Hardwood Manufacturers Association

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"An Economic Outlook"

Kicking off the Friday morning business session of HMA's 2019 National Conference and Expo was Macroeconomist and housing analyst, **Brendan Lowney**, Principal, Forest Economic Advisors (FEA). Lowney's presentation began with a taste of reality.

- The job market is "tight as a drum." Main U.S. wage indices are finally gaining momentum. Real household incomes have rebounded. Oil prices are a non-issue – the U.S. is now producing huge amounts of oil. The dollar is likely to remain strong.
- Yet, small business confidence is waning. The manufacturing sector is slowing. U.S. exports are getting more expensive. Healthcare costs are approaching $20,000 per family. Housing is weak.

FEA forecasts that Real GDP growth will slow in 2019 to 2 - 2.2 percent - down from 2.9 percent in 2018 – then will trend up for the next several years. Lowney cautioned not to anticipate "gangbusters growth," but unlike other economic pundits, is **not** forecasting Recession.

FEA on Housing
"Housing's weak performance over the last 10 years is the main reason the U.S. economy has seen lackluster growth," Lowney said. "And it's Housing that has historically led the U.S. economy into Recession, and led it out."

- "The U.S. has been underbuilding for a decade. The most recent data suggest that housing is underbuilt by more than four million units, relative to underlying demand.
- FEA's long-term forecast is conservative. It assumes that much of the pent-up demand that has accumulated in recent years will never be released.
- Housing starts are projected to average 1.49 from 2018 to 2035. Underlying demand for this period is also projected to be 1.49M units per year. This means that we are assuming that very little pent up demand will be met over the next 15 years.
- On a National Basis, Housing will remain affordable despite higher mortgage rates. Homes will remain affordable by historical standards.
- Even if we make the pessimistic assumptions that the 30-year conventional mortgage rate will gradually increase to 6 percent (from its current level of 4.6 percent), nominal income growth will barely outpace inflation, and home prices will increase by 5 percent at an annual rate through the end of 2019. Home affordability will remain close to its average level of 1990-2005 until the very end of 2019.
- Unfortunately, home-affordability indices do not give a complete assessment of the typical homeowner's ability to buy a home. Credit conditions and local

demand/supply conditions are also vital considerations for most potential homeowners.

- For most borrowers, credit conditions remain tight by historical standards and many local markets have much weaker affordability than the national index indicates."

The Future of Home Construction
We are on the verge of a revolution in the Construction Industry. Software capabilities exist for 'offsite building,' and the benefits are significant.

- **Weather:** Construction is indoors, where the weather is always sunny! Delivery is JIT and assembly is fast.
- **Greater efficiency, quality & predictability:** Greater precision in the manufacturing process, resulting in higher quality (fewer callbacks and warranty issues) - **and far less waste!**
- **Greater procurement efficiency:** Material requirements are more accurately calculated, buying in bulk - **and buying direct from manufacturer.**
- **Safety:** Falls from height and equipment accidents are not as much of an issue offsite.

To hear what Lowney had to say about CLT in construction, visit the **Members Only** section of www.HMAmembers.org.