

Lower Rates Ahead

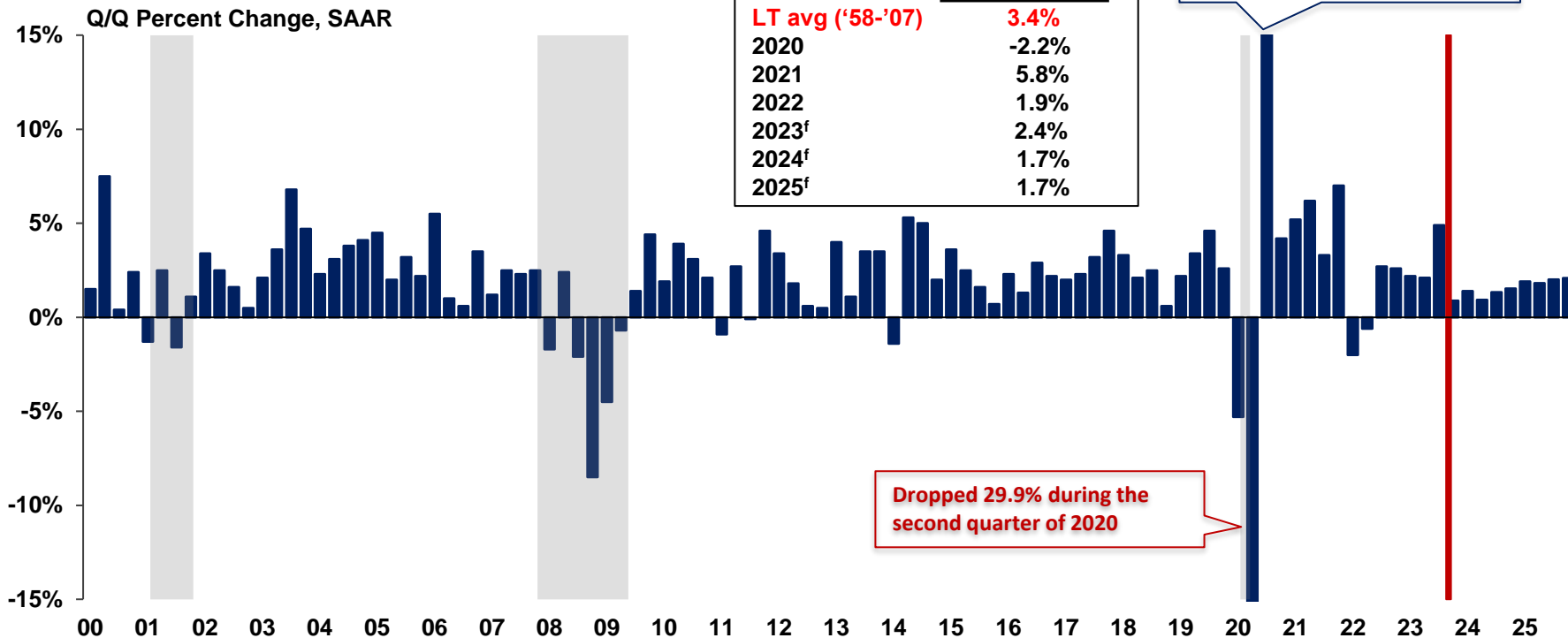
Shore Builders Association of Central New Jersey
January 24, 2024

Danushka Nanayakkara,
NAHB AVP, Forecasting and Analysis



Slowing Growth Ahead

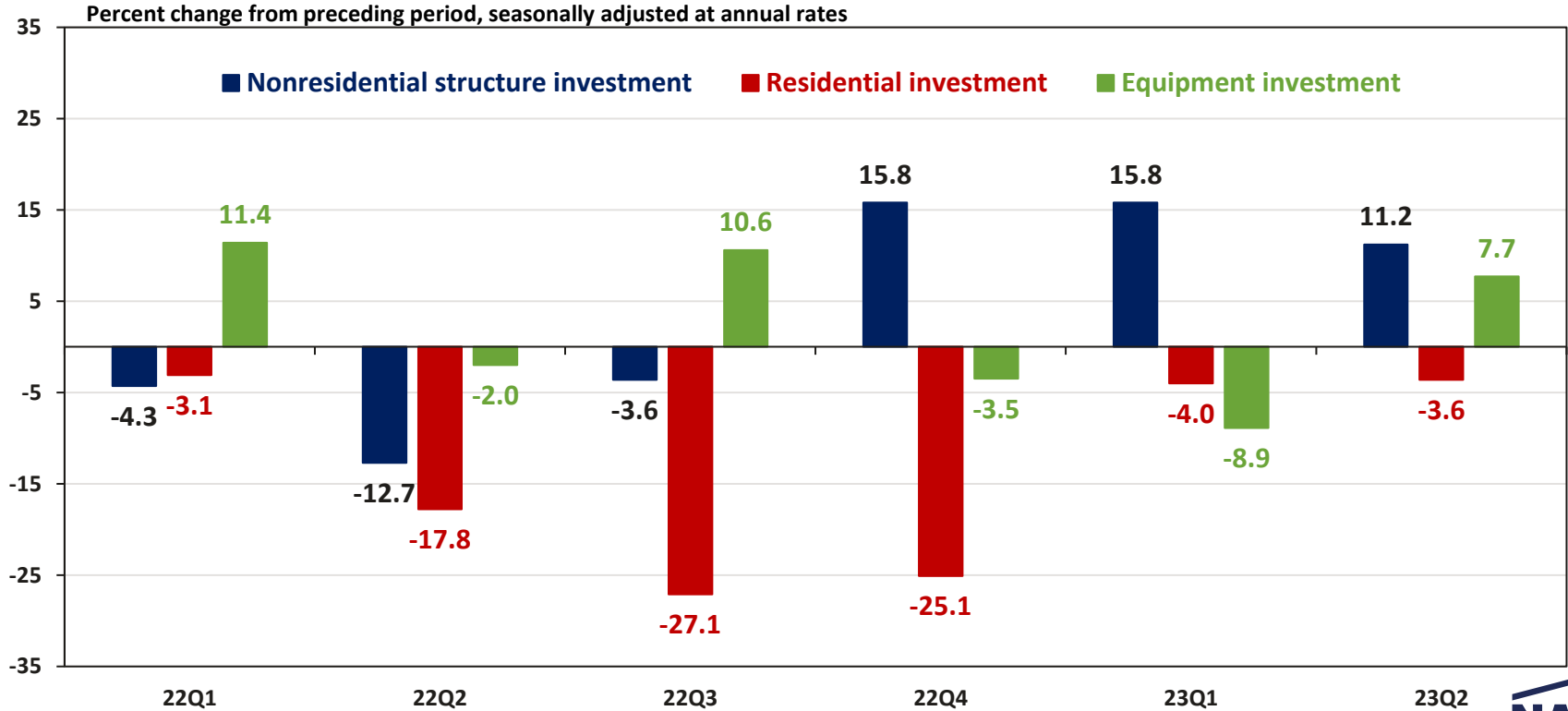
Soft landing?



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

The Rolling Recession of 2022-2024

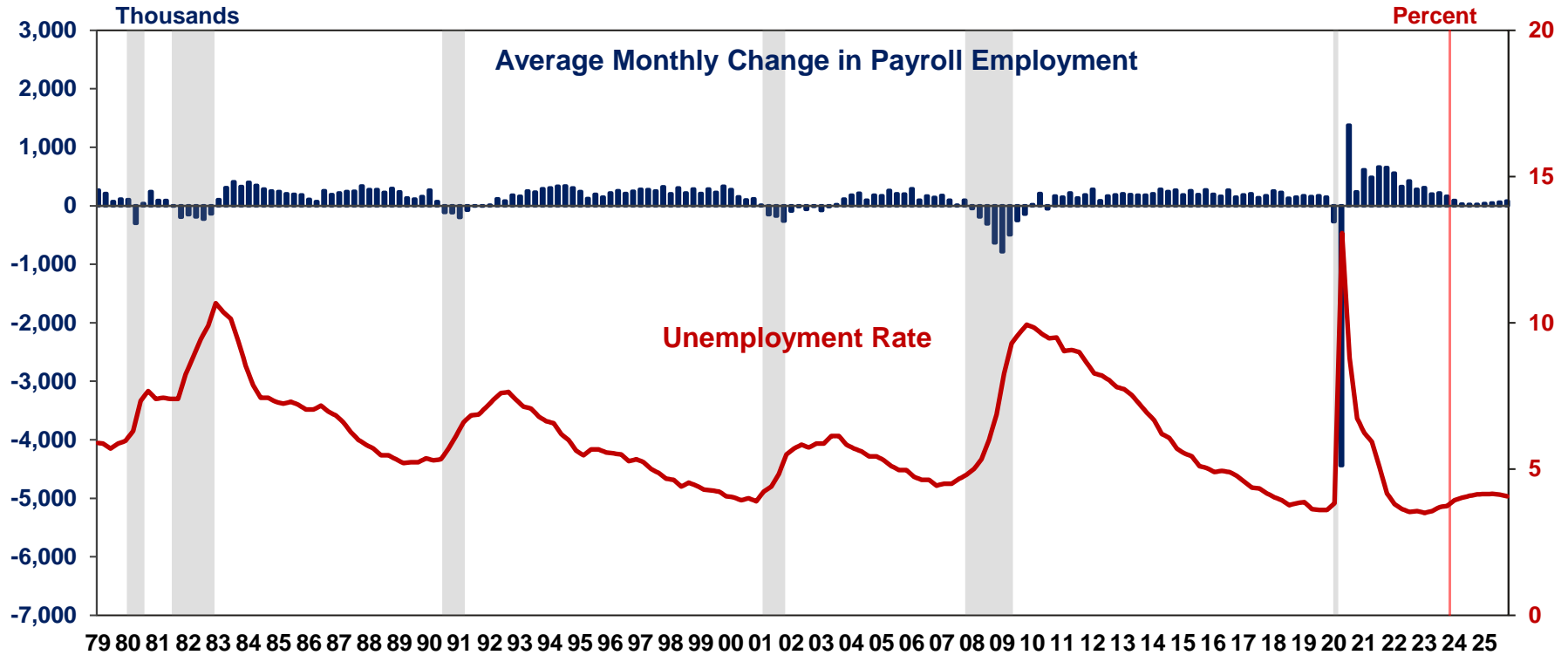
Housing and nonresidential structures declined, then equipment production



Source: U.S. Bureau of Economic Analysis

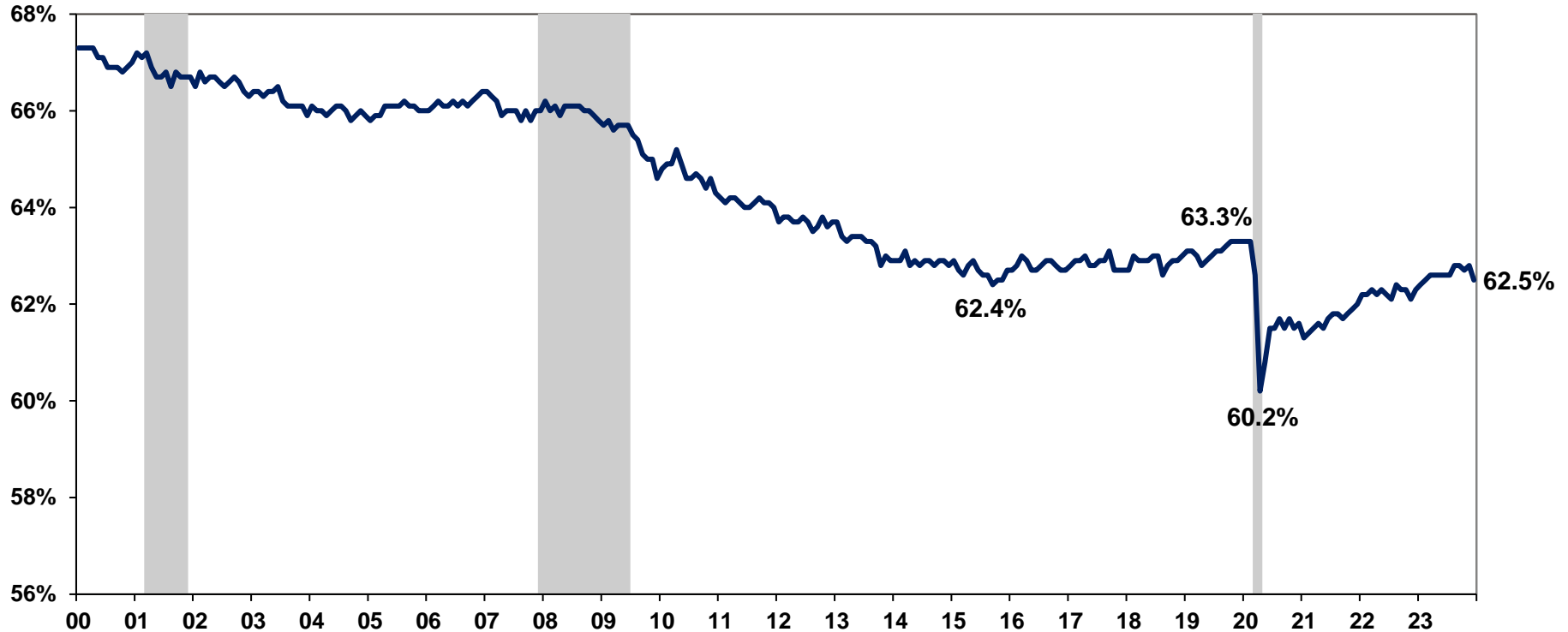
Unemployment Bottomed Out and Is Rising

Job growth will slow as we head into 2024



Labor Force Participation Rate

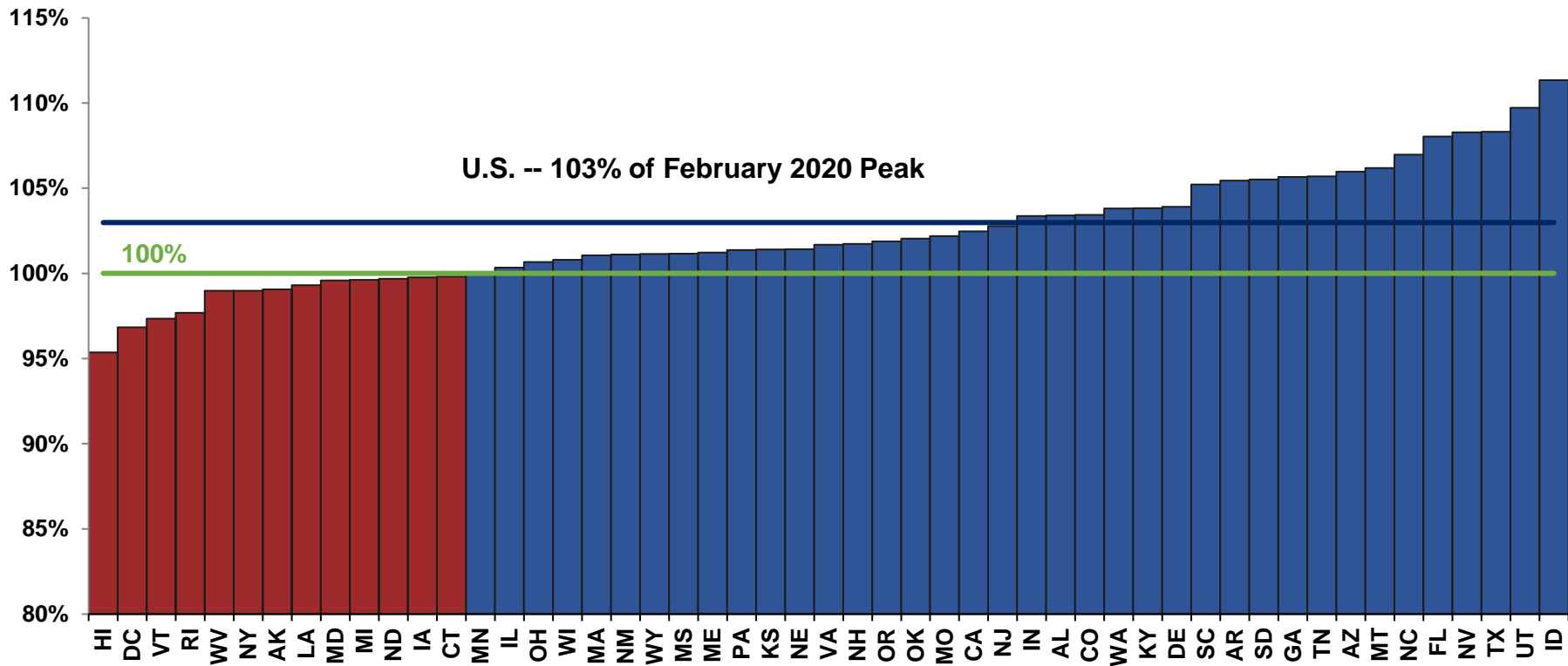
Labor force participation must be repaired as part of job market recovery



