

Higher Rates for Longer

HBA of Greater Portland
November 2, 2023

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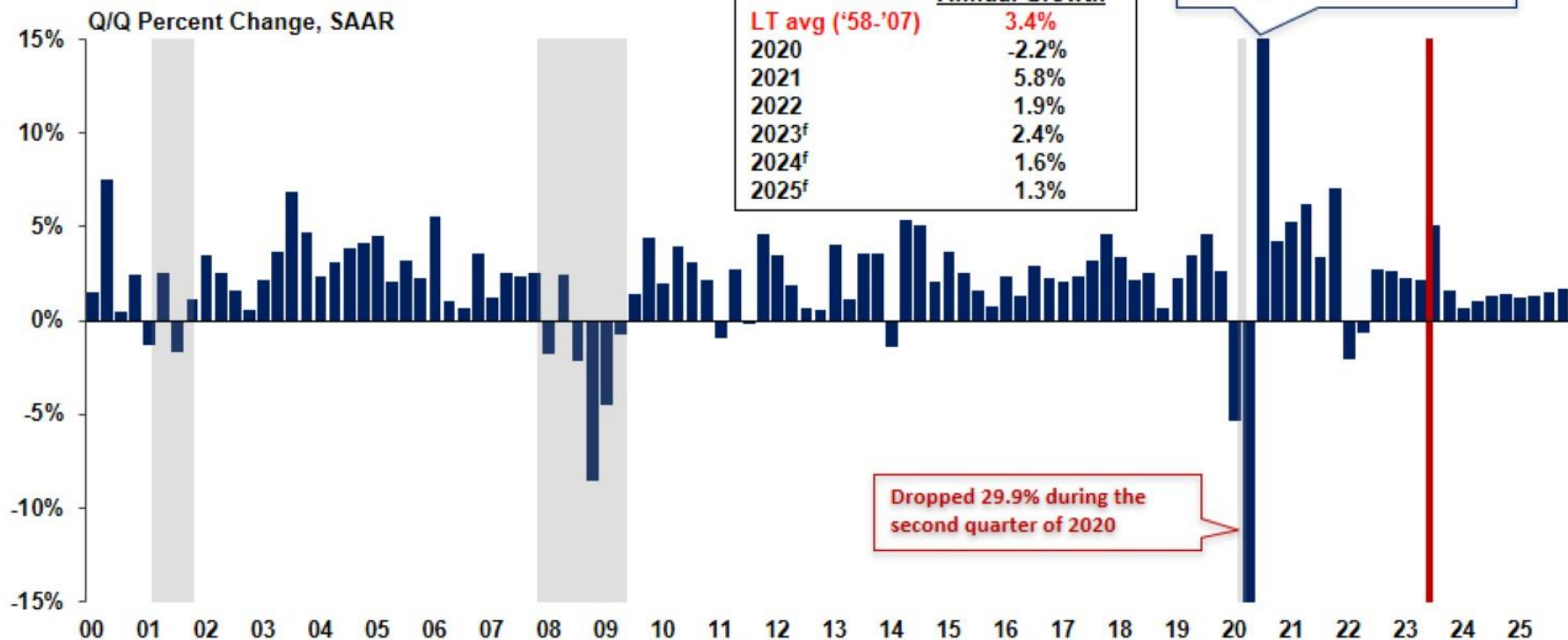


HOME BUILDING
ASSOCIATION
OF GREATER PORTLAND
Building Better Together



GDP – Moderate Growth in 2023

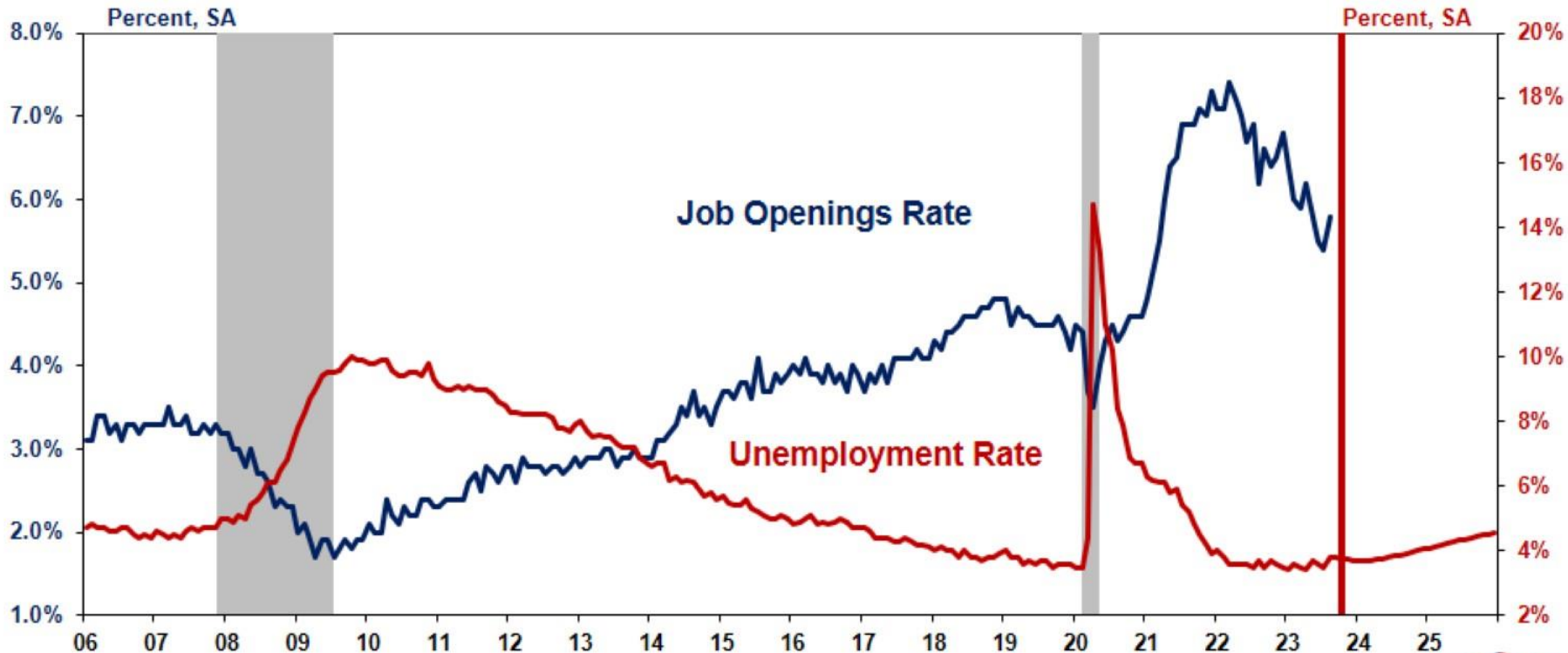
Soft landing?



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

Job Openings

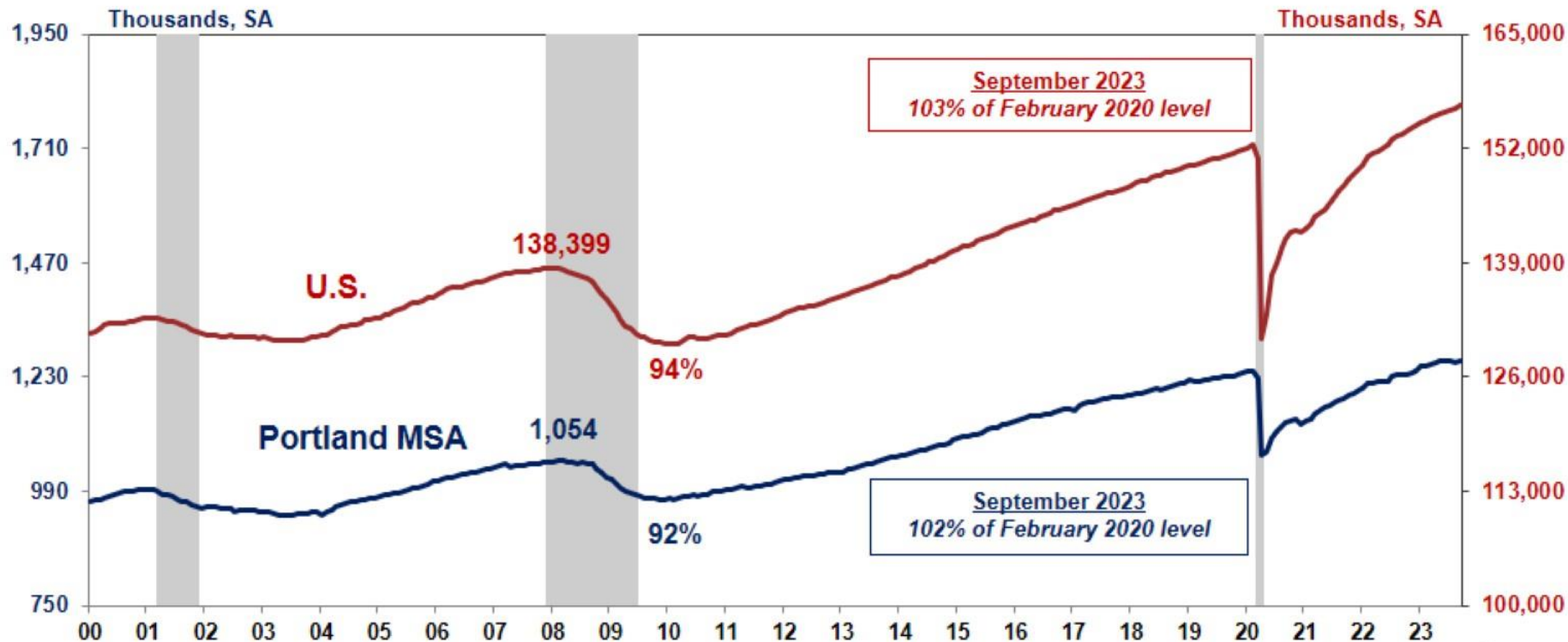
Increased significantly to 9.6 million in August



