

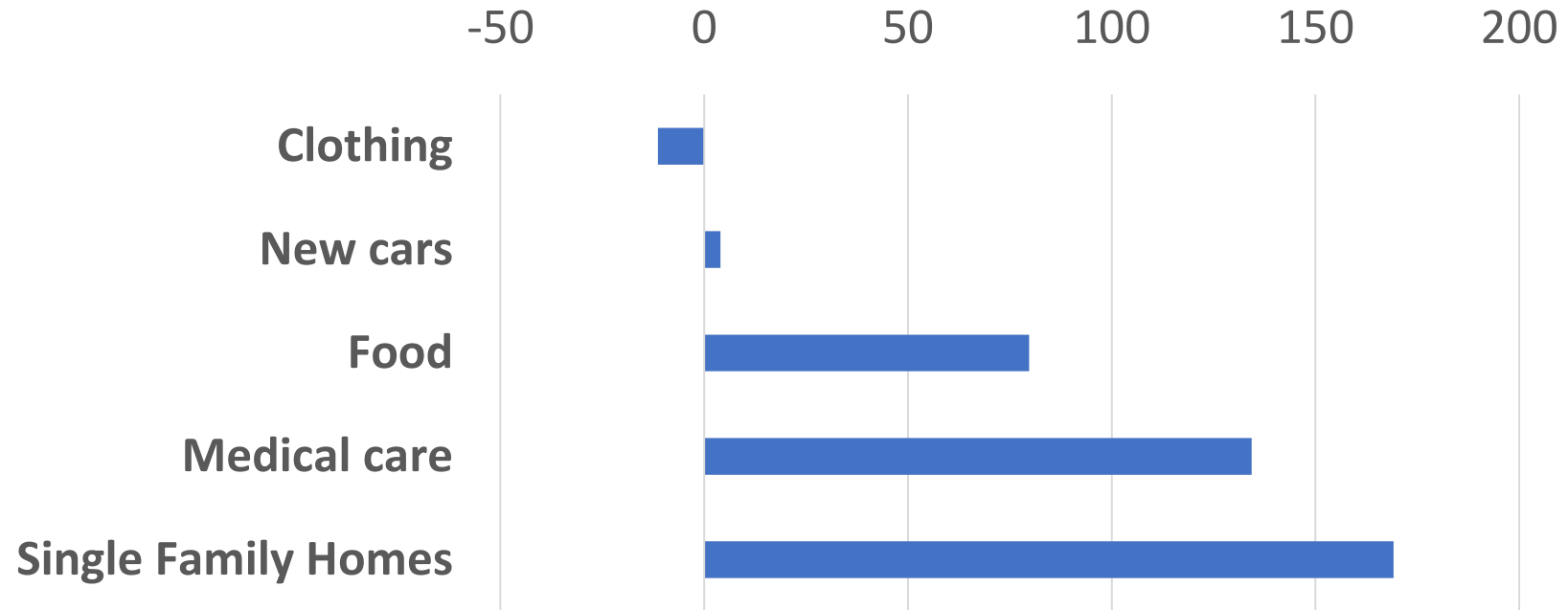
# WHERE HOUSING IS HEADED



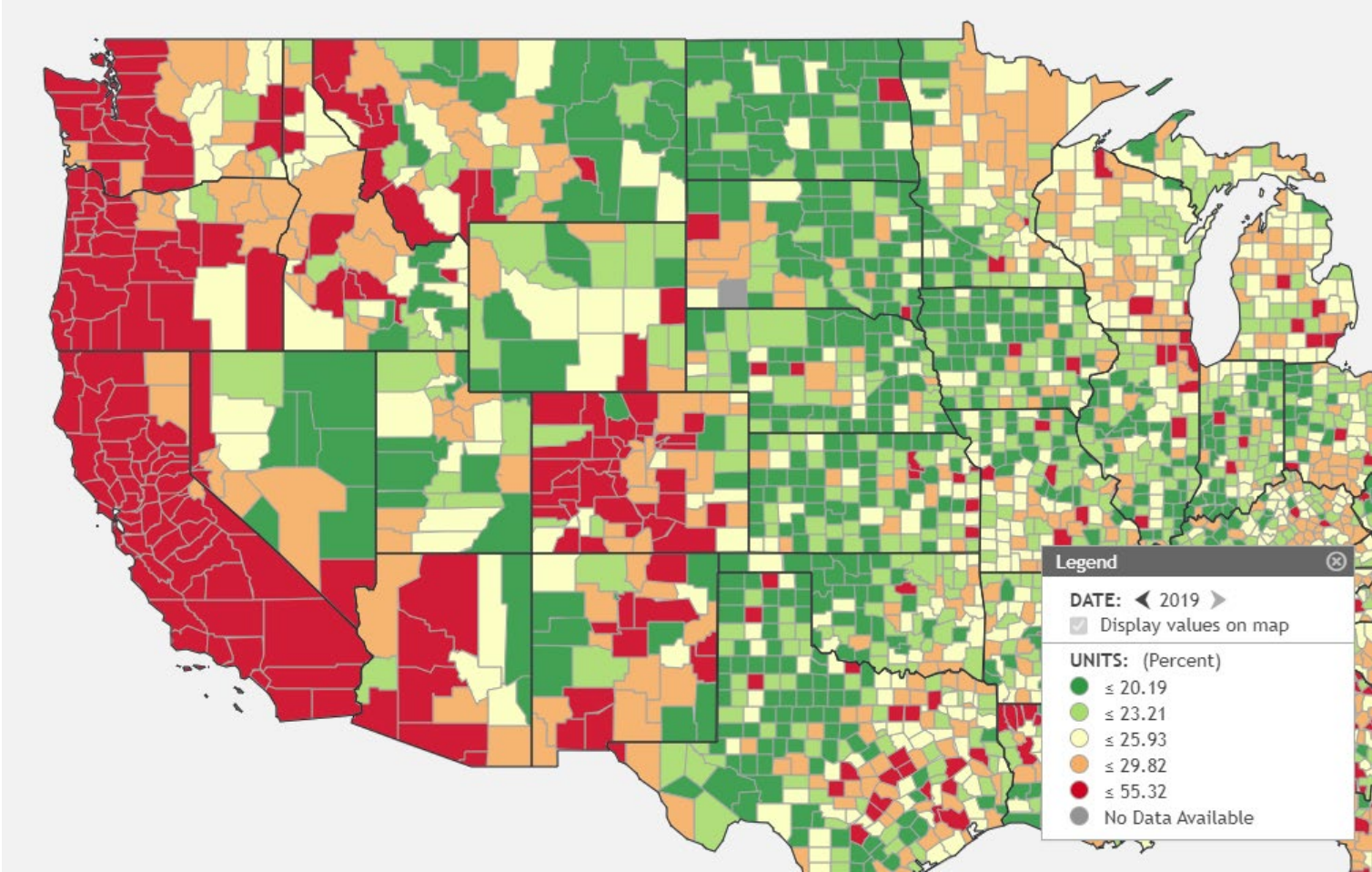
HOW WILL TODAY'S IMBALANCES BE RESOLVED?

# Why Are We Talking About Housing?

Percent Change in Selected Consumer Items since 1995



# Median Housing Costs as a Percent of Median Household Income, 2019



# Home Price Growth and Mortgage Rates

Existing Home Price Growth, U.S.,  
percent



Source: Redfin

30-Year Mortgage Rates, percent



Source: Freddie Mac

# Investor Market Share Hits Record, Surpassing Pre-Pandemic Levels

Share of purchased U.S. homes bought by investors



Source: Redfin analysis of county records

**REDFIN**

## “High” Housing Prices Matter

- “High” prices = prices pushed higher by regulatory constraints or other inefficiencies
- Even if markets were efficient, the price might be too high for many households
- Not enough money left over for other essentials
- Increase sprawl, commuting costs, congestion
- Reduce labor availability for lower and medium paying jobs
- Limit population mobility and economic growth
- Stops the real estate wealth accumulation that has been an equalizing force in the economy

# The Crossfire of Housing Policy

- Mortgage interest deduction
- Mortgage revenue bonds
- Mortgage credit certificates
- Capital gains treatment for sales of primary residences
- Savings and Loan Associations
- FHA insurance
- Fannie Mae and Freddie Mac mortgage guarantees
- Quota for Fannie and Freddie for targeted populations
- Support for institutions like FHLB's
- 30-year fixed rate mortgage with no pre-payment penalty
- FHA and VA loan programs
- HUD Section 502 low-rate mortgages to low-income households
- Infrastructure requirements
- Minimum parking
- Building codes
- Wetlands regulations
- Subdivision requirements
- Exactions
- Height restrictions
- Caps on numbers of units
- Population growth limits
- Urban boundaries or green zones
- Restrictions on rezoning
- Super majority, voter, or multiple jurisdictional approvals
- Minimum lot size requirements
- Delays in local government decision-making

“Only when the tide goes out do you discover who’s been swimming naked”

- *Warren Buffett*

Pandemic surge in demand has exposed the impact of chronic underbuilding in Montana’s fastest growing regions that has been playing out for almost 20 years.

Local regulation of housing exists because it is popular, even if its result is a housing affordability crisis.

The question is: what is the end game for Montana’s housing markets?



# WHERE HOUSING IS HEADED



HOW WILL TODAY'S IMBALANCES BE RESOLVED?