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

Payroll Employment

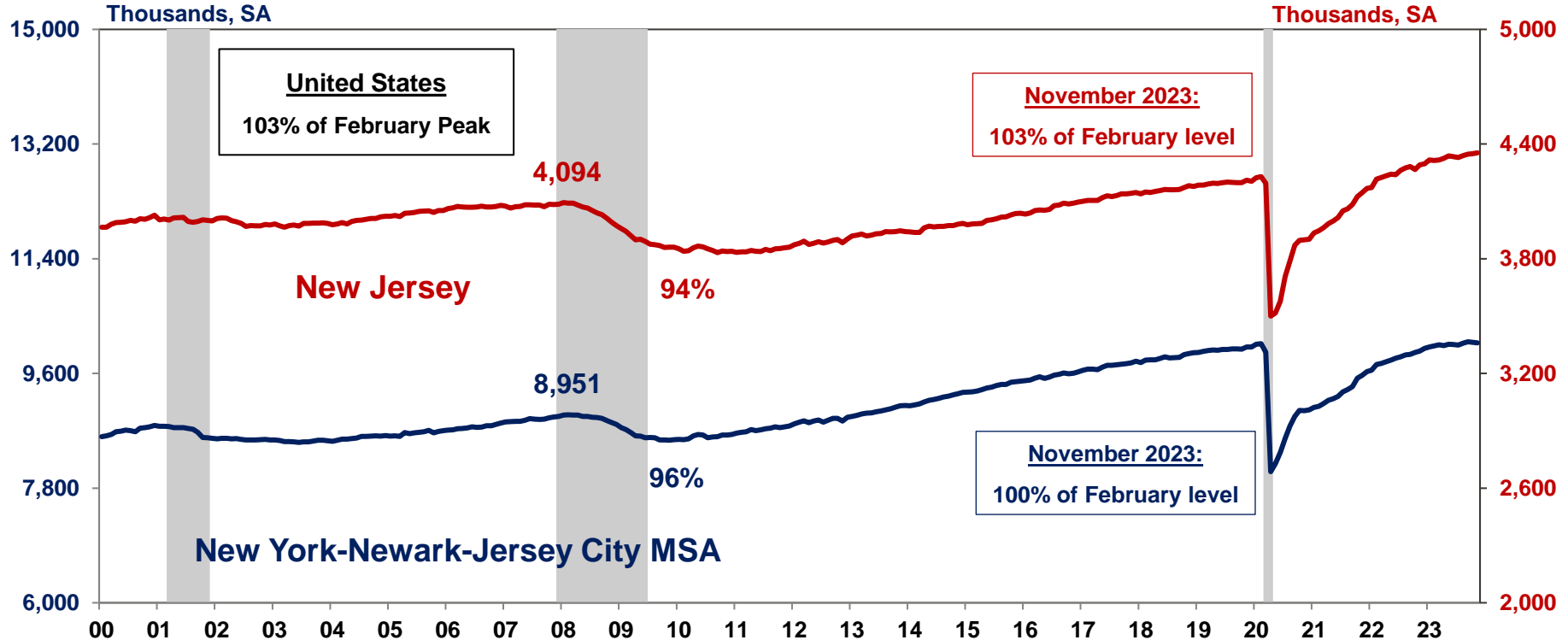
Mountain states leading job gains, 38 states reached or exceeded the pre-pandemic peak



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

Payroll Employment

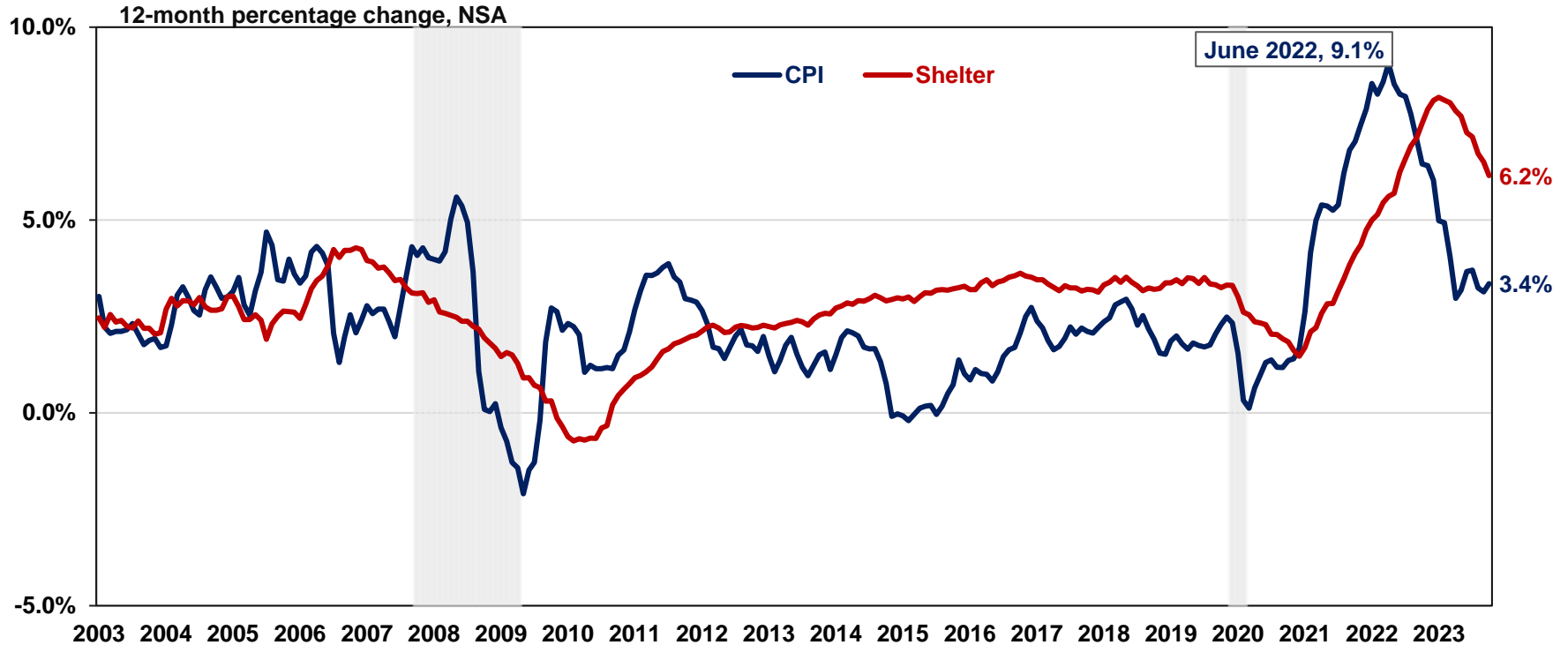
New York-Newark-Jersey City MSA recovered from COVID-19 recession



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

Consumer Inflation – Headline Rate and Shelter

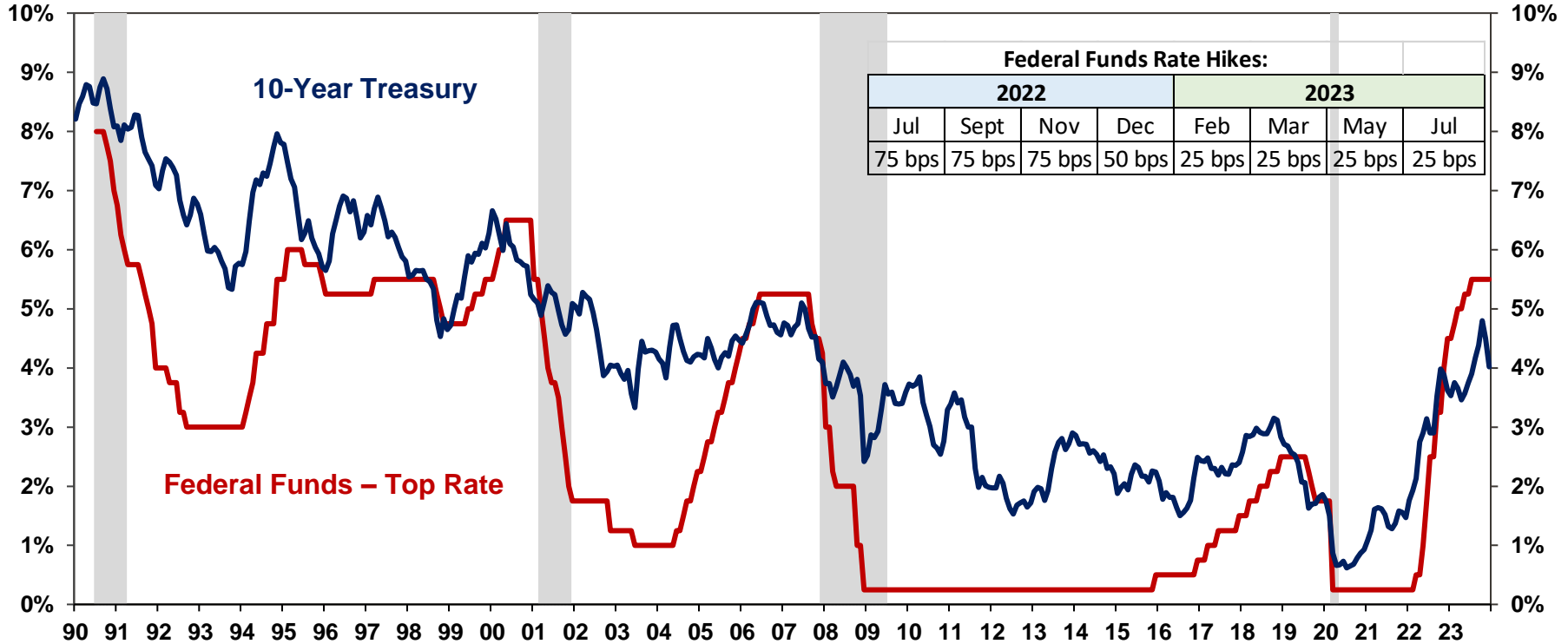
Shelter costs continue to rise despite Fed policy tightening --- “Gimmie Shelter”



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

Monetary Policy Tightening in Response to Inflation

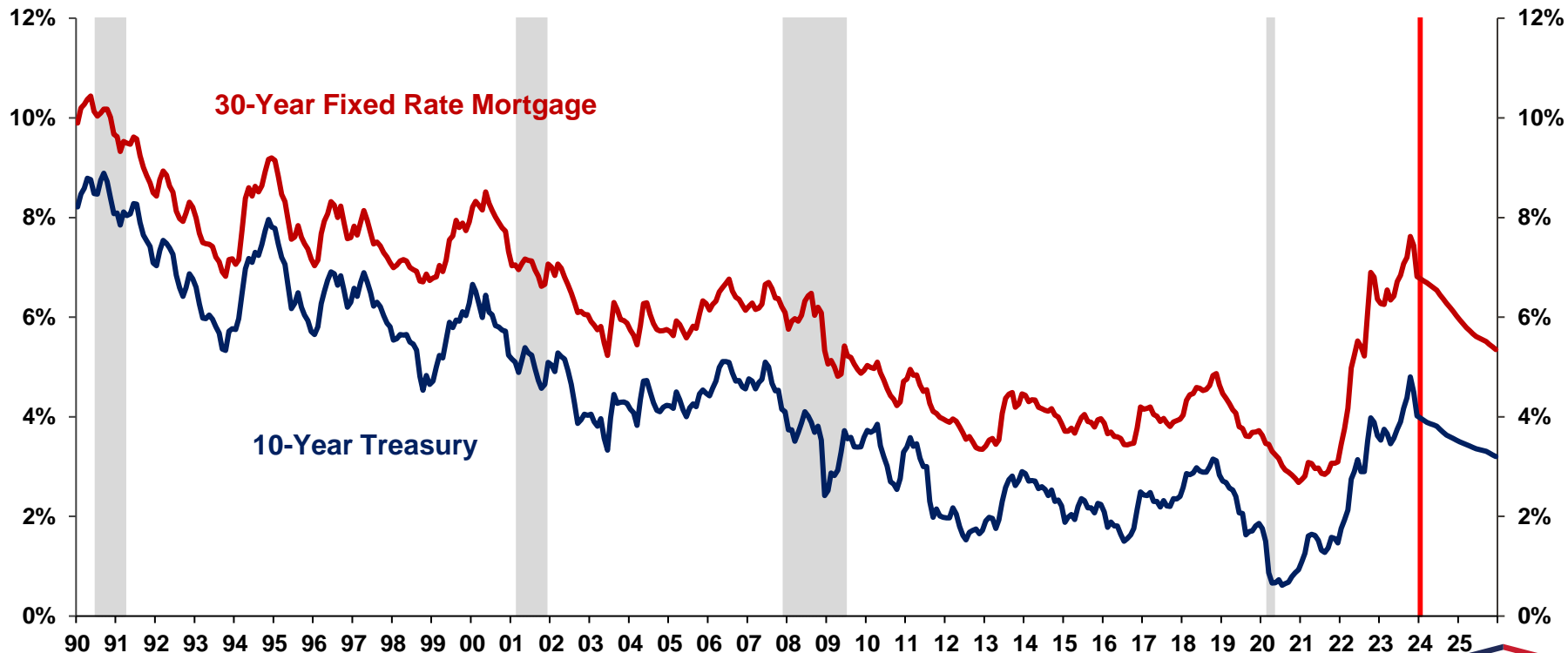
The Fed should pause now...