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

Payroll Employment

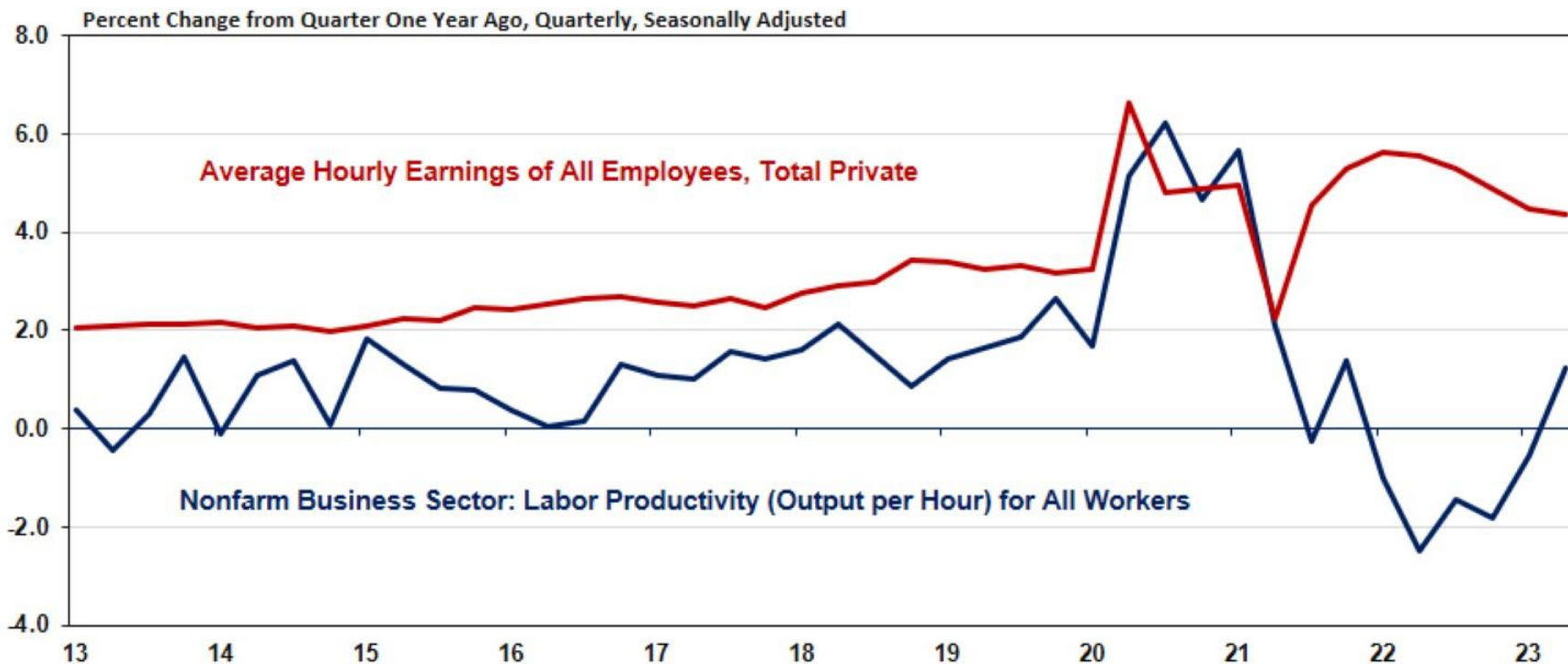
Portland MSA recovered from COVID-19 recession



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

Wages Outpacing Productivity

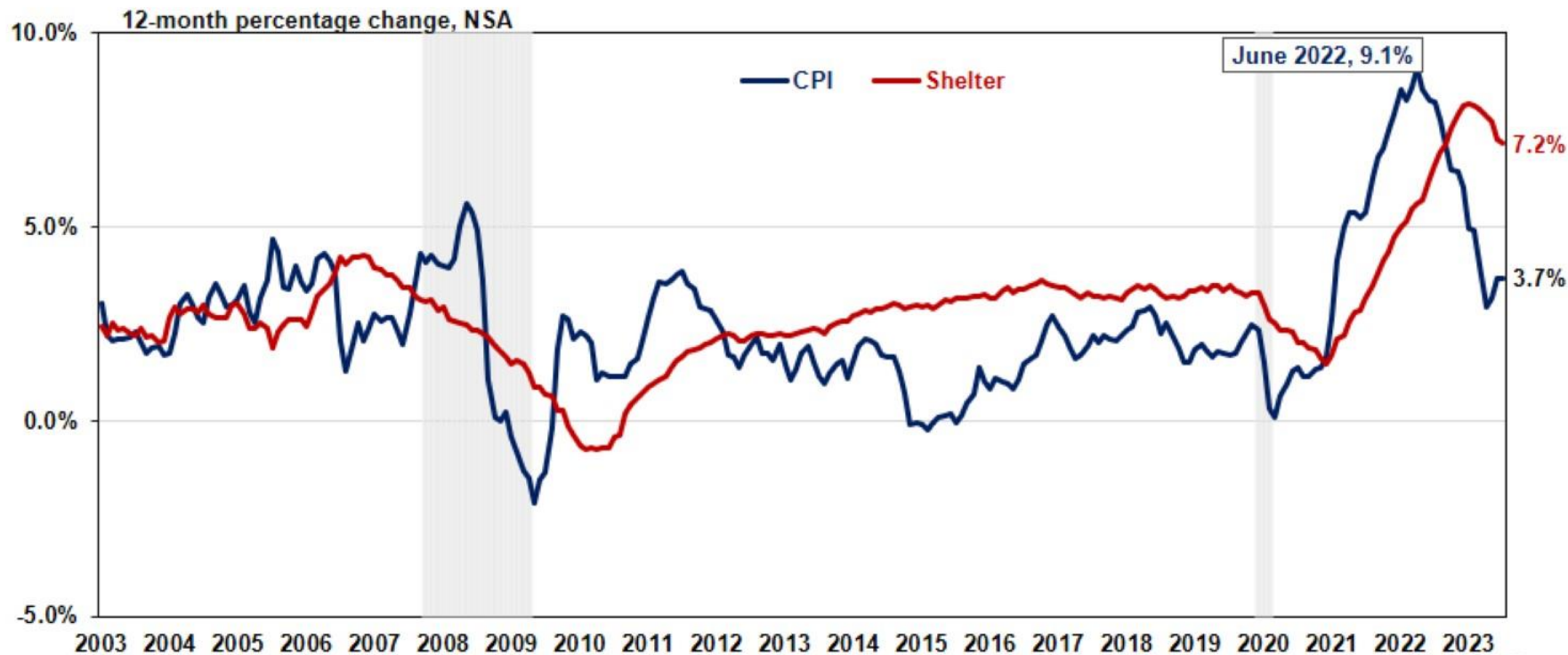
Income can only grow with productivity gains



Source: Federal Reserve Bank of St. Louis

Consumer Inflation – Headline Rate and Shelter

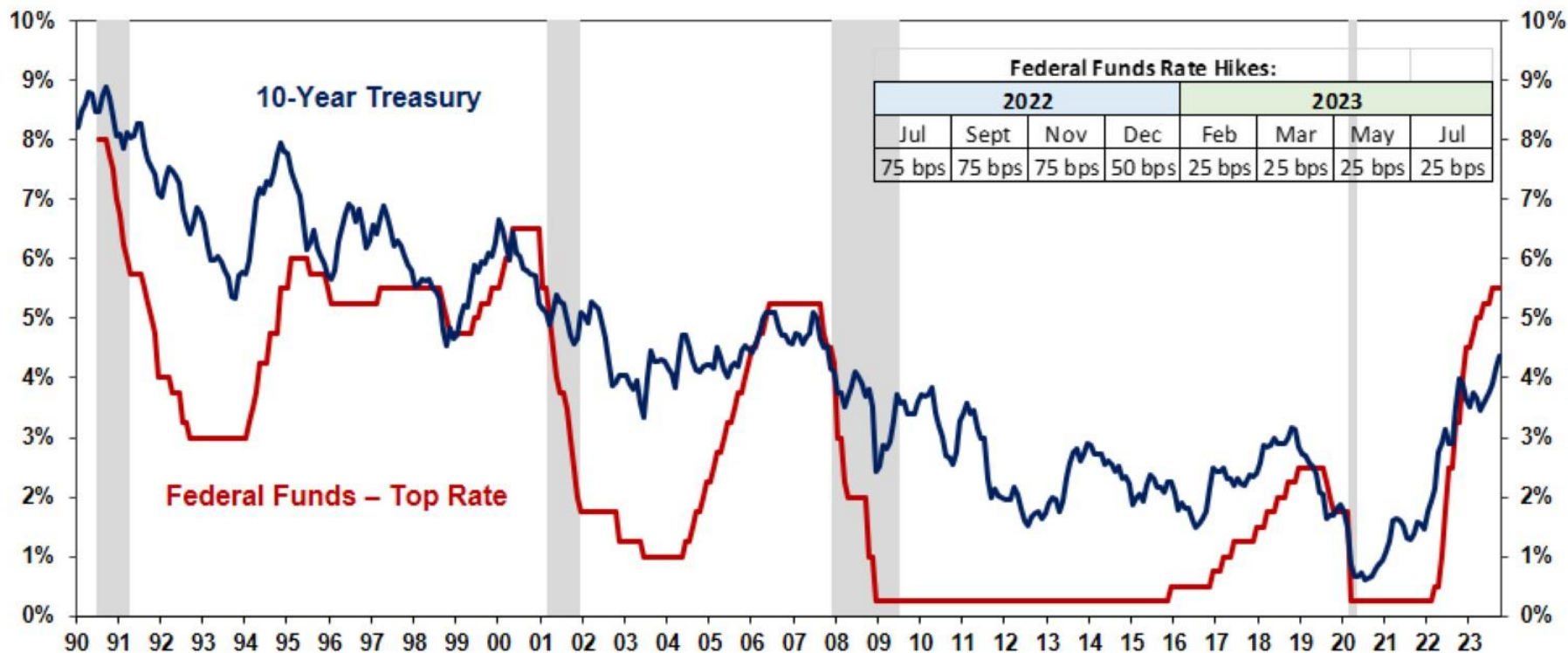
Shelter costs continue to rise despite Fed policy tightening --- “Gimmie Shelter”



