

Policy and Pricing

HBA of Fayetteville
January 25th, 2018

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NAHB Chief Economist



Policy and Pricing – Economic Update

Tax Reform – policy change and economic impact

Macroeconomic update

Interest rates and housing demand

Supply-side factors update

Local economic factors

Forecasts

A tipping point for homeownership?



Tax Reform

Tax Reform – Policy Changes and

- Individual Taxpayers
 - Lower tax rates, with top rate of 37%
 - \$1.2 trillion tax cut for rate reduction
 - Personal exemptions eliminated but standard deduction nearly doubles, child credit expands
 - \$70 billion tax cut on net basis
 - Housing deductions
 - Fewer itemizers, but offset by larger standard deduction
 - \$750K cap for MID, second home rule retained
 - Property tax and income/sales SALT deduction capped at \$10,000
 - Capital gain exclusion for principal residences
 - Protected with the existing 2 of 5 year occupancy rule

Tax Reform – Policy Changes and

- Individual Taxpayers
 - AMT thresholds raised: \$637 billion tax cut
 - Estate tax exemption amounts doubled to \$11 million per person: \$83 billion tax cut
- Business Taxpayers
 - Special pass-thru deduction of 20%: \$415 billion tax cut
 - LIHTC and private activity bonds protected
 - Carried interest now has three-year holding period requirement
 - Business interest deduction protected for real estate
 - Active loss limit of \$500K per year against passive income
 - Like kind exchange protected for real estate
 - Completed contract accounting rules protected and expanded

Tax Reform – Policy Changes and

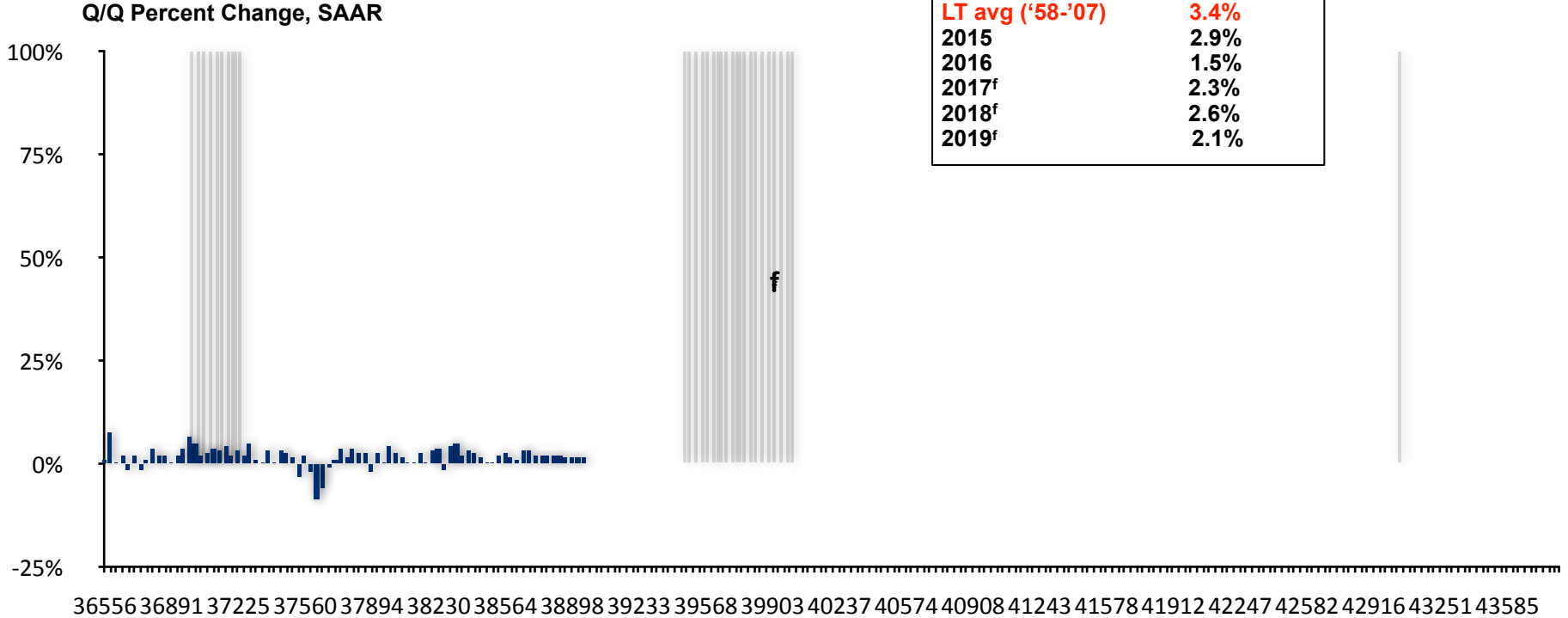
- Economic impacts
 - GDP
 - Marked up 2018 forecast to 2.6%
 - Dynamic scoring model suggests 0.8% more GDP after 10 years
 - Business investment
 - 1.1% higher after ten years
 - Labor supply and employment
 - 0.6% higher
 - 0.9 million more workers in labor force
 - Reduced home price growth to a positive 2.9% growth rate in 2018

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Macroeconomics

GDP Growth

Stronger growth expected post-tax reform



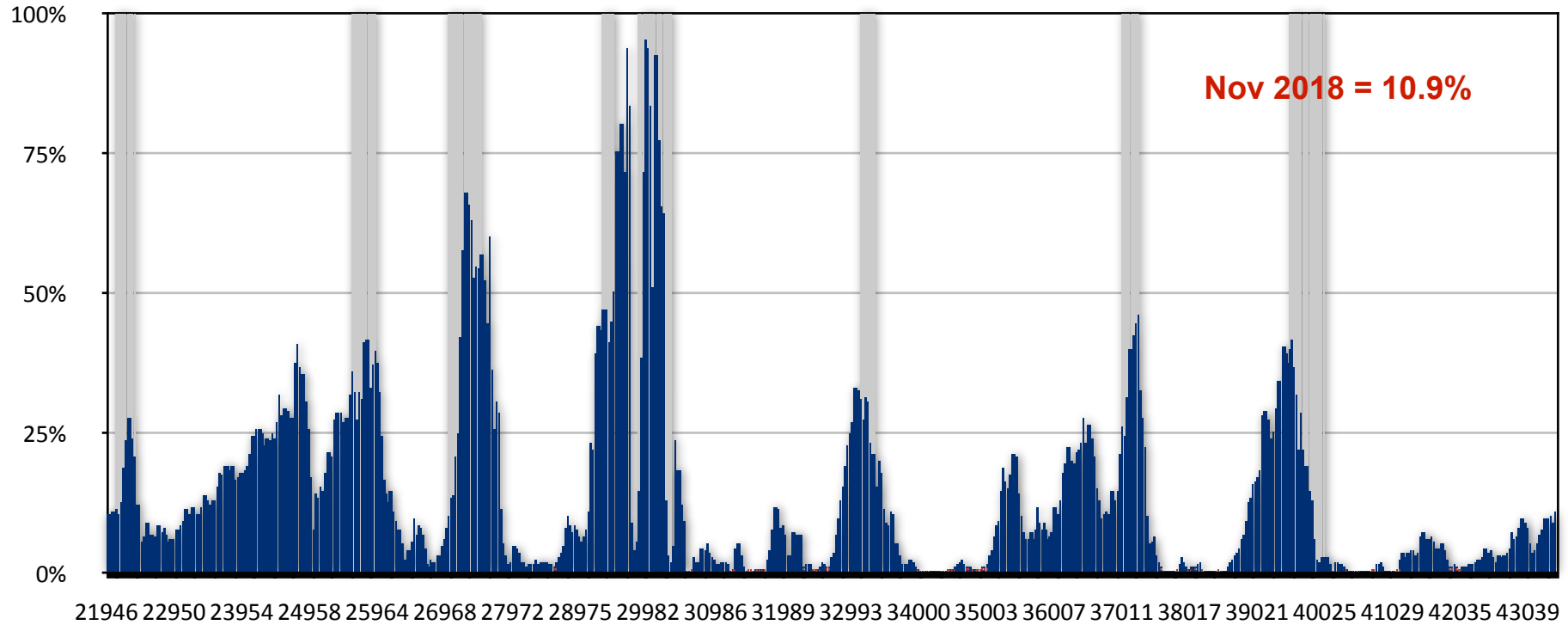
	<u>Annual Growth</u>
LT avg ('58-'07)	3.4%
2015	2.9%
2016	1.5%
2017^f	2.3%
2018^f	2.6%
2019^f	2.1%

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



Probability of US Recession

Recession probability small for 2018



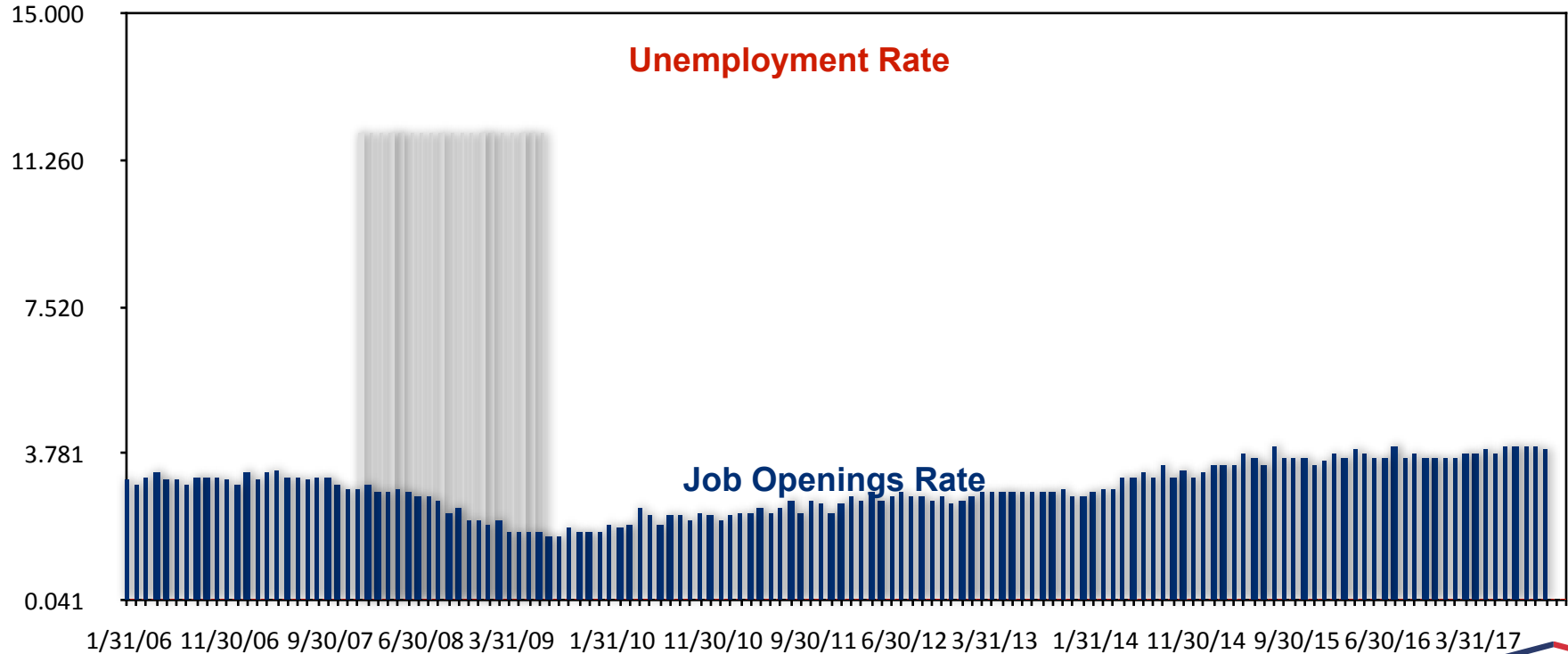
Source: NAHB calculations and Federal Reserve Bank of New York data.

Tight Labor Market

How low can unemployment go?

