

Rising Recession Risks and Housing Opportunities

North Idaho Building Contractors Association
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Macro/Housing Outlook



Federal reserve aggressively tightening monetary policy
Interest rates surged at start of 2022



Forecast now includes a recession in 2023
Mild recession as inflation is challenged



Inflation remains near 40-year highs



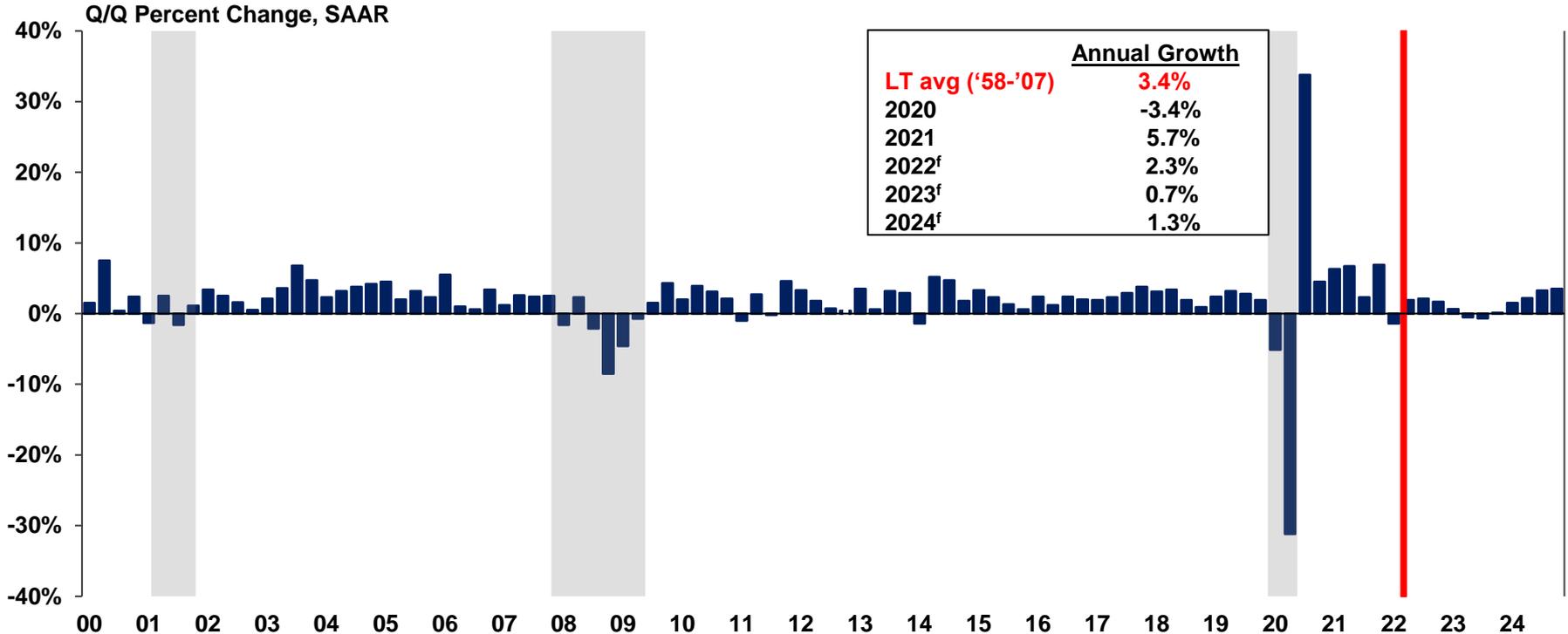
Single-family construction flat; multifamily, remodeling expanding
Demand for more space in homes continues



Housing affordability will decline in 2022 and 2023
Communities with ability to add affordable housing will grow

GDP Growth – Recession Risks Rising

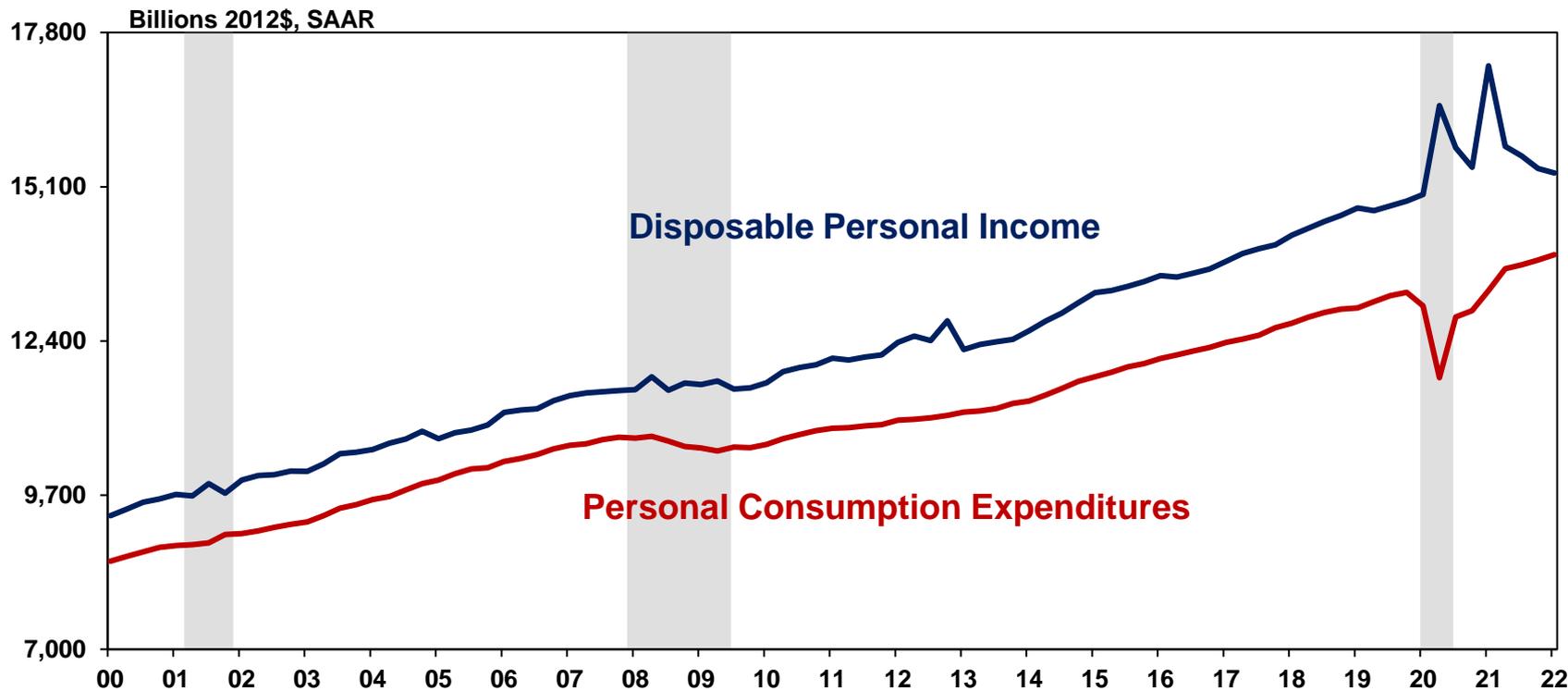
Weak first quarter of 2022 as Fed tightens credit conditions



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

Savings Increased During Recession

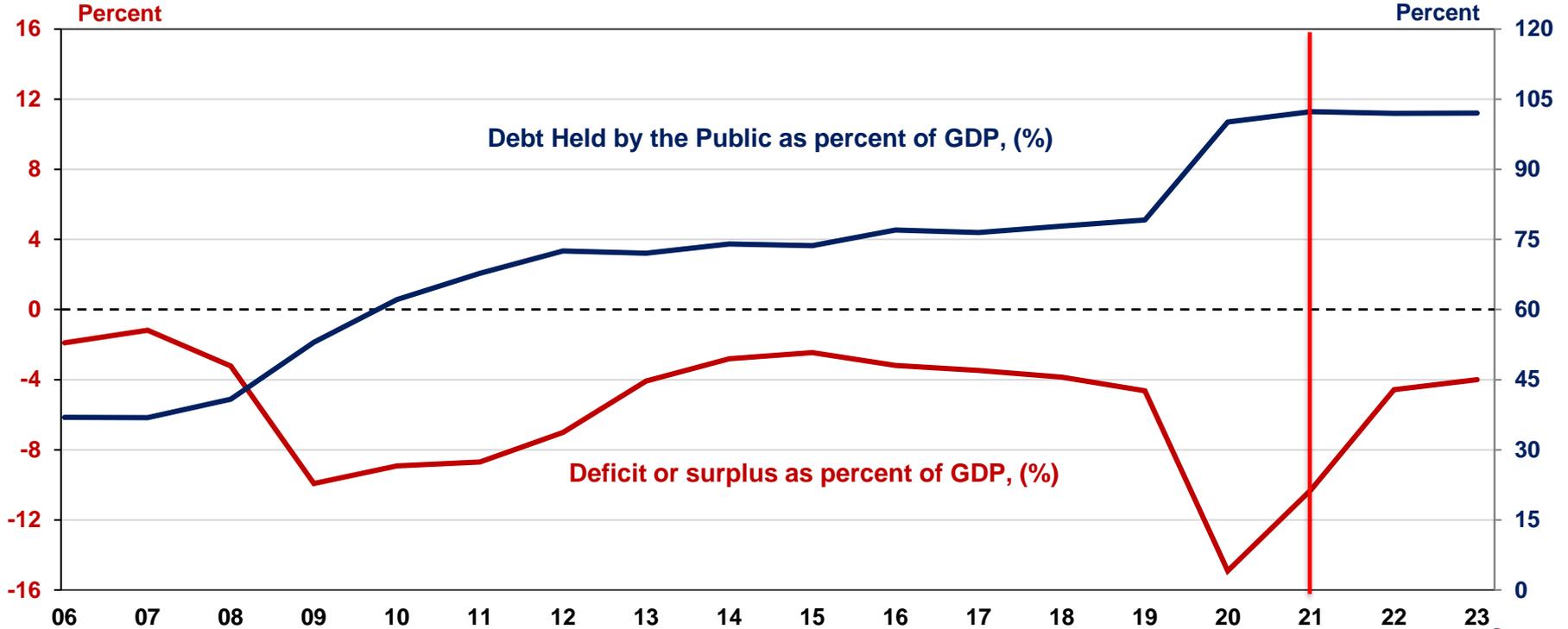
Consumer spending supported by stimulus



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

Government Deficits Growing

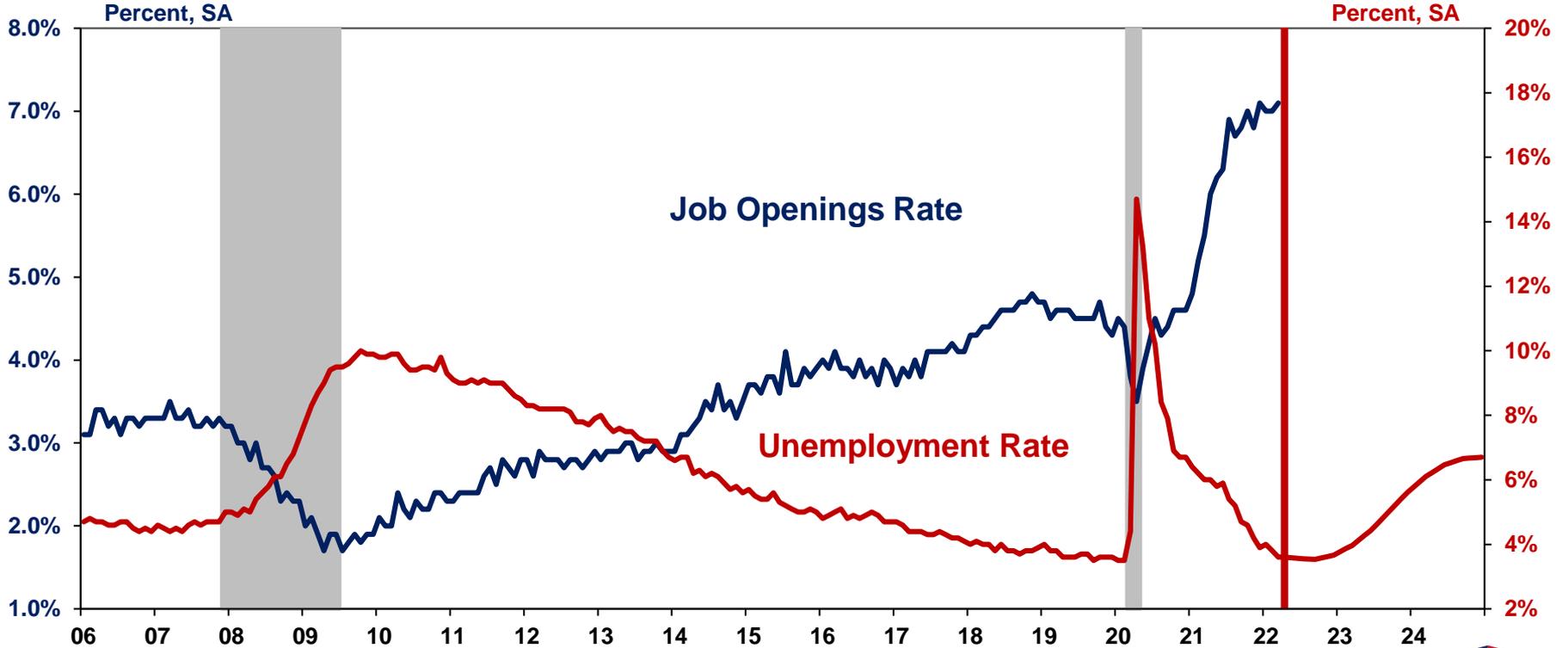
Reaching unsustainable levels



Source: Congressional Budget Office (CBO).

