

# The Fed Brings on a Recession

*Northshore HBA*  
*December 14, 2022*

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*NAHB Chief Economist*



# Macro/Housing Outlook



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



**Forecast includes a recession in 2022/2023 recession**  
**Mild recession as inflation is challenged**



**Inflation declining off 40-year highs**  
**Fed needs to slow actions**



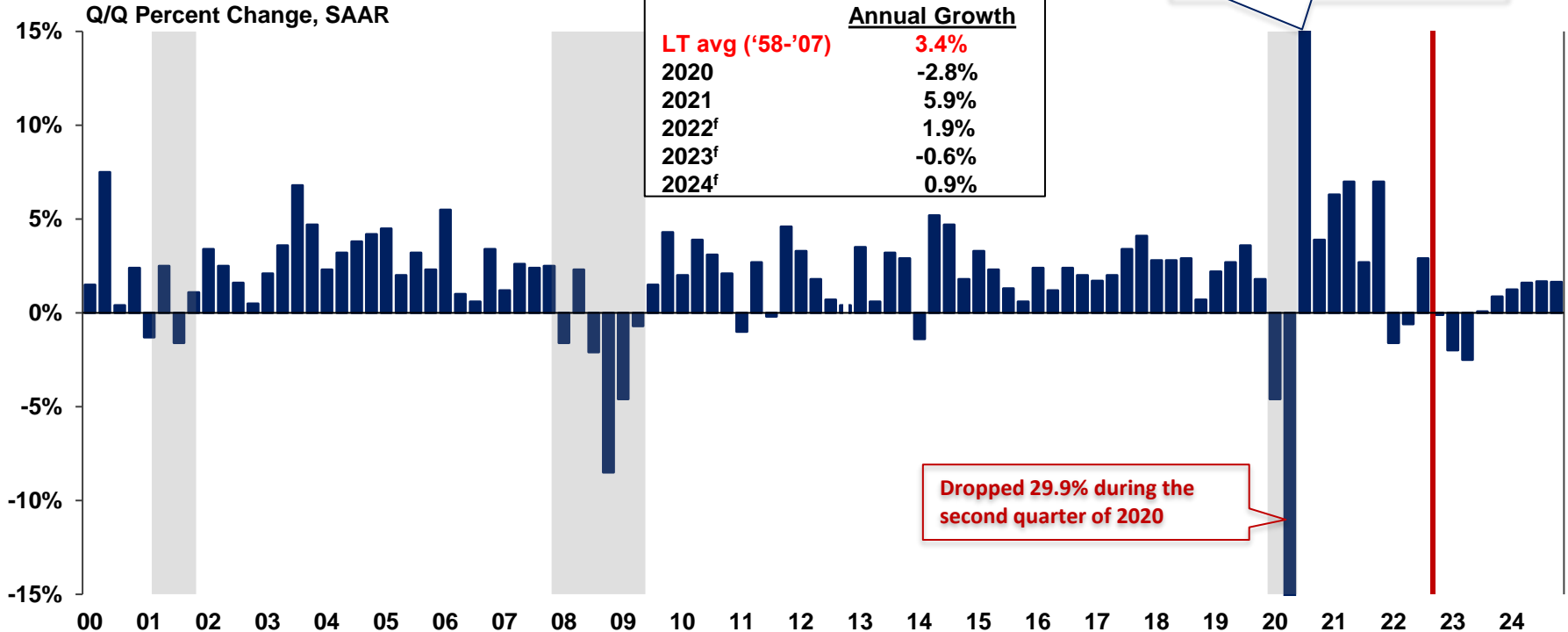
**Single-family construction weakening; multifamily, remodeling expanding**  
**Demand for more space in homes continues**



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

# GDP Growth – Recession in the Forecast Window

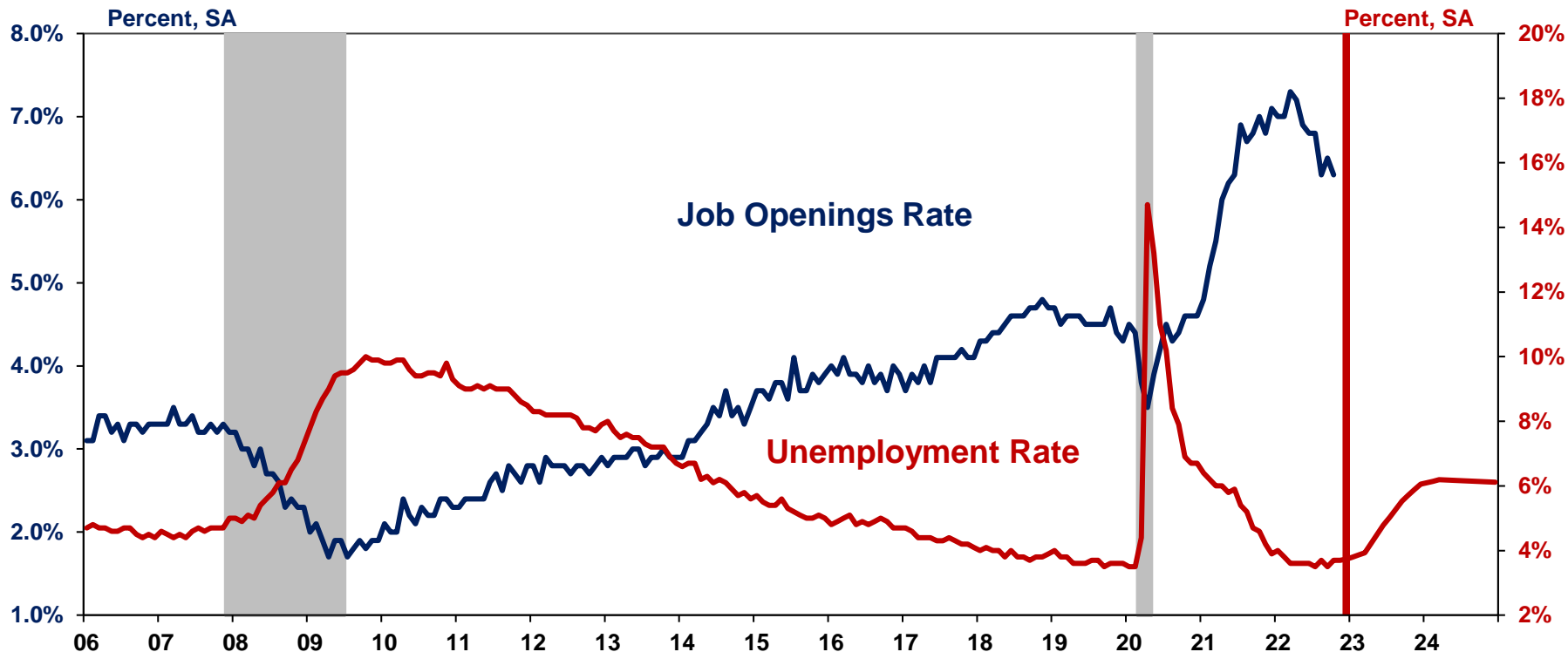
From 2022 to mid-2023: five of six quarters of GDP declines



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

# Job Openings Declined

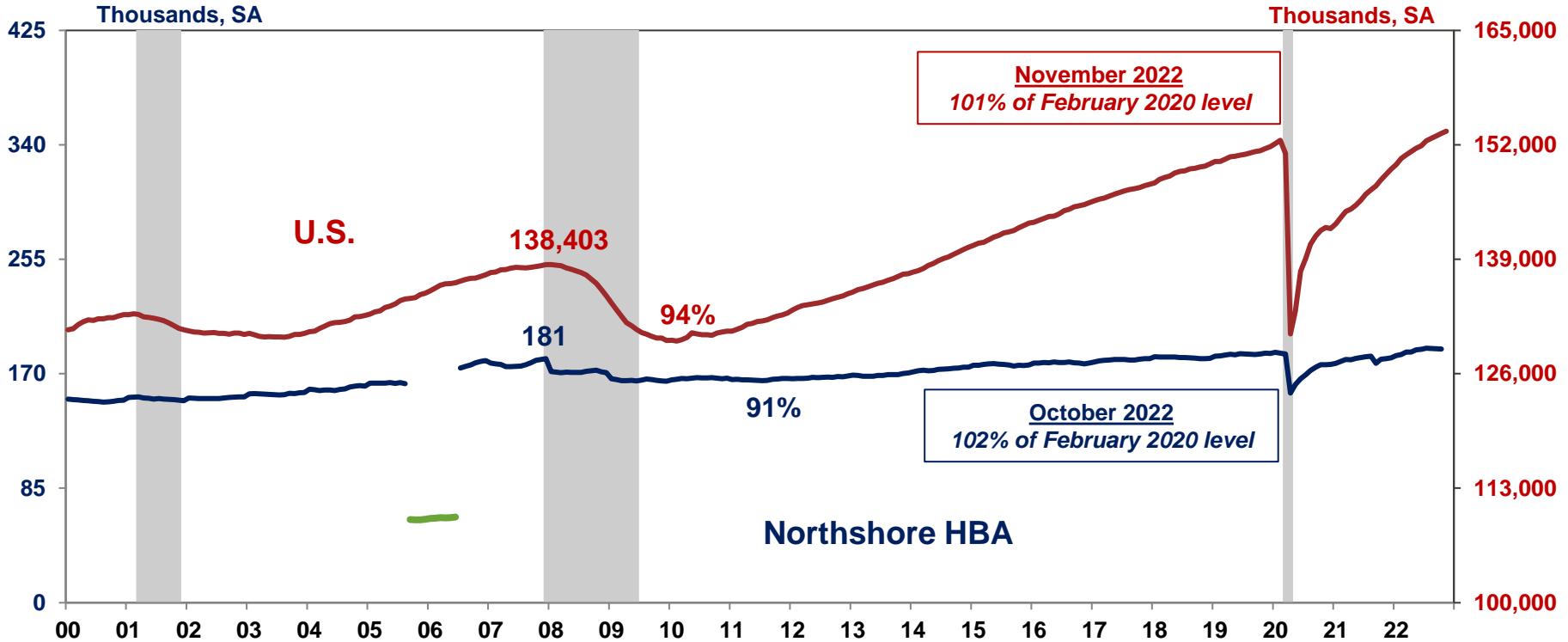
More than 10 million open jobs



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

# Payroll Employment

Northshore HBA recovered from COVID-19 recession

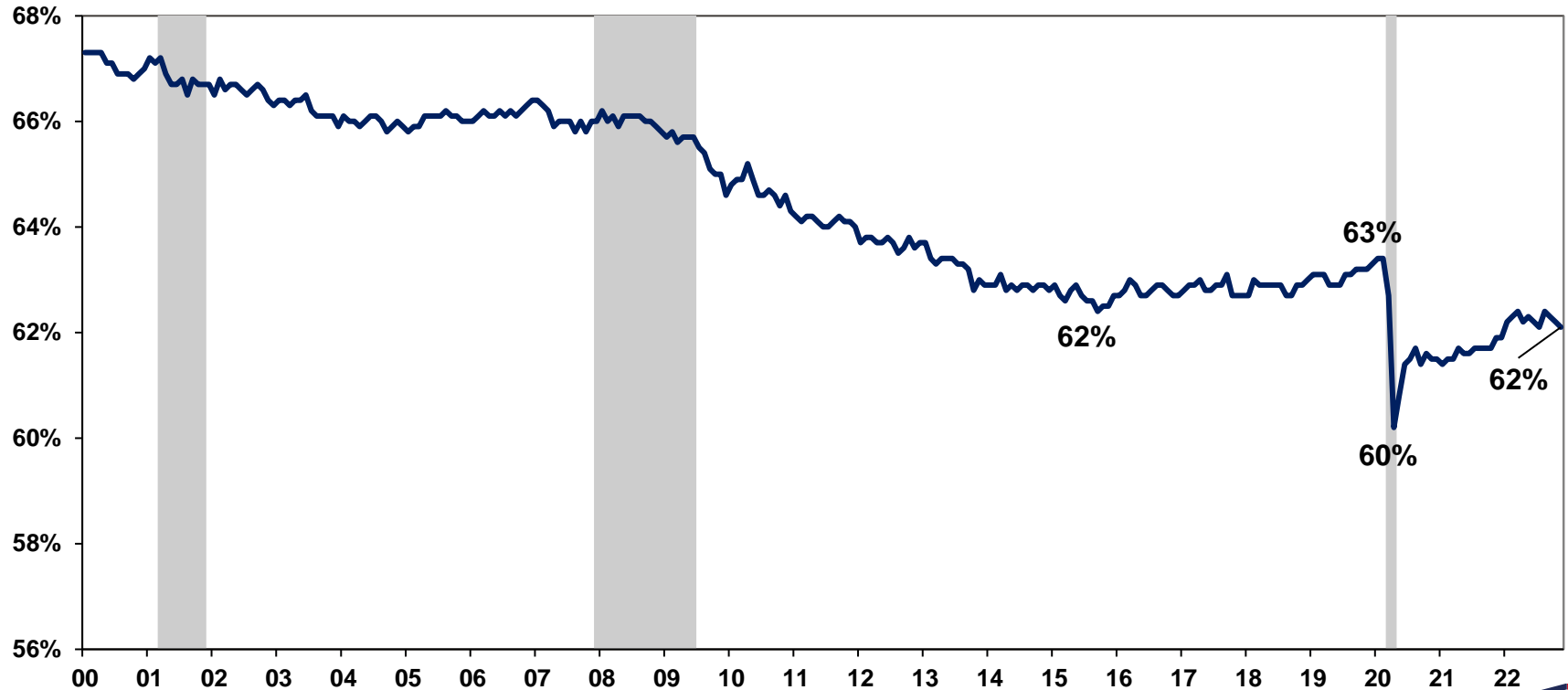


Note: St. Tammany Parish data are not available between 09/30/2005 and 06/30/2006 (green line).