Percent, SA

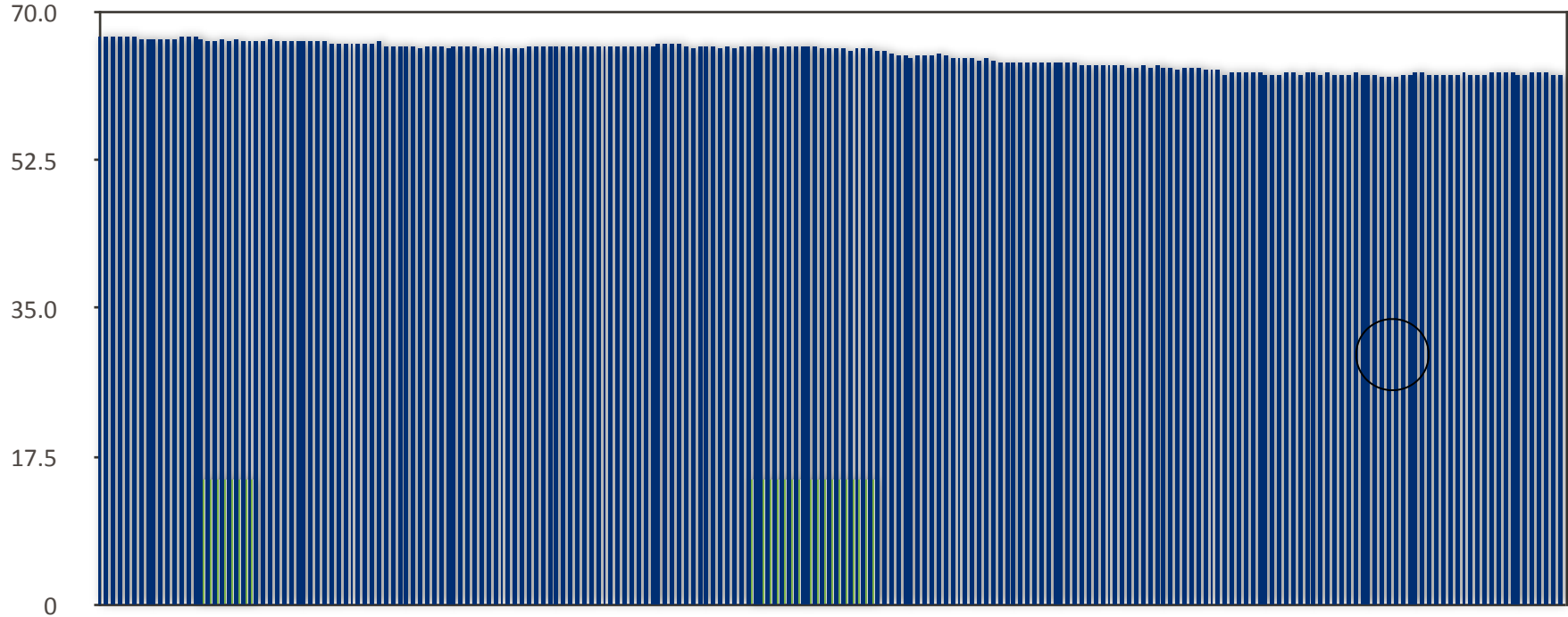
Percent, SA



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

Labor Force Participation Rate

Stabilized labor force participation key to future growth

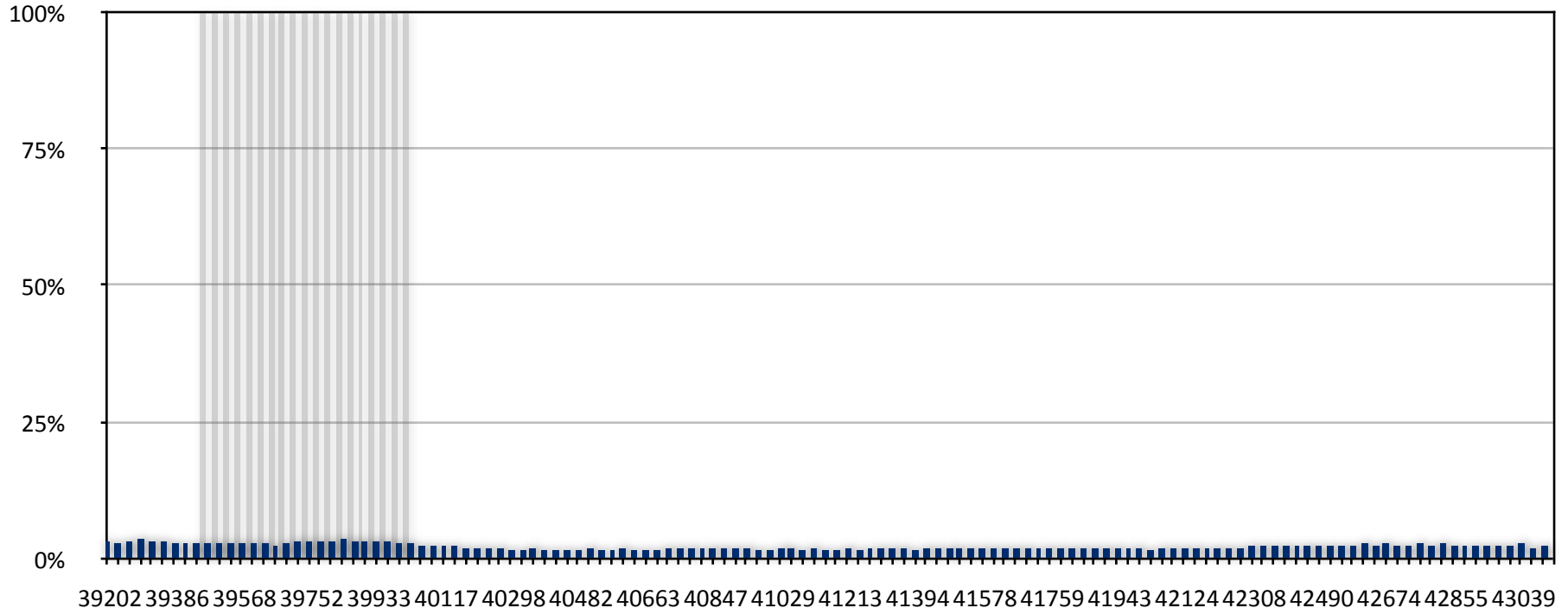


Source: U.S. Bureau of Labor Statistics (BLS).