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

Monetary Policy Tightening in Response to Inflation

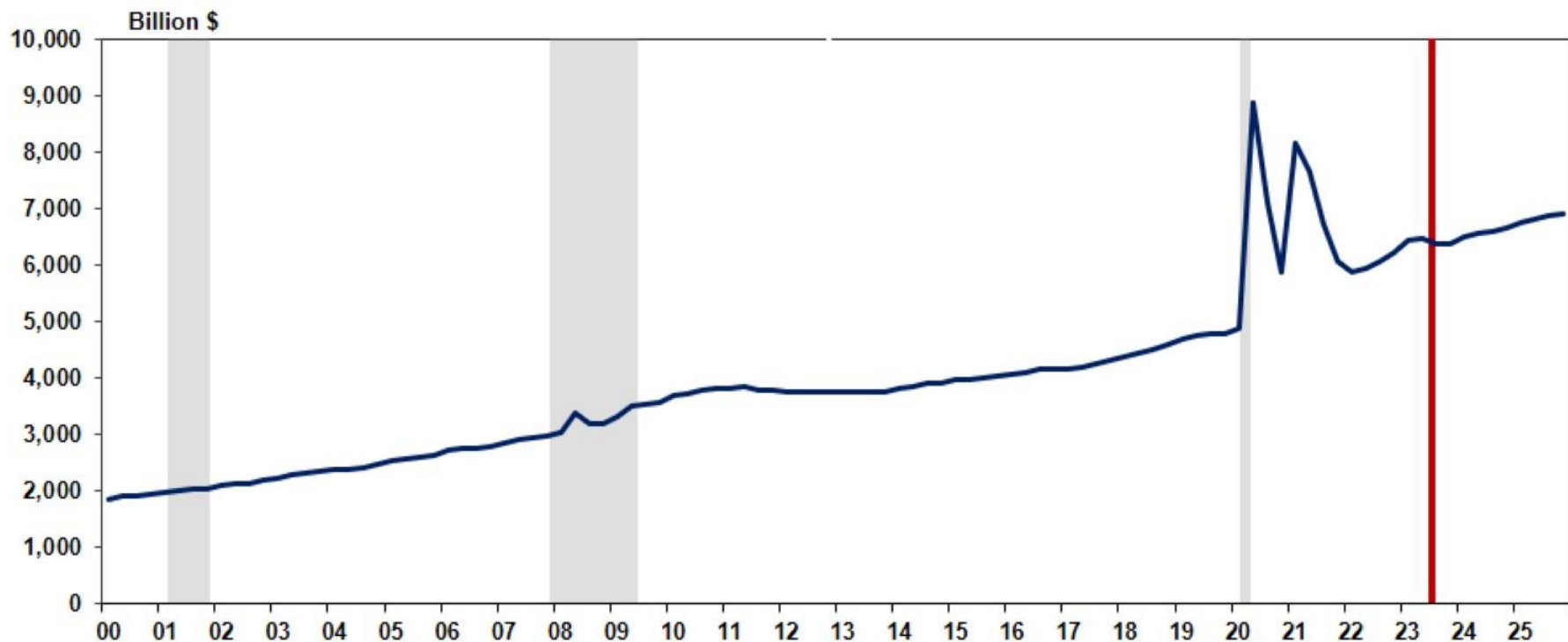
The Fed should pause now...



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

Historic Expansion for Government Spending

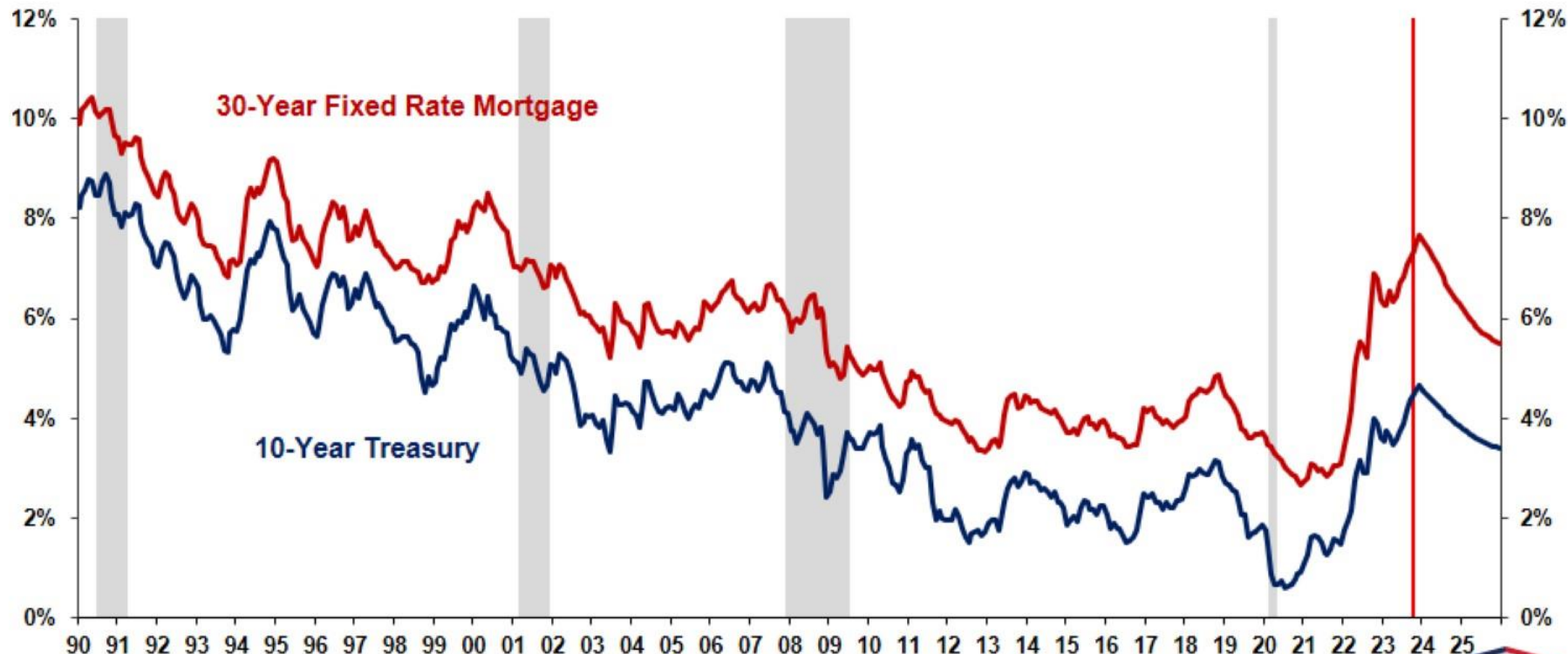
Post-covid legislation added to inflation pressure



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

Mortgage Rates Near Cycle Peak

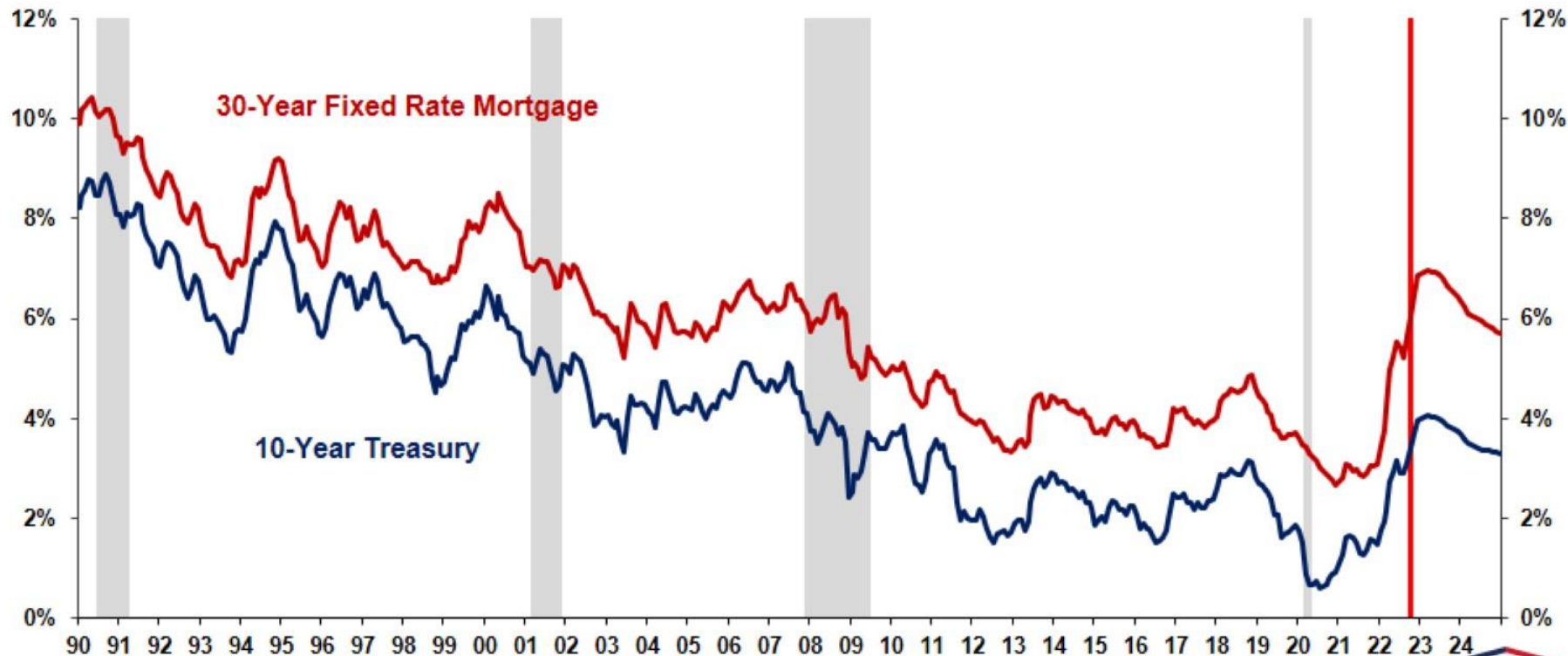
Housing affordability at more than decade low