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

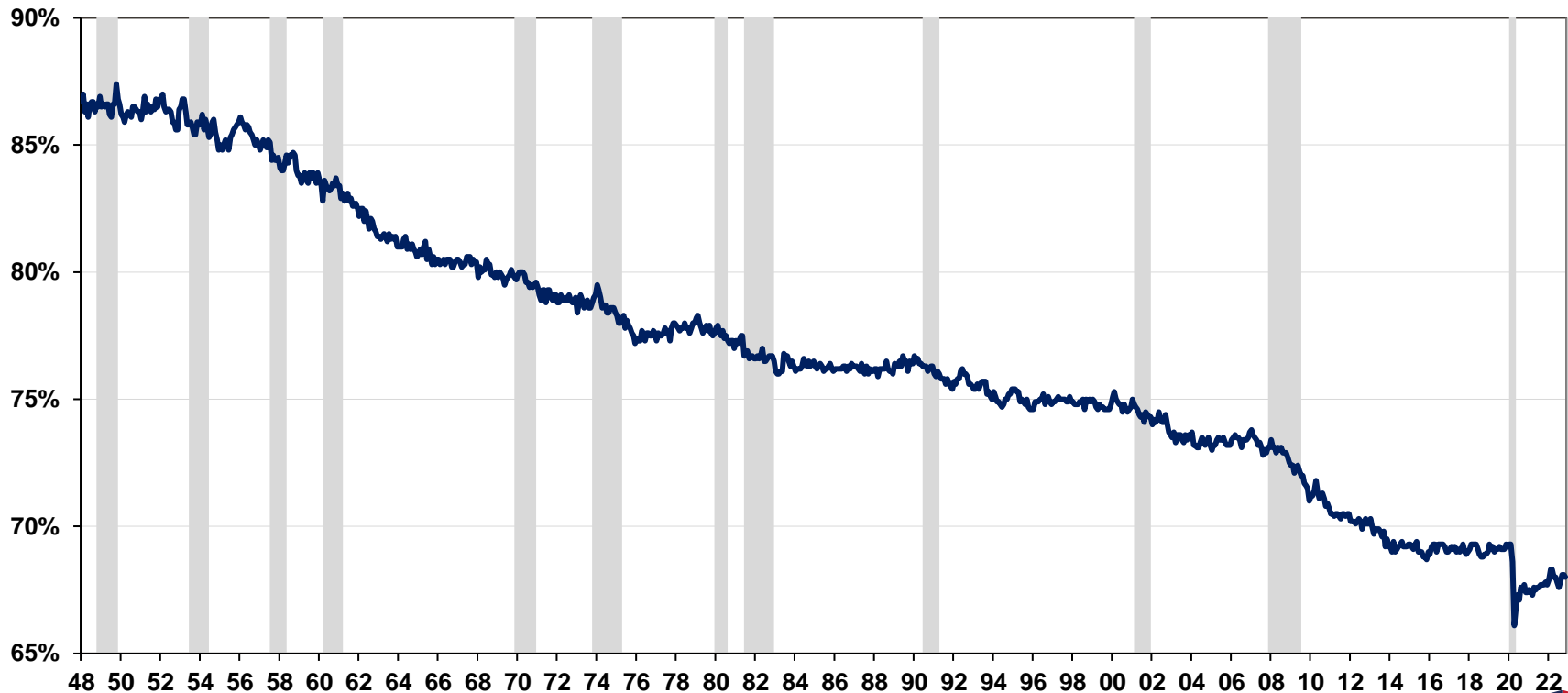
# Labor Force Participation Rate

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



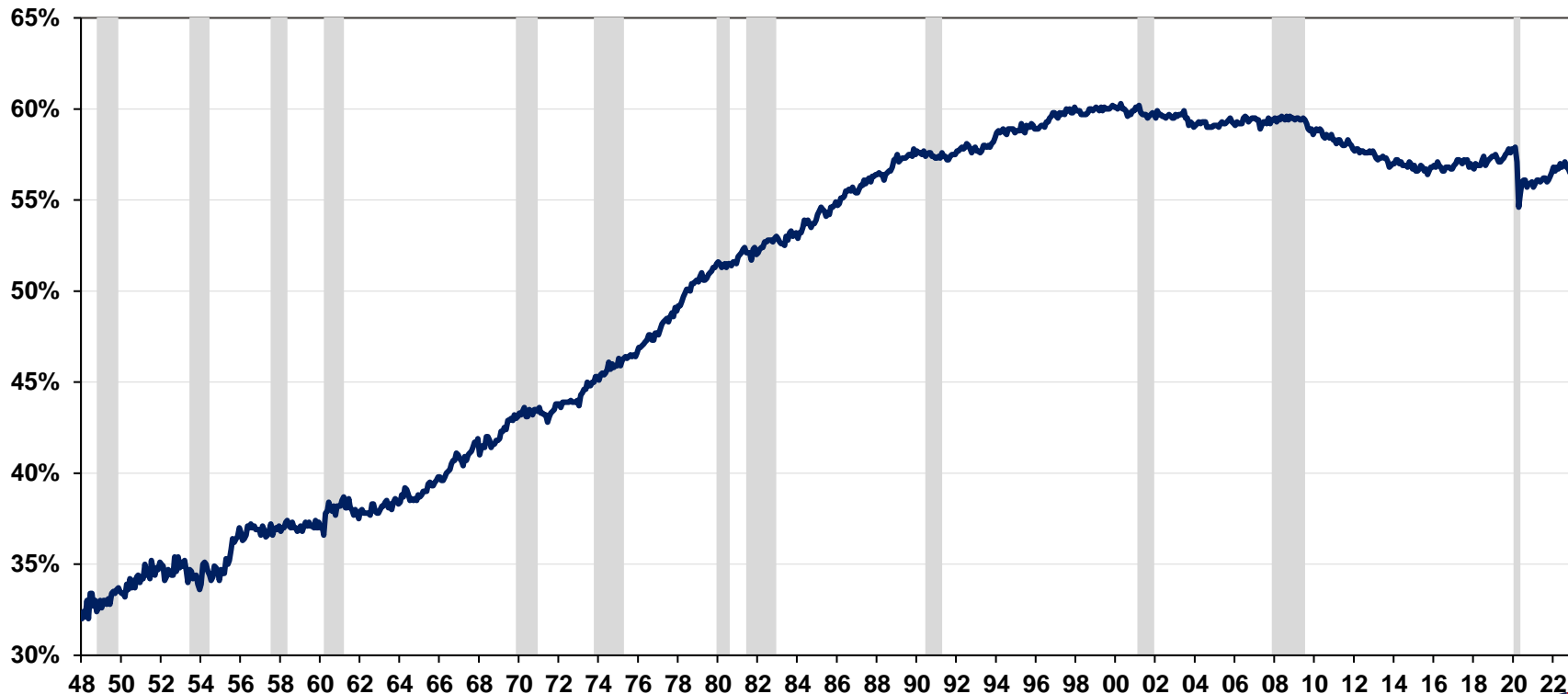
Source: U.S. Bureau of Labor Statistics (BLS).

# Labor Force Participation Rate -- Men



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

# Labor Force Participation Rate -- Women



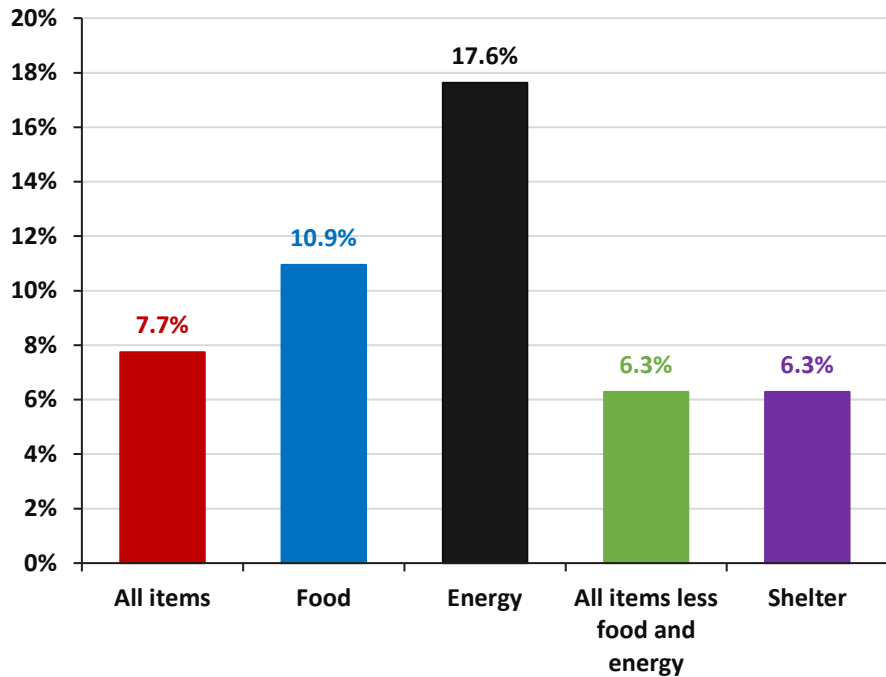
Source: U.S. Bureau of Labor Statistics (BLS).



# Inflation

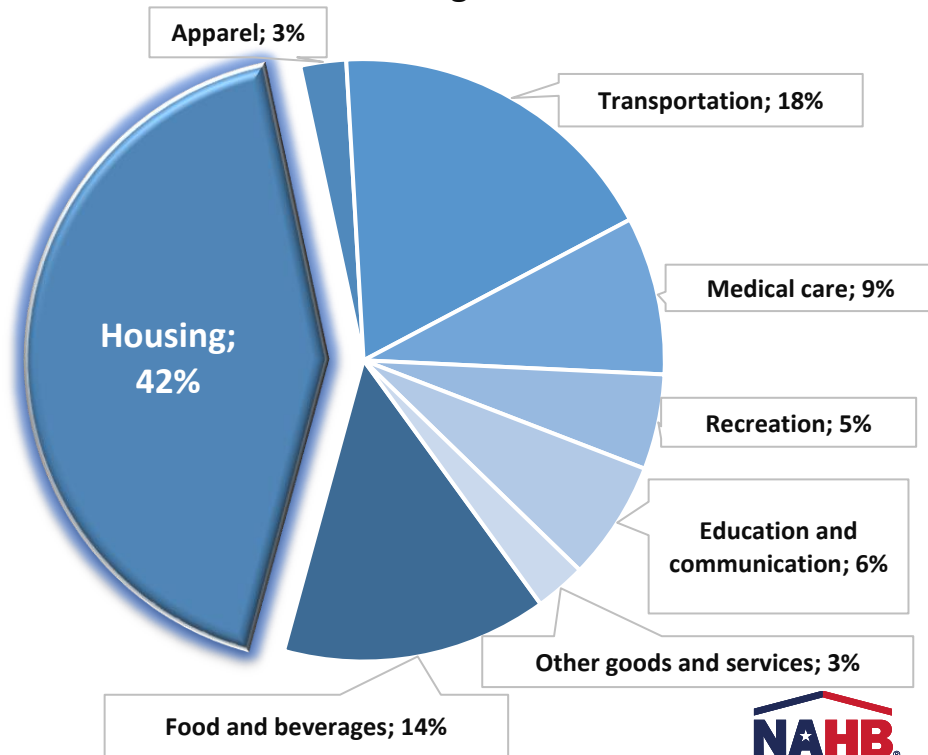
*Broad-based rise in all prices; shelter effects will continue*

12-month percentage change for CPI component items  
October 2022, NSA



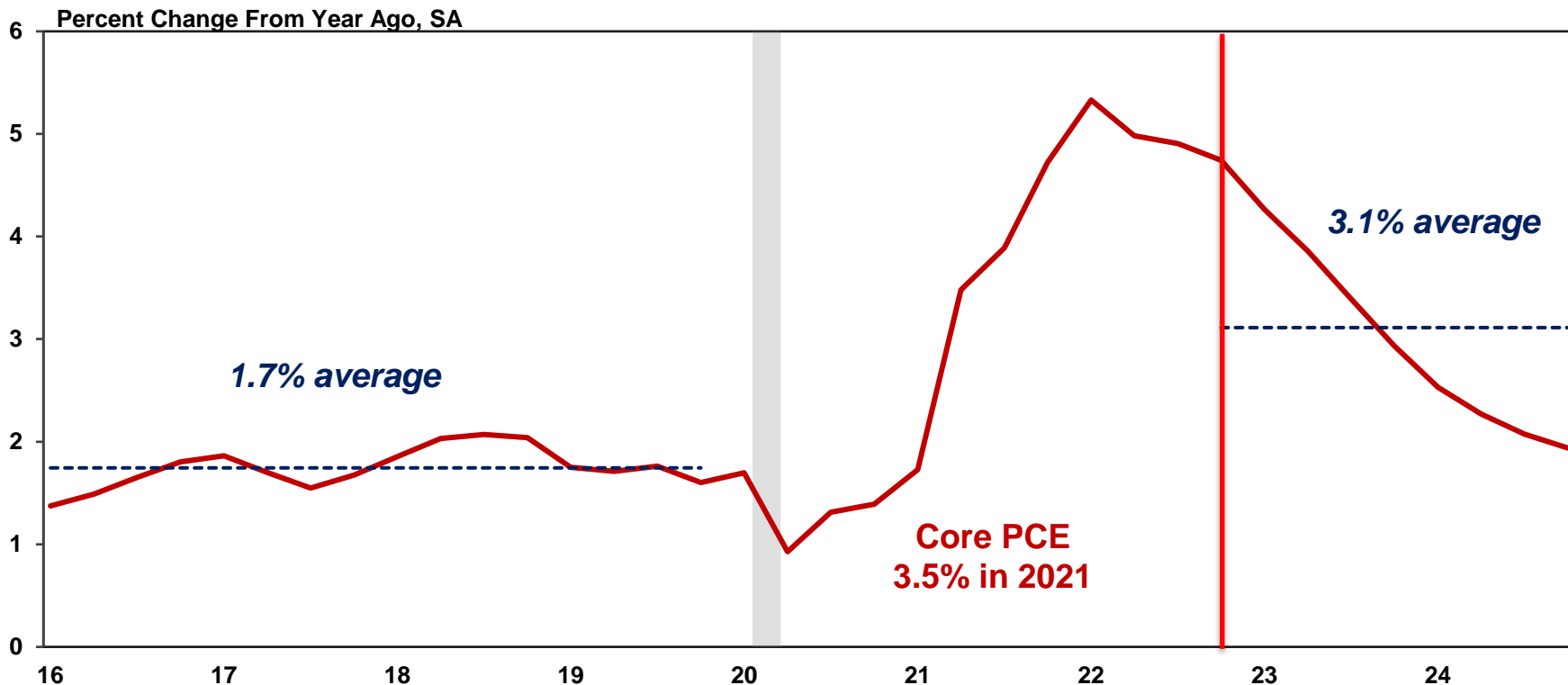
Source: U.S. Bureau of Labor Statistics (BLS)

CPI Weights



# Core Inflation

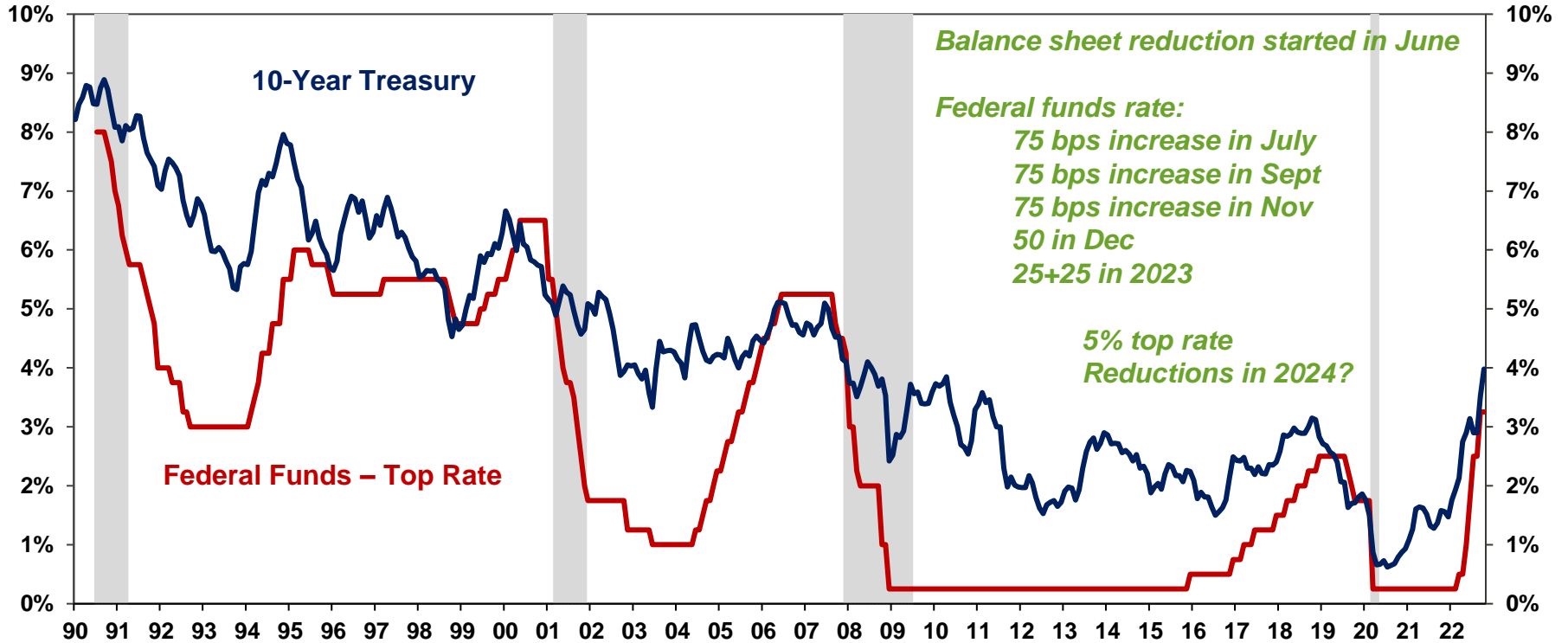
*Inflation shifted to the slowest pace since January*



