



WINDERMERE
Economics

AN ECONOMIC & HOUSING MARKET FORECAST FOR LEWIS COUNTY, WASHINGTON

PRESENTED BY: MATTHEW GARDNER

CHIEF ECONOMIST; WINDERMERE REAL ESTATE

THE U.S. ECONOMY

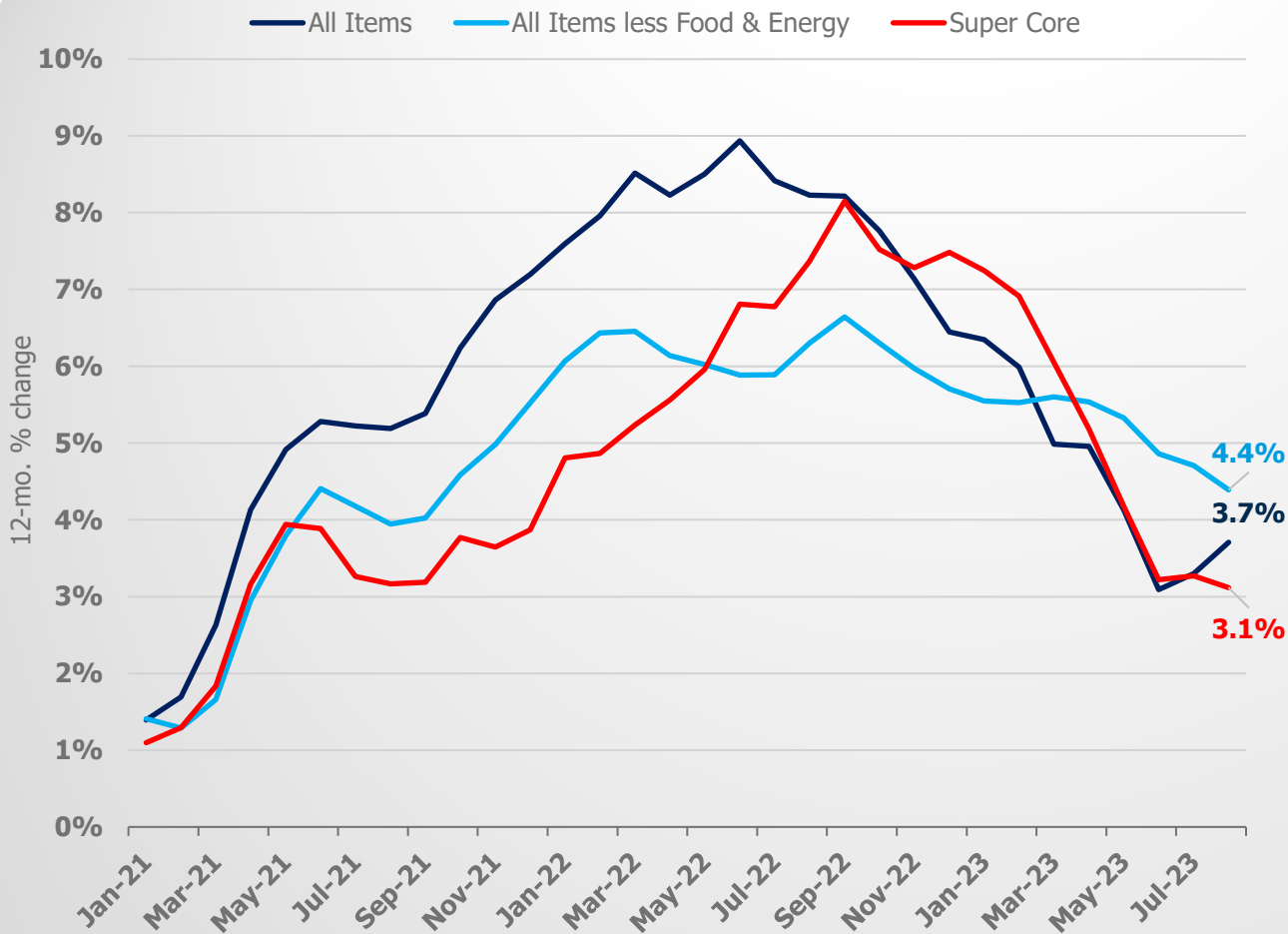


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INFLATION

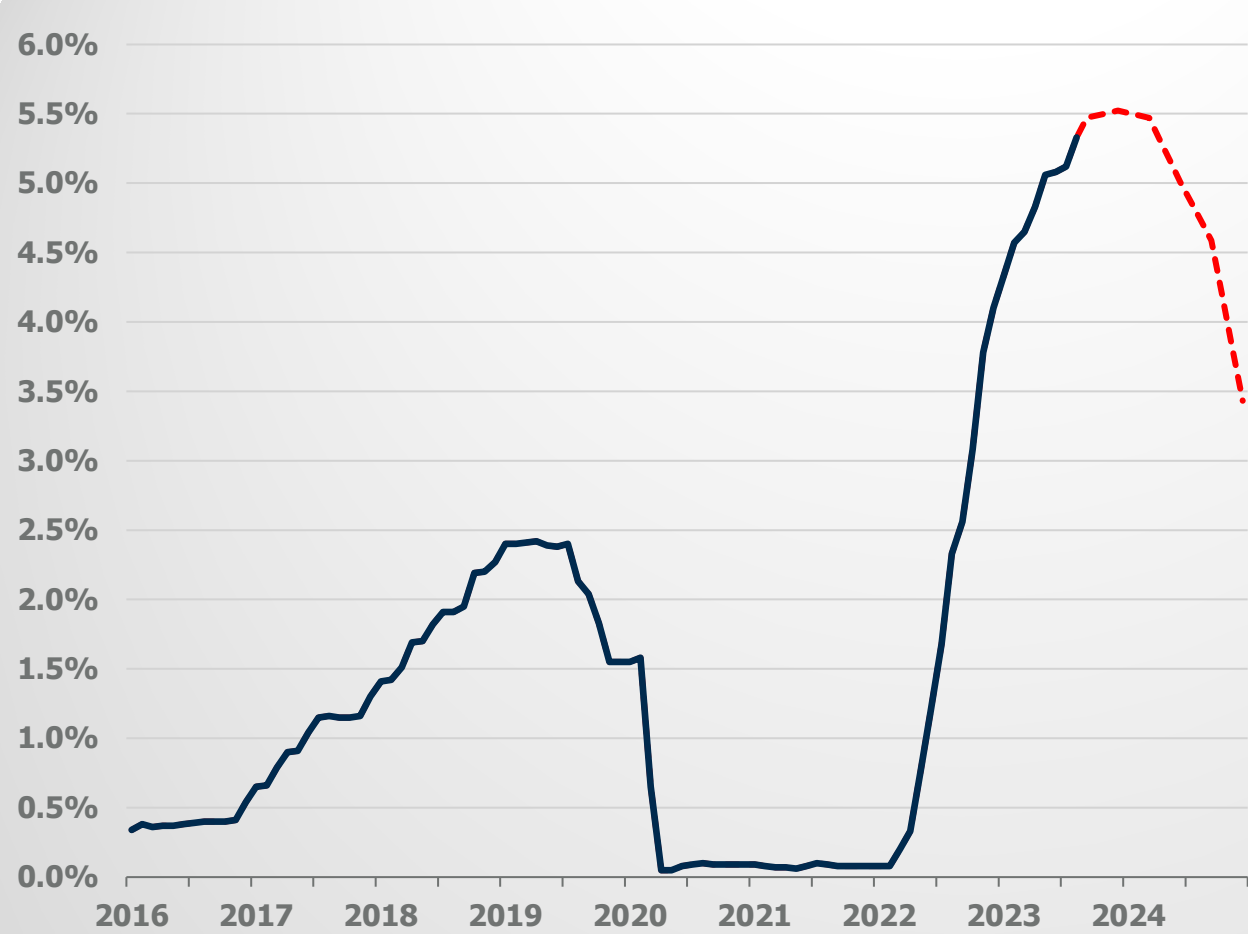


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Both Core & "Super-Core" Inflation Levels Have Dropped Palpably

Rising gasoline prices caused the jump in headline inflation in August. Even though the core rate continues to fall, it remains well above the Fed's target