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

Mortgage Rates Near Cycle Peak

Housing affordability at more than decade low



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



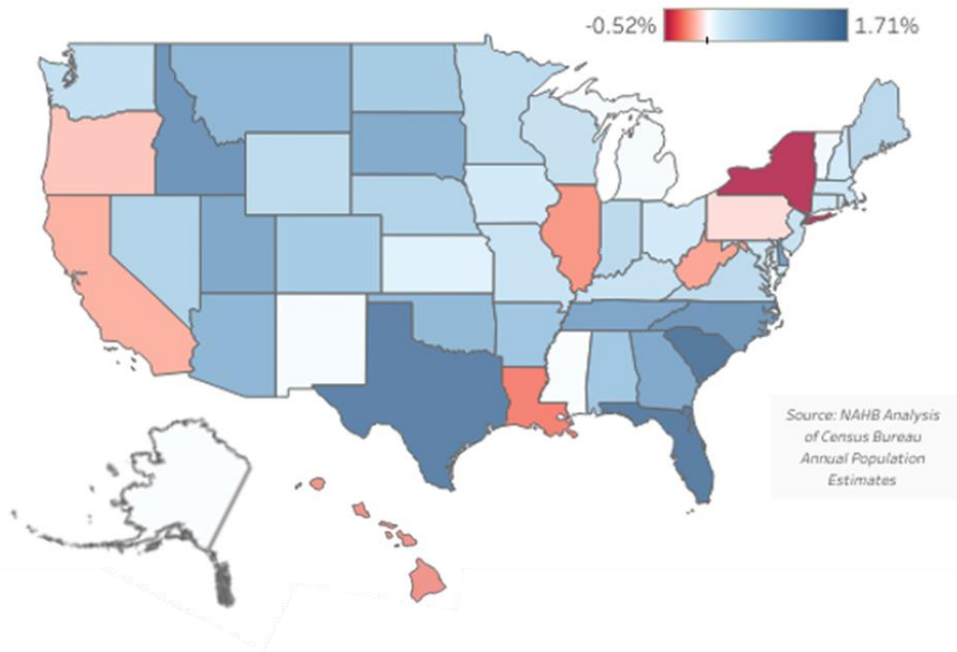
Demand-Side Economic Factors



2022-2023 Population Changes

South Carolina, Florida and Texas lead population gains

State 2022-2023 Population Changes (%)



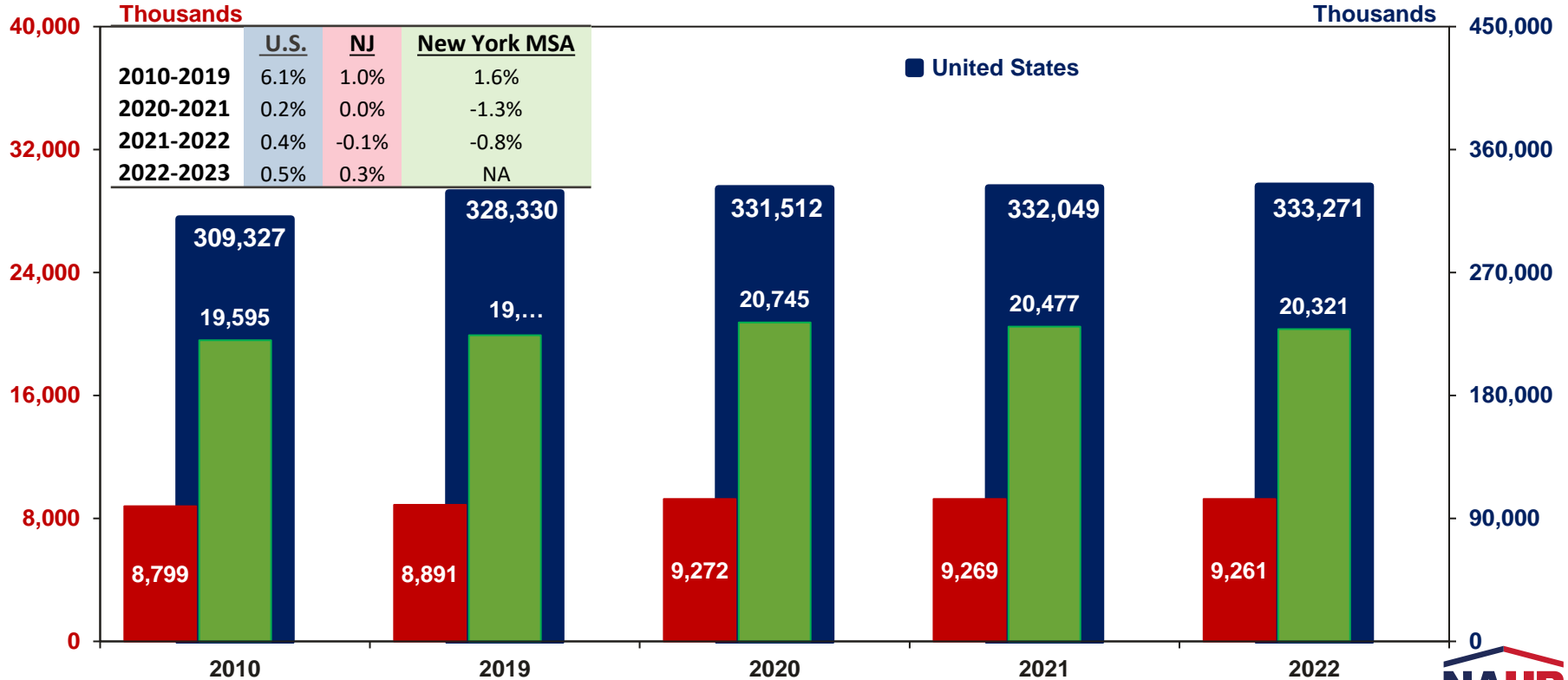
Population growth strongest in West and South

Smaller metro areas growing faster than larger

Some of the 2020 trends slowed in 2021

Population Growth

New York MSA population grew slower than national and state rates

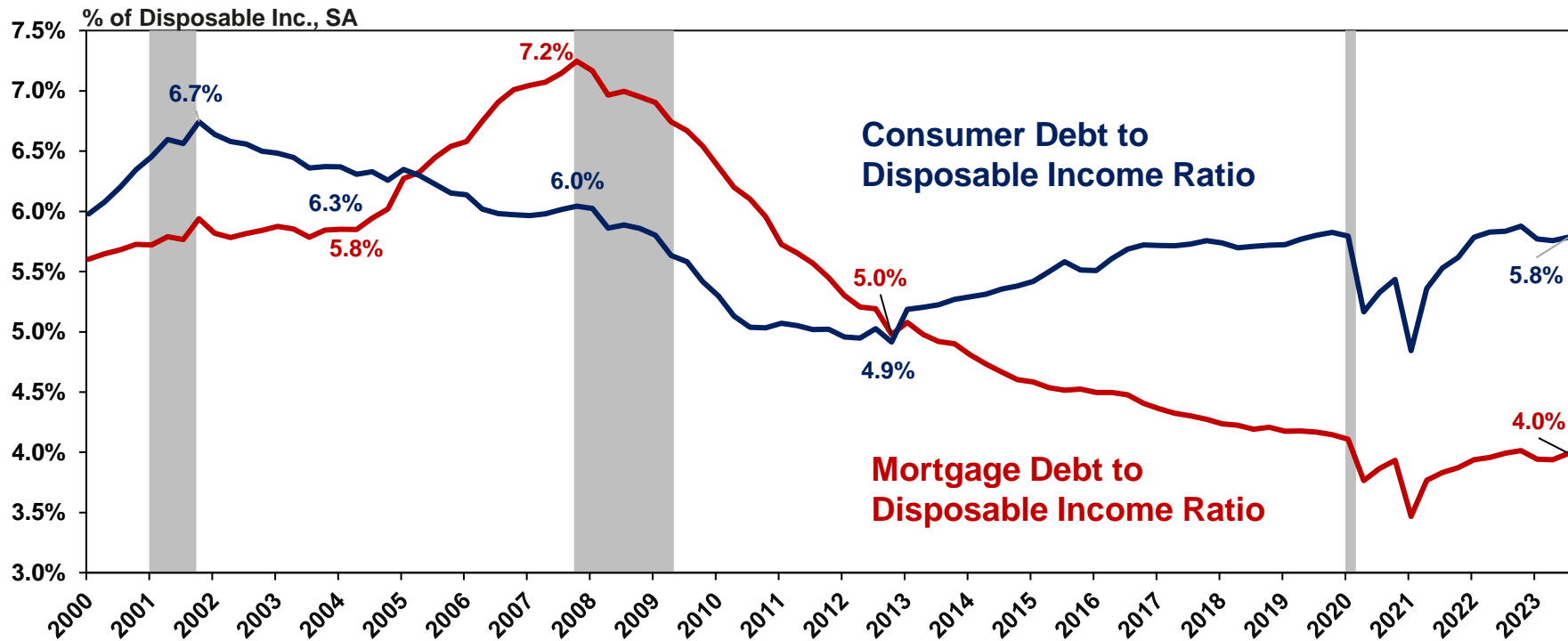


Source: U.S. Census Bureau (BOC).

Note: The population estimates (as of July 1) of 2020-2022 are developed from a base that incorporates the 2020 Census, Vintage 2020 estimates, and 2020 Demographic Analysis estimates.

Household Balance Sheets

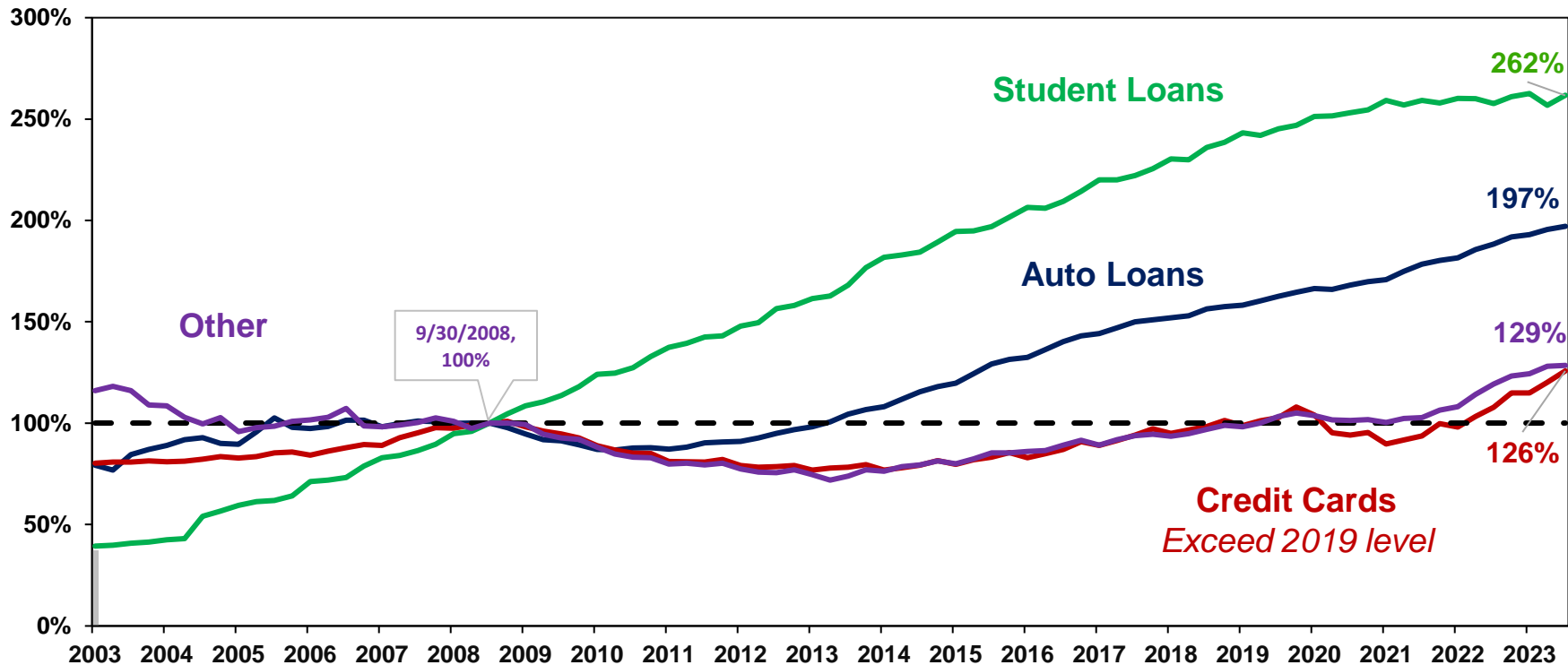
Debt-to-income ratio near pre-pandemic level