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

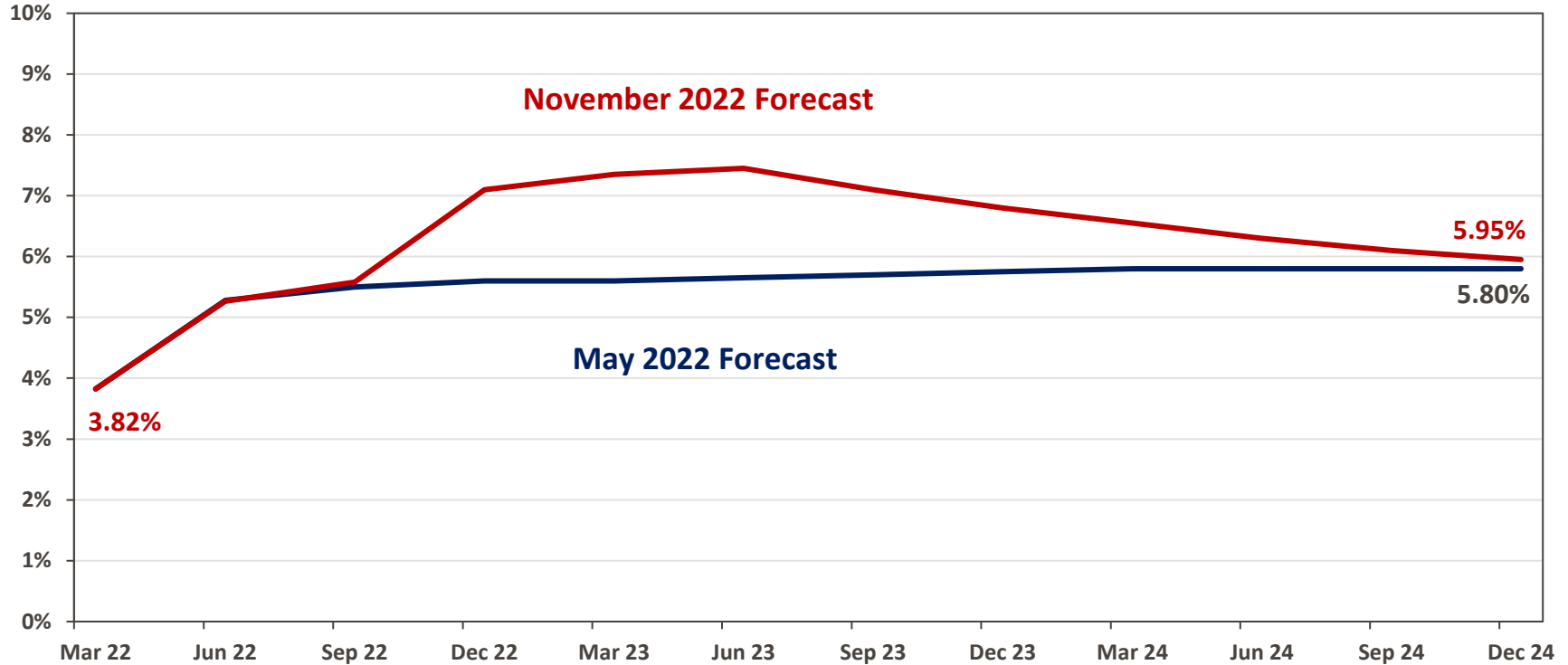
# Monetary Policy Tightening in Response to Inflation

*Rising federal funds rate in 2022*



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

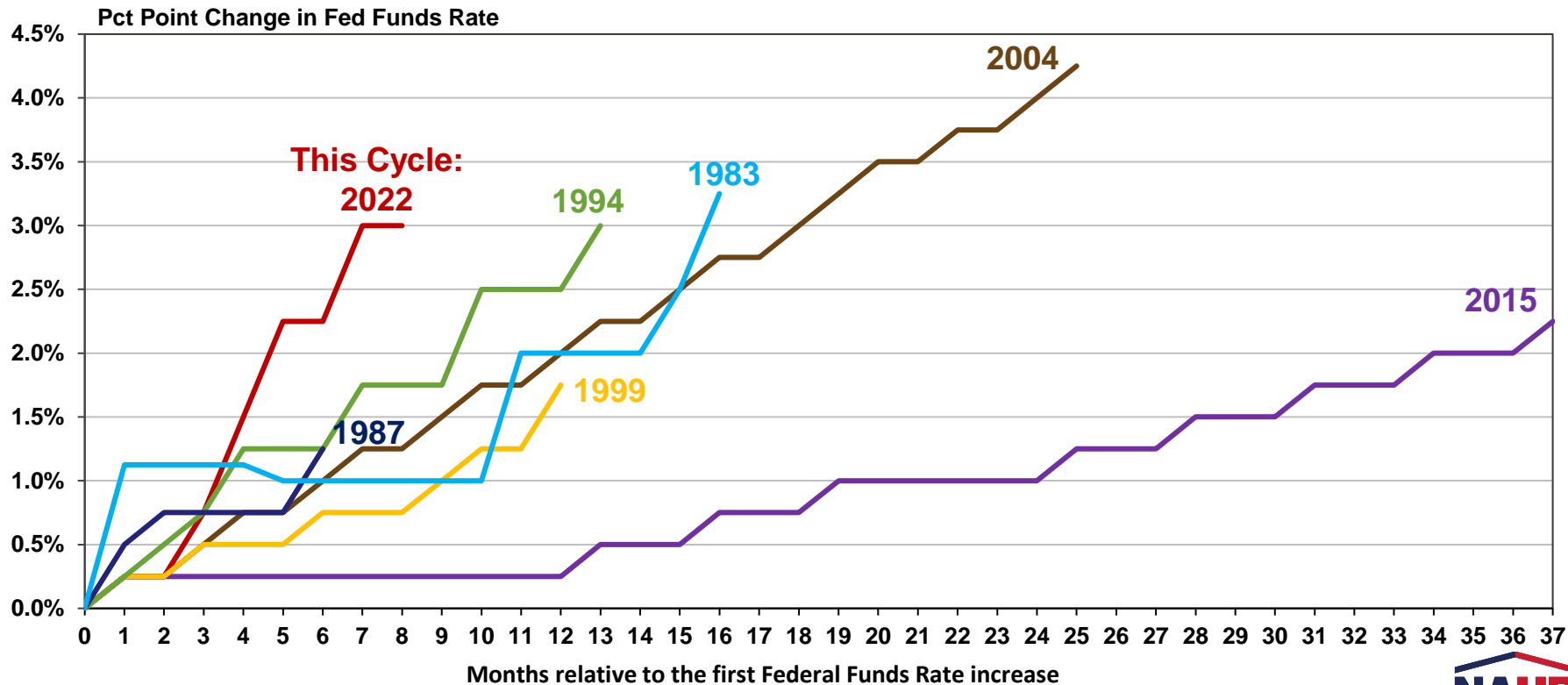
# Shifting Mortgage Rate Forecast



Source: Freddie Mac data and NAHB forecast.

# Fed Funds Rate Hikes: 1980 to 2022

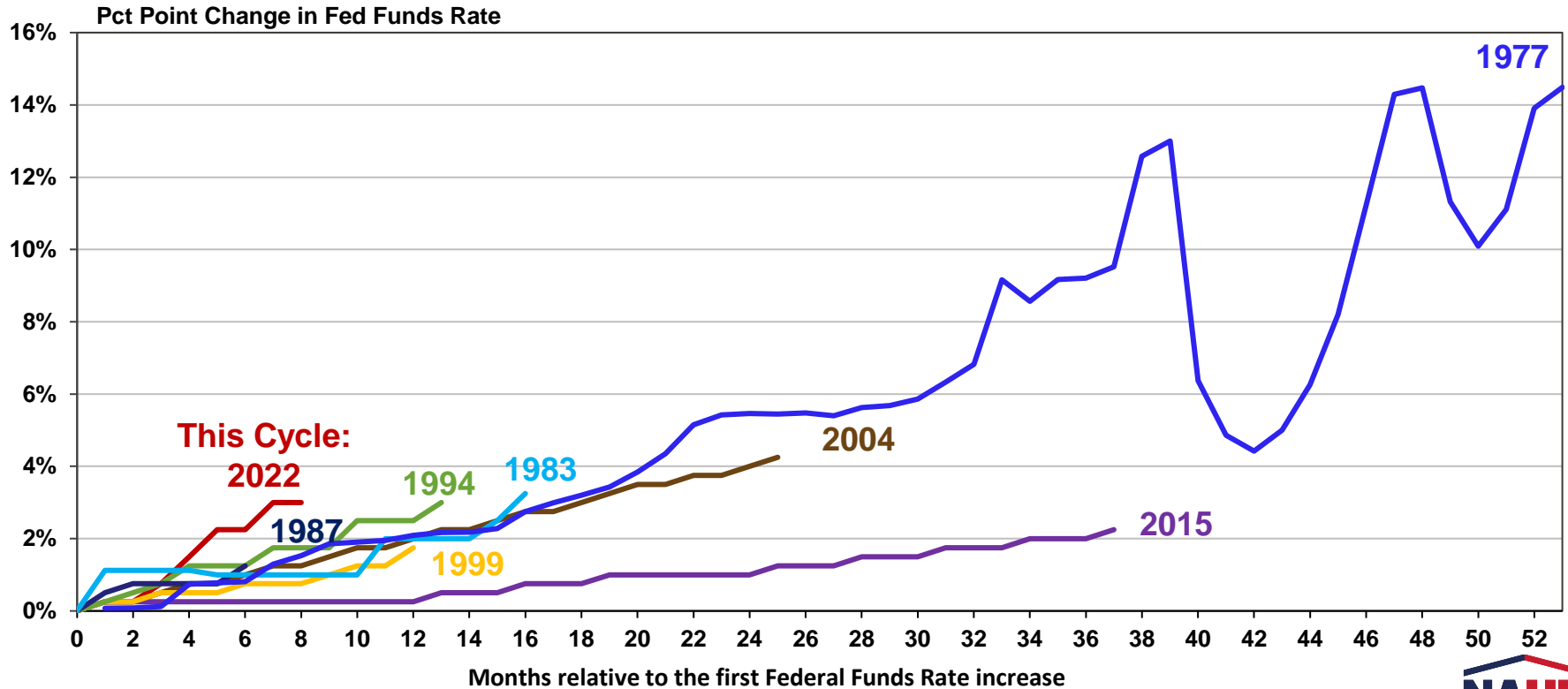
*The most aggressive tightening cycle in decades*



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

# Fed Funds Rate Hikes: 1977 to 2022

*The most aggressive tightening cycle in decades*



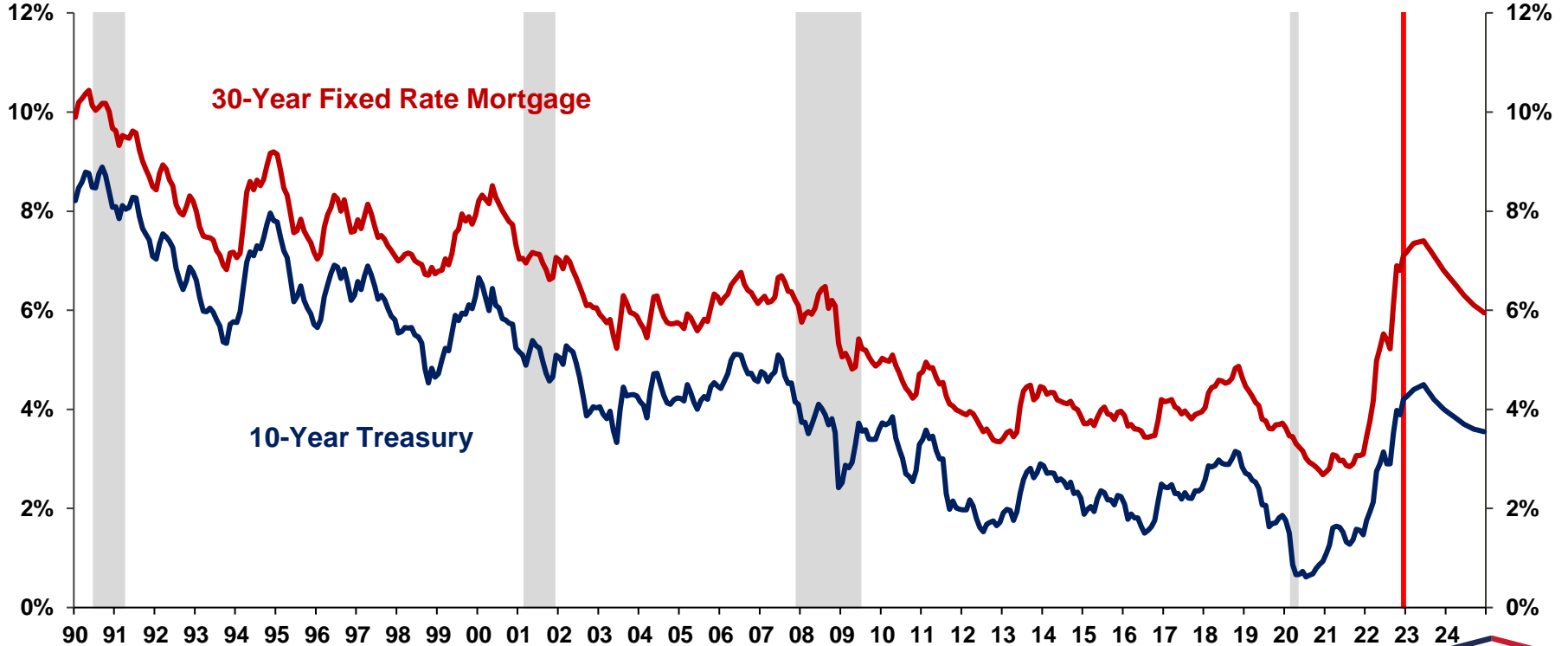
Source: U.S. Board of Governors of the Federal Reserve System (FRB) and Bloomberg.