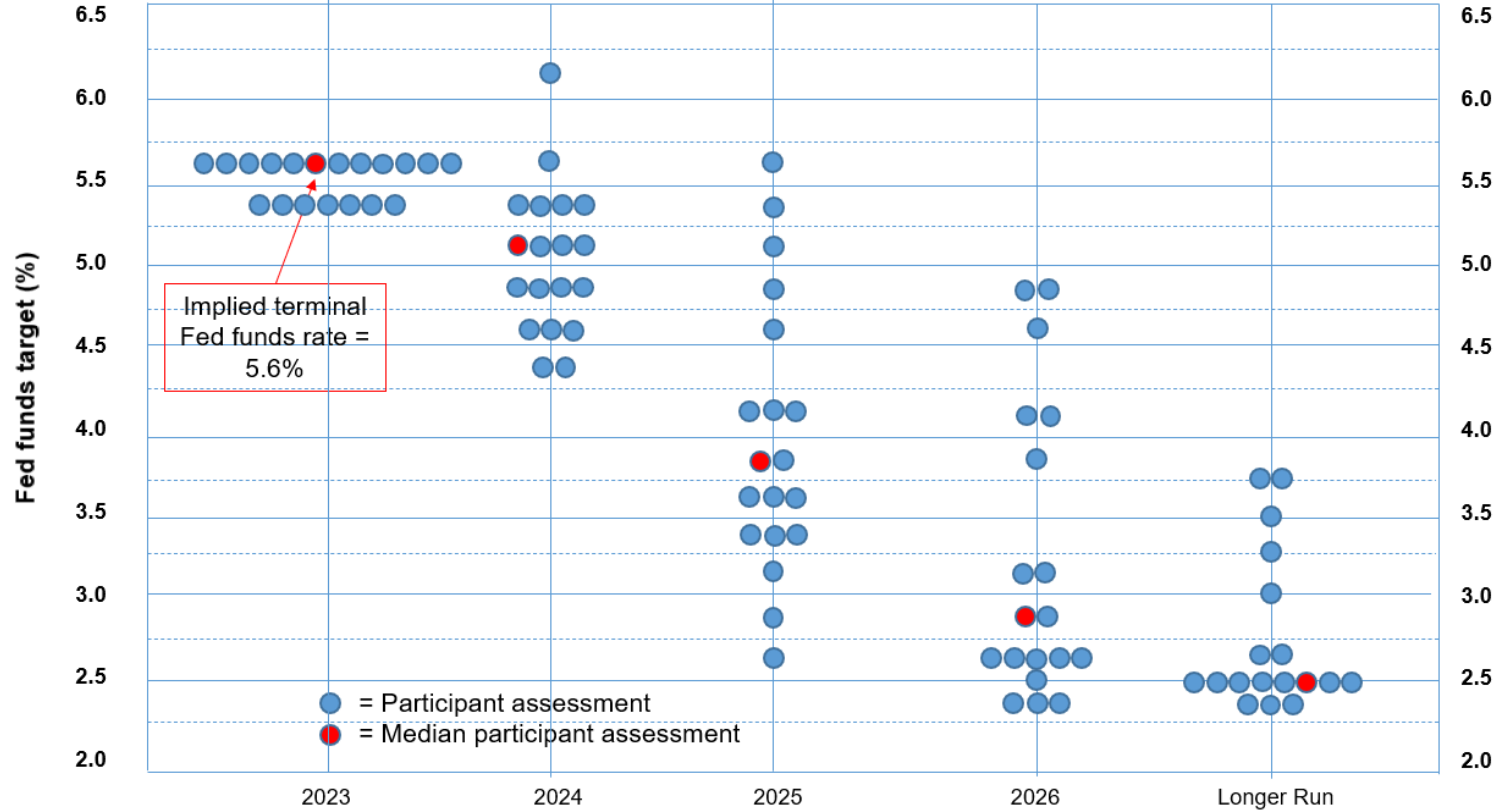


The “Hawks” are Still in Control

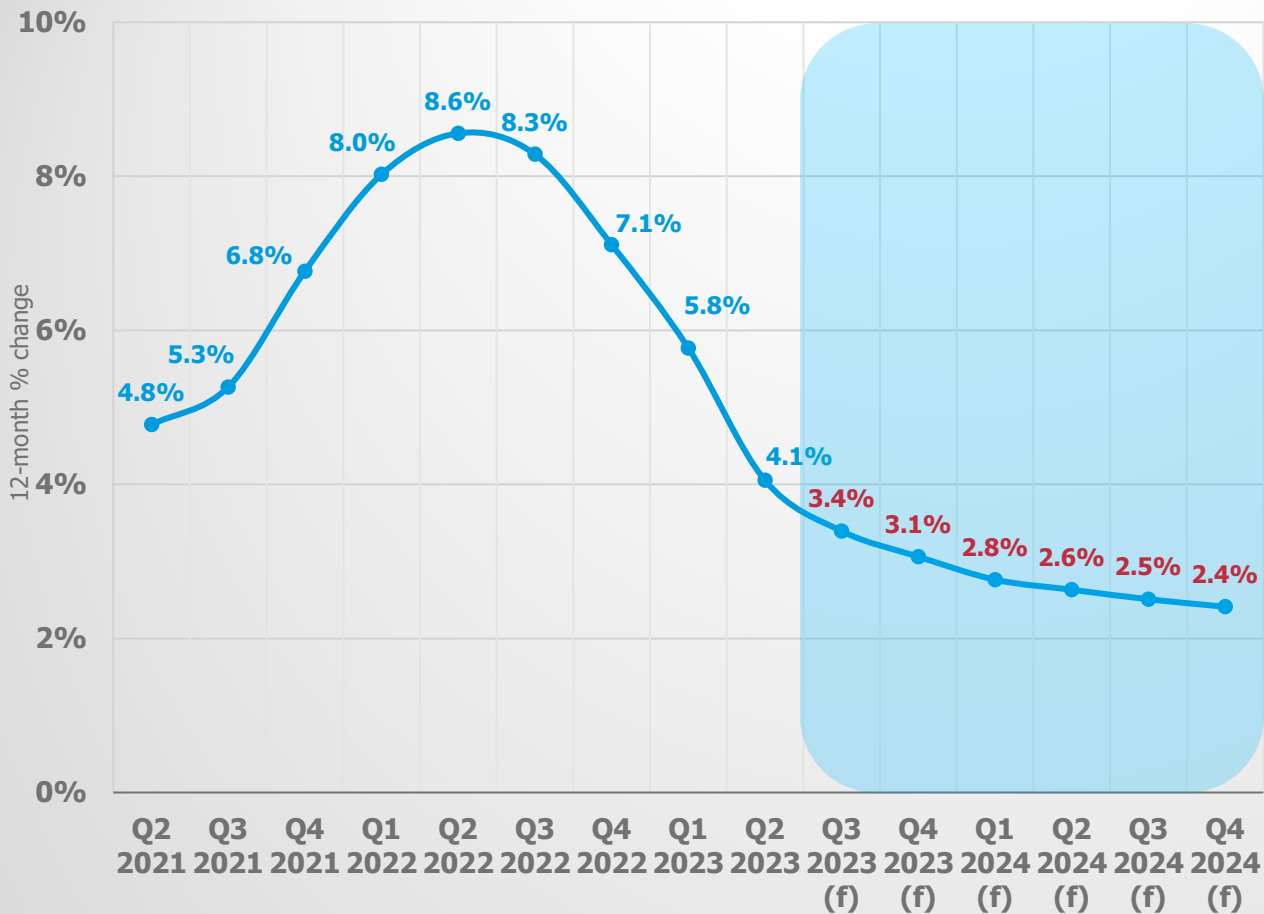
Expect one more rate hike this year, but I’m more concerned that they will hold rates higher for longer than necessary

FOMC participants' assessment of the appropriate federal funds target rate

at the end of 2023, 2024, 2025, 2026 and in the longer run



Source: Federal Reserve, *Summary of Economic Projections (SEP)*, September 20, 2023