Rise of Job Openings

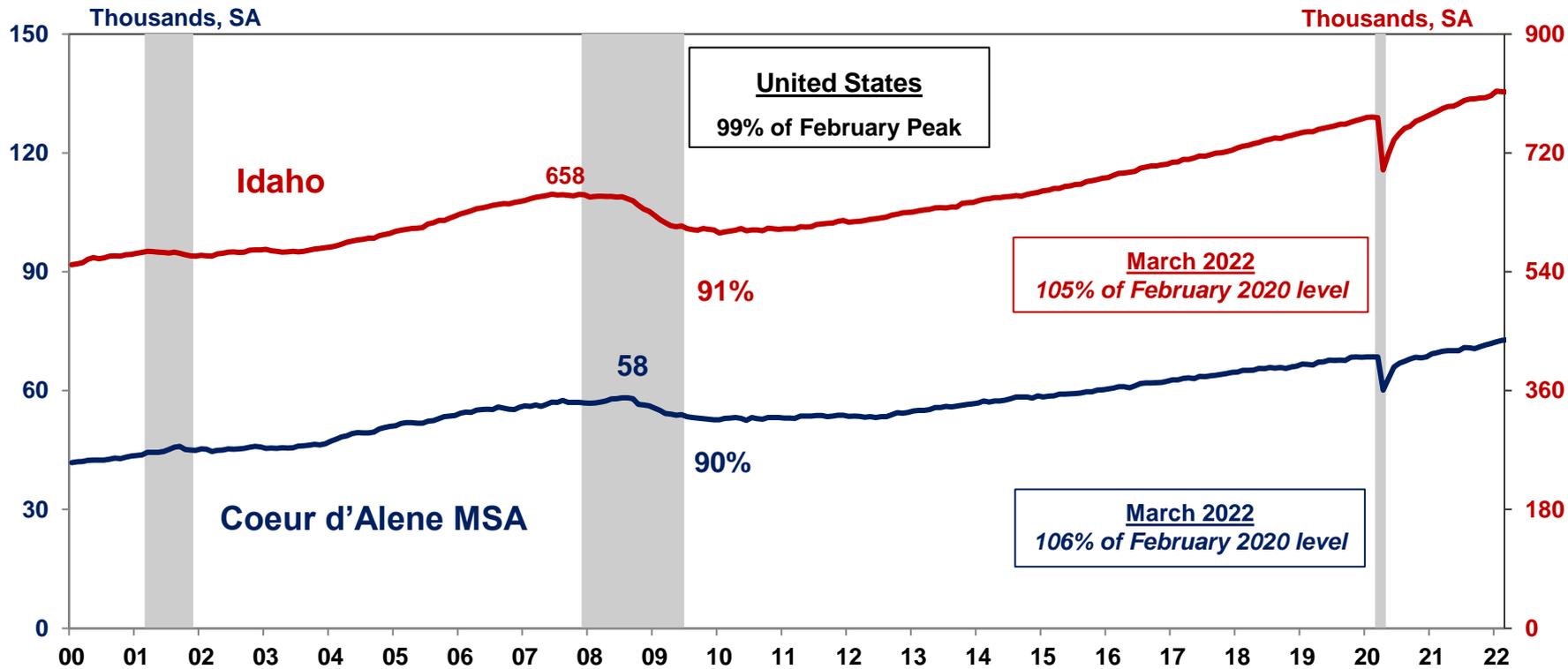
More than 11 million open jobs



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

Payroll Employment

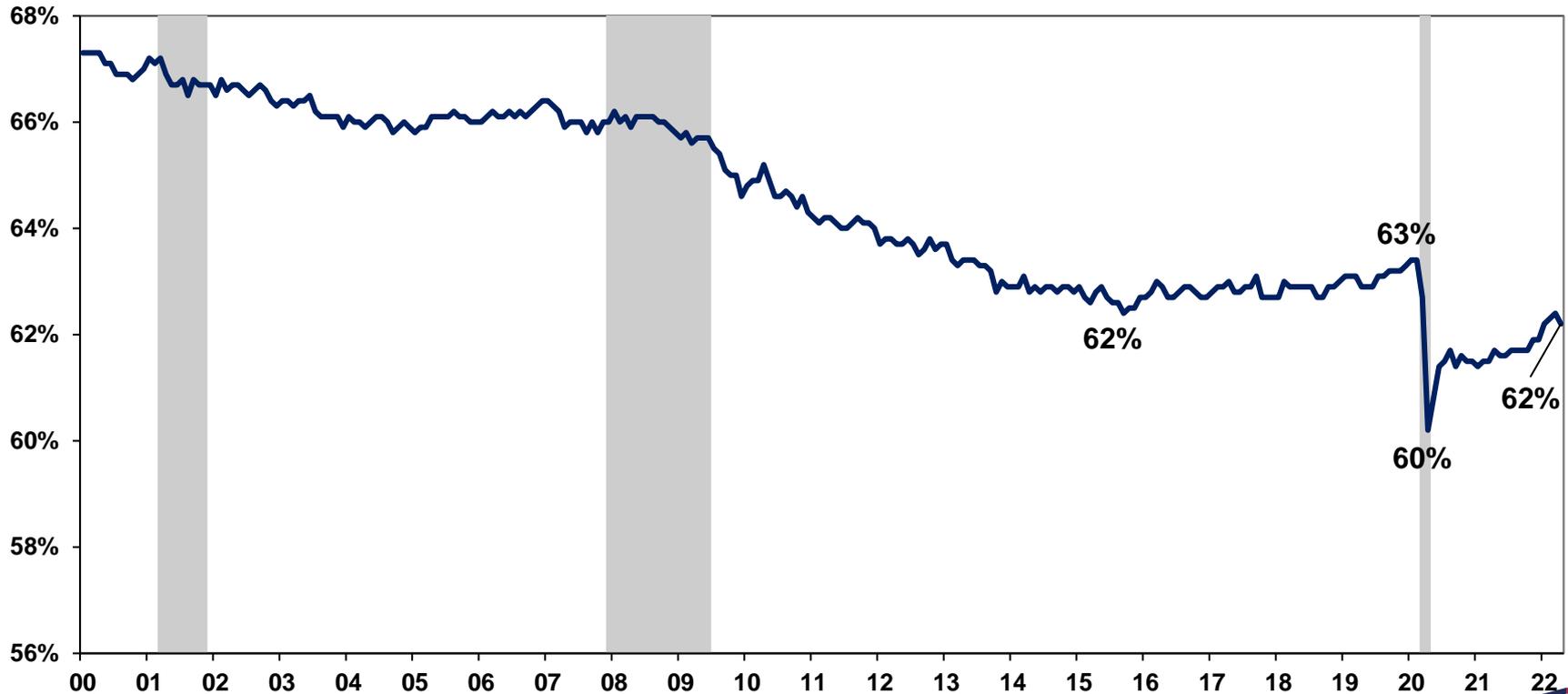
Coeur d'Alene MSA recovered from COVID-19 recession



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

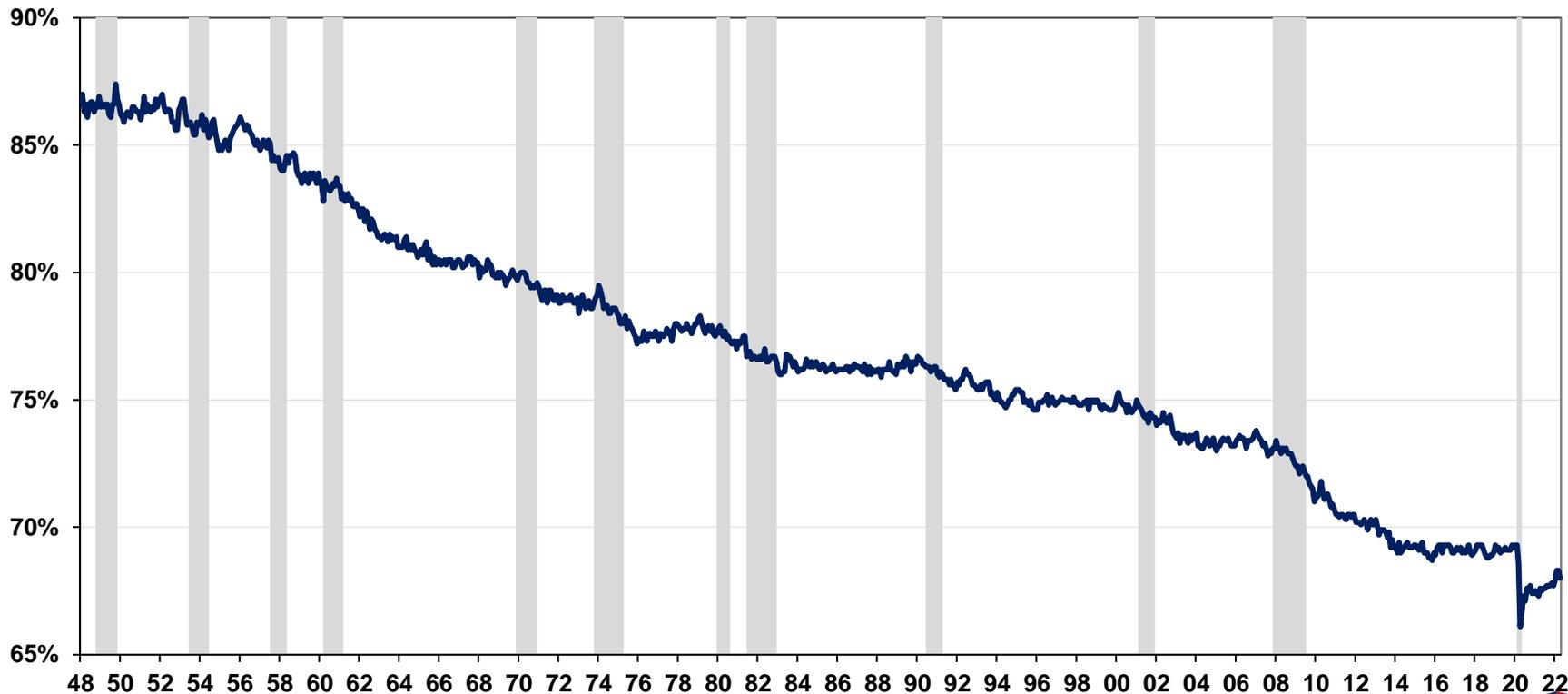
Labor Force Participation Rate

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



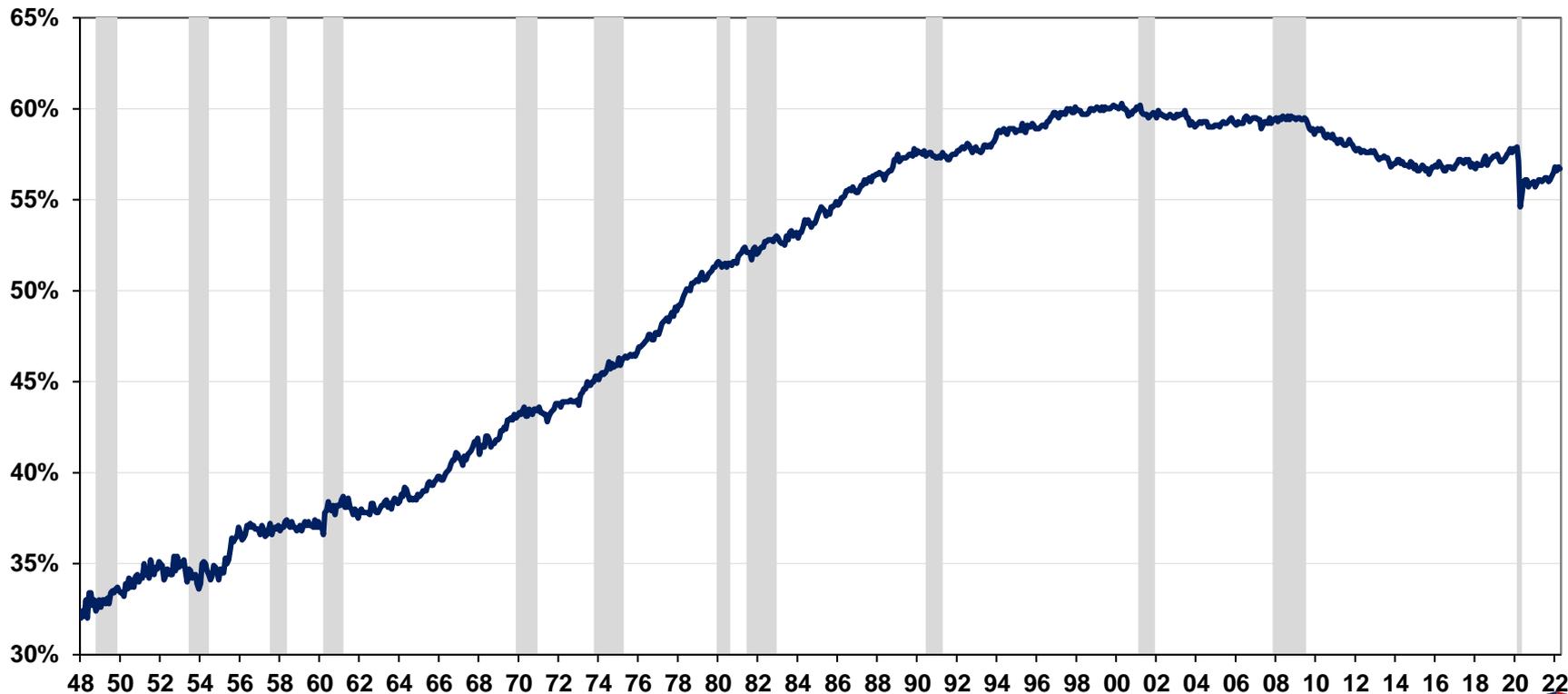
Source: U.S. Bureau of Labor Statistics (BLS).