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

LAST YEAR: Interest Rates Trending Higher

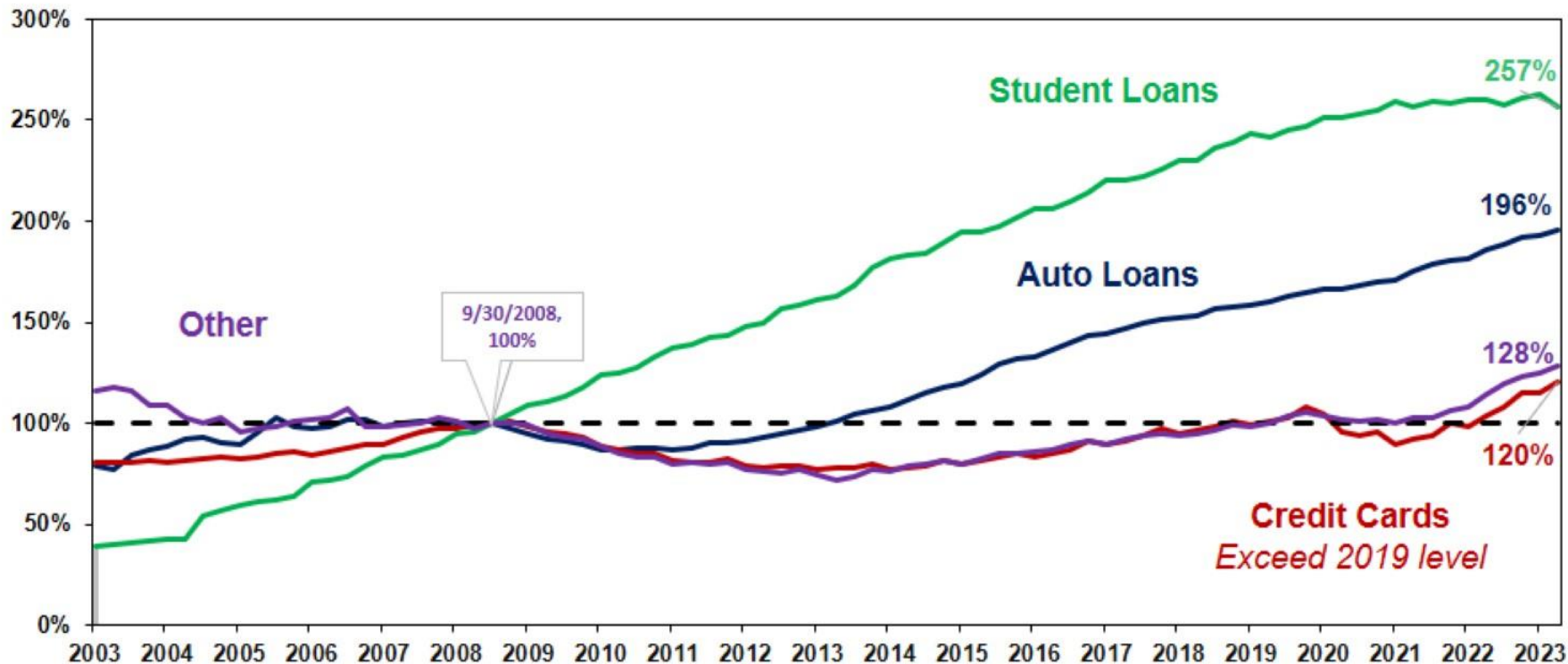
Federal Reserve is tightening monetary policy



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

Consumer Debt

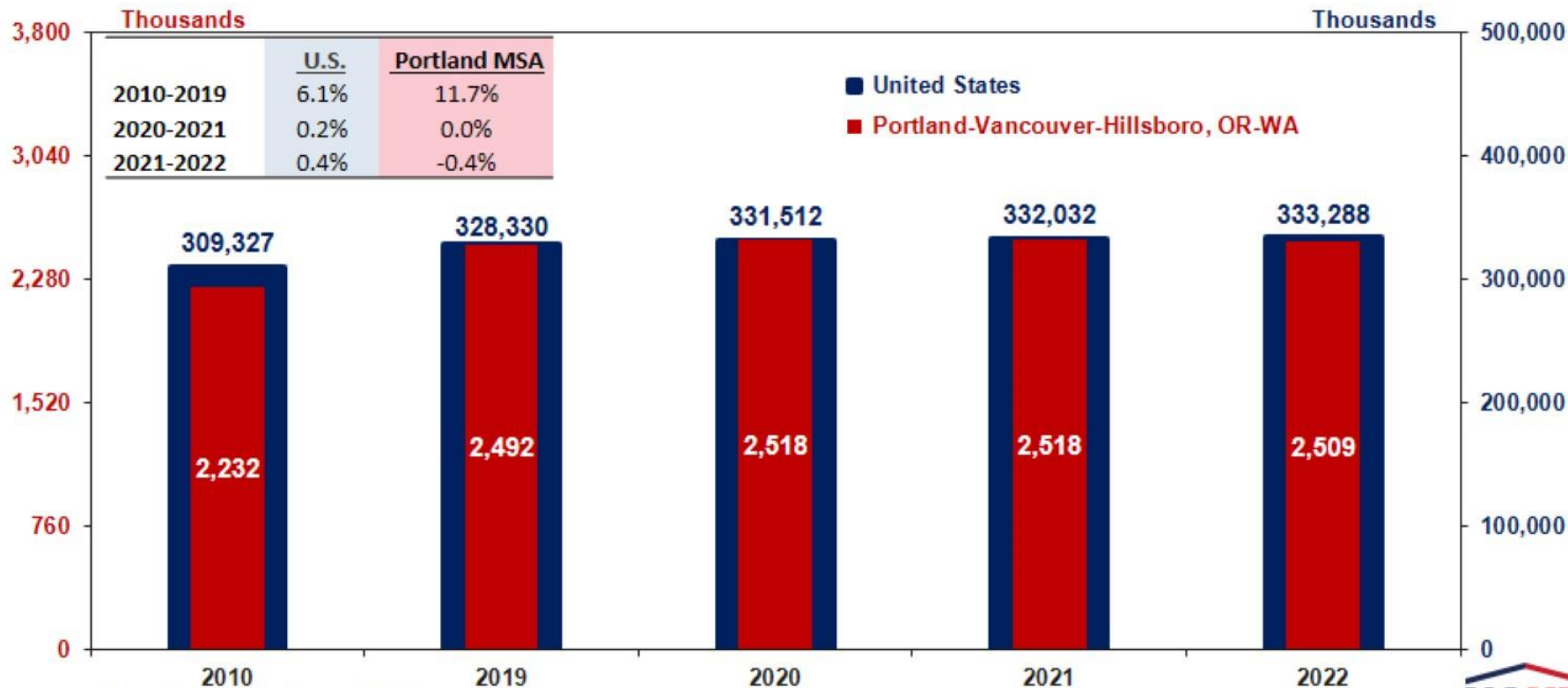
Credit card debt rising



Source: Federal Reserve Bank of New York

Population Growth

Portland MSA population declining in 2022

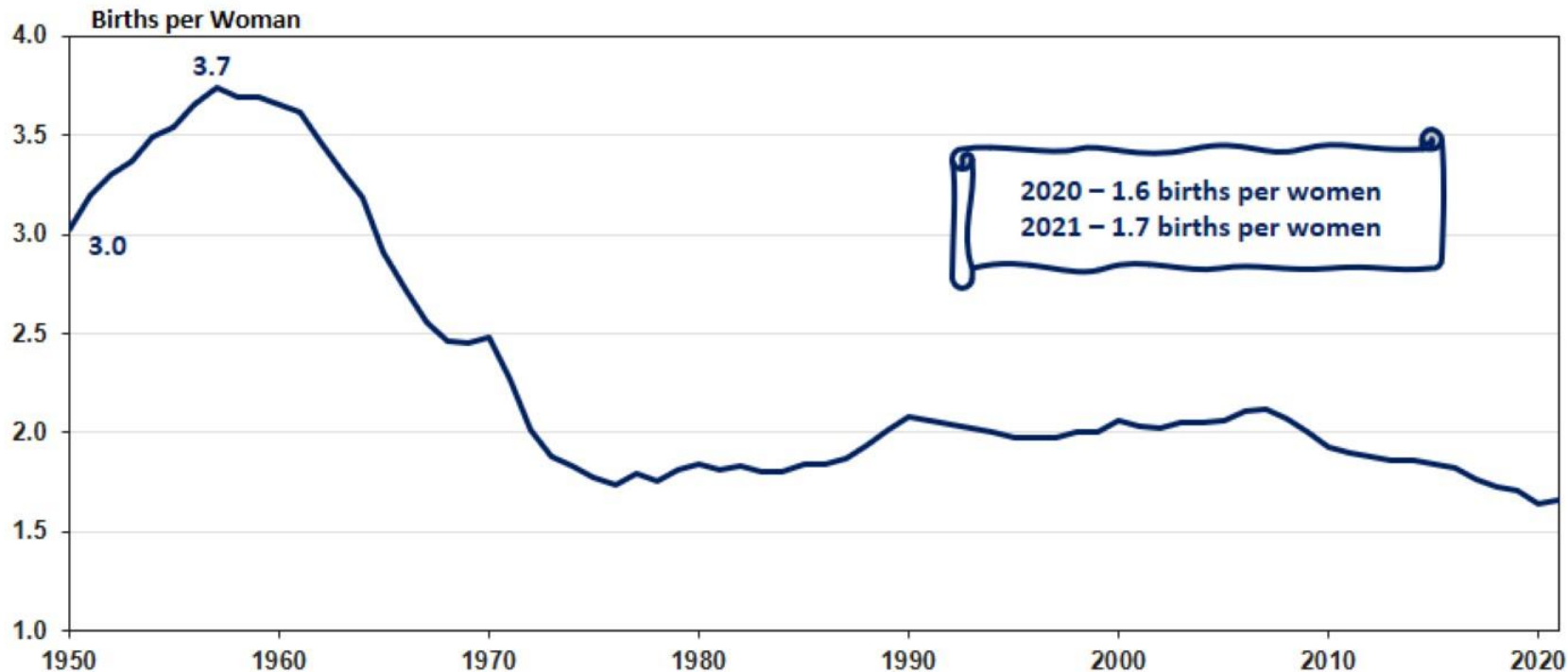


Source: U.S. Census Bureau (BOC).

