

A Macro Outlook for 2024

**A status check on key macro issues affecting
the economy and the housing industry**

Dec. 12, 2023

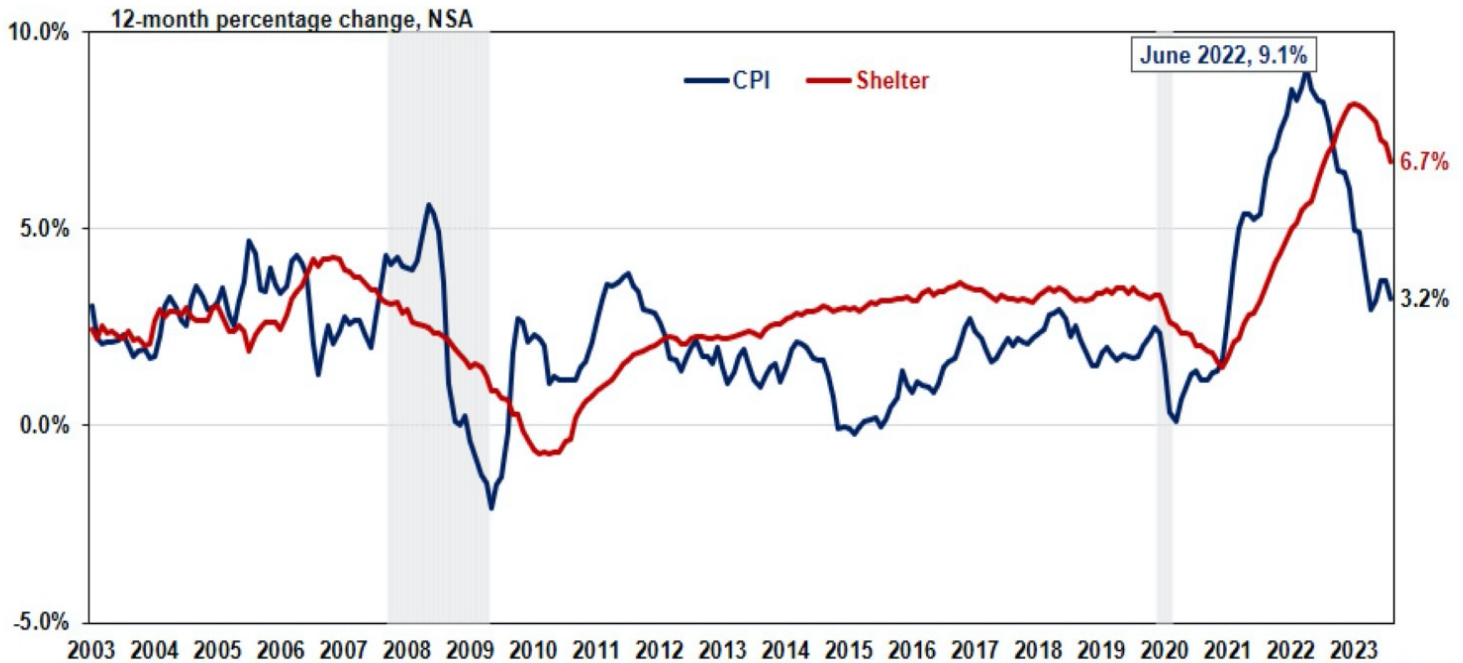
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Consumer Inflation – Headline Rate and Shelter

