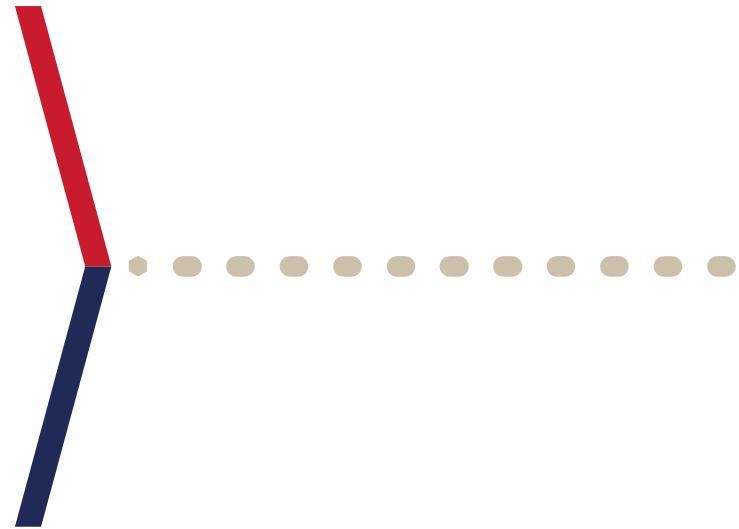


Economic Slowdown Ahead

NAHB Meeting of the Members
February 20, 2019

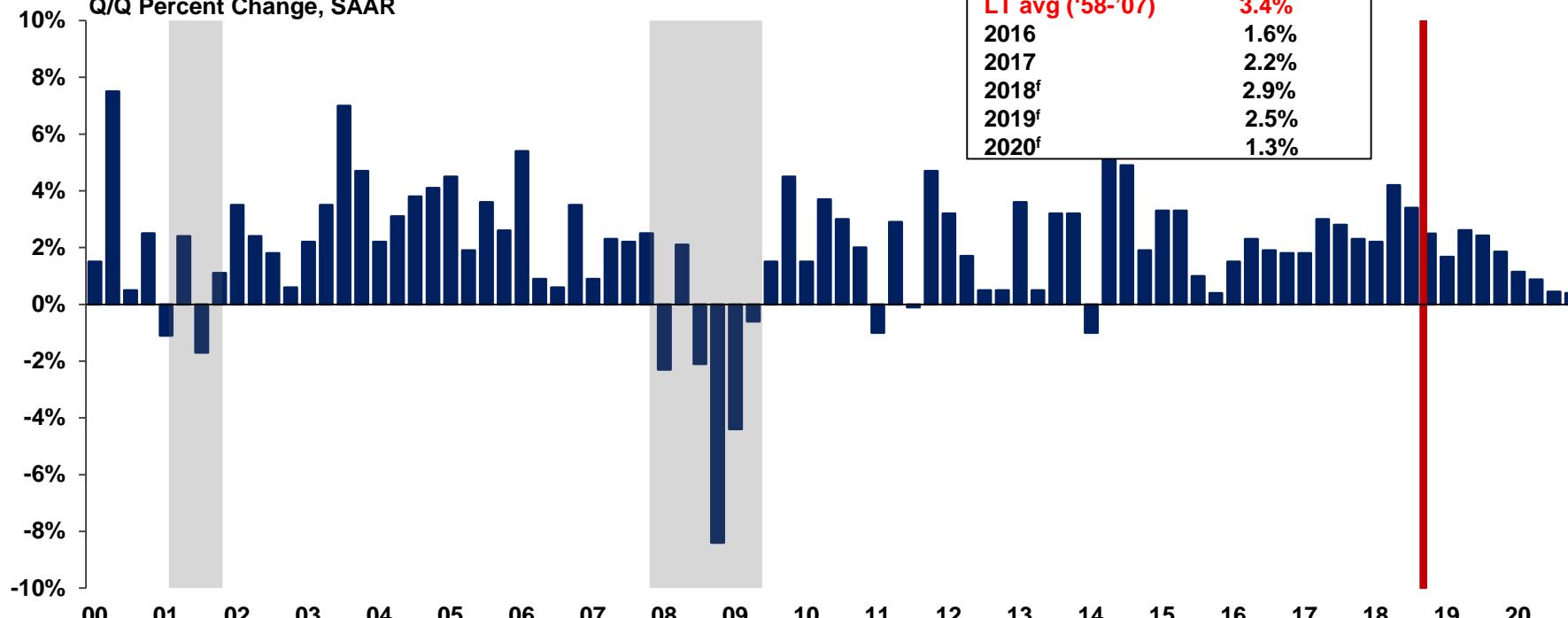
Robert Dietz, Ph.D.
NAHB Chief Economist



GDP Growth

Economic slowdown approaching

Q/Q Percent Change, SAAR



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



... / Did the Fed
Back Down?

Federal Reserve - Economic Goals

Congress directed the Fed to conduct monetary policy to support three specific goals:

maximum sustainable employment

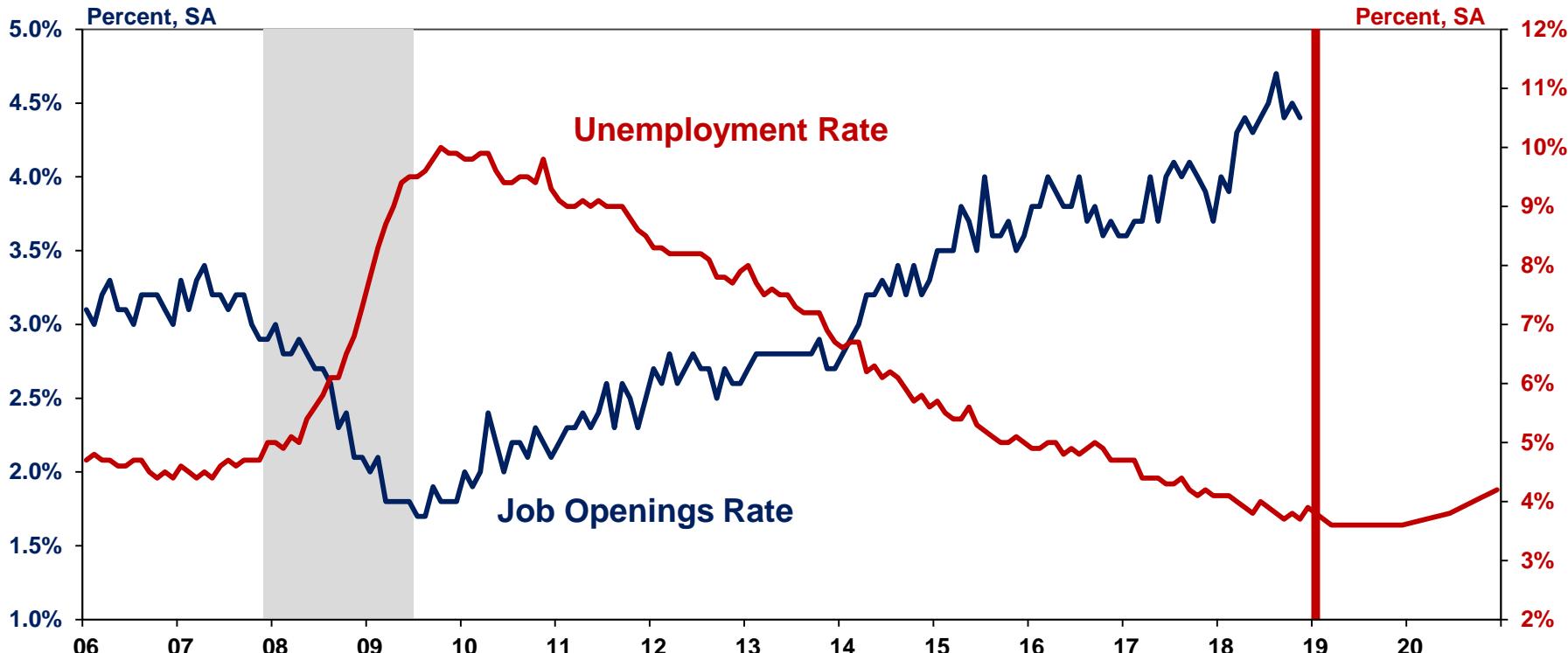
stable prices

moderate long-term interest rates

These goals are sometimes referred to as the Fed's mandate.