Average Hourly Wages

Tight labor market plus tax reform should boost wage growth

Y/Y Percent Change, SA



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

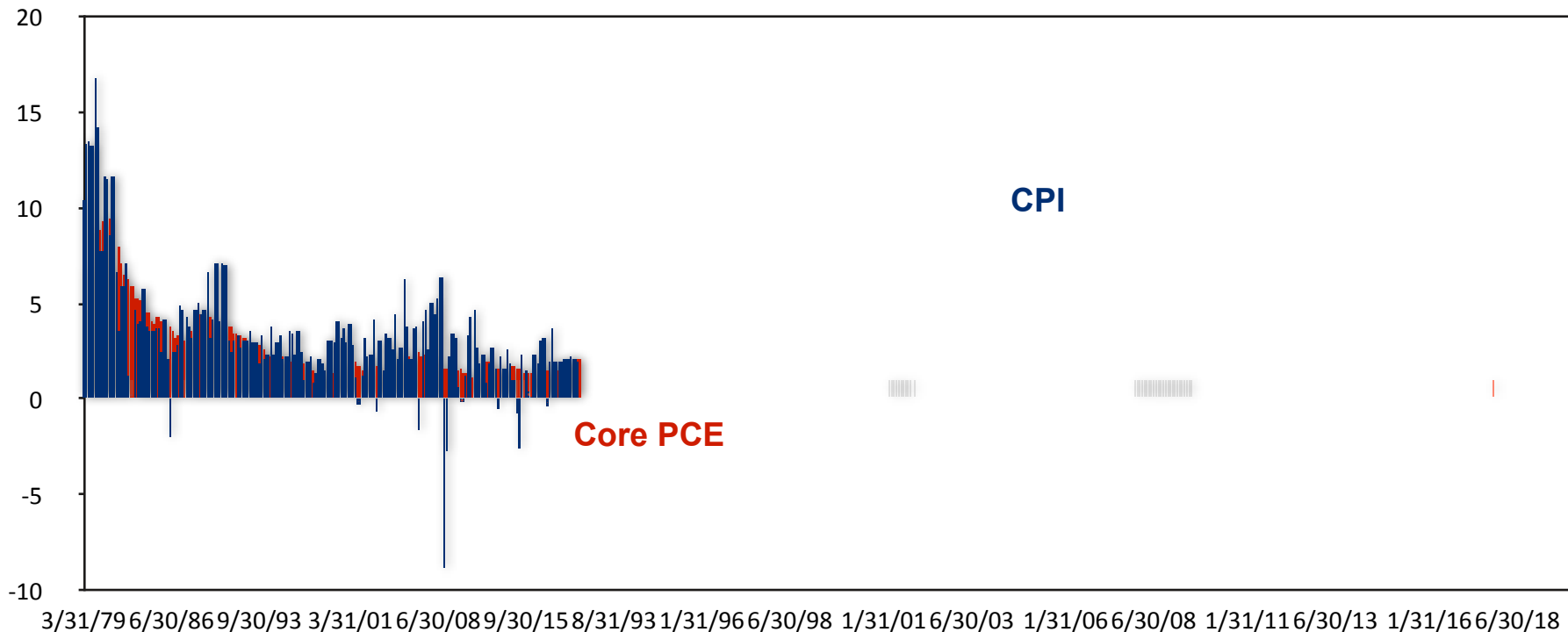


Interest Rates and Demand

Consumer and Core Inflation

Inflation pressures building

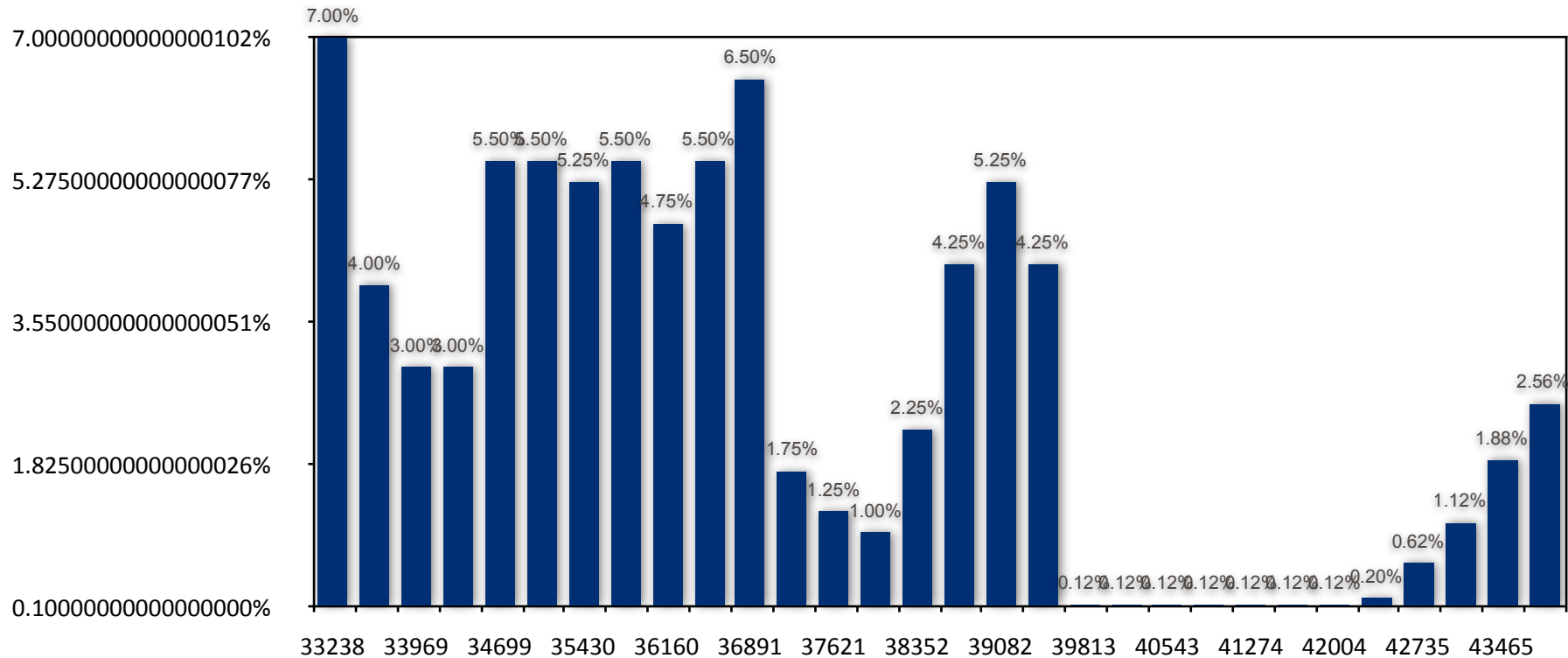
Percent, SAAR



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

Target Federal Funds Rate

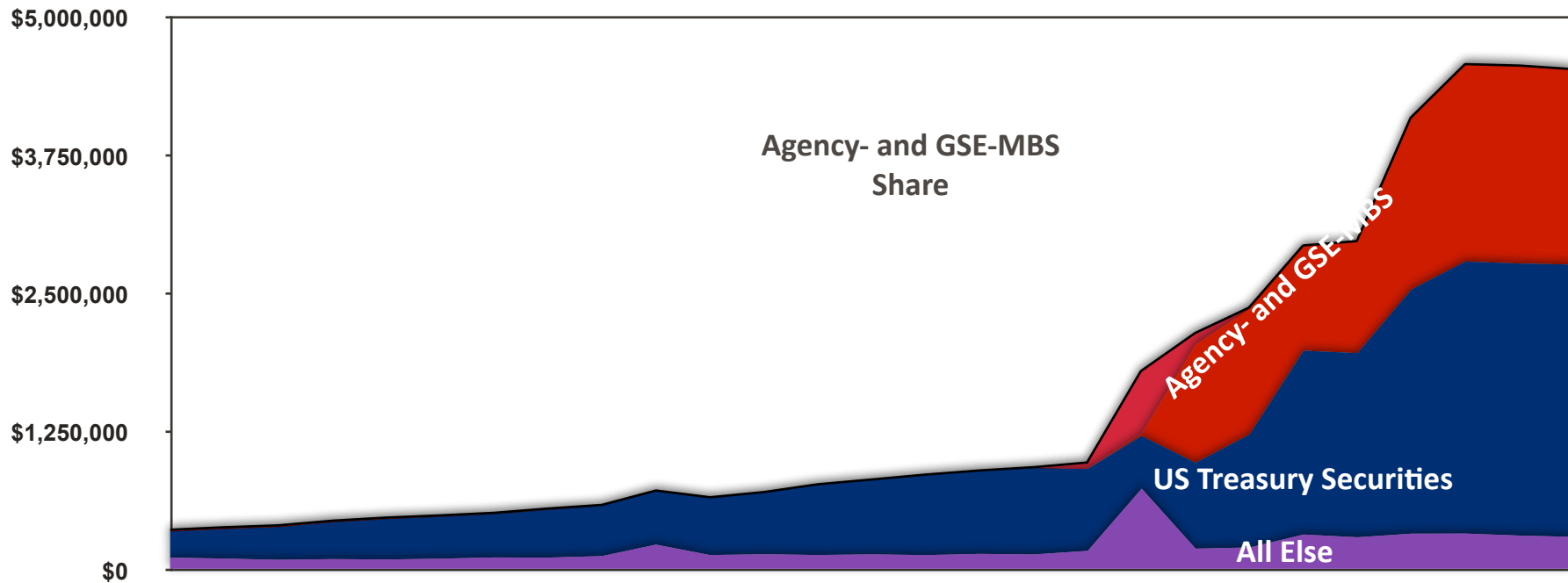
Fed will continue to raise rates



Federal Reserve Balance Sheet

Balance sheet reduction underway

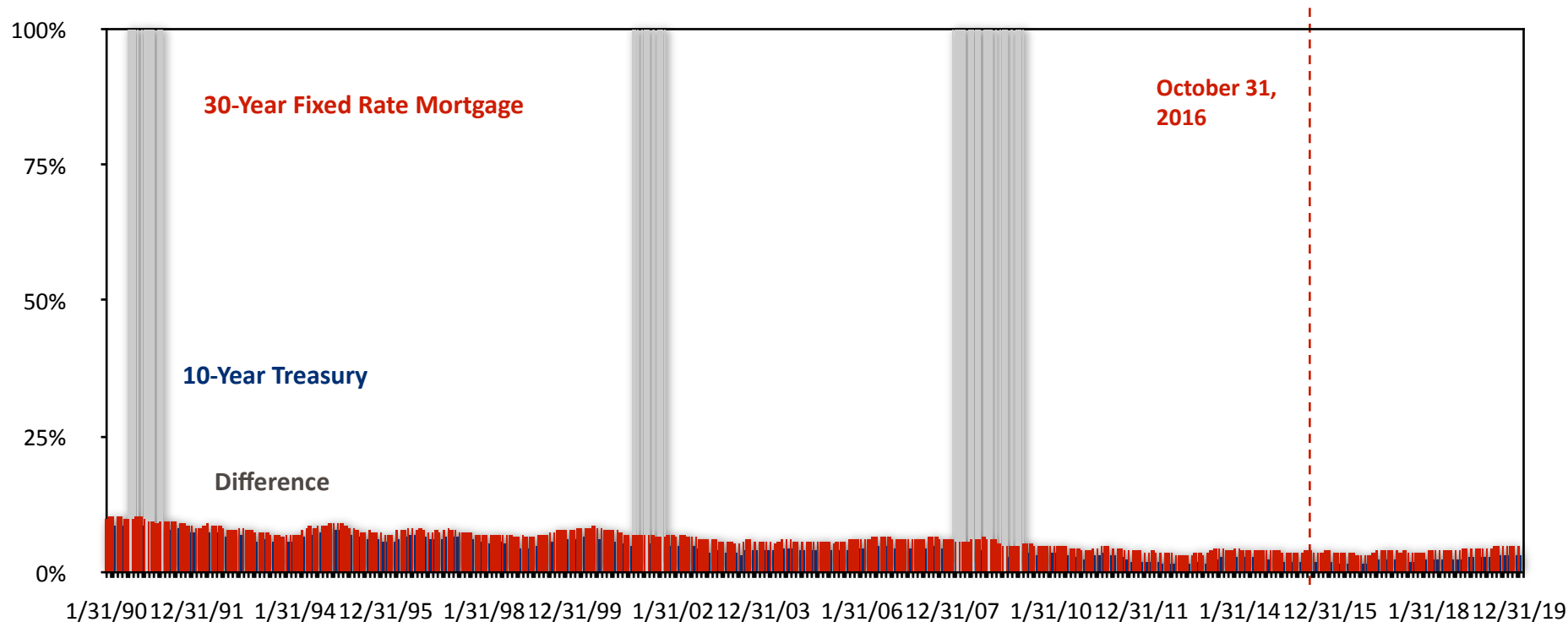
Federal Reserve Balance Sheet (\$Tr.)



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

/ 30-Year Fixed Rate and 10-Year

Rates will rise due to Fed policy and tight labor markets



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

Housing Affordability

Affordability declining

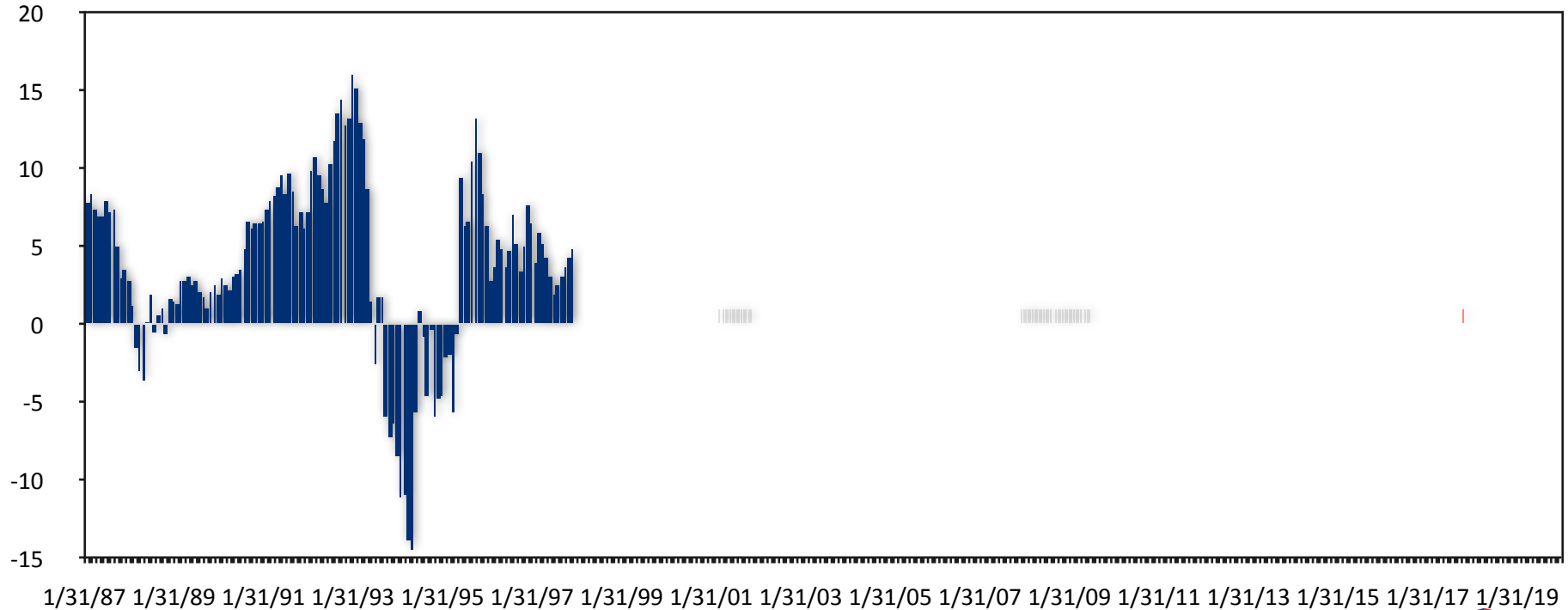
National

Source: NAHB/Wells Fargo Housing Opportunity Index.

S&P/Case-Shiller National US Home

Prices growing faster than income

Percent Growth, SAAR



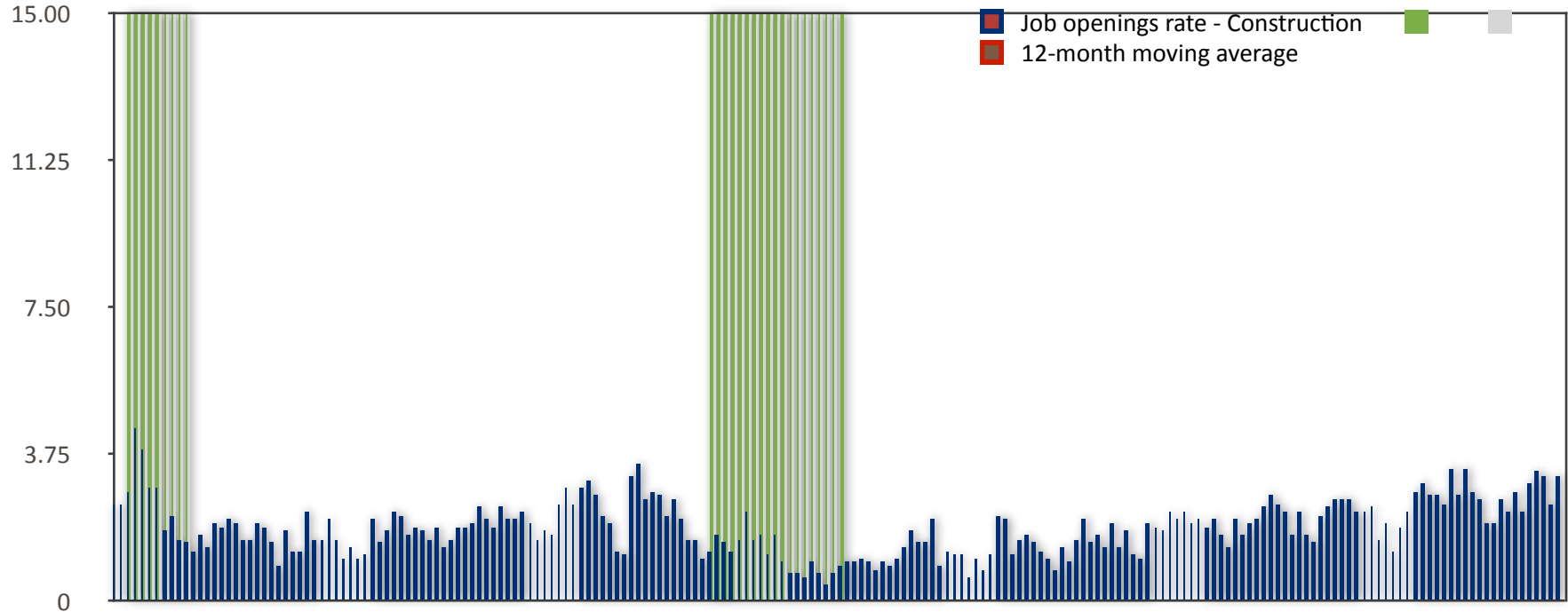
Source: NAHB forecast and S&P Dow Jones Indices LLC; CoreLogic, Inc..