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

Consumer Debt

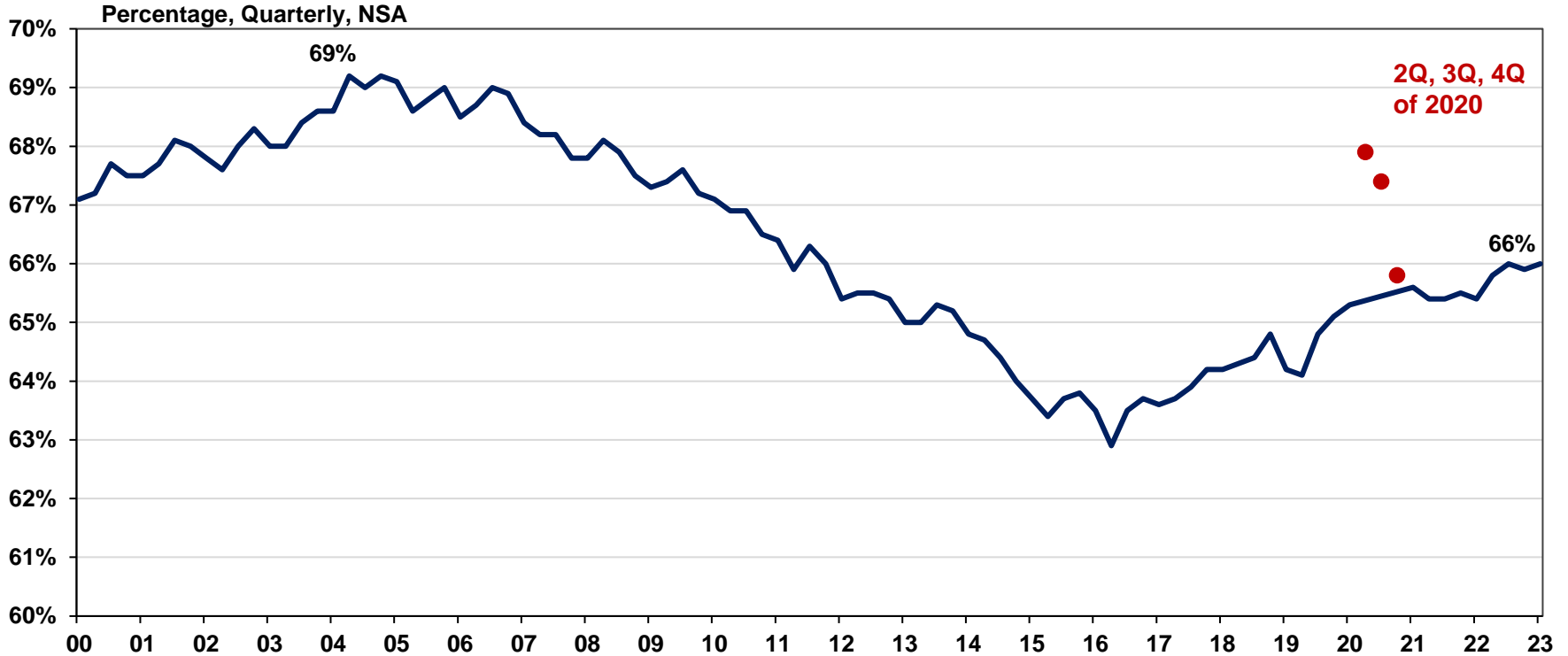
Credit card debt rising



Source: Federal Reserve Bank of New York

Homeownership Rate

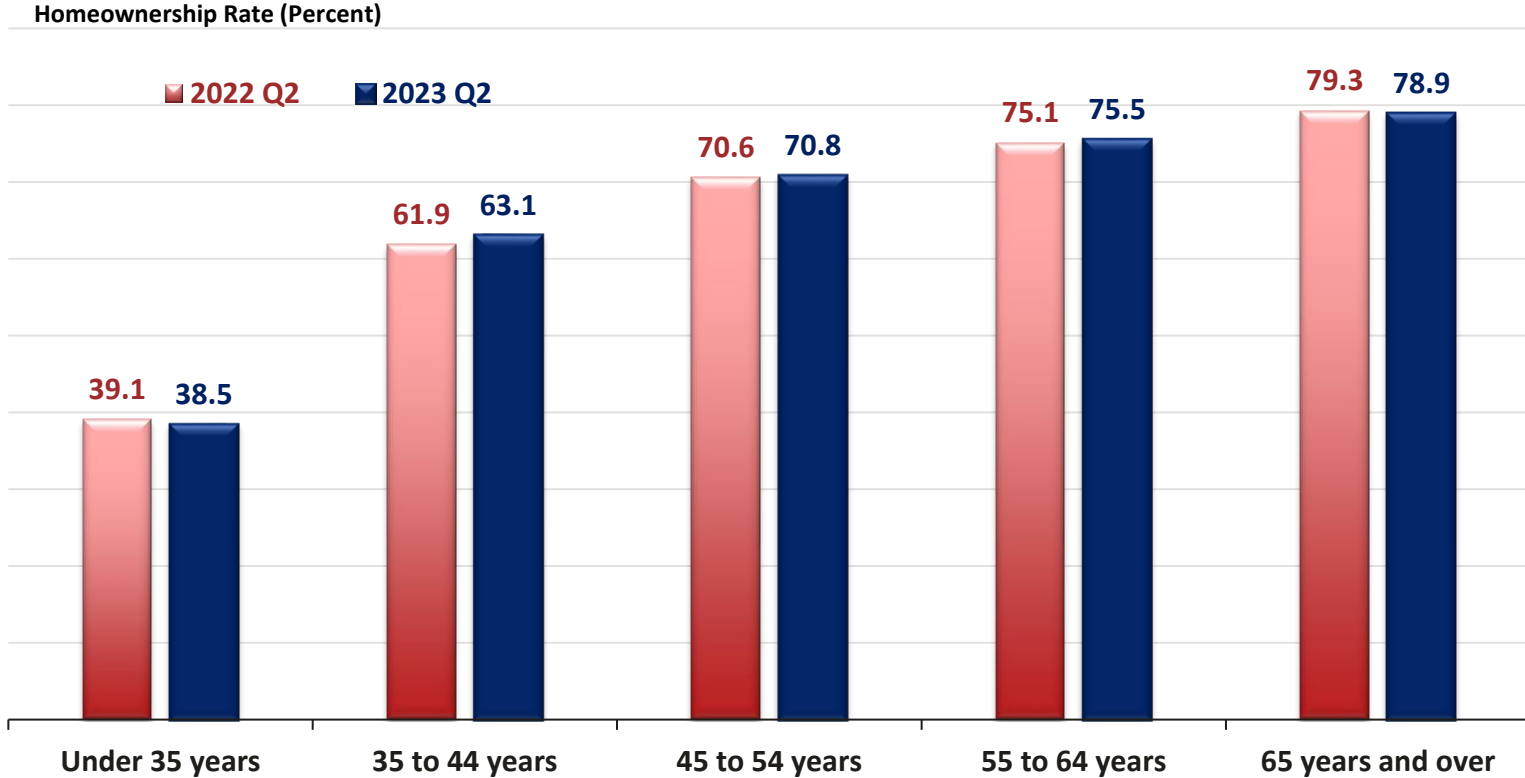
Homeownership will decline in 2023 and 2024



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

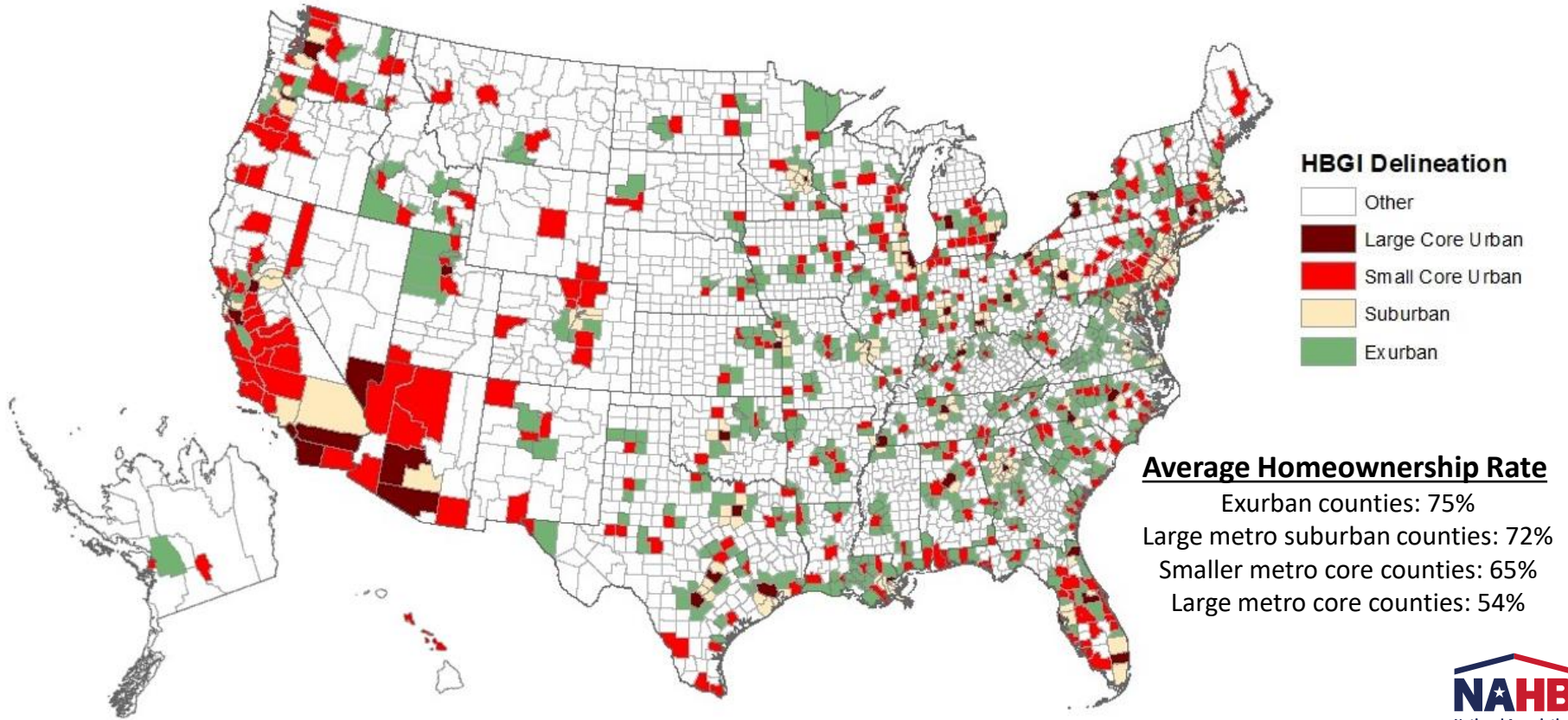
Note: Red dots denote technical issues for the last four quarters.

Homeownership Rates by Age of Householder



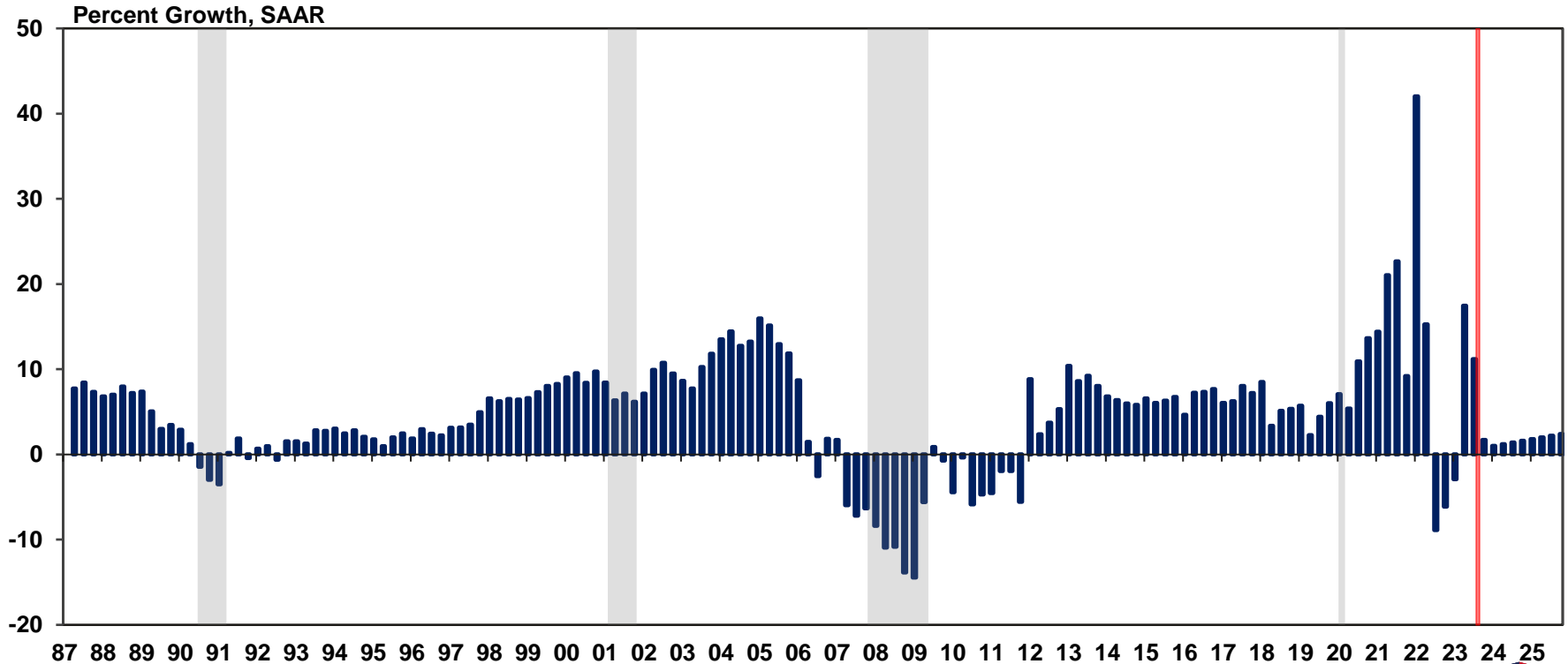
Source: U.S. Census Bureau, Current Population Survey/Housing Vacancy Survey

Homeownership Rate Across U.S. Counties



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

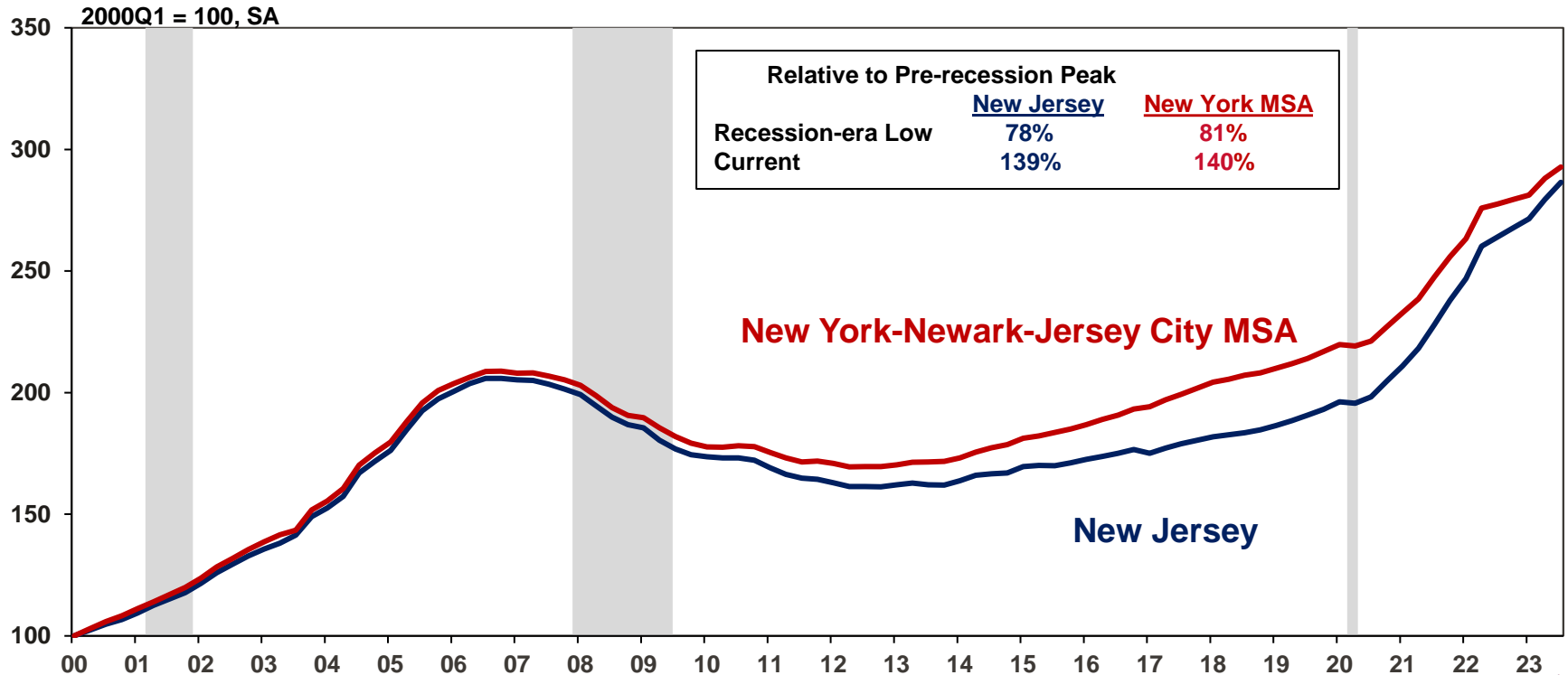
Home prices expected to grow at a relatively slow pace in the coming year