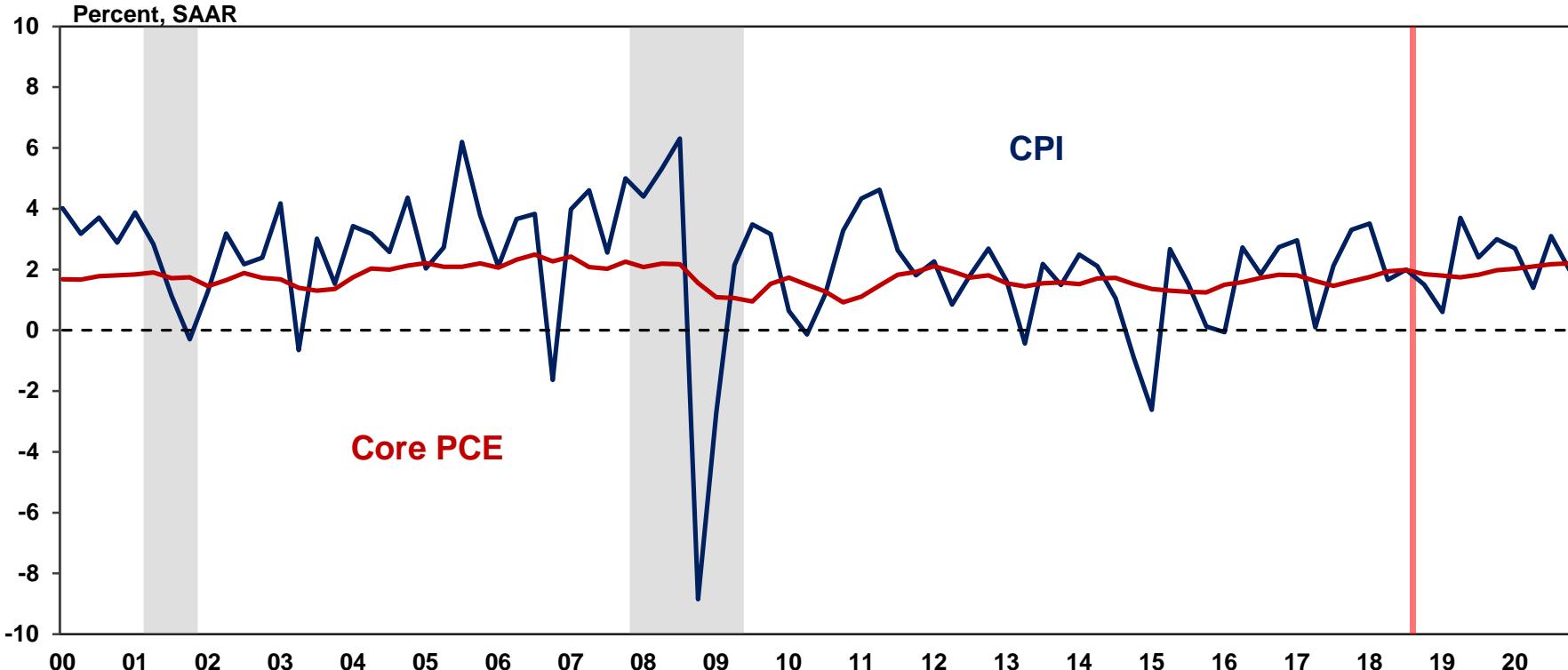
Tight Labor Market

Lack of labor represents a macro risk



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

Consumer and Core Inflation



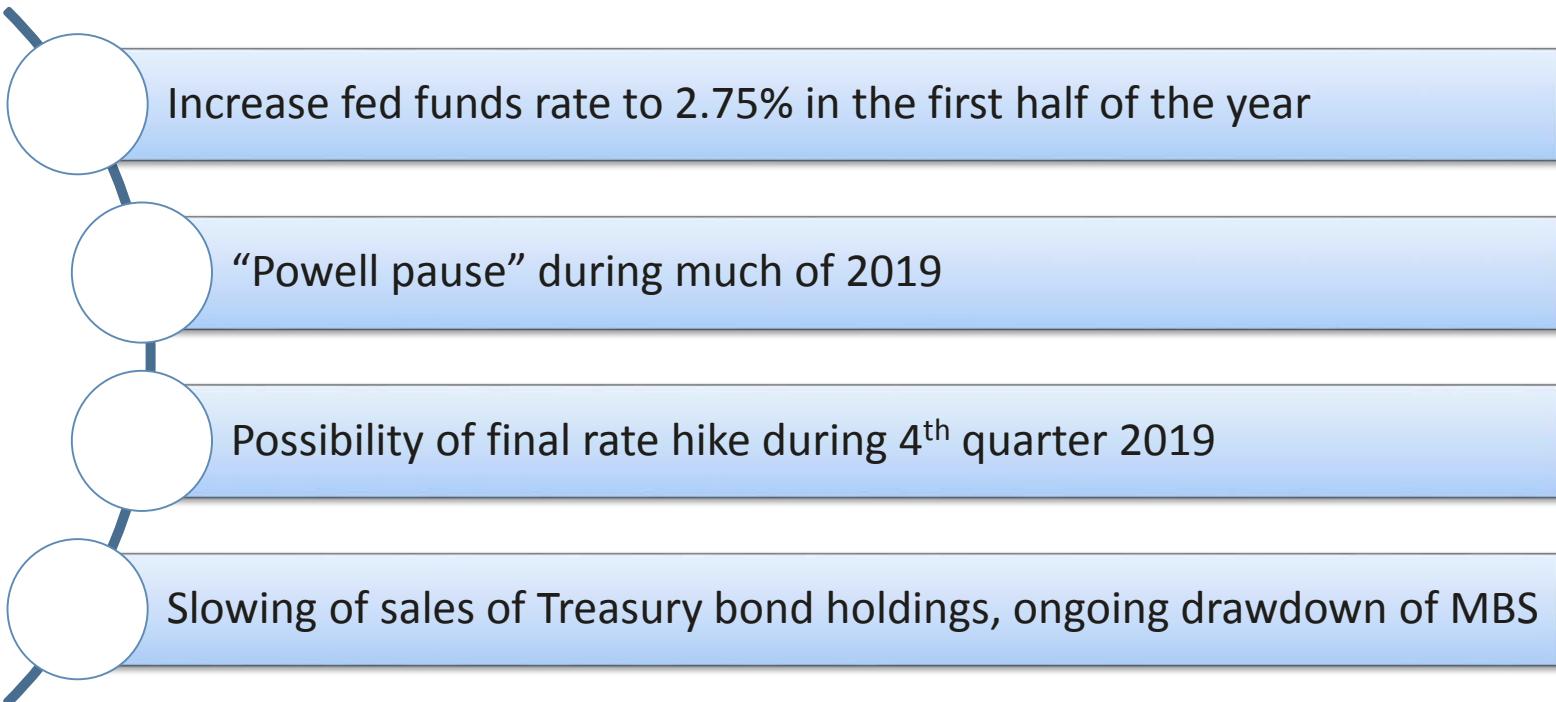
Source: U.S. Bureau of Labor Statistics (BLS); U.S. Bureau of Economic Analysis (BEA) and NAHB forecast.