# The Economic Outlook for the U.S. and Montana

Patrick M. Barkey, Director  
Bureau of Business and Economic Research  
University of Montana



**BUREAU OF BUSINESS AND  
ECONOMIC RESEARCH**  
UNIVERSITY OF MONTANA

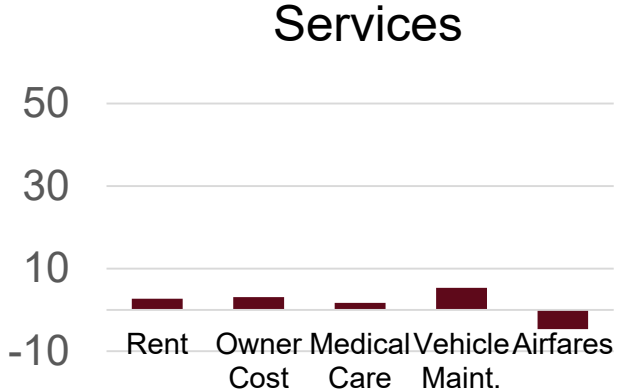
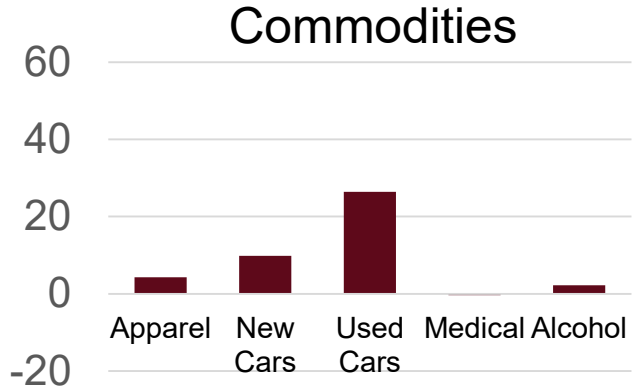
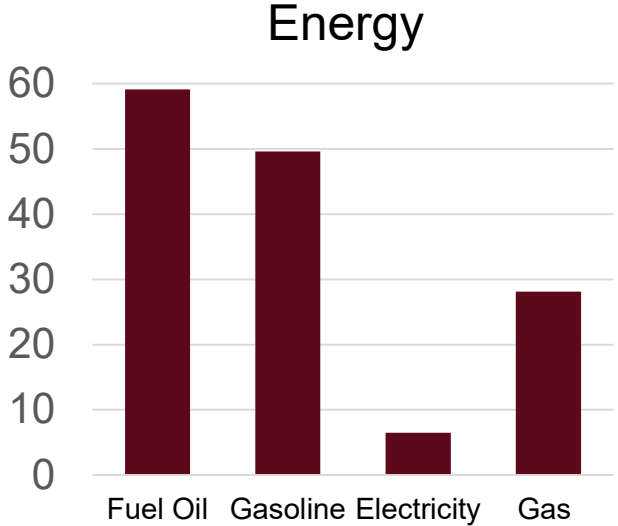
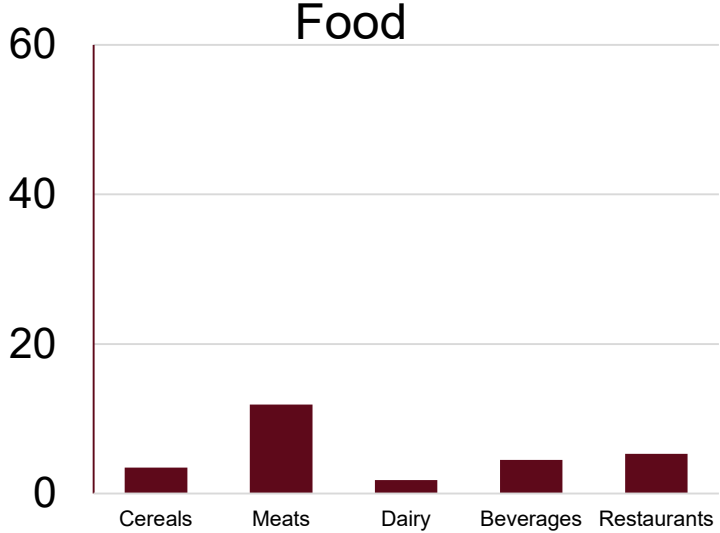
Montana Economic Outlook

# The Challenge of Rebalancing the Economy

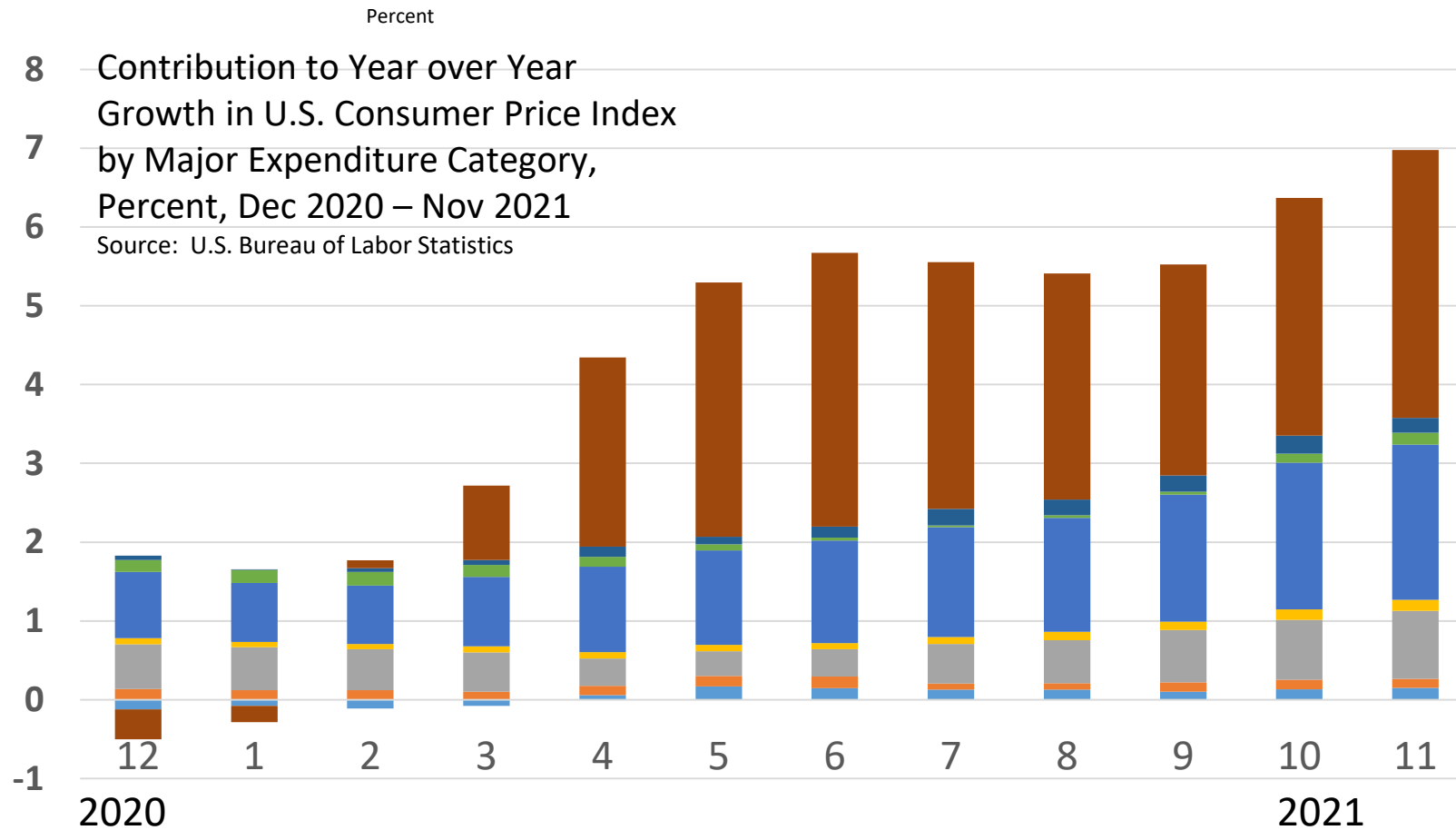
- Central bank wakes up to an overheated economy with inflation out of the box and tight markets everywhere
- Strong income gains fueling strong demand
- International trade flows continue to be disrupted by politics as well as shortages
- Is the climate for energy investment improving?
- Imbalances was the story of 2021
- Familiar problems (labor and housing) re-emerge, but a new problem may eclipse them both



# Inflation Since October 2020, percent



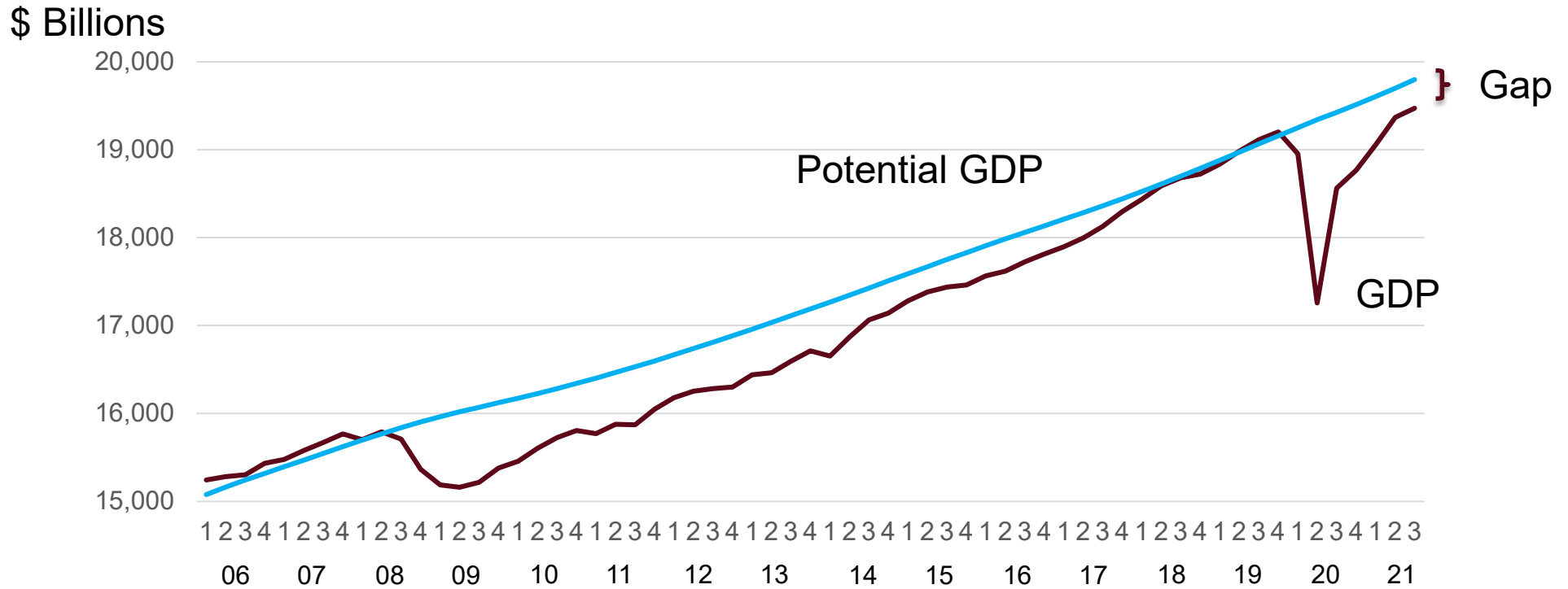
# Transportation and Housing Costs Driving Inflation