Supply-Side Headwind Update

Labor

Elevated count of unfilled construction jobs

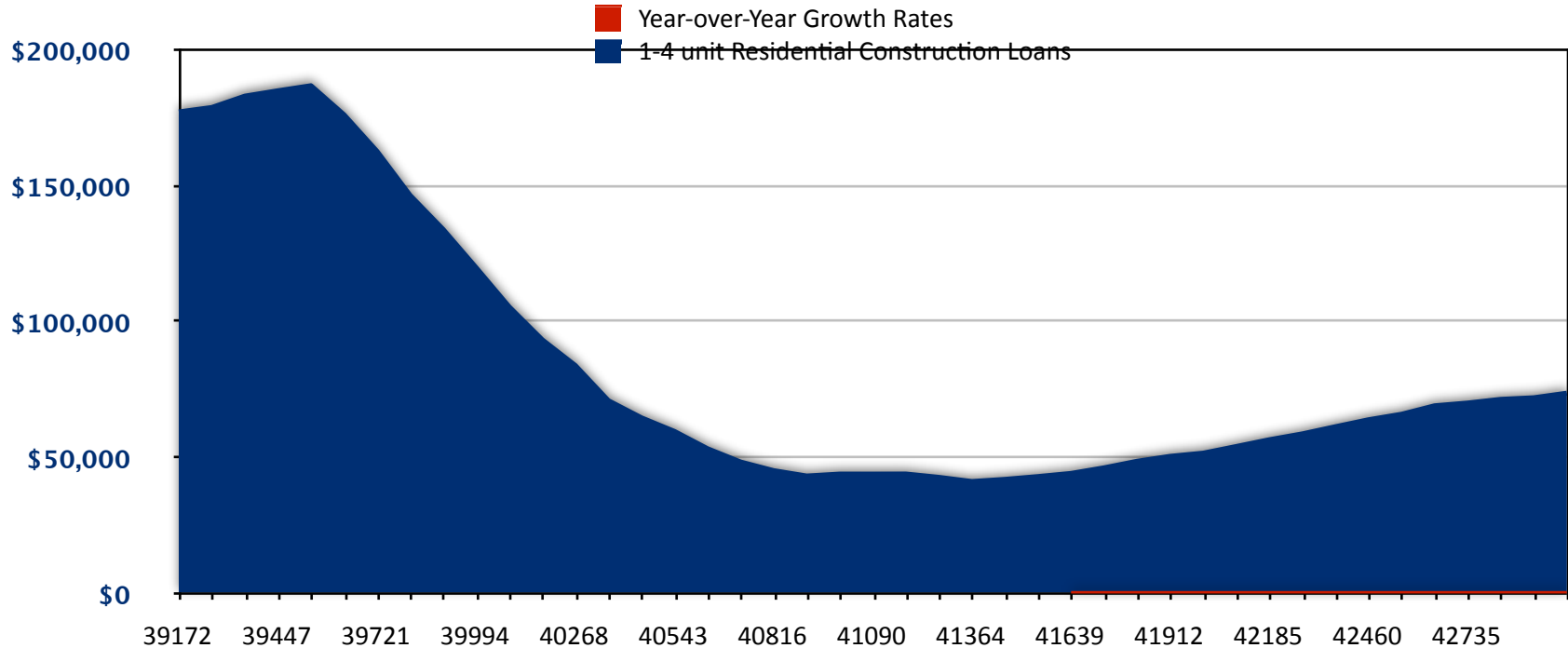


Source: U.S. Bureau of Labor Statistics (BLS).

Lending – AD&C Access

Loans growing but at a slower rate

Millions

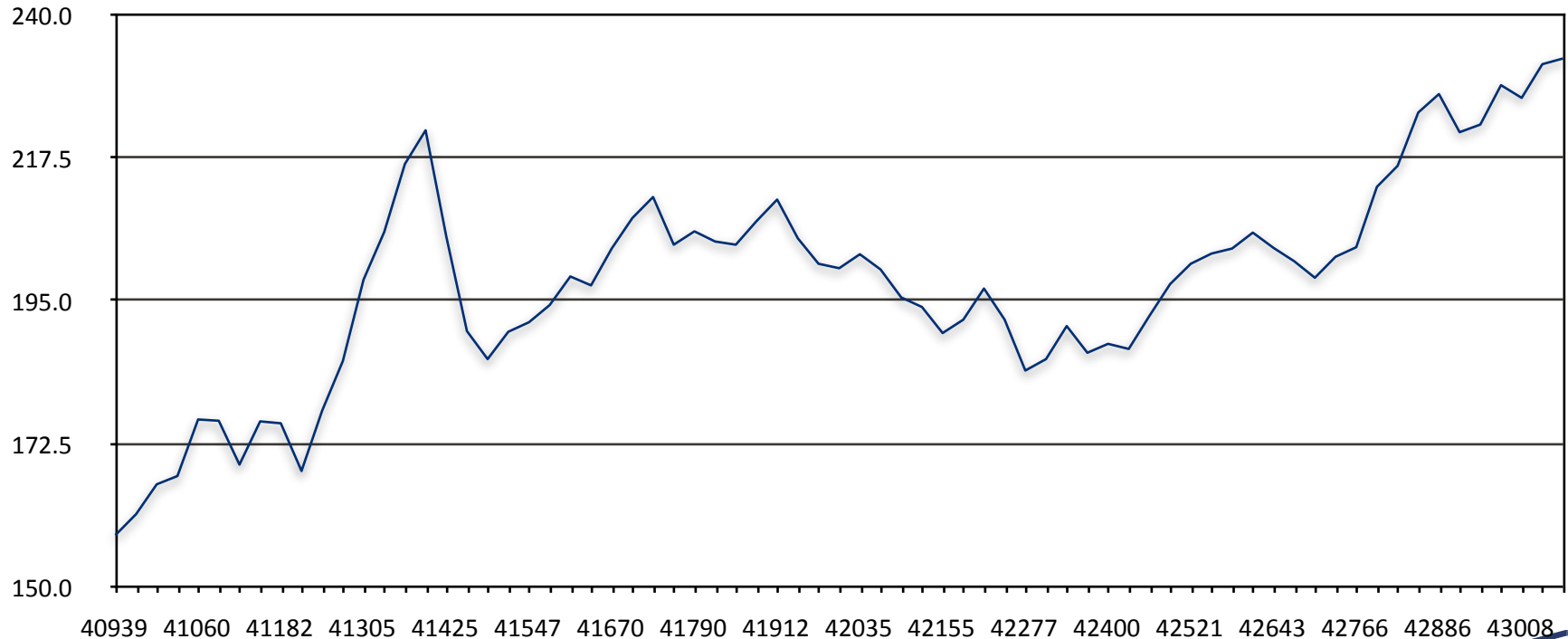


Source: Federal Deposit Insurance Corporation.

Building Materials – Softwood Lumber

Since January 2017, softwood lumber increased 14.6%

Index 1982=100, NSA



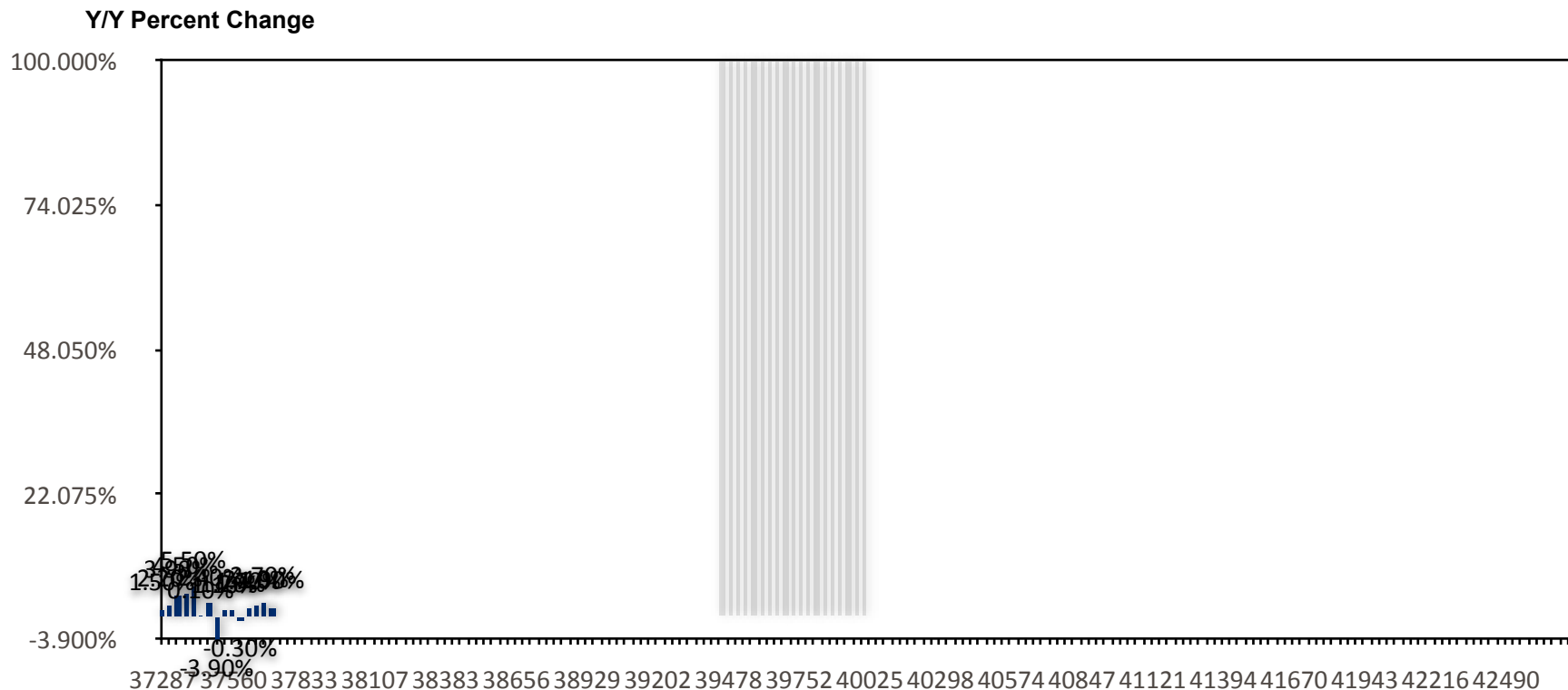
Source: U.S. Bureau of Labor Statistics (BLS).

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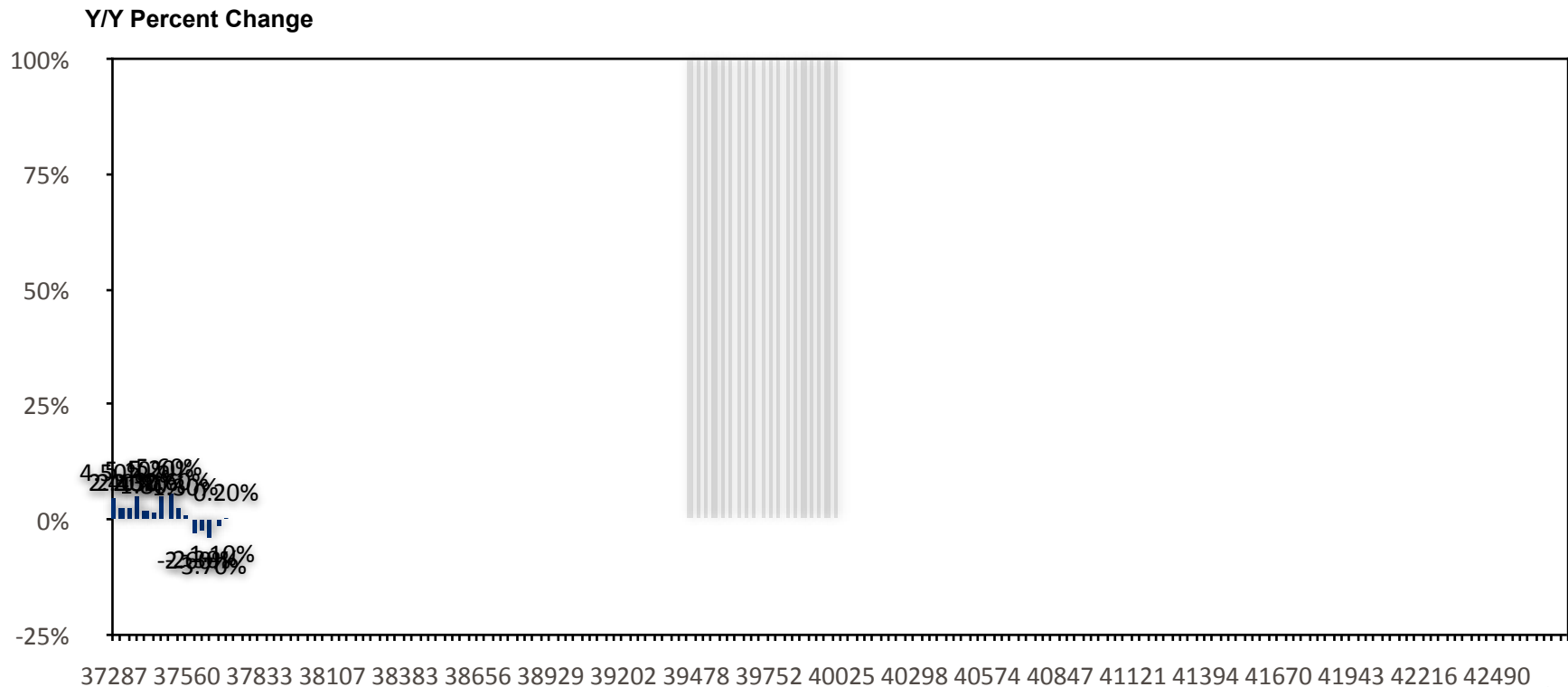
Local Look



