)

Oil Prices Elevated



Source: U.S. Energy Information Administration, retrieved from FRED, Federal Reserve Bank of St. Louis

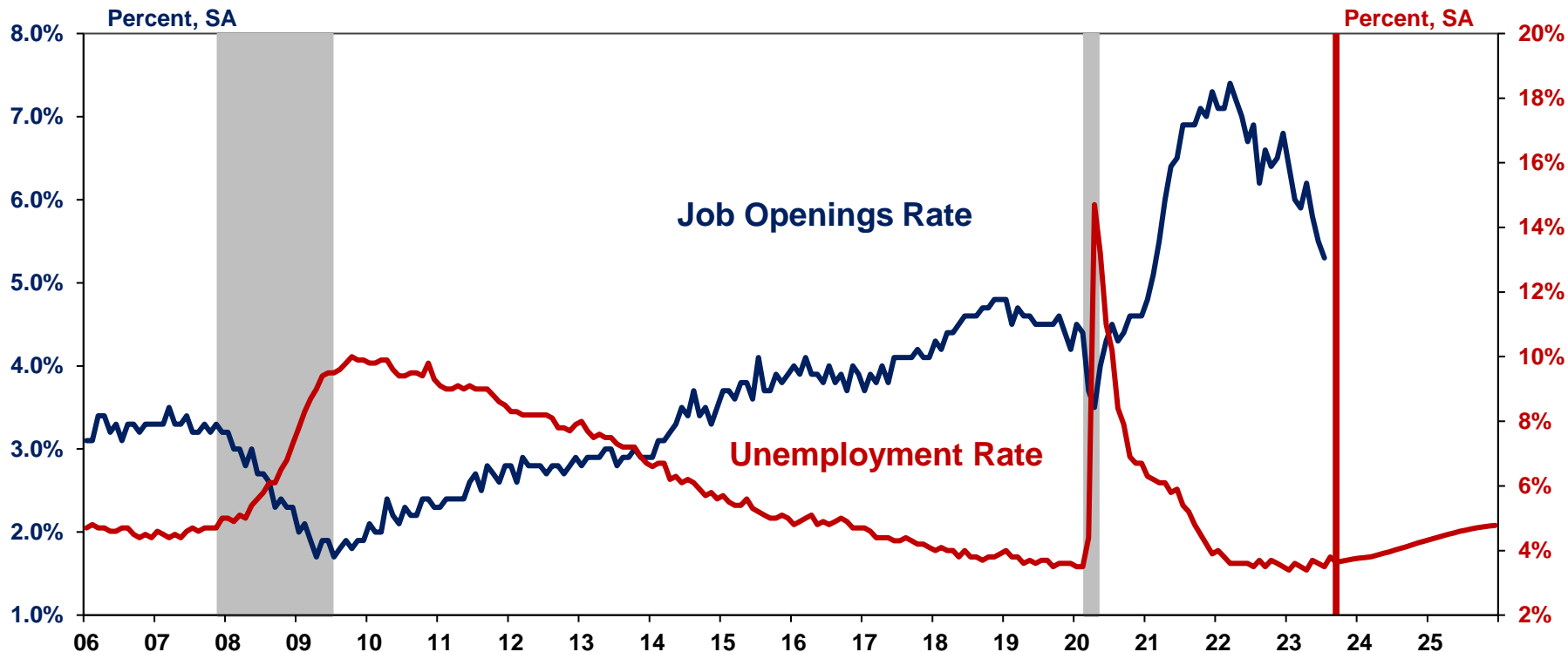
Boom in Manufacturing Construction Spending



Source: U.S. Census Bureau (BOC): Construction Put-In-Place (C30)

Job Openings

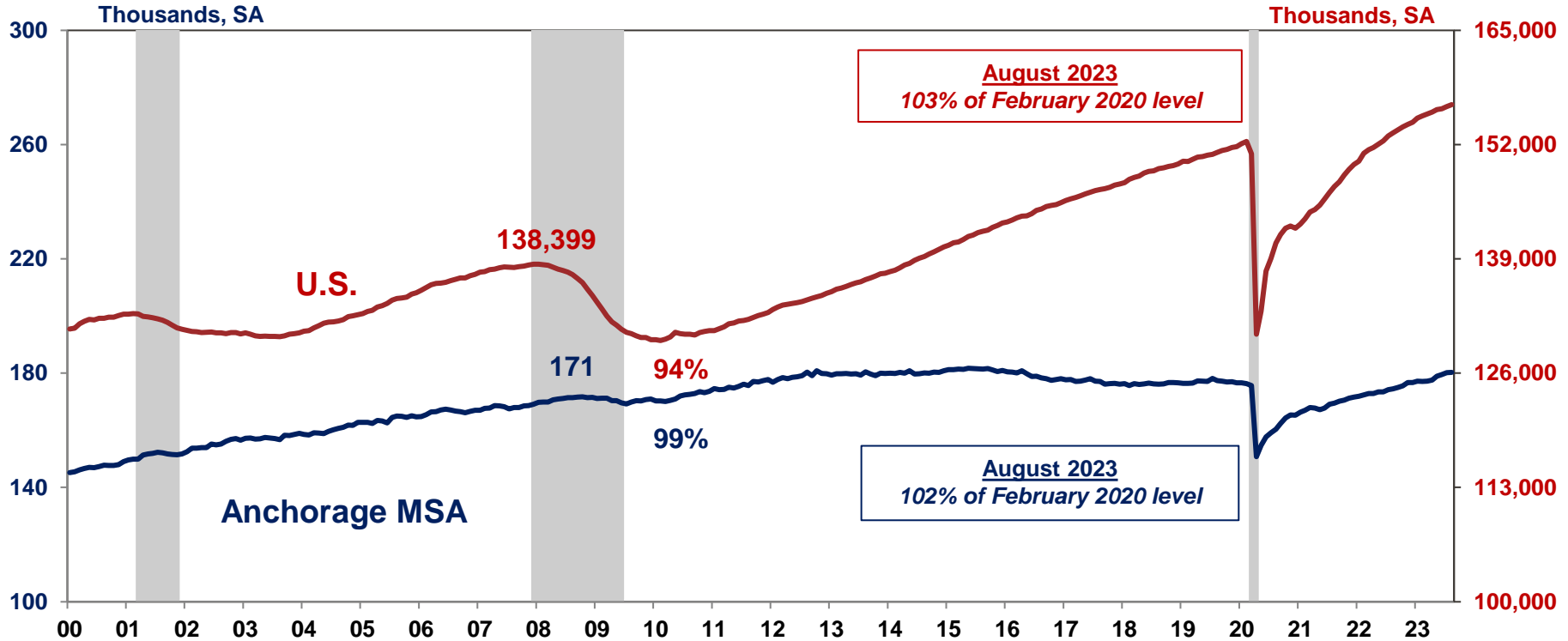
Increased significantly to 9.6 million in August



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

Payroll Employment

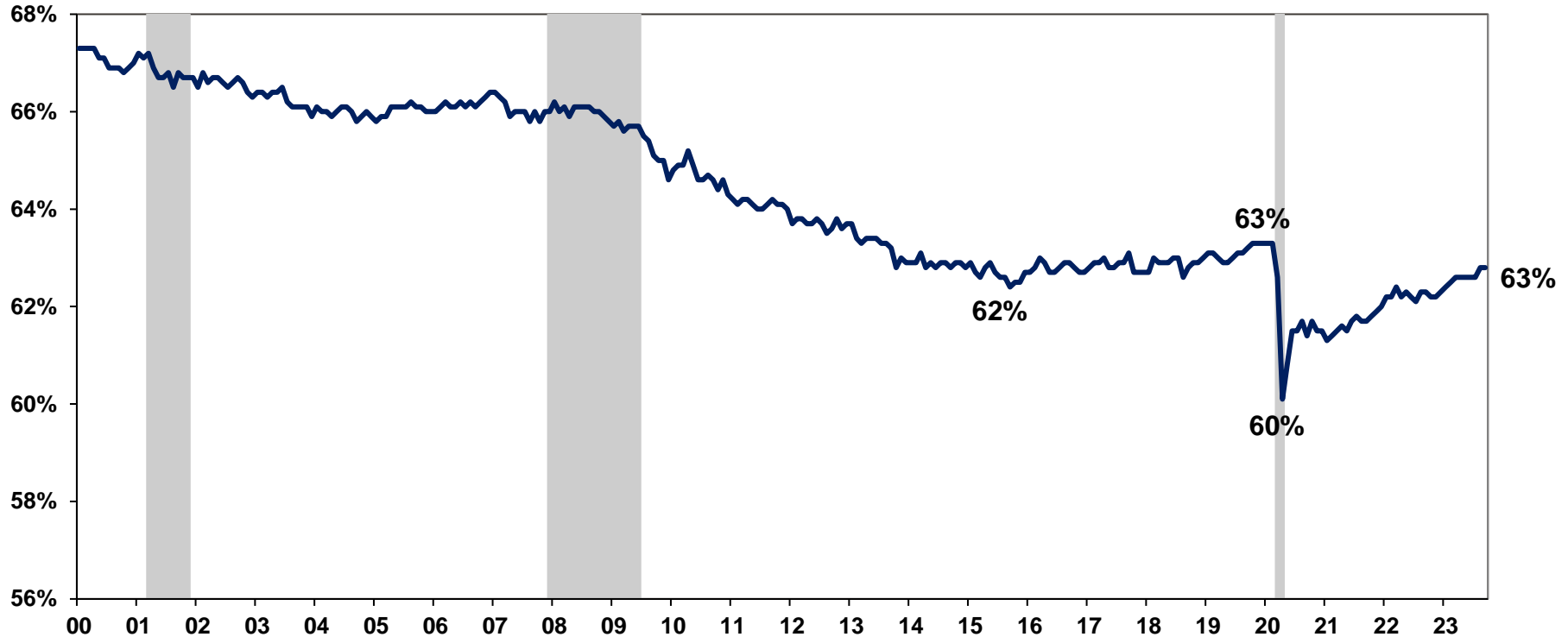
Anchorage MSA recovered from COVID-19 recession



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

Labor Force Participation Rate

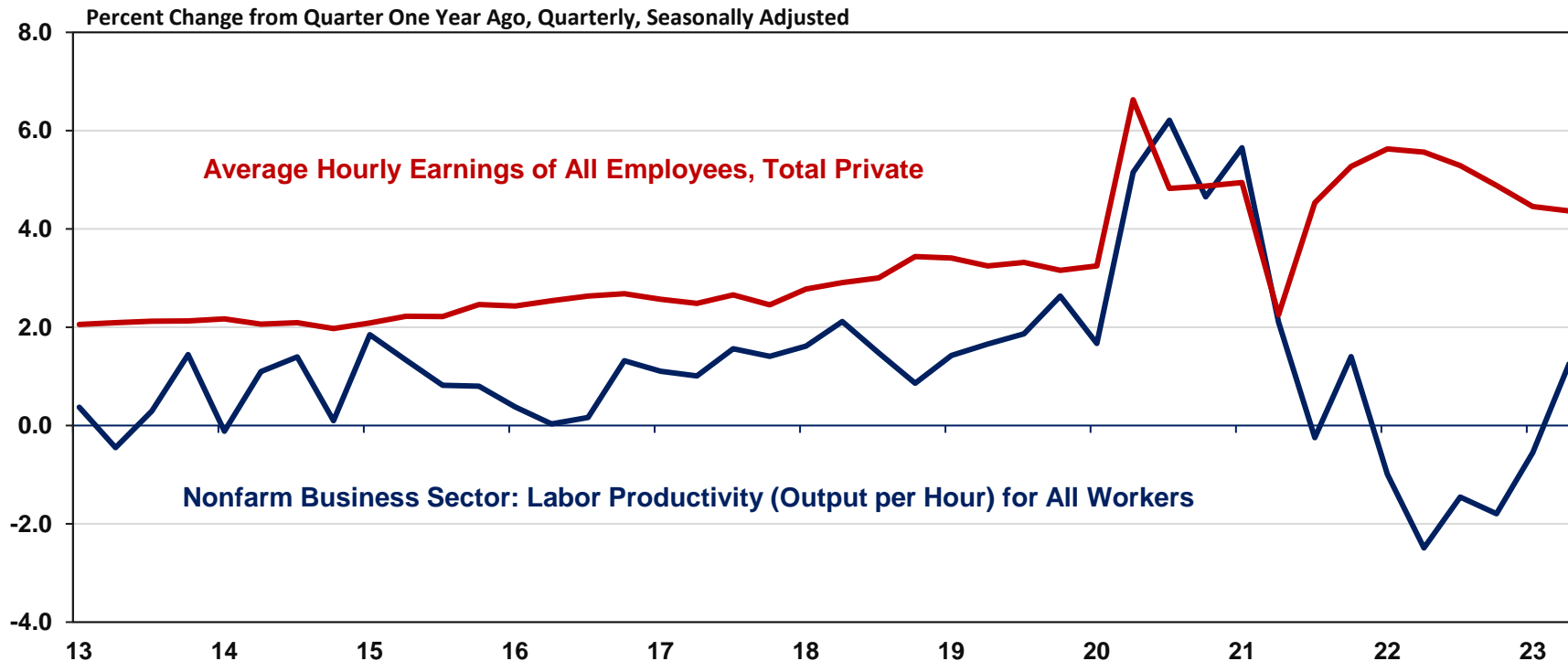
Labor force participation must be repaired as part of job market recovery