The Great Moderation

The Decline of Long-Term Rates



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



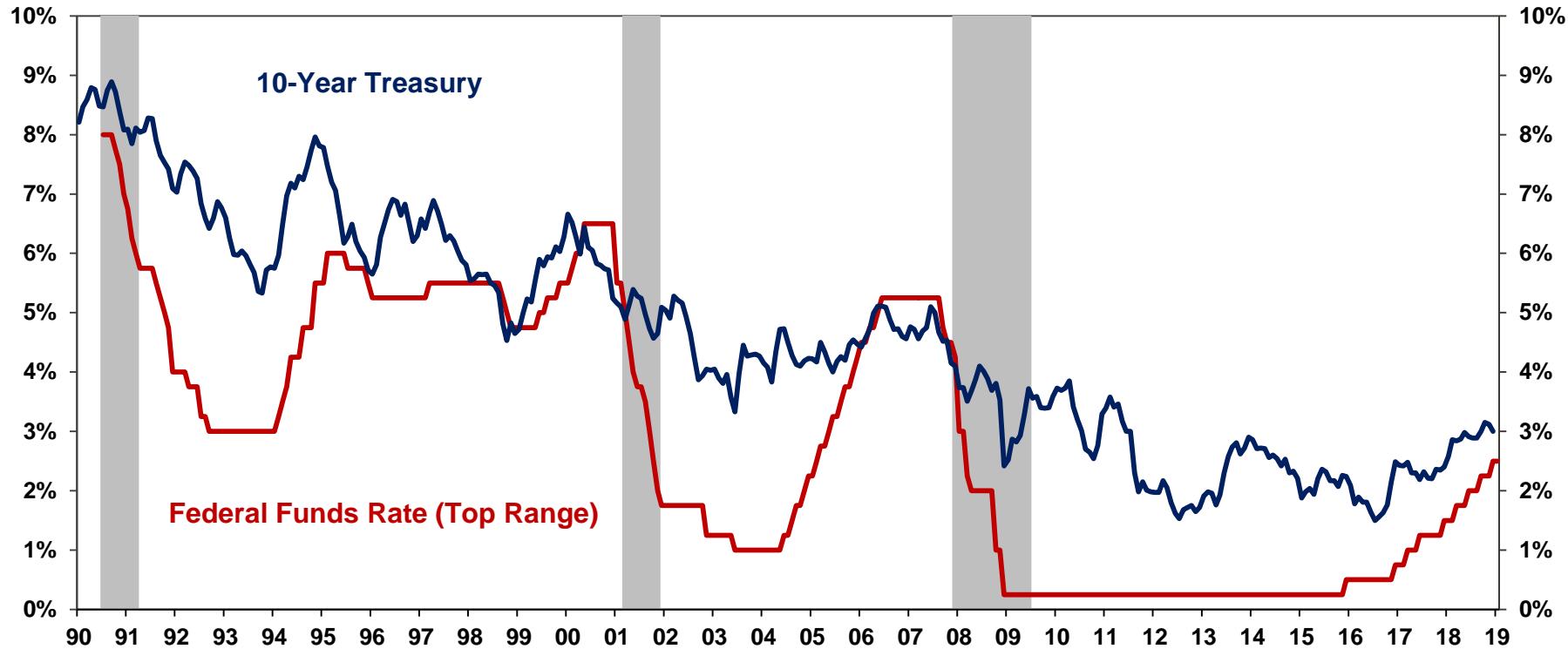
Increase fed funds rate to 2.75% in the first half of the year

“Powell pause” during much of 2019

Possibility of final rate hike during 4th quarter 2019

Slowing of sales of Treasury bond holdings, ongoing drawdown of MBS

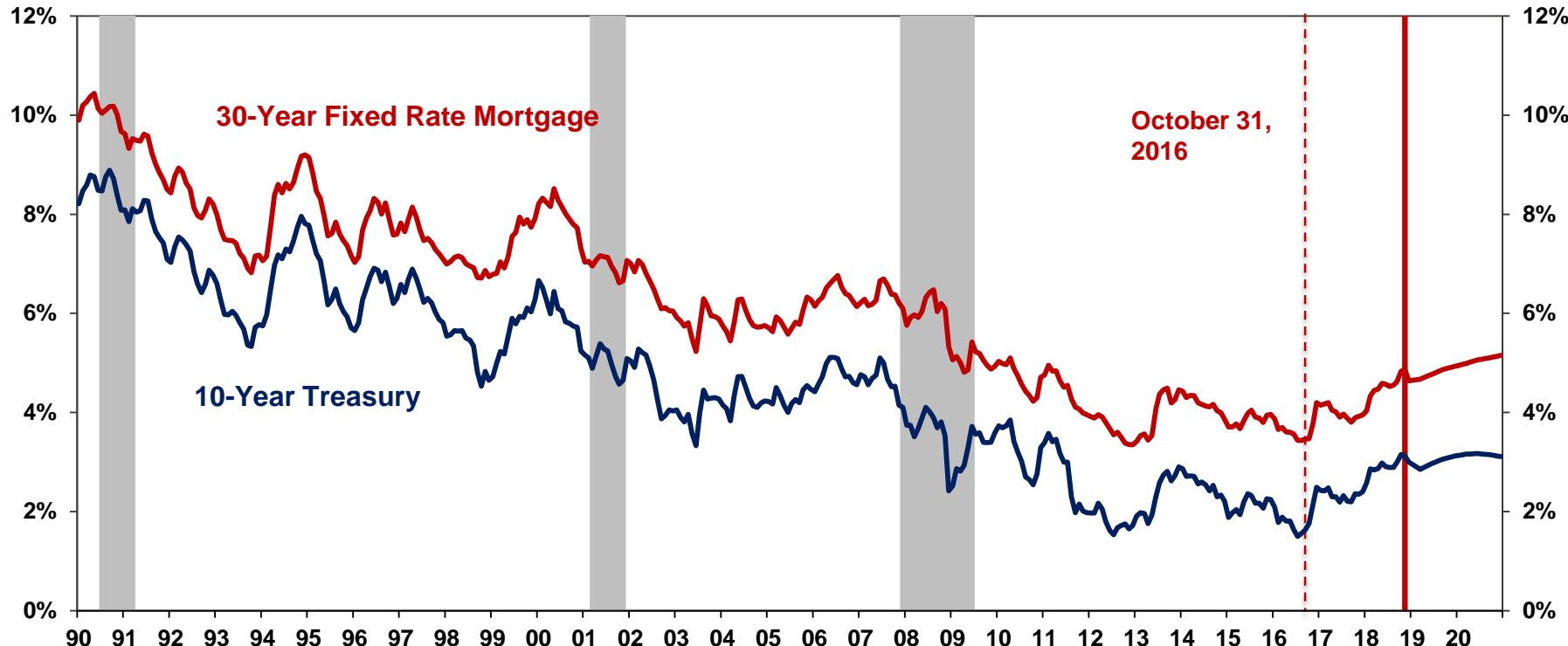
Fed Funds Rate



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

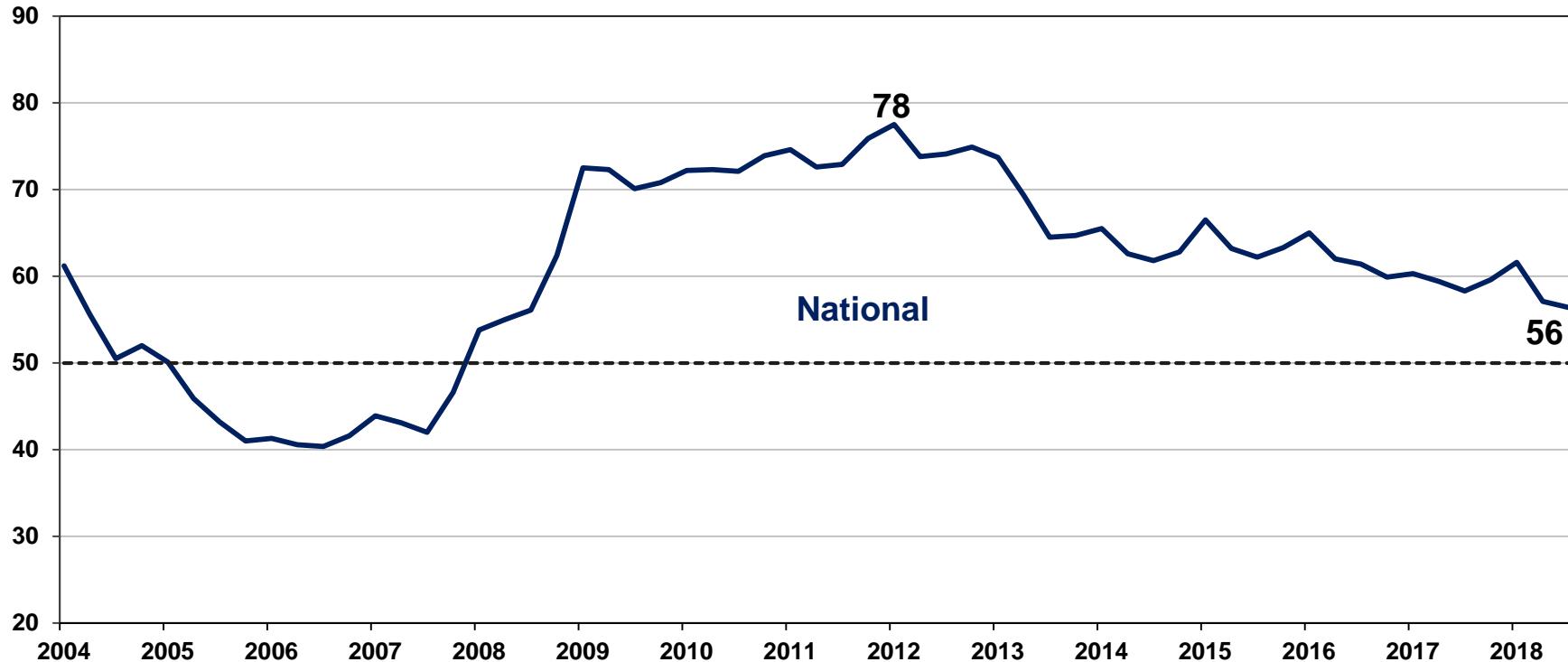
30-Year Fixed Rate Mortgage and 10-Year Treasury