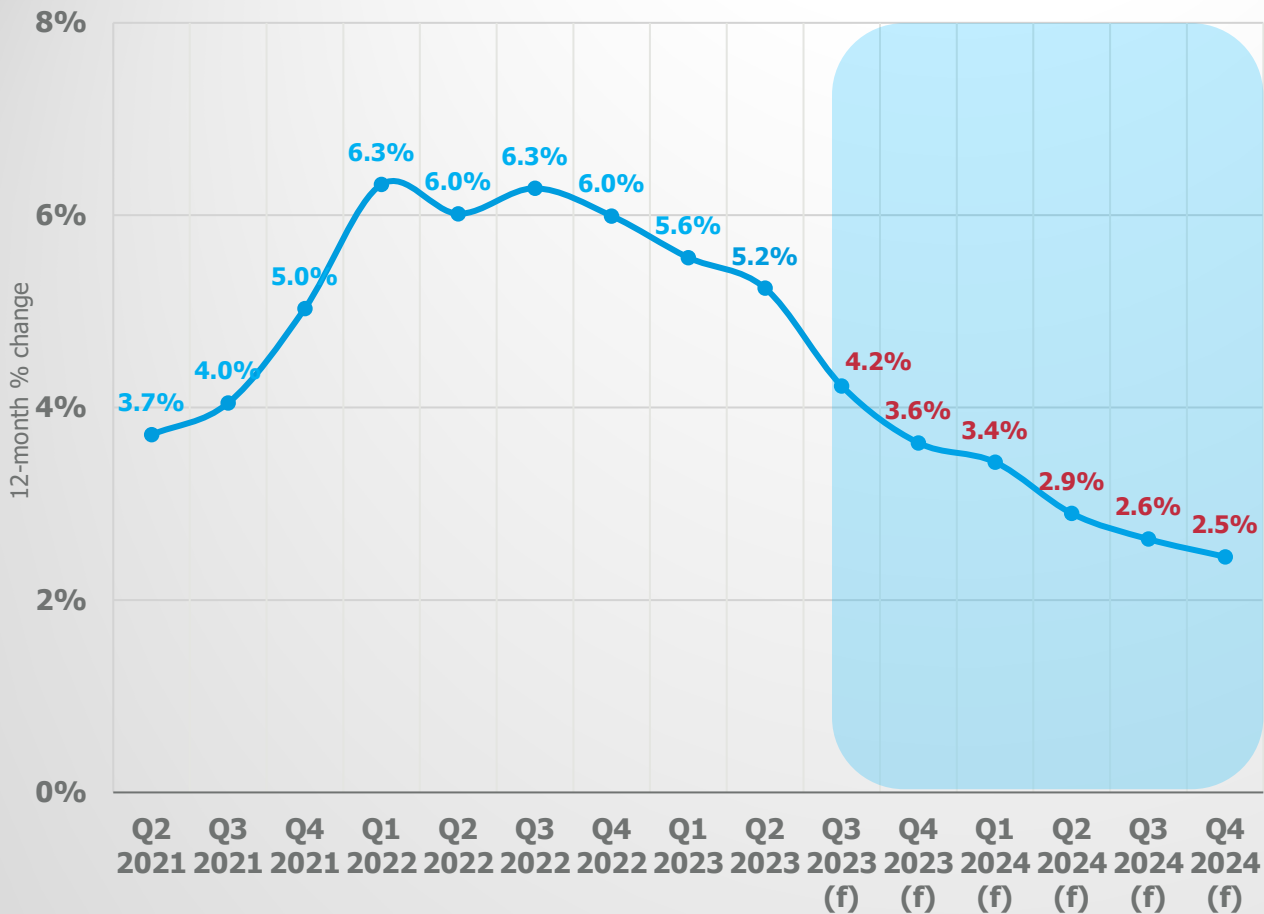


**Headline Inflation
Continues Trending
Lower**
But it will be 2025 before
it reaches 2%

Source:
Windermere Economics'
forecast using BLS
historic data; sa

TOTAL CPI HISTORY & FORECAST





Core Inflation Also Pulls Back

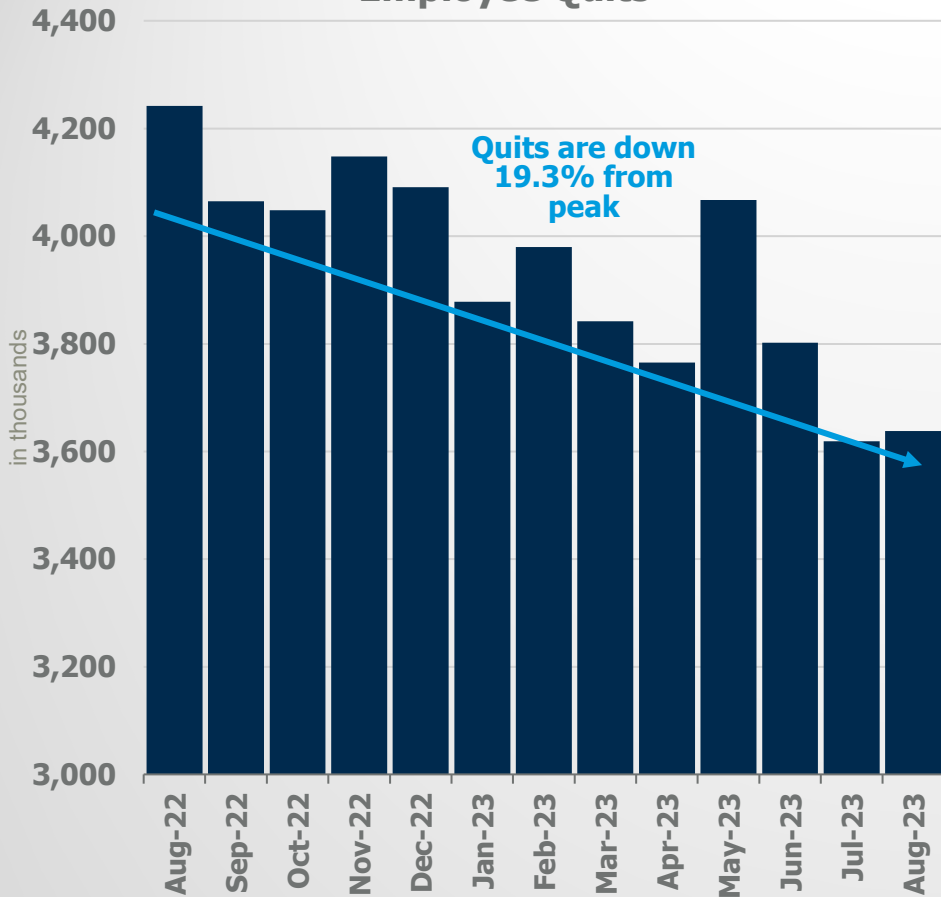
The Fed watches this dataset closely and remains “hawkish” as it remains well above their target – housing is the main culprit!

THE LABOR MARKET

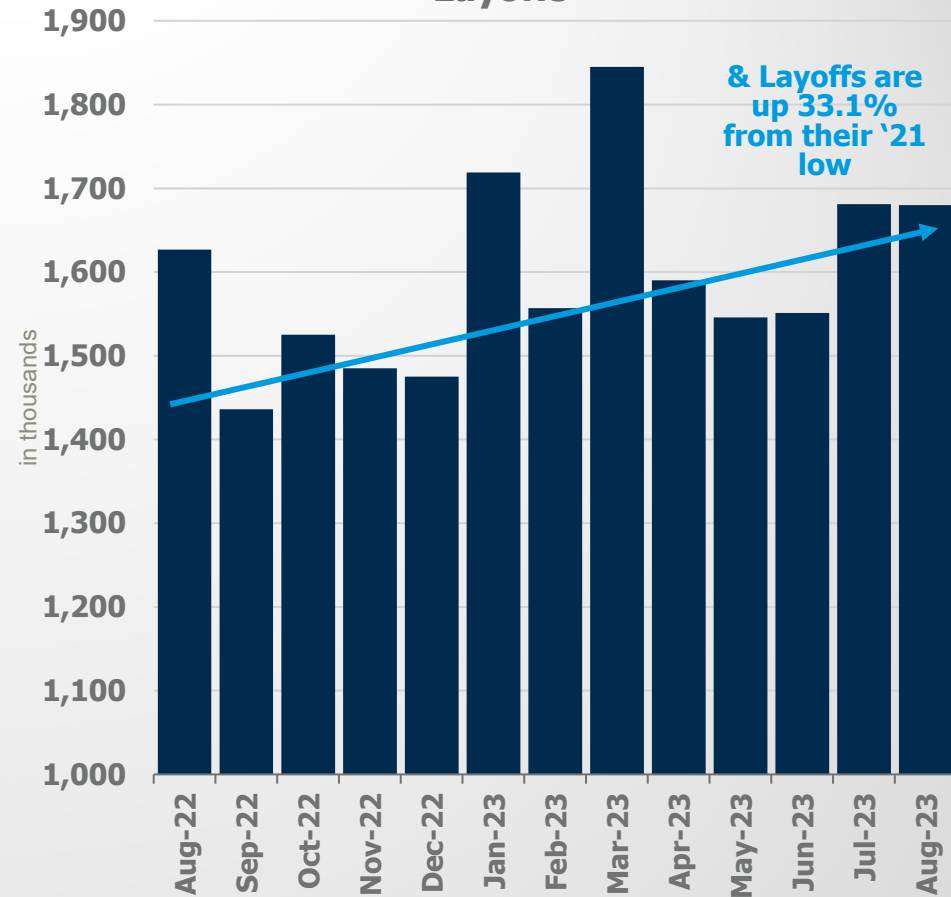


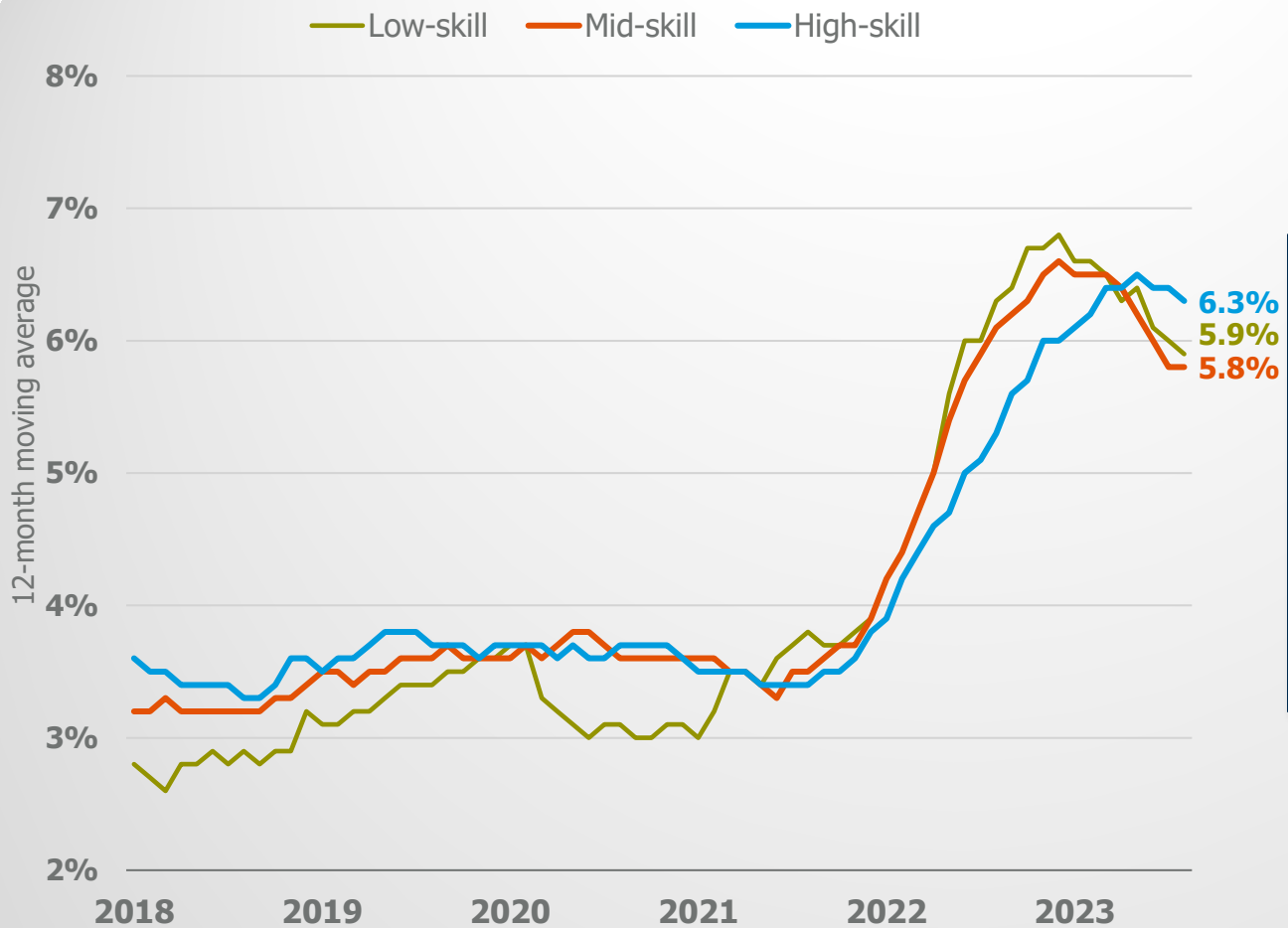
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Employee Quits