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

Wages Outpacing Productivity

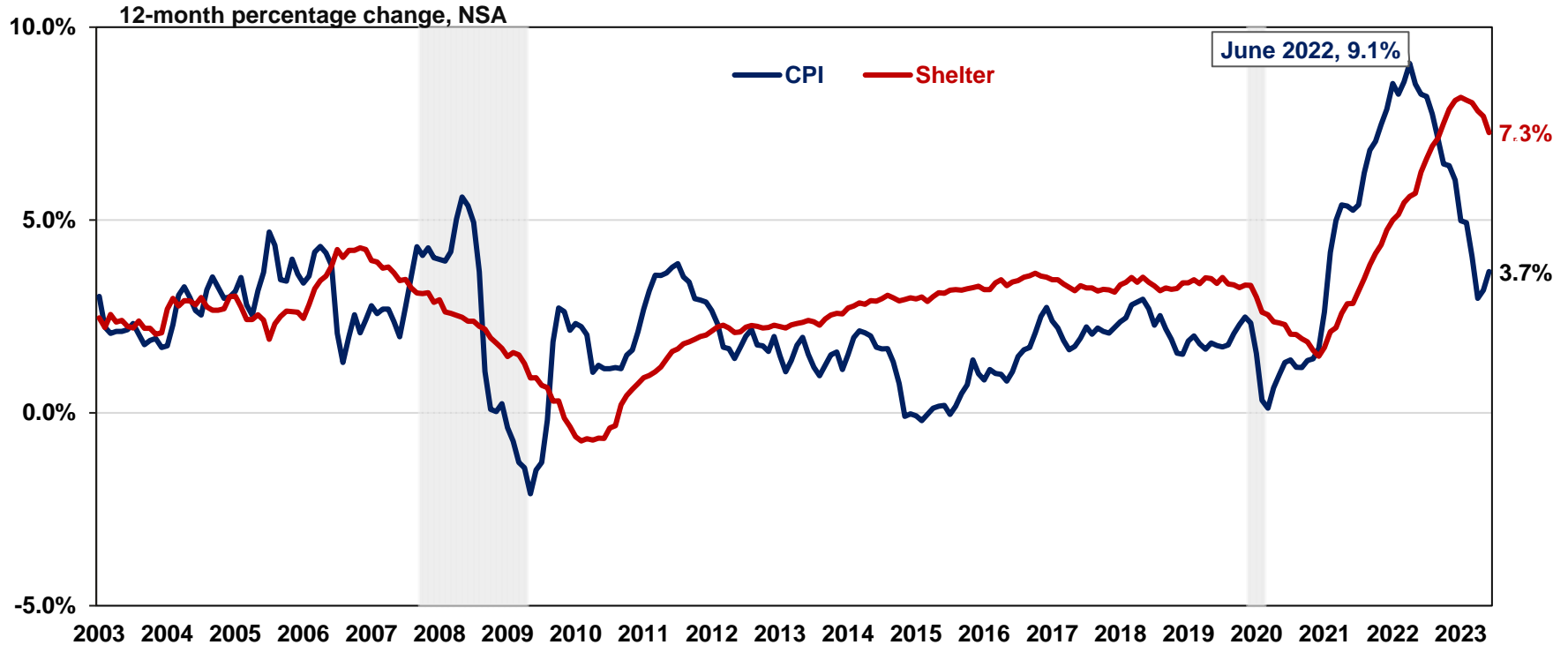
Income can only grow with productivity gains



Source: Federal Reserve Bank of St. Louis

Consumer Inflation – Headline Rate and Shelter

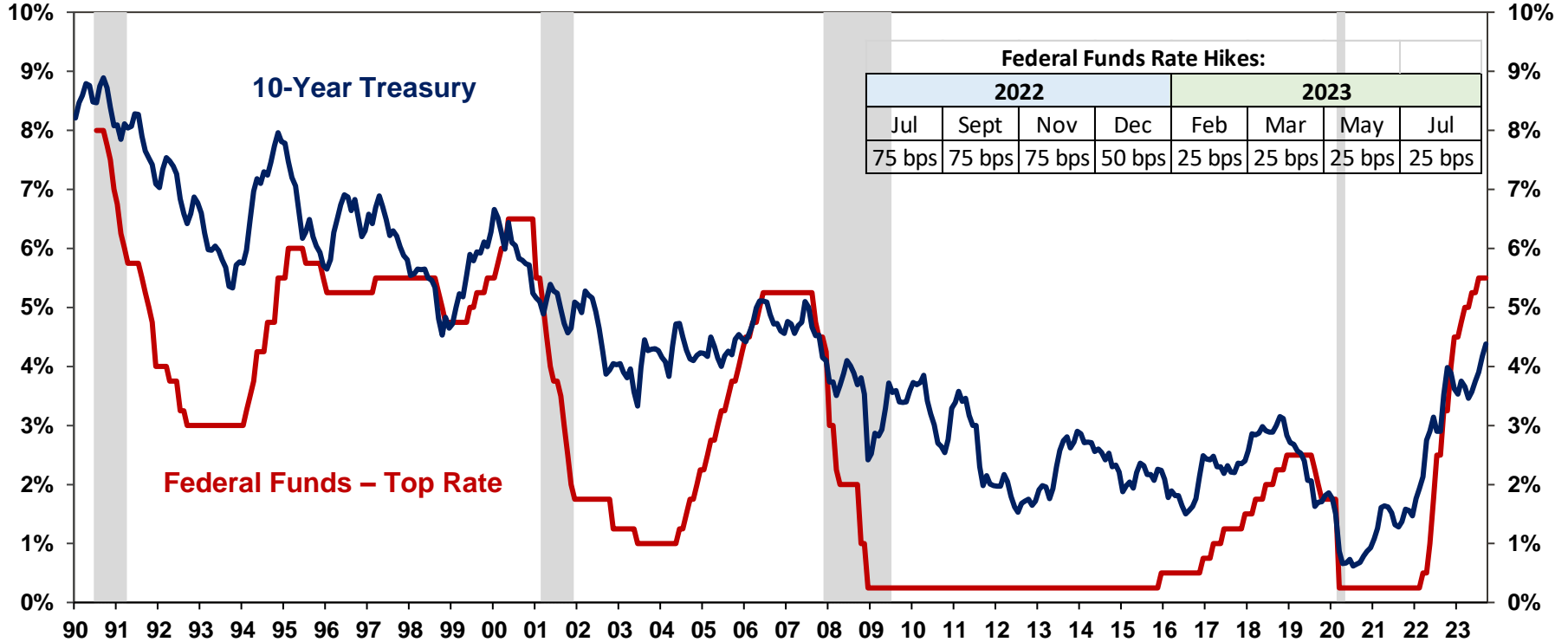
Shelter costs continue to rise despite Fed policy tightening --- “Gimmie Shelter”



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

Monetary Policy Tightening in Response to Inflation

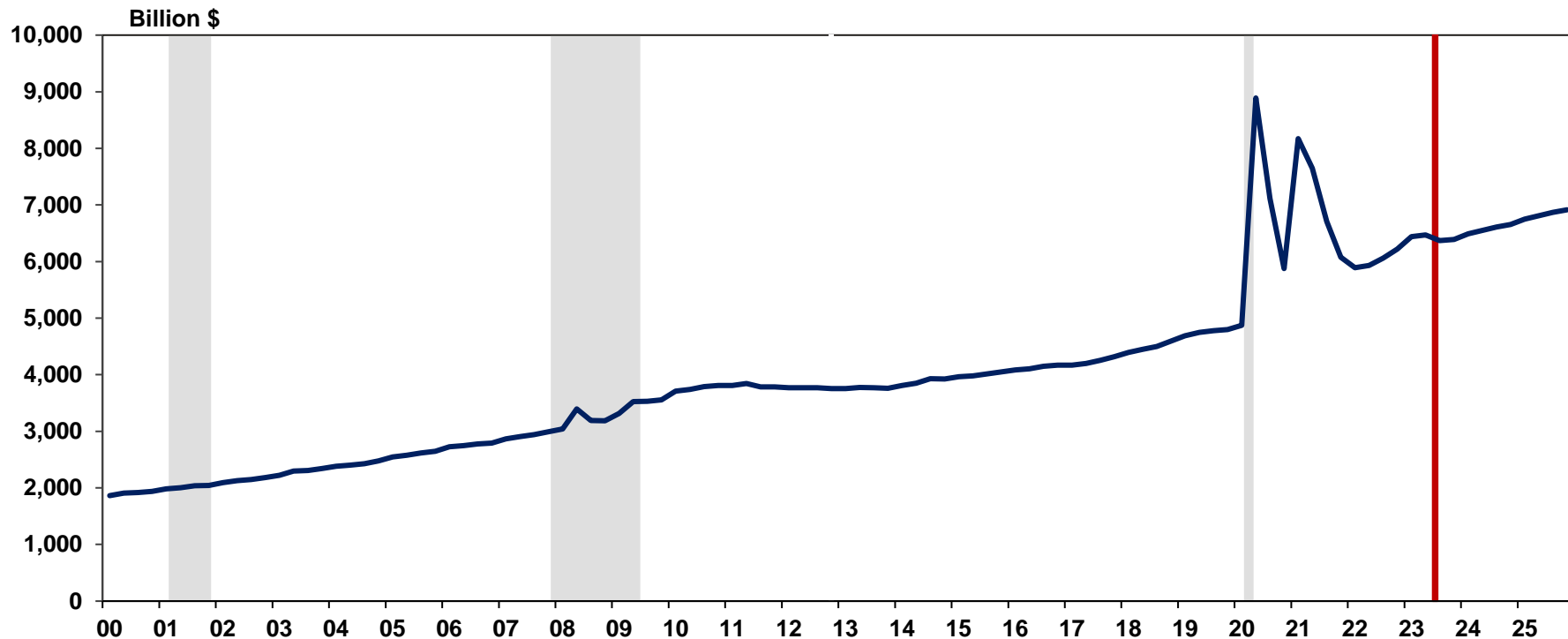
The Fed should pause now...



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

Historic Expansion for Government Spending

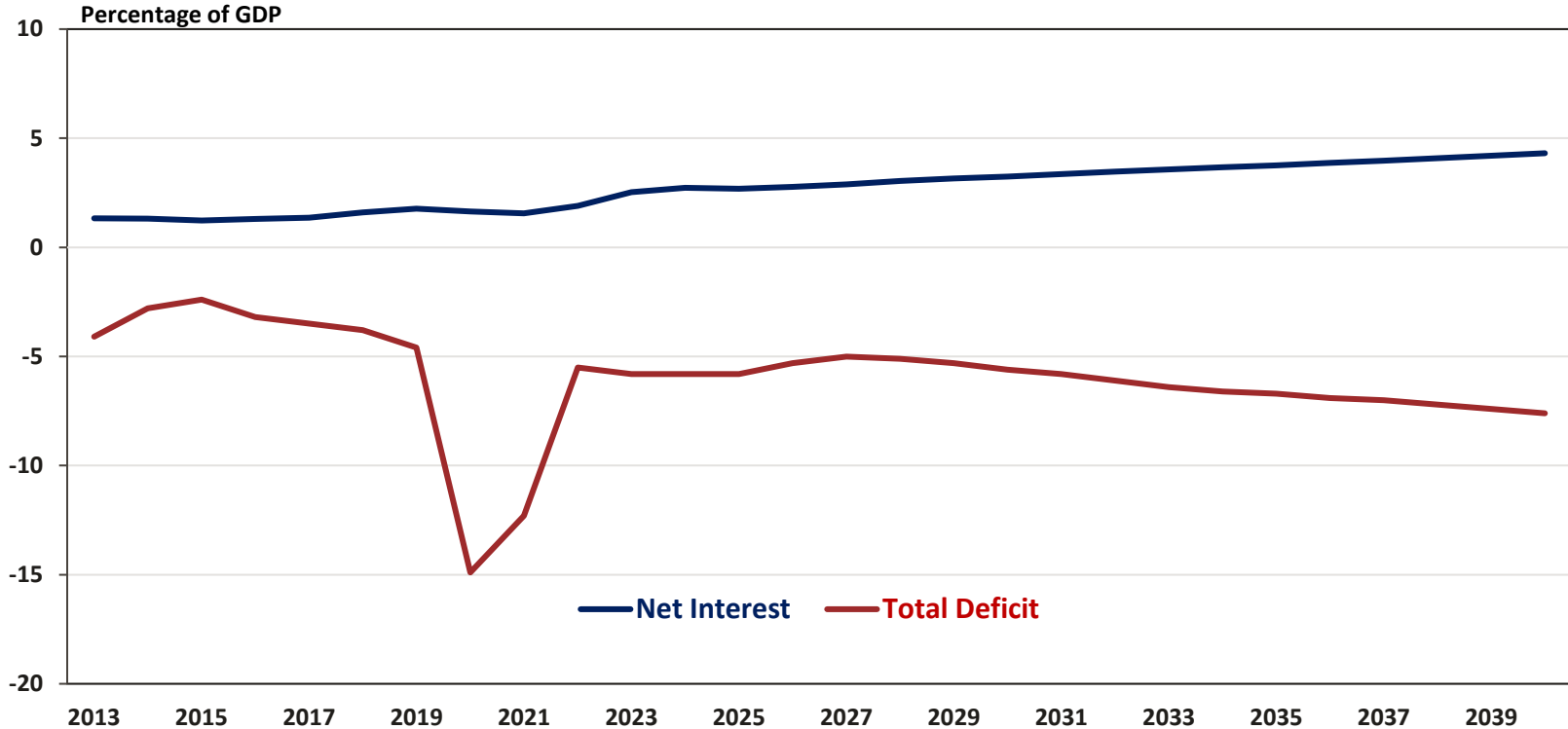
Post-covid legislation added to inflation pressure