# 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 to strong, inflationary elsewhere)*
    - *Recession risks in Europe and China*

# Interest Rates Trending Higher

*Federal Reserve is tightening monetary policy*

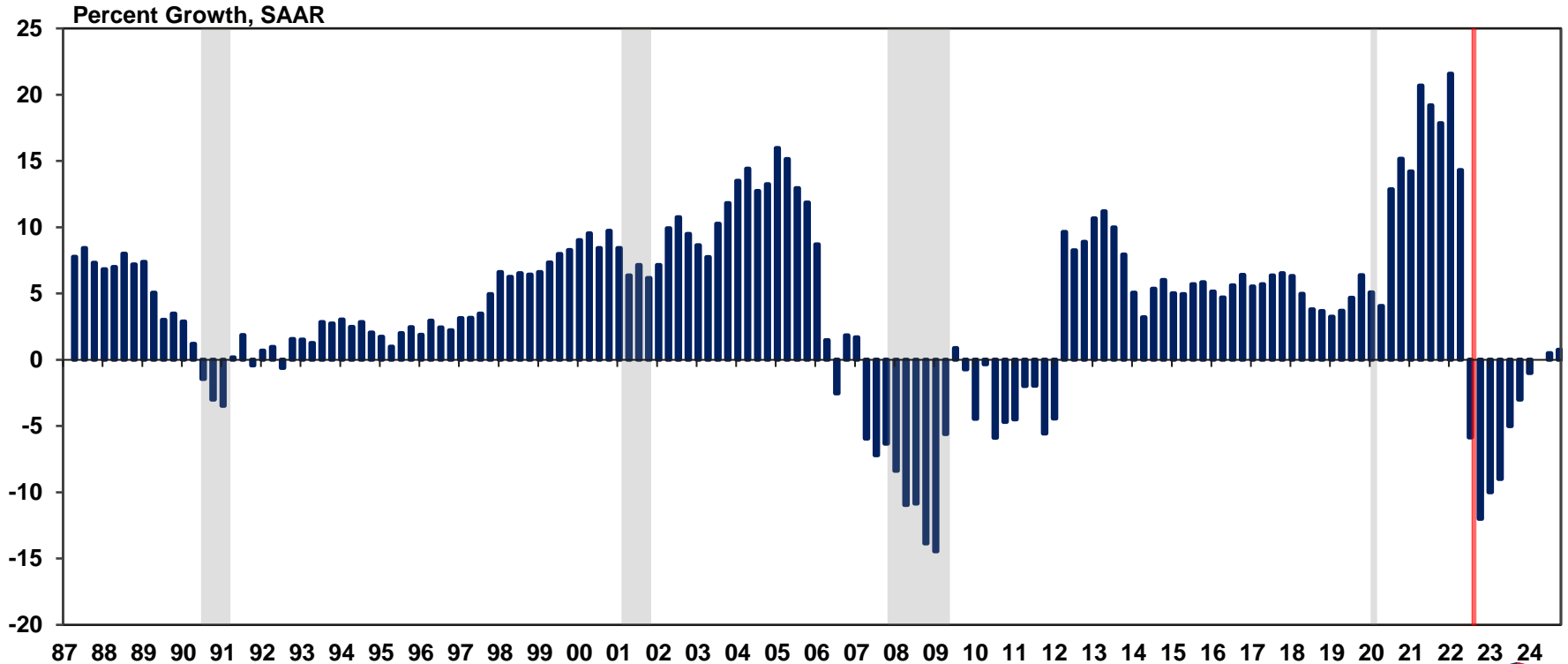


Source: Federal Reserve and Freddie Mac data and NAHB forecast.



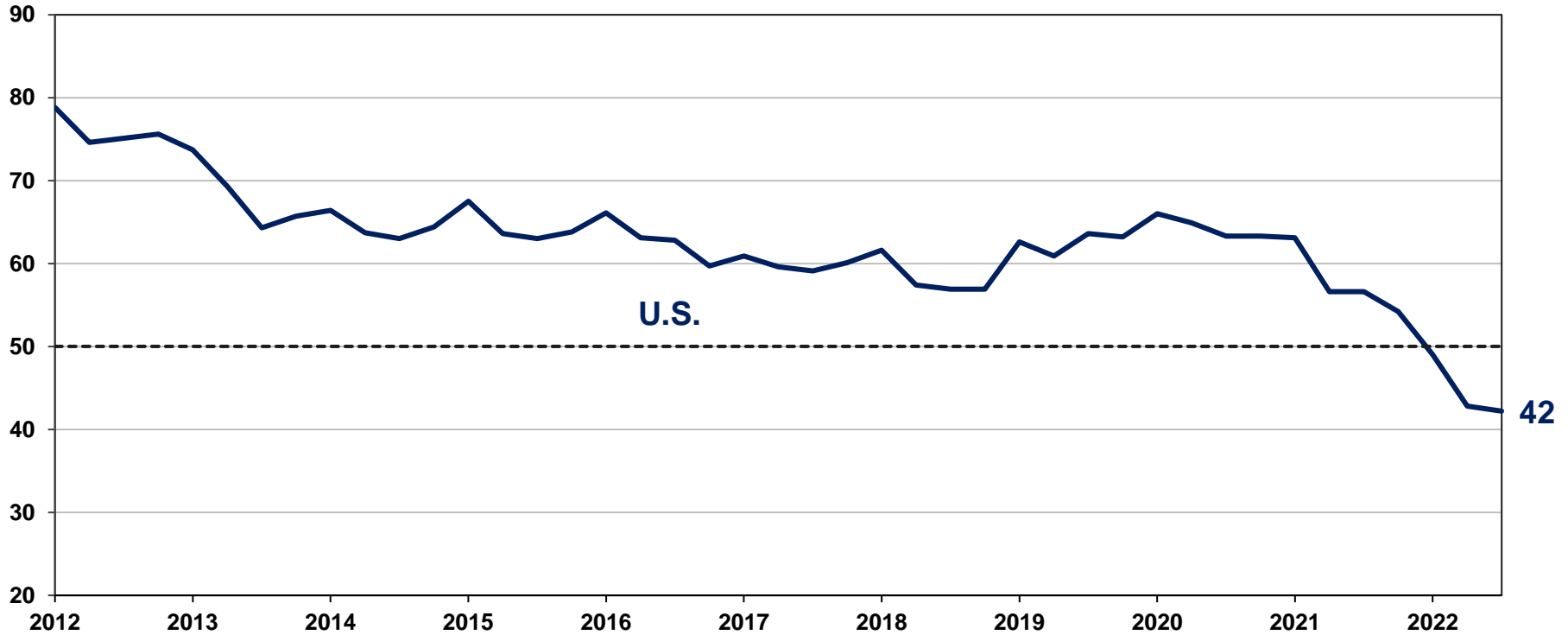
# S&P CoreLogic Case-Shiller National US Home Price Index

*Home prices are slowing, most local markets will see single-digit percentage price declines*



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

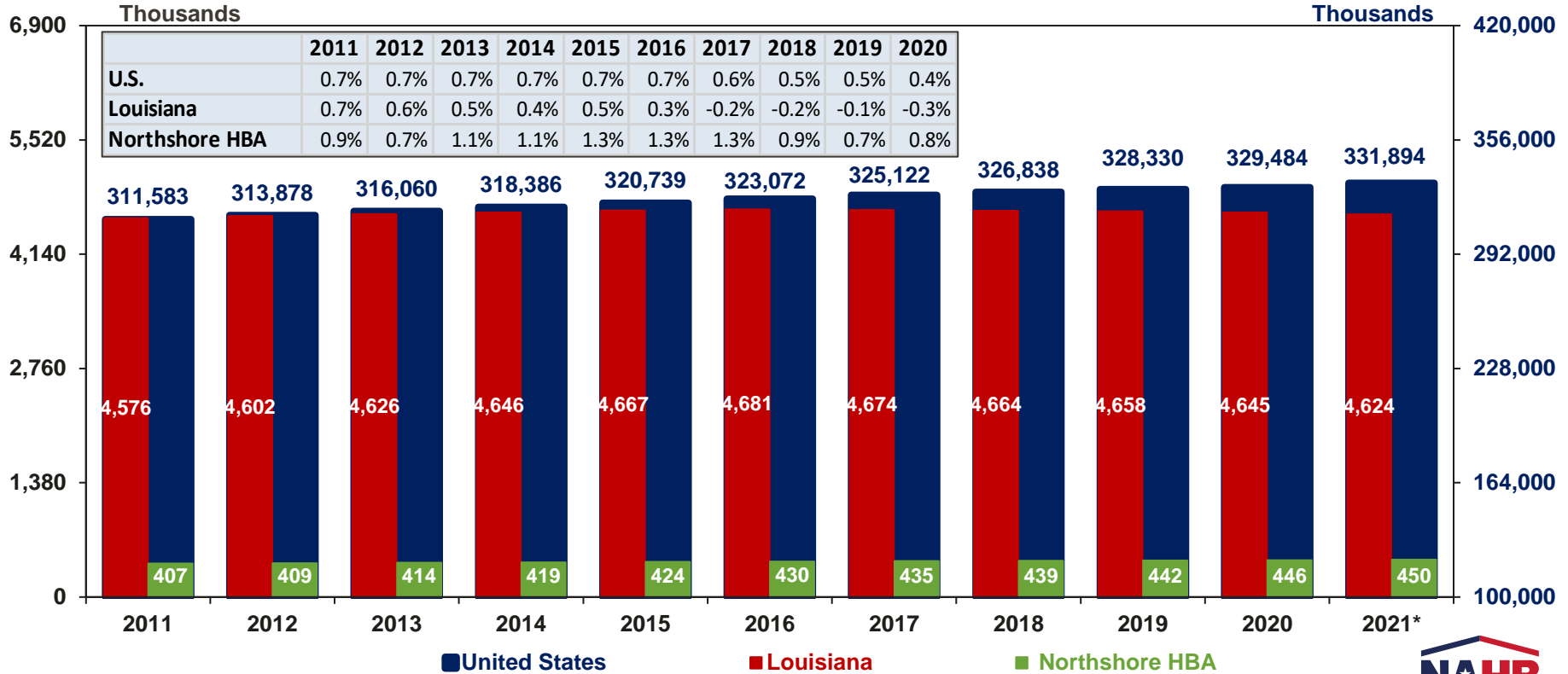
# Housing Affordability Declines? NAHB/Wells Fargo HOI Lower



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

# Population Growth

*Northshore HBA population grew faster than state and nationwide rates*



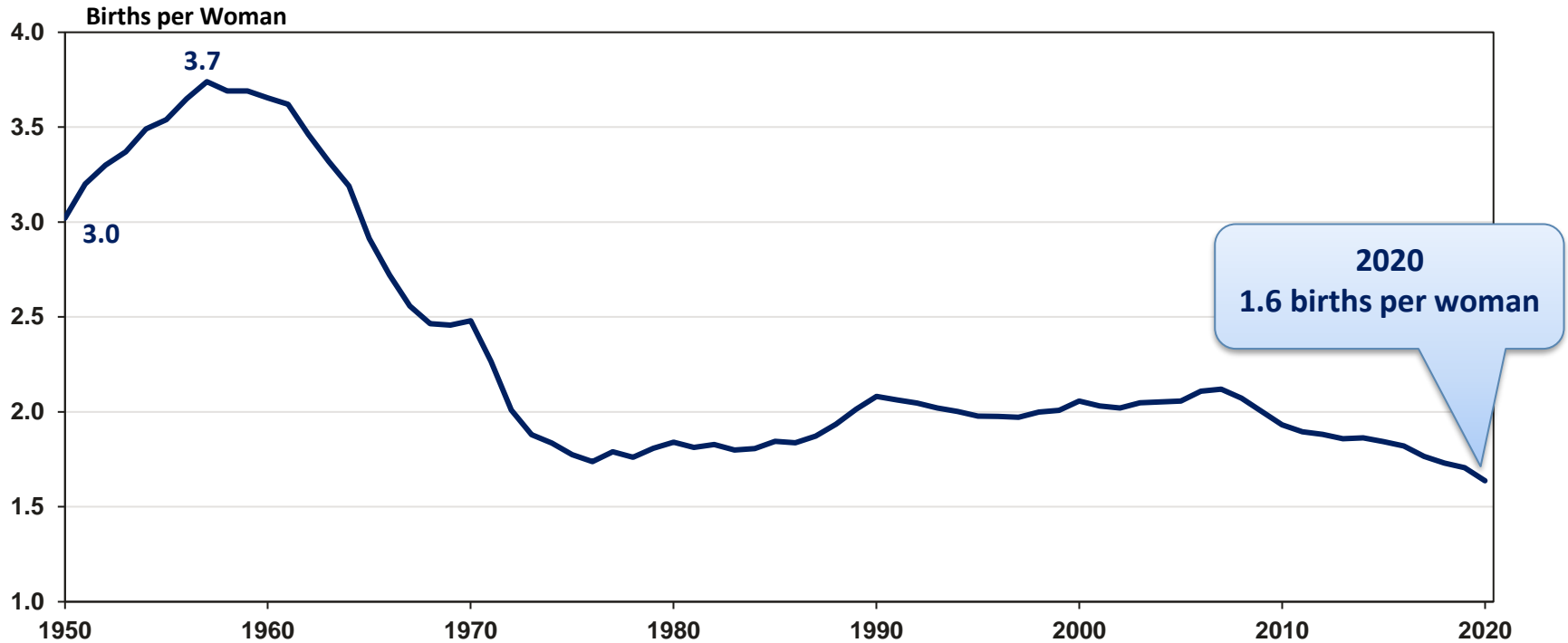
Source: U.S. Census Bureau (BOC)

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.