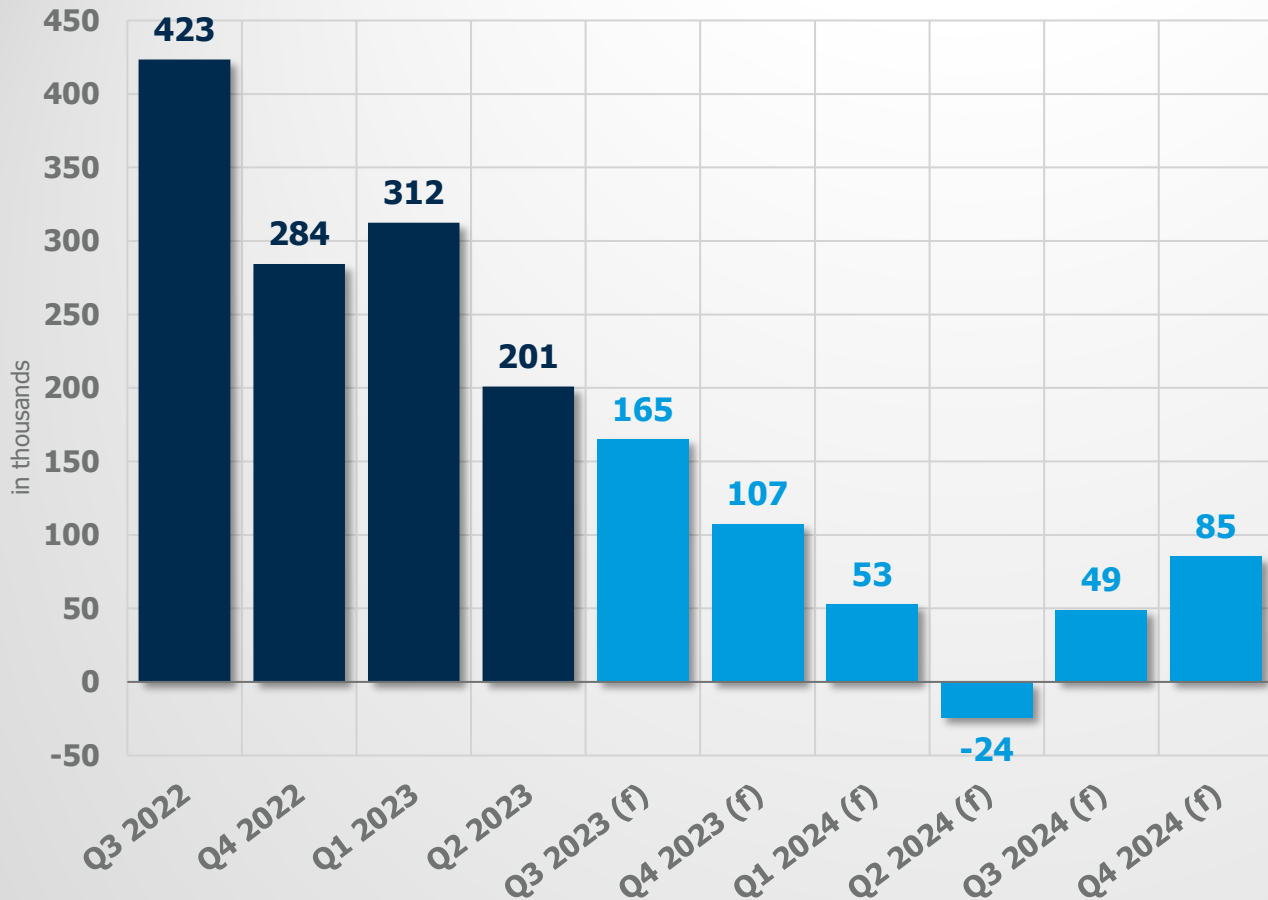
Layoffs





Wages Skyrocketed But...

Although the rapid increase in wages was consistent with a limited labor force & low participation rates, wage growth has “rolled over”



Job Growth Turns Briefly Negative in '24

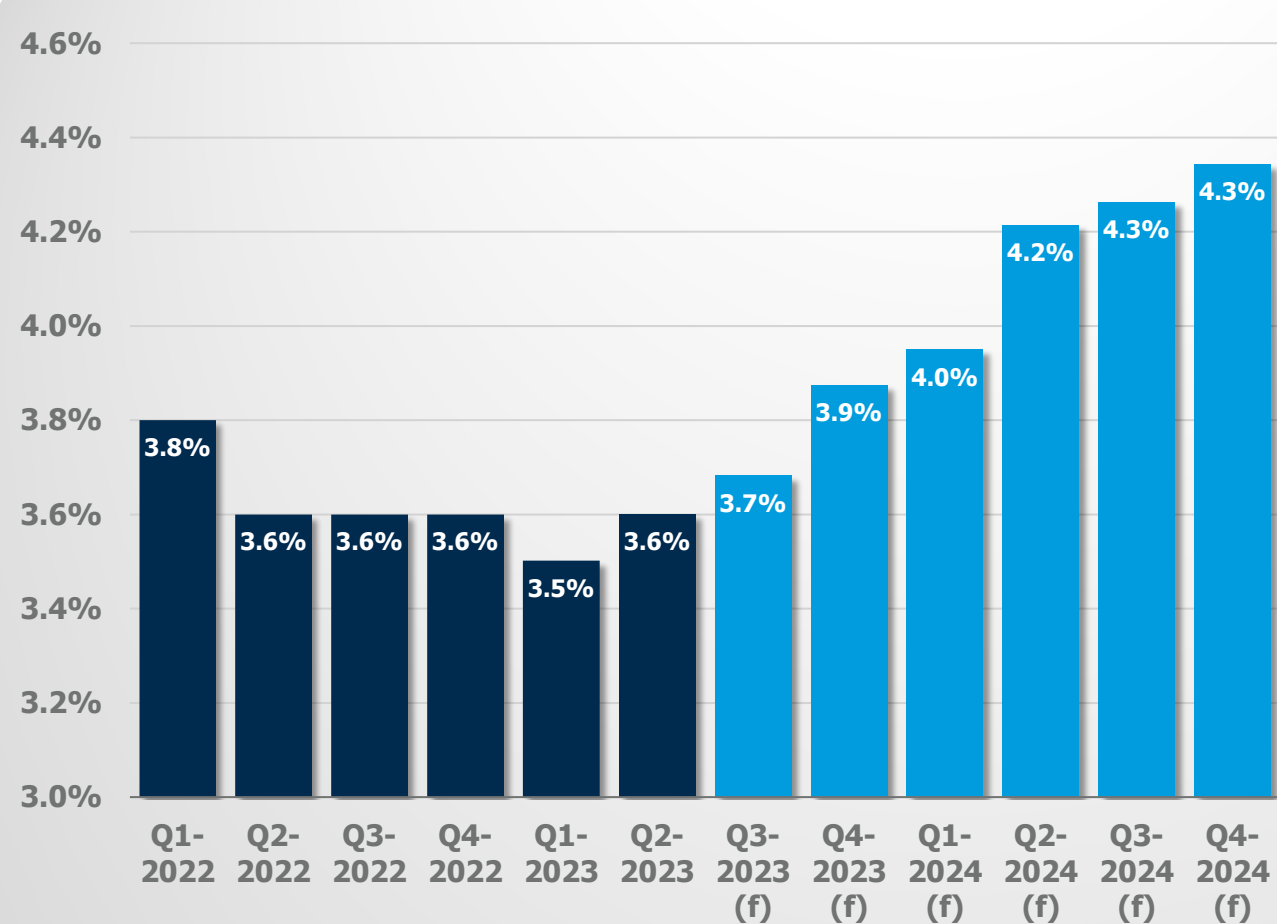
However, as the labor market remains tight, I expect relatively few job losses

Source:
Windermere Economics'
forecasts using BLS
historic data
Monthly average payroll
growth in a quarter

U.S. PAYROLL CHANGE & FORECAST



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The Jobless Rate Will Rise
 But given limited labor force growth, the unemployment rate will still stay relatively low

Indicator	Current Level/ Spread	When it...
Yield Curve (10's minus 2's; daily)	-0.73%	Turns Negative
Spread Between the Natural Unemployment Rate & the Current Rate (=3.8% - 4.45%)	-0.65%	Rises Above 0.5%
ISM Manufacturing Index	49.0%	Drops Below 45%
Consumer Sentiment (y/y Change)	+15.5%	Turns Negative
Consumer Spending (y/y Change in Total PCE Price Index)	+3.5%	Turns Negative