Some increases ahead but nearing peak rates for the cycle



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

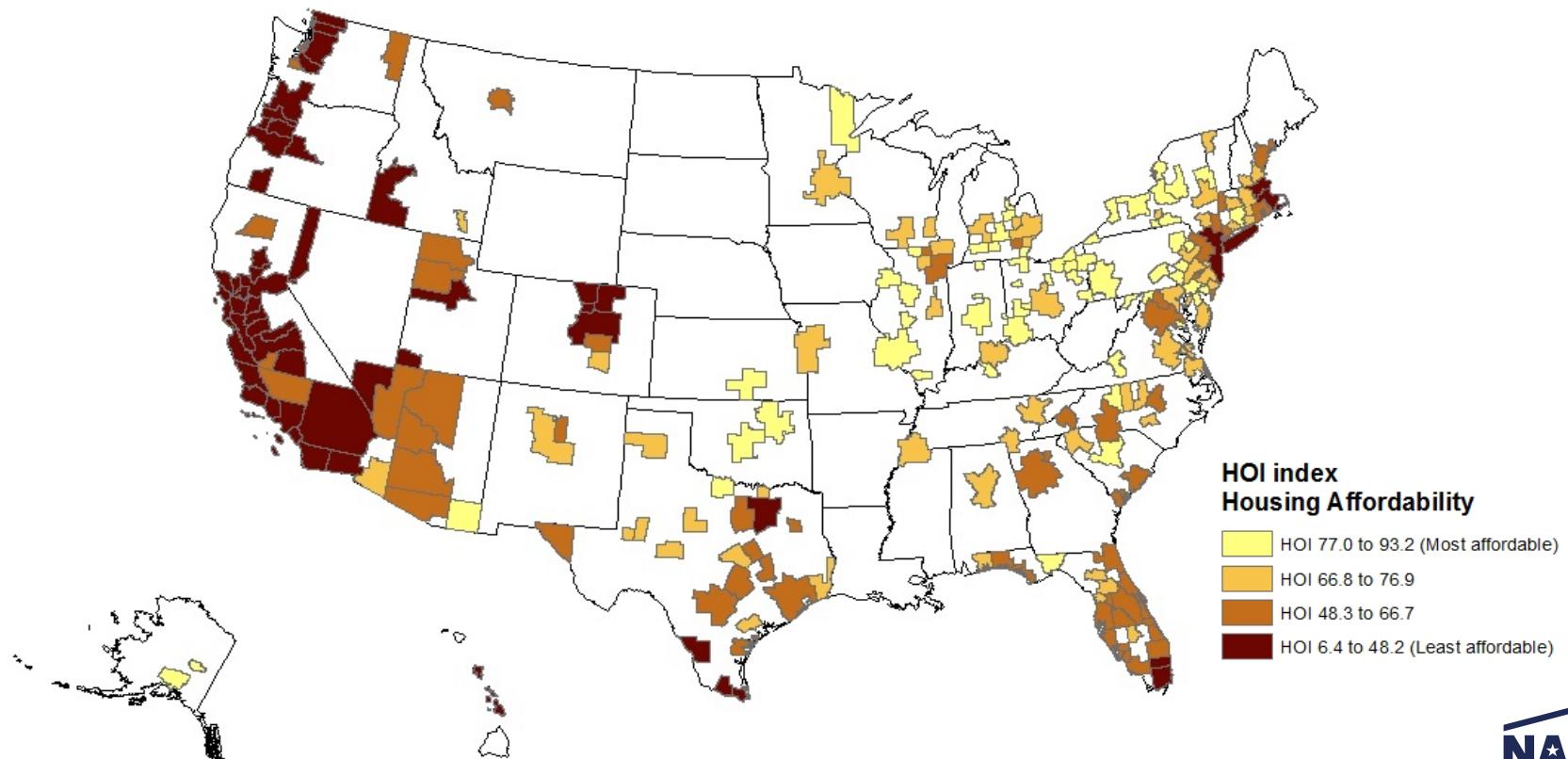
Housing Affordability – NAHB/Wells Fargo HOI



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

The Geography of Housing Affordability-NAHB/Wells Fargo HOI

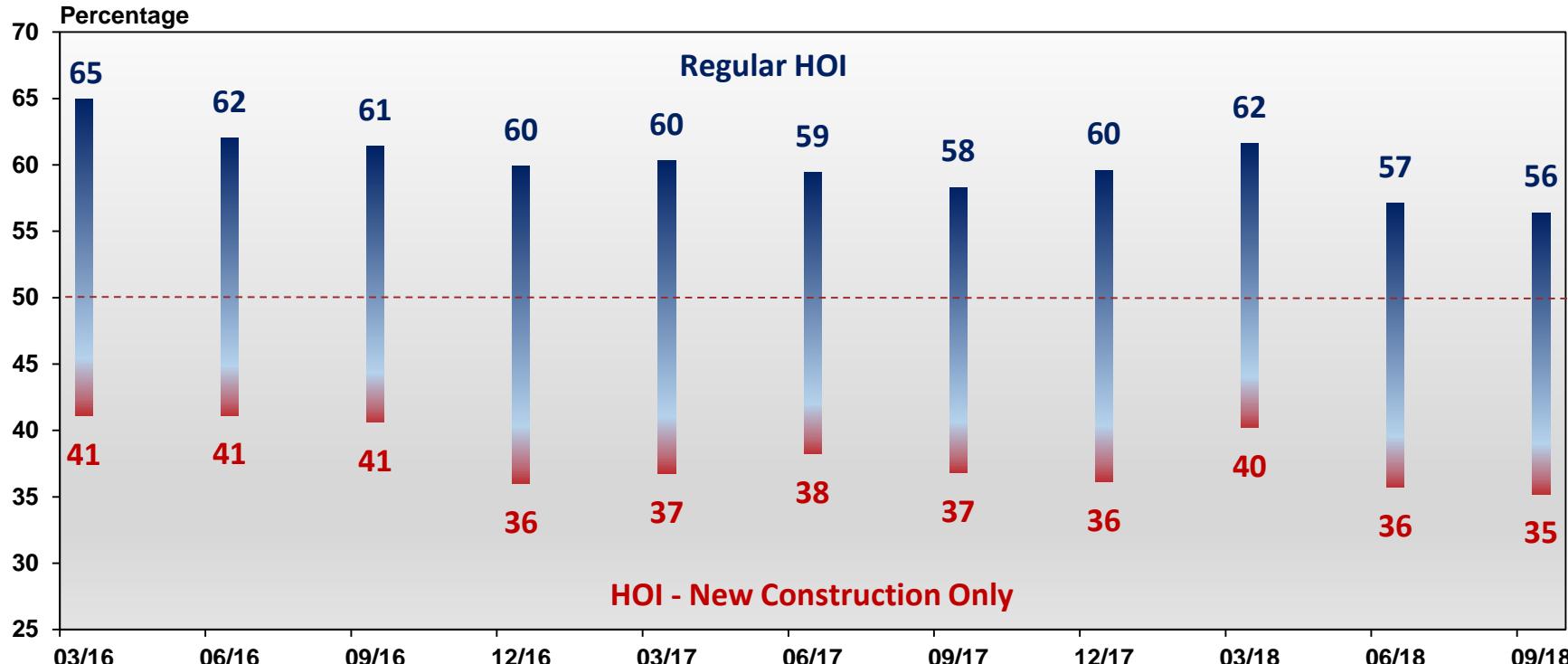
Coastal markets least affordable



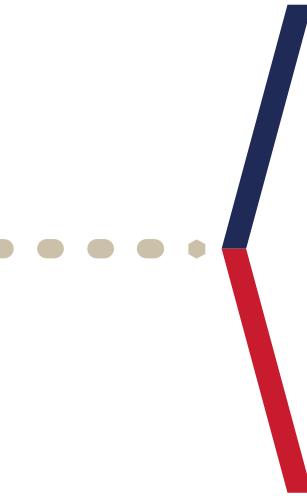
Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).