# Total Fertility Rate

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



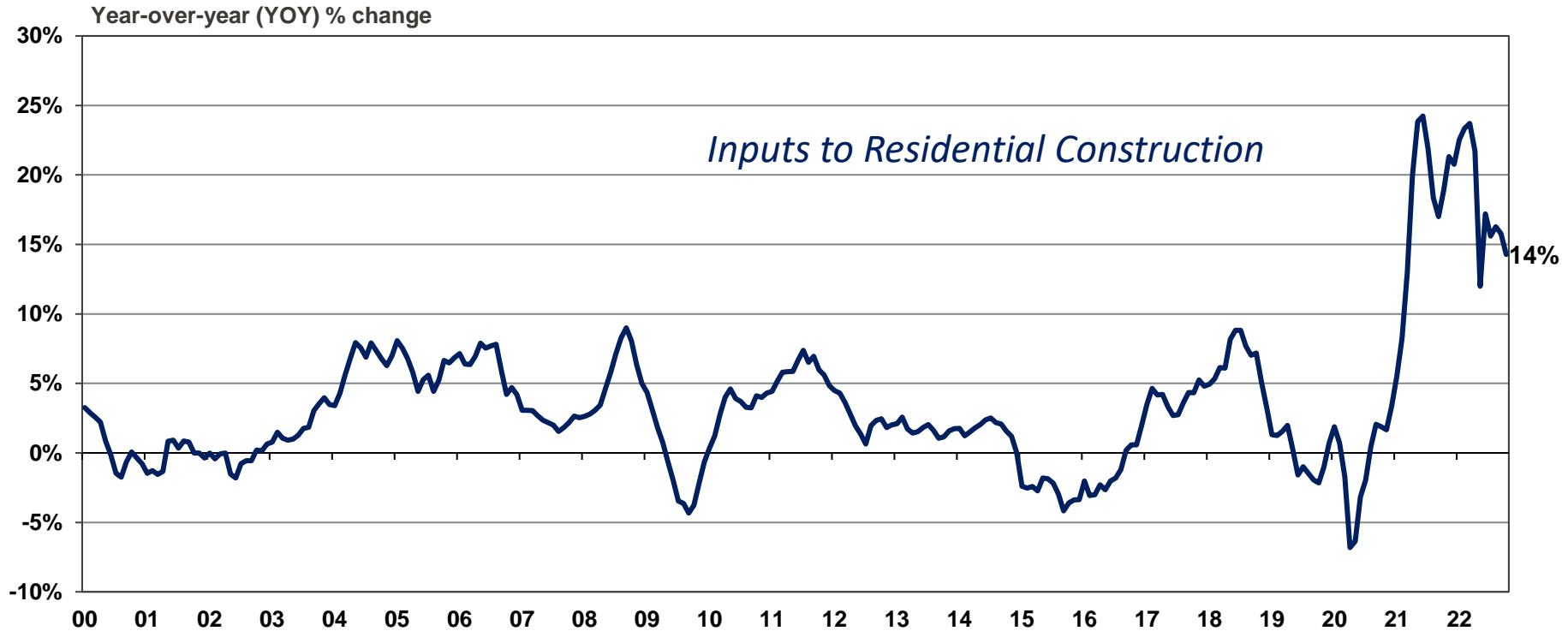
Source: The World Bank and <https://www.statista.com/statistics/1033027/fertility-rate-us-1800-2020/>



# Supply-Side Factors



# Building Materials - Residential Construction Cost



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

# Lumber Prices Drop Near Pre-pandemic Levels

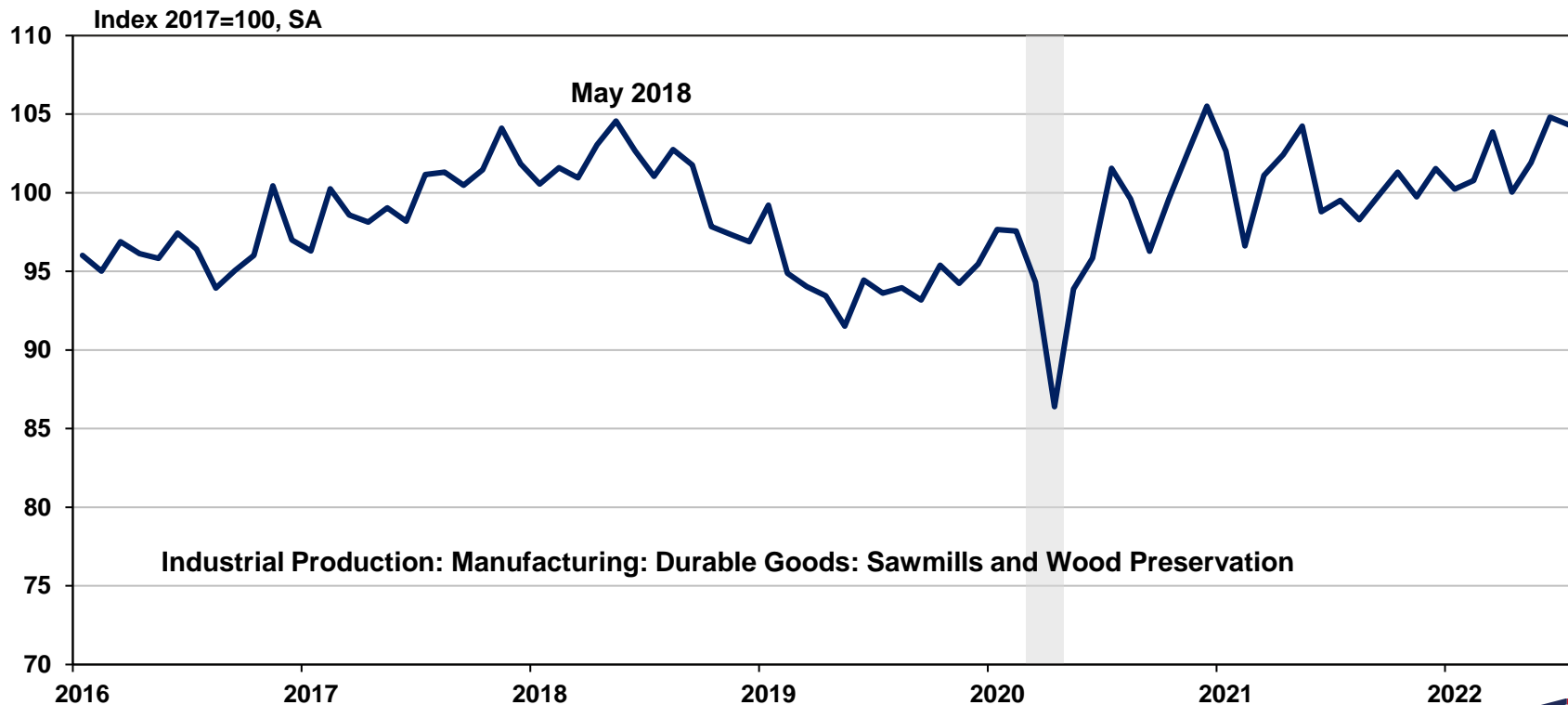
Current December price is \$436; down 12% in the past five weeks



Source: NAHB Analysis; Random Lengths Composite Index

# Domestic Sawmill Output

*In October, sawmill employment is 2.3% higher than a year ago and 0.3% lower than May 2018*

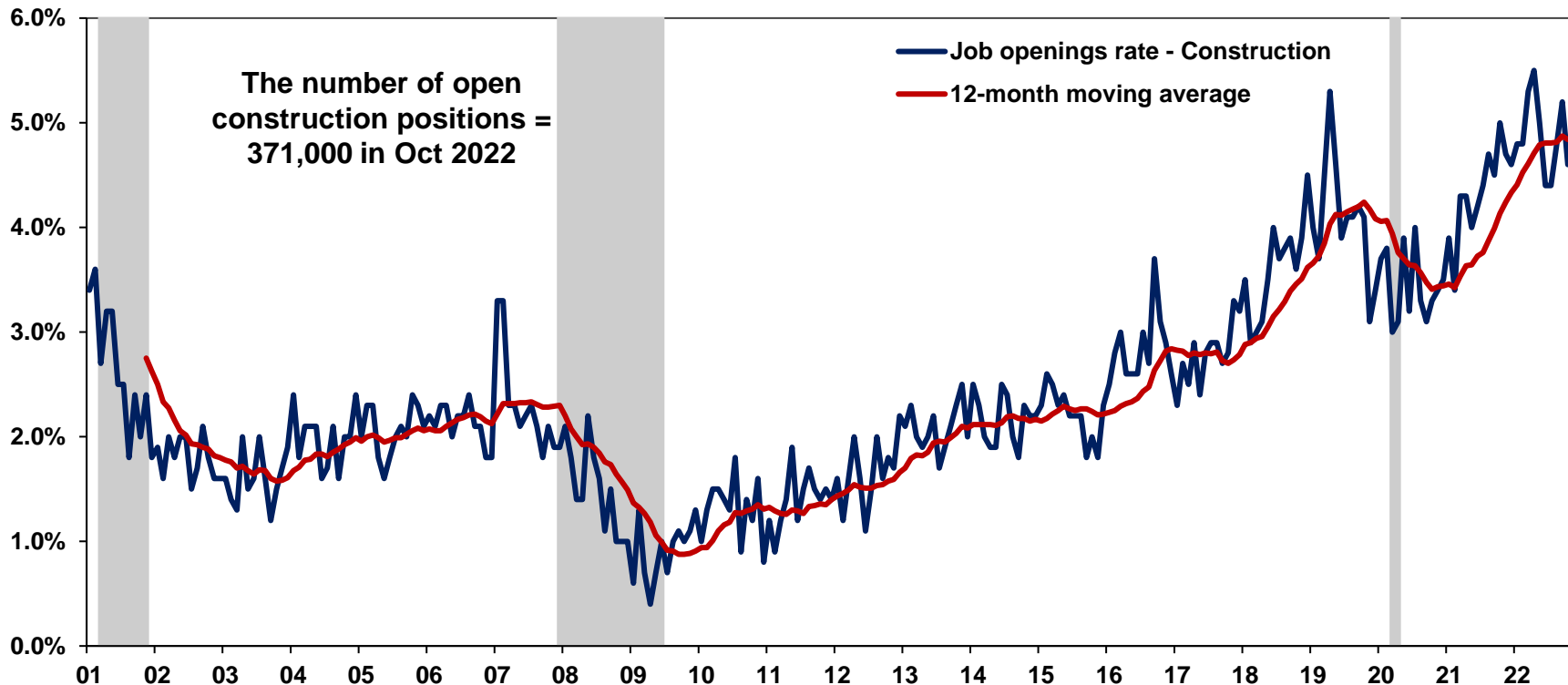


Source: Board of Governors of the Federal Reserve System (US)



# Labor – Construction Job Openings Peaked for Cycle?

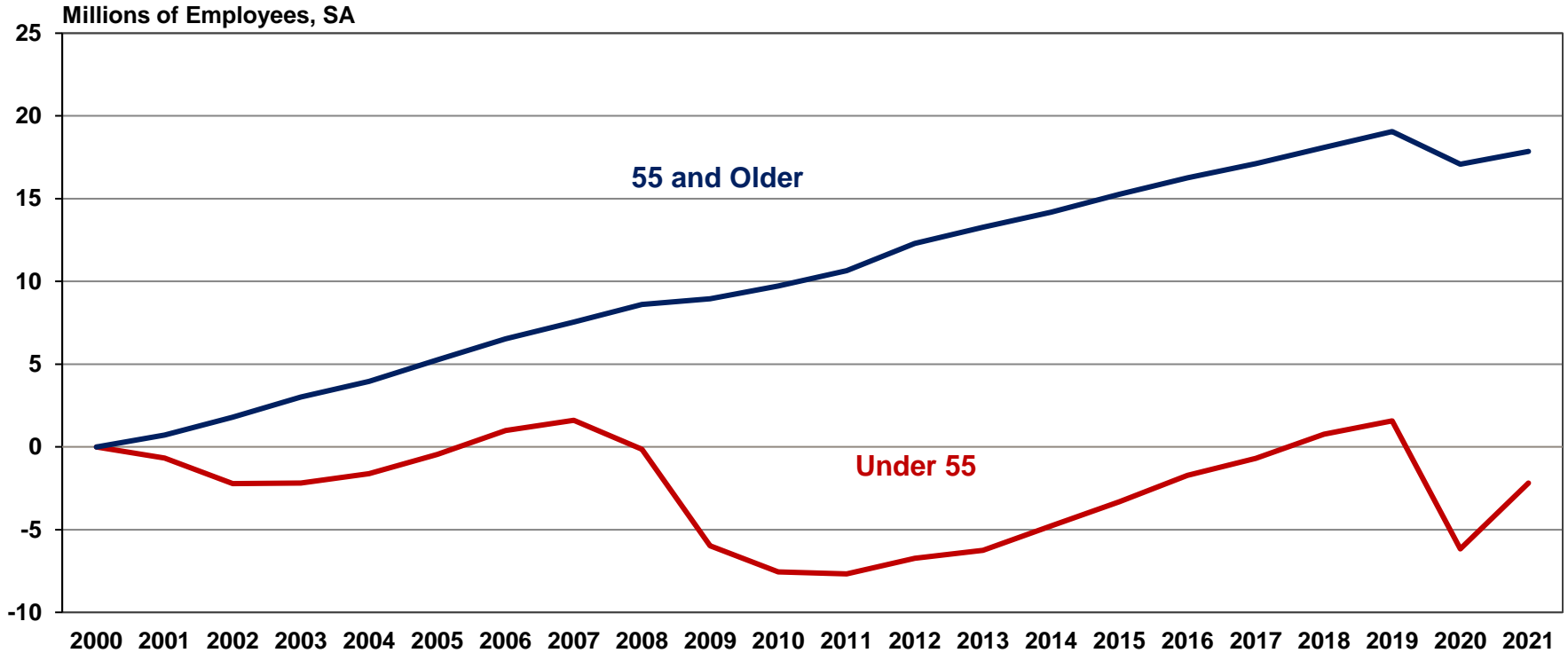
*Skilled labor shortage persists; 245,600 net gain for residential construction since Jan 2020*



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

# 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



**7.7 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%**



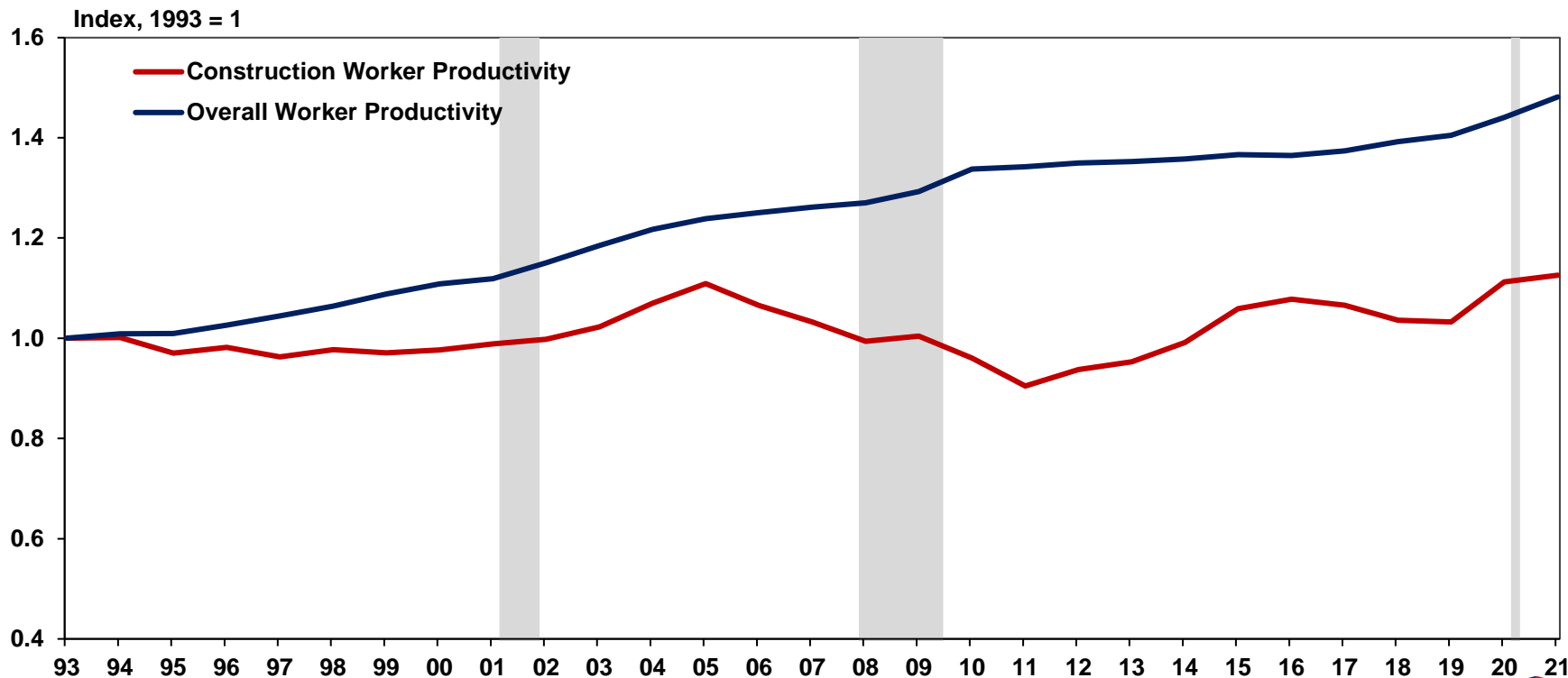
**Median age of construction worker is 41**