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



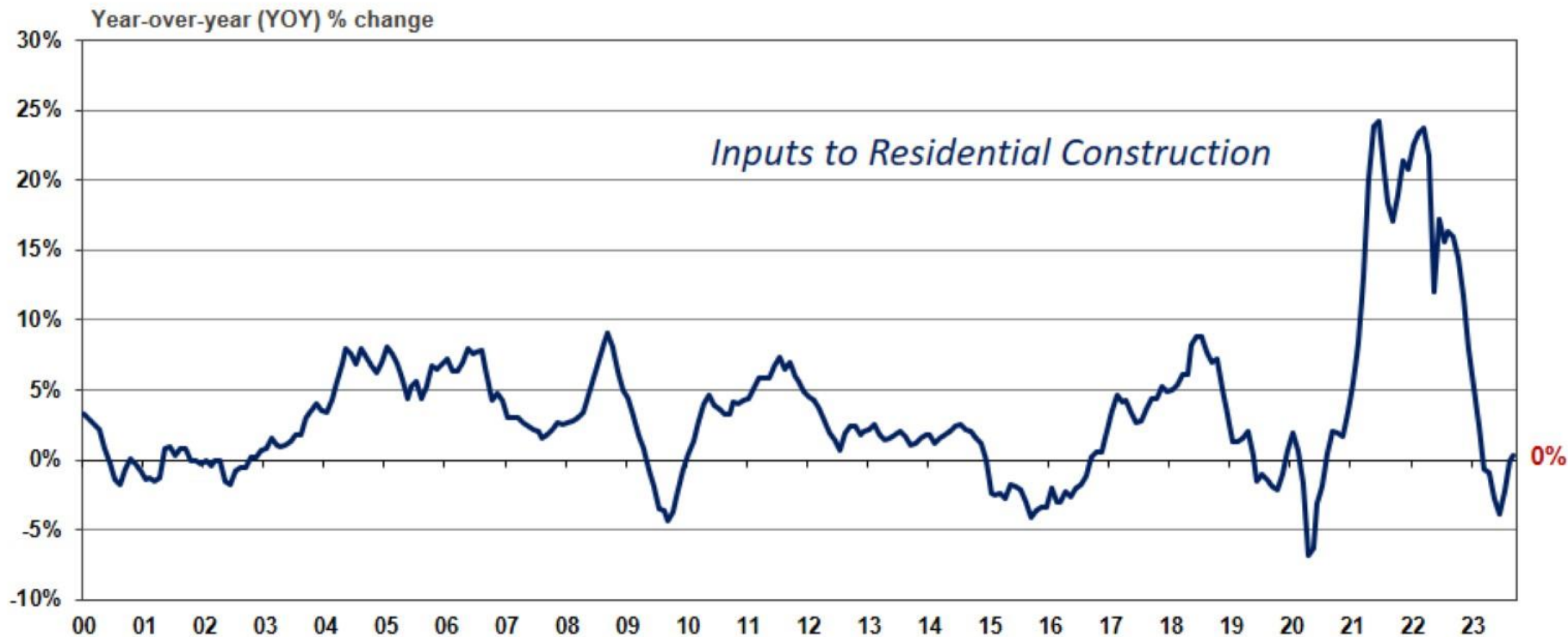
Source: The World Bank and <https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/>



Supply-Side Factors



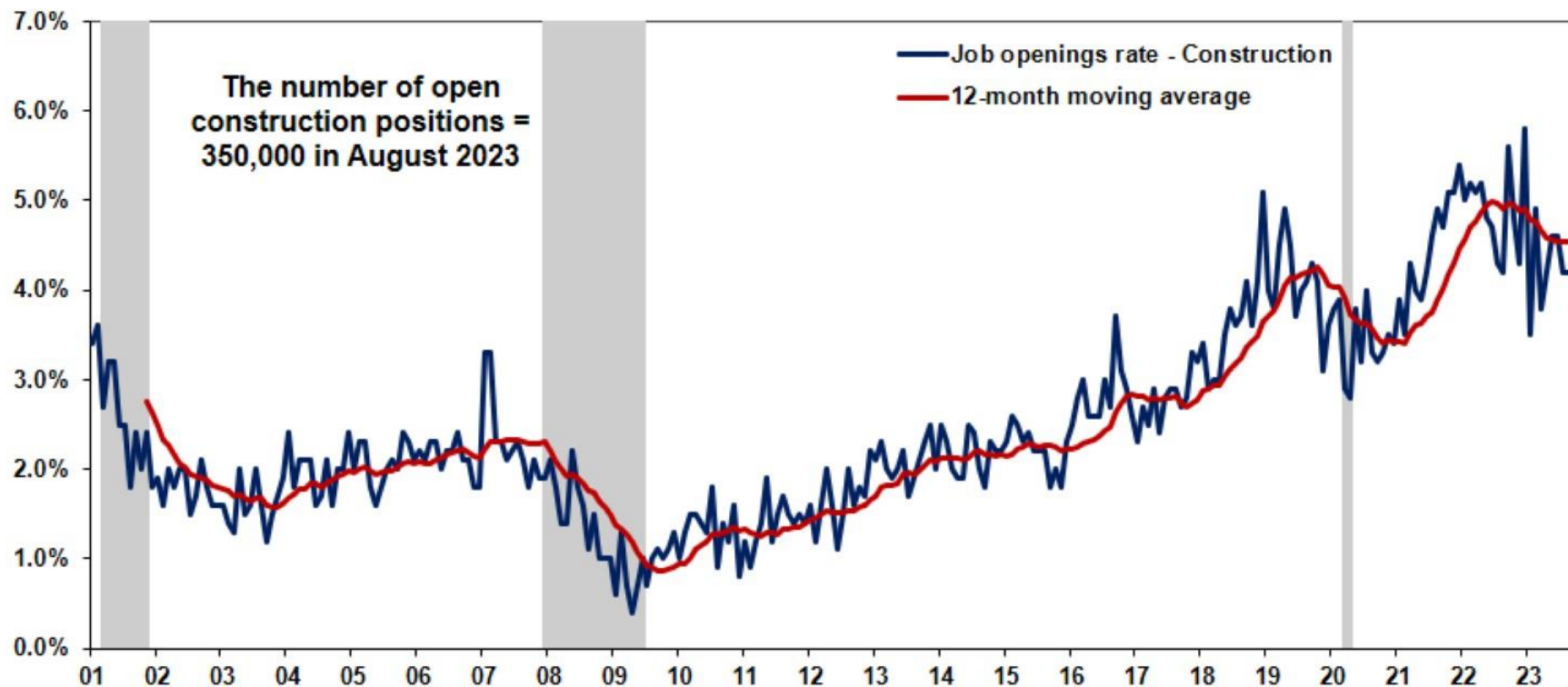
Building Materials - Residential Construction Cost



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

Labor – Construction Job Openings Peaked for Cycle?

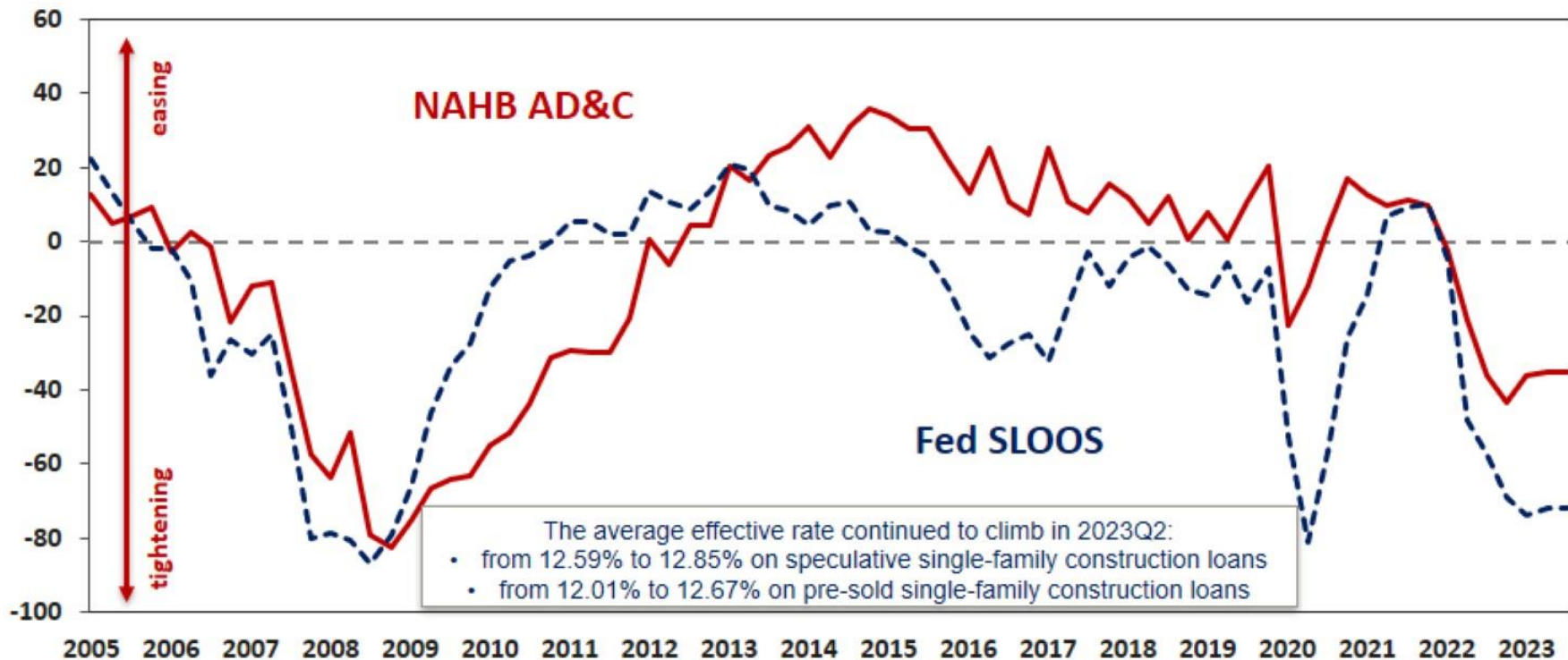
Skilled labor shortage persists; 352,100 net gain for residential construction since Jan 2020