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

Existing House Price Index

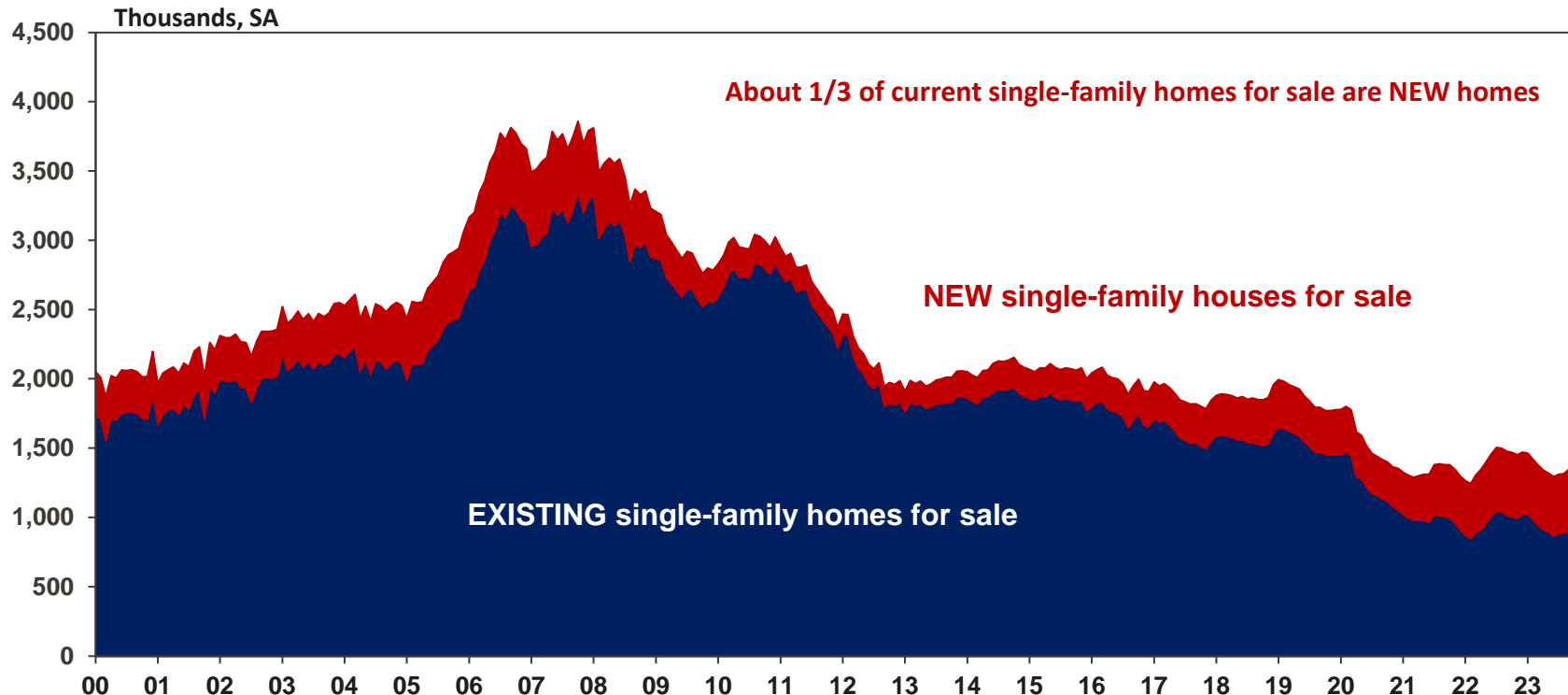
New York-Newark-Jersey City MSA 33% home price gain since covid, 46% for New Jersey



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

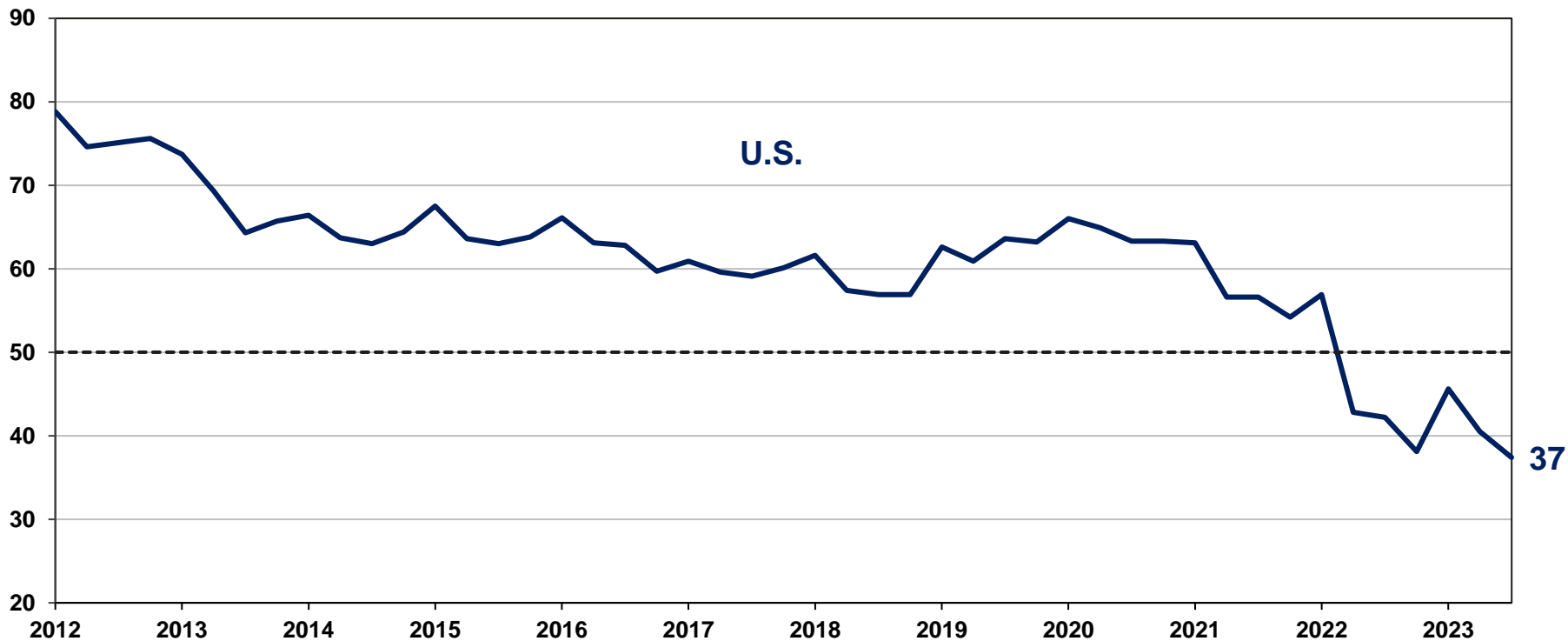
Total Housing Inventory

Insufficient resale inventory is supporting demand for new construction



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

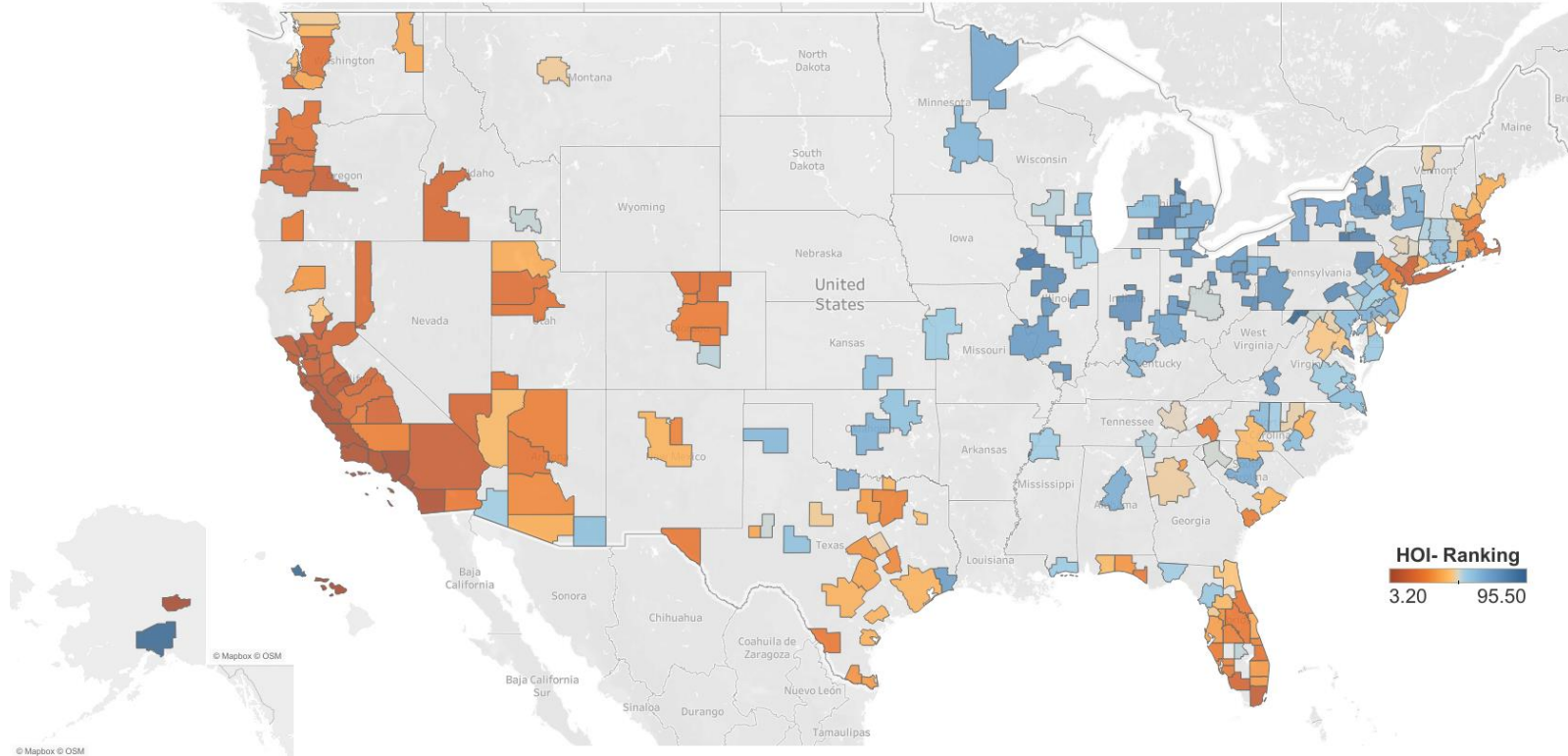
Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



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

Housing Opportunity Index- By Metro Area

Midwest mostly affordable while West remains unaffordable



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



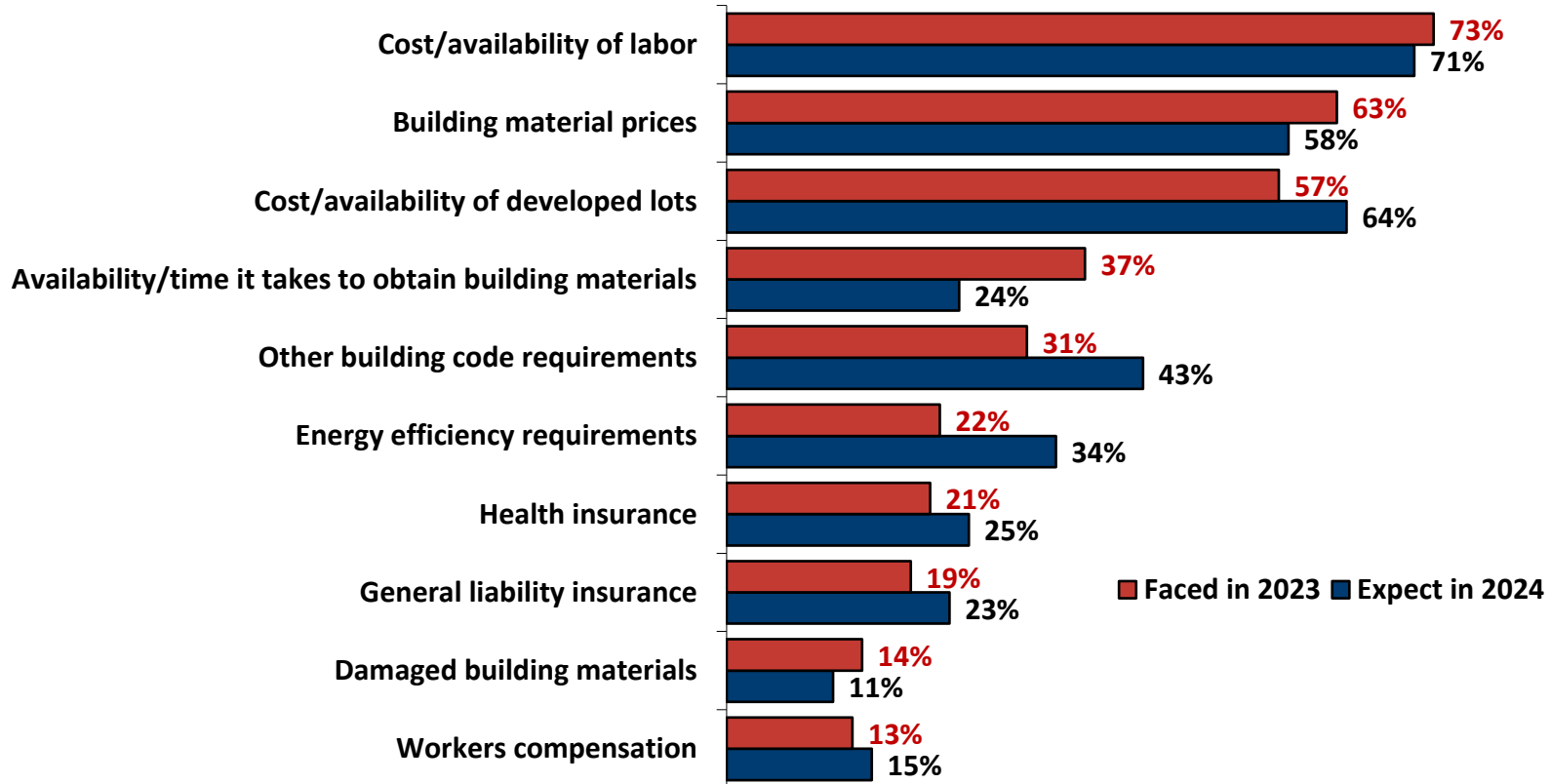
Supply-Side Factors



Most Significant Problems Faced in 2023 and 2024

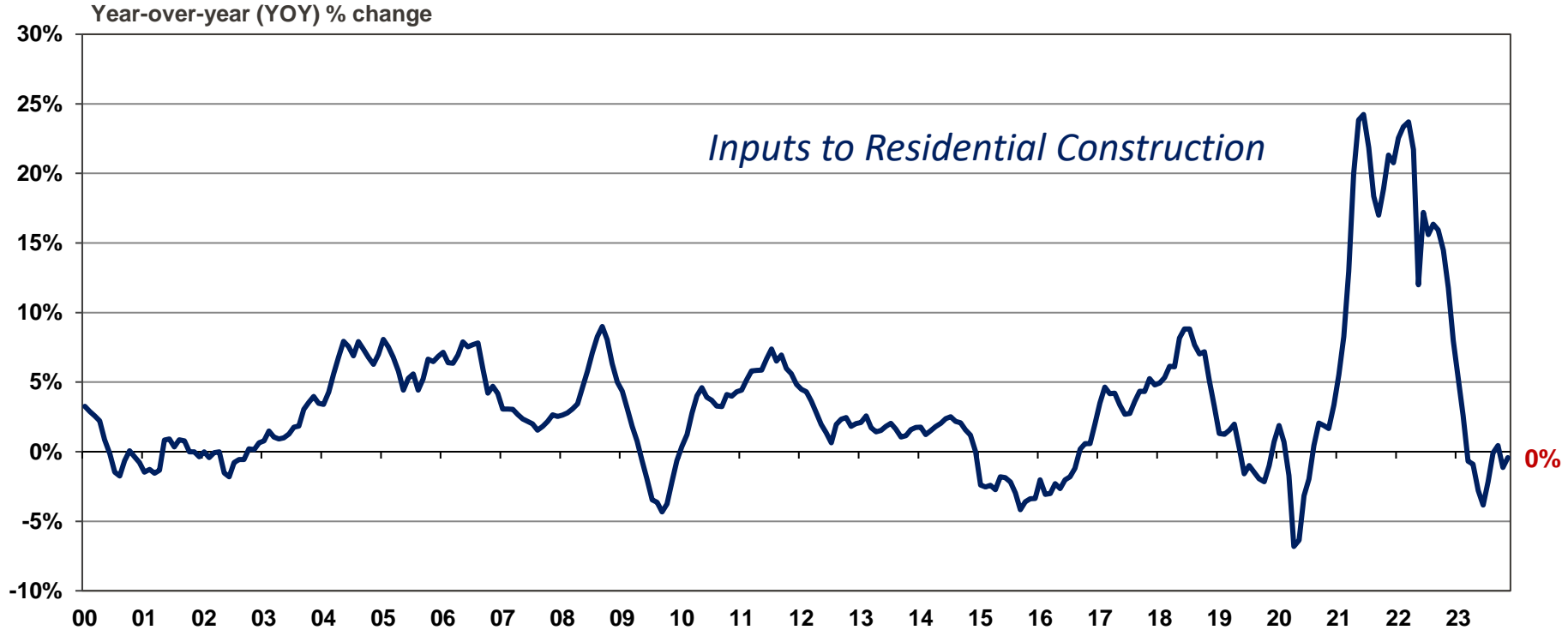
Builder costs

(Percent of Respondents)



Source: NAHB Survey.