**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).

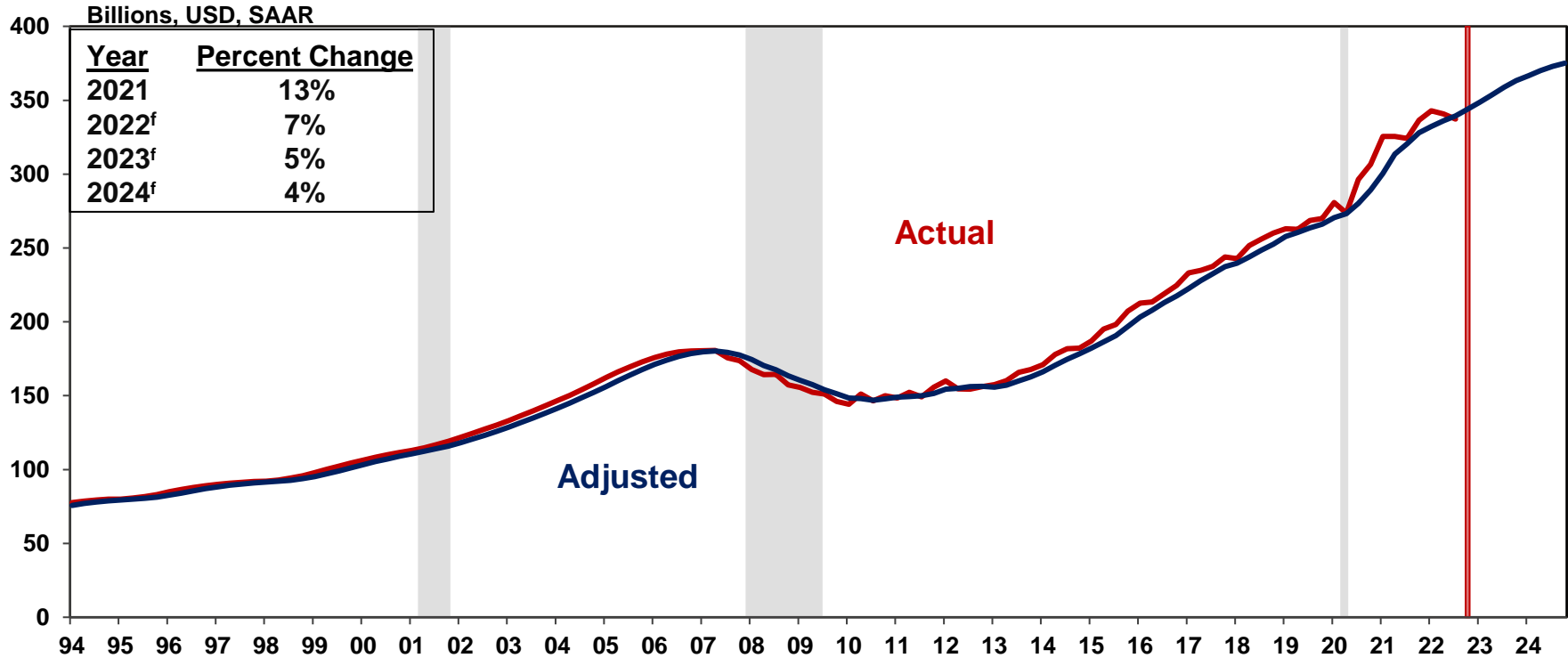


# Construction Outlook



# Residential Remodeling

Remodeling growth is expected to soften as housing demand is weakening

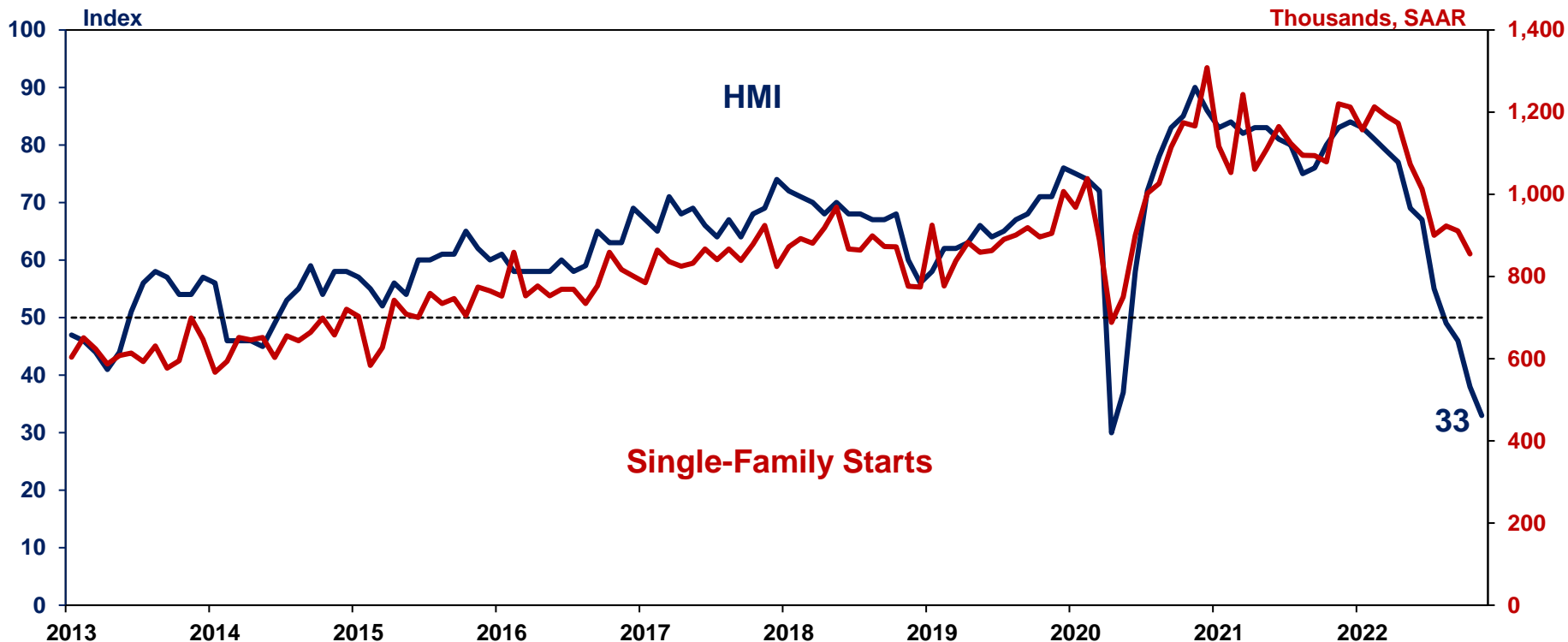


Source: U.S. Bureau of Economic Analysis (BEA): National Income and Product Accounts (NIPA) and NAHB forecast.

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

# NAHB/Wells Fargo Housing Market Index (HMI)

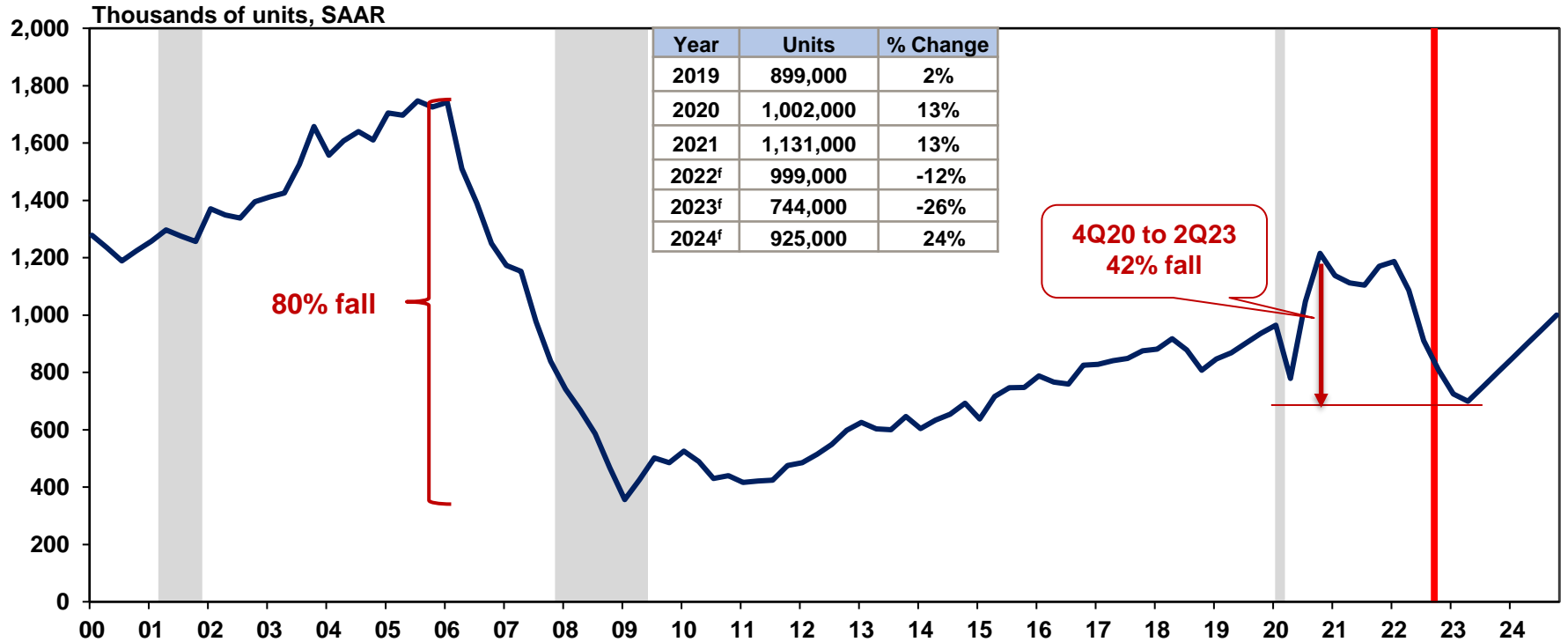
*Builder confidence fell for the eleventh straight month as housing weakness continues*



Source: Census Bureau and NAHB/Wells Fargo HMI survey

# Single-Family Starts

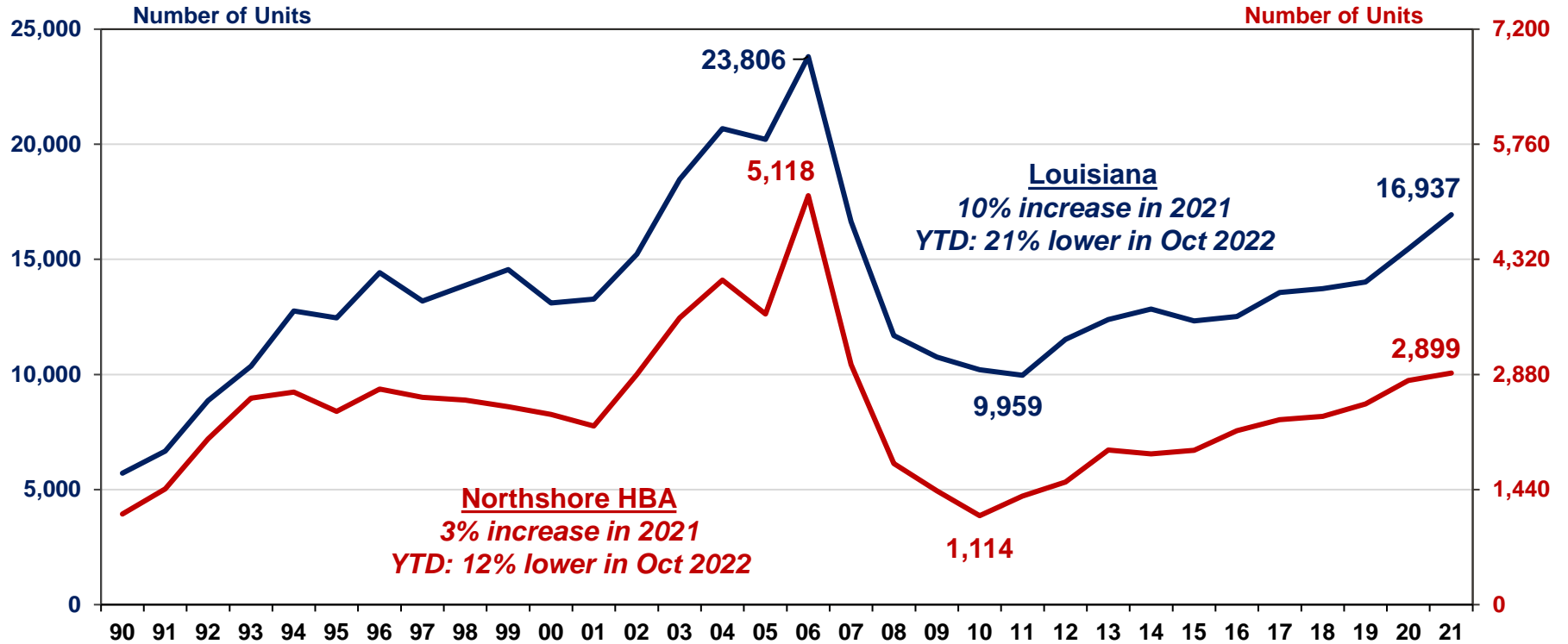
Home building declines as interest rates increase



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



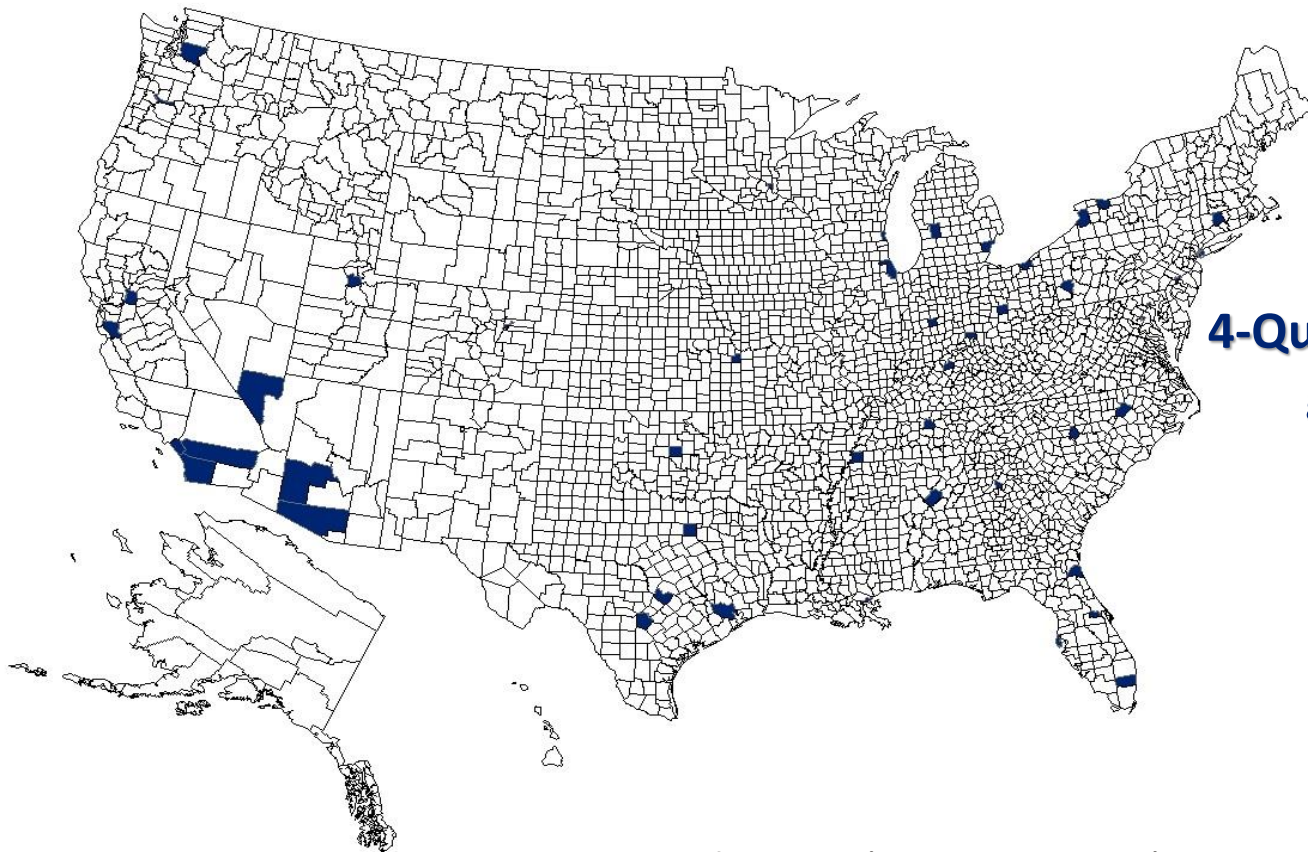
# Single-Family Building Permits – LA and Northshore HBA



Note: Single-family permits for Washington Parish are not available in October 2021 and are zero in October 2022.  
Source: Census Bureau.