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

Government Fiscal Position Worsening

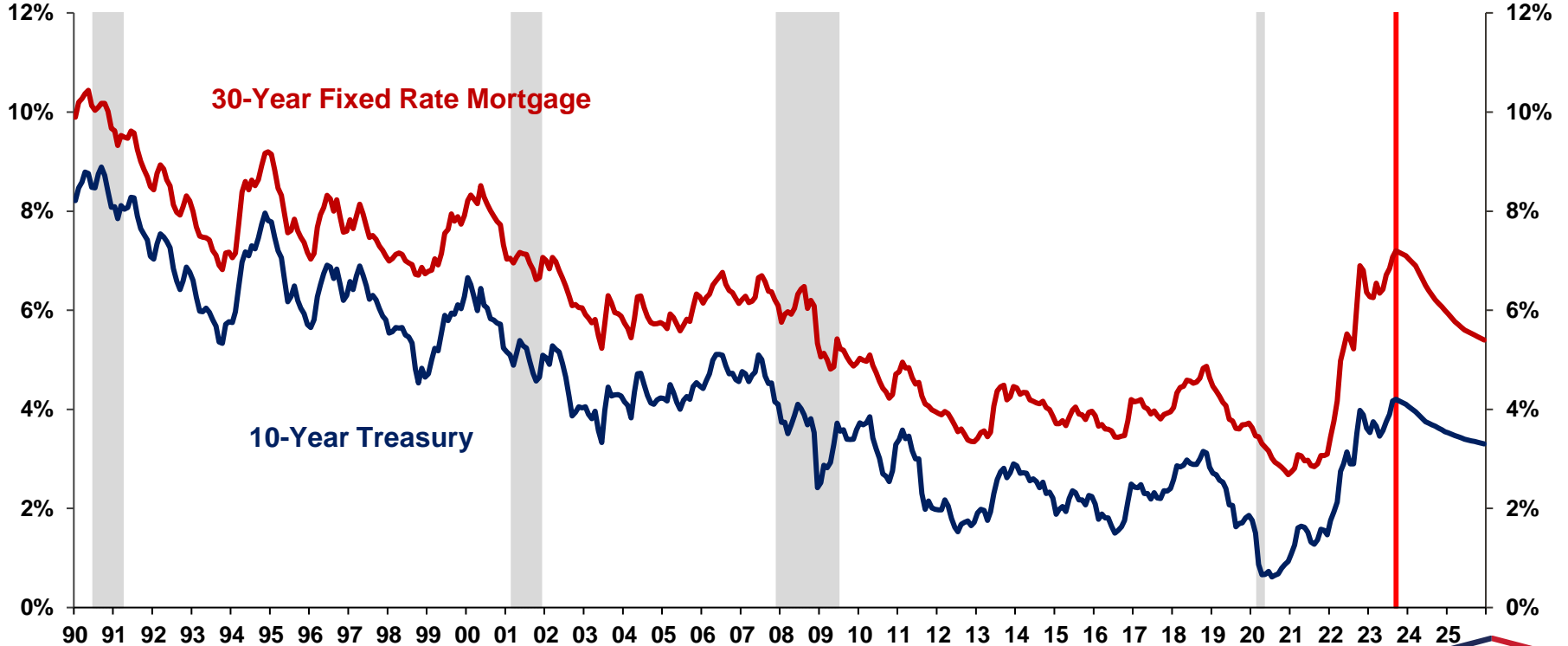
Interest payments rising in years ahead



Source: Congressional Budget Office (CBO)

Mortgage Rates Near Cycle Peak

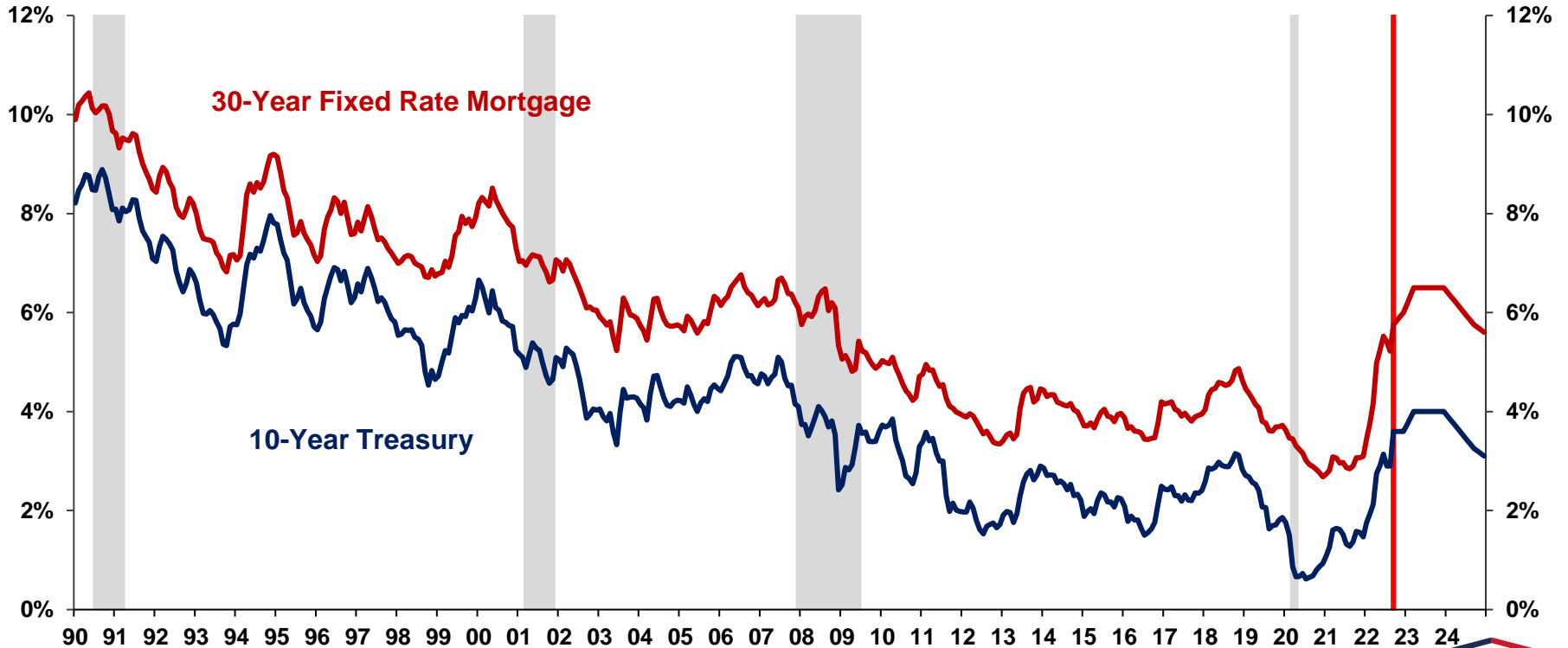
Housing affordability at more than decade low



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

LAST YEAR: Interest Rates Trending Higher

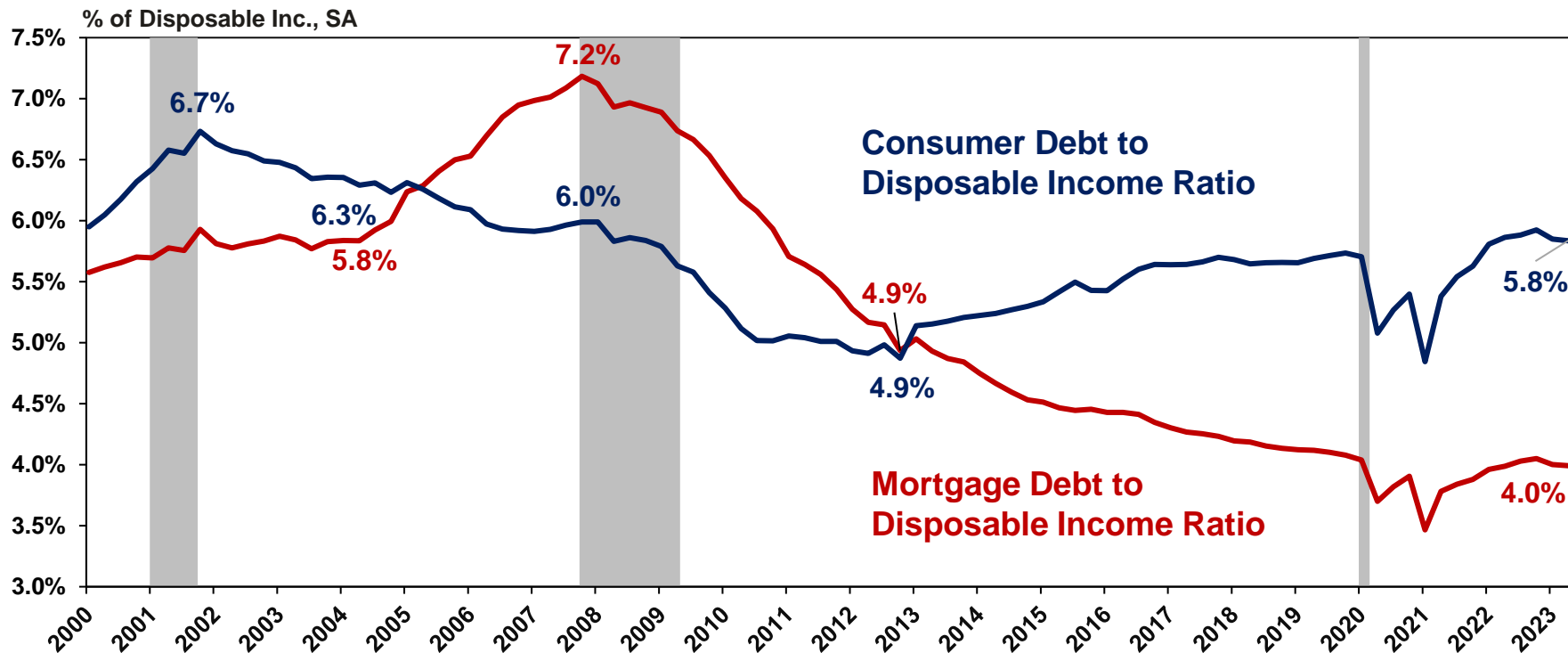
Federal Reserve is tightening monetary policy