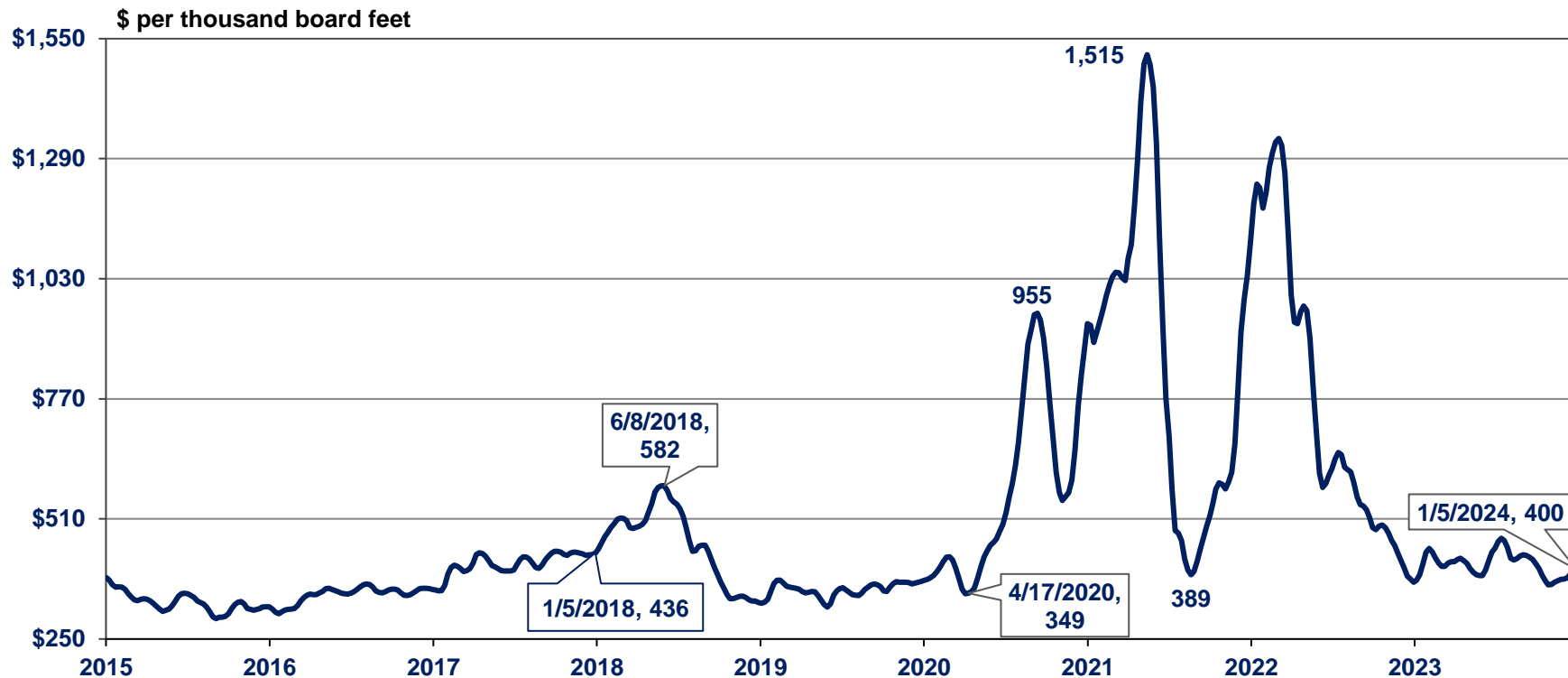
Building Materials - Residential Construction Cost



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

Lumber Prices Near Pre-pandemic Low

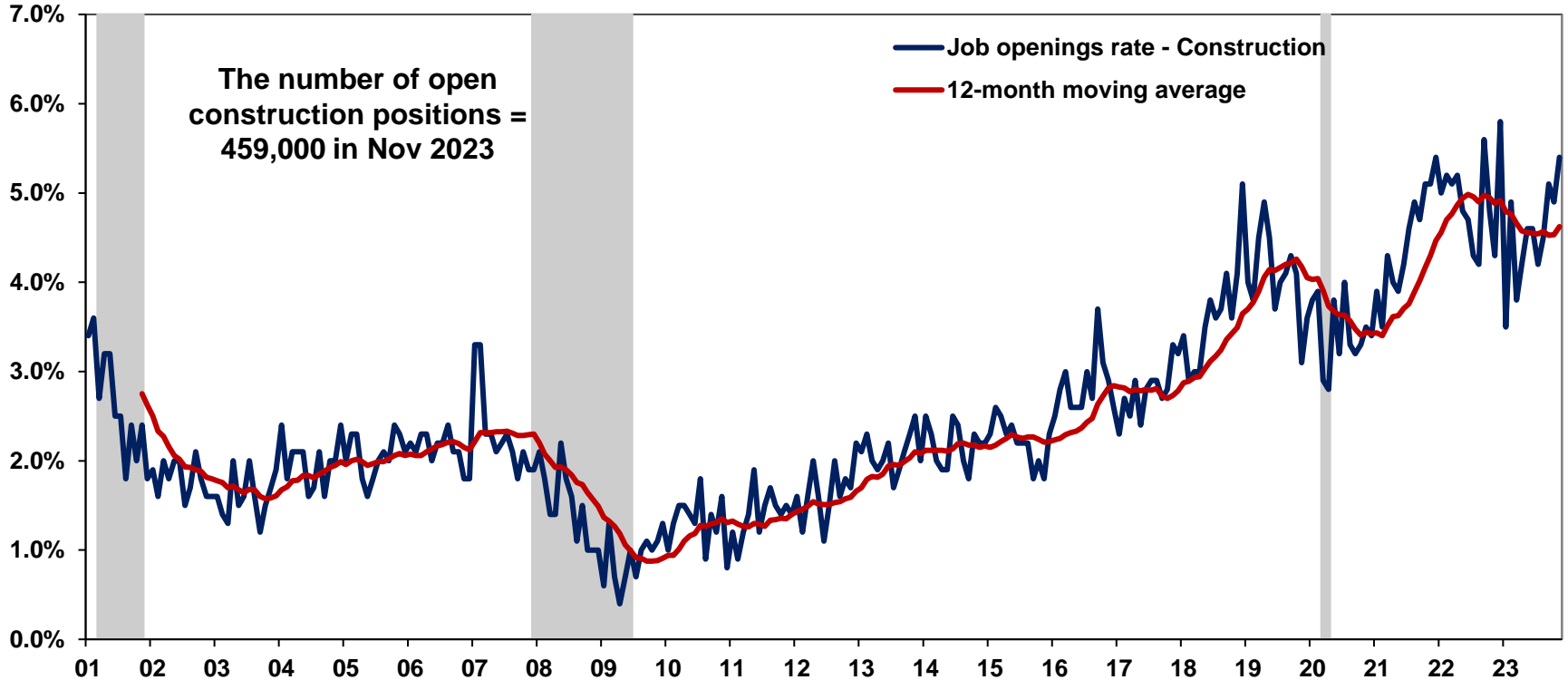
Current January price is \$400; increased 5% over the past month



Source: NAHB Analysis; Random Lengths Composite Index

Labor – Construction Job Openings Peaked for Cycle?

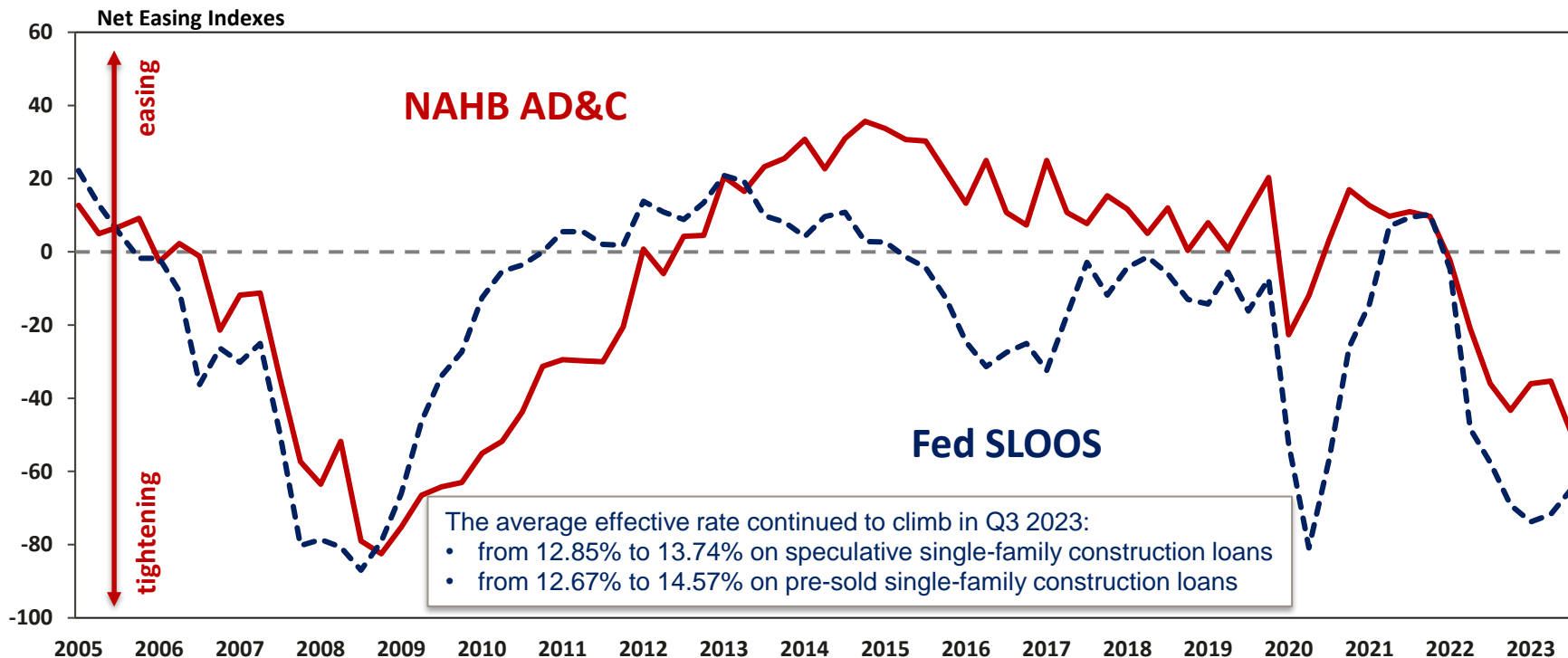
Skilled labor shortage persists; 354,700 net gain for residential construction since Jan 2020



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

Lending – AD&C Loan Conditions

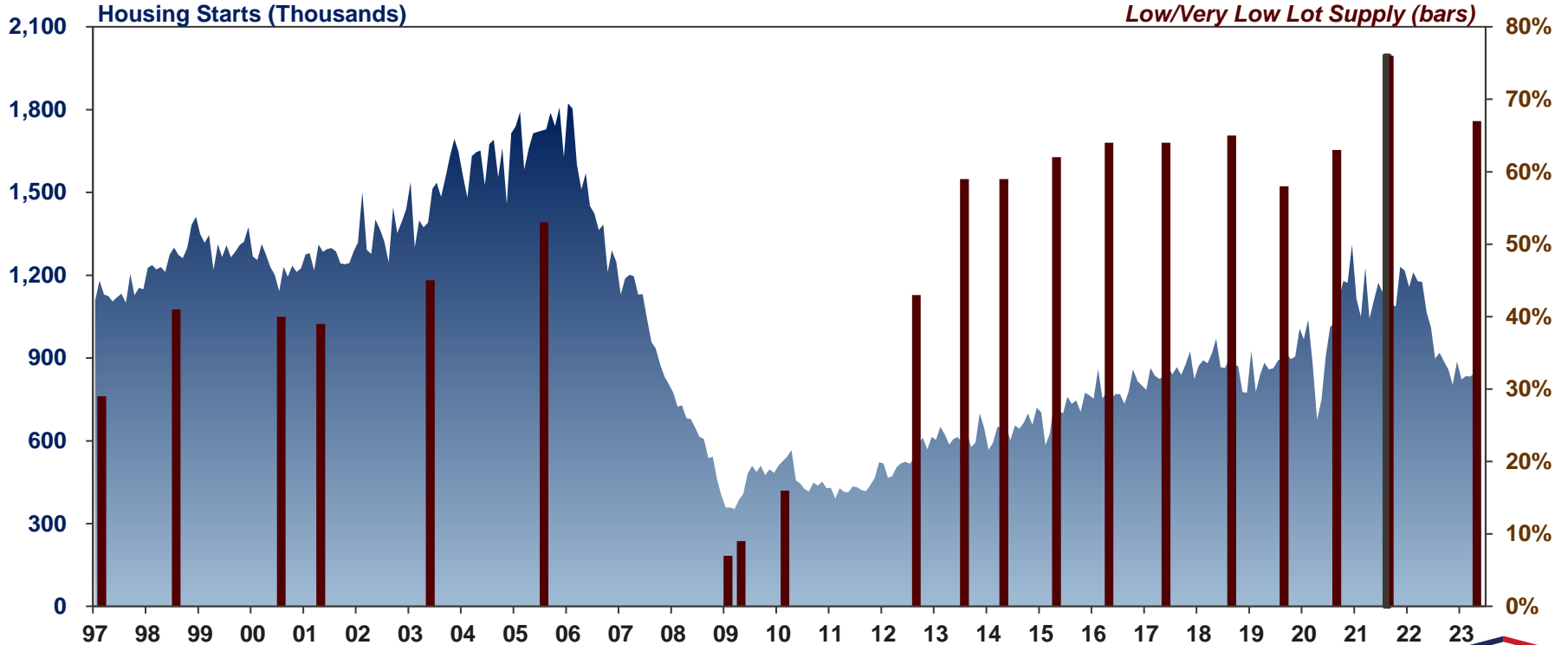
Credit for builders and lenders is tightening



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

/ 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

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)