- Apparel
- Education and Communications
- Food and Beverages
- Other Goods and Services
- Housing
- Medical Care
- Recreation
- Transportation

# Tracking the Output Gap in the U.S. Economy

## Potential vs. Actual Gross Domestic Product, 2006-21

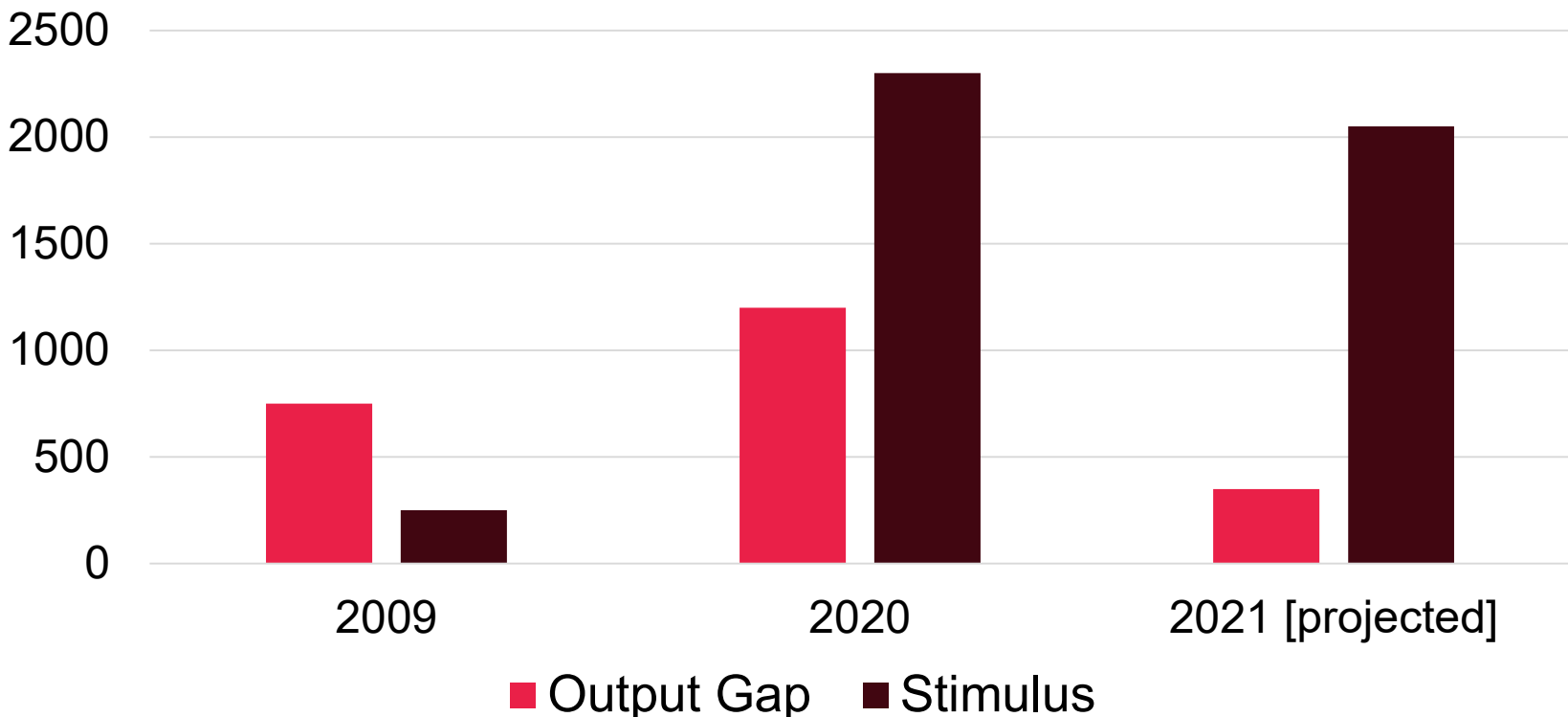


Source: U.S. Congressional Budget Office and U.S. Bureau of Economic Analysis



# Realized Output Gap vs. Fiscal Stimulus

Billions of Inflation-Corrected Dollars



Source: CBO "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output in 2014" and "An Update to the Budget Outlook, 2020 to 2030."