New Construction Housing Affordability Lower

Approximate 20 point difference between all sales and new sales



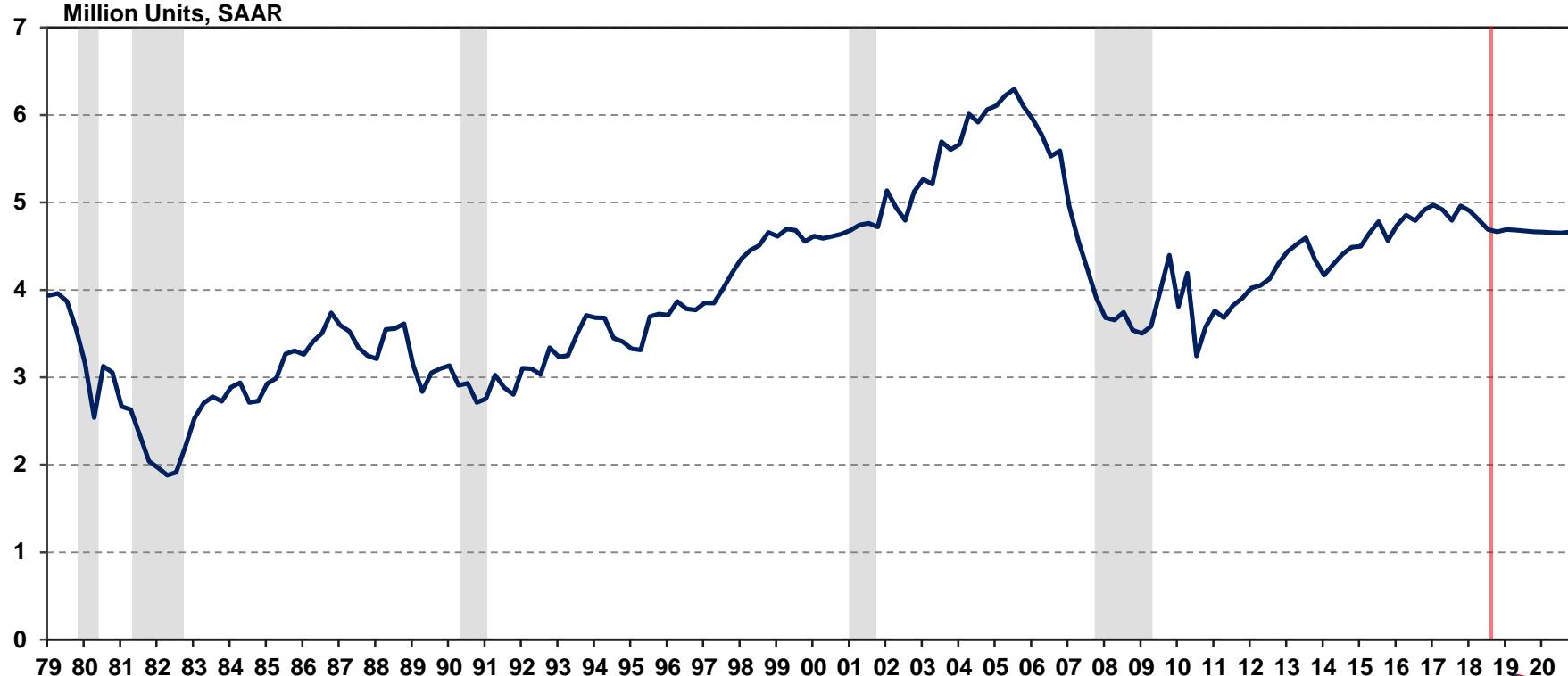
Source: NAHB/Wells Fargo Housing Opportunity Index (HOI).



Housing Forecast



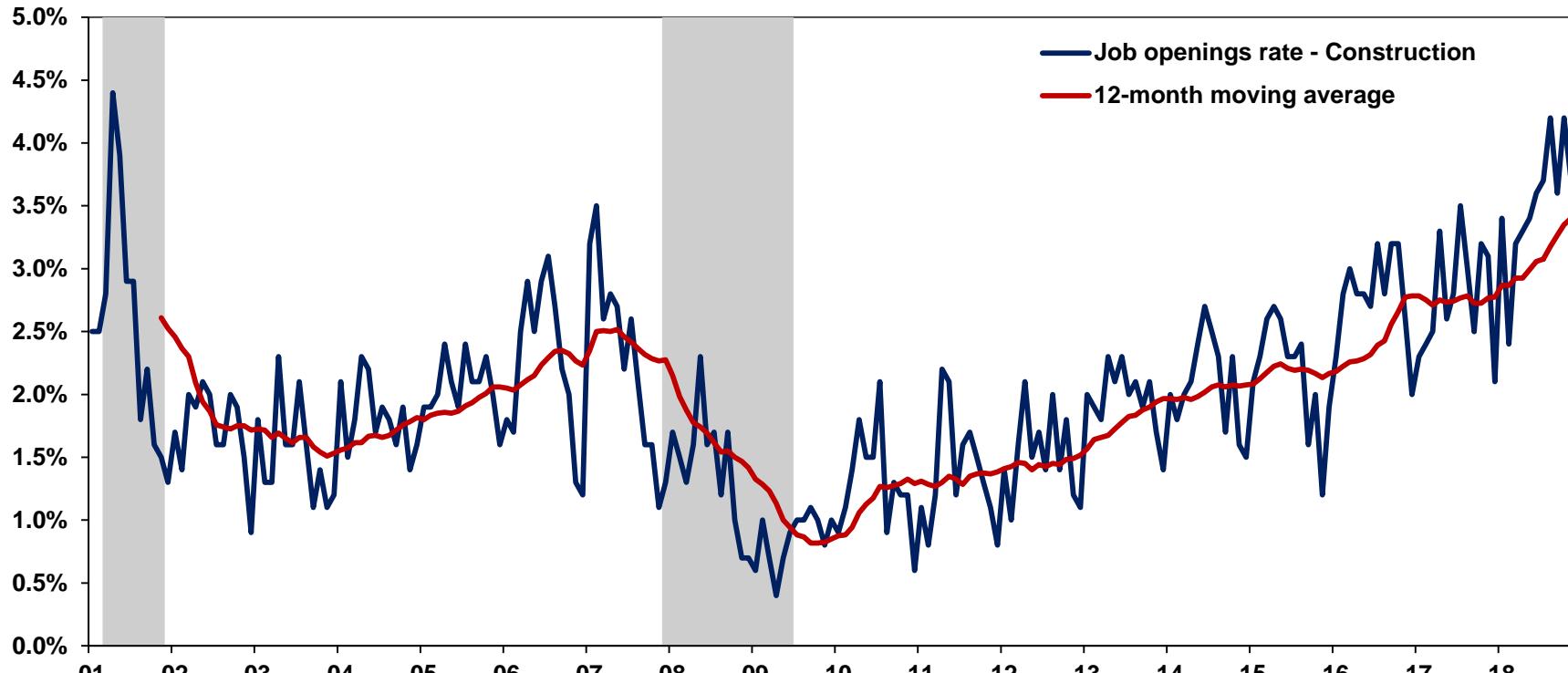
Existing Single-Family Home Sales



Source: National Association of Realtors (NAR) and NAHB forecast .