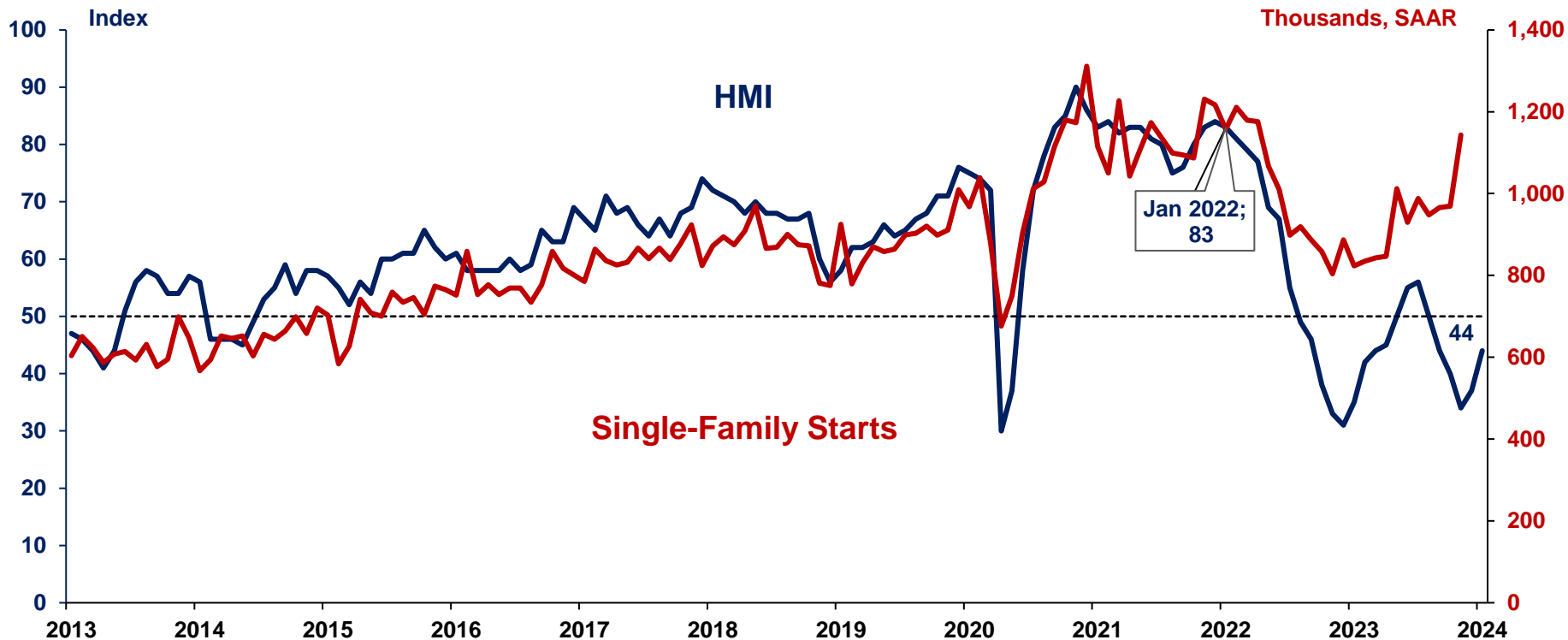


Construction Outlook



NAHB/Wells Fargo Housing Market Index (HMI)

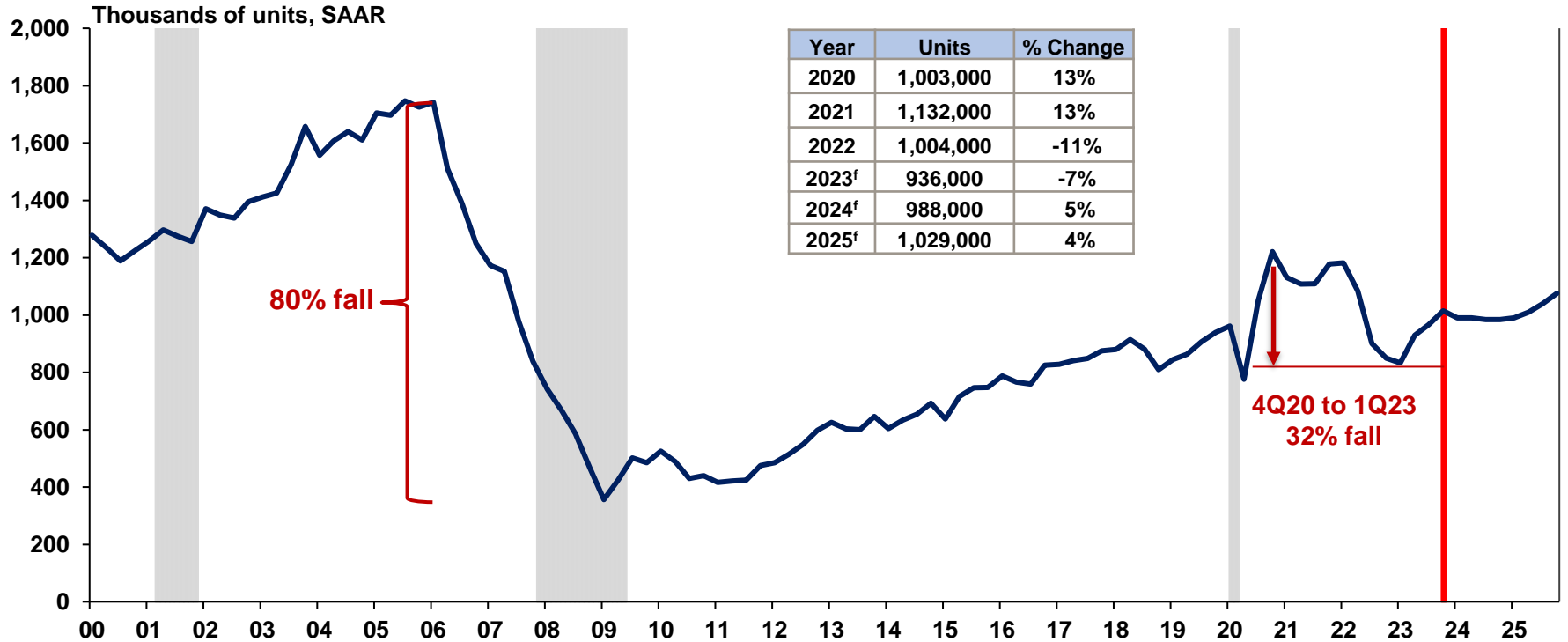
Builder sentiment rose on falling mortgage rates, better building conditions are in view



Source: Census Bureau and NAHB/Wells Fargo HMI survey

Single-Family Starts

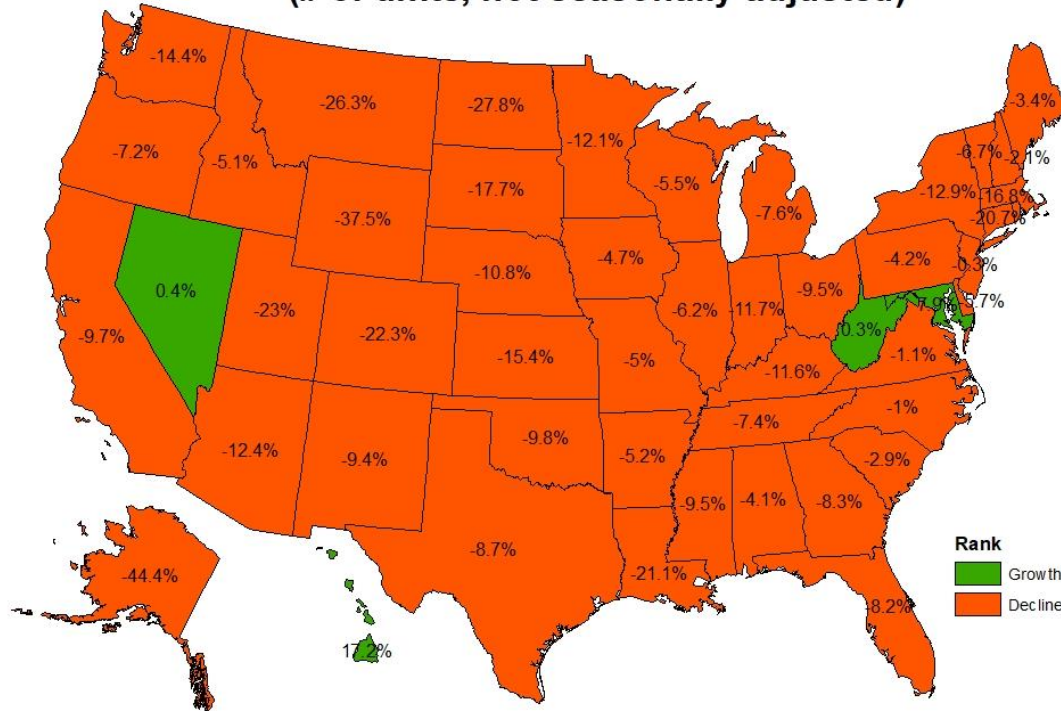
Single-family starts surged on falling interest rates in November, will trend higher in 2024



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

Growth in Single-Family Permits

Change in Single-Family Permits, Jan-Nov 2023 vs. Jan-Nov 2022
(# of units, not seasonally adjusted)



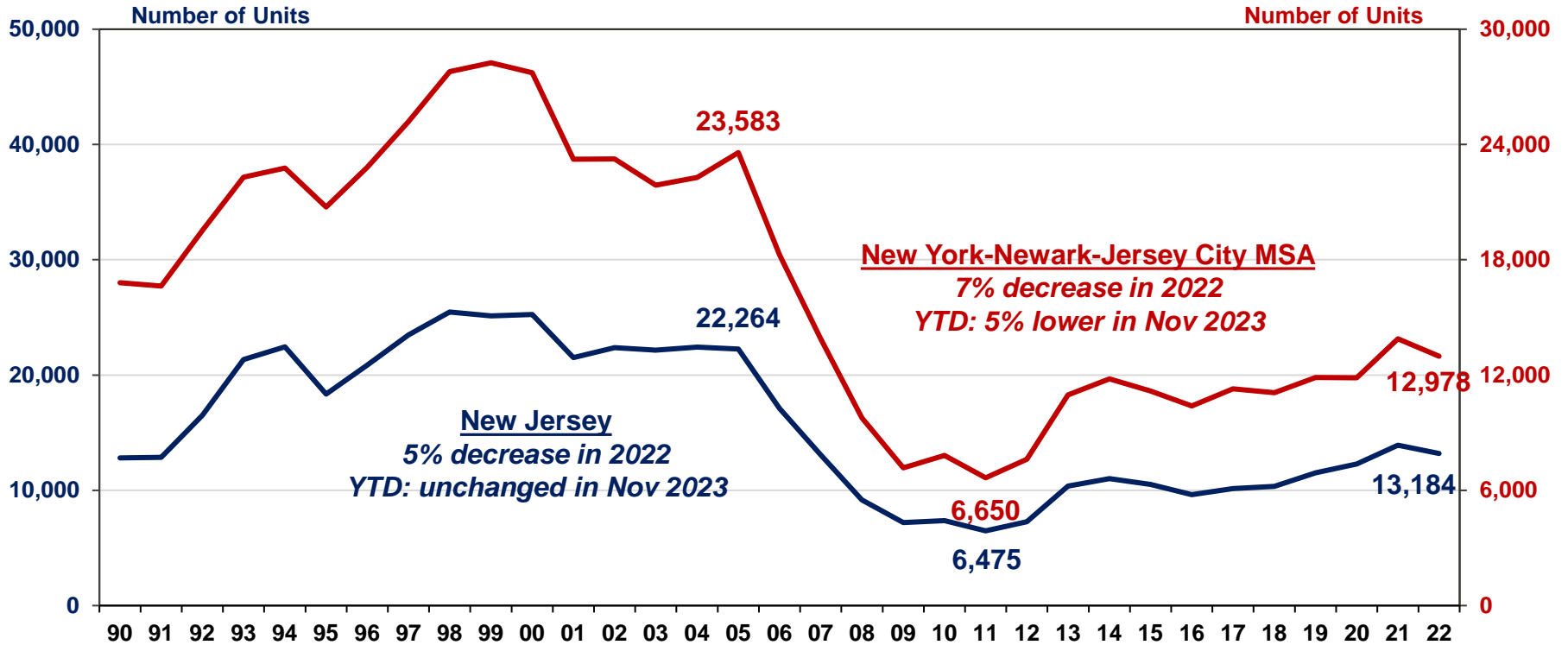
Source: U.S. Census Bureau (BOC).

Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	Nov 2023 (# of units YTD, NSA)	YTD % Change (compared to Nov 2022)
Houston-The Woodlands-Sugar Land, TX	46,635	2%
Dallas-Fort Worth-Arlington, TX	39,331	-5%
Phoenix-Mesa-Scottsdale, AZ	22,755	-12%
Atlanta-Sandy Springs-Roswell, GA	22,287	-12%
Charlotte-Concord-Gastonia, NC-SC	17,601	-1%
Orlando-Kissimmee-Sanford, FL	15,873	5%
Austin-Round Rock, TX	15,553	-24%
Tampa-St. Petersburg-Clearwater, FL	13,517	-9%
Nashville-Davidson-Murfreesboro-Franklin, TN	13,170	-10%
New York-Newark-Jersey City, NY-NJ-PA	11,675	-5%

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

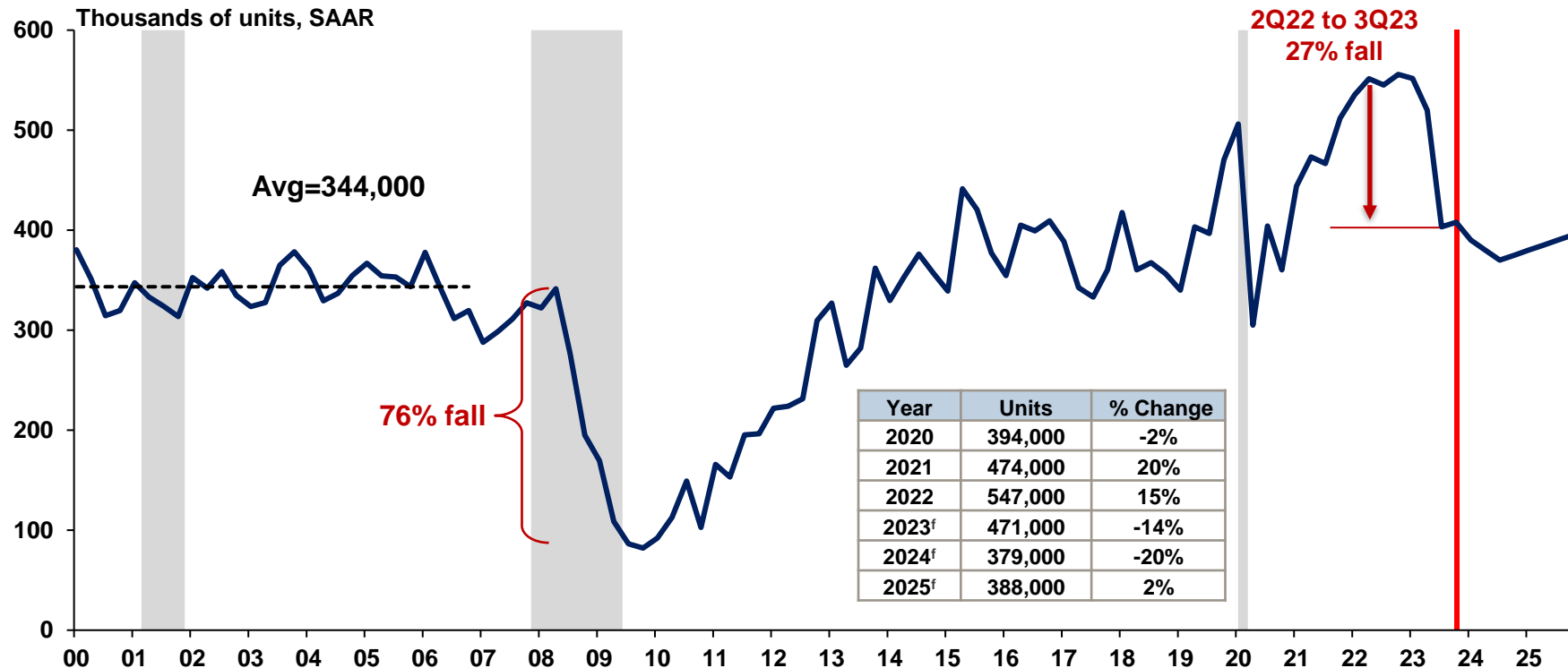
Single-Family Building Permits – New Jersey and New York MSA



Source: Census Bureau.