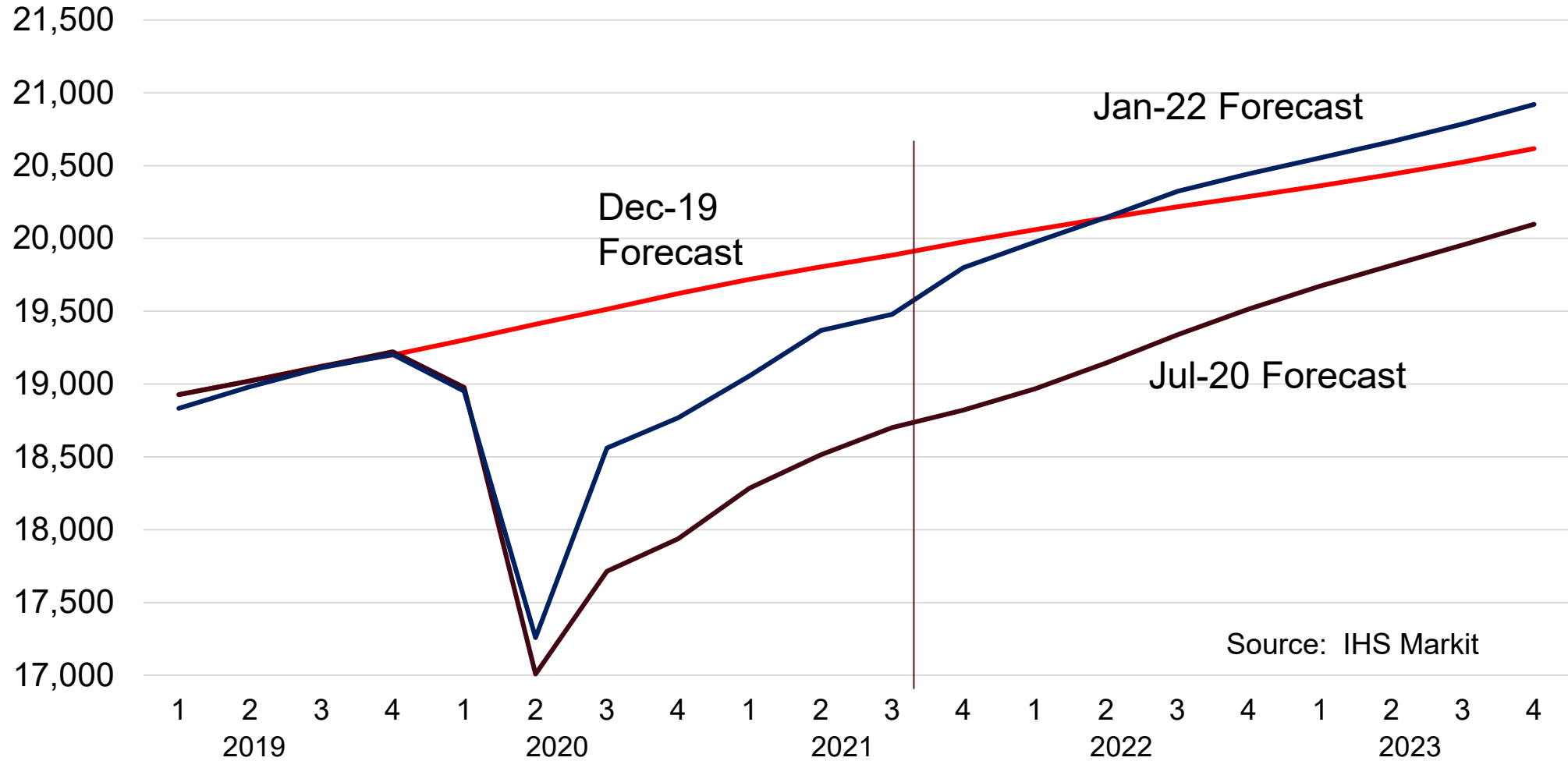






# Real GDP, U.S., Actual and Forecast

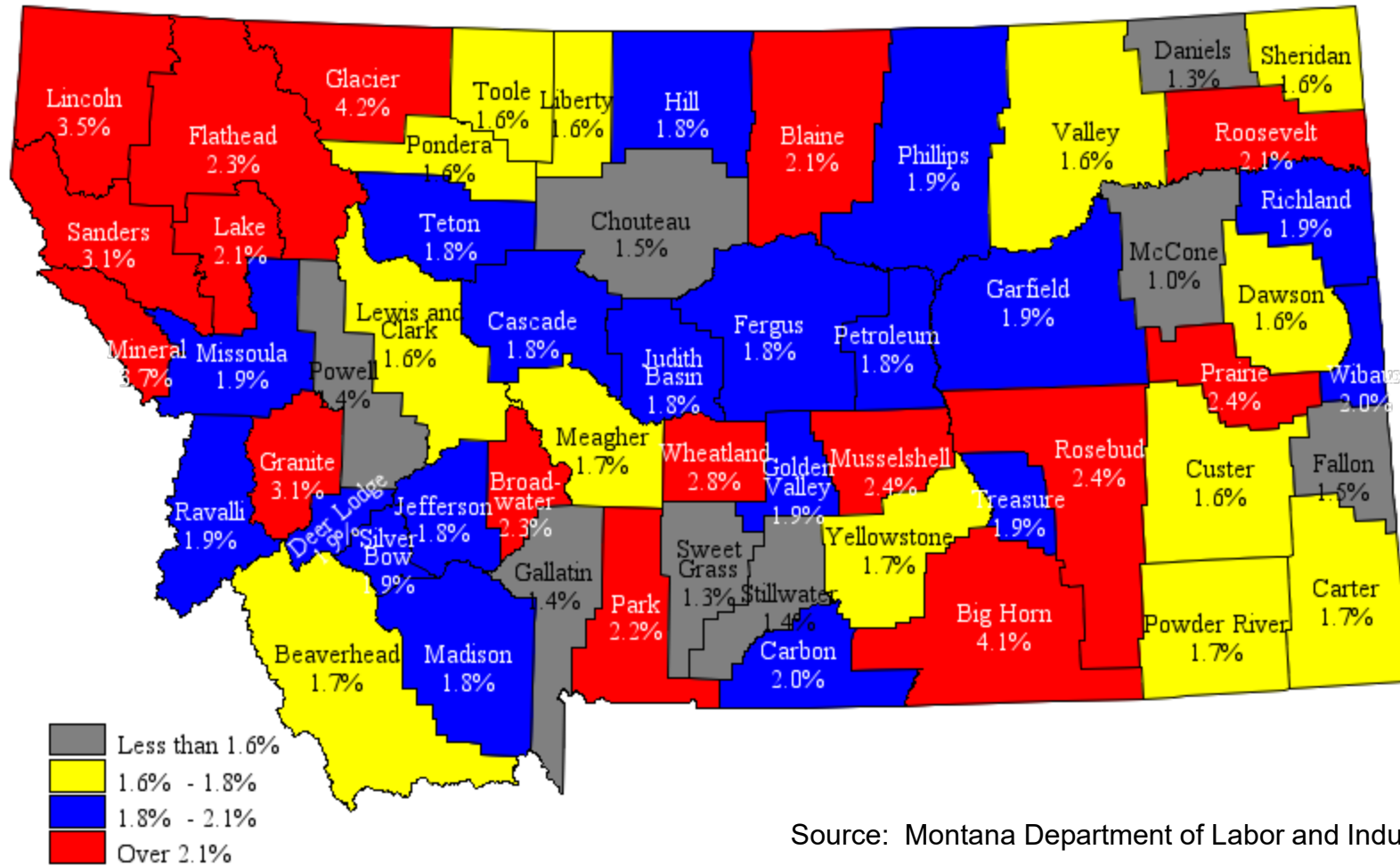
Billions of Dollars



Source: IHS Markit



# Unemployment Rates, November 2021

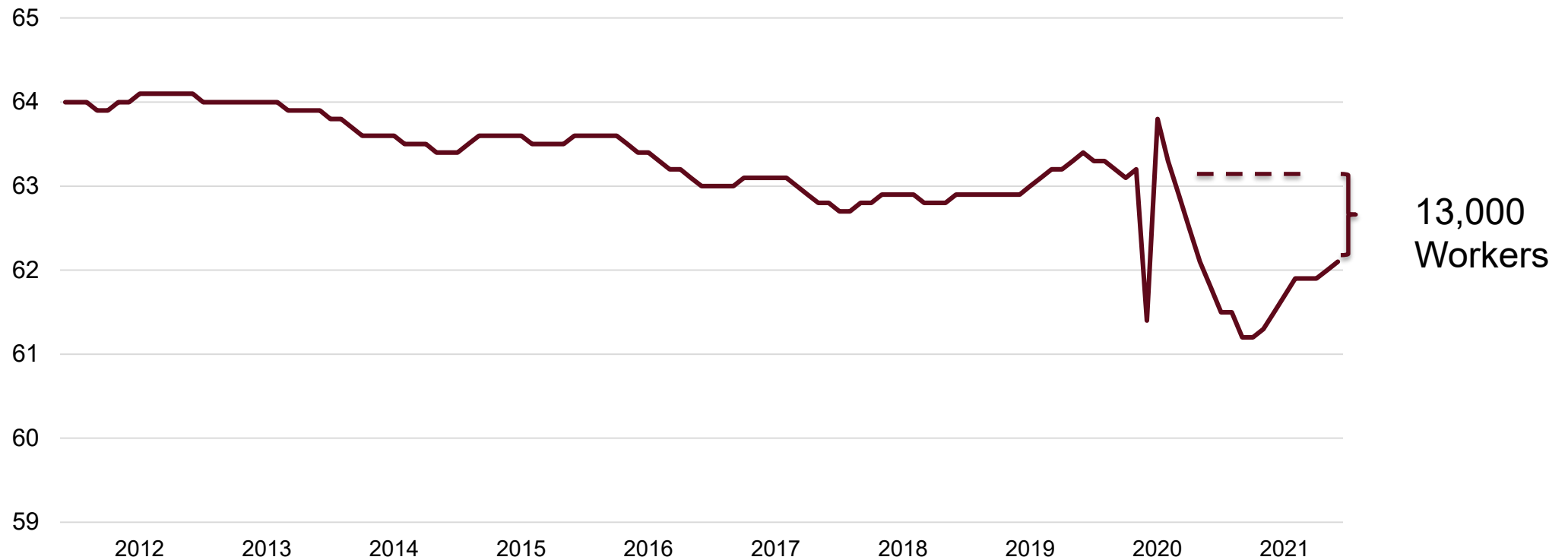


Source: Montana Department of Labor and Industry



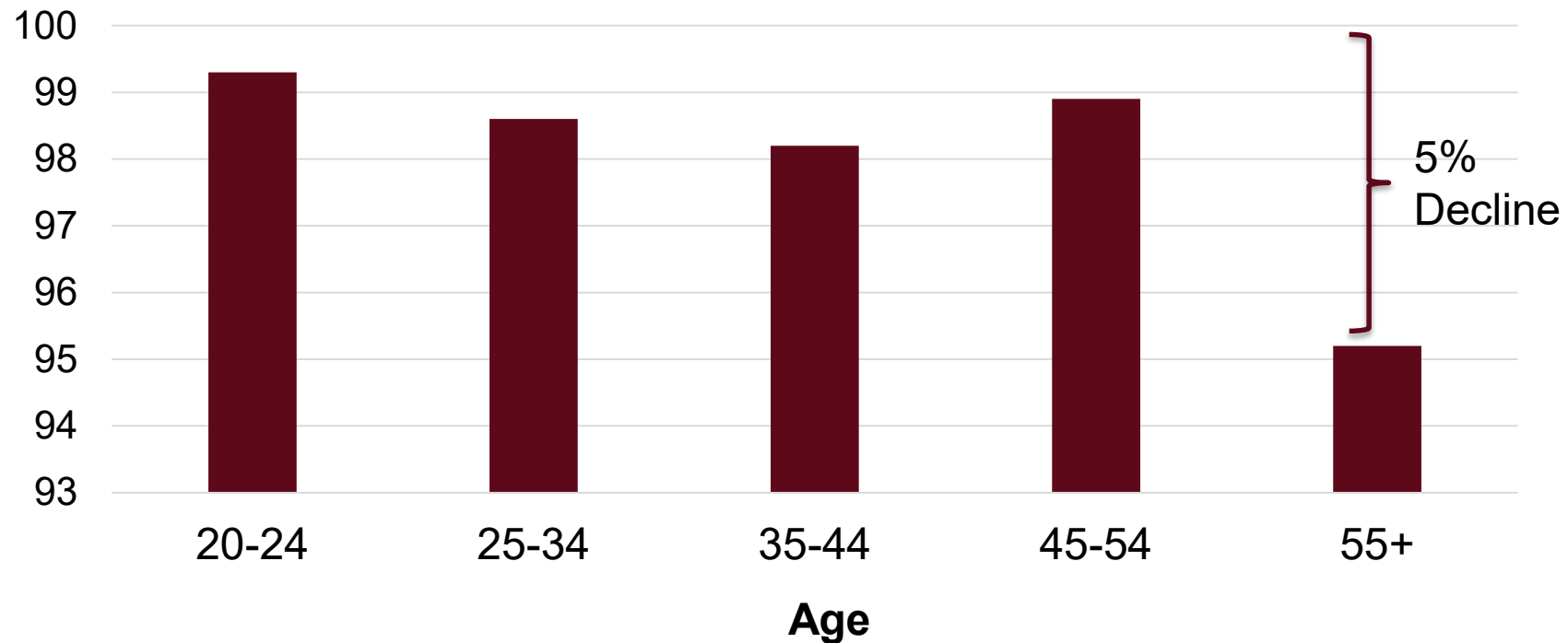
# Unemployment Rates Do Not Include Labor Force Dropouts