Labor

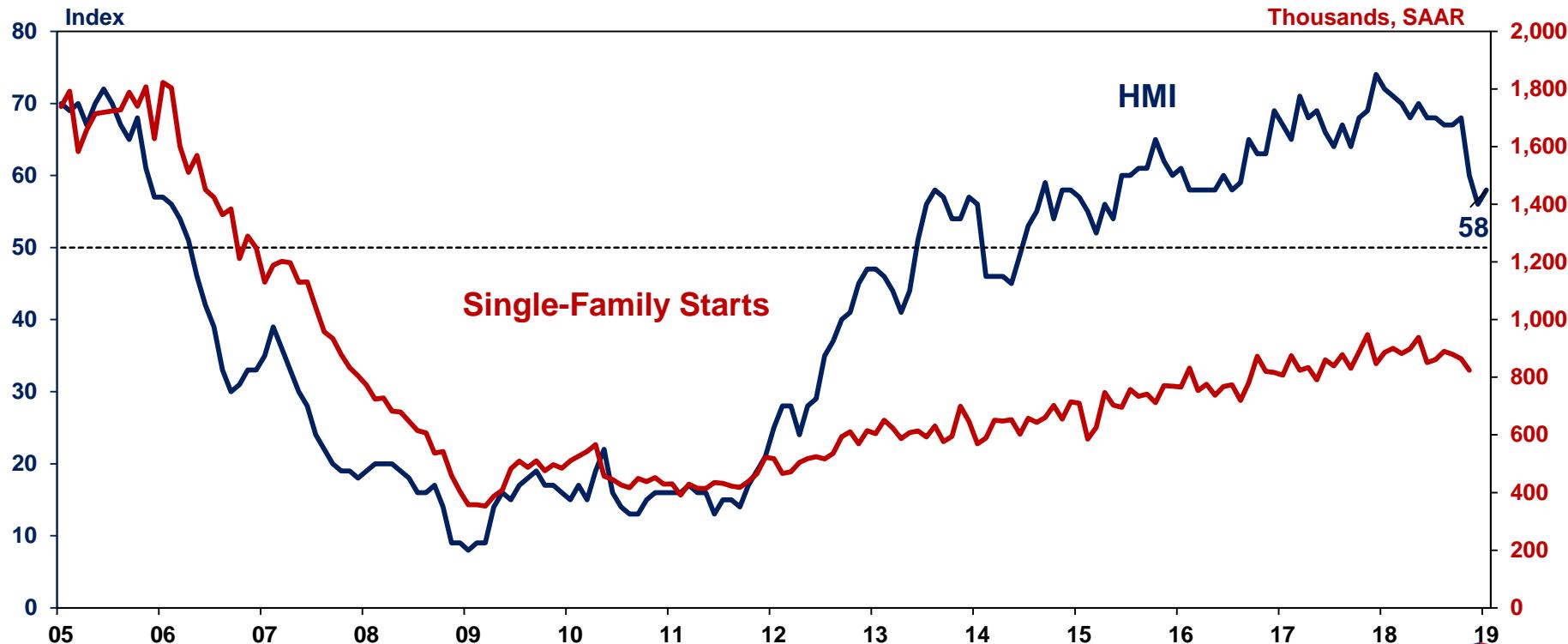
Labor shortage continued through 2018



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

NAHB/Wells Fargo Housing Market Index

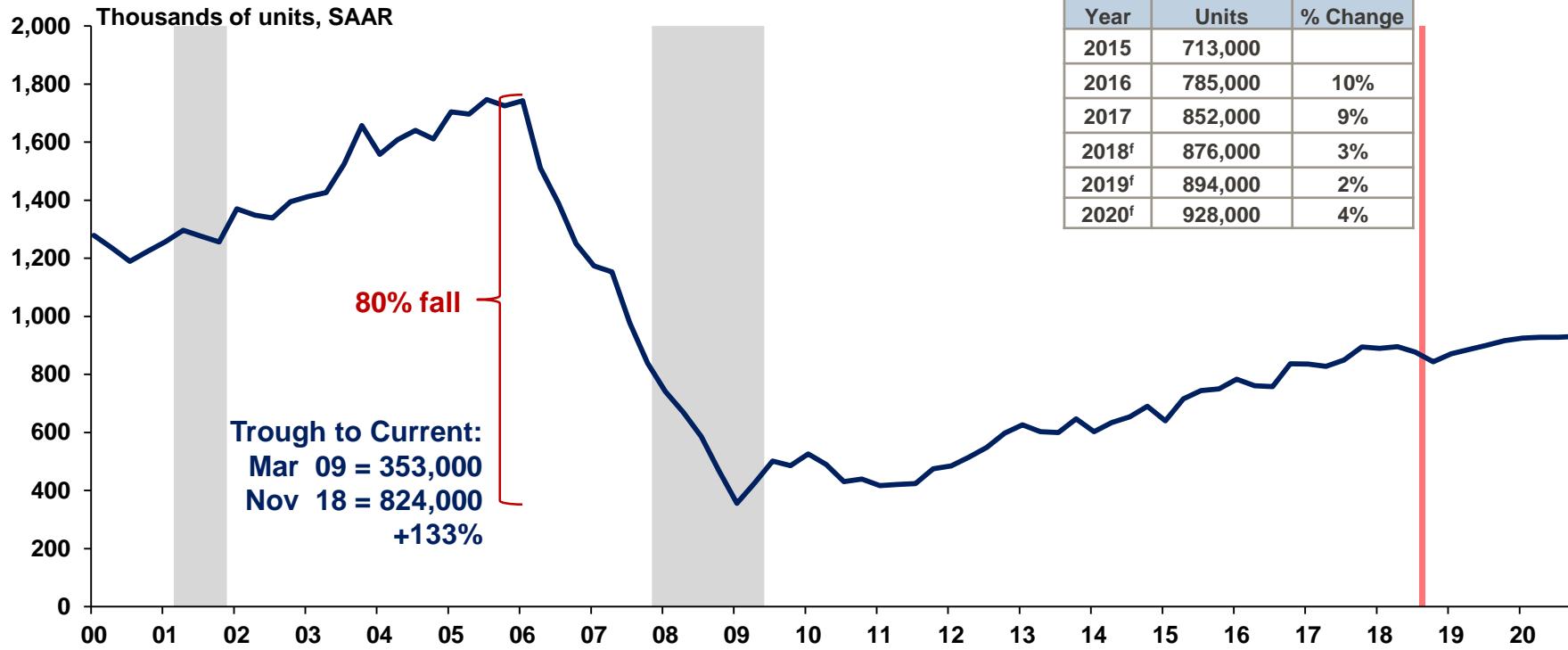
Lower interest rates stabilize builder confidence



Source: Census Bureau and NAHB/Wells Fargo HMI survey.