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

Household Balance Sheets

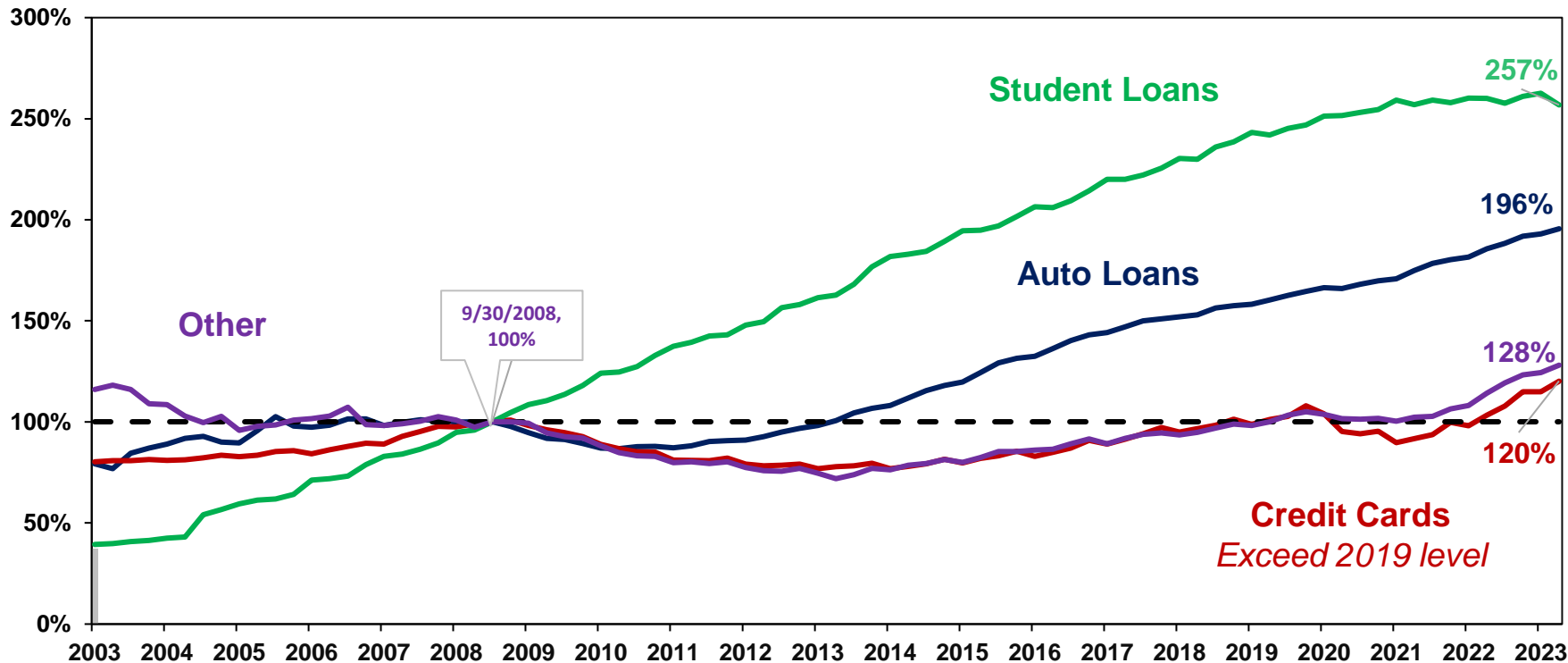
Debt-to-income ratio decreasing



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

Consumer Debt

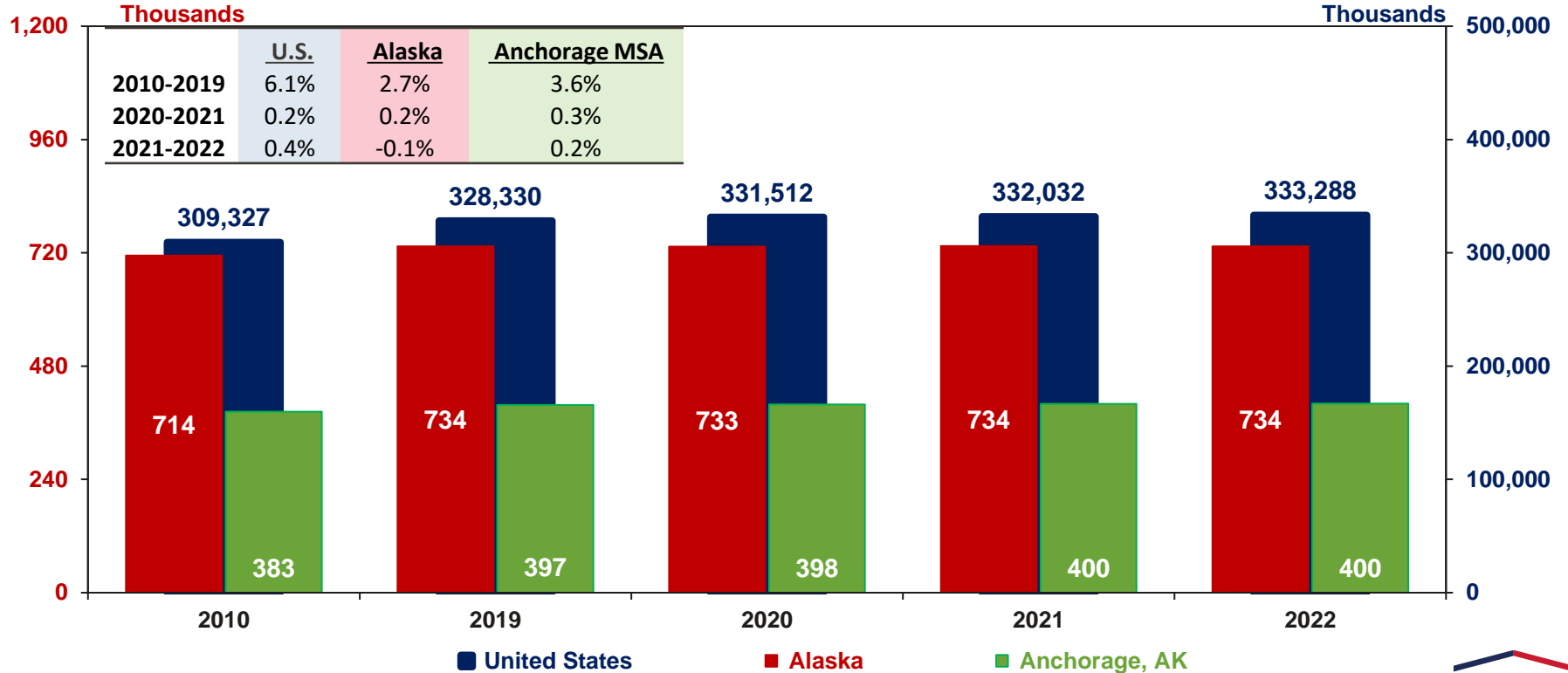
Credit card debt rising



Source: Federal Reserve Bank of New York

Population Growth

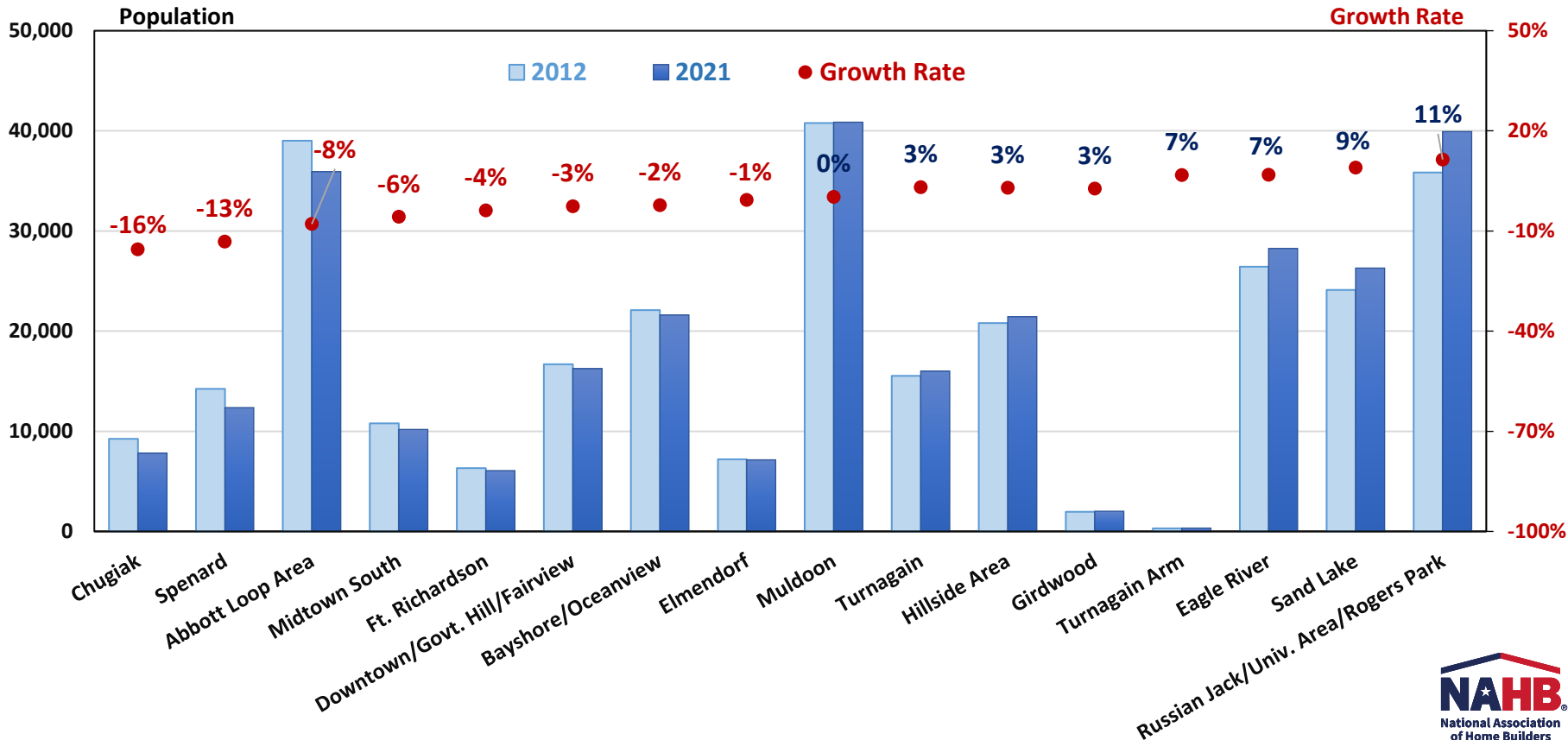
Anchorage MSA population grew faster than state rates



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.

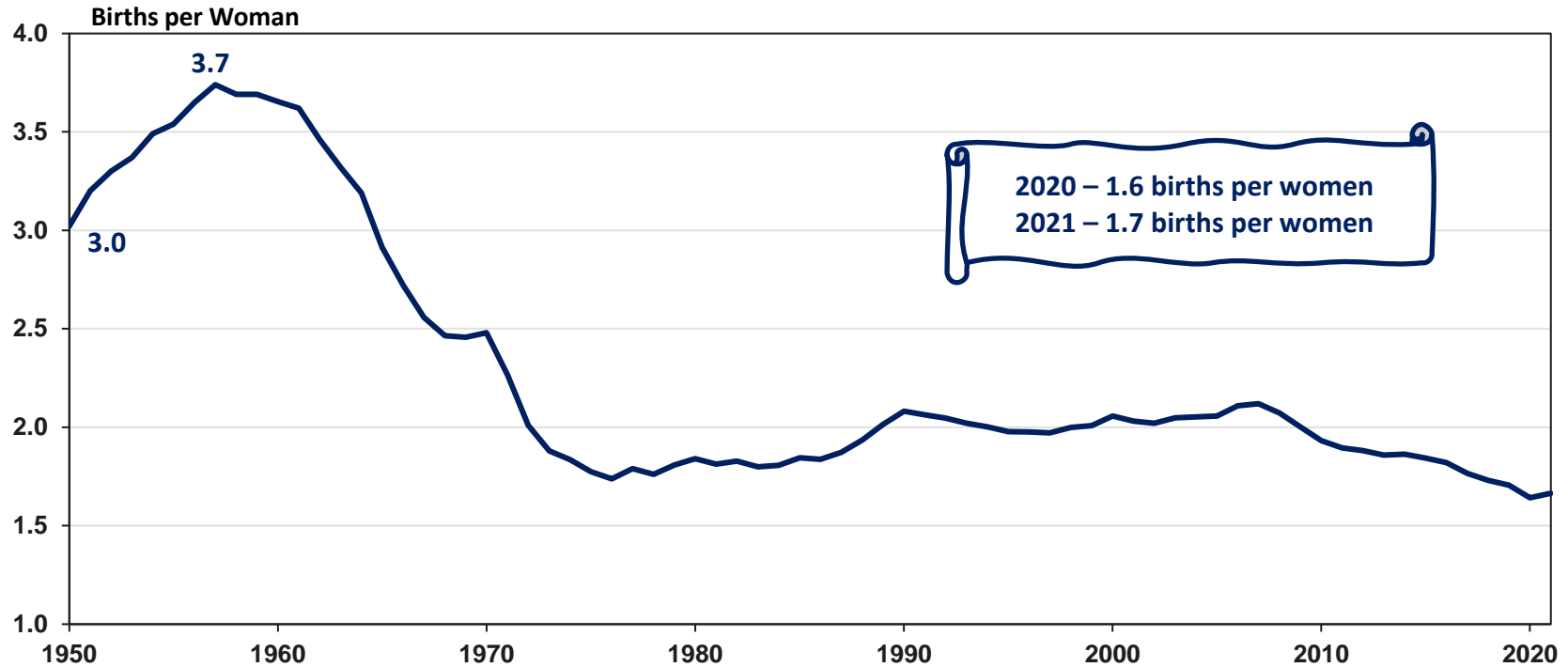
Population Change in the Municipality of Anchorage



Source: American Community Survey 5-Year Estimates.