## Labor Force Participation Rate, Montana, Percent



# Labor Market Dropouts More Prevalent Among Older Workers

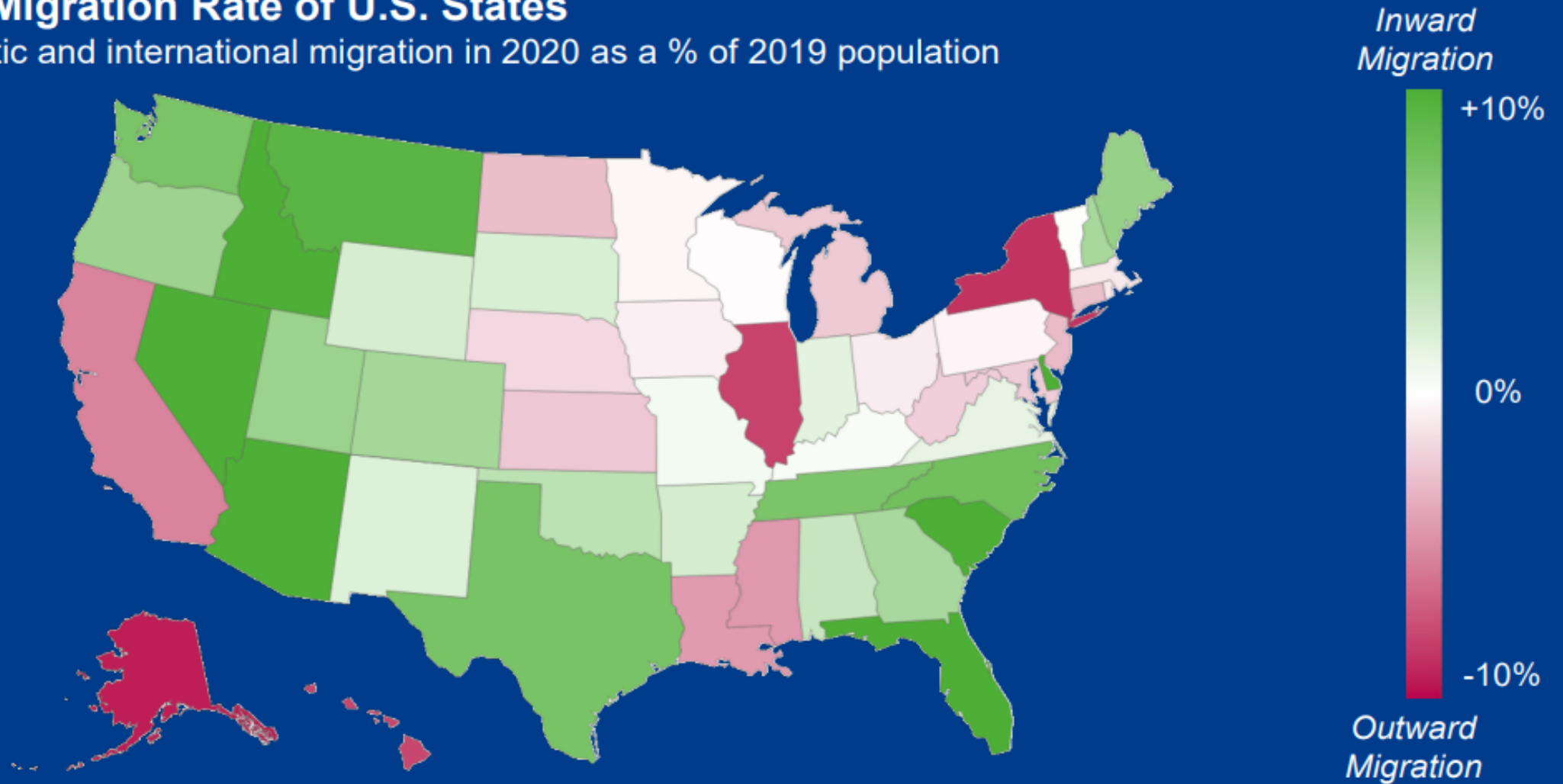
November 2021 Labor Force Participation Rate As Percent of Pre-Pandemic Rate, By Age, U.S.



# Shifts out of urban areas drove changing demand for goods

## 2020 Net Migration Rate of U.S. States

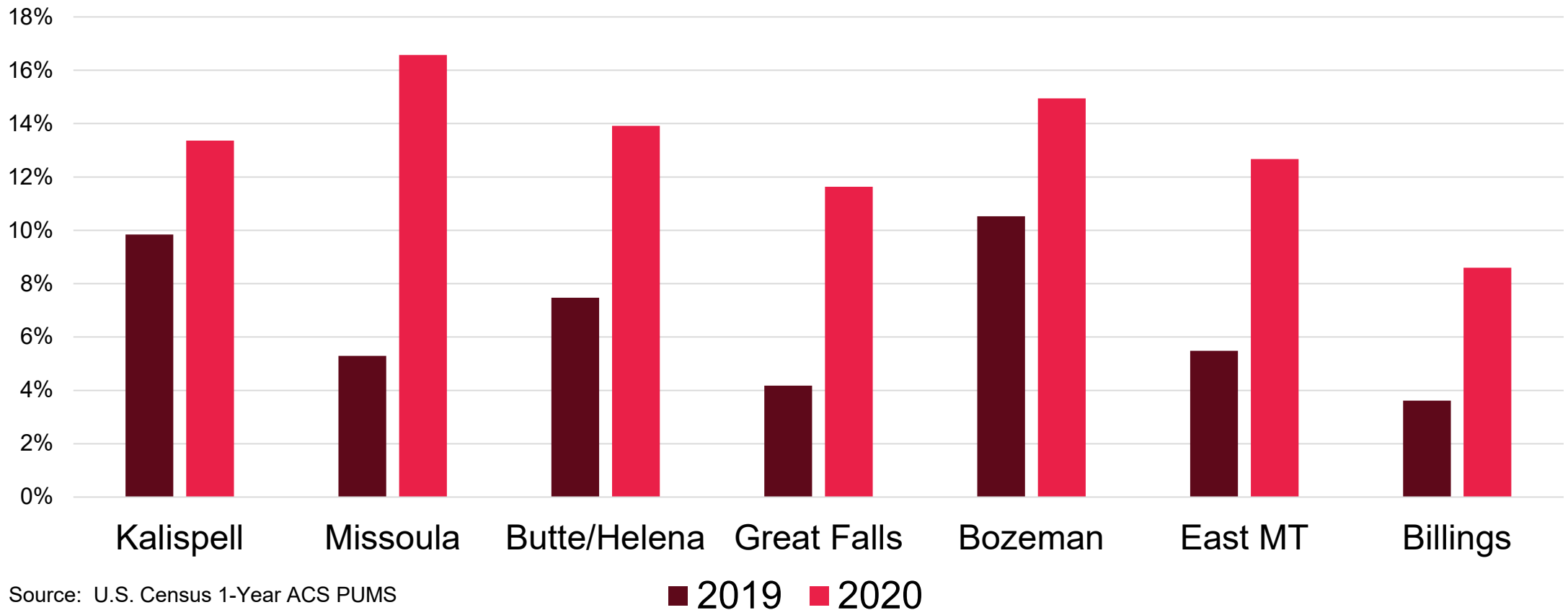
Total domestic and international migration in 2020 as a % of 2019 population