Single-Family Starts

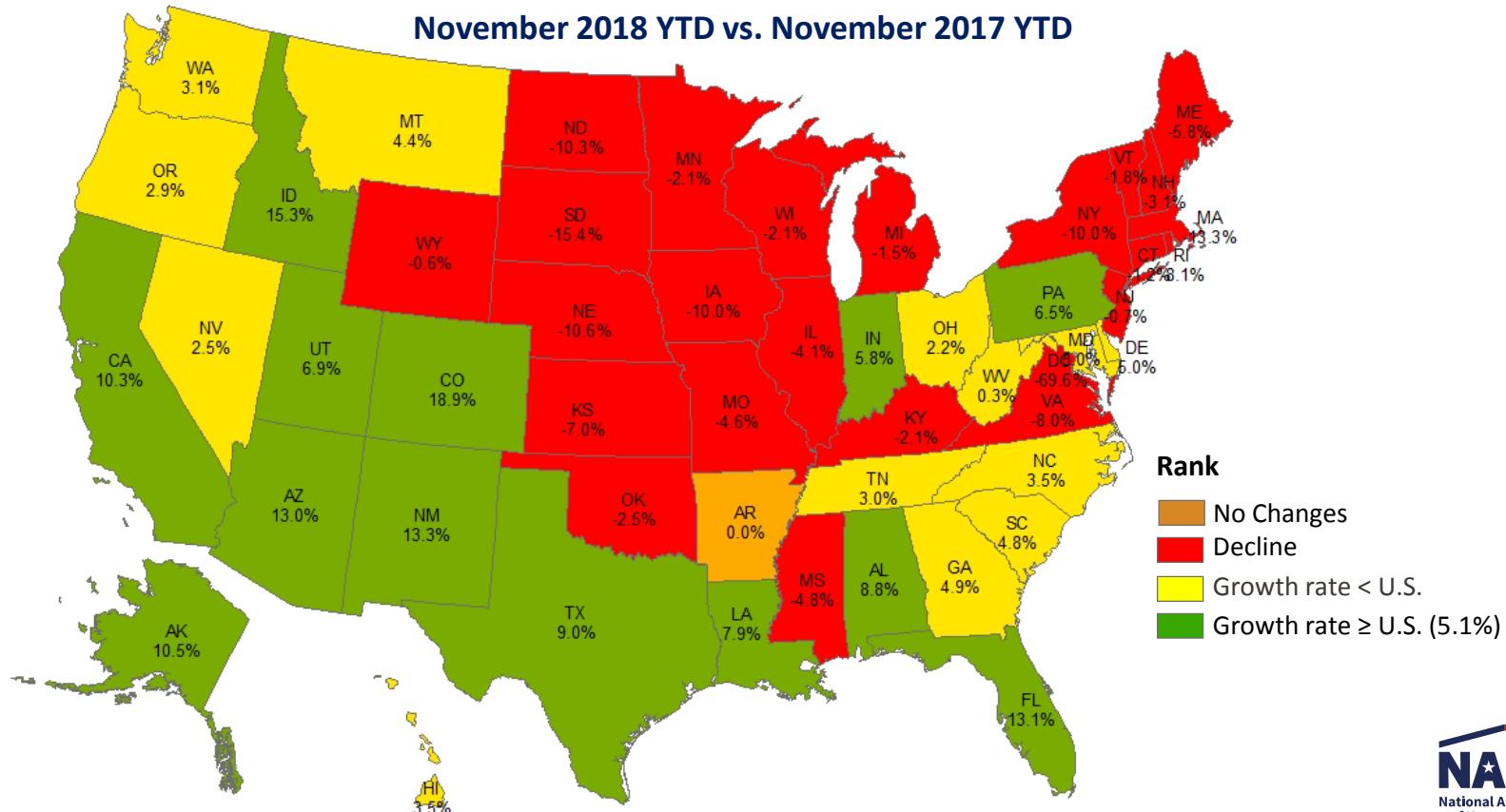
Limited growth as economy slows



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

Growth in Single-Family Permits

November 2018 YTD vs. November 2017 YTD



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

New NAHB Leading Markets Index

New economic geography measure of building conditions

- First index metric is metro areas – third quarter data

Smaller metro areas – core counties (29% of single-family permits)

- Smaller towns like Xenia, Ohio and Darlington, South Carolina
- 9.8% annual growth rate, 7.4% year-over-year

Large metro areas – core counties (18% share)

- Columbus, Ohio and Orange County, California
- 6.5% annual growth rate, 6.8% year-over-year

Large metro areas – suburban counties (26% share)

- Fairfax, Virginia
- 4.1% annual growth rate, 3.2% year-over-year

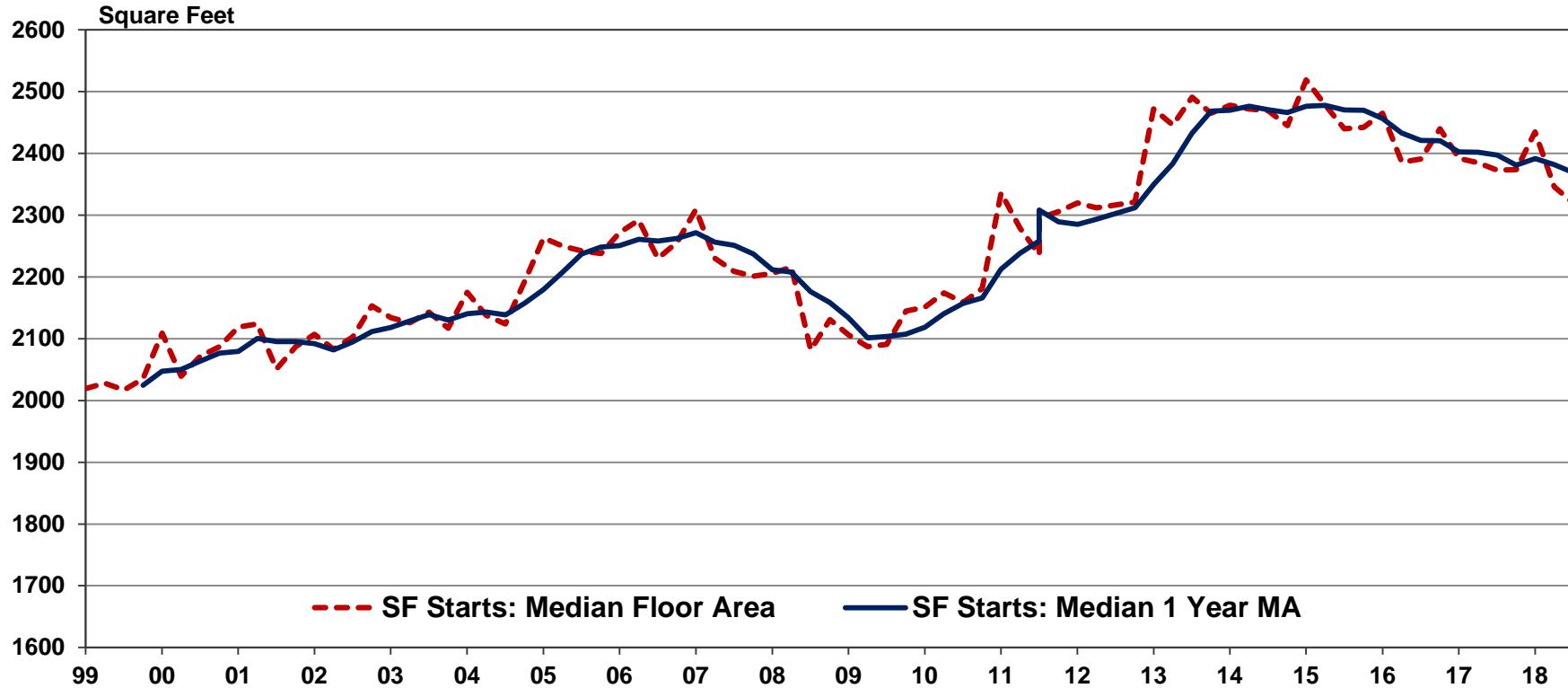
Smaller metro, outlying areas (8% market share)