Labor Force Participation Rate -- Men



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

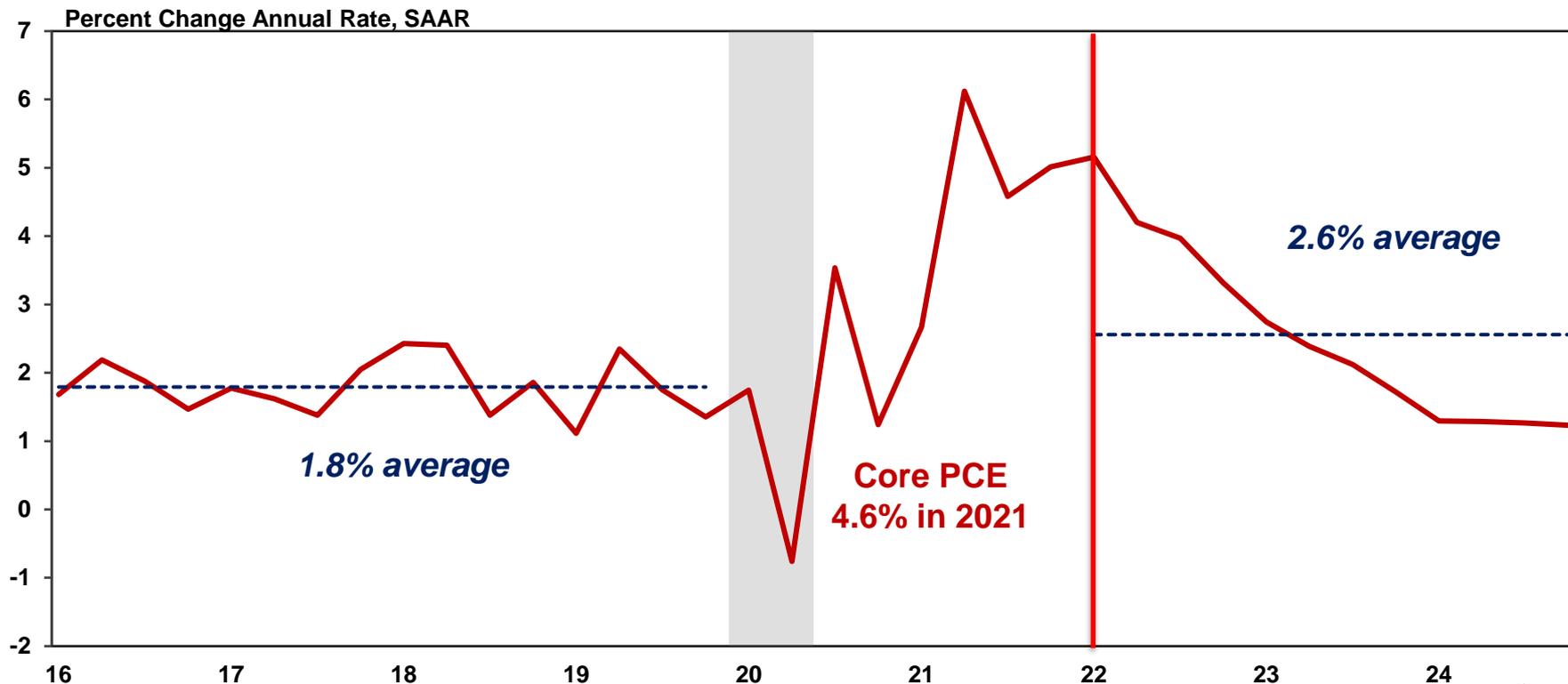
Labor Force Participation Rate -- Women



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

Core Inflation

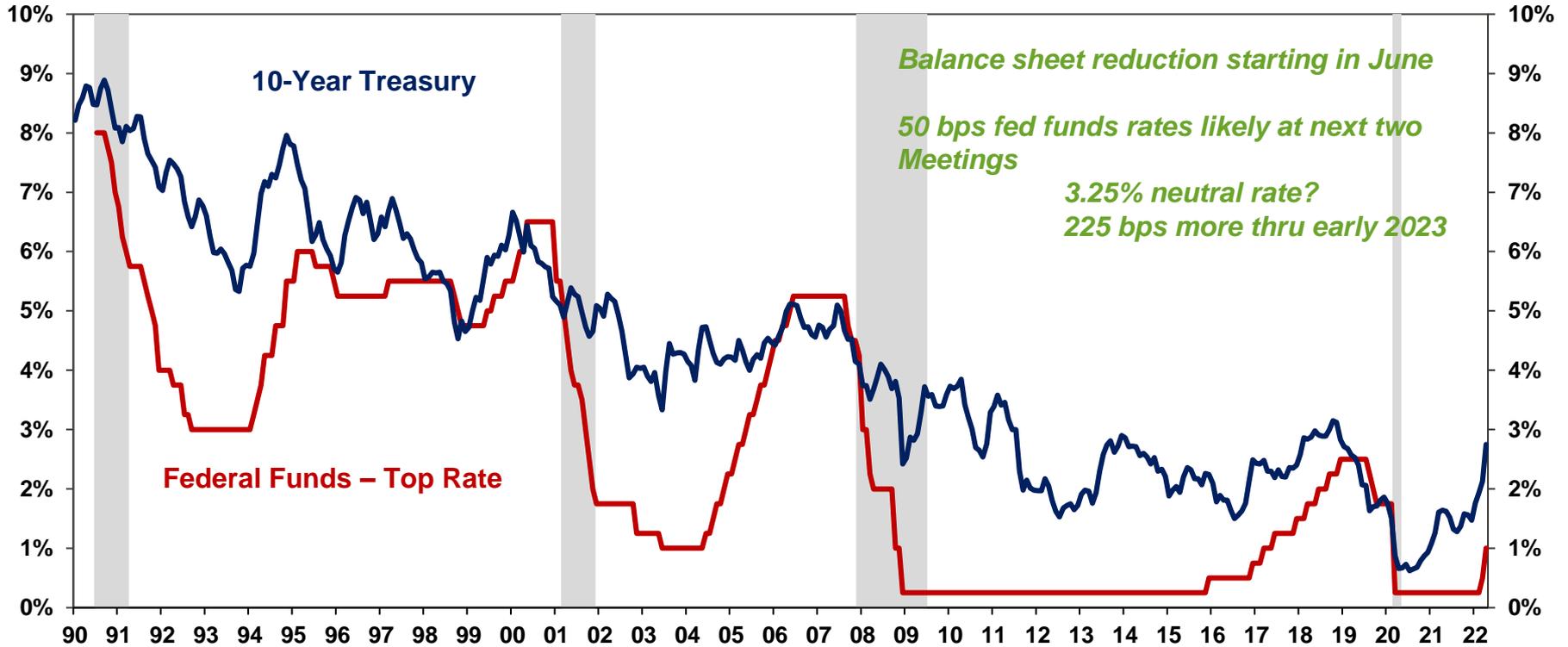
Inflation remained near a 40-year high in April



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

Monetary Policy Tightening in Response to Inflation

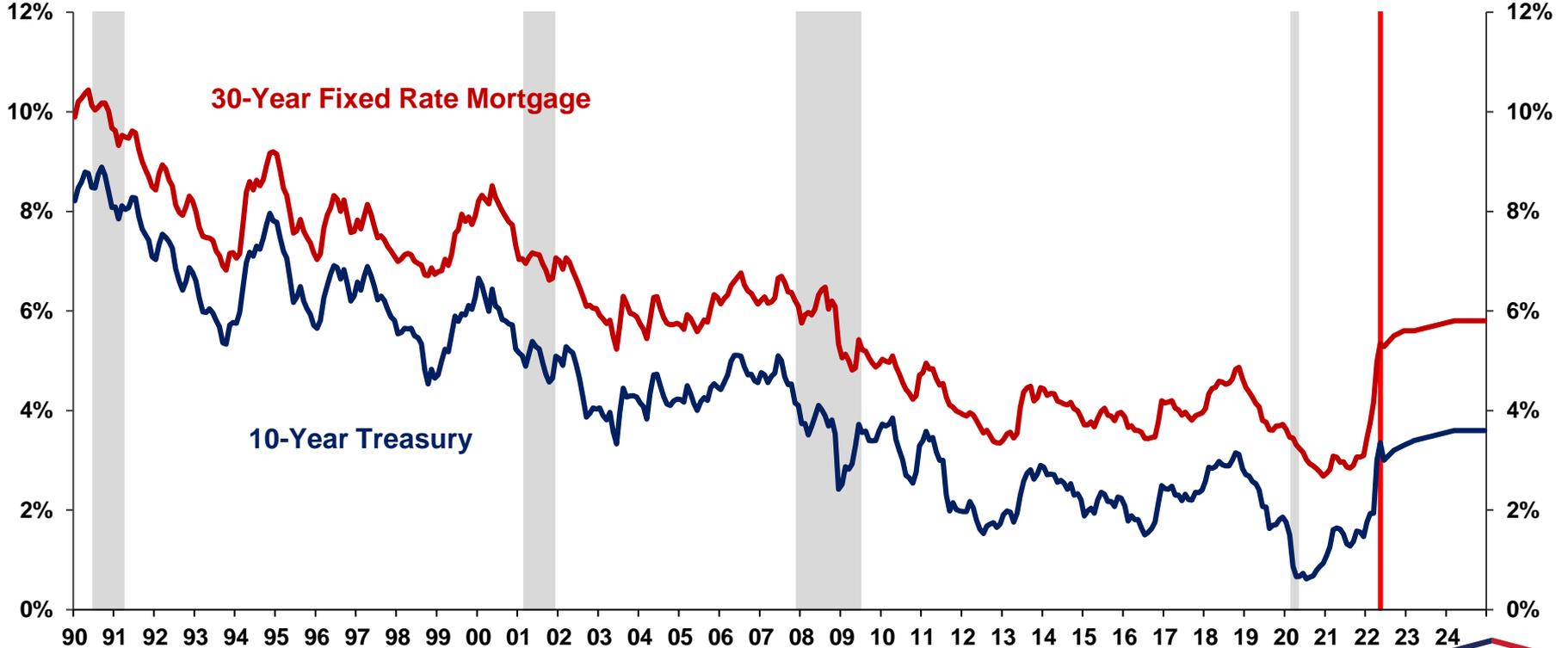
Rising federal funds rate in 2022



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

Interest Rates Trending Higher

Federal Reserve is tightening monetary policy



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

Recession in the Forecast?

Negative Factors

Rising interest rates and yield curve
Persistent inflation (commodities and wages)
International uncertainty
Declining stimulus impacts
Frothy asset prices

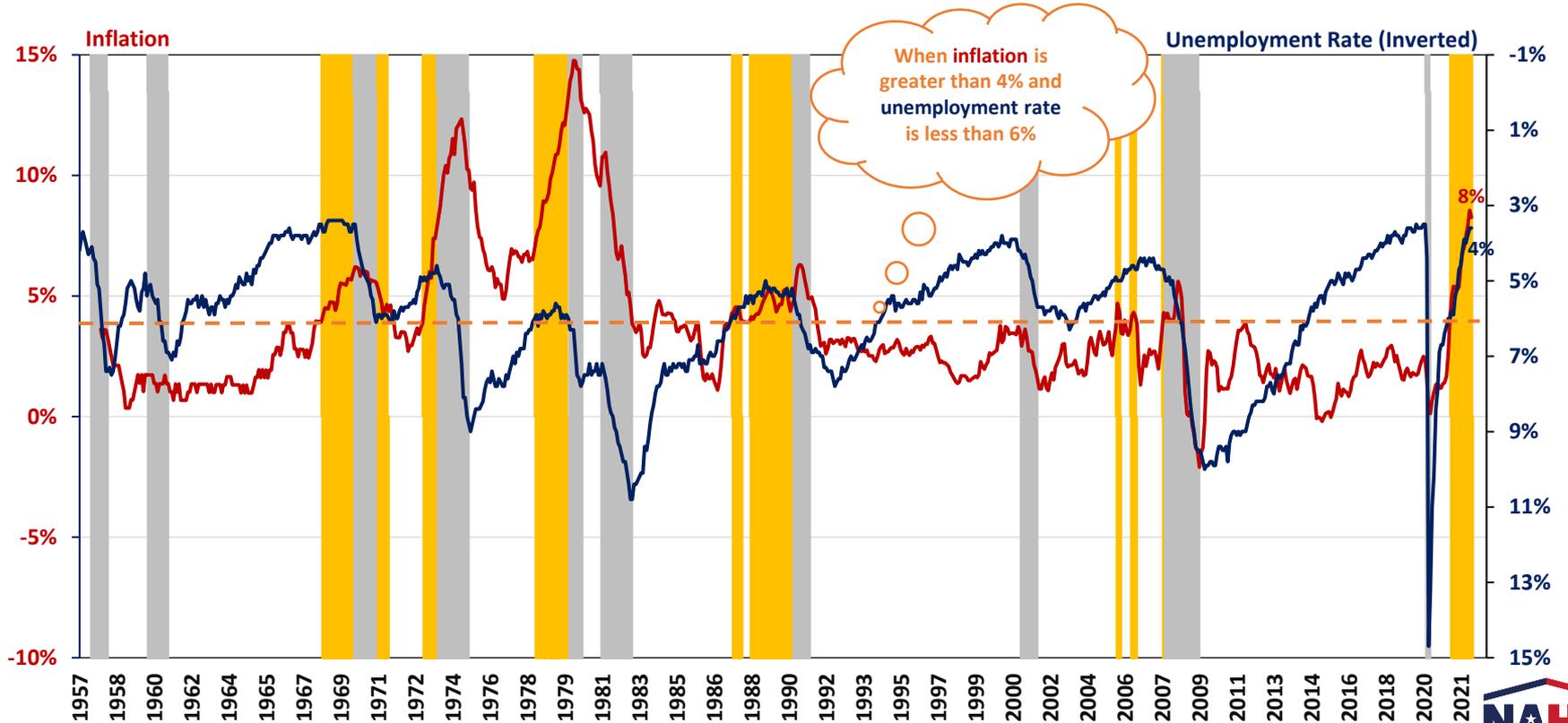
Positive Factors

Strong labor market
Healthy household balance sheets
Boost for service sector
Productivity gains