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



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

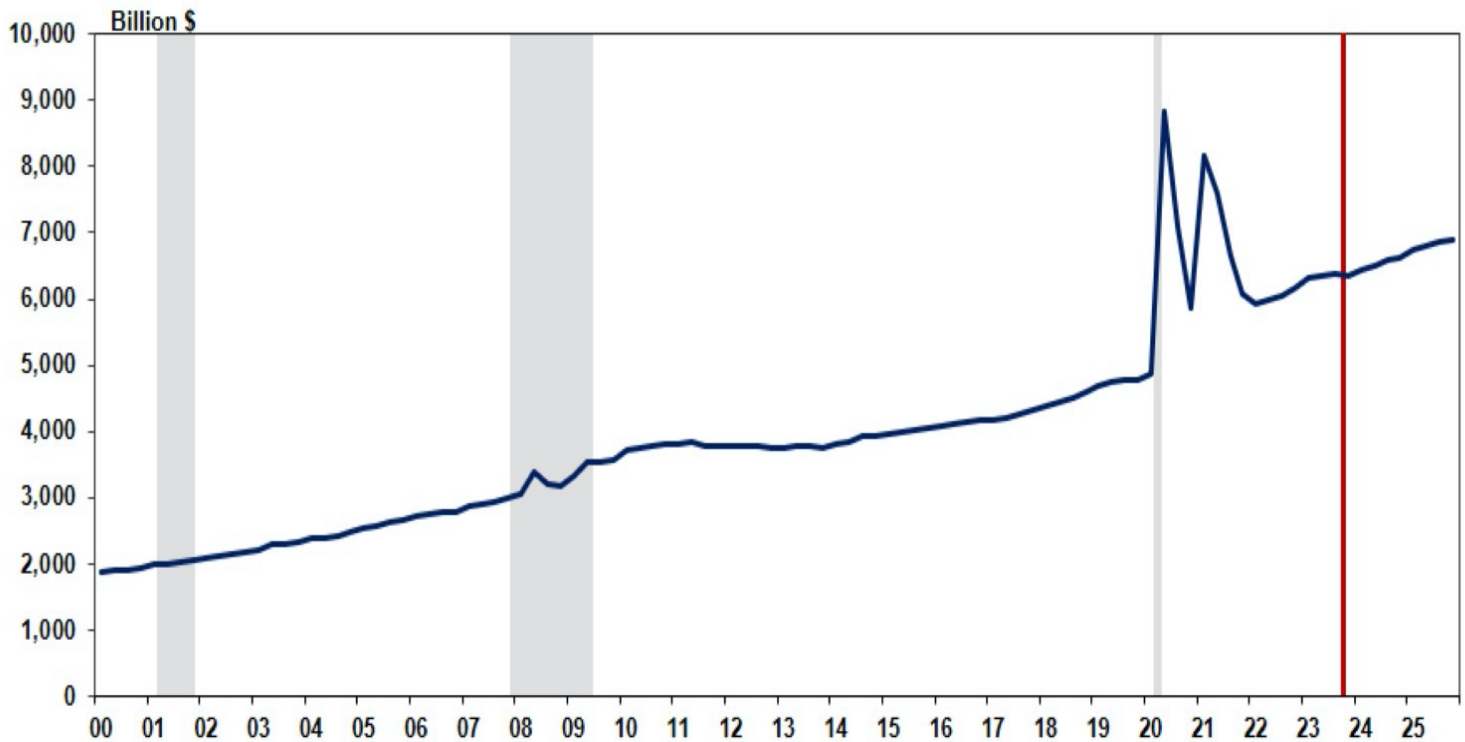


Shelter Costs Driving Inflation

Cooling inflation increases the probability that the Federal Reserve is done increasing rates. Despite the slowdown, shelter costs continue to be a key driver of inflation, accounting for over 70% of the total increase in all items excluding food and energy. The policy tools the Fed uses to tame high inflation are not well suited to address increases in shelter costs, which are driven by a lack of affordable supply and increasing development costs. Additional housing supply is the most effective way to tame housing inflation.