Source: KPMG Economics, U.S. Census Bureau, Haver Analytics

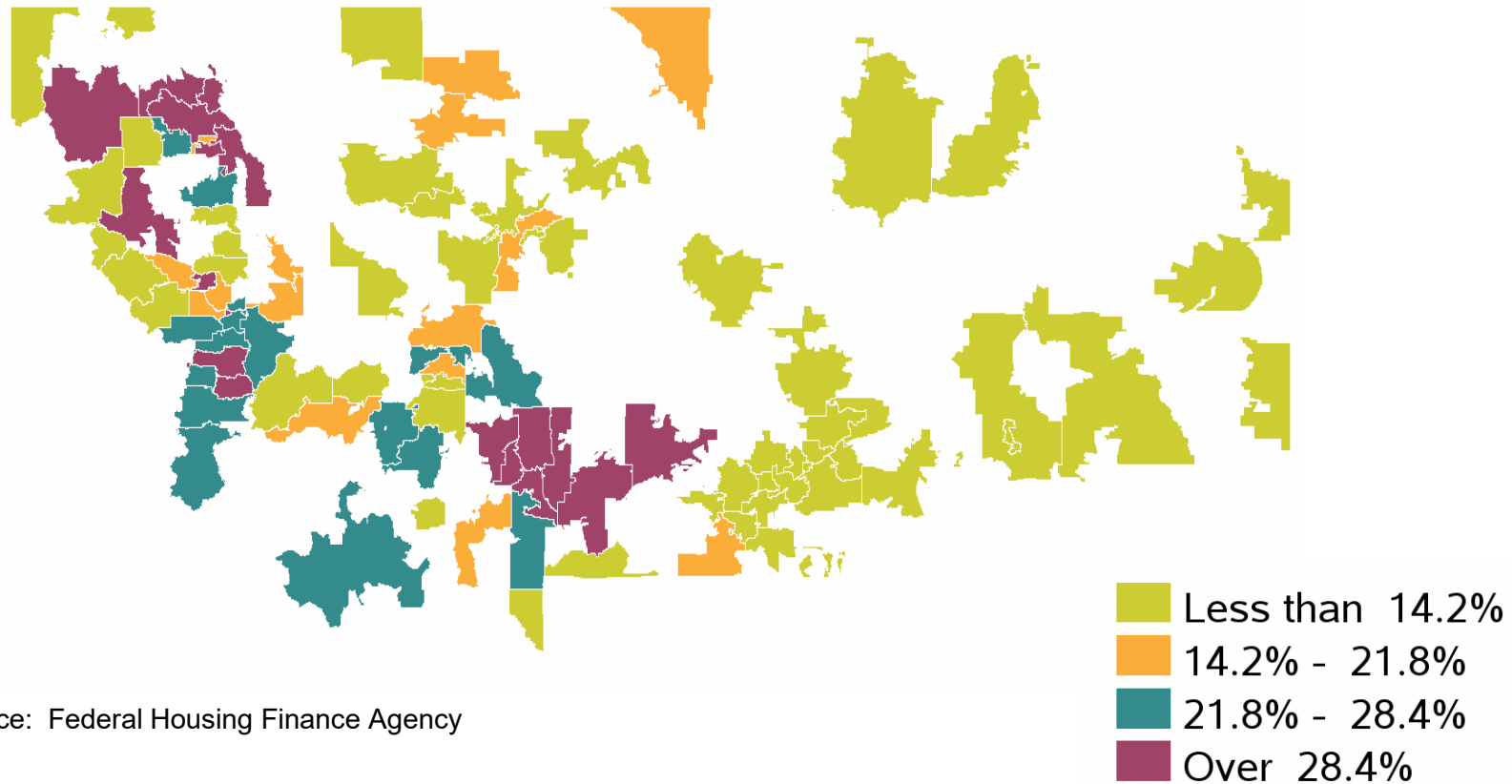
# 2020 Was A Year to Work From Home

Percent of Workforce Working from Home, 2019-2020



# Housing Price Growth Strongest in the West

Housing Price Index by Zip Code, Percent Growth, 2016-20



Source: Federal Housing Finance Agency



# The U.S. Economic Outlook

- Omicron outbreak not expected to derail growth
- Slightly slower, but still above trend growth in 2022
- Removal of stimulus is a head wind
- Interest rates will go up, but from a very low starting point
- Pent-up spending of consumers is spent
- As supply chain pressures ease, inflation will abate
- Inflation pressure from labor markets is the wild card












# The Montana Economy Had a Great Year

- Strong gains in income, re-opening of services economy produced significant gains
- A big year for visitor spending
- Population in-migration – fact or fiction?
- Commodity price surges helped some industries more than others
- Energy and agriculture will not want to repeat 2021



# A Huge Year for State Tax Revenues

General fund revenue: FY 2021 actual collections exceeded HJ 2 estimate by \$401.9 million  
(\$ Millions)

| Revenue Source               | Actual<br>FY 2020 | HJ 2*<br>FY 2021 | Actual<br>FY 2021 | HJ 2<br>% Change | Actual<br>% Change | Act.-HJ 2<br>\$ Diff. | Act./HJ 2<br>% Diff. | % Diff<br>Illustrated   |
|------------------------------|-------------------|------------------|-------------------|------------------|--------------------|-----------------------|----------------------|---|
| <b>Largest Seven Sources</b> |                   |                  |                   |                  |                    |                       |                      |   |
| Individual Income Tax        | \$1,435.2         | \$1,505.4        | \$1,765.4         | 4.9%             | 23.0%              | \$260.0               | 17.3%                |    |
| Property Tax                 | 308.6             | 313.4            | 310.7             | 1.6%             | 0.7%               | (2.7)                 | -0.9%                |    |
| Corporation Tax              | 187.4             | 149.4            | 266.5             | -20.2%           | 42.2%              | 117.1                 | 78.4%                |    |
| Vehicle Taxes & Fees         | 108.5             | 109.3            | 117.8             | 0.8%             | 8.6%               | 8.5                   | 7.7%                 |    |
| Oil & Natural Gas Taxes      | 38.4              | 40.4             | 39.5              | 5.2%             | 3.0%               | (0.8)                 | -2.0%                |    |
| Insurance Tax                | 82.5              | 88.4             | 87.3              | 7.2%             | 5.8%               | (1.2)                 | -1.3%                |   |
| Video Gaming Tax             | 57.4              | 60.3             | 74.9              | 5.0%             | 30.4%              | 14.6                  | 24.2%                |  |

Source: Montana Legislative Fiscal Division



# Real Earnings Growth by Sector, Montana, 2019-20

Millions of Dollars

-300   -200   -100   0   100   200   300   400

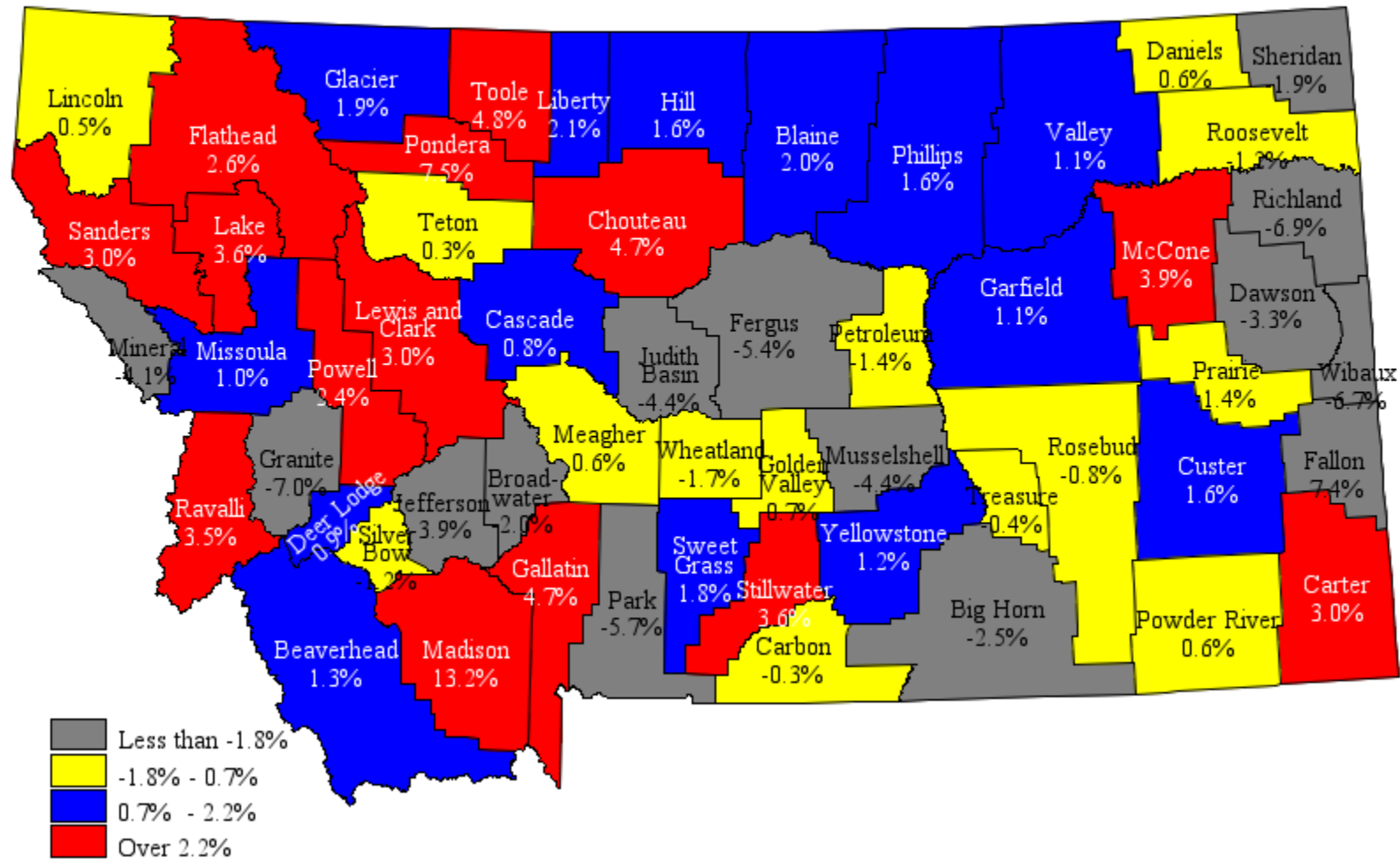


Construction and Manufacturing  
Retail & Wholesale Trade  
Finance and Bus. Services  
Health Care  
Accommodations & Food  
Public Administration  
Mining  
Other