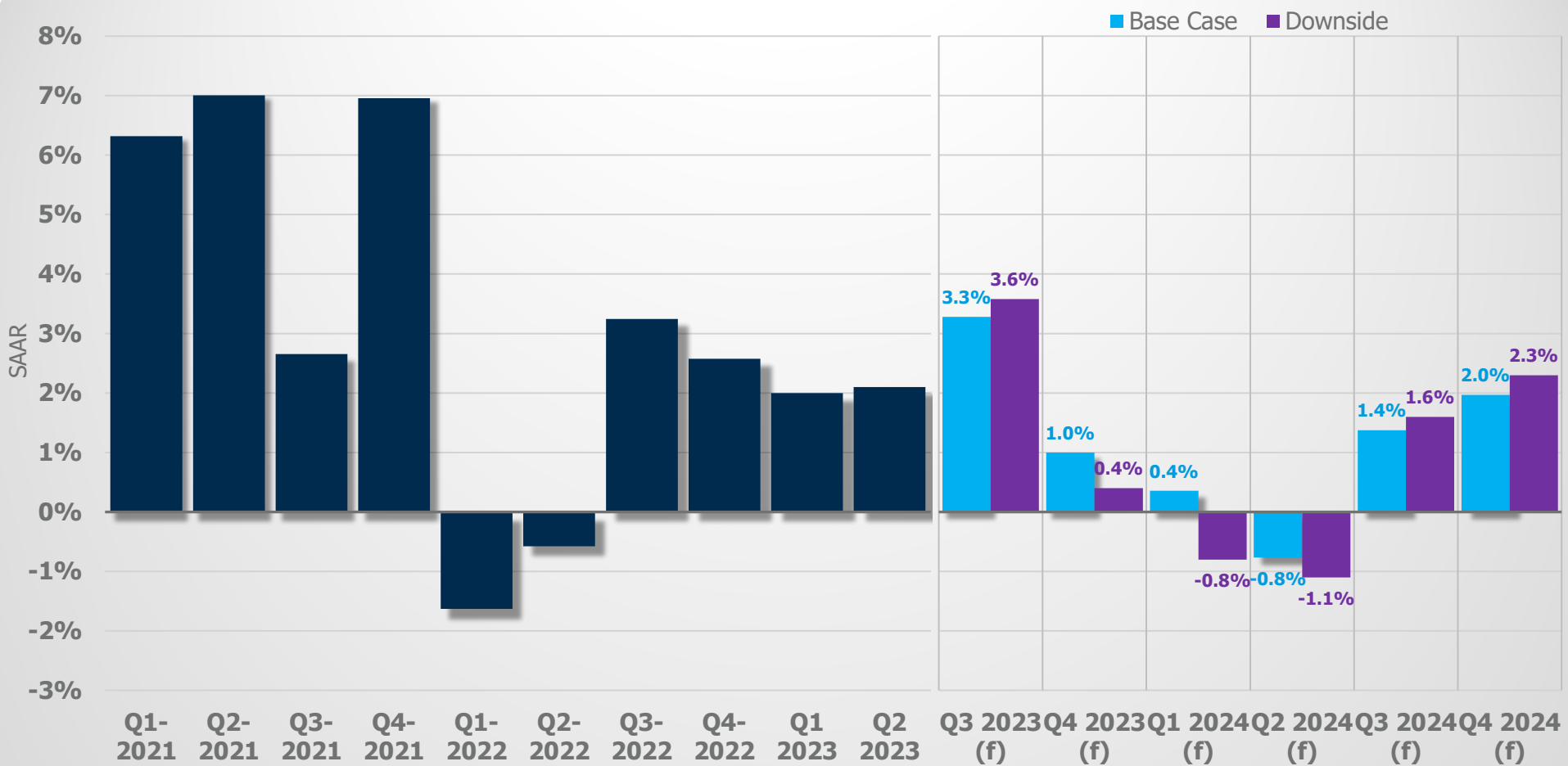
HOW TO IDENTIFY A RECESSION



Item	Stop Here	Press Ahead
ECONOMIC GROWTH	Growth is tapering & consumer spending is moderating	Q3 GDP will be very strong; real wages are rising & consumer demand is strong
INFLATION	CPI is cooling; supply constraints are easing; goods inflation as disappeared; & shelter costs are softening	Inflation is still high! Core CPI is “sticky”; shelter costs aren’t dropping as fast as we want. A tight labor market pushes service prices up
EMPLOYMENT	Payroll growth has slowed & job openings are down.	Job creation is still solid; jobless claims are still low; & the recent rise in the jobless rate was due to rising labor force participation
FINANCIAL CONDITIONS	Borrowing costs are up & lending is flat	Credit spreads are still narrow & private lenders are stepping up

THE FED “CONUNDRUM”





Source:
 Windermere Economics' forecast using BEA historic data
 % change from preceding period

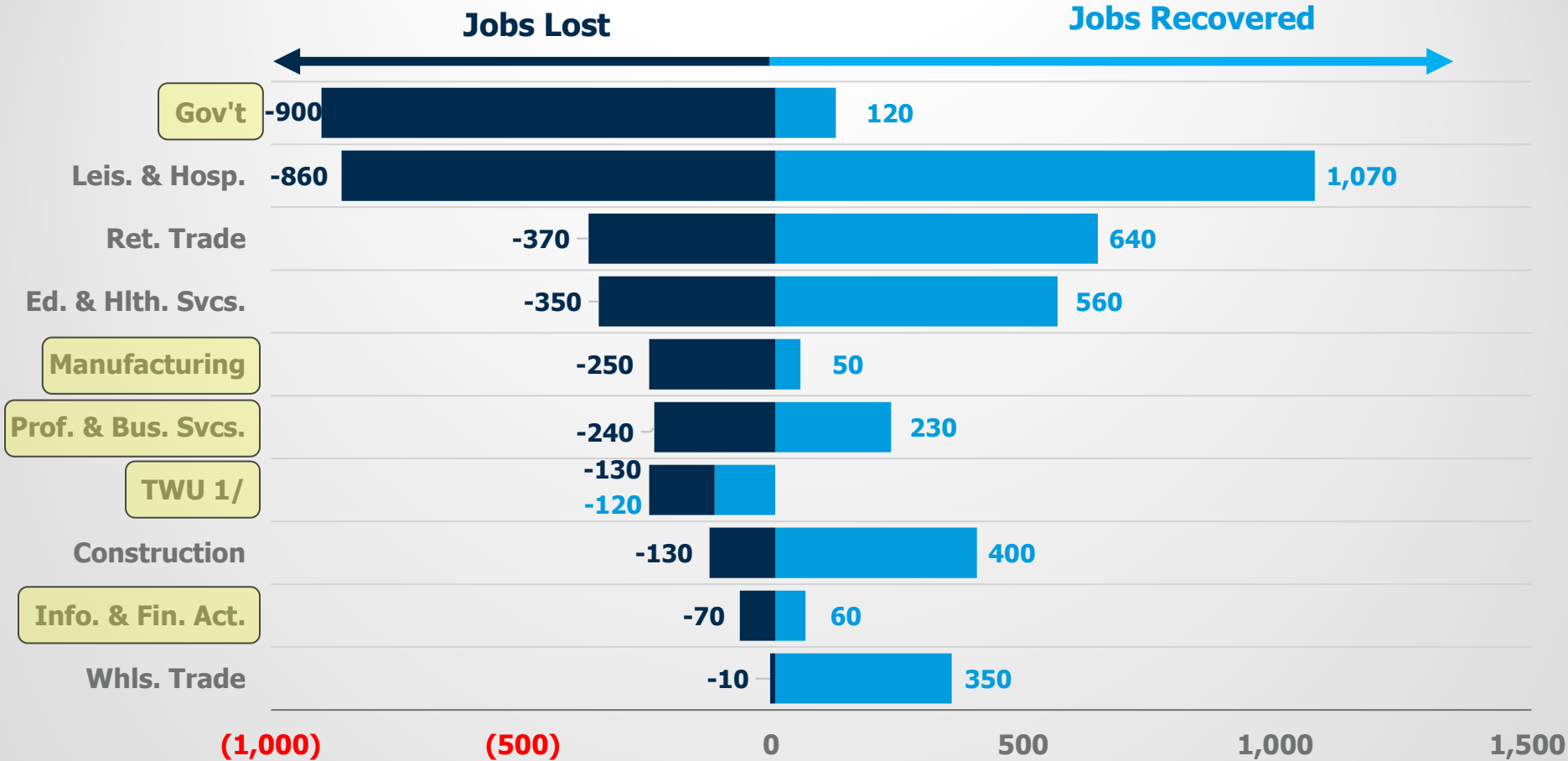
U.S. REAL GDP

- I am putting odds of a recession in the next 12-months at around 35% (even with tighter credit conditions that hurts small businesses);
- The Autoworkers strike is unlikely to “tip the scales”;
- But resilience in the labor market is starting to wanes as the economy slows; & the bottom line is...
- The Fed continues walking a tightrope: Do too little & inflation remains elevated. Do too much – hello recession!

LEWIS COUNTY LABOR MARKET

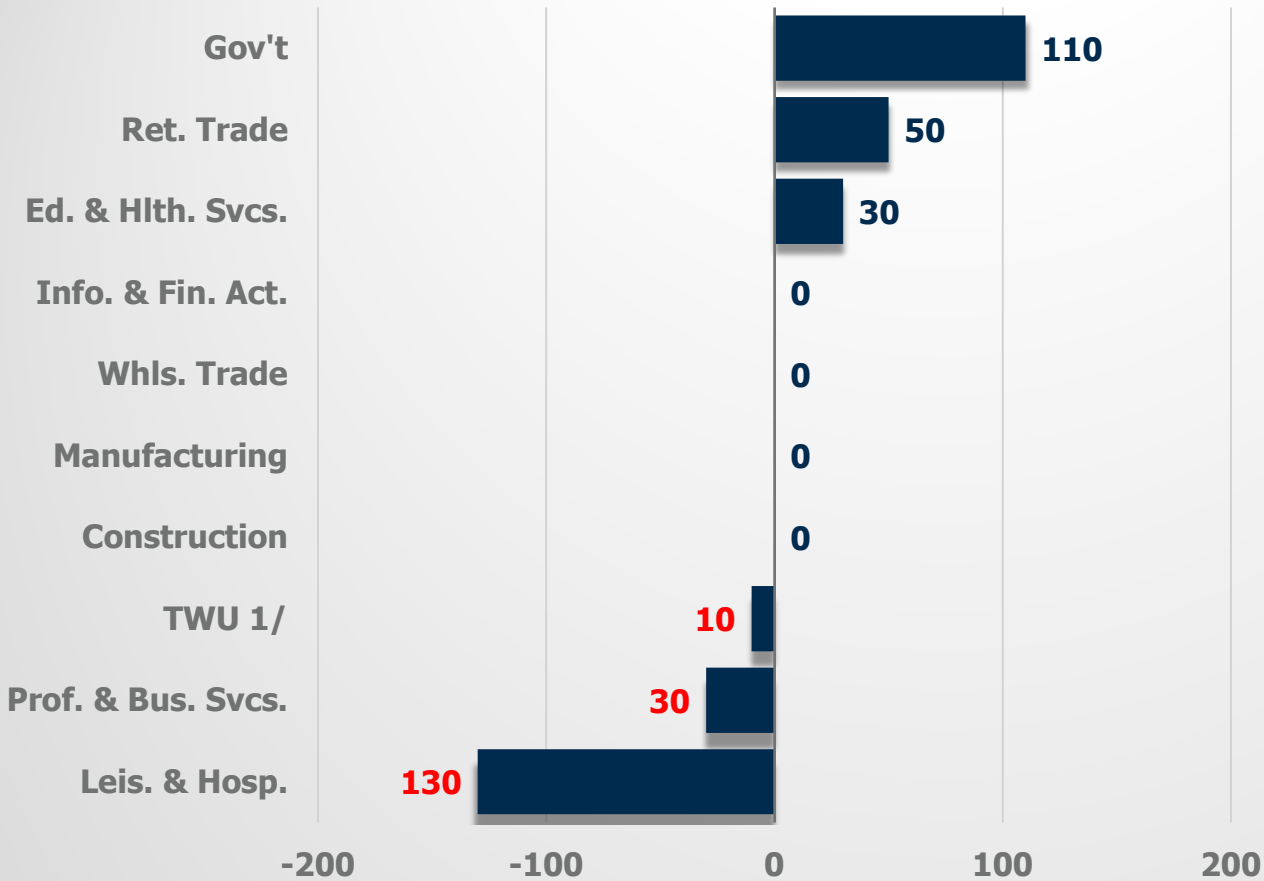


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JOB LOSSES/RECOVERY BY SECTOR