- Forecast call: mild recession in 2023 after a growth decline at start of 2022

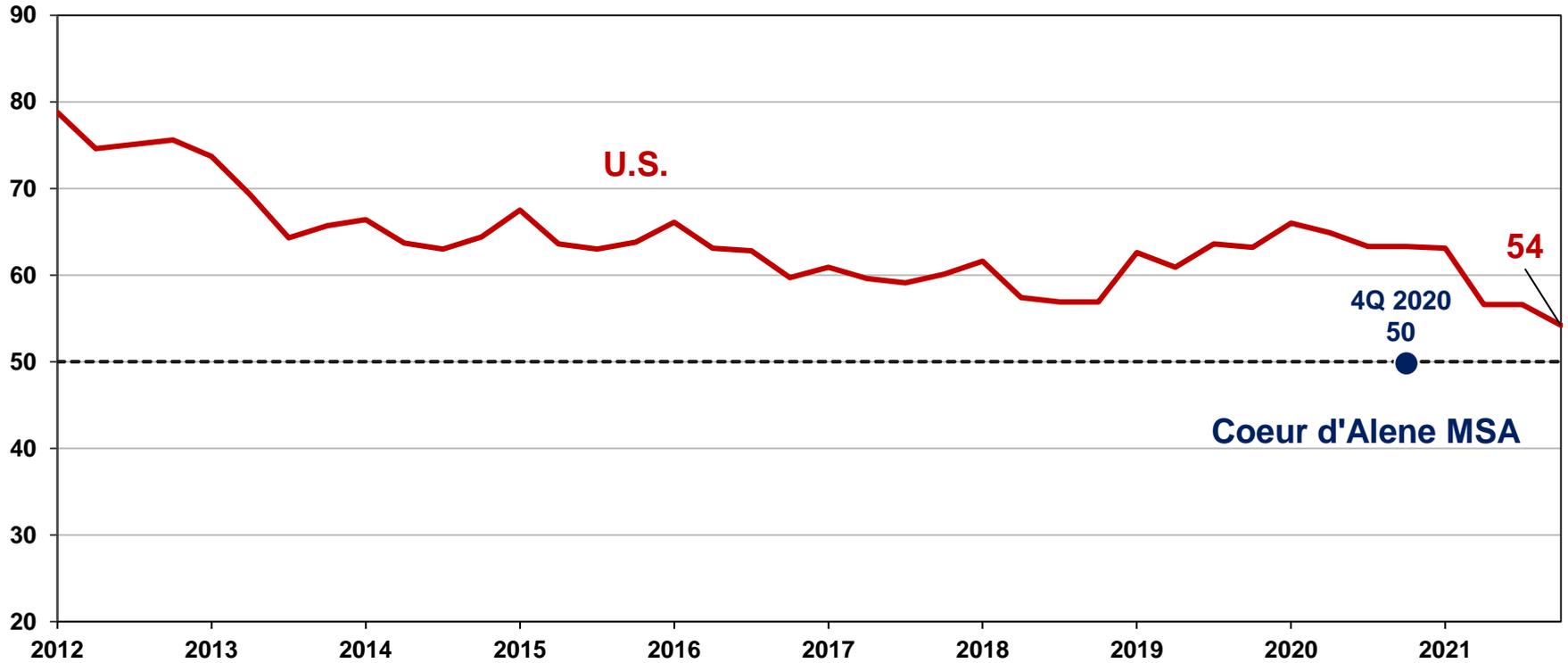
Inflation and Unemployment

Is a recession looming for the U.S.?



Source: U.S. Bureau of Labor Statistics (BLS), U.S. Bureau of Economic Analysis (BEA) and NAHB analysis

Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



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

Population Growth and Rising Construction Costs Harming Affordability

Supply-Side Solutions Needed

From 2020 to 2021, Idaho's population grew 2.9% making it the fastest growing state in the U.S..

From October 2020 to October 2021, Idaho and Arizona had the fastest growing home prices in the U.S. at about 29%. (CoreLogic)

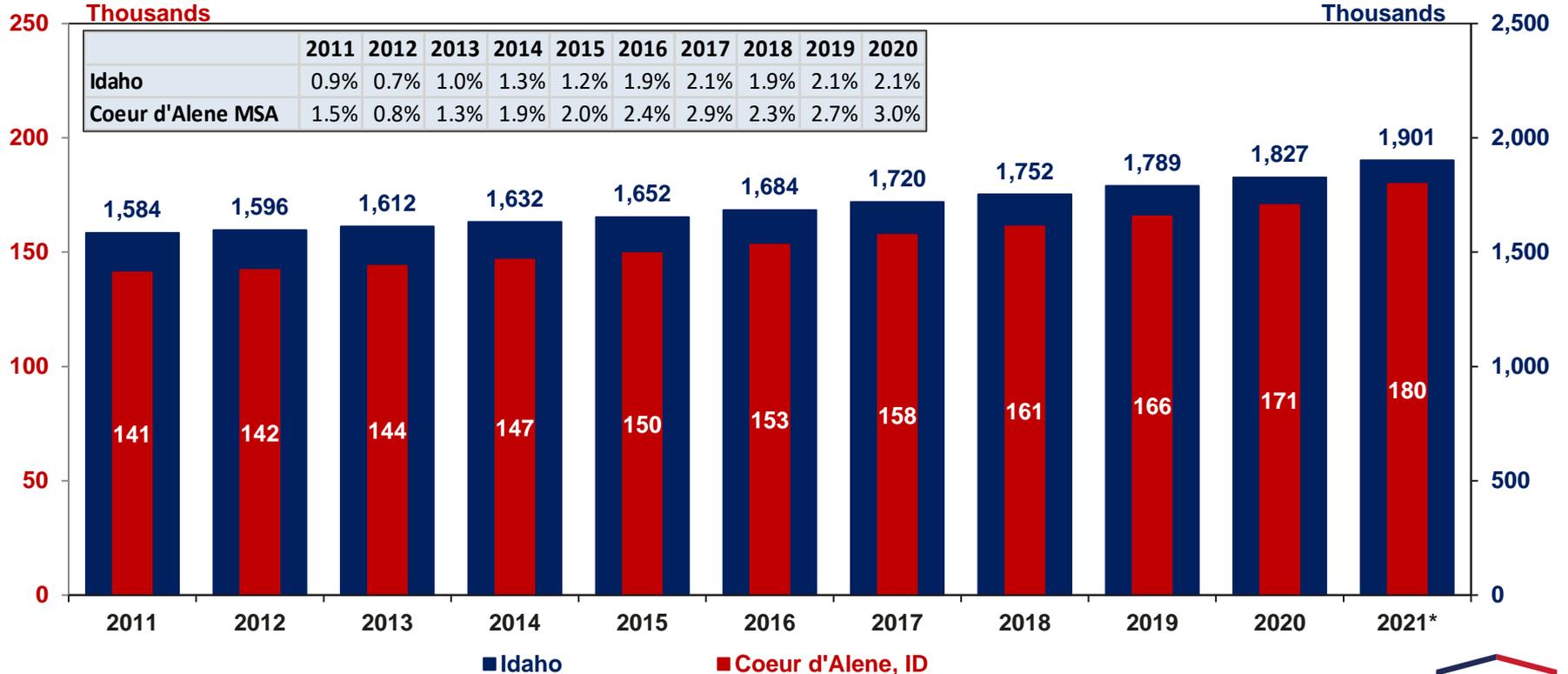
Median housing prices in Kootenai County now exceed \$500,000 and have more than doubled in the last four years. (Windermere CDA Realty and Coeur d'Alene MLS)

Approximately 44% of Kootenai County households cannot afford to pay the October 2021 average Kootenai County market rent of \$1,402, based on a 30% gross monthly income maximum rent ceiling.

The cost of land in Kootenai County has risen dramatically. Five years ago, five-to-ten-acre parcels were priced at about \$5,000 to \$6,000 per acre. Current pricing now ranges between \$20,000 to \$30,000 per acre depending on location and the availability of utilities.

Population Growth

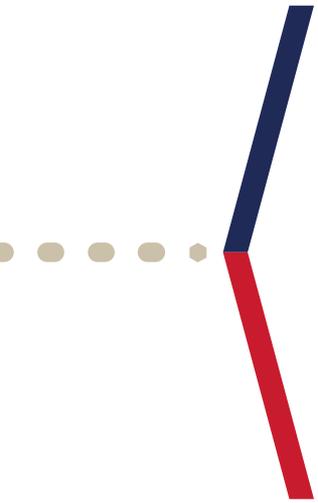
Coeur d'Alene MSA population grew faster than statewide rates



Source: U.S. Census Bureau (BOC)

Note: The Vintage 2021 population estimates reflect several methodological changes since the release of the Vintage 2020 estimates, so comparisons of 2021 estimates to previous years were not recommended by Census.

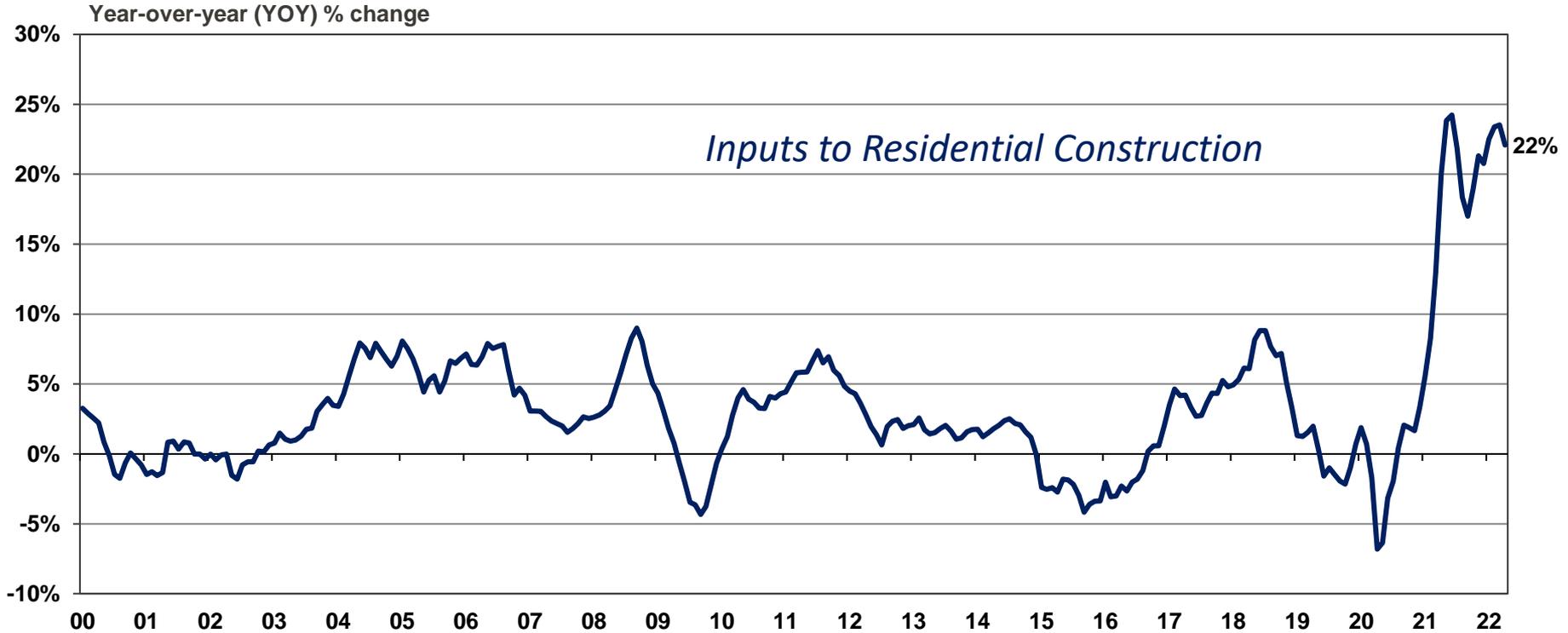




Supply-Side Factors



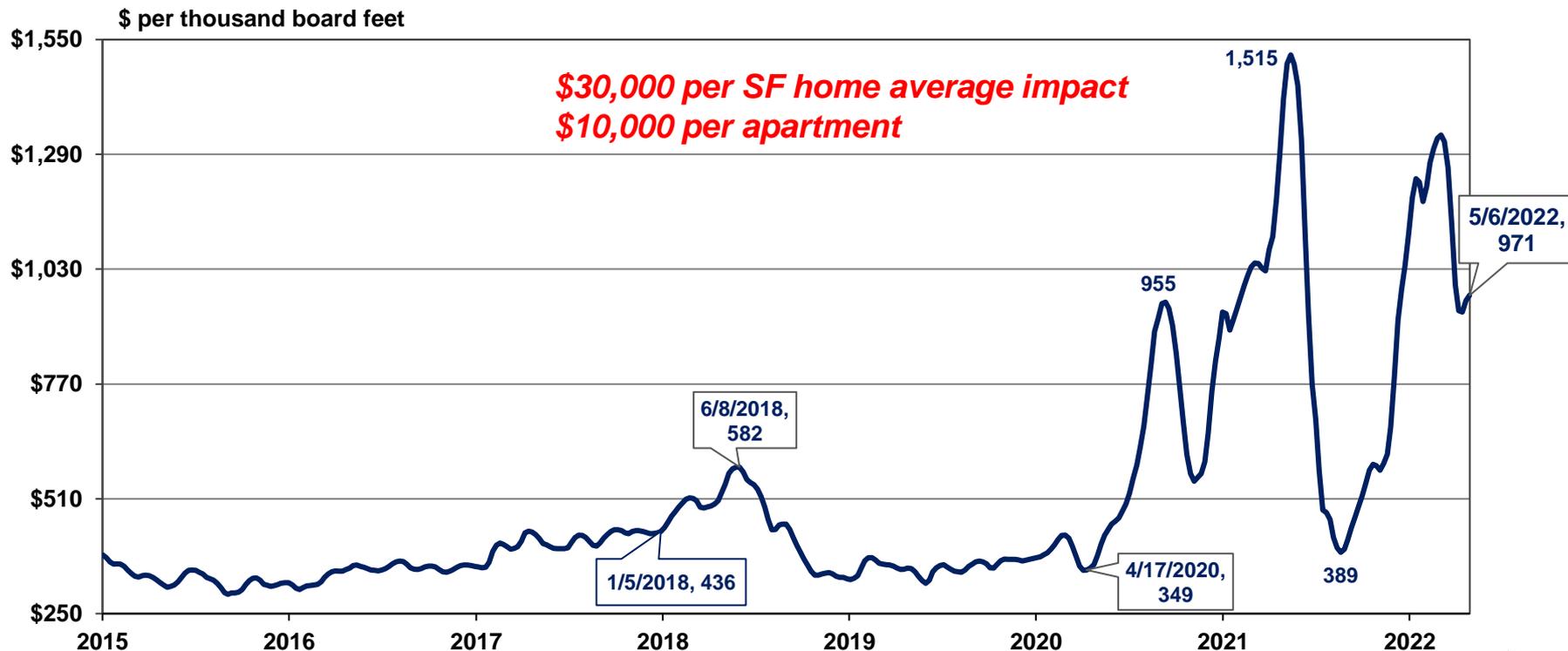
Building Materials - Residential Construction Cost