Source: U.S. Bureau of Economic Analysis



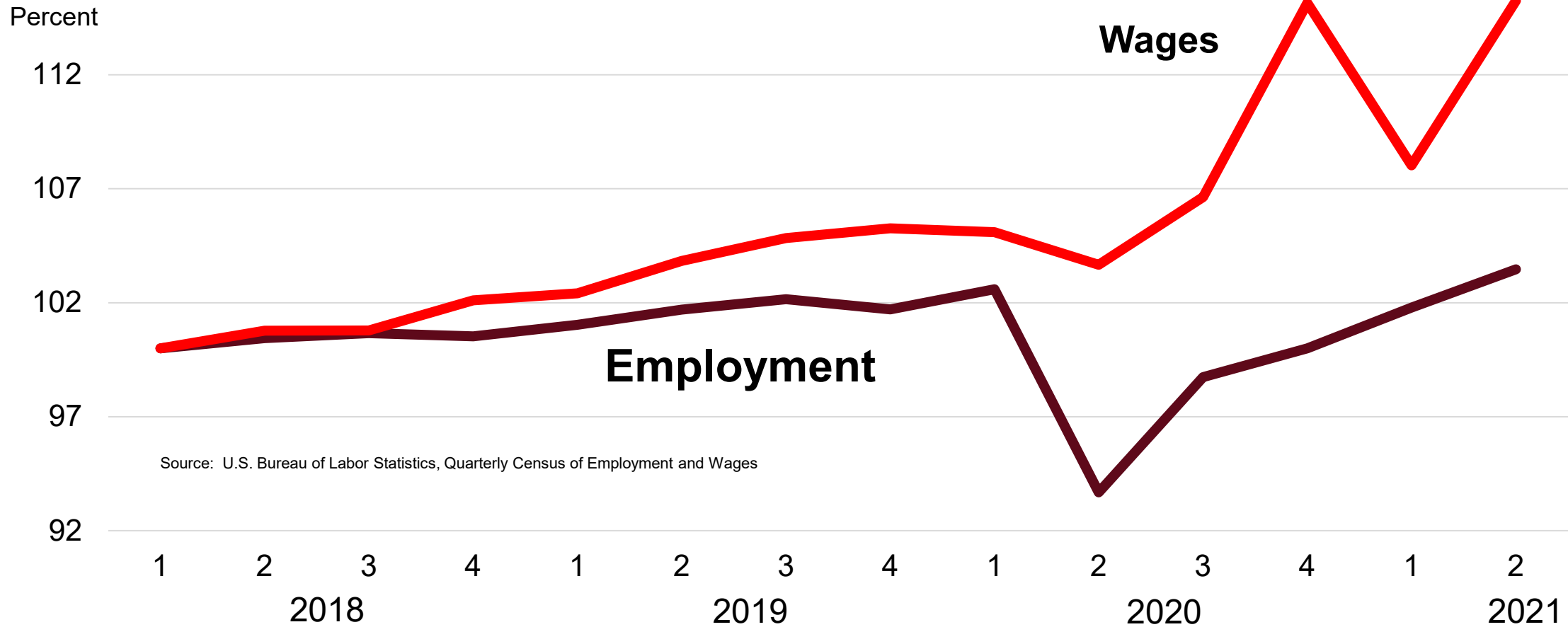
# Nonfarm Earnings Growth, 2020



Source: U.S. Bureau of Economic Analysis

# Wages and Employment, Montana, 2018Q1 – 2021Q2

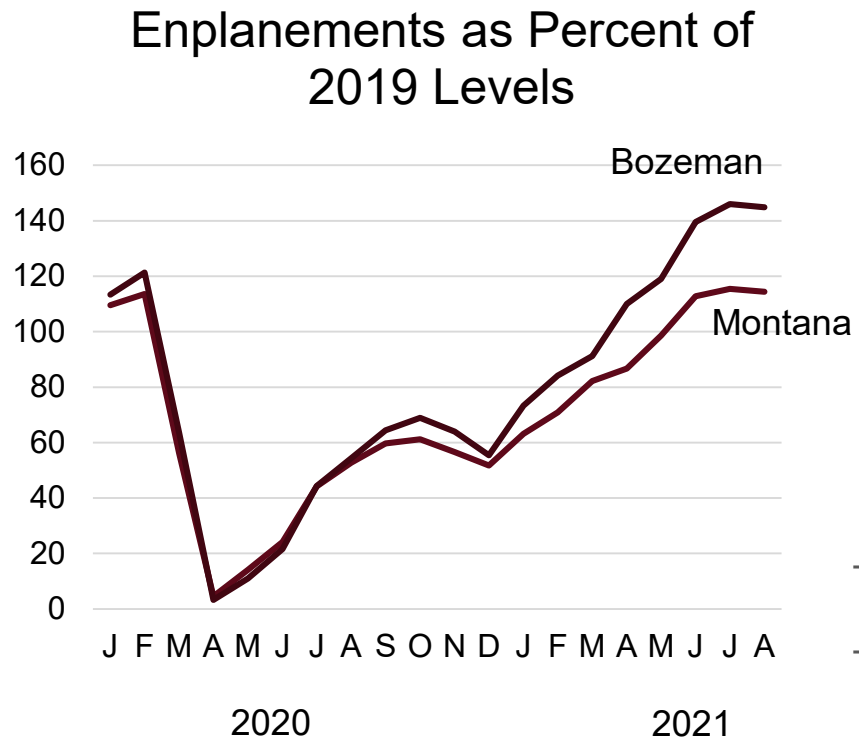
Seasonally Adjusted Index, 2018Q1 = 100



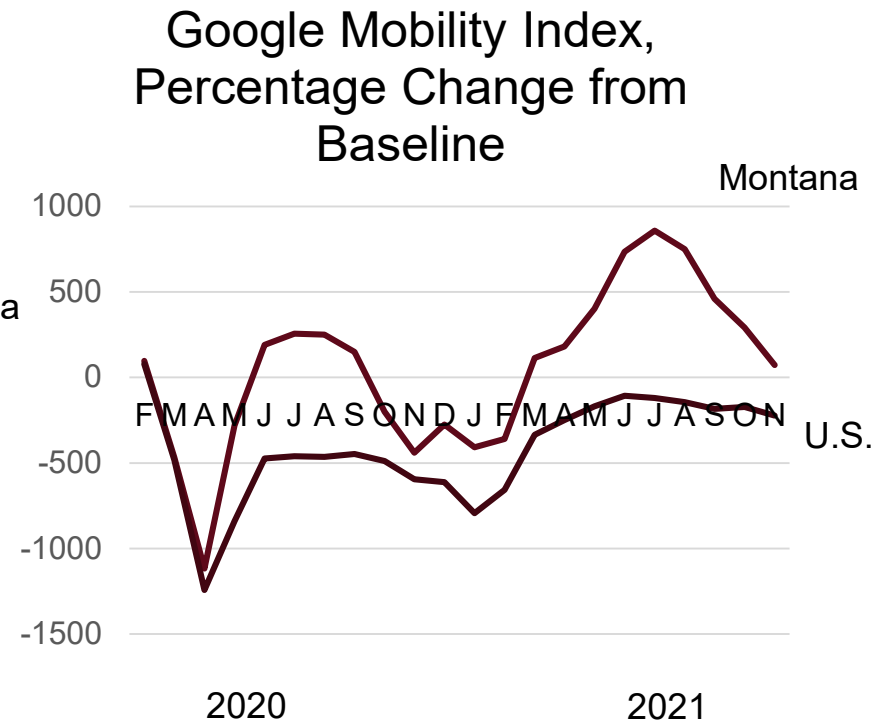
Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages



# Travel and Tourism Indicators Look Strong



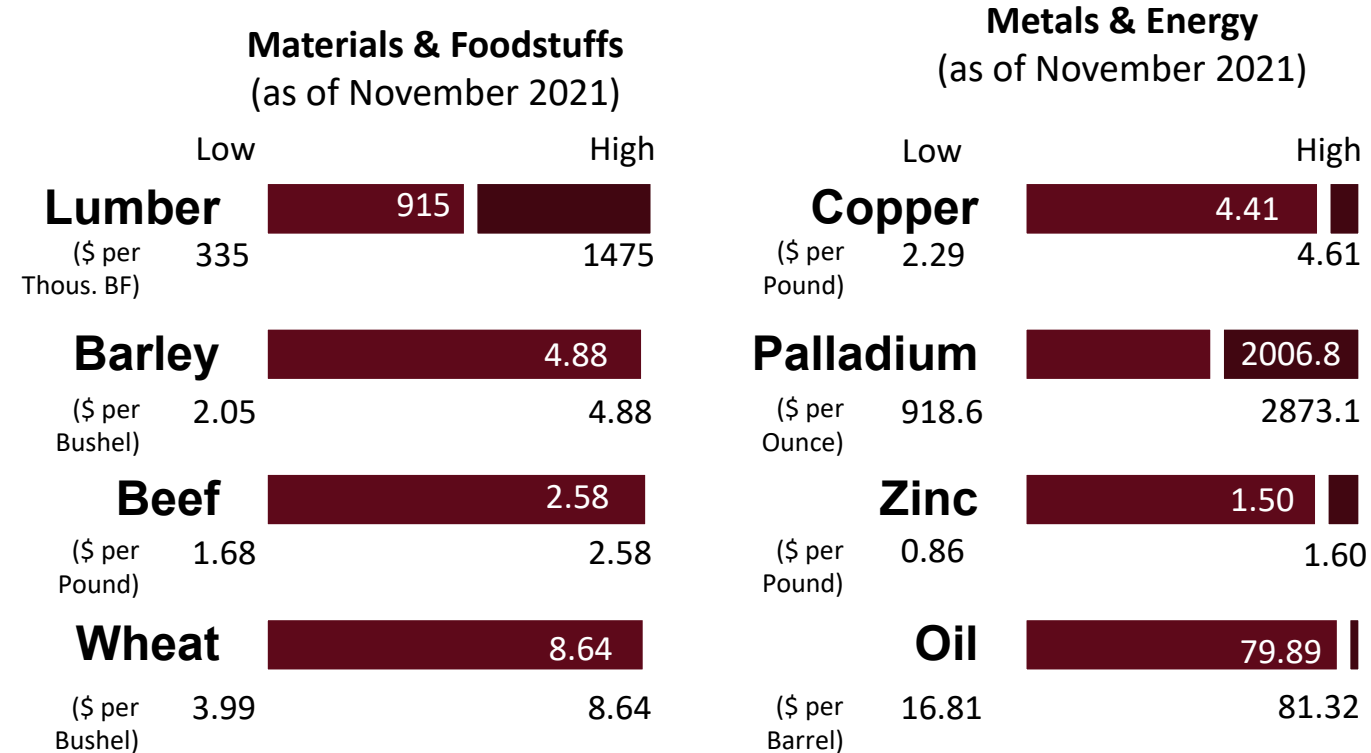
Source: U.S. Bureau of Transportation Statistics