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

Lending – AD&C Loan Conditions

Credit for builders tightens as rates climb

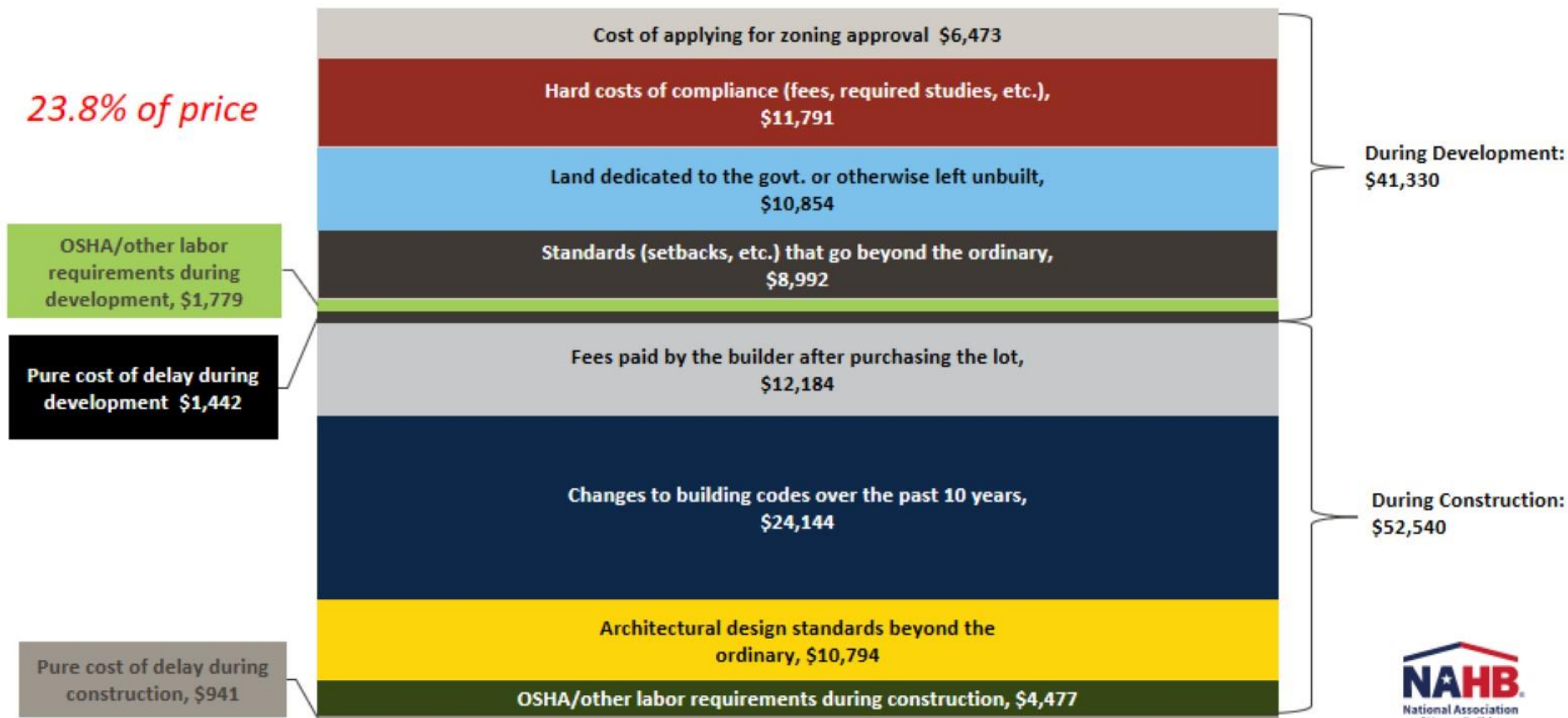


Source: NAHB survey; Federal Reserve's Senior Loan Officer Opinion Survey (SLOOS)

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)