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

Lumber Prices Edged Up

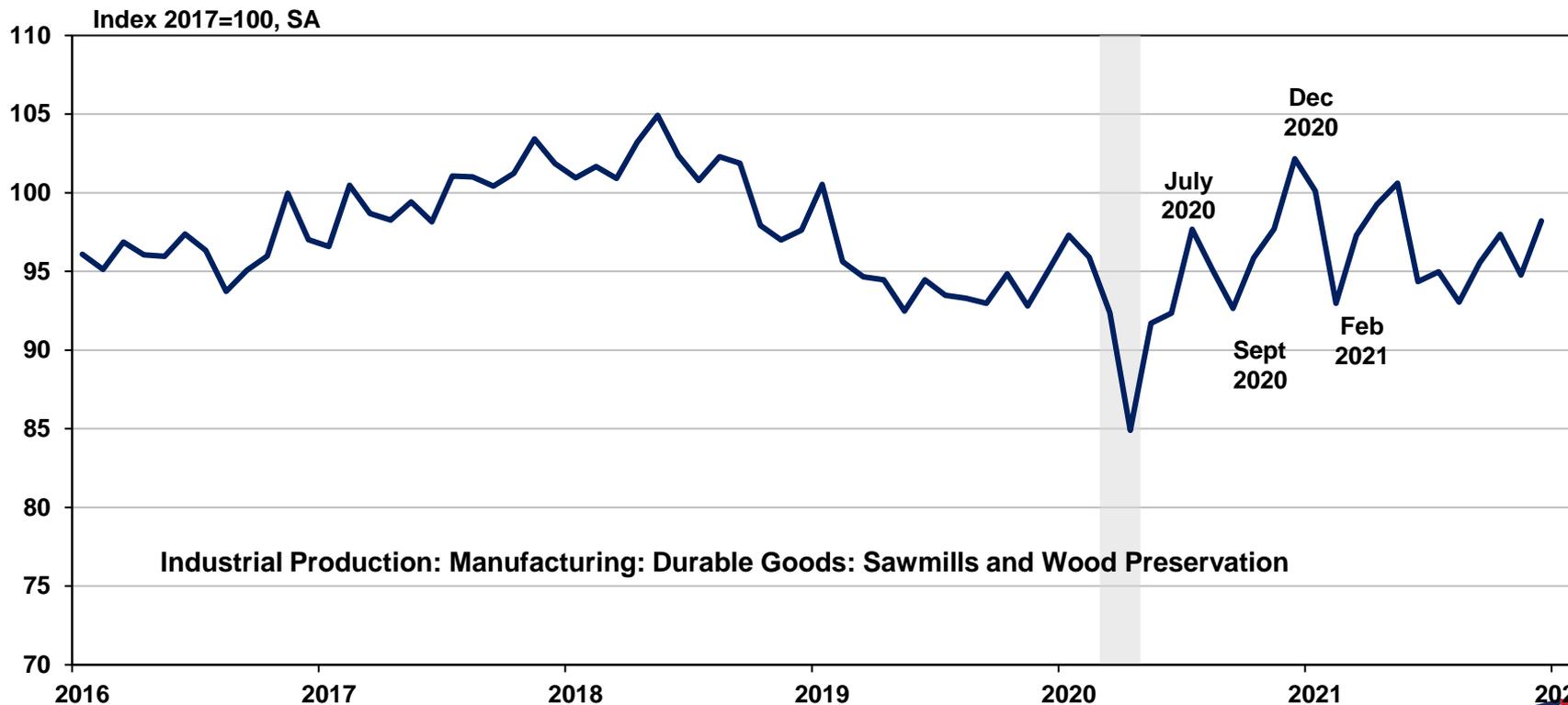
Current May price is \$971; up 4% in the past two weeks



Source: NAHB Analysis; Random Lengths Composite Index

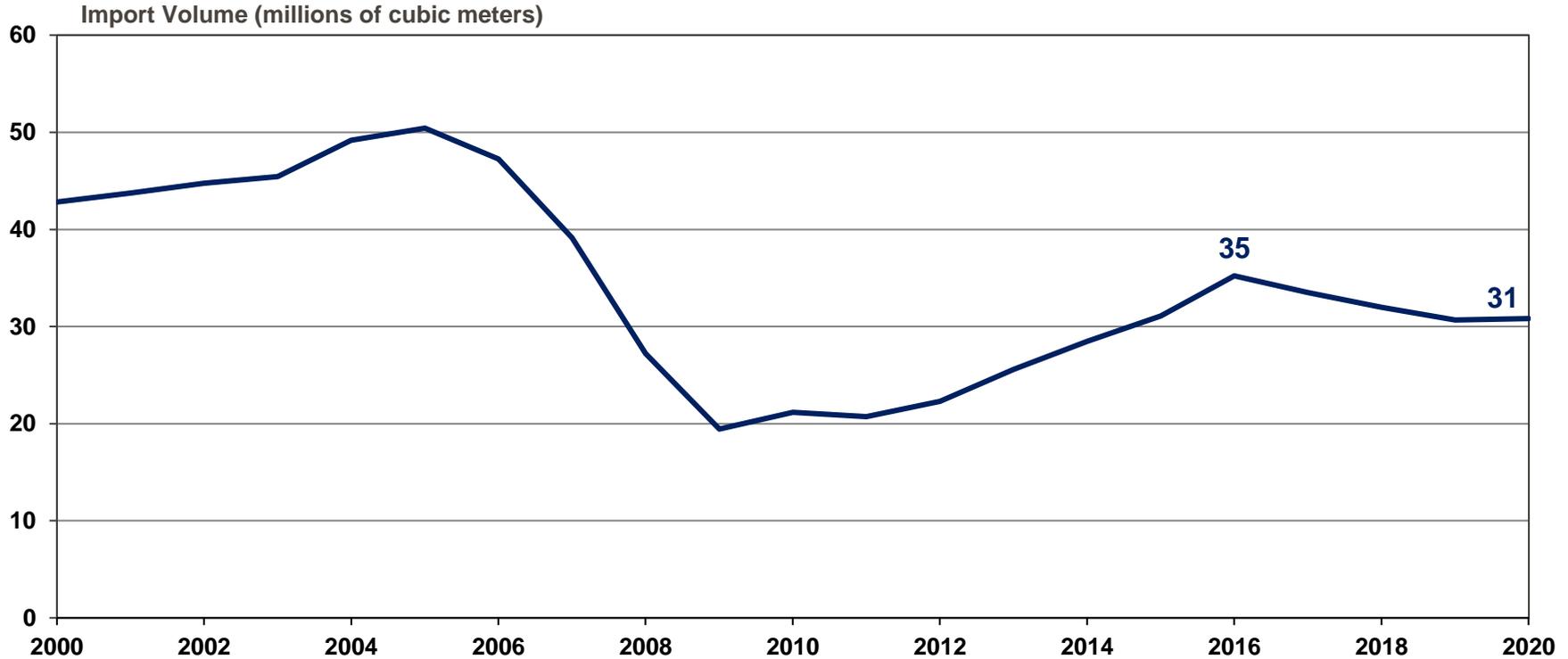
Domestic Sawmill Output

In March, sawmill employment is 1.1% higher than a year ago but lower than 2018



Source: Board of Governors of the Federal Reserve System (US)

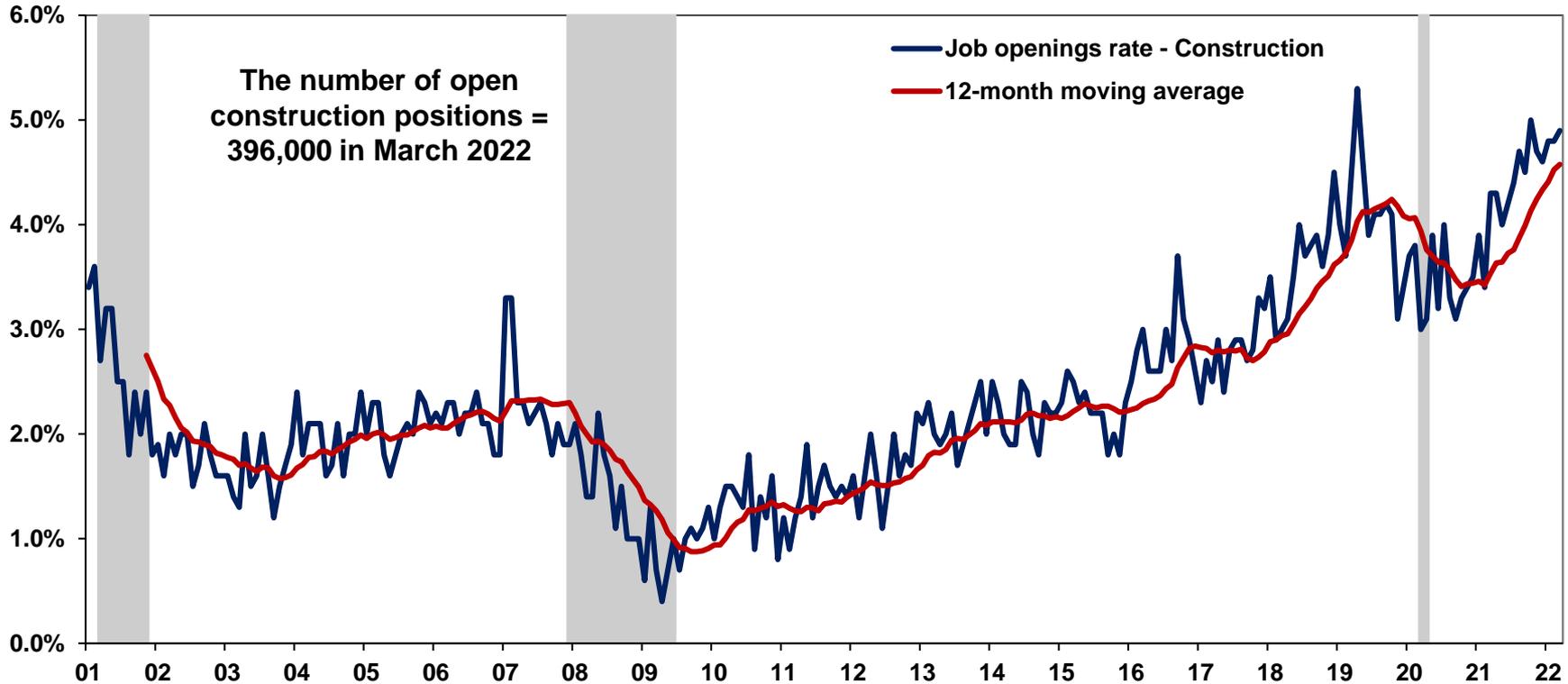
Softwood Lumber Imports from Canada



Source: DataWeb, U.S. International Trade Commission

Labor – Construction Job Openings Surging

Skilled labor shortage persists; 198,400 net gain for residential construction since Jan 2020



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

Construction Labor Market Projections/Needs



7.6 million workers in construction
3.1 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

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

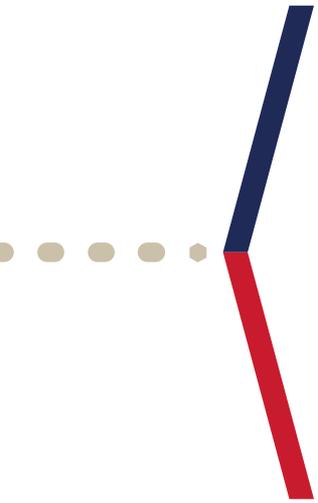
Total effect of building codes, land use, environmental and other rules