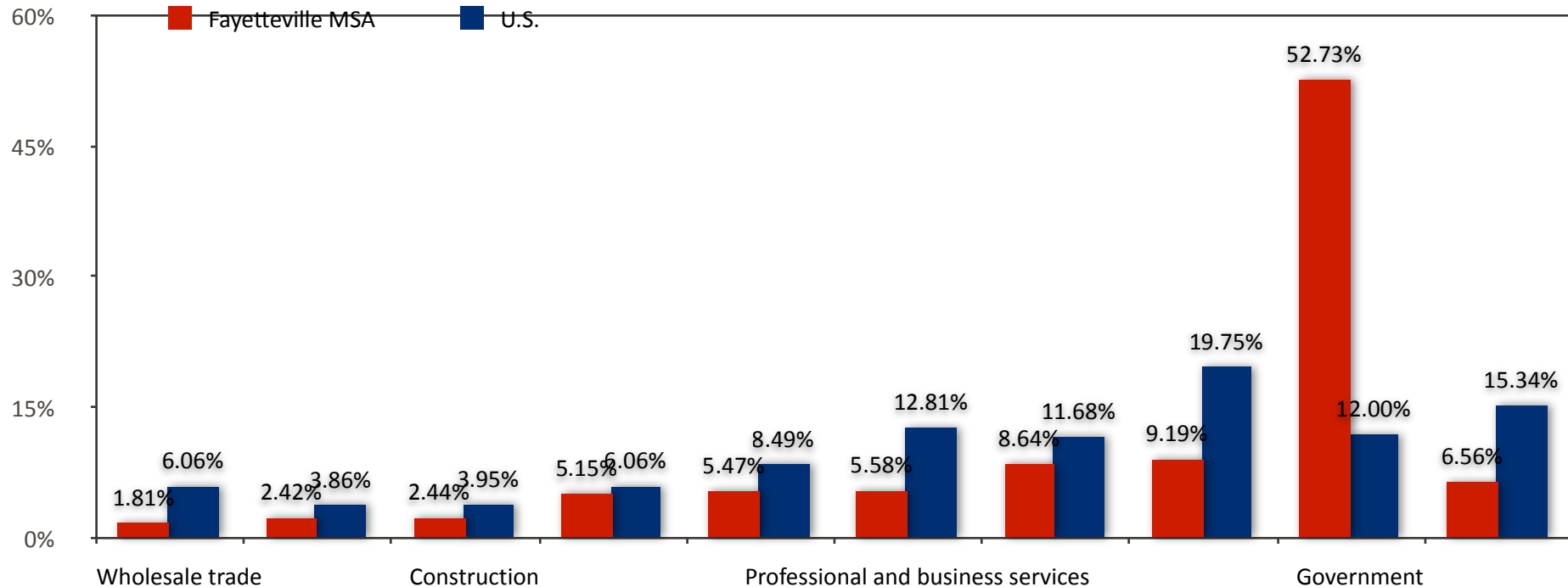
North Carolina GDP Growth



Fayetteville MSA GDP Growth



Share of GDP by Major Industries –

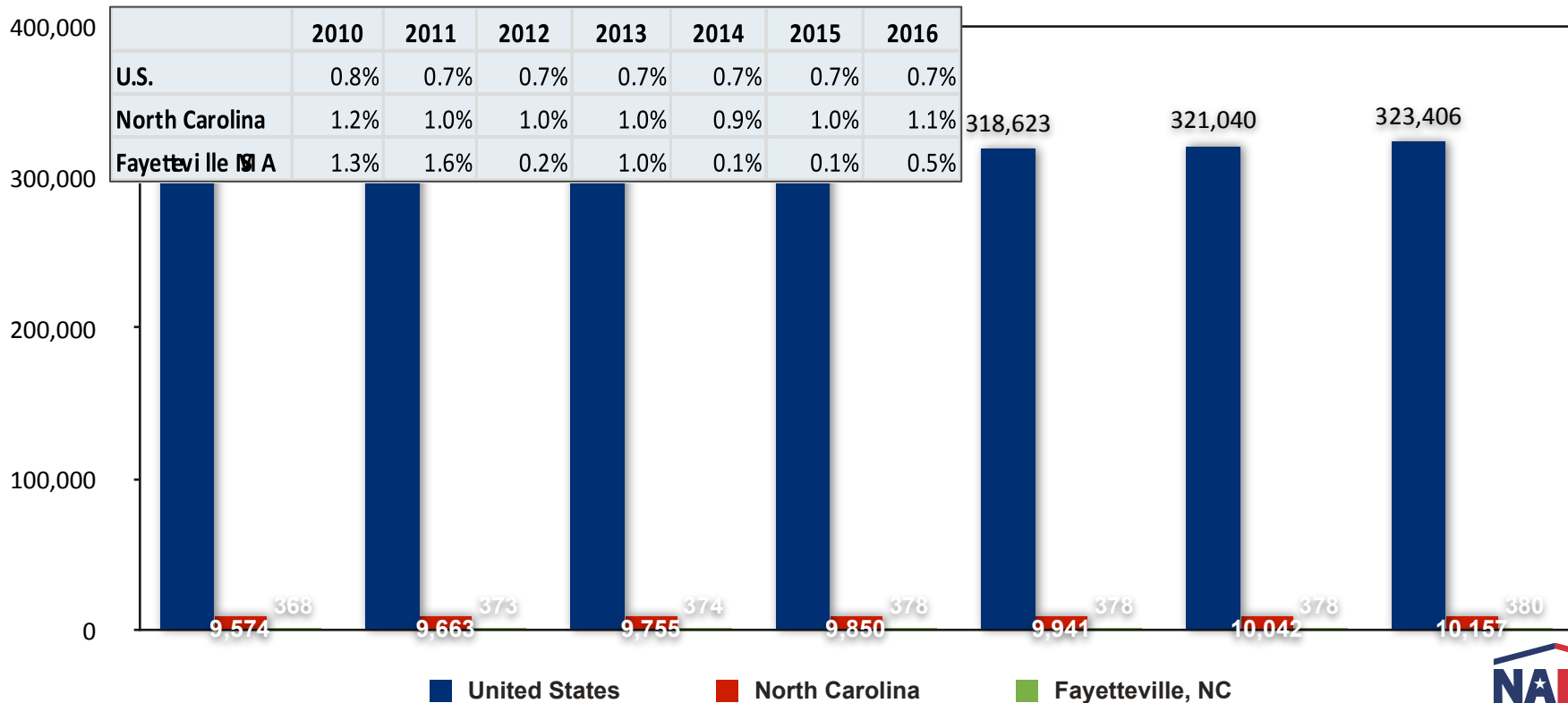


Population Growth

Fayetteville MSA population growing slower than national and statewide rates

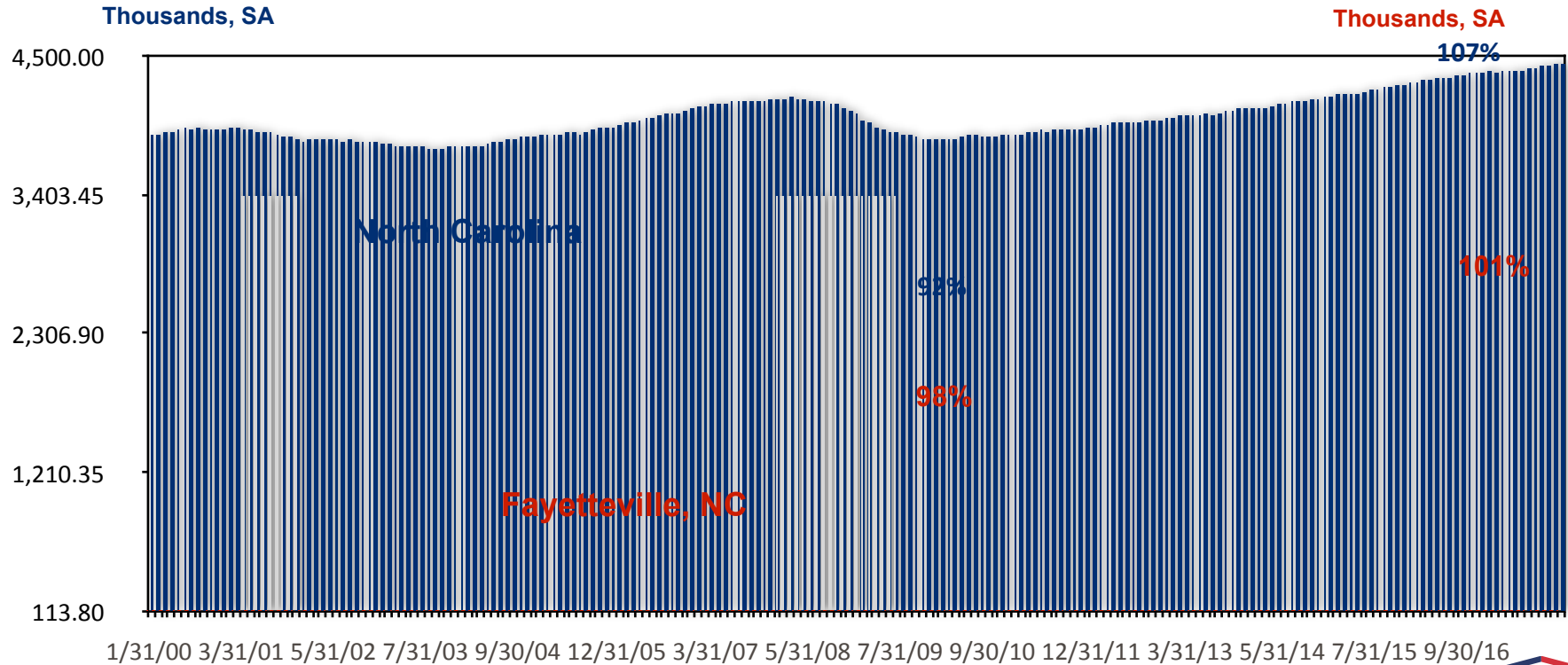
Thousands

Thousands



Payroll Employment

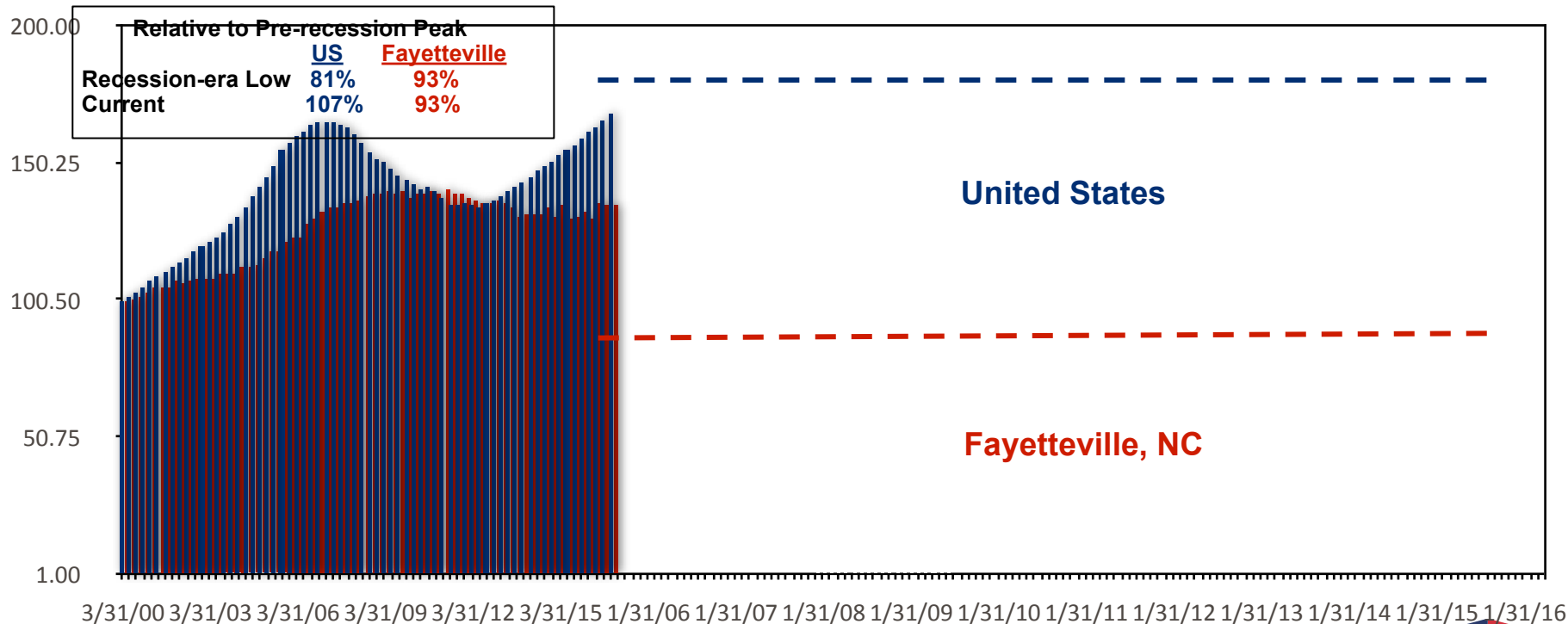
Fayetteville MSA above pre-recession peak