Total Fertility Rate

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



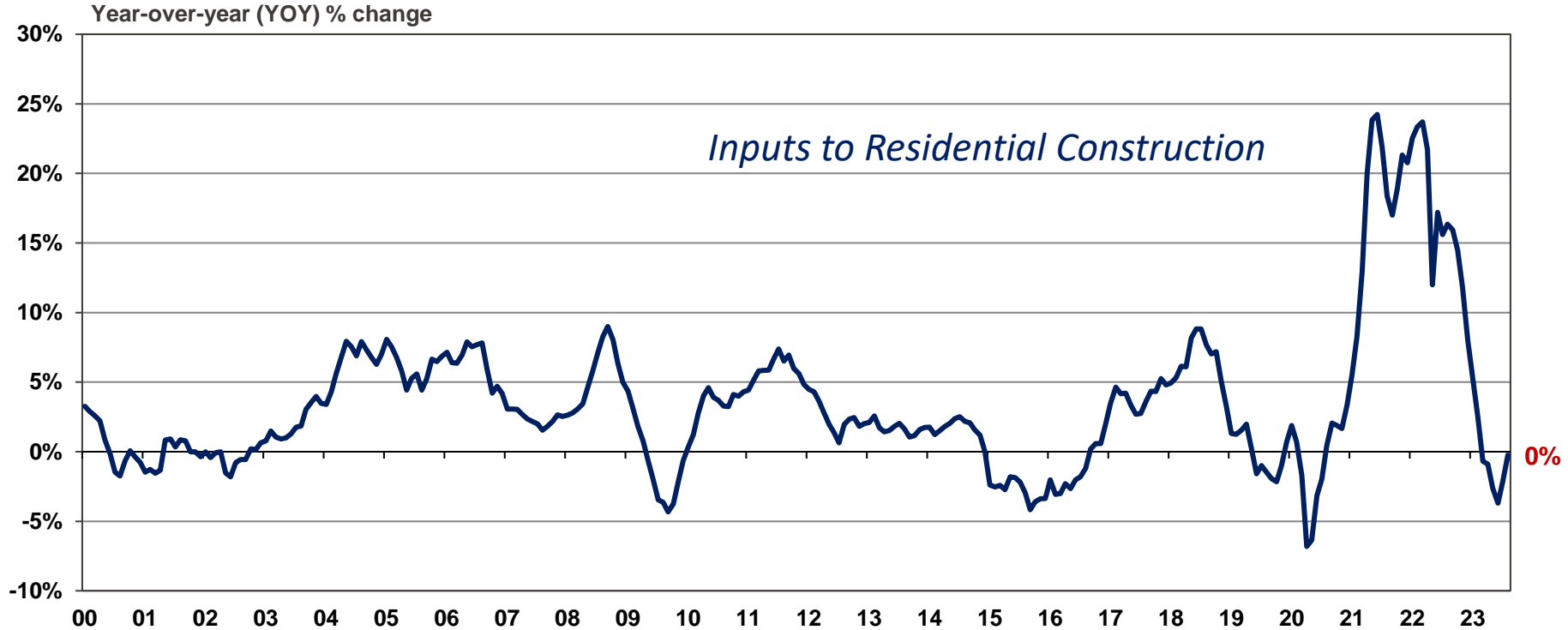
Source: The World Bank and <https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/>



Supply-Side Factors



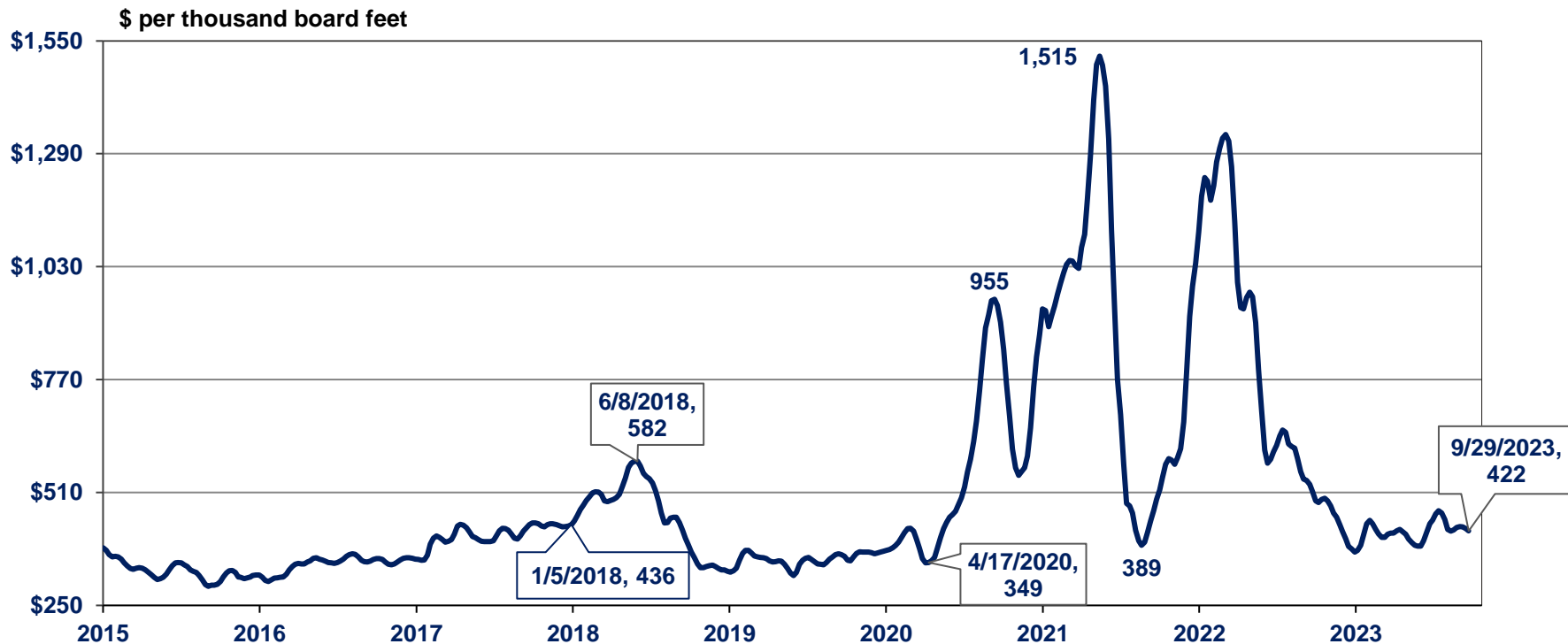
Building Materials - Residential Construction Cost



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

Lumber Prices Edged Down

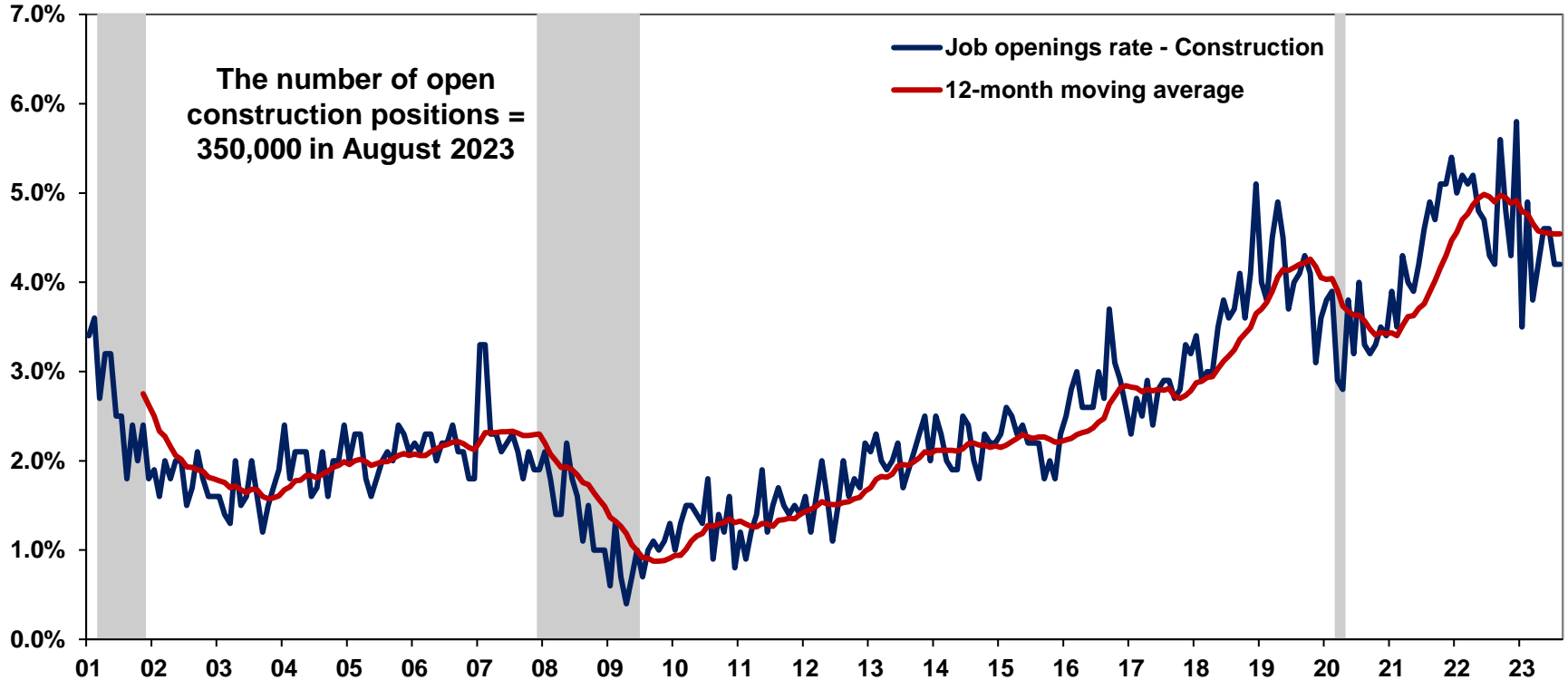
Current September price is \$422; down 2.3% over the past three weeks



Source: NAHB Analysis; Random Lengths Composite Index

Labor – Construction Job Openings Peaked for Cycle?

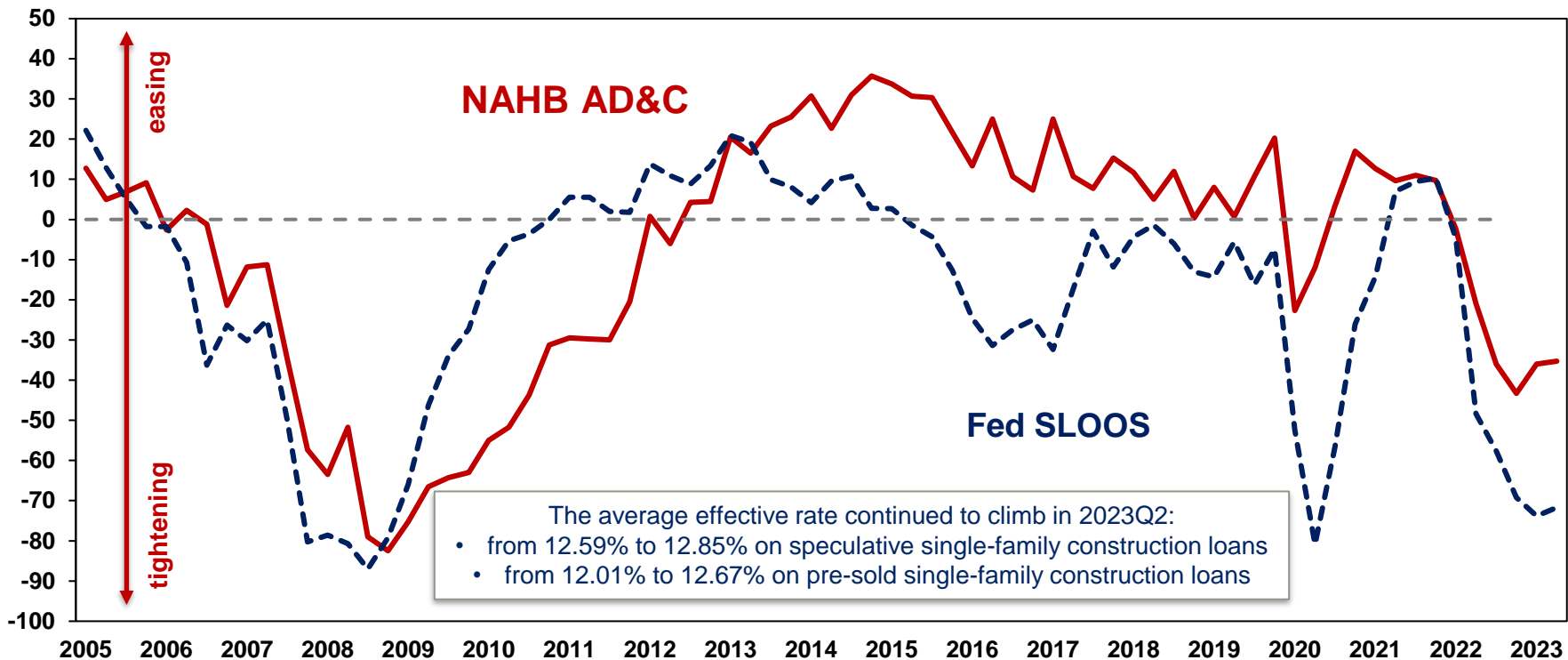
Skilled labor shortage persists; 352,100 net gain for residential construction since Jan 2020



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)