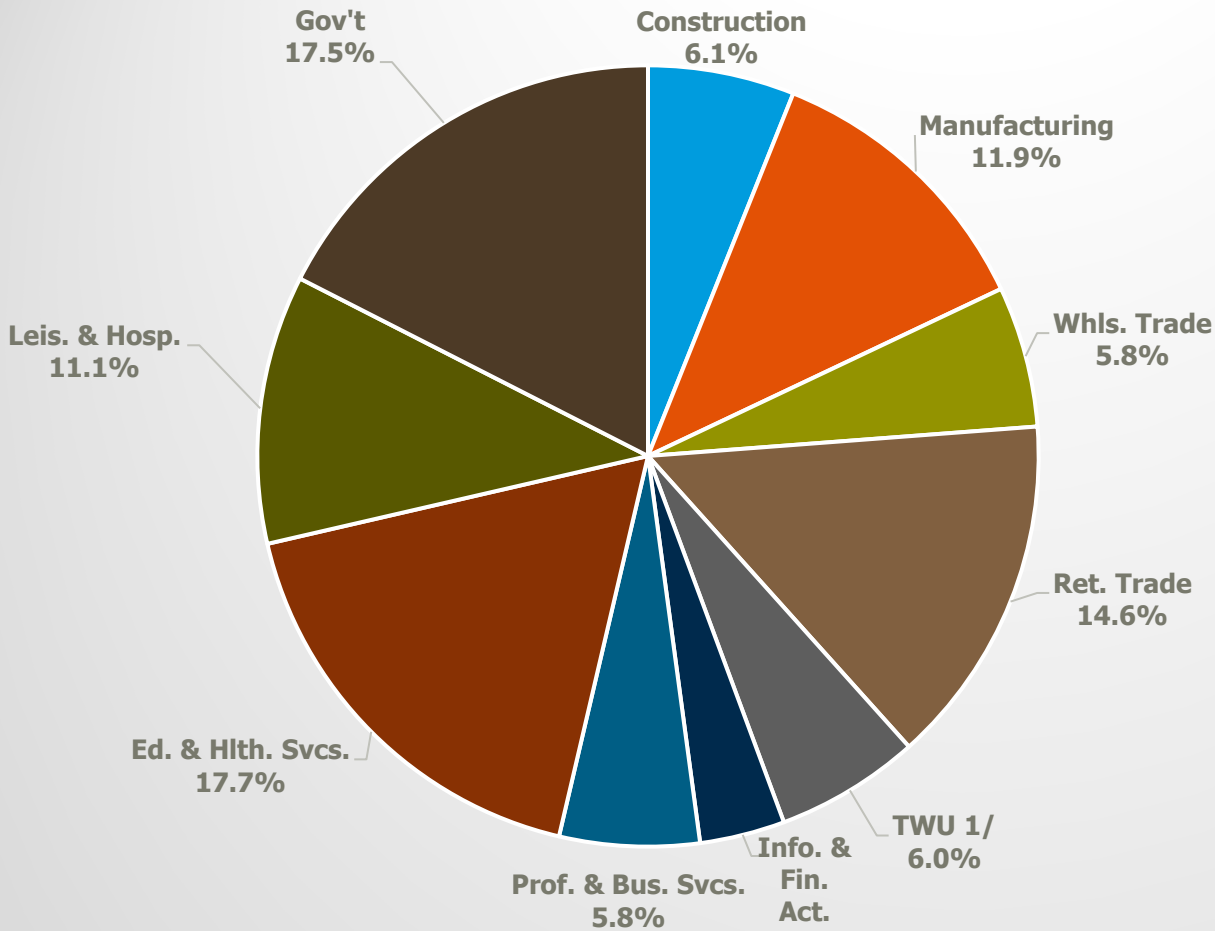




Bifurcated Growth
 But the County still added jobs

Source:
 Windermere Economics'
 analysis of WA ESD
 data; data thru' 08/23
 1/ Transportation,
 Warehousing & Utilities

Y/Y CHANGE IN SECTORAL EMPLOYMENT



Fairly Evenly Distributed

However, slow growth in the *Government & Manufacturing* sectors is holding the county back

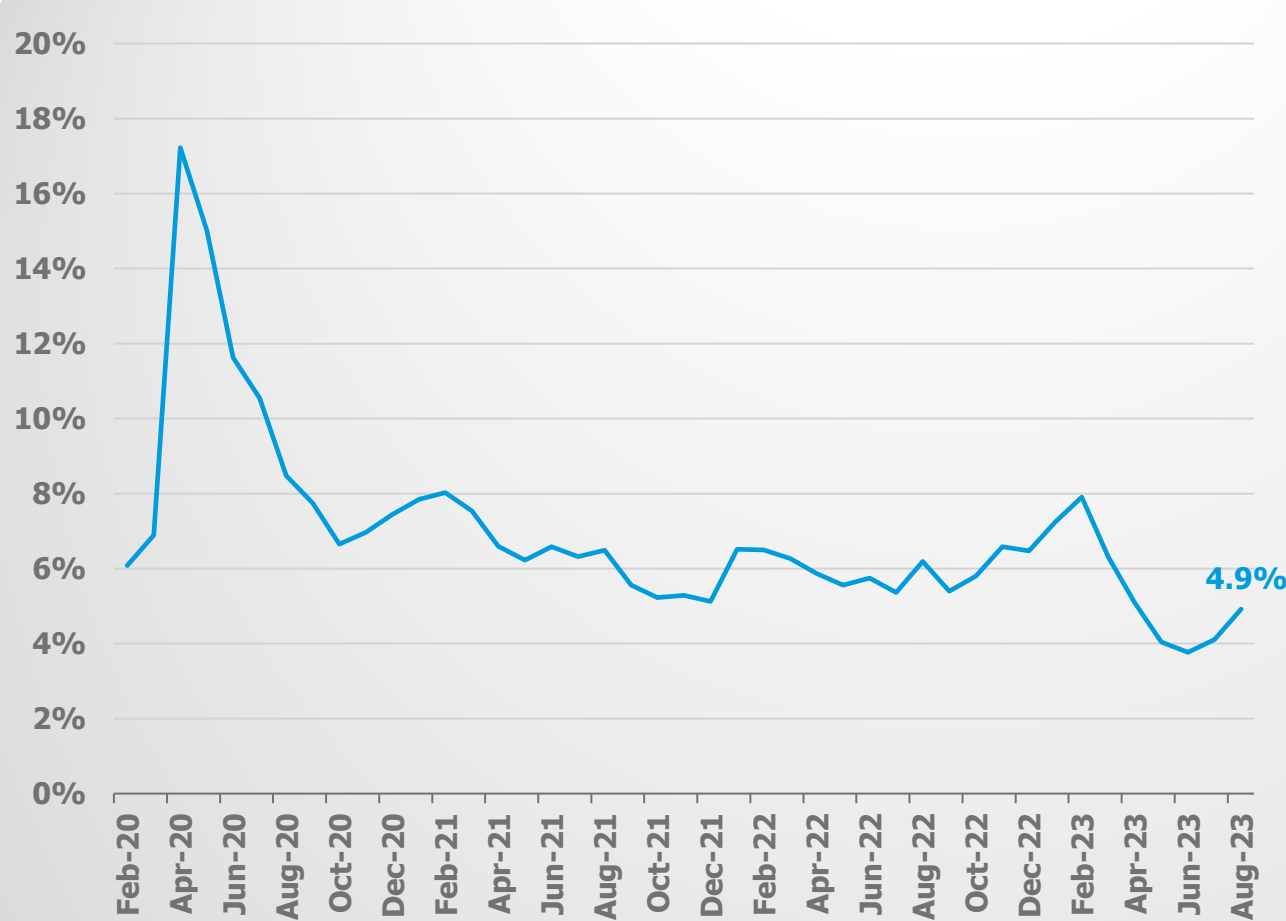
Source:

Windermere Economics' analysis of WA ESD data; data thru' 08/23
1/ Transportation, Warehousing & Utilities