Historic Expansion for Government Spending

Post-covid legislation added to inflation pressure



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

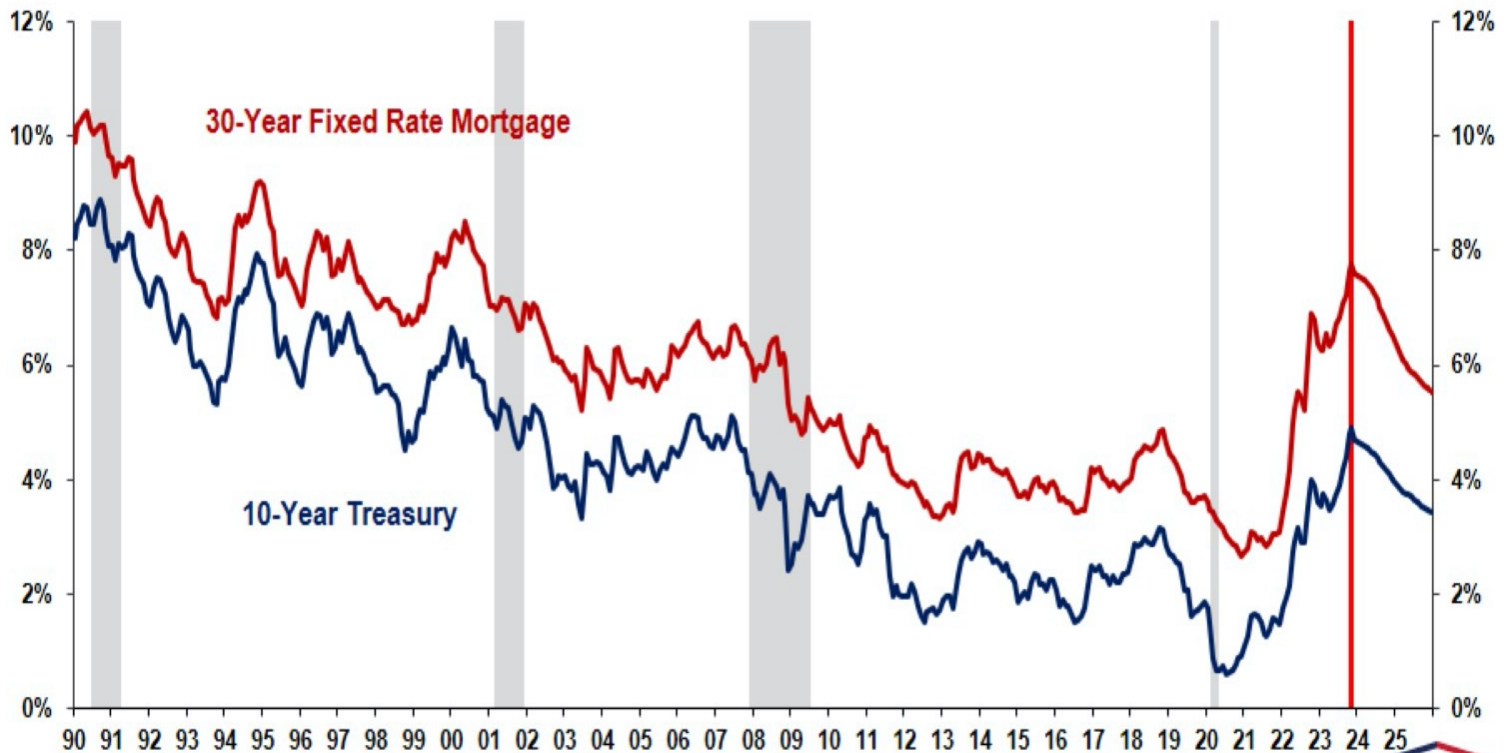


Government Spending and Inflation

We saw a 40-year high in the inflation rate in the wake of the COVID-19 pandemic. Price increases accelerated in late 2021 and throughout 2022, ultimately peaking at an annualized rate of 9.1 percent in June 2022. Much of that was driven by government stimulus spending under both President Trump and President Biden. Total government expenditures in response to COVID-19 exceeded \$4 trillion. All that stimulus injected into the money supply meant that there were too many dollars chasing too few goods and services.