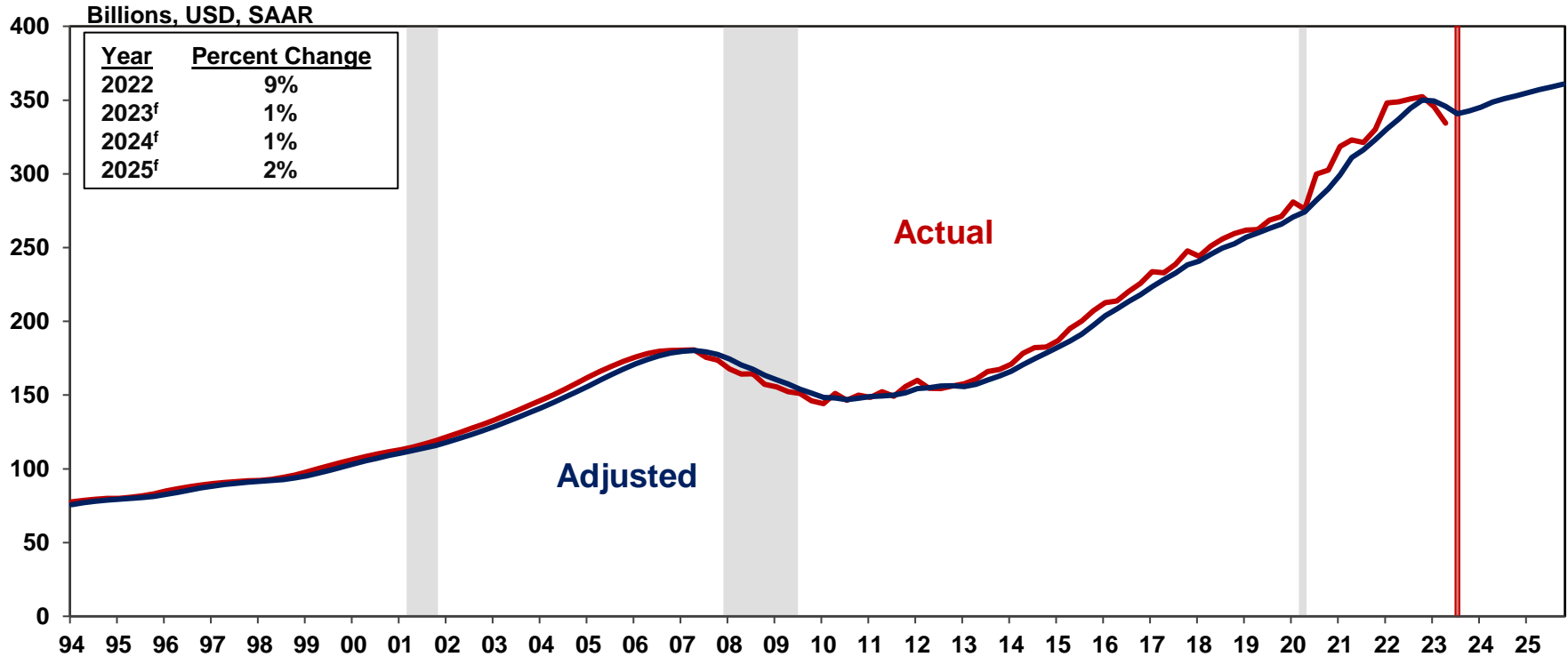


Construction Outlook



Residential Remodeling

Minor soft patch for home improvement demand

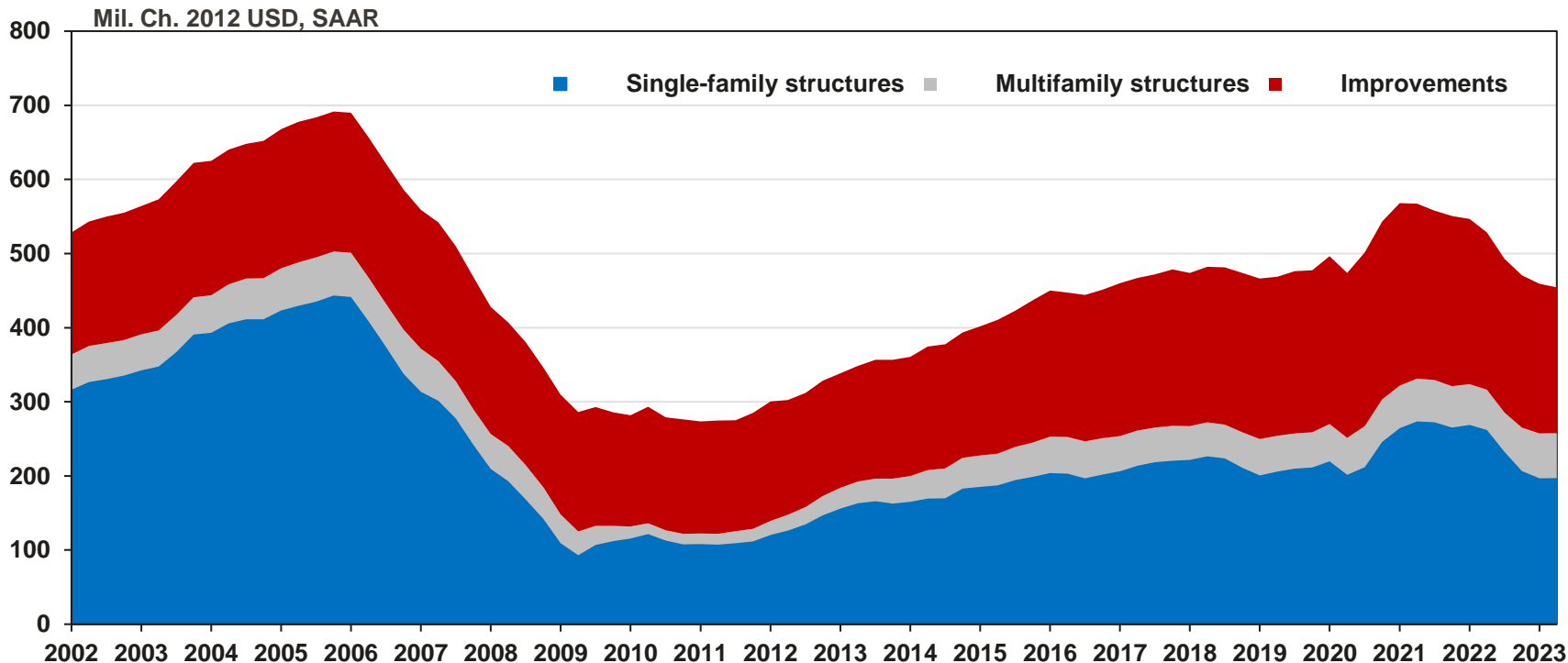


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

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

Remodeling Gaining Market Share for Residential Construction

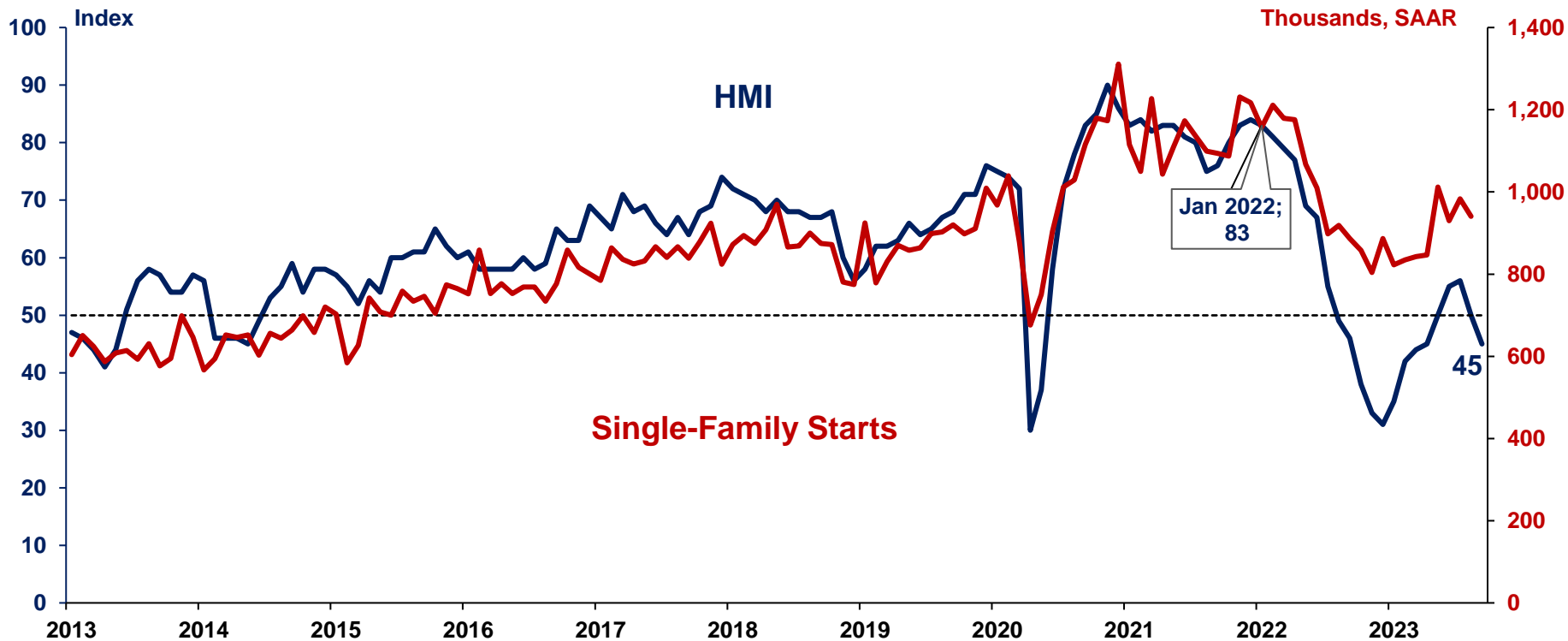
Improvement spending share increased from 31% in 2002 to 43% in 2Q 2023



Source: Bureau of Economic Analysis

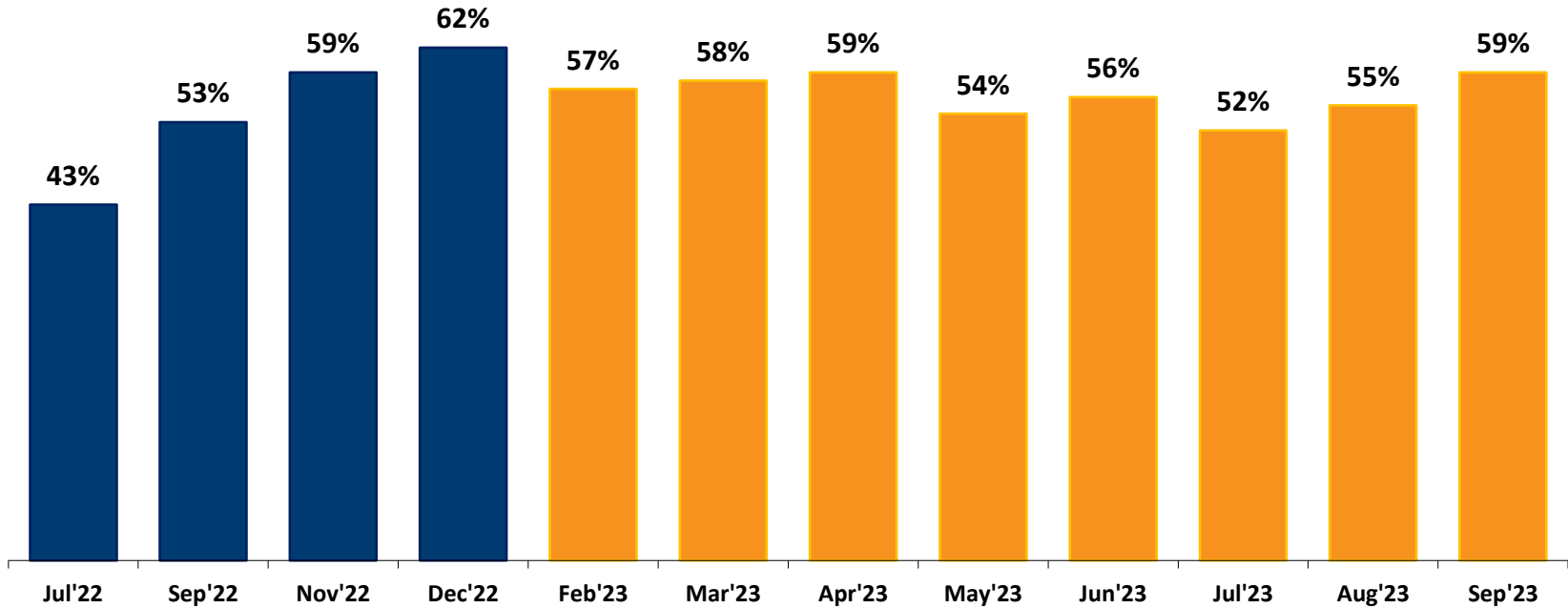
NAHB/Wells Fargo Housing Market Index (HMI)