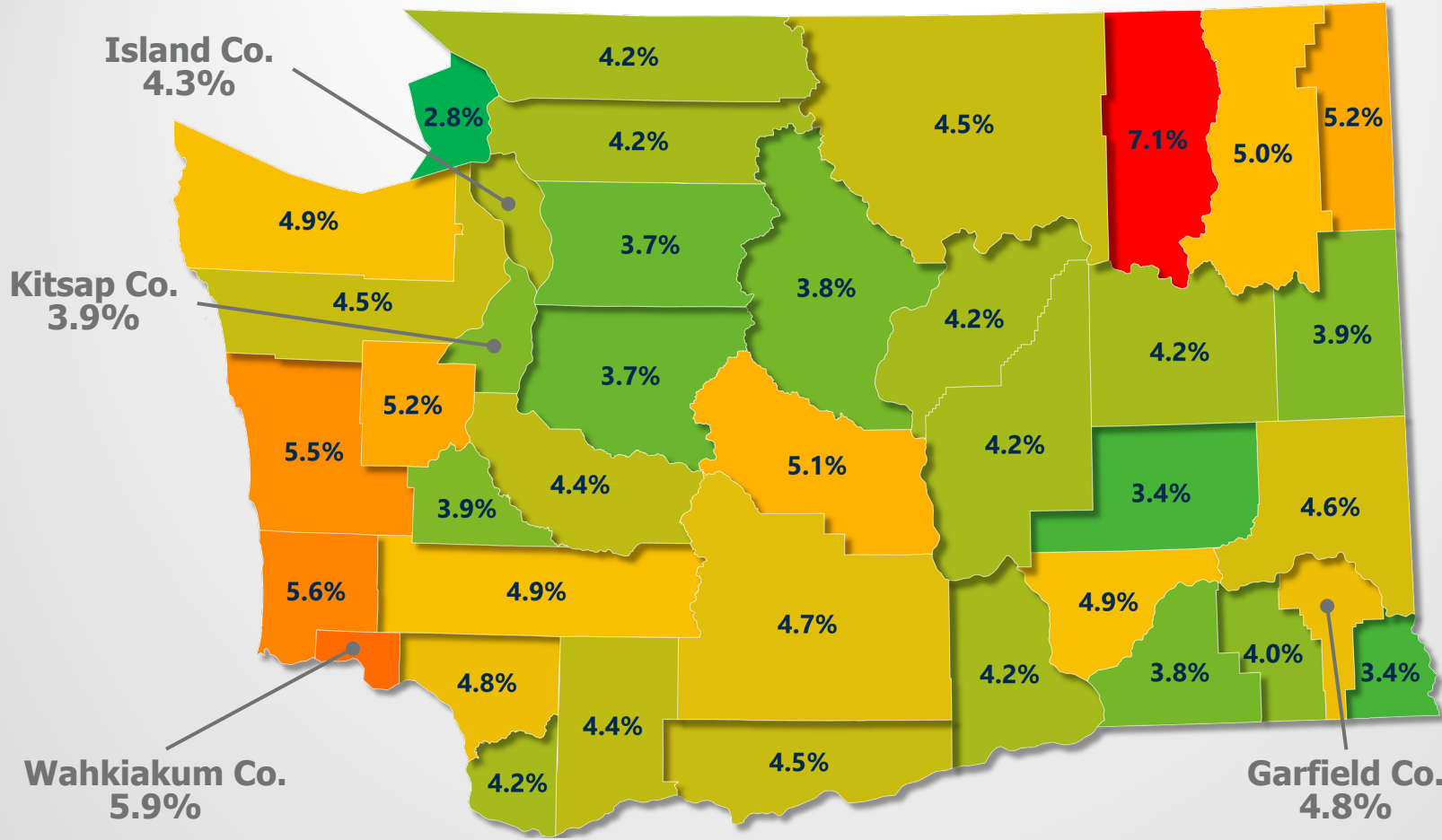
EMPLOYMENT DISTRIBUTION



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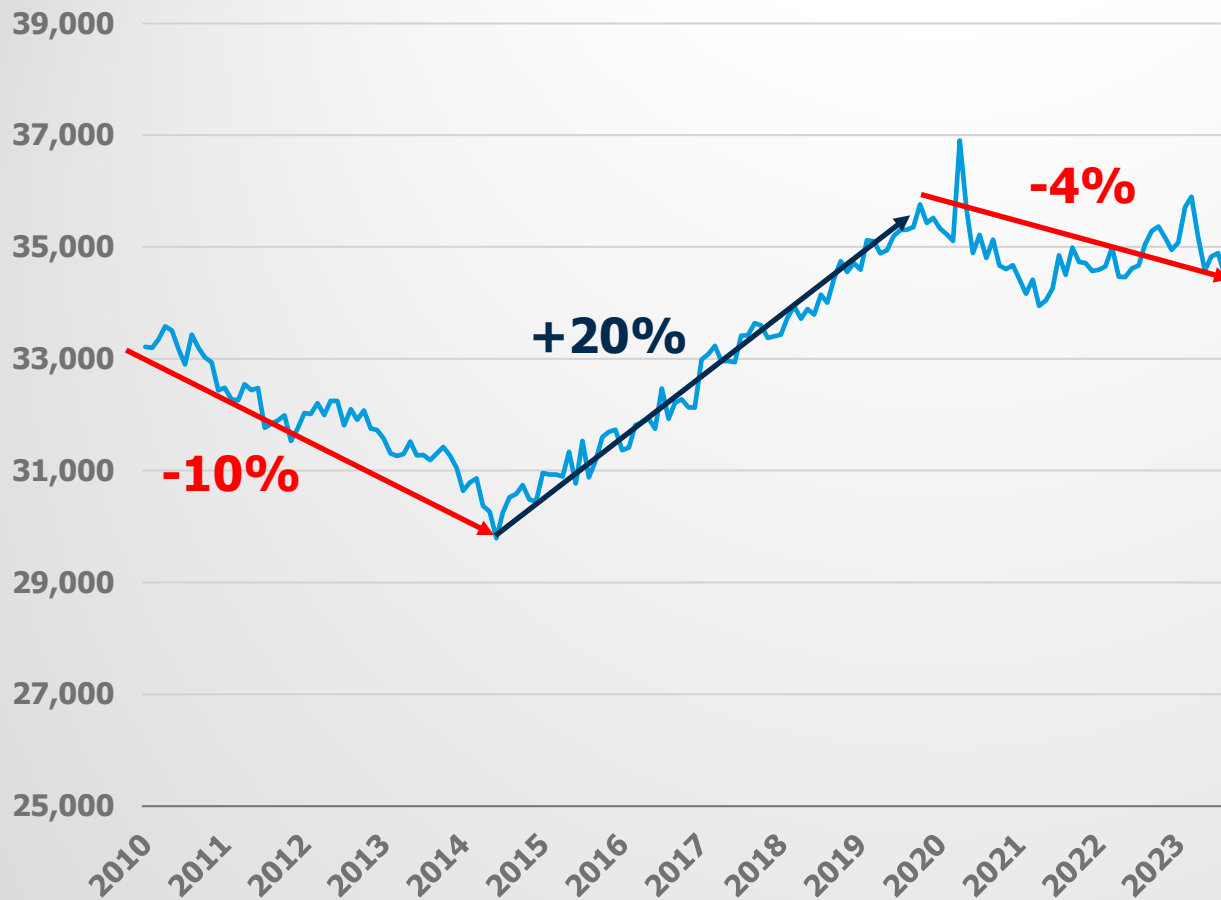
The Jobless Rate is Ticking Up
 But remains well below the 30-year average of 9.0%.



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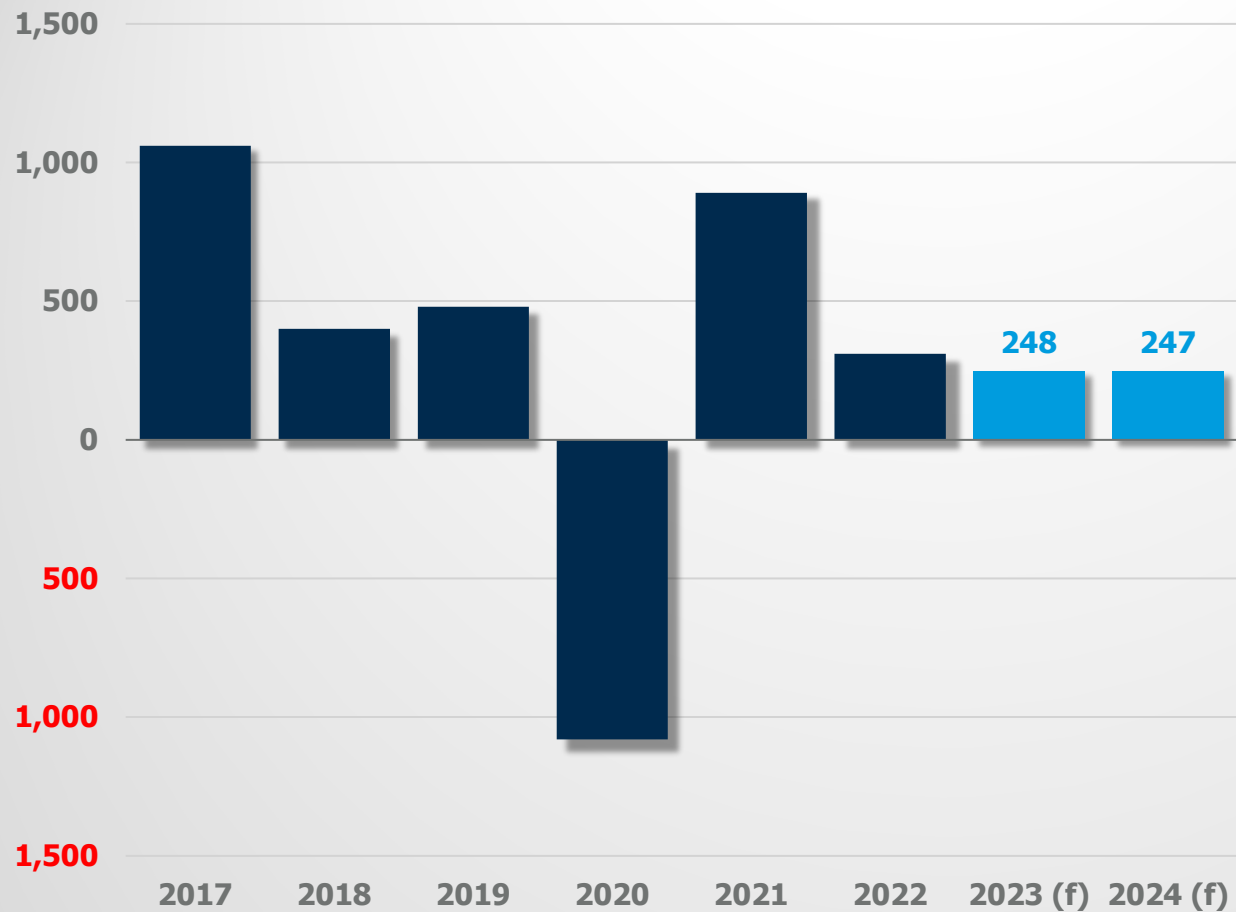
WA UNEMPLOYMENT RATES (08/23)





The Labor Force is Not Expanding

The labor force has shrunk by 600 persons since the start of the pandemic. Its hard to hire if there aren't any workers



Expect Employment Growth to Remain Positive

Even with the possibility of a national recession, the county should still see jobs rising by 0.9% in 2024