Mortgage Rates Near Cycle Peak

Housing affordability at more than decade low



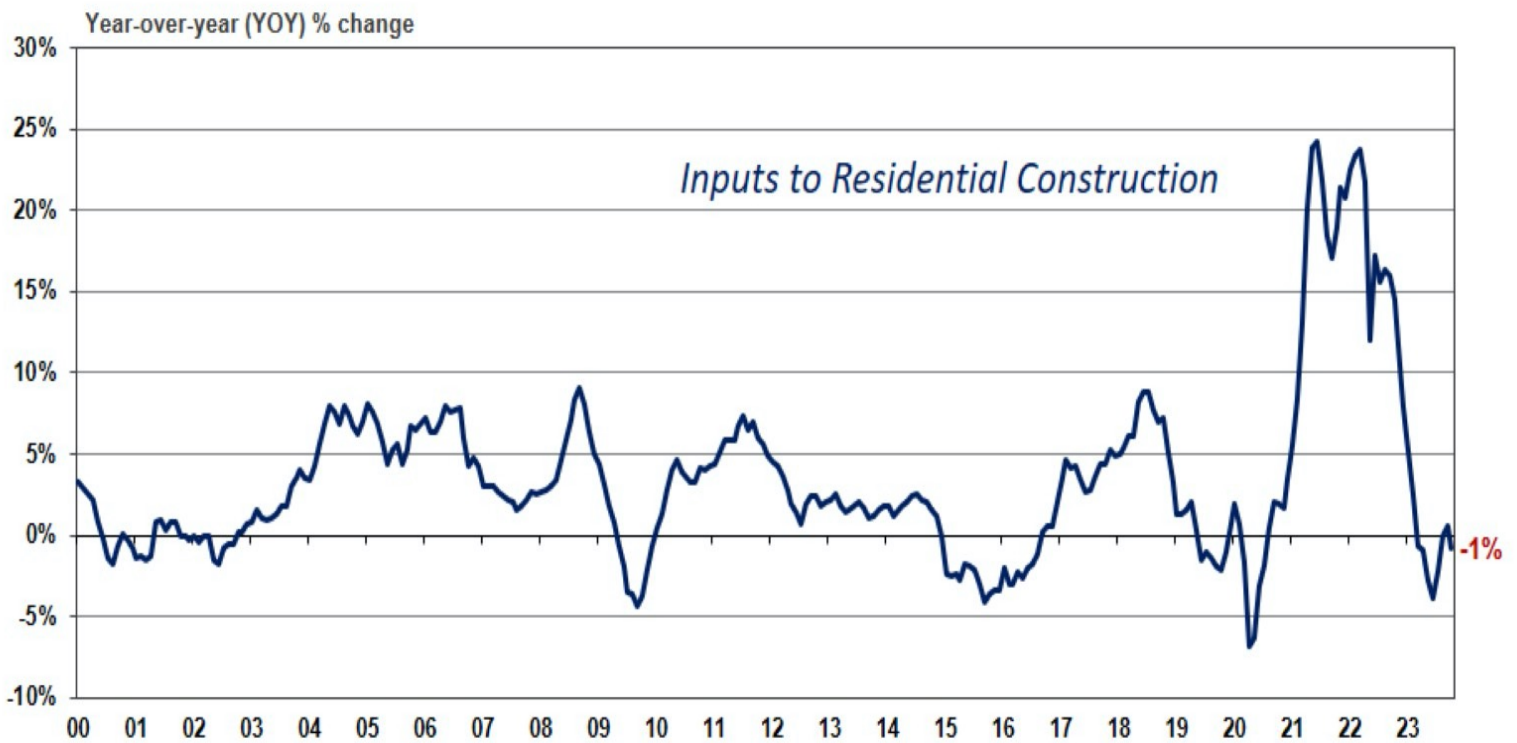
Source: Federal Reserve and Freddie Mac data and NAHB forecast.



Mortgage Rate Expectations

The 30-year, fixed-rate mortgage rate has cooled somewhat after reaching a high of 8% in October. The average is now near 7%. While the trend is good, rates remain more than double what they were two years ago. And though it is impossible to predict future mortgage rates with any certainty, NAHB is now forecasting peak rates are behind us and we expect rates to drift downward gradually throughout 2024 and 2025. However, we do not anticipate mortgage rates returning to the lows we saw in 2021 and 2022 any time soon.