23.8% of price



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



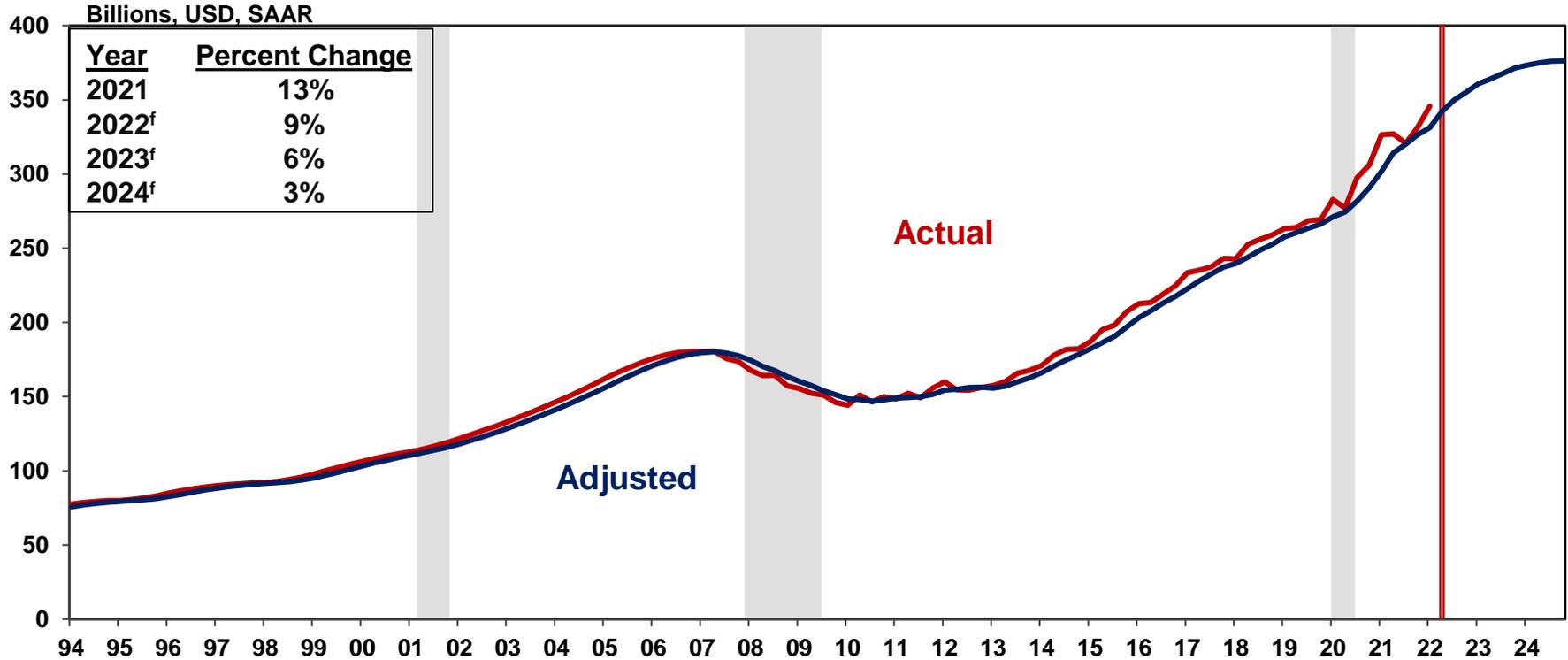


Construction Outlook



Residential Remodeling

Remodeling growth boosted by home equity gains

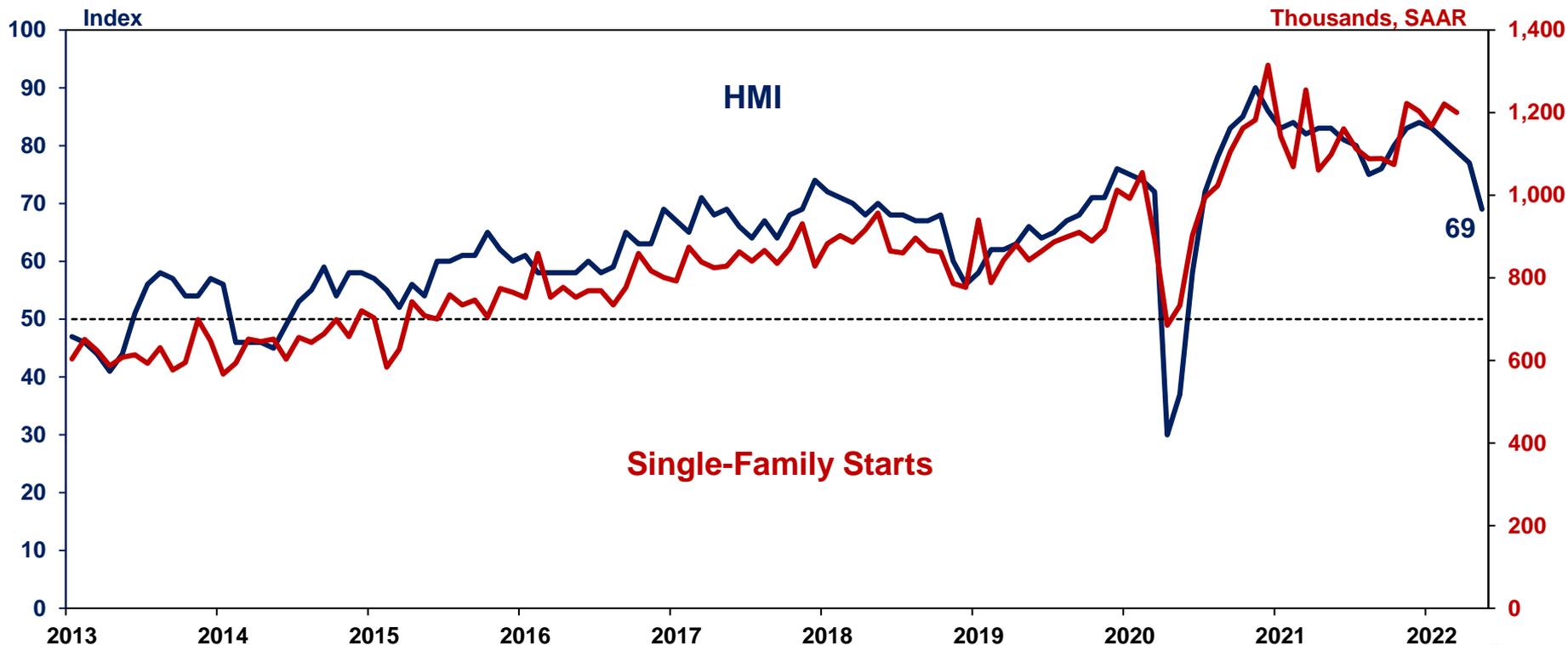


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

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

NAHB/Wells Fargo Housing Market Index (HMI)

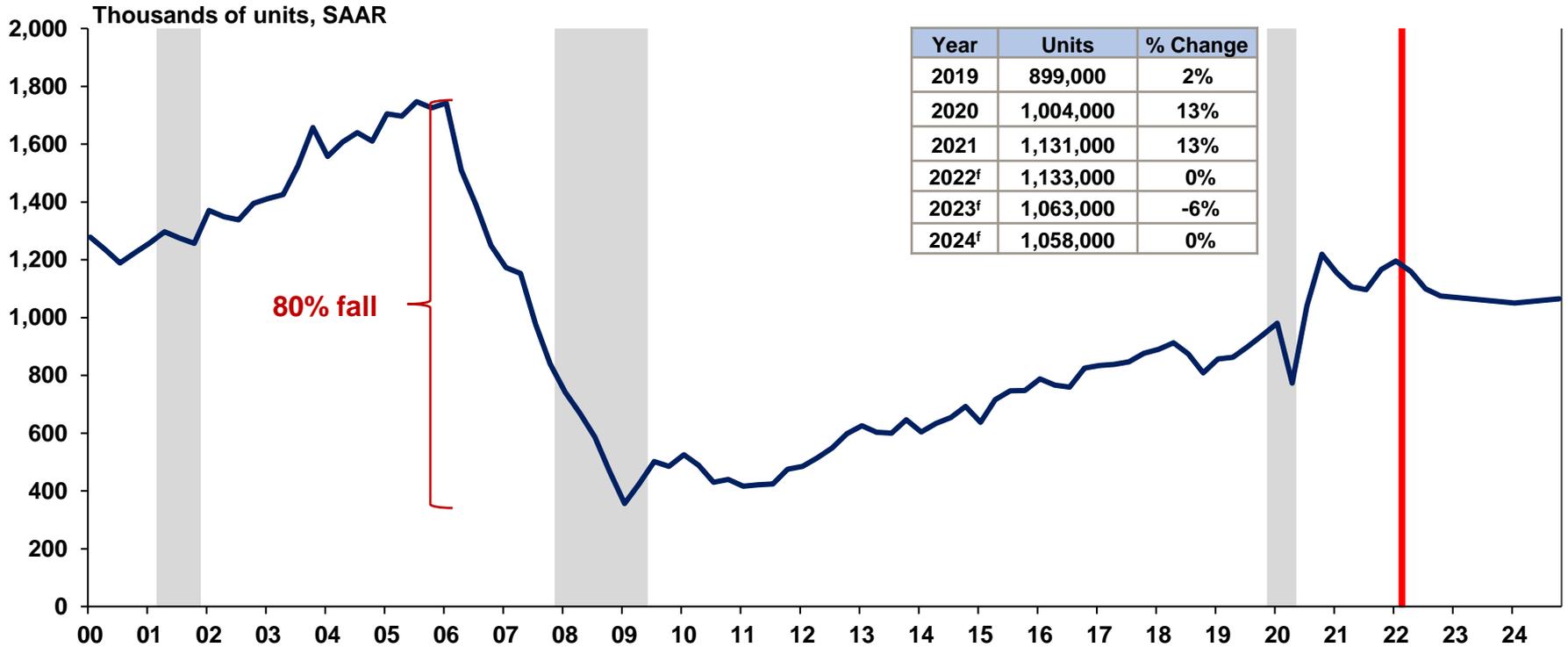
Builder confidence continued to fall in May, the fifth straight month of decline



Source: Census Bureau and NAHB/Wells Fargo HMI survey

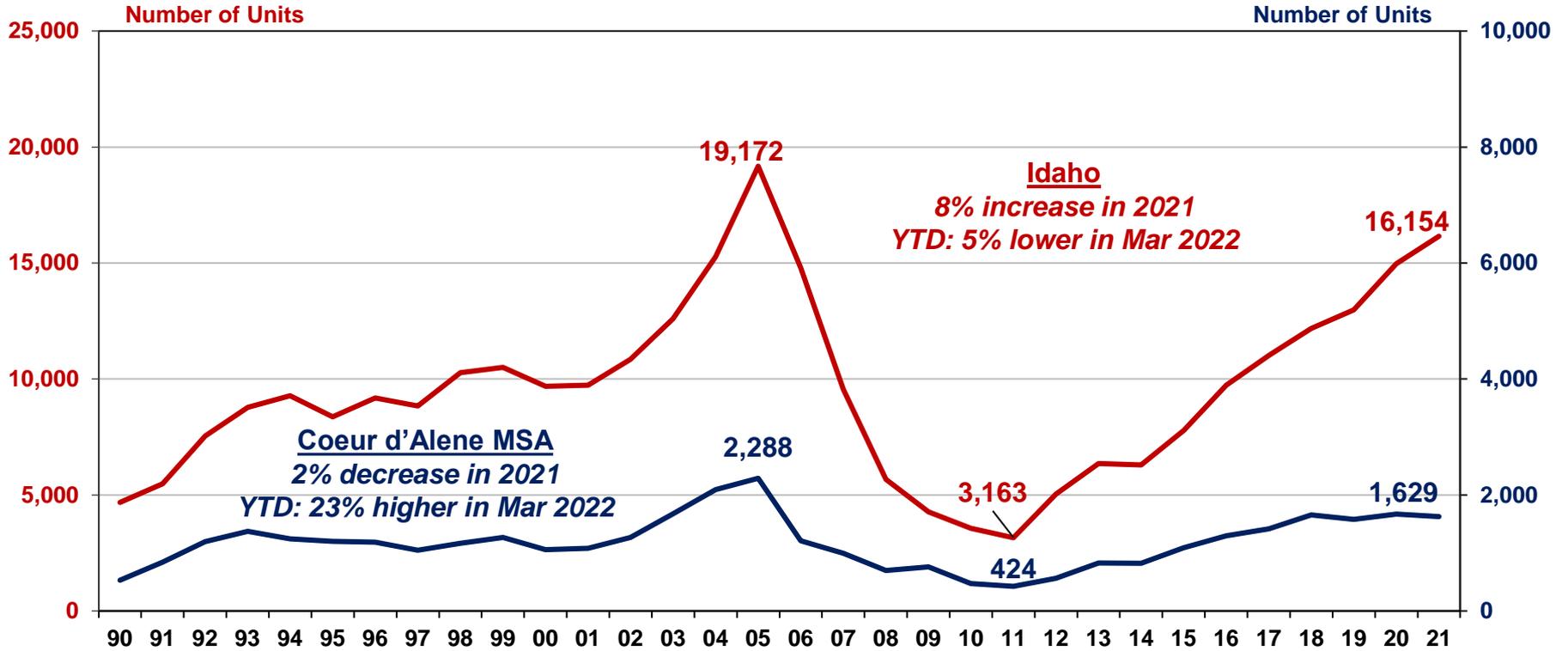
Single-Family Starts

Home building declines as interest rates increase



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

Single-Family Building Permits – Idaho and Coeur d'Alene MSA



Source: Census Bureau.