Persistently high mortgage rates continue to weaken builder confidence



Source: Census Bureau and NAHB/Wells Fargo HMI survey

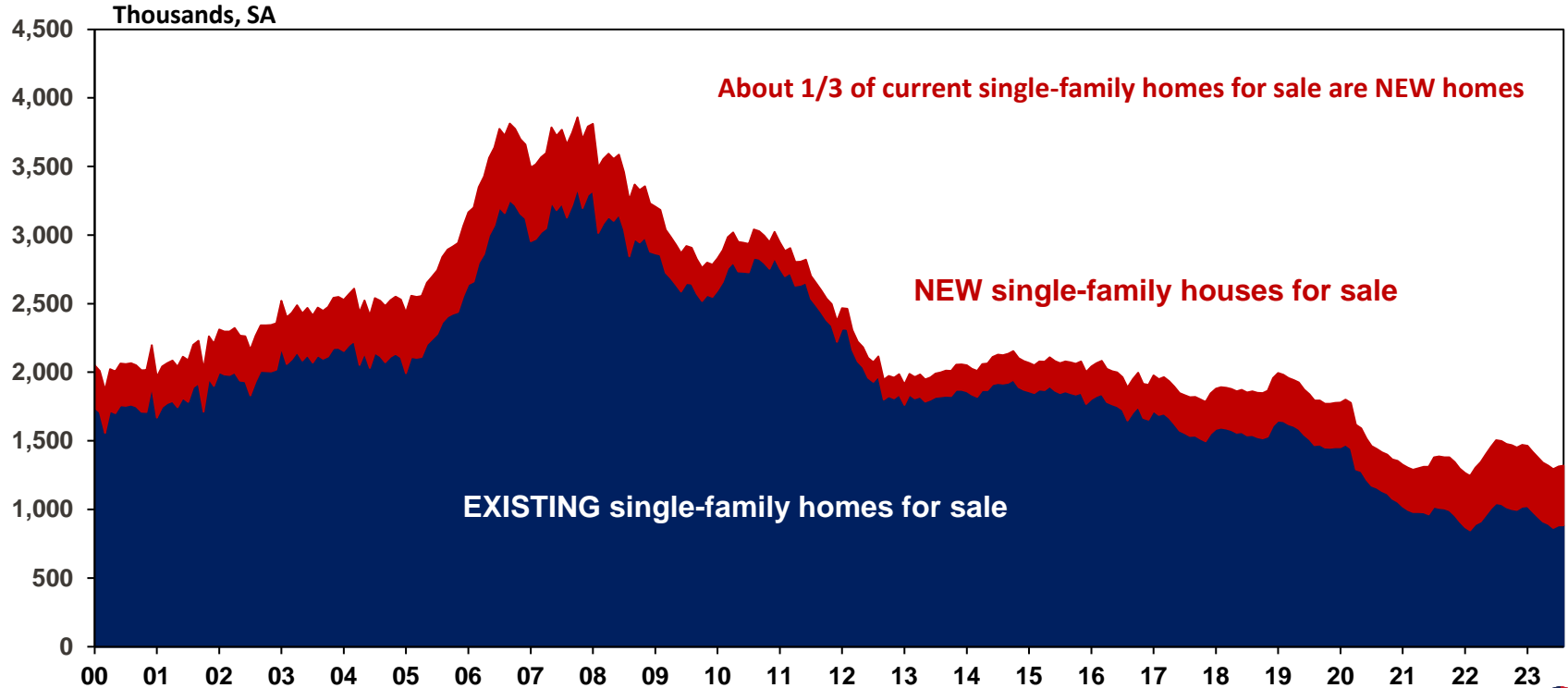
Share of Builders Offering Incentives Rose



Source: NAHB/Wells Fargo HMI survey

Total Housing Inventory

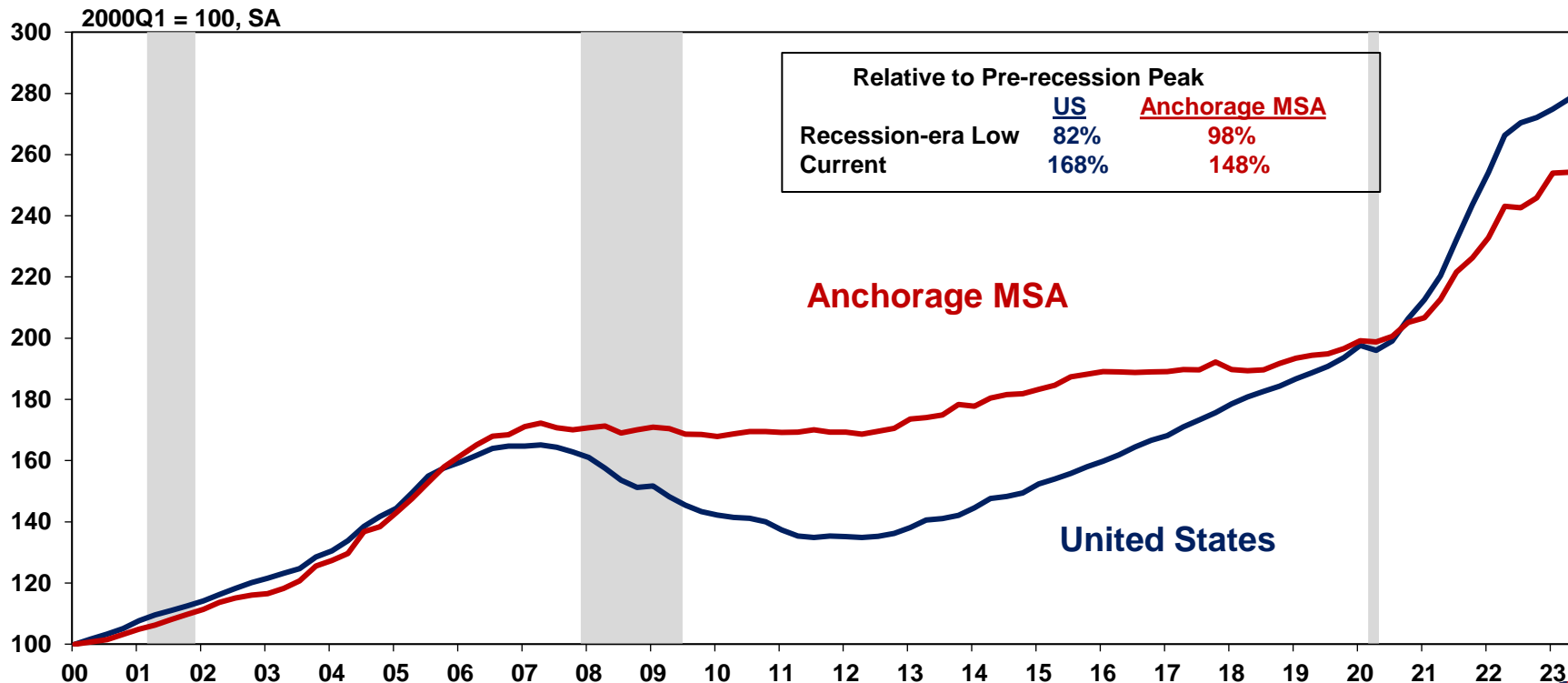
Insufficient resale inventory is supporting demand for new construction



Source: U.S. Census Bureau (BOC) and National Association of Realtors (NAR)

Existing House Price Index

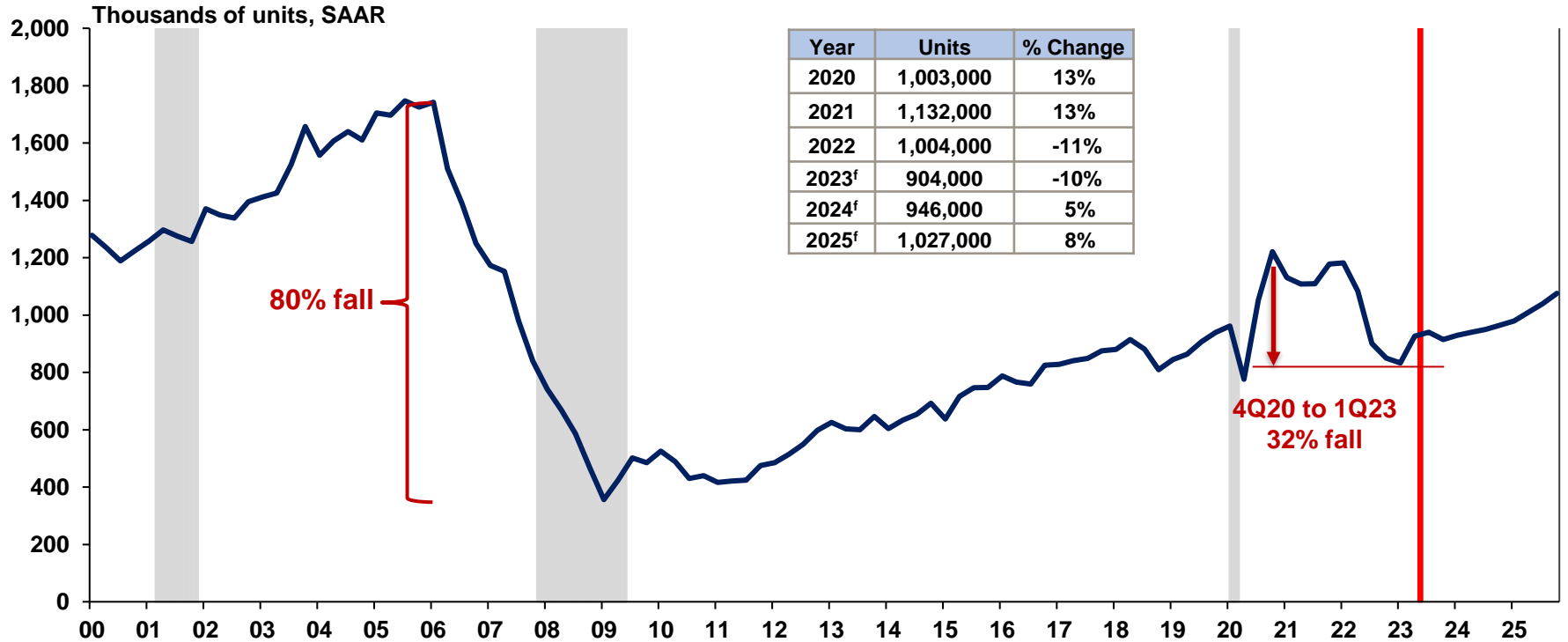
Anchorage MSA 28% home price gain since covid, 41% for U.S.