Building Materials - Residential Construction Cost



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

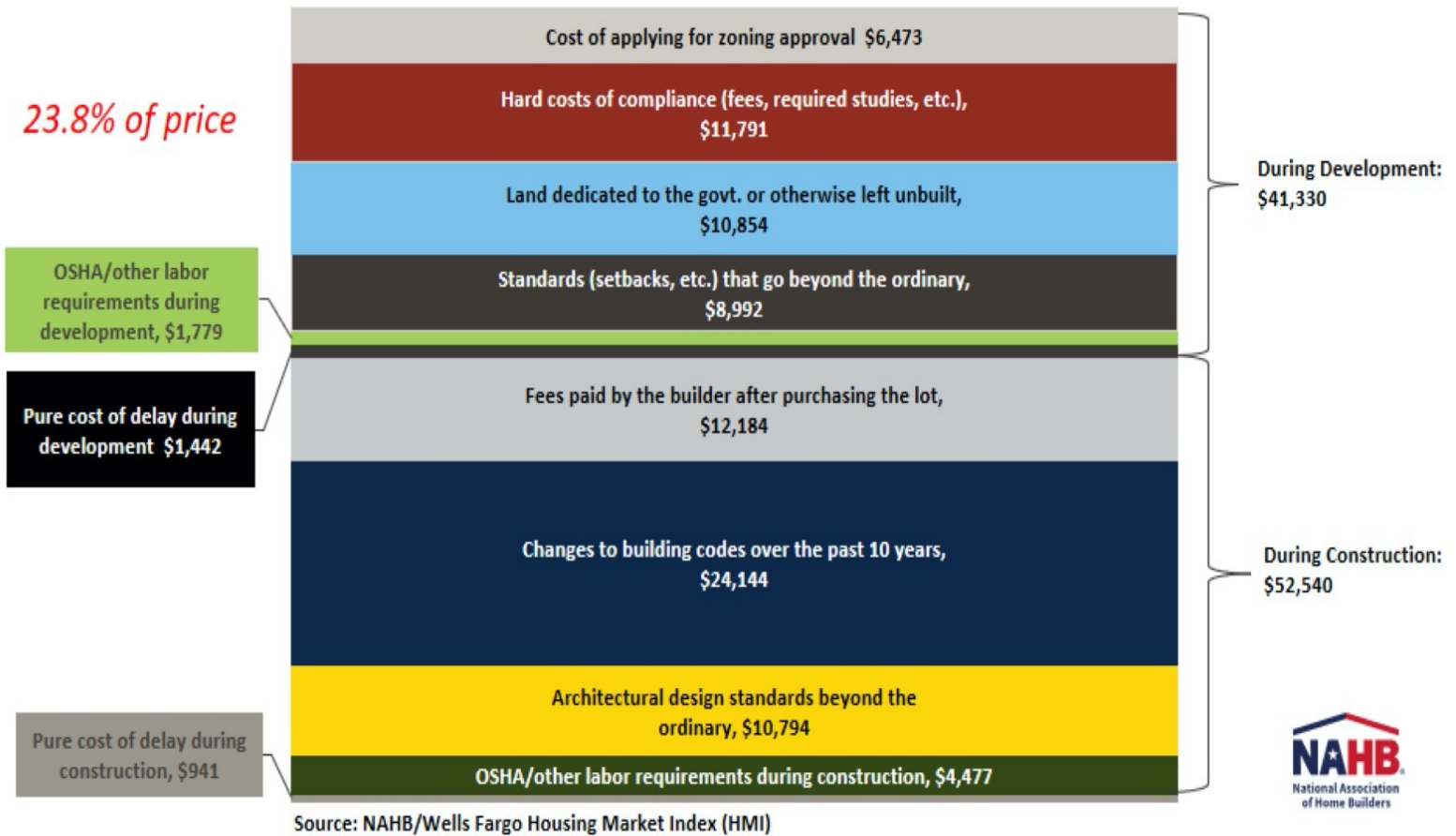


Building Materials Costs

The story of building materials in recent years is largely a tale of the wide-spread shocks we experienced during the COVID-19 pandemic and its aftermath. We saw unprecedented supply-chain disruptions, surprisingly resilient consumer demand for new housing, and a failure of the building supply manufacturers to respond adequately to that demand. The result is that in 2021 and 2022 we saw materials costs rise, on average, approximately 35%. The decline in demand has led prices back much closer to the historical trend in terms of growth, but no major declines except for lumber.