# NAHB Home Building Geography Index

*16.3% of single-family construction takes place in Large Metro – Core County*



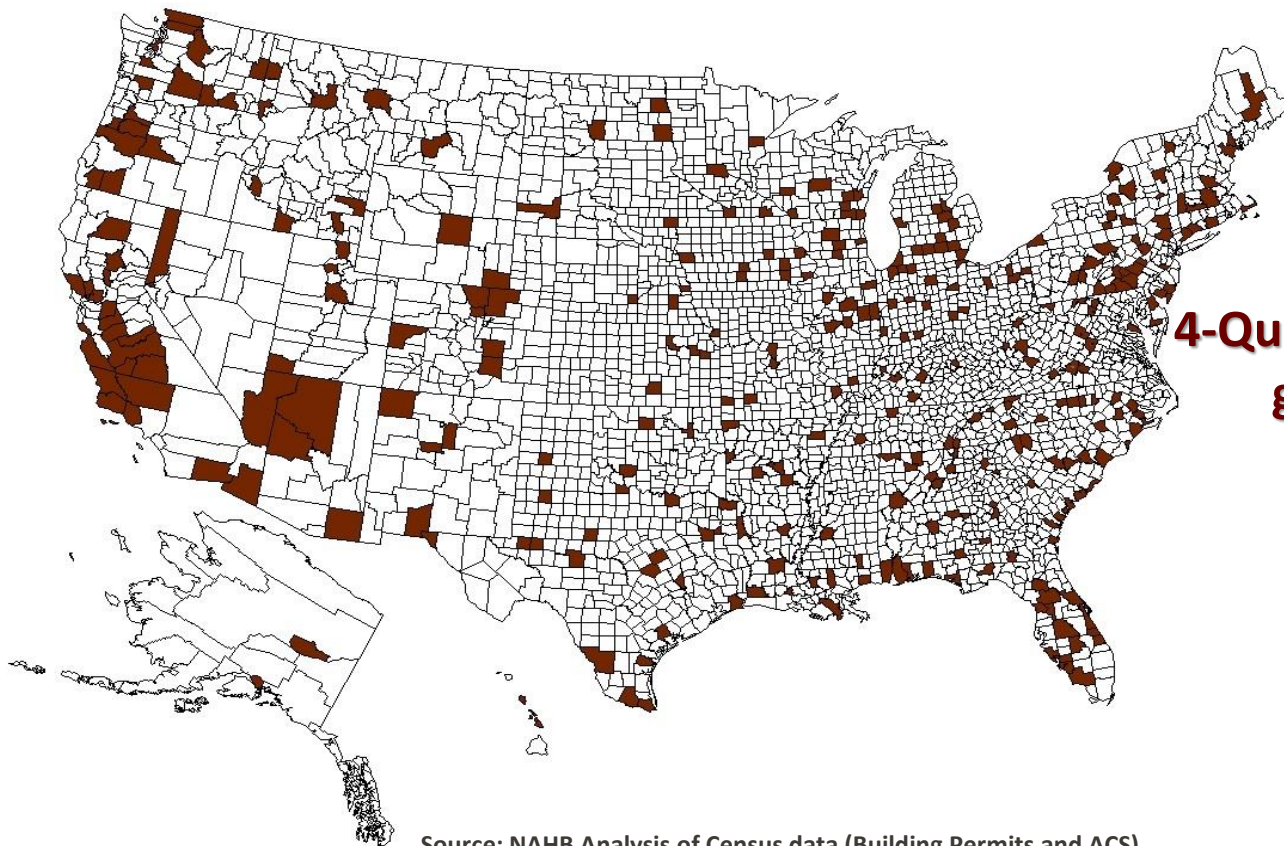
**Q3 2022**

**4-Quarter MA of YoY  
growth rate:  
-9.9%**

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

# NAHB Home Building Geography Index

28.8% of single-family construction takes place in **Smaller Metro – Core County**



**Q3 2022**  
**4-Quarter MA of YoY**  
**growth rate:**  
**-6.2%**

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

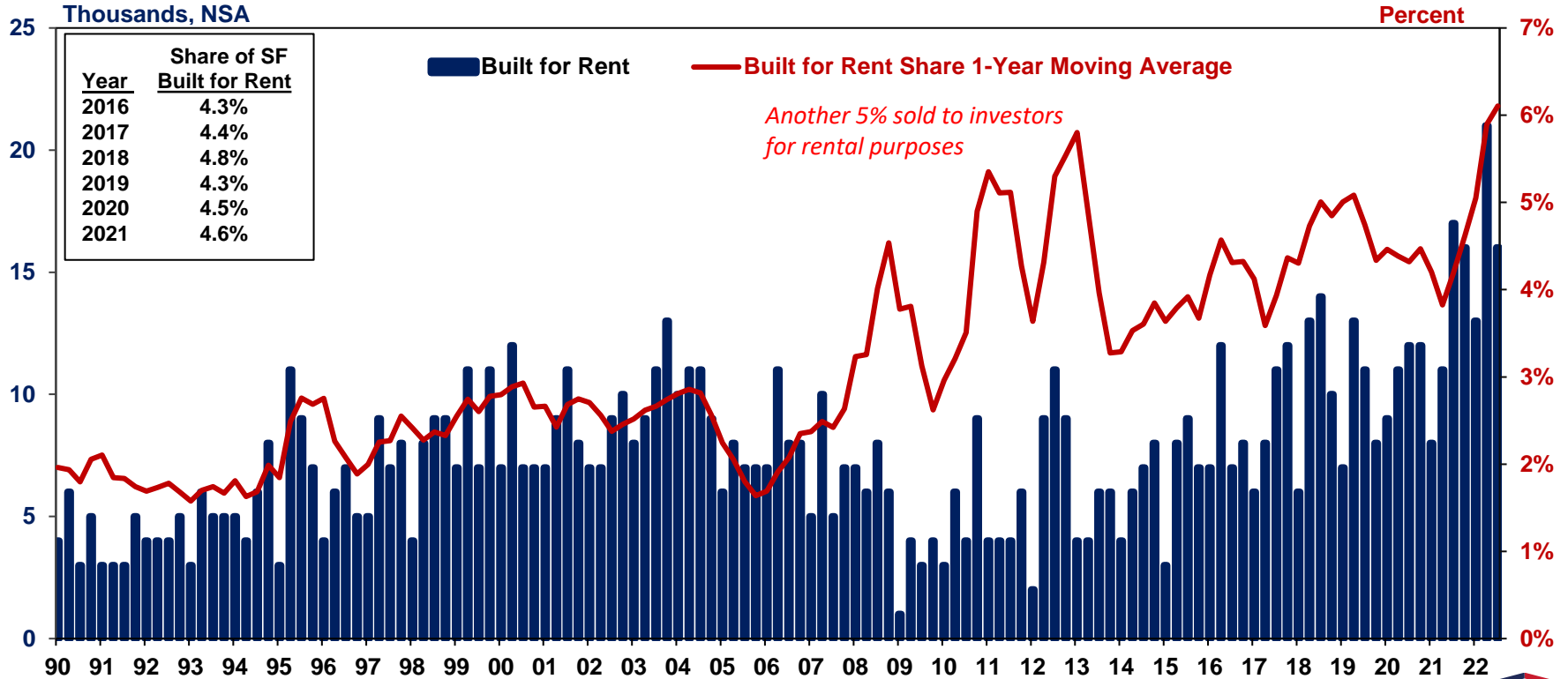
# Top 10 Largest Single-Family Markets by Permits

Top 10 Largest SF Markets	October 2022 (# of units YTD, NSA)	YTD % Change (compared to Oct 2021)
Houston-The Woodlands-Sugar Land, TX	42,826	-3%
Dallas-Fort Worth-Arlington, TX	39,309	-9%
Phoenix-Mesa-Scottsdale, AZ	24,470	-18%
Atlanta-Sandy Springs-Roswell, GA	23,805	-13%
Austin-Round Rock, TX	19,582	-6%
Charlotte-Concord-Gastonia, NC-SC	16,757	3%
Orlando-Kissimmee-Sanford, FL	14,099	-6%
Tampa-St. Petersburg-Clearwater, FL	13,733	-17%
Nashville-Davidson-Murfreesboro-Franklin, TN	13,699	-1%
Jacksonville, FL	12,551	-9%

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

# Single-Family Built-for-Rent Construction

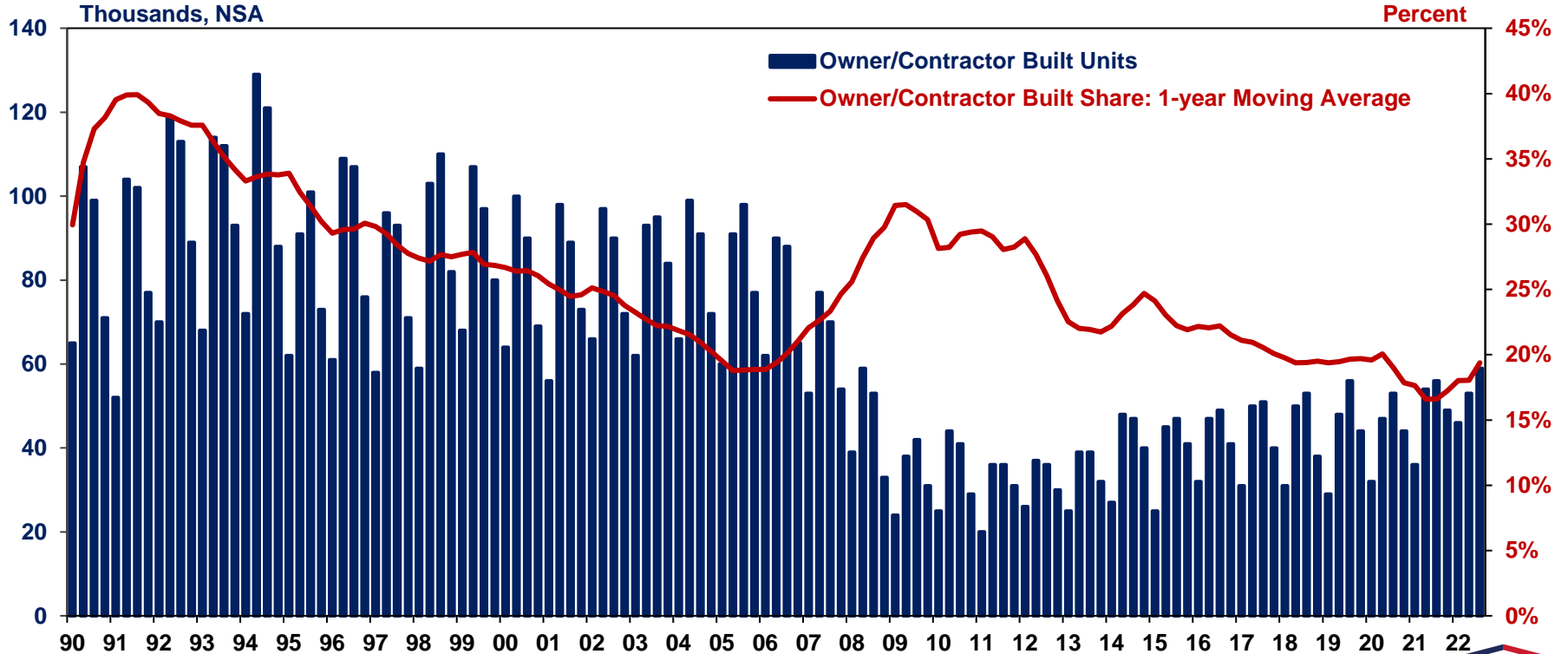
*A window of opportunity*



Source: U.S. Census Bureau (BOC)

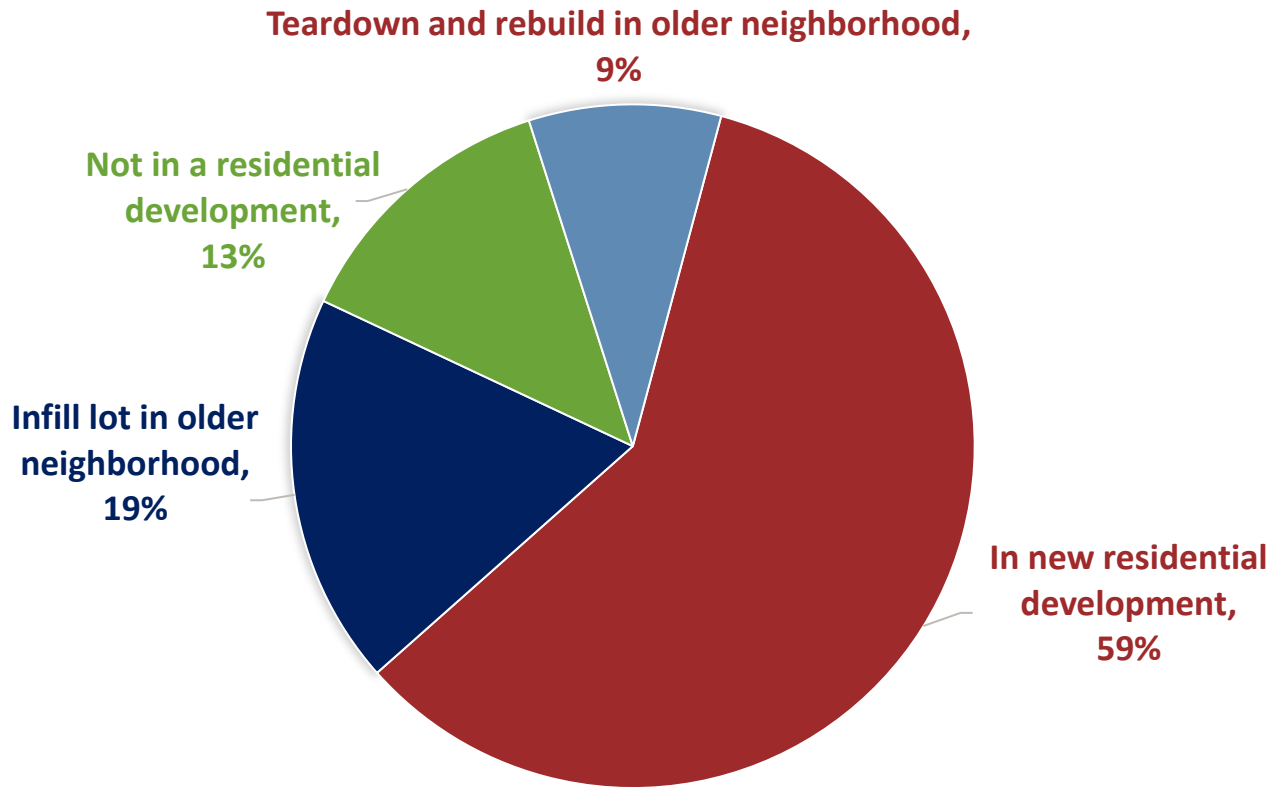
# Custom Home Building Market

*Solid gain in 2021*



Source: U.S. Census Bureau (BOC)