Existing House Price Index

Fayetteville MSA below pre-recession peak

2000Q1 = 100, SA



Affordability Higher Than National Level



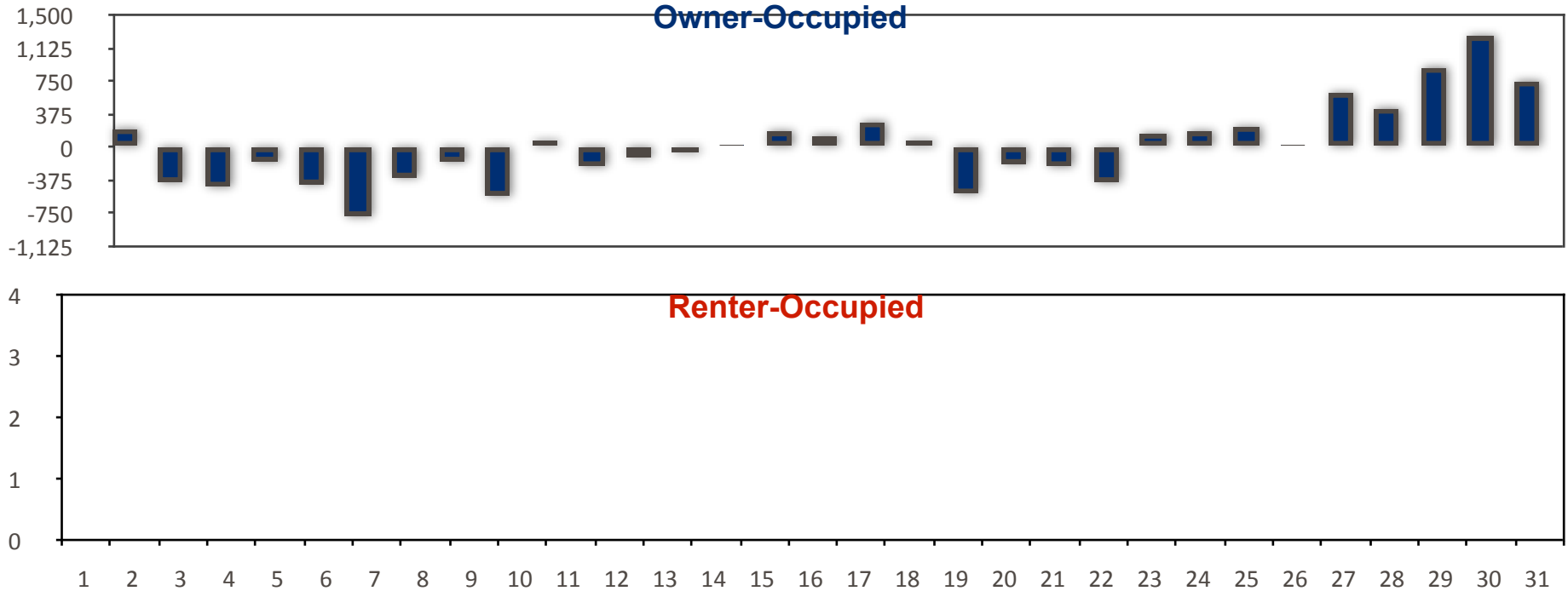
Forecasts



Household Formation

Demand for home ownership strengthening

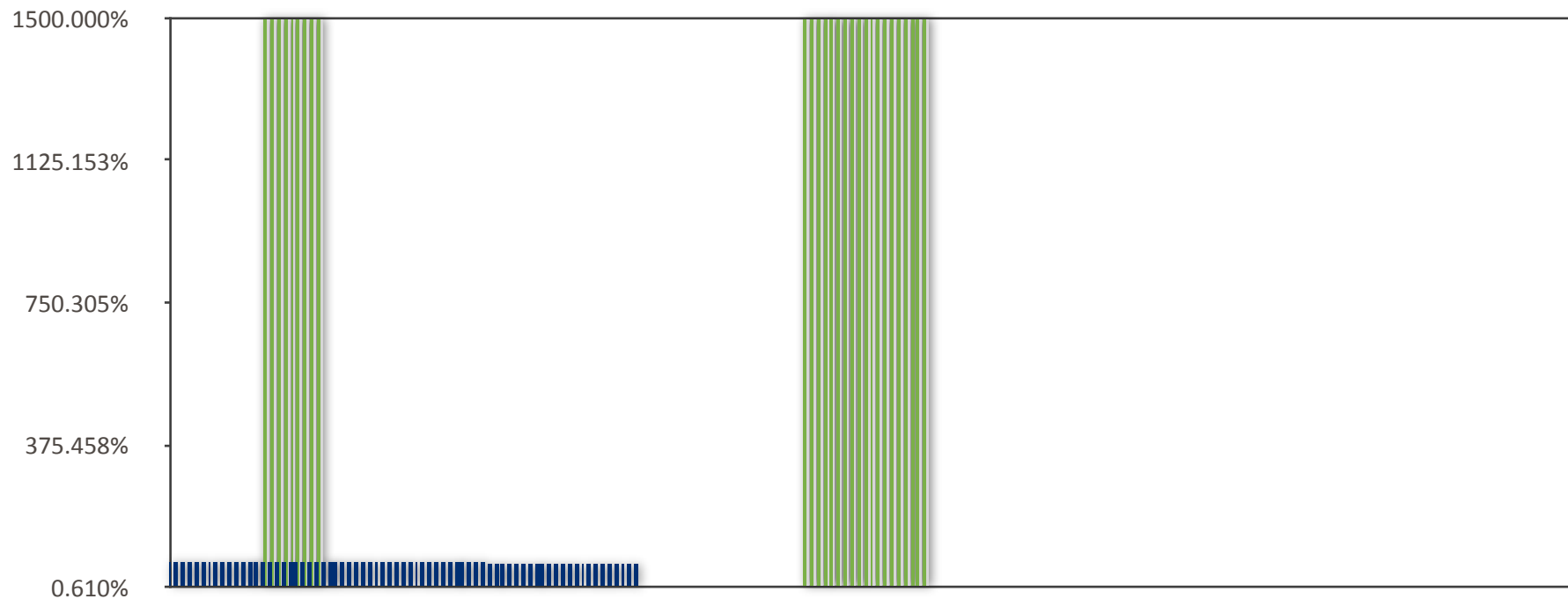
Y/Y Change in Household Count, Thousands, NSA



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

Homeownership Rate

Percentage, Quarterly, SA



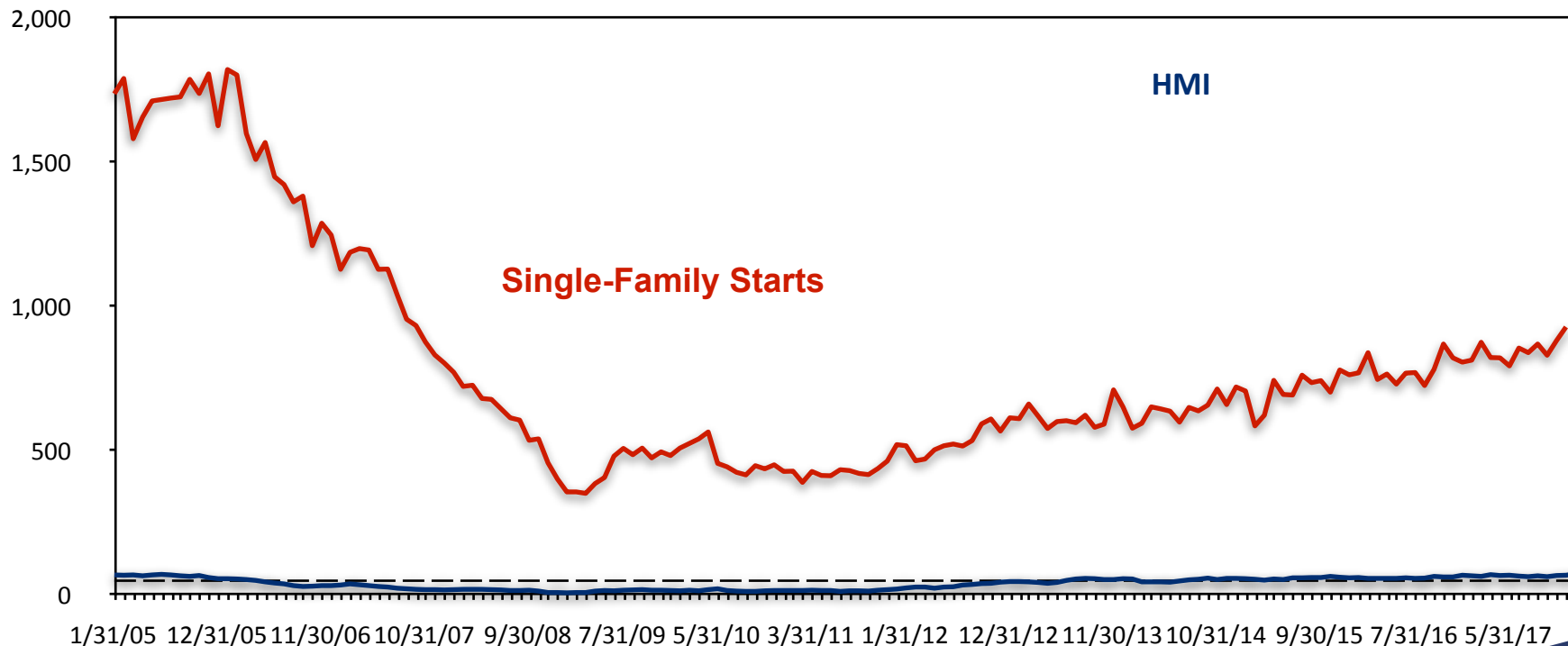
Source: U.S. Census Bureau (BOC): Housing Vacancies & Homeownership.