Regulatory Costs \$93,870 Per New Home (11% Gain 2016 to 2021)

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

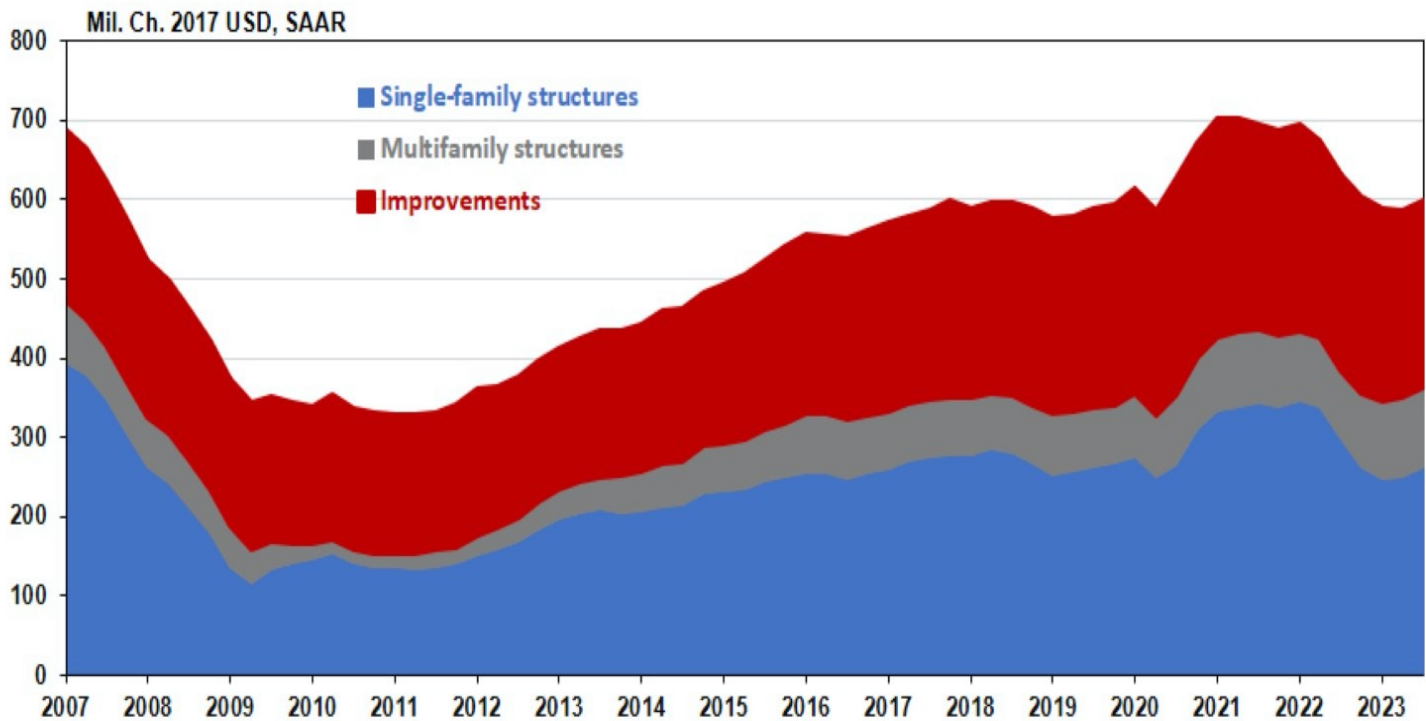


Excessive Regulations Drive Home Prices Higher

This graphic speaks for itself, and anyone who works in the residential construction industry will recognize the various fees and compliance costs from their own lived experience. It is hard to deliver homes that are affordable to low- and moderate-income families when your starting point from government-imposed costs alone is almost \$100,000.

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



Remodeling Gaining Market Share

The remodeling industry has weathered the run up in interest rates better than new residential construction. Many households are deciding that it is not financially sound to buy a home now amid elevated mortgage rates. Instead, they're choosing to improve their current home. One result is that remodeling's share of total residential construction has grown from 31% in 2022 to 39% in the third quarter of 2023. The nation's aging population is another factor that will lift the remodeling sector in the coming years.

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 single-family and multifamily demand