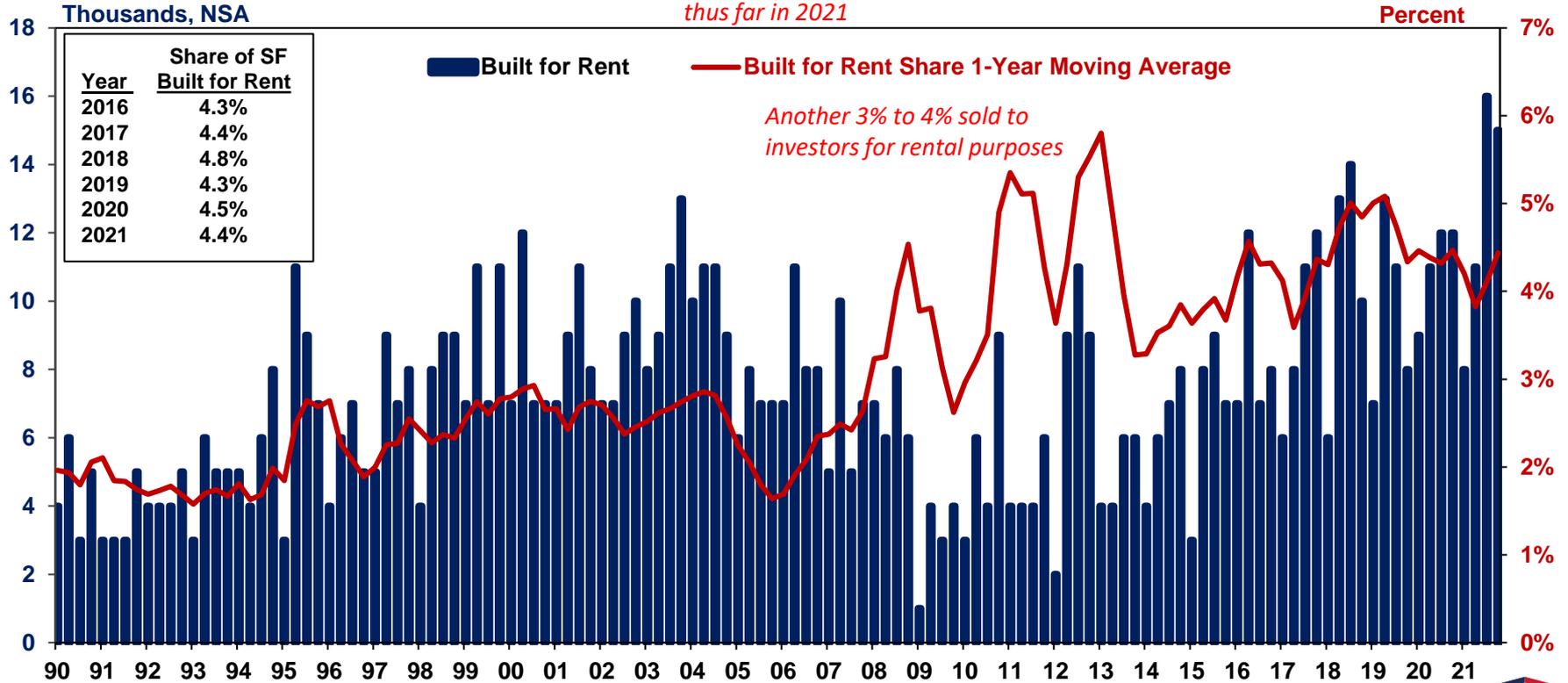
Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	December 2021 (# of units YTD, NSA)	YTD % Change (compared to 2020)
Houston-The Woodlands-Sugar Land, TX	52,399	9%
Dallas-Fort Worth-Arlington, TX	49,931	14%
Phoenix-Mesa-Scottsdale, AZ	35,188	11%
Atlanta-Sandy Springs-Roswell, GA	31,766	13%
Austin-Round Rock, TX	24,438	13%
Tampa-St. Petersburg-Clearwater, FL	19,300	20%
Charlotte-Concord-Gastonia, NC-SC	18,997	7%
Orlando-Kissimmee-Sanford, FL	17,705	14%
Jacksonville, FL	16,521	27%
Nashville-Davidson-Murfreesboro-Franklin, TN	16,351	15%

Single-Family Built-for-Rent Construction

A window of opportunity

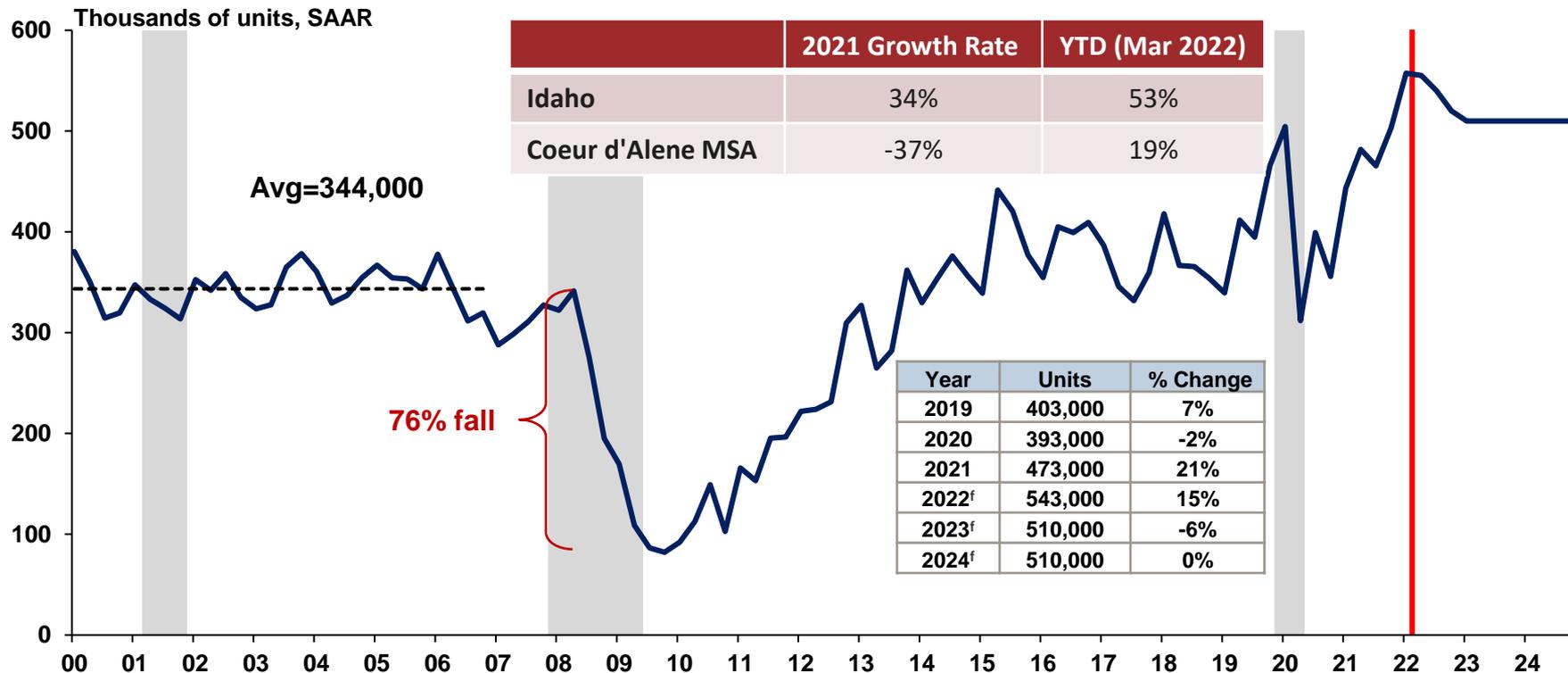
25% of builders have seen an uptick of investor buyers thus far in 2021



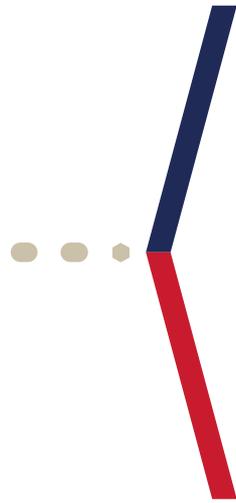
Source: U.S. Census Bureau (BOC)

Multifamily Construction Growing

Multifamily growth rising on low vacancies and rising rents



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



Housing Equals Jobs

What is the Economic Impact of Home Building

NAHB impact developed in 1996

More than 800 studies, including for universities and affordable housing groups

2002: adapted for Low-Income Housing Tax Credit rental developments

2005: adapted for remodeling analysis

What is the Economic Impact of Home Building?

Study of Coeur d'Alene MSA:

- One County (Kootenai County in Idaho)

1,500 single-family homes and 600 multifamily homes

Local Economic Impact of Single-Family Home Building

1st - Construction phase

- Jobs, Materials, Fees, Taxes

2nd - Ripple effect from construction phase

- Wages spent in local economy

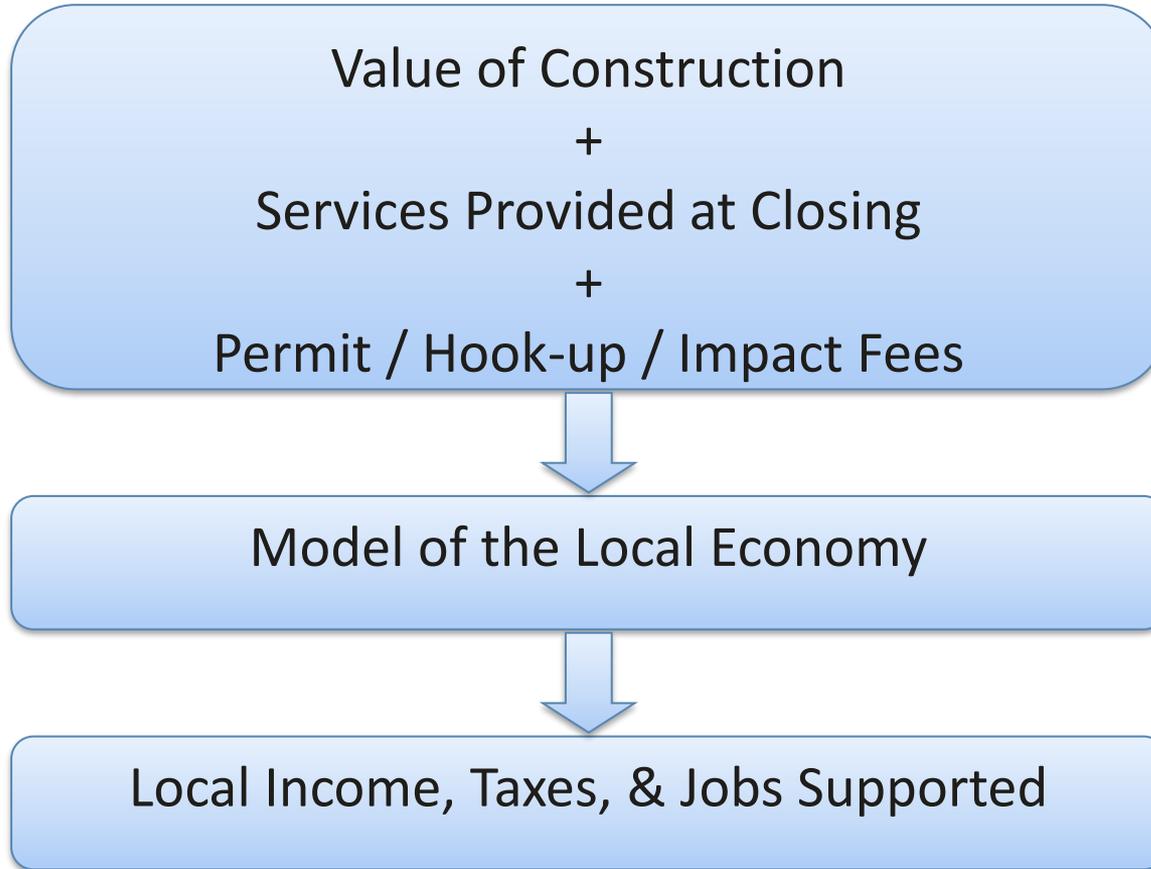
3rd - Occupancy phase

- Earnings spent in the local economy

Assumptions of the Model

<u>Inputs To Model</u>	<u>Single-family</u>
Average house price:	\$421,000
Average raw lot cost:	\$25,000
Permit/impact fees:	\$18,000
Annual property taxes:	\$1,259

Phase I -- CONSTRUCTION



FIRST YEAR IMPACT: Single-Family Construction – 1,500 Homes

Local Income	Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$344,066,300	\$116,502,700	\$227,563,500	\$48,697,200	4,967

INCLUDING:

3,733 jobs in Construction

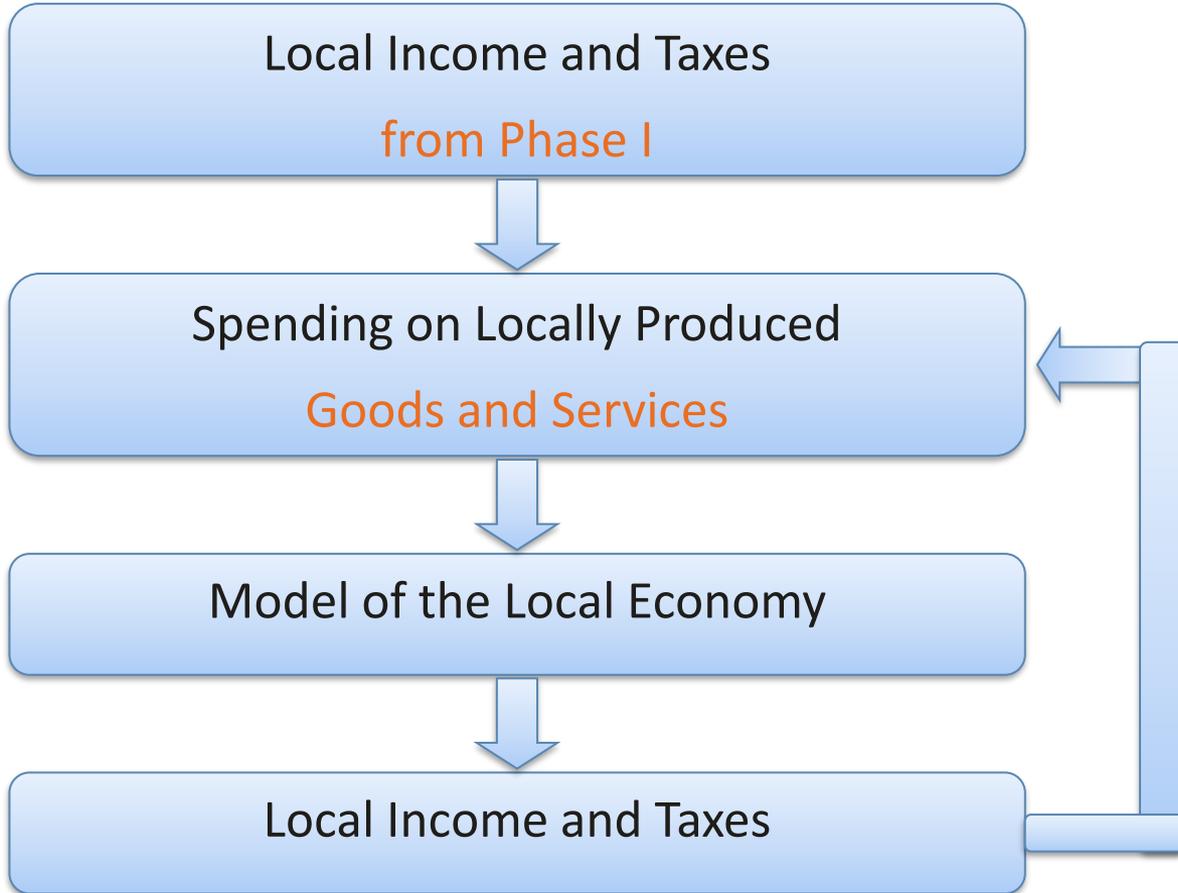
655 jobs in Wholesale and Retail Trade

322 jobs in Business and Professional Services

\$27,000,000 permit and impact fees

* One job represents enough work to keep one worker employed full-time for a year.