Multifamily Construction Slowdown

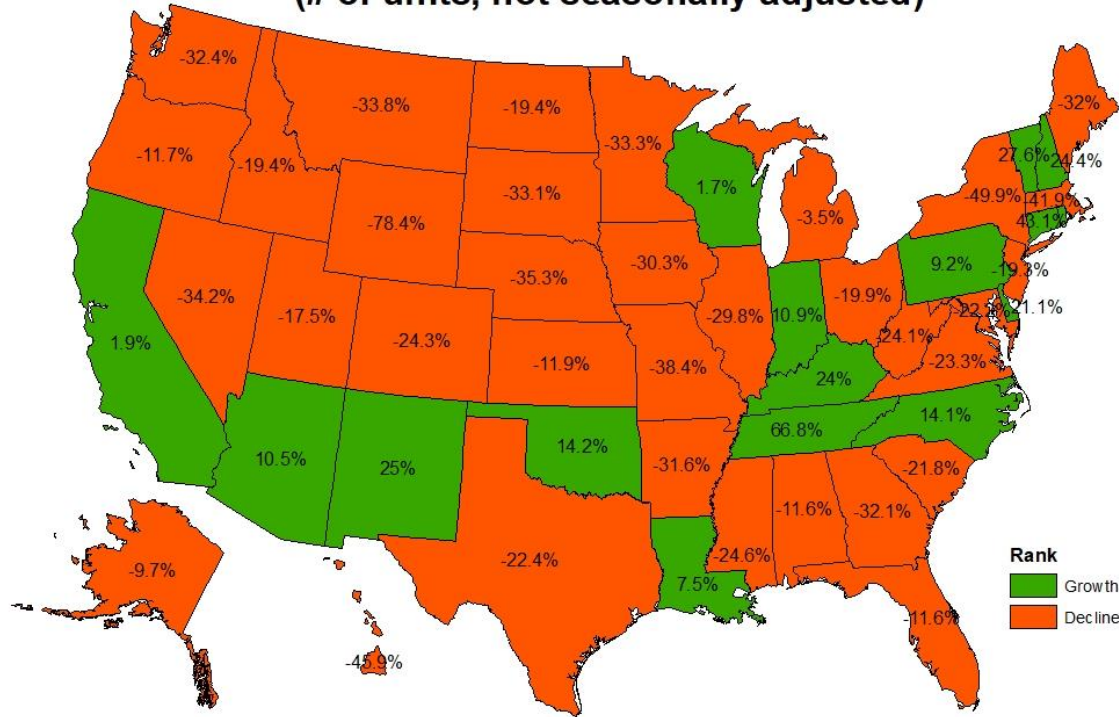
Multifamily permit 3-month moving average at lowest point since 2020



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

Multifamily Permits by State

Change in Multifamily Permits, Jan-Nov 2023 vs. Jan-Nov 2022
(# of units, not seasonally adjusted)



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

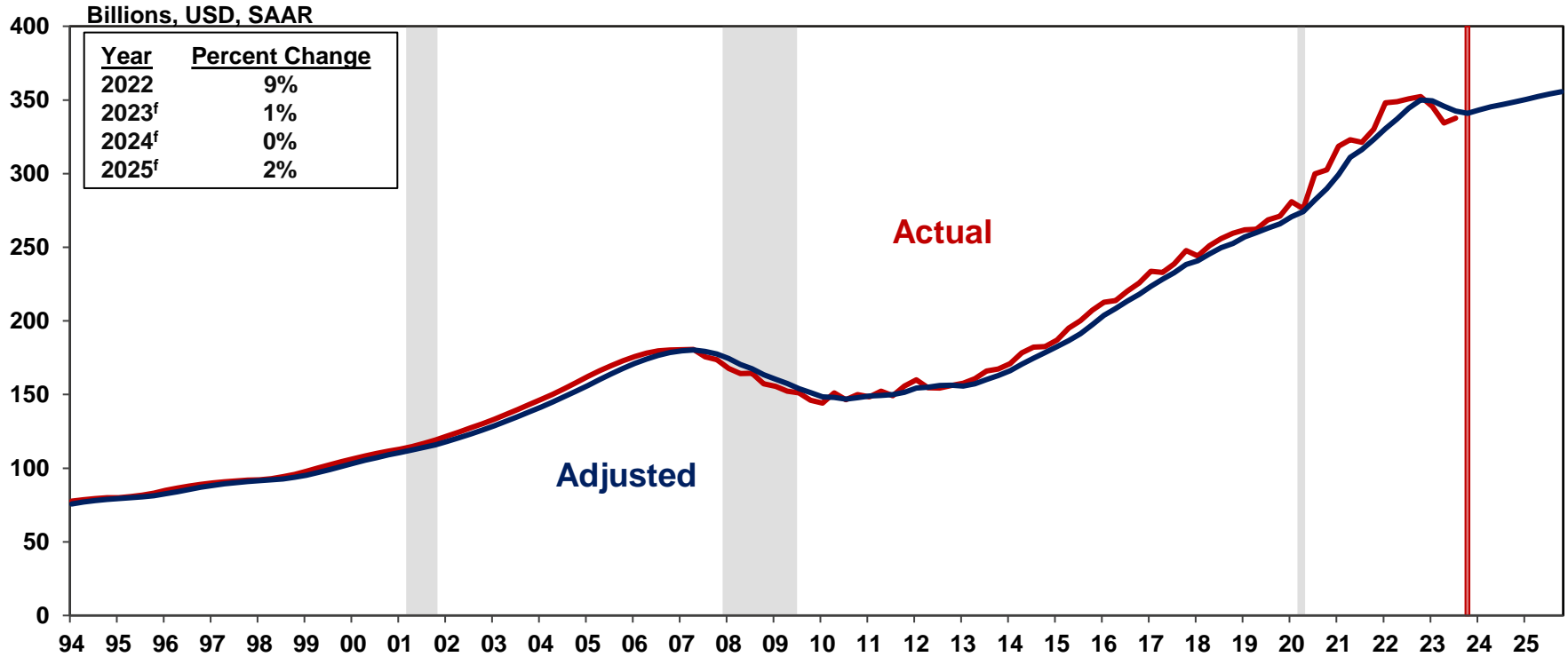
Top 10 Largest Multifamily Markets by Permits

Top 10 Largest MF Markets	Nov 2023 (# of units YTD, NSA)	YTD % Change (compared to Nov 2022)
New York-Newark-Jersey City, NY-NJ-PA	26,079	-40%
Dallas-Fort Worth-Arlington, TX	23,533	-24%
Austin-Round Rock, TX	19,963	-9%
Phoenix-Mesa-Scottsdale, AZ	19,404	13%
Los Angeles-Long Beach-Anaheim, CA	17,758	-11%
Houston-The Woodlands-Sugar Land, TX	17,420	-33%
Miami-Fort Lauderdale-West Palm Beach, FL	14,971	26%
Atlanta-Sandy Springs-Roswell, GA	14,242	-25%
Washington-Arlington-Alexandria, DC-VA-MD-WV	11,086	-40%
Seattle-Tacoma-Bellevue, WA	10,175	-45%

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

Residential Remodeling

Minor soft patch for home improvement demand

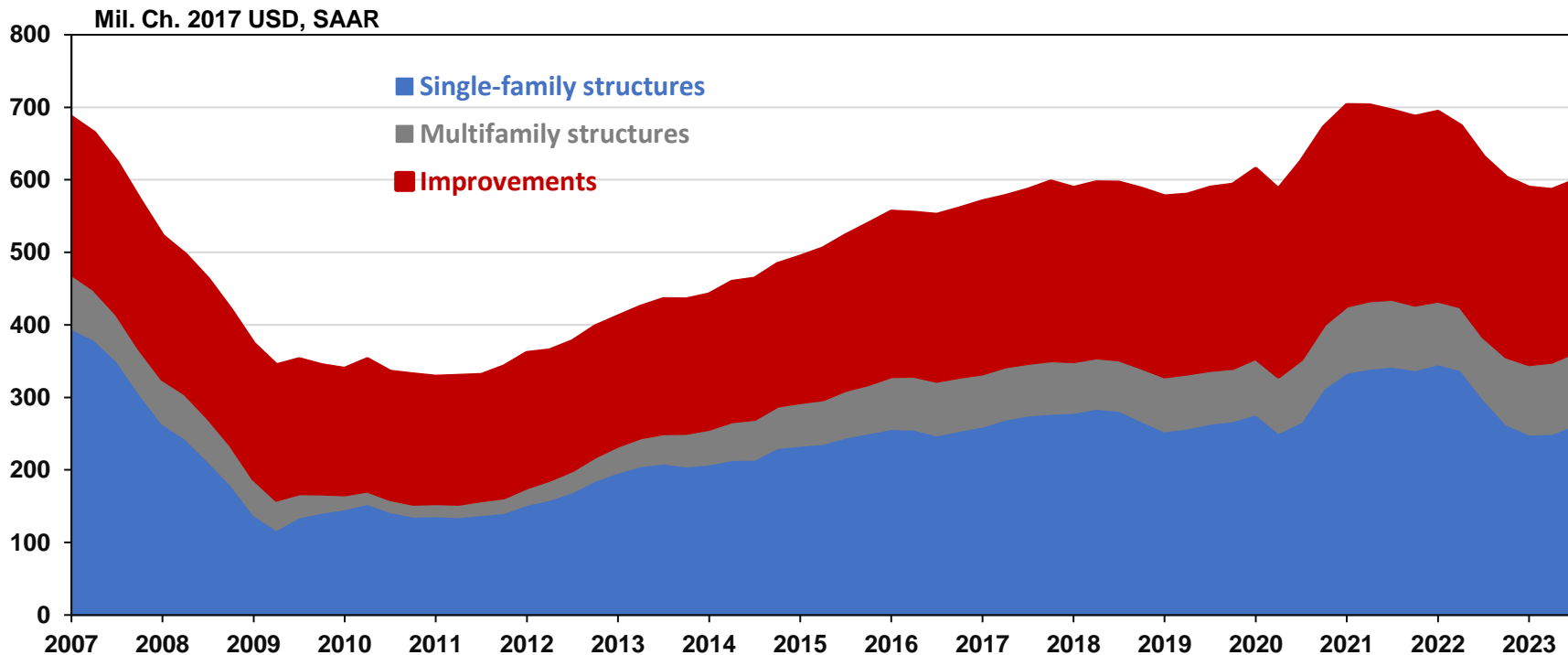


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

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

Remodeling Gaining Market Share for Residential Construction

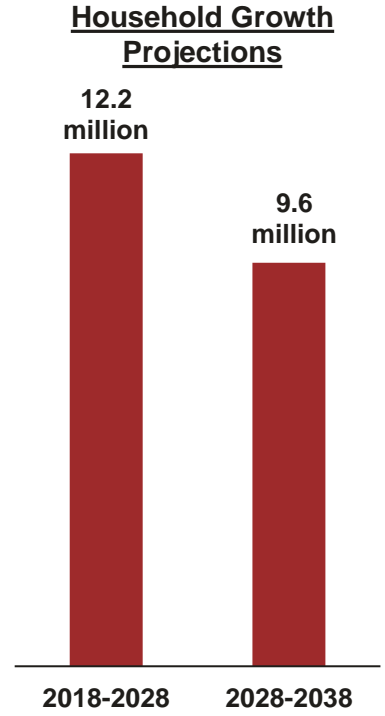
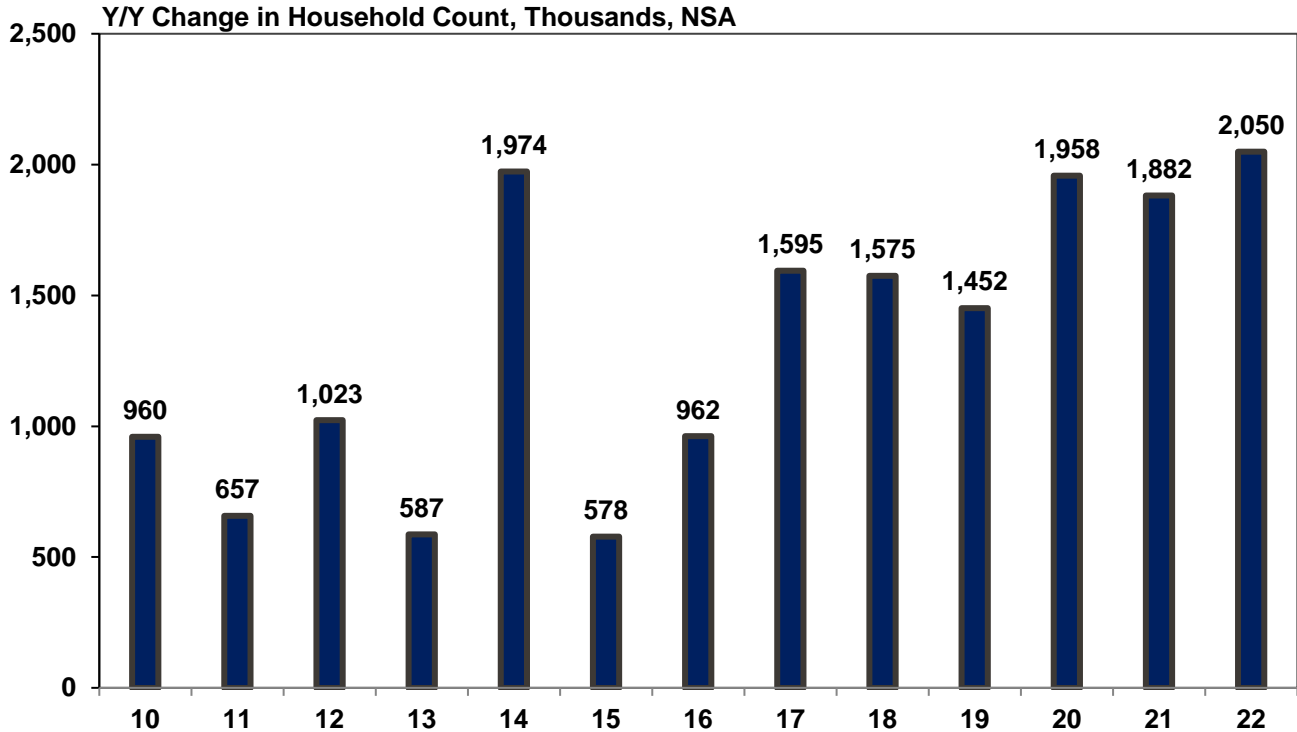
Improvement spending share increased from 33% in 2007 to 39% in 3Q 2023



Source: Bureau of Economic Analysis

Household Formation

Household growth slowing into the 2030s



Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership and the Joint Center for Housing Studies (JCHS) projections
[Harvard JCHS McCue Household Projections Rev010319.pdf](#)



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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