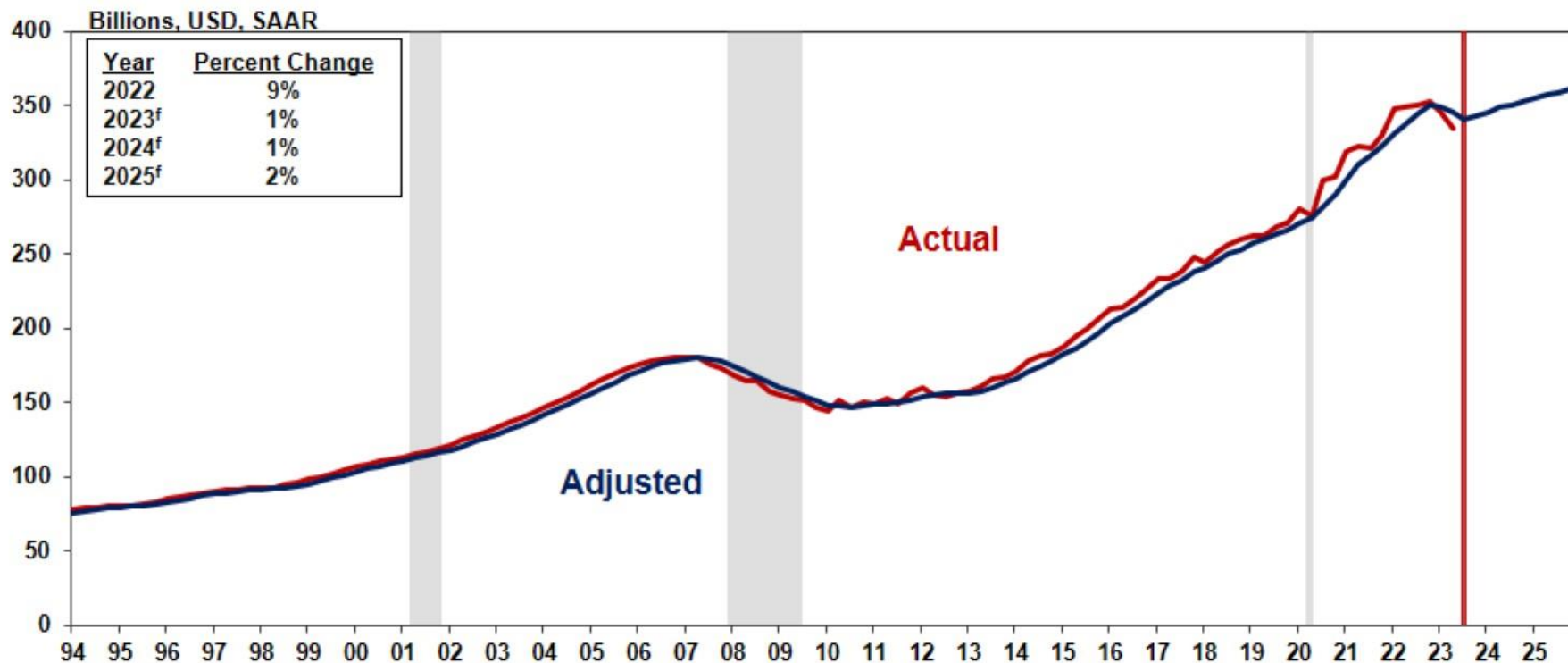


Construction Outlook



Residential Remodeling

Minor soft patch for home improvement demand

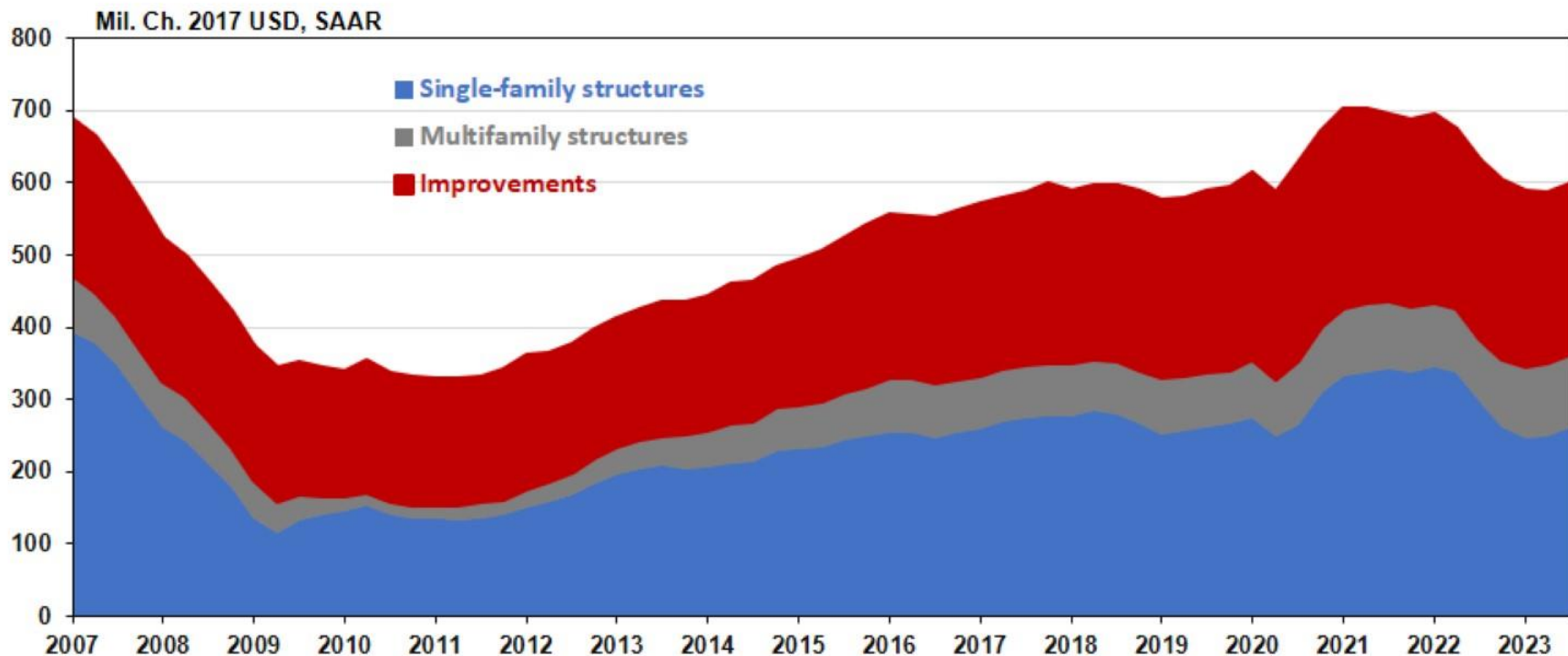


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

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

Remodeling Gaining Market Share for Residential Construction

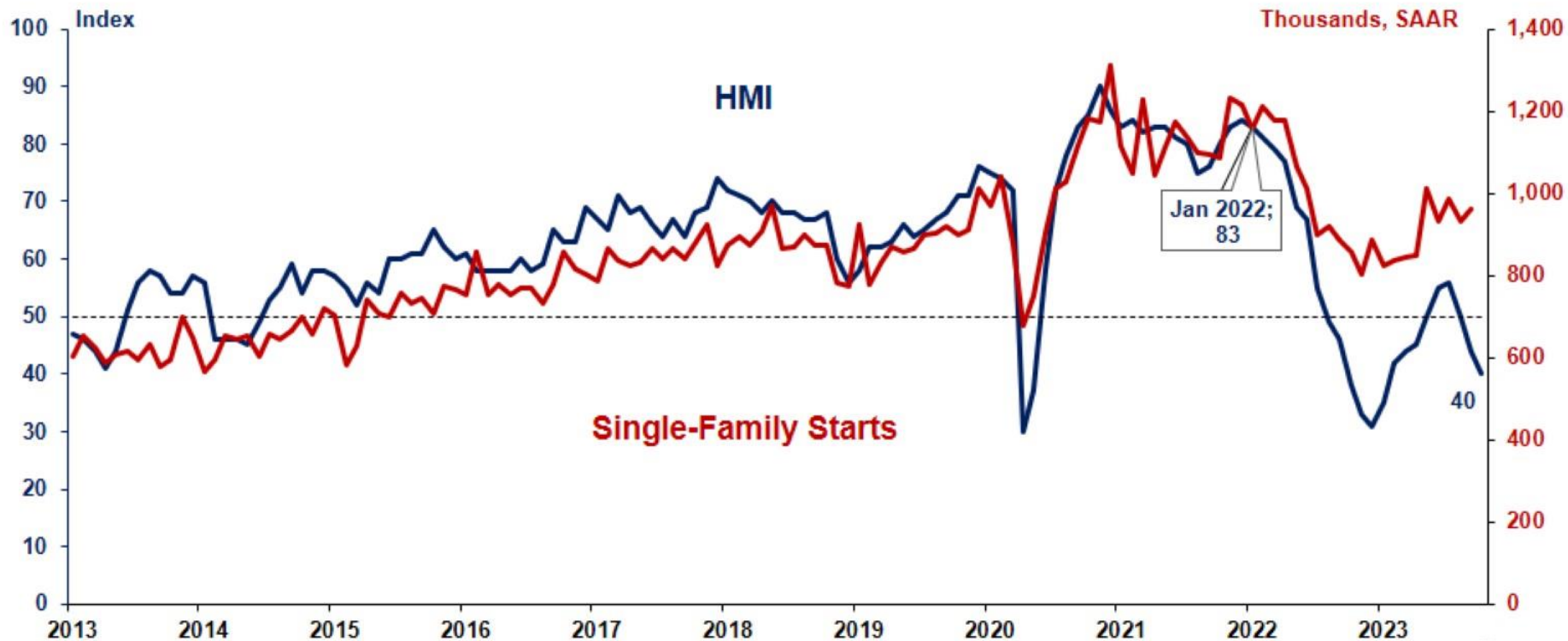
Improvement spending share increased from 33% in 2007 to 39% in 3Q 2023



Source: Bureau of Economic Analysis

NAHB/Wells Fargo Housing Market Index (HMI)

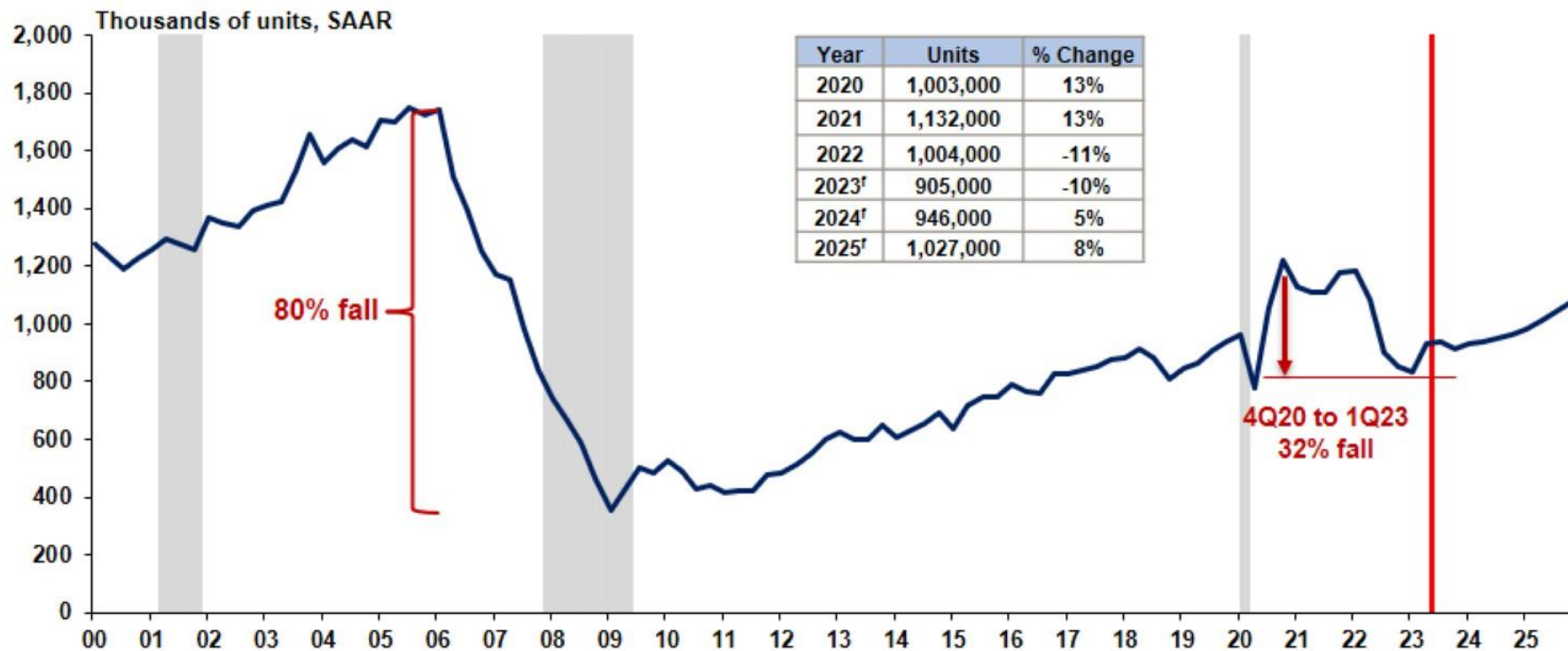
Mortgage rates well above 7% continue to hammer builder confidence