Phase II -- RIPPLE



FIRST YEAR IMPACT: Single-Family Ripple

Local Income	Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$160,475,600	\$36,569,300	\$123,906,800	\$34,157,200	3,004

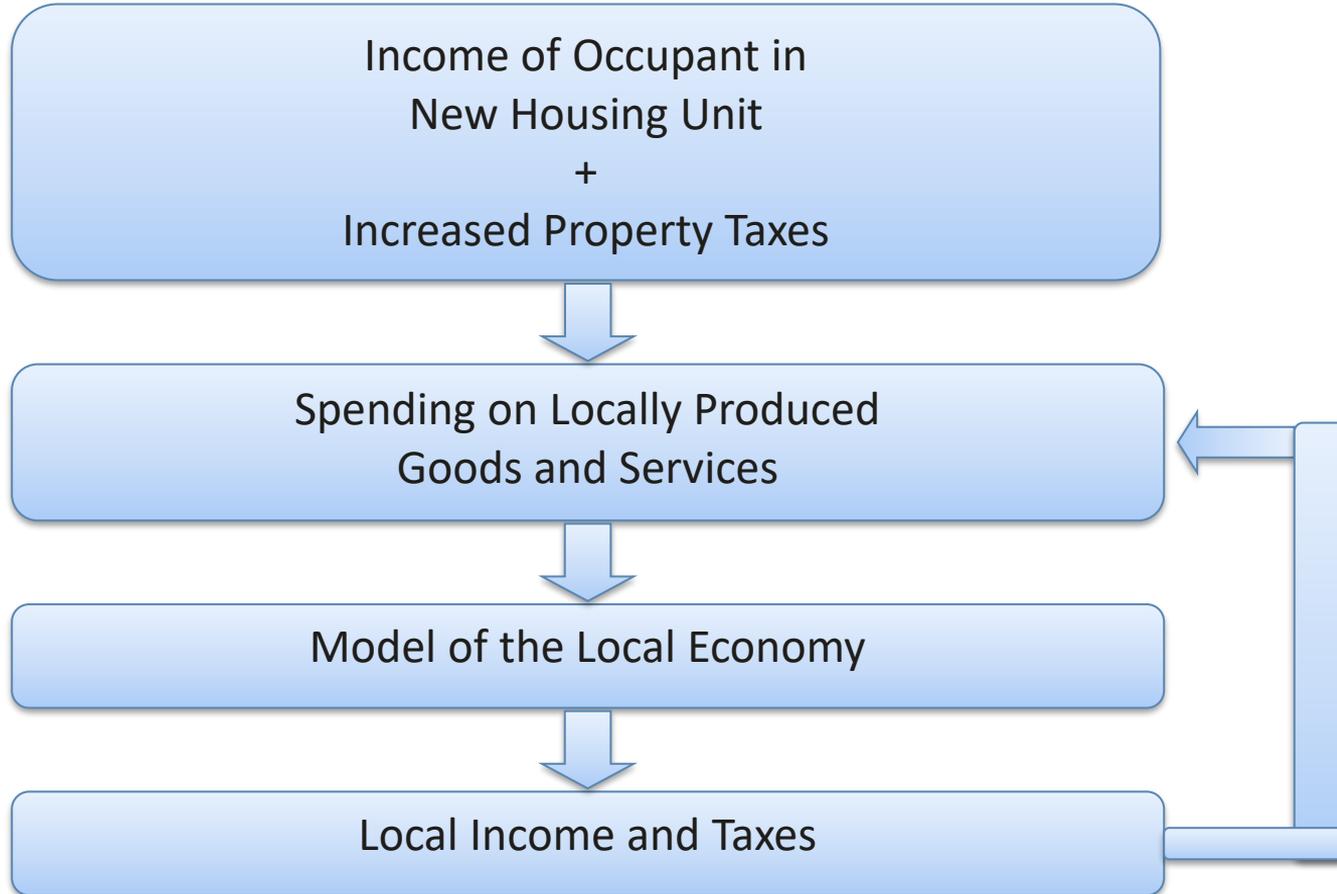
INCLUDING:

645 jobs in Wholesale and Retail Trade

480 jobs in Local Government

350 jobs in Business & Professional Services

Phase III -- OCCUPANCY



ONGOING Single-Family -- ANNUAL EFFECT

Local Income	Local Business Owners' Income	Local Wages and Salaries	Local Taxes ¹	Local Jobs Supported
\$60,105,400	\$14,388,900	\$45,716,300	\$16,018,900	1,131

\$1,721,600 residential property tax

INCLUDING:

269 jobs in Wholesale and Retail Trade

154 jobs in Eating and Drinking Places

147 jobs in Business & Professional Services

New Homes Require

Fire and police protection

Garbage collection

Parks and recreational opportunities

Roads

Correctional facilities

Primary and secondary education

Etc.

Data: Local and Federal Government

Required Current Expenses

Total Annual Local Government Expenses per Housing Unit

	Single-family	Multifamily
Education	\$650	\$383
Police Protection	\$342	\$249
Fire Protection	\$225	\$164
Corrections	\$188	\$137
Streets and Highways	\$54	\$31
Water Supply	\$94	\$55
Sewerage	\$106	\$62
Health Services	\$2,927	\$2,128
Recreation and Culture	\$126	\$91
Other General Government	\$621	\$451
Electric Utilities	\$1	\$1
Public Transit	\$7	\$5
Total	\$5,342	\$3,758

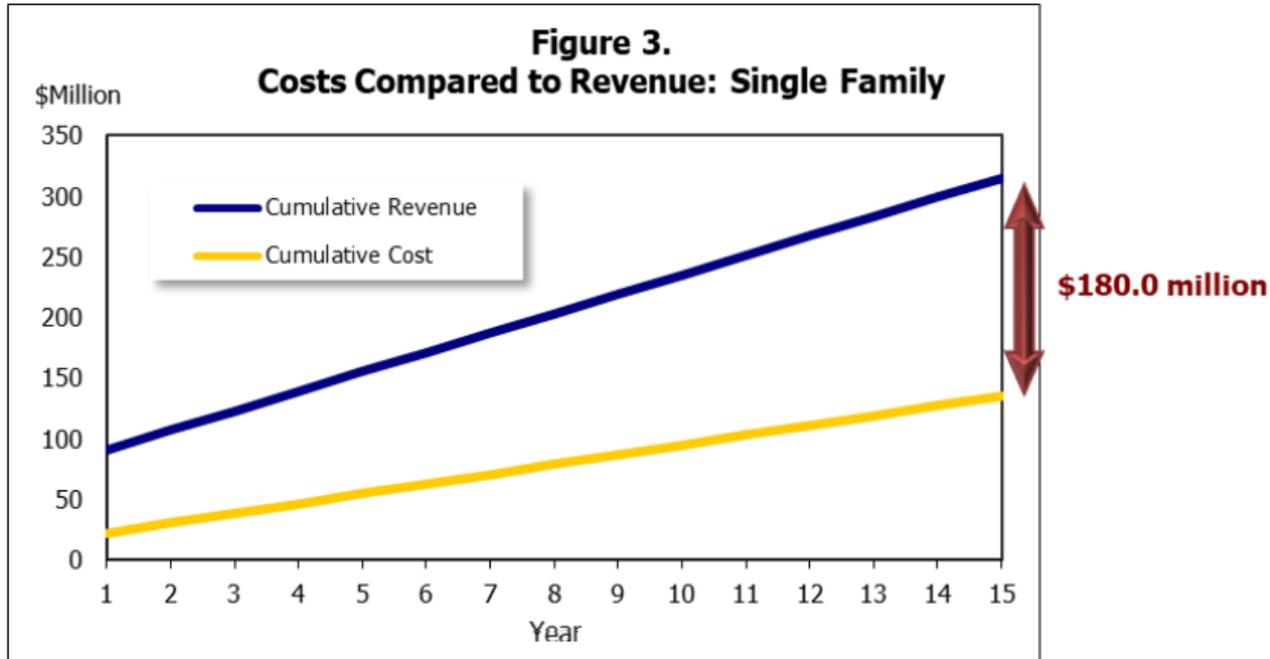
Required Capital per Unit

Local Government Capital per Housing Unit

	Single-family	Multifamily
Schools	\$6,451	\$3,804
Hospitals	\$1,565	\$1,138
Other Buildings	\$806	\$586
Highways and streets	\$1,130	\$651
Conservation & development	\$50	\$36
Sewer systems	\$1,297	\$760
Water supply	\$217	\$127
Other structures	\$57	\$41
Equipment	\$303	\$220
Total	\$11,875	\$7,364

Net Economic Impact Estimates

1,500 Single-Family Homes (7,970 Phase I and II jobs, 1,131 Phase III jobs)
\$315.1 million in revenue; \$135.1 million in costs
\$180.0 million in net revenue

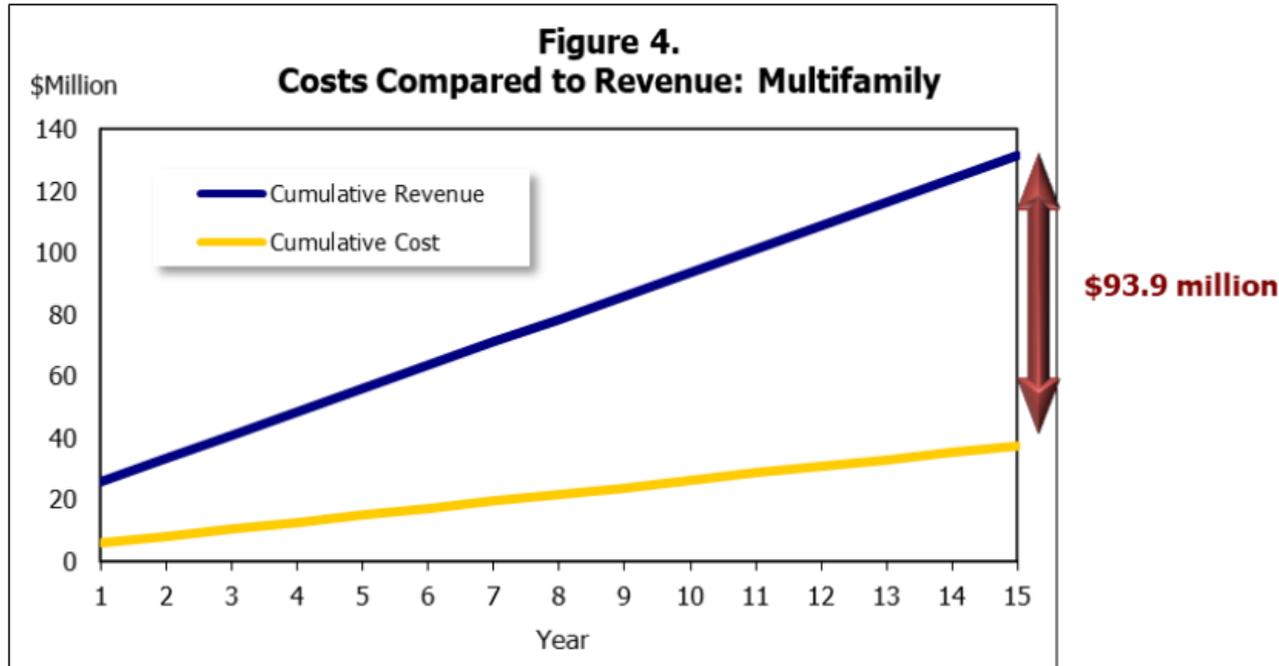


Net Economic Impact Estimates

600 Multifamily Homes (2,037 Phase I and II jobs, 532 Phase III jobs)

\$131.3 million in revenue; \$37.4 million in costs

\$93.9 million in net revenue



Macro/Housing Outlook



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Mild recession as inflation is challenged



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Demand for more space in homes continues



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Communities with ability to add affordable housing will grow

Thank you

Questions?

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Home Mortgage

eyeonhousing.org
housingeconomics.com