- Rural areas near small towns
- 2.7% growth rate, -2.4% year-over-year

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

Typical New Home Size

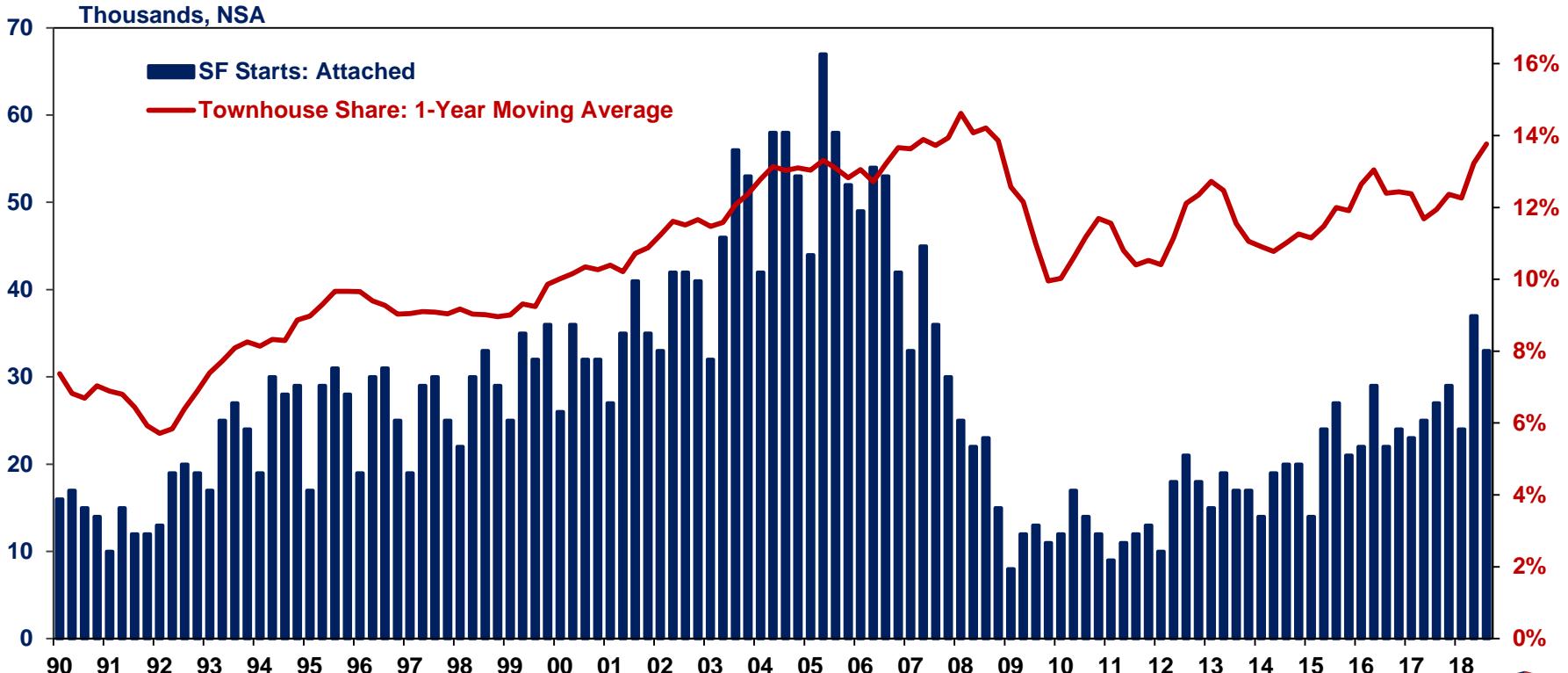
Decline after market shift



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

Townhouse Market Expanding

24% annualized growth rate

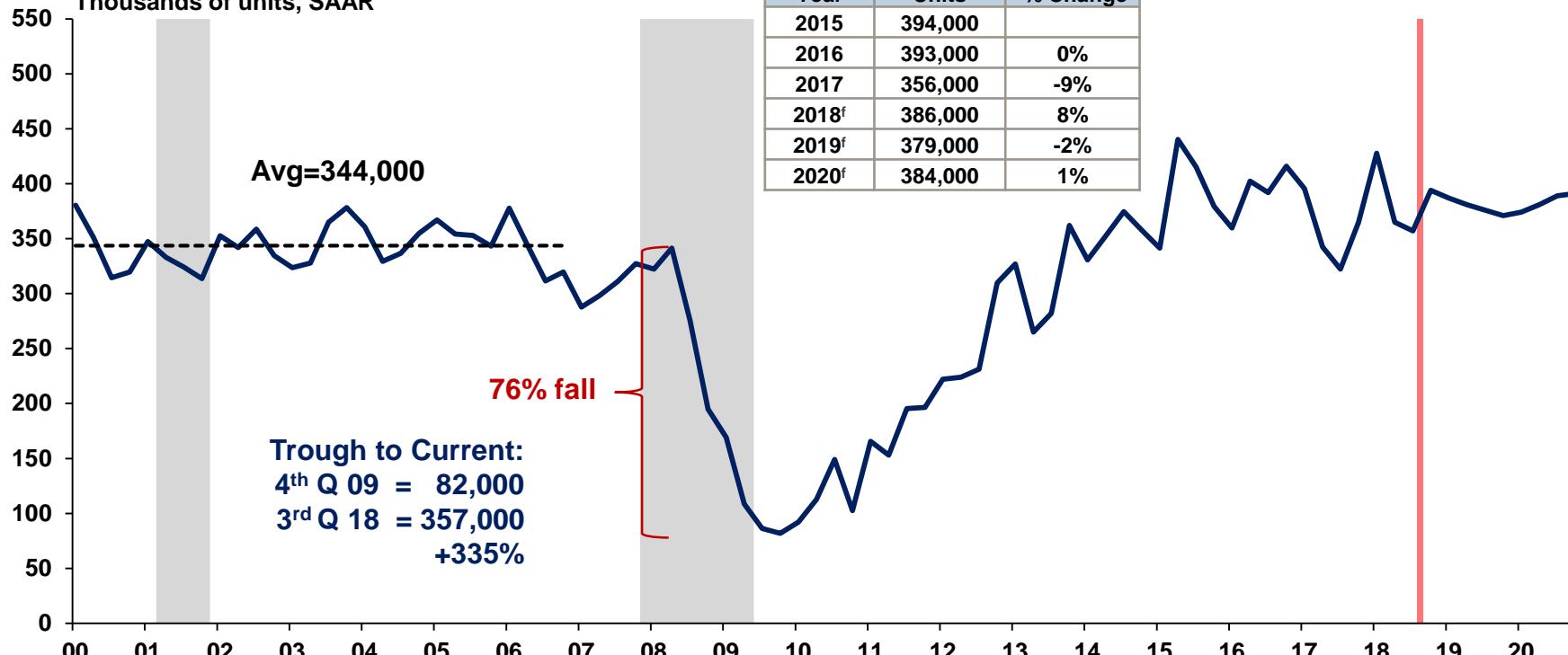


Source: U.S. Census Bureau (BOC).

Multifamily Housing Starts

Leveling off

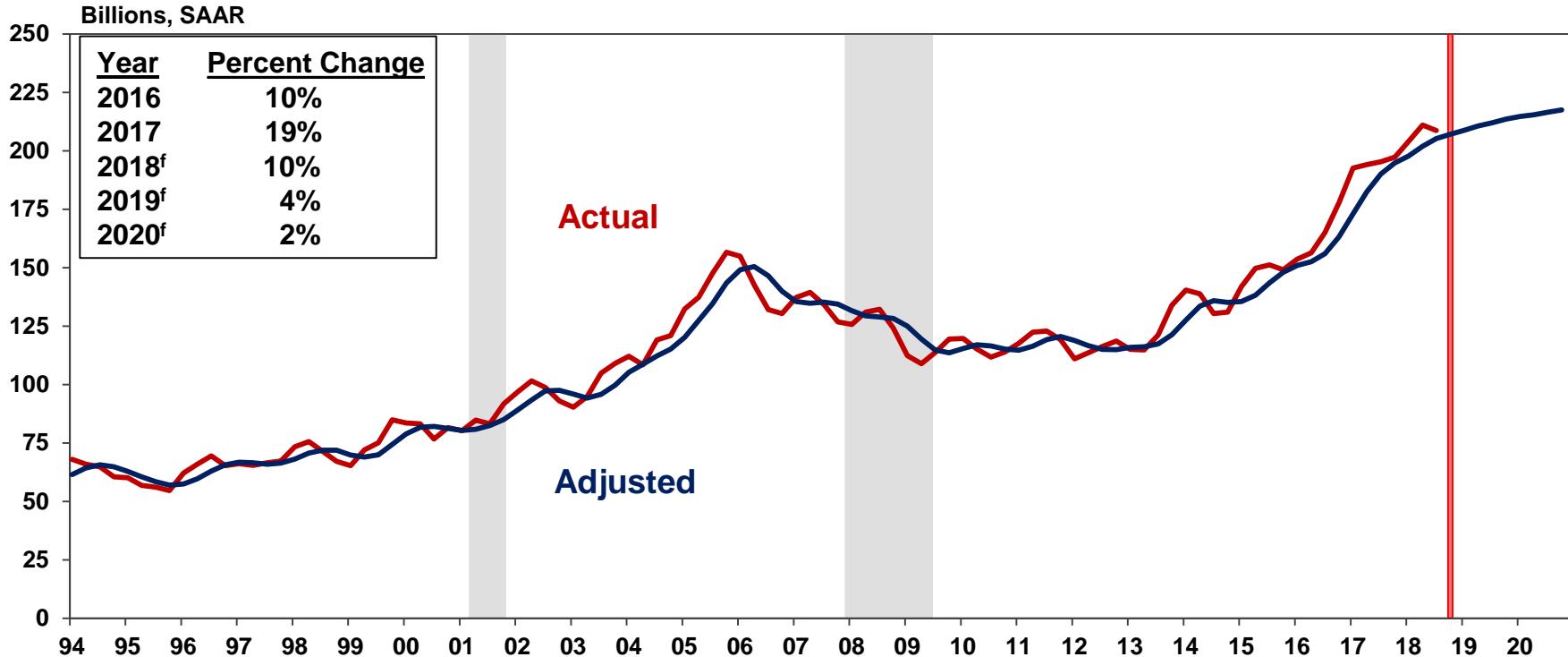
Thousands of units, SAAR



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

Residential Remodeling

Growth ahead but softening



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

Thank you

Questions?

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