Source: Census Bureau and NAHB/Wells Fargo HMI survey

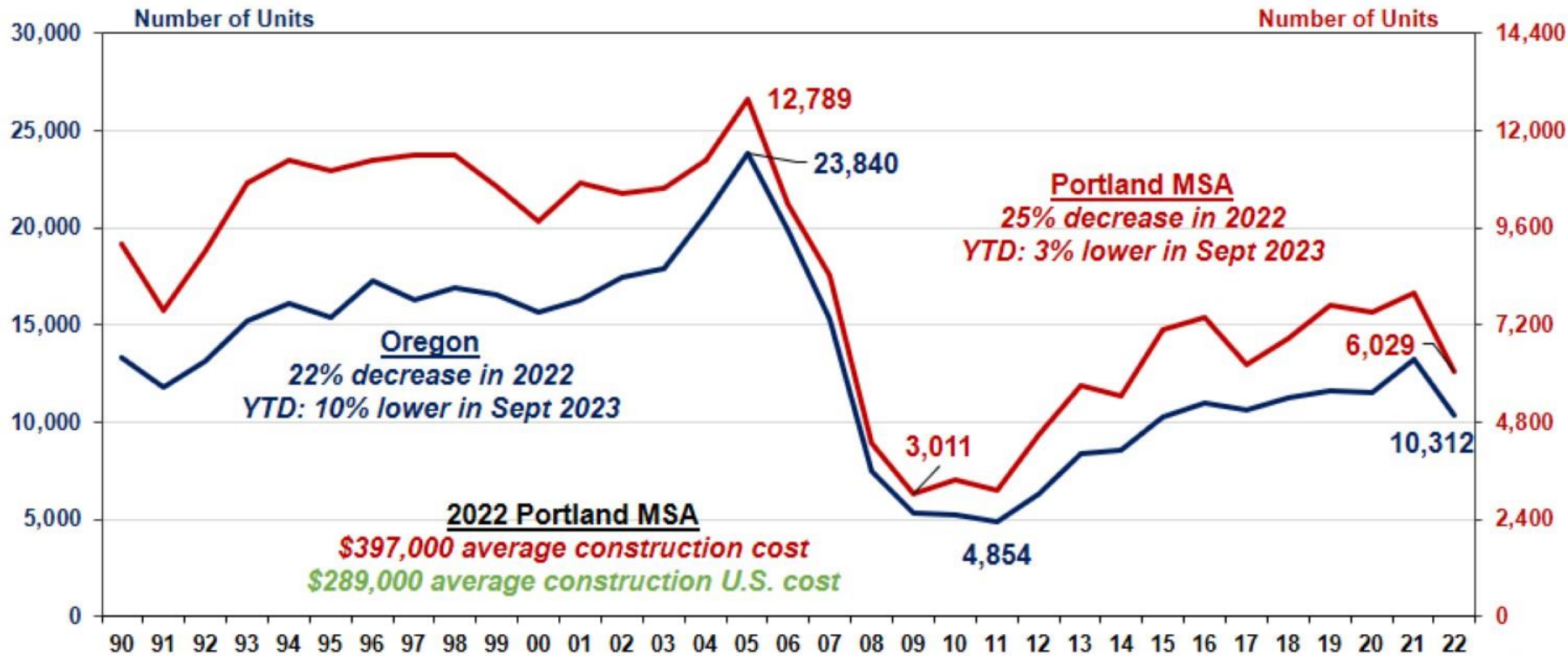
Single-Family Starts

Construction to trend higher in the quarters ahead



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

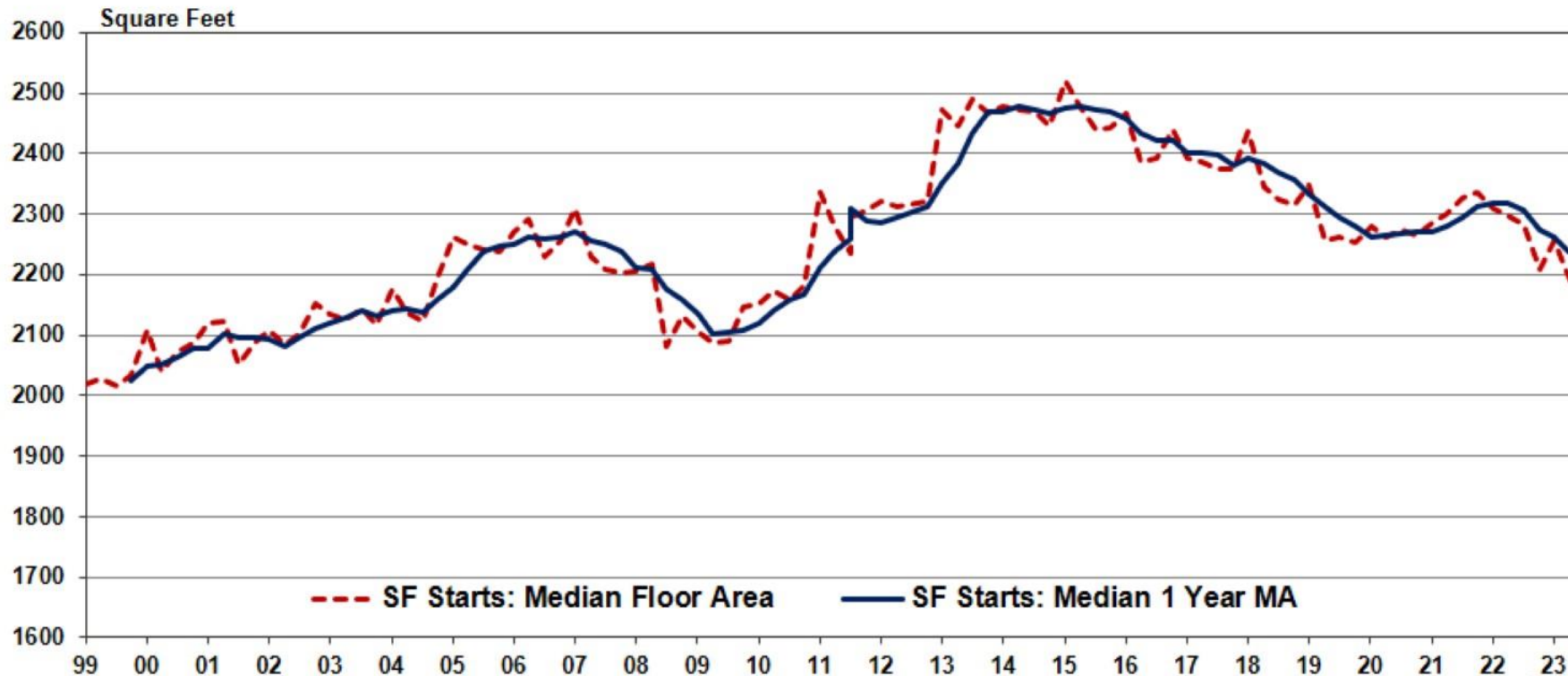
Single-Family Building Permits – Oregon and Portland MSA



Source: Census Bureau.

Typical New Home Size

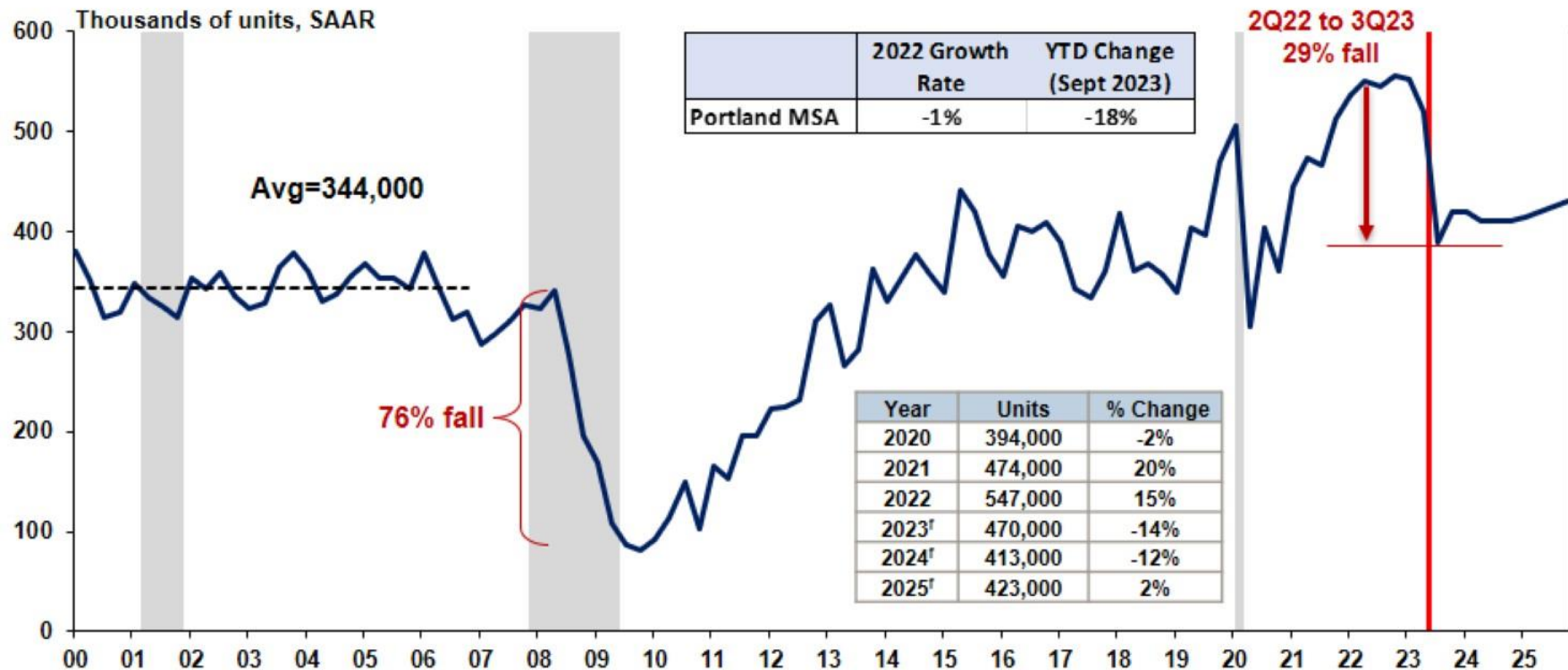
Size trending lower



Source: U.S. Census Bureau (BOC)

Multifamily Construction Growing

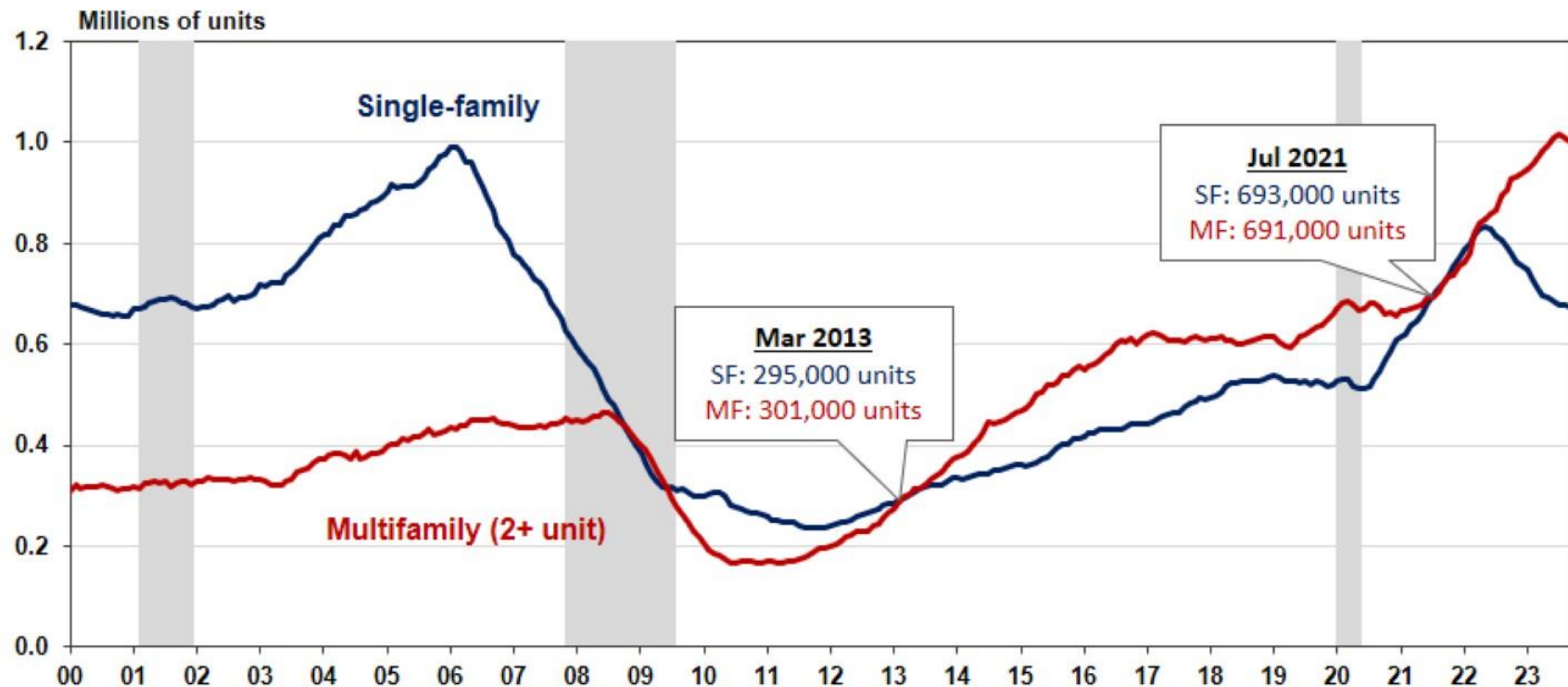
Multifamily permit 3-month moving average at lowest point since 2020



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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Home Mortgage

eyeonhousing.org
housingeconomics.com