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

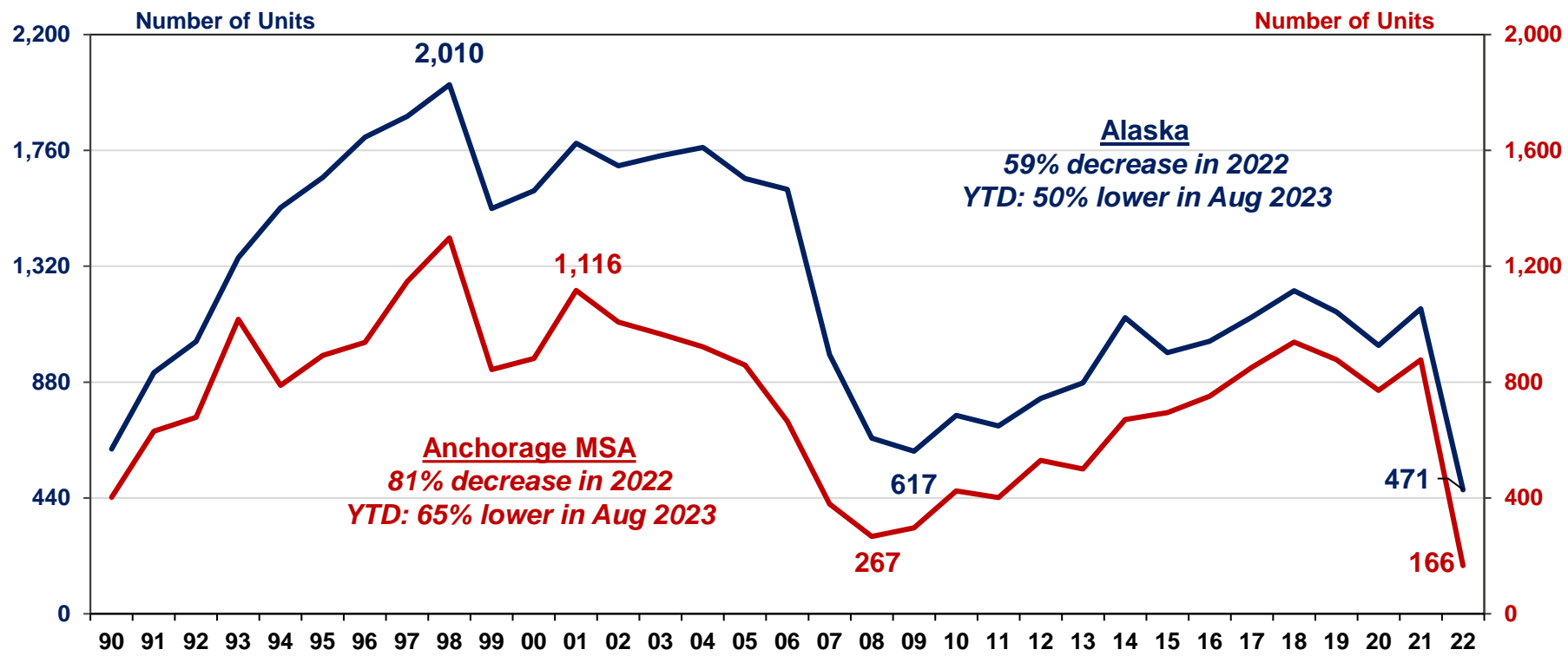
Single-Family Starts

Construction to trend higher in the quarters ahead



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

Single-Family Building Permits – AK and Anchorage MSA

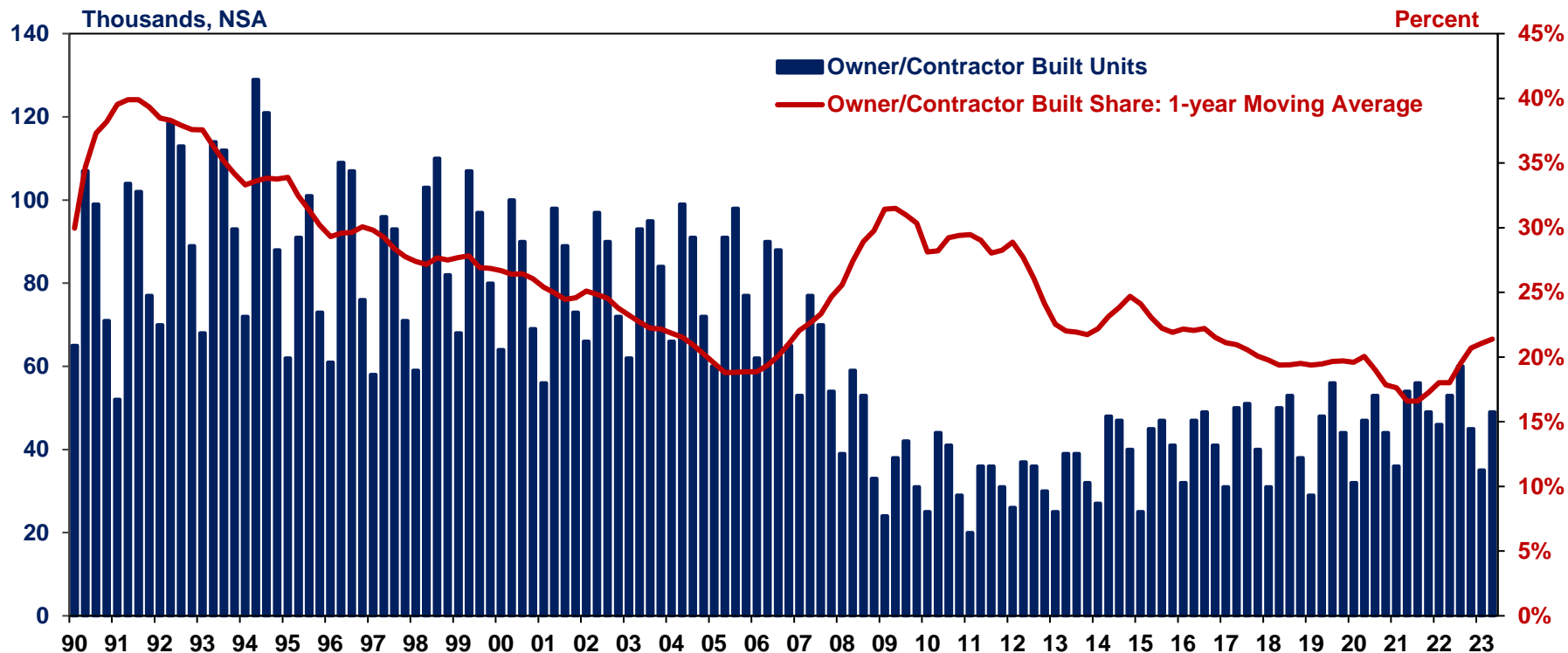


Source: Census Bureau.



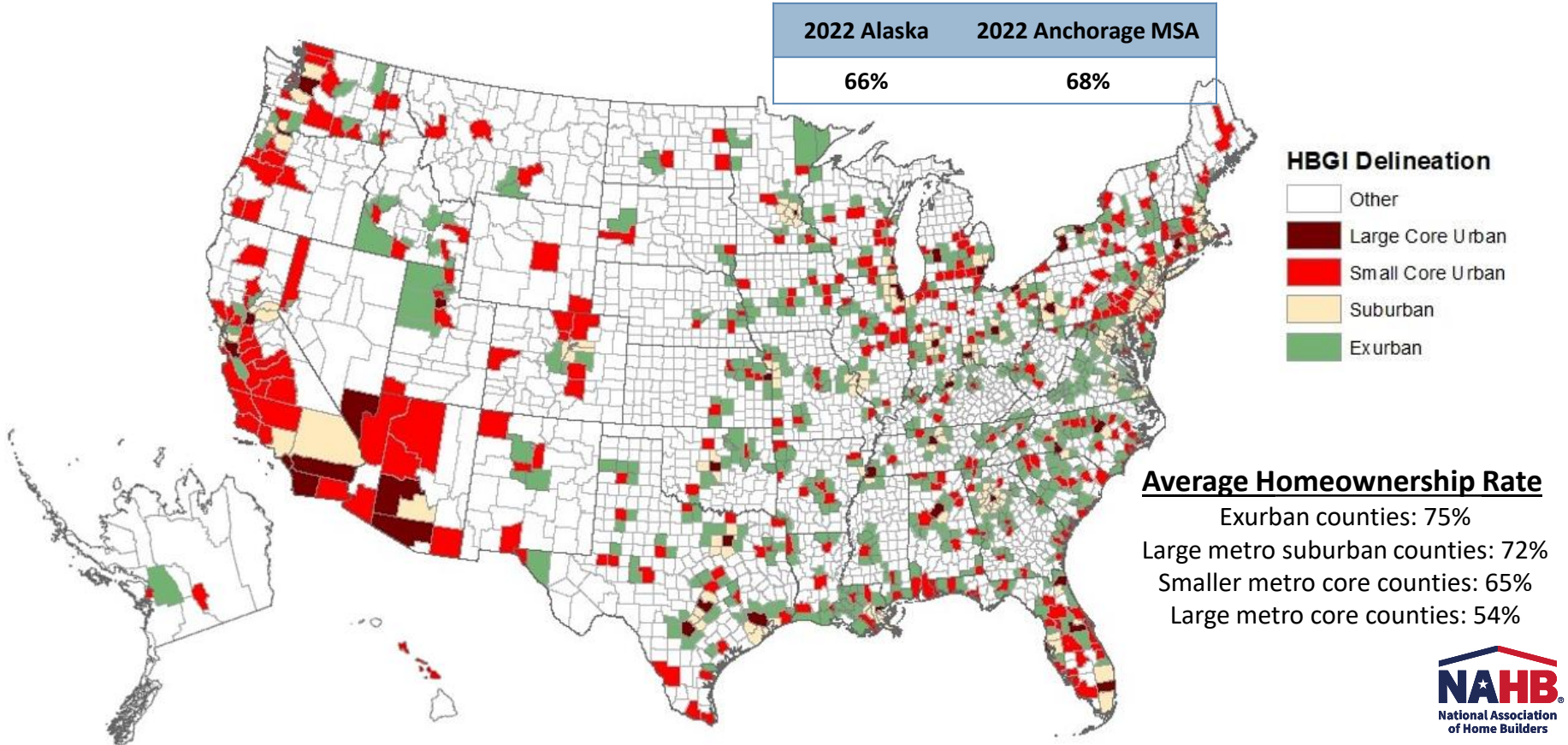
Custom Home Building Market

Solid gain in 2022, but a notable drop at the beginning of 2023



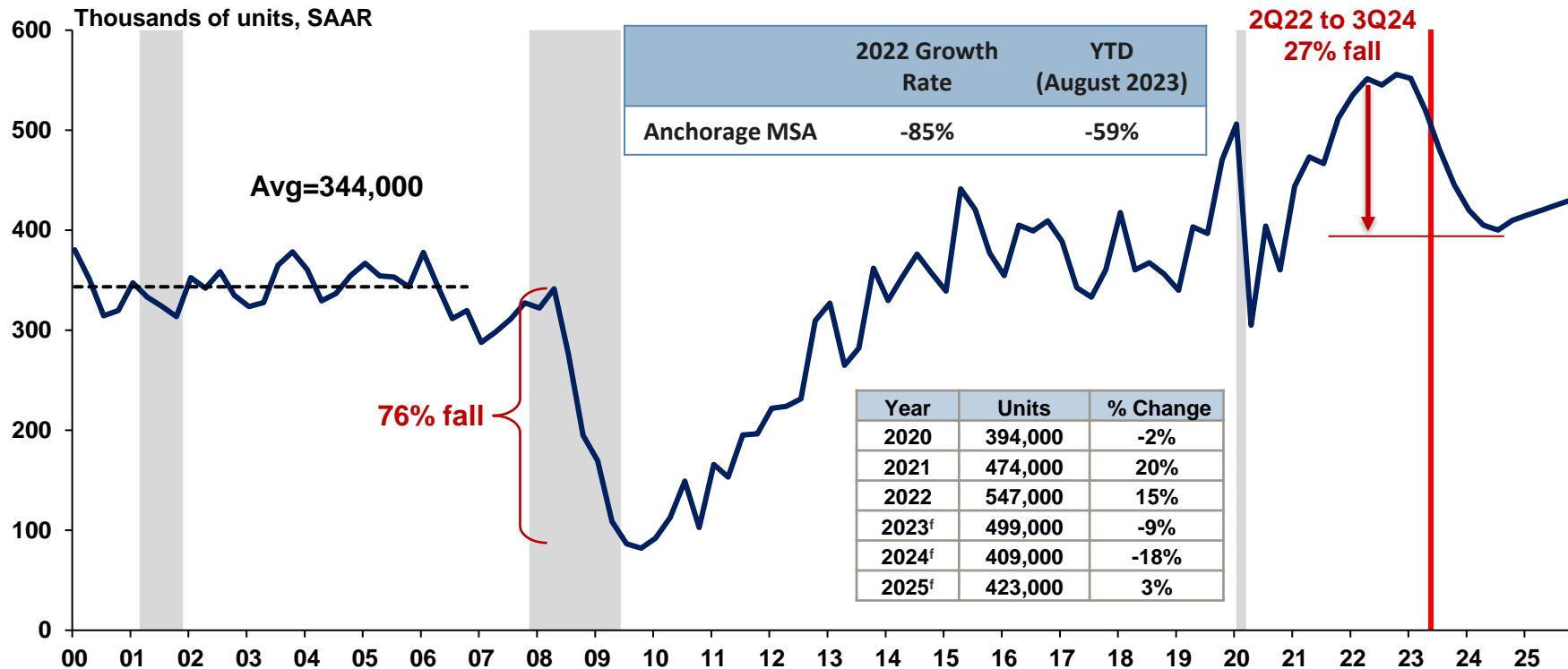
Source: U.S. Census Bureau (BOC)

Homeownership Rate Across U.S. Counties



Multifamily Construction

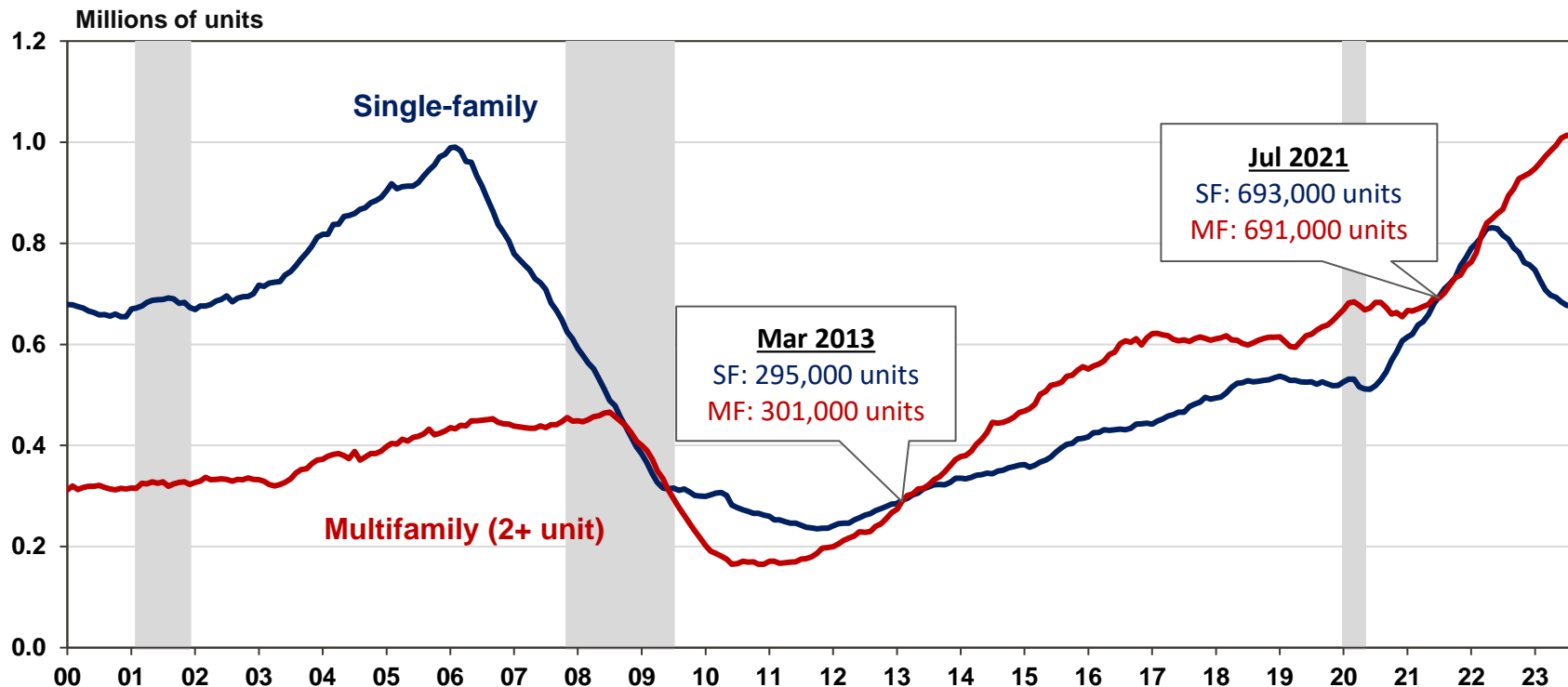
Multifamily permit 3-month moving average at lowest point since 2020



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

Housing Units under Construction

Highest count of apartments under construction since late 1973



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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eyeonhousing.org
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