NAHB/Wells Fargo Housing Market

Nearly two-decade high for builder confidence

Index

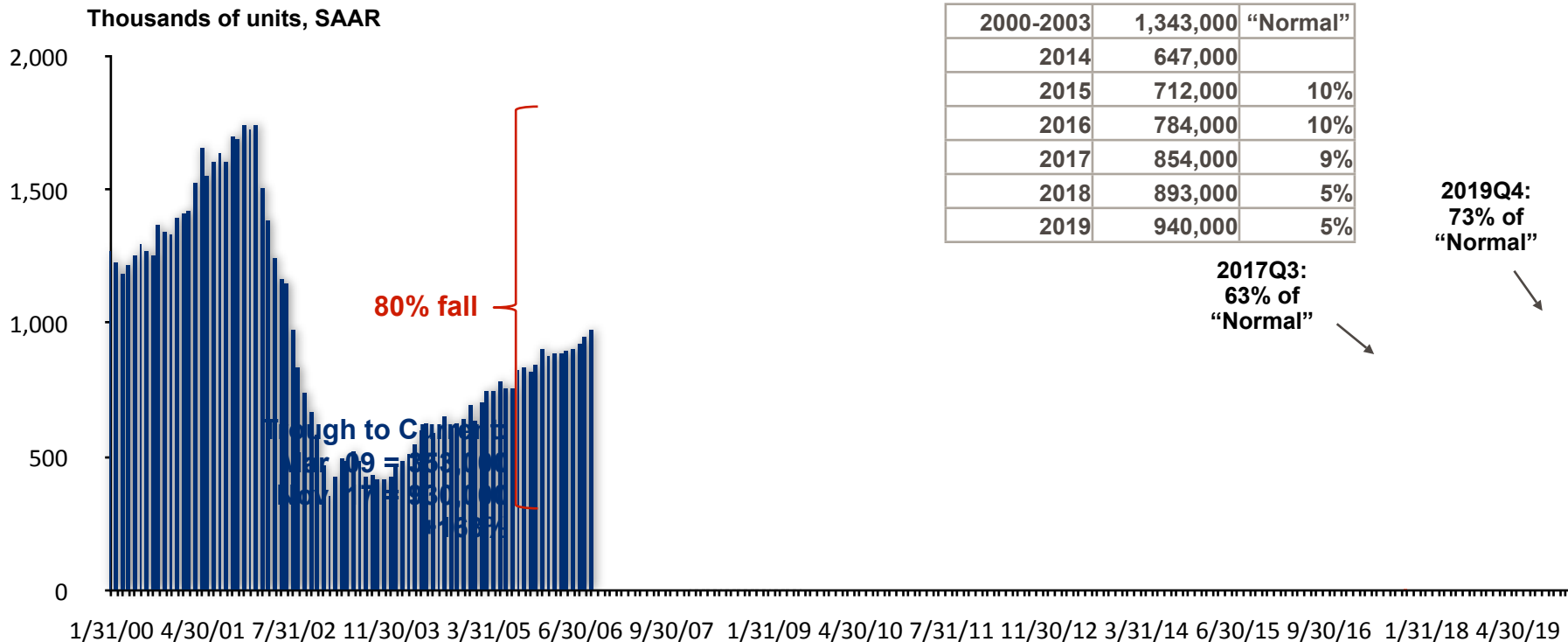
Thousands, SAAR



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

Single-Family Starts

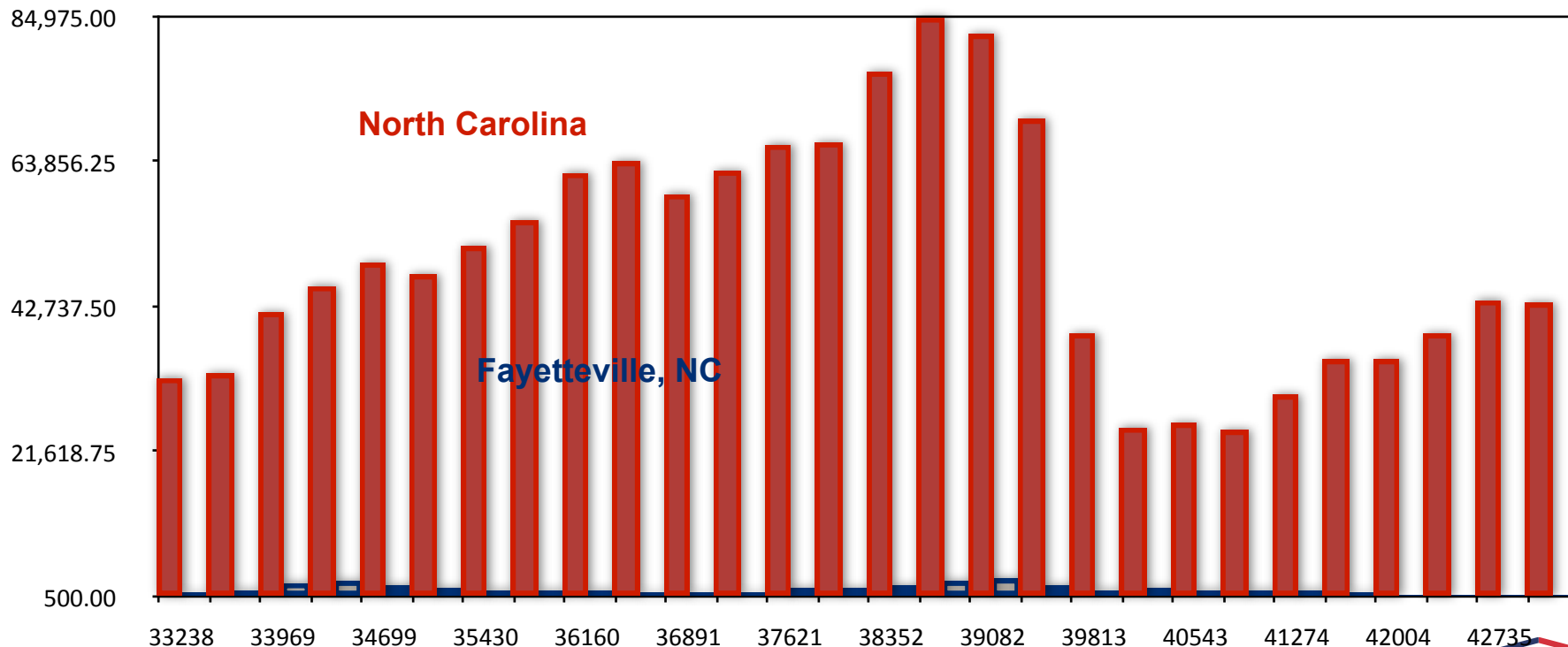
Growth ahead



Source: Census Bureau and NAHB forecast.

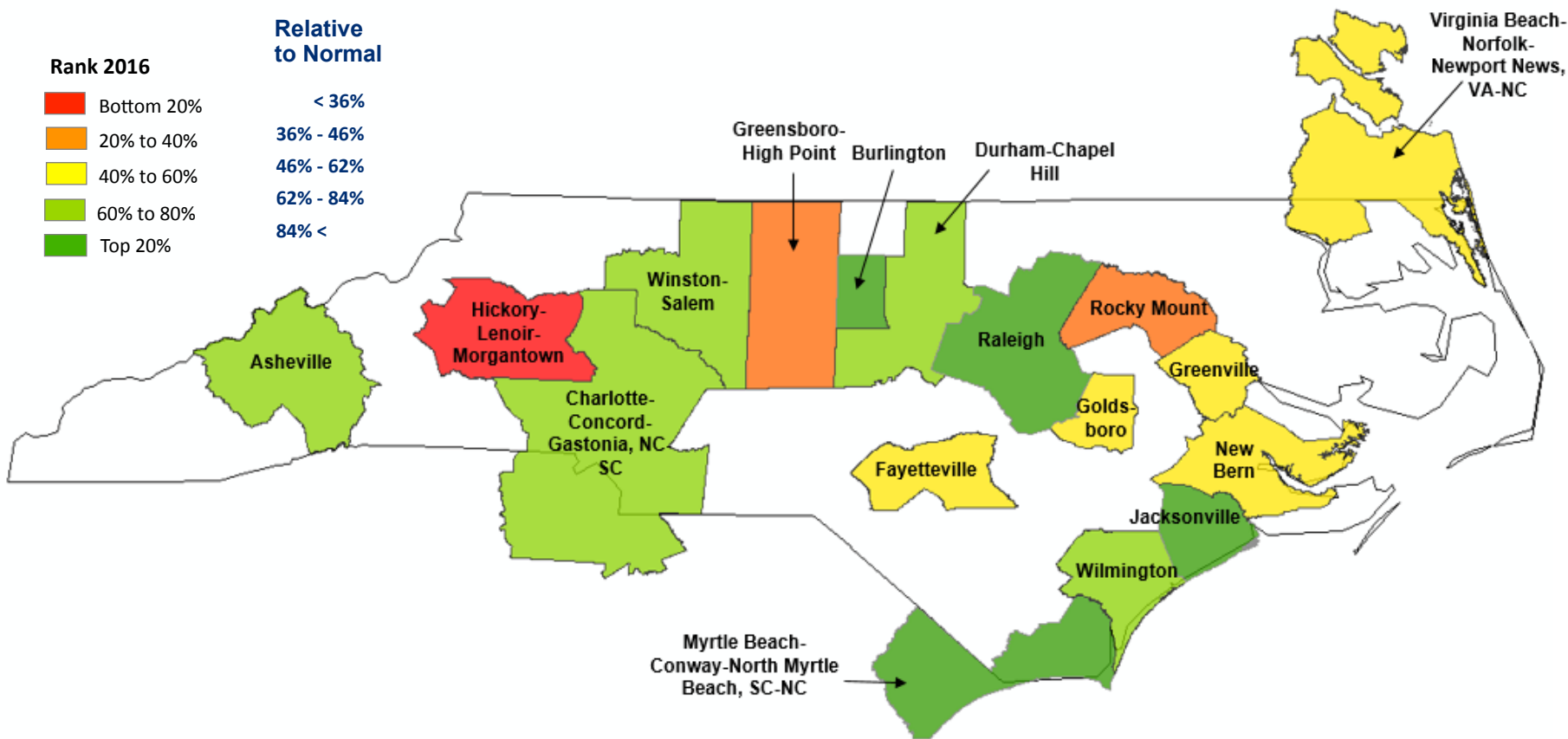
Single-Family Building Permits –

Number of Units



North Carolina Single-Family Housing Market

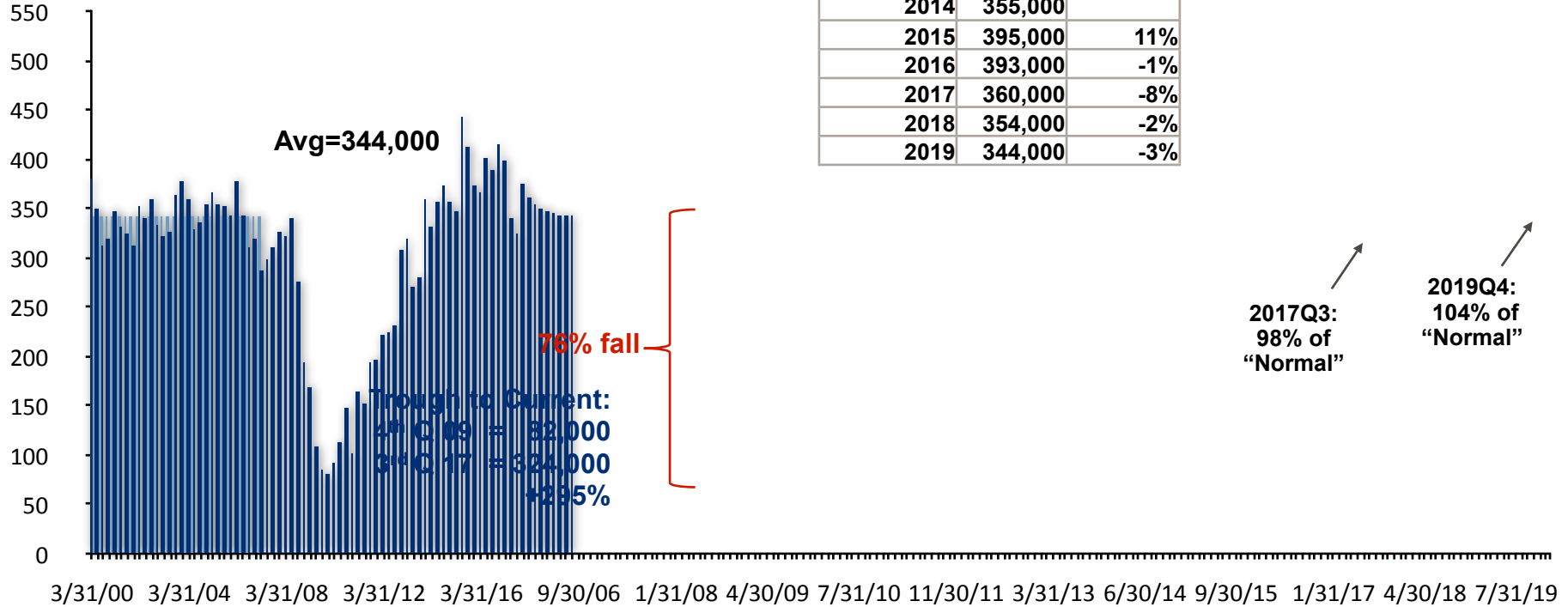
Some metro areas are closer to a recovery than others