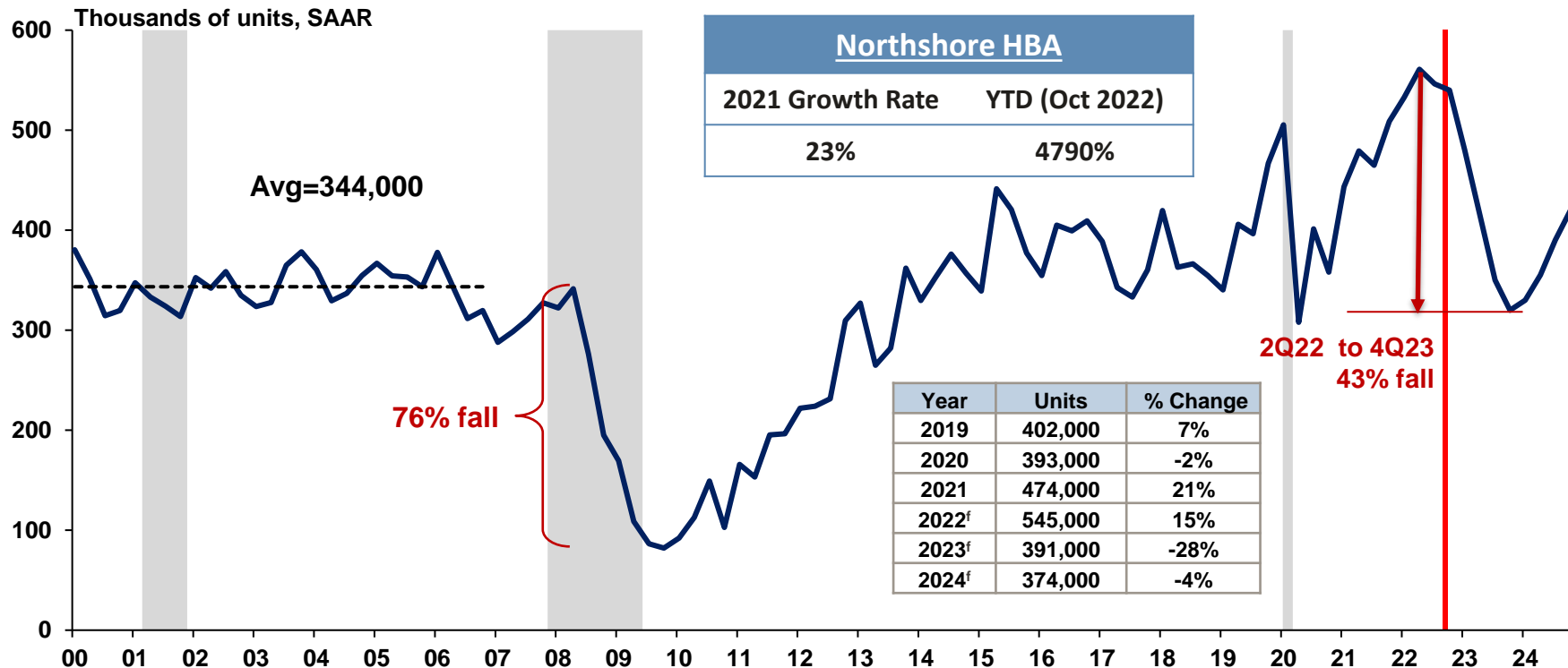
# Shares of New Single-family Homes Built in 2021



Source: 2022 Builder Practices Survey

# Multifamily Construction Growing

*Multifamily strong in 2022 and then weakening*

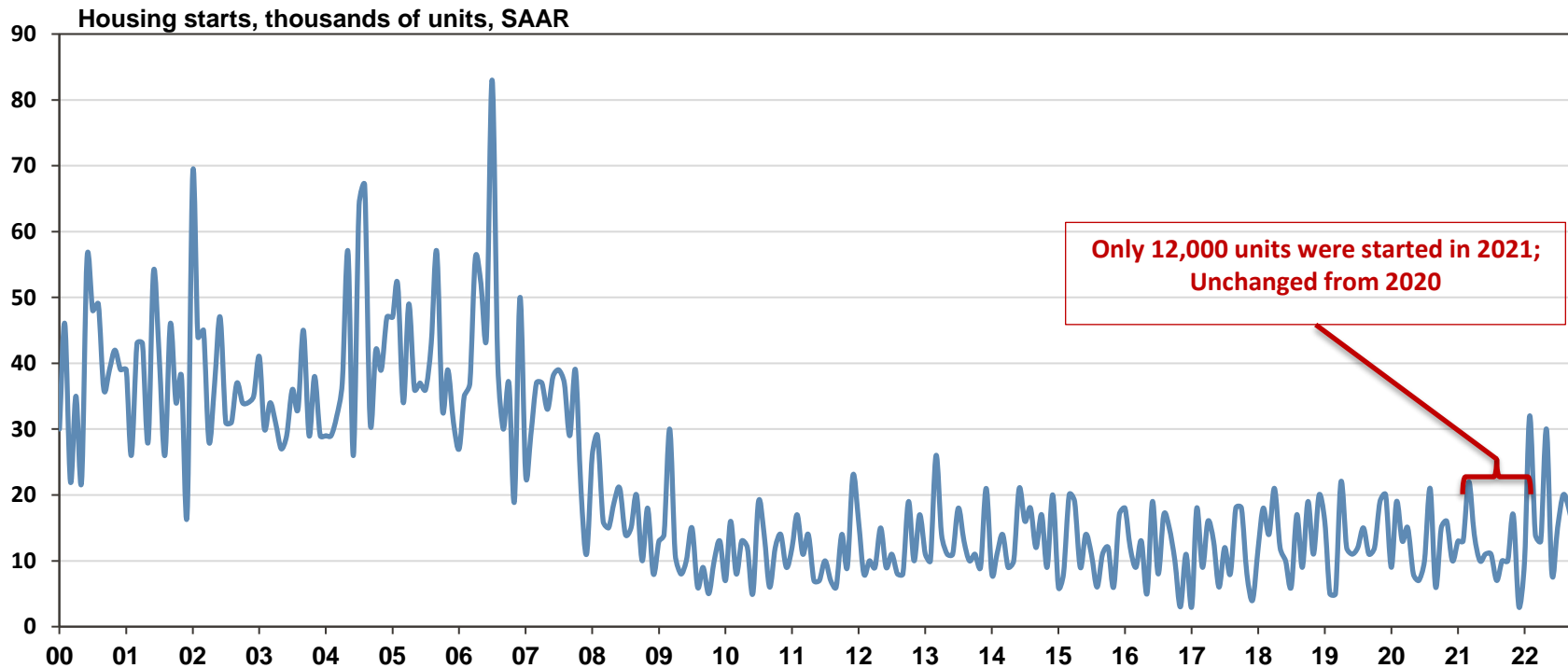


Source: U.S. Census Bureau (BOC) and NAHB forecast



# Multifamily Missing Middle

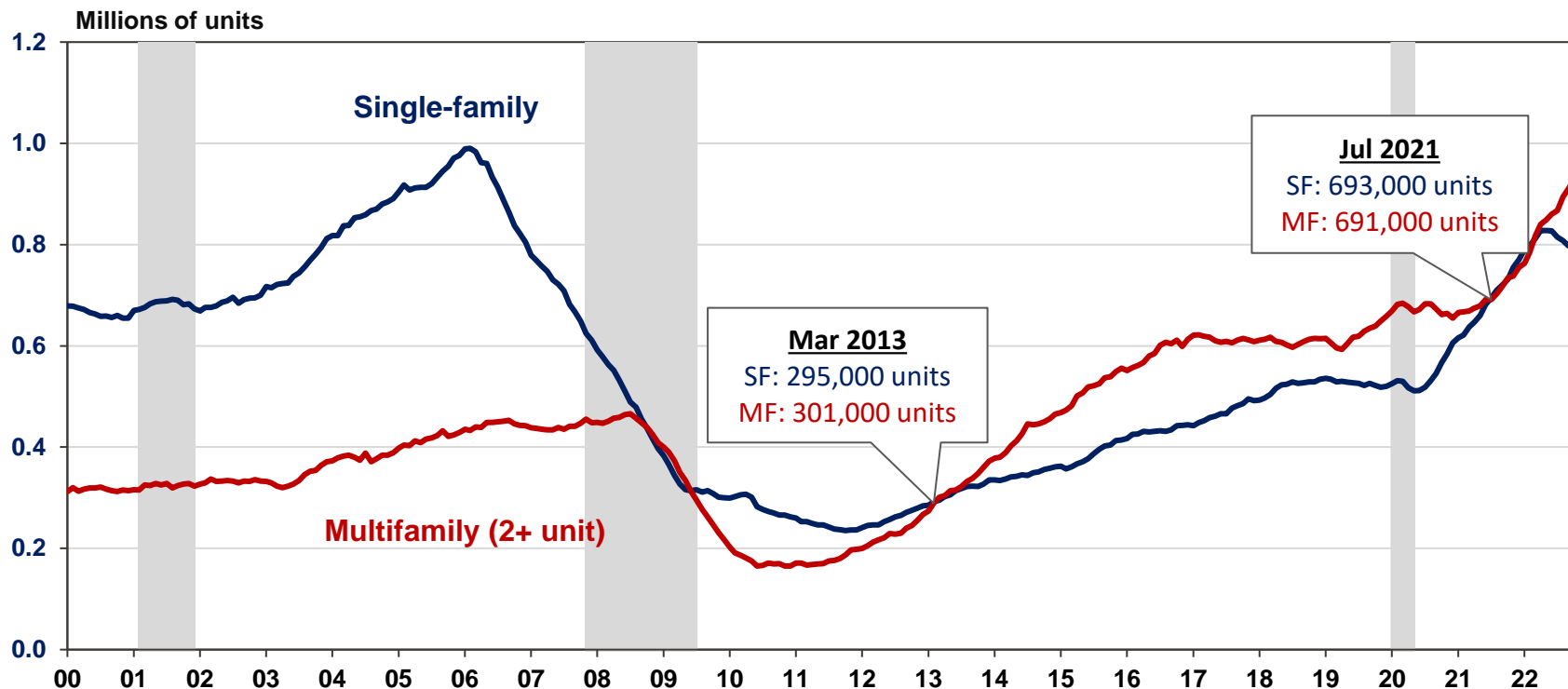
*2- to 4- unit production disappointed in 2021*



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

# Housing Units under Construction

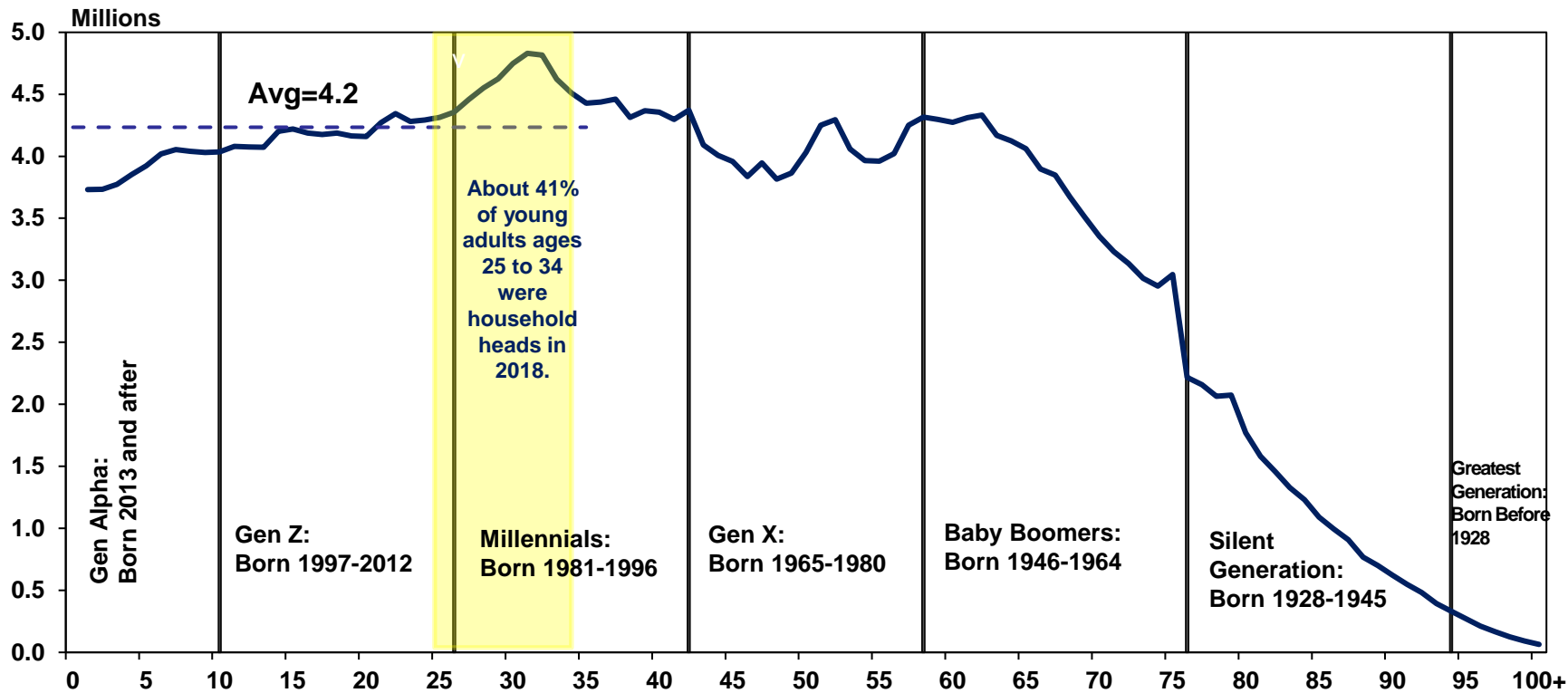
*Highest count of apartments under construction since 1974*



Source: U.S. Census Bureau (BOC)

# Rising Population Entering Housing Demand Years: 2022

*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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*housingeconomics.com*