Source: Google



# Commodity Prices Running Very Hot

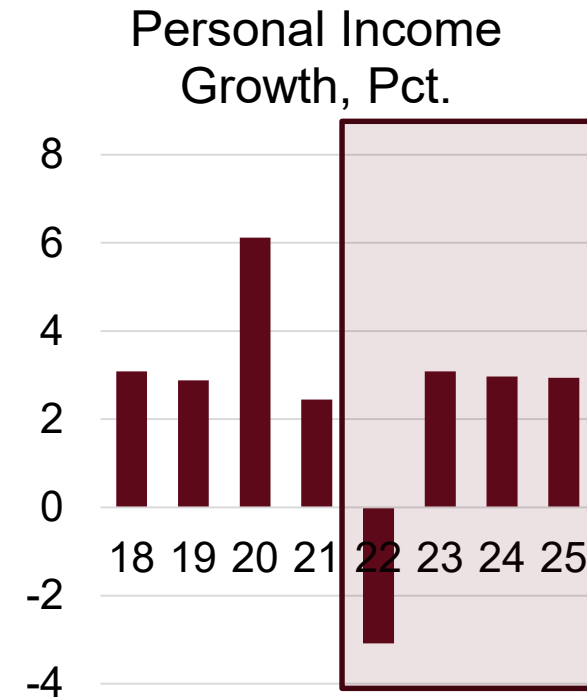
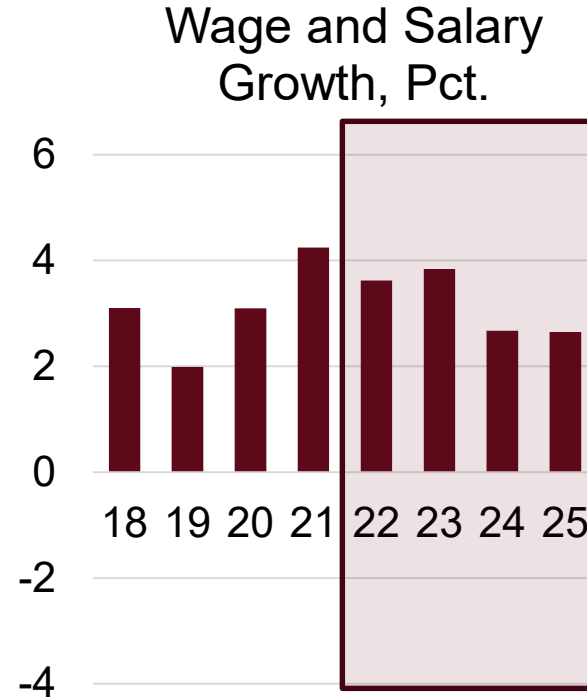
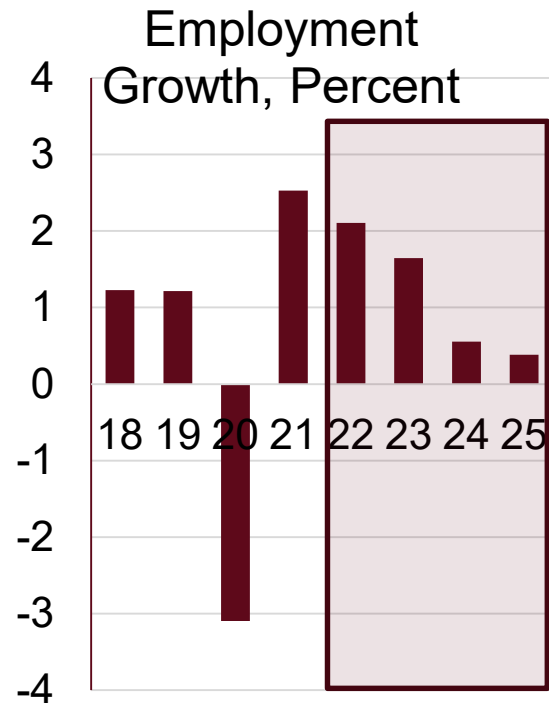


Source: International Monetary Fund, Random Lengths, kitko.com



# Montana's Economic Recovery

Employment, Real Wages and Salary and Real Income Growth, Actual and Forecast, Percent



Source: IHS Markit

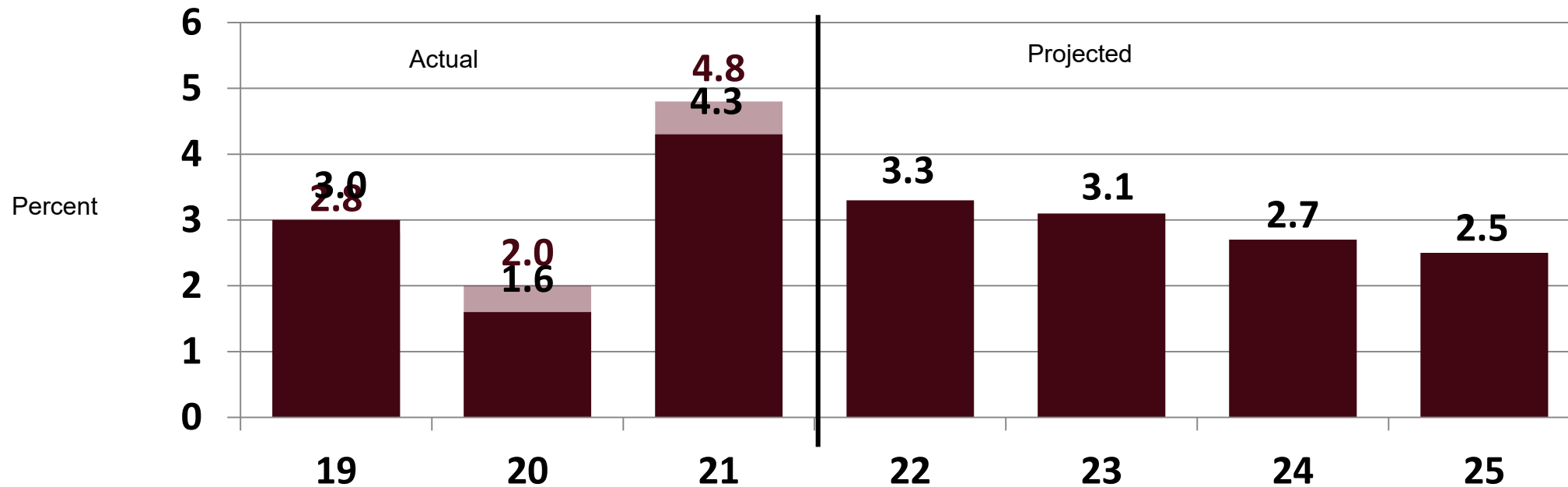


# Outlook for Montana's Key Industries

- Strong consumer spending, strong commodity prices bode well for many key Montana industries
- Arrival of new Federal spending in 2023 and beyond will be an additional boost
- Drought could have lasting impacts on ag producers
- High-flying parts of the state are having growing pains
- Economy remains vulnerable to disruptions



## Growth in Nonfarm Earnings, Montana, 2019-2025

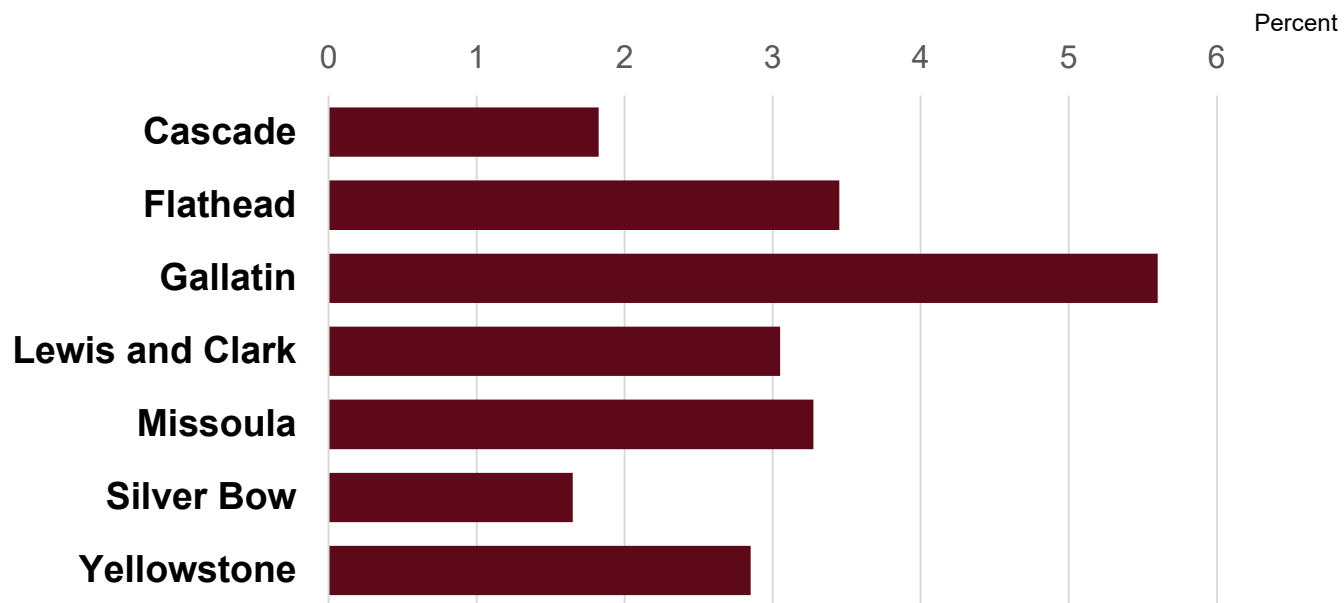


Source: BBER and U.S. Bureau of Economic Analysis



# Gallatin County Expected to Pace Growth

Average Growth in Nonfarm Earnings, 2022-25, Percent per Year



Source: Bureau of Business and Economic Research