Multifamily Housing Starts

Leveling off

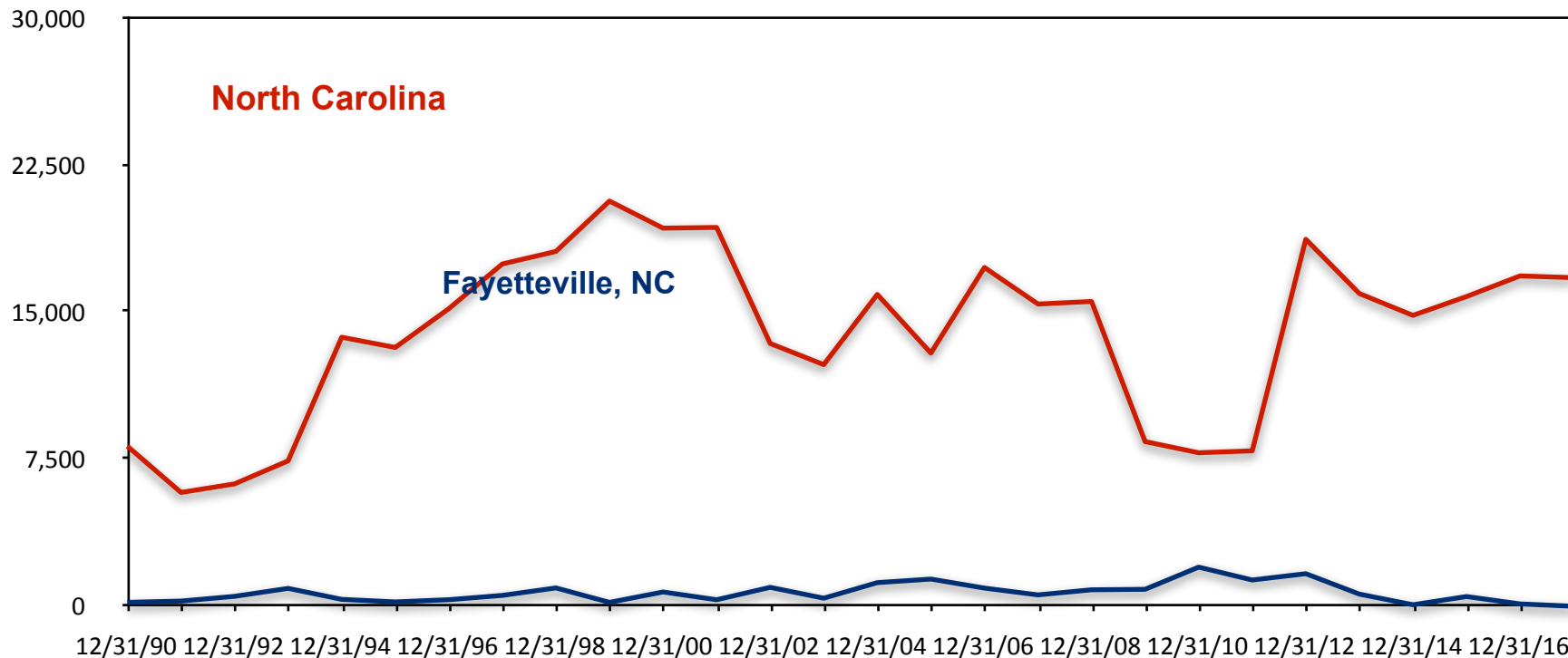
Thousands of units, SAAR



Source: Census Bureau and NAHB forecast

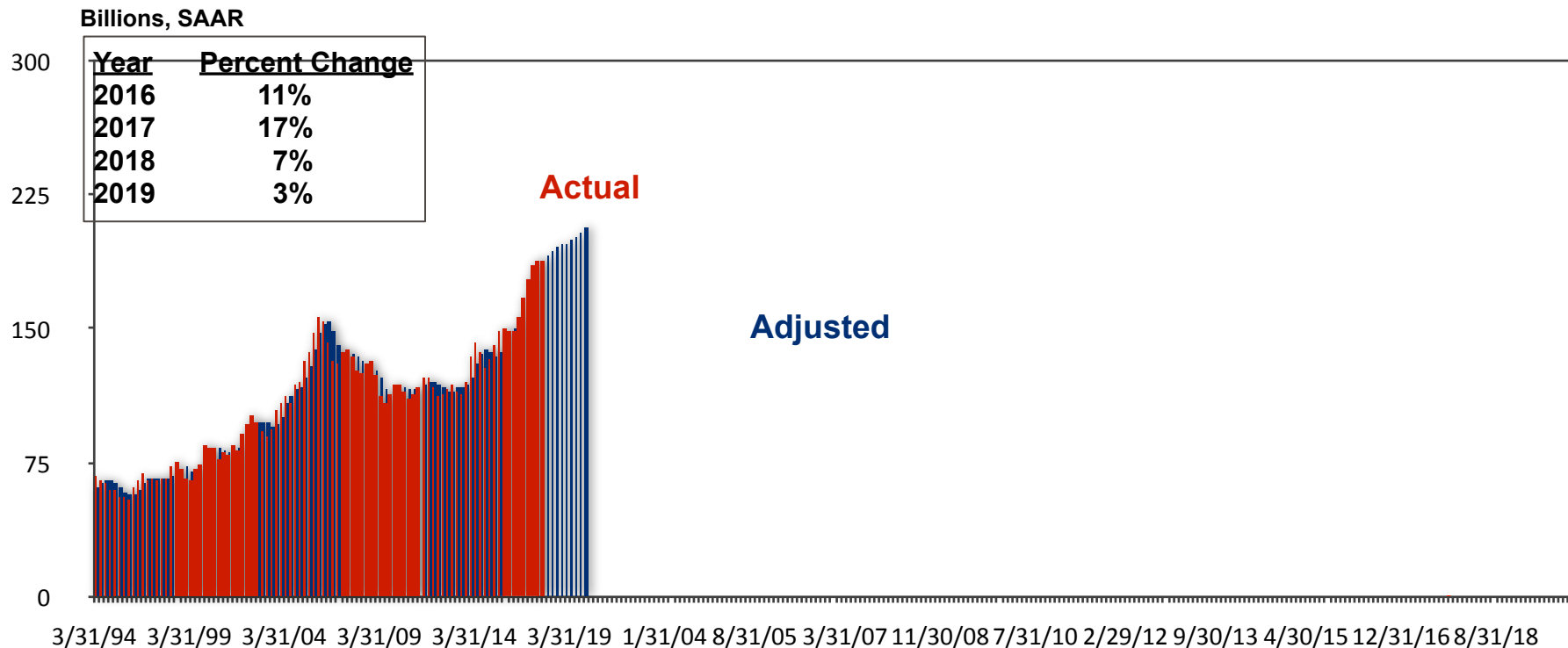
Multifamily Building Permits –

Number of Units



Residential Remodeling

Strong market conditions



Source: Census Bureau and NAHB forecast.

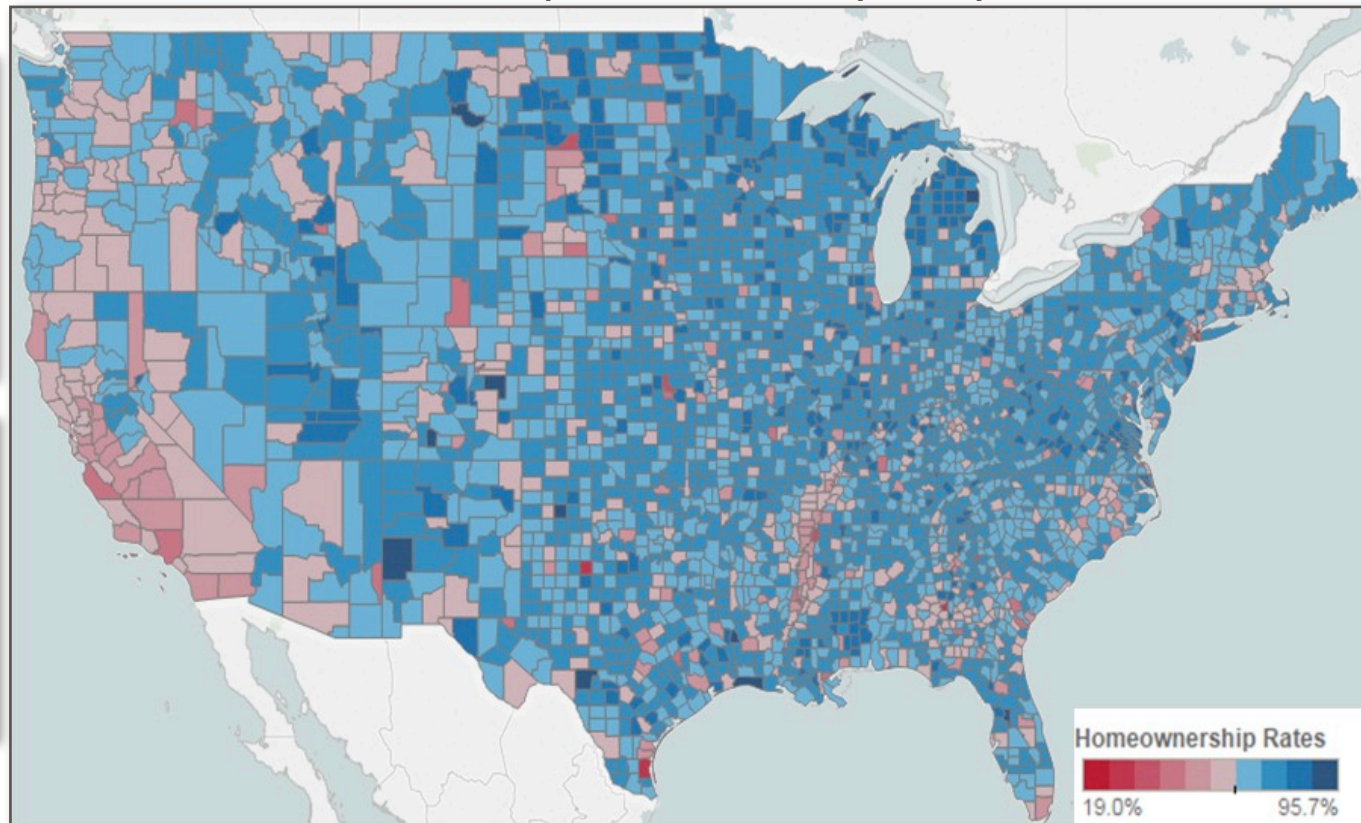
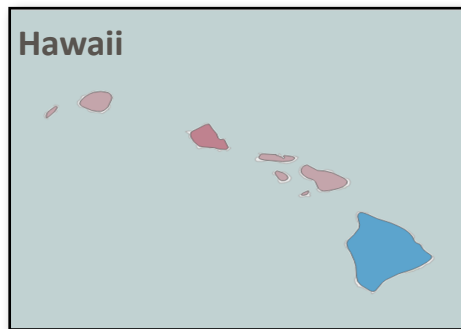
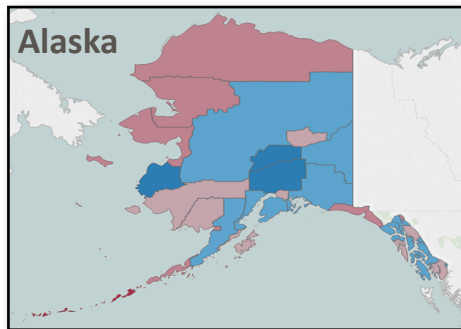


Homeownership



Geography of Homeownership

Homeownership Rates in the U.S. by County



Determinants of Homeownership

NAHB Economic Analysis

Important factors for county level analysis:

- Age
- Marriage
- Local home costs
- Local incomes

Determinants of Homeownership

Modeling Results

Increase average age in county by 5 years

- Adds 3 percentage points to rate

Increase share of married households by 10%

- Added 5.1 percentage points to rate

Increase local incomes by \$10,000

- Adds 0.6 percentage points to rate

Decrease housing costs by \$75,000

- Adds 4.1 percentage points to rate

Policy Implications

Economic / Social Policy That Promote Housing

Provide affordable housing (rental and owned) for young people
so they can develop roots

Tax / economic policy that doesn't discourage marriage

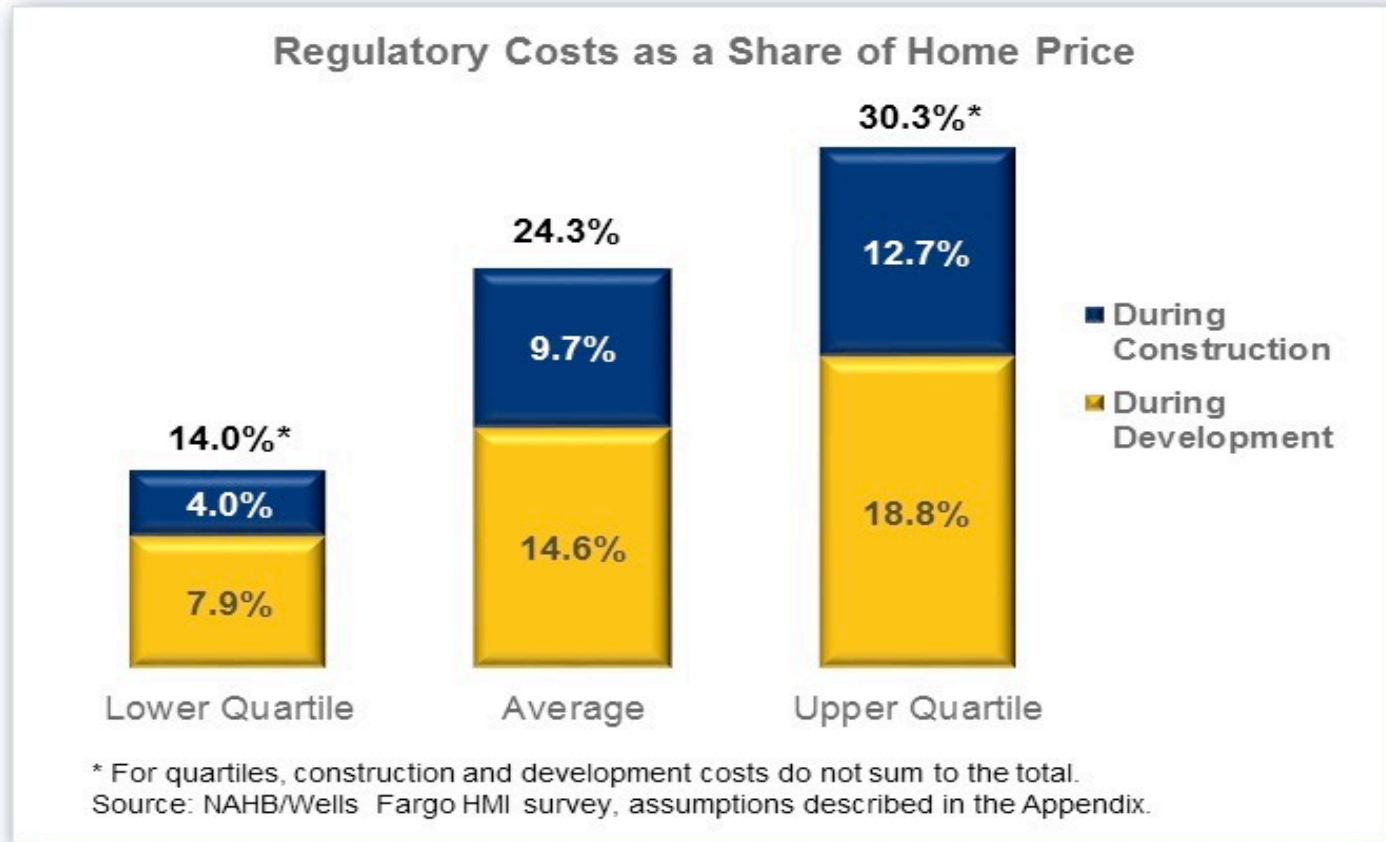
Income growth is always good

Reduce cost of housing

- Lower regulatory costs (up 29% over last 5 years)

/ Regulatory Costs Rising – Up 29%

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



Thank you

Questions?

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