THE HOUSING MARKET

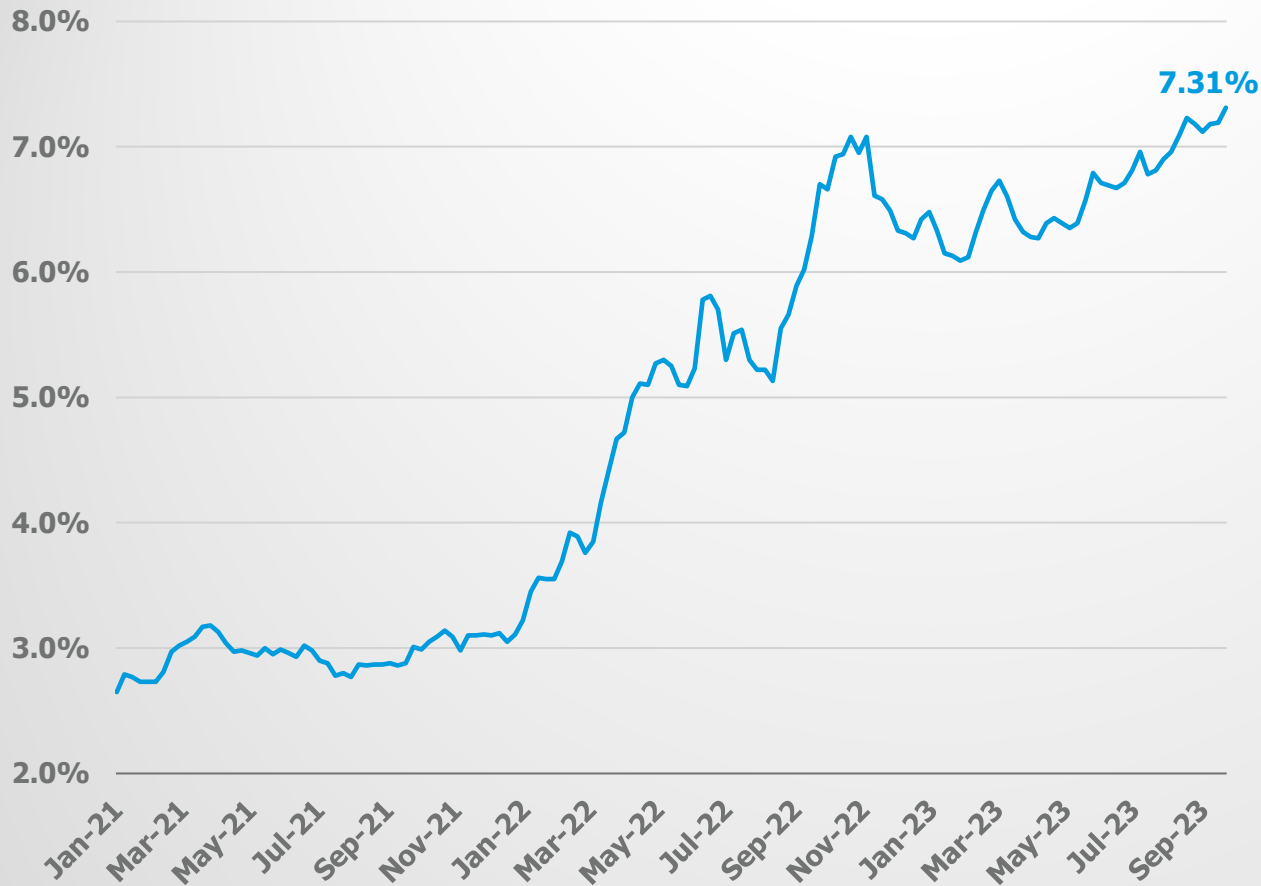


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MORTGAGE RATES



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Rates Can't Fall Until the Economy Softens

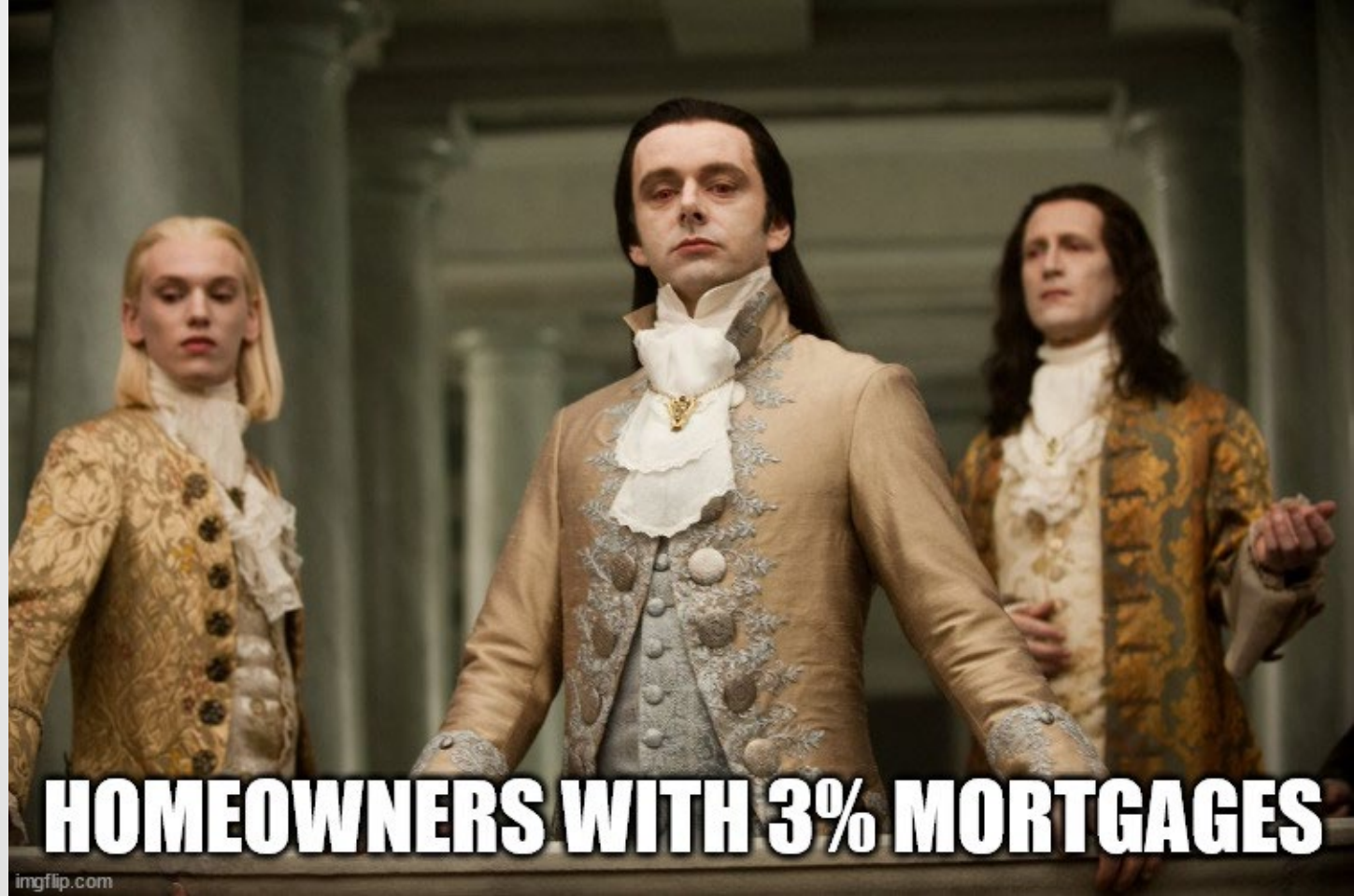
The bond market remains skeptical that the economy is actually slowing – which it is!!!

Source:
Freddie Mac; weekly
rate for conforming
loans, ex-points

30-YR. WEEKLY AVERAGE RATE



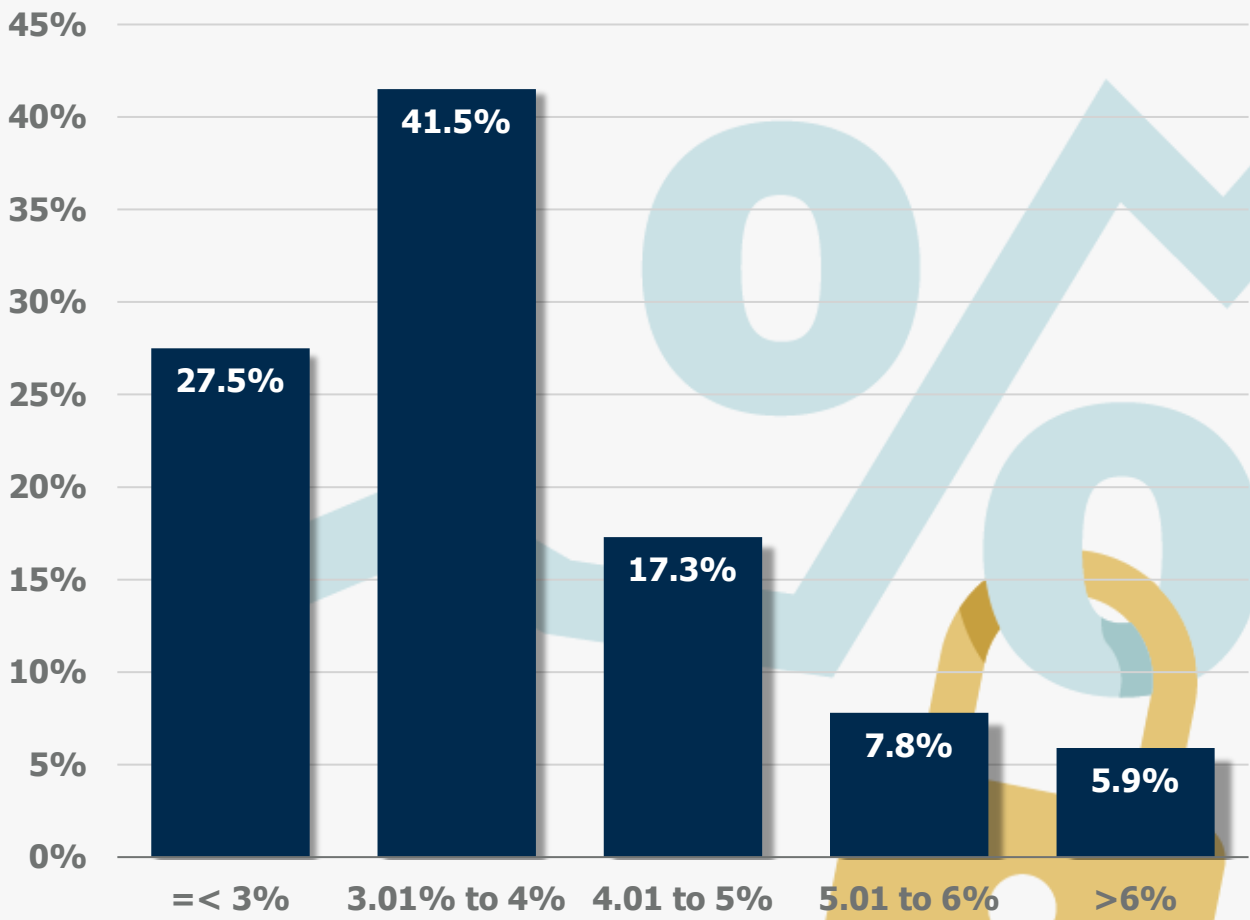
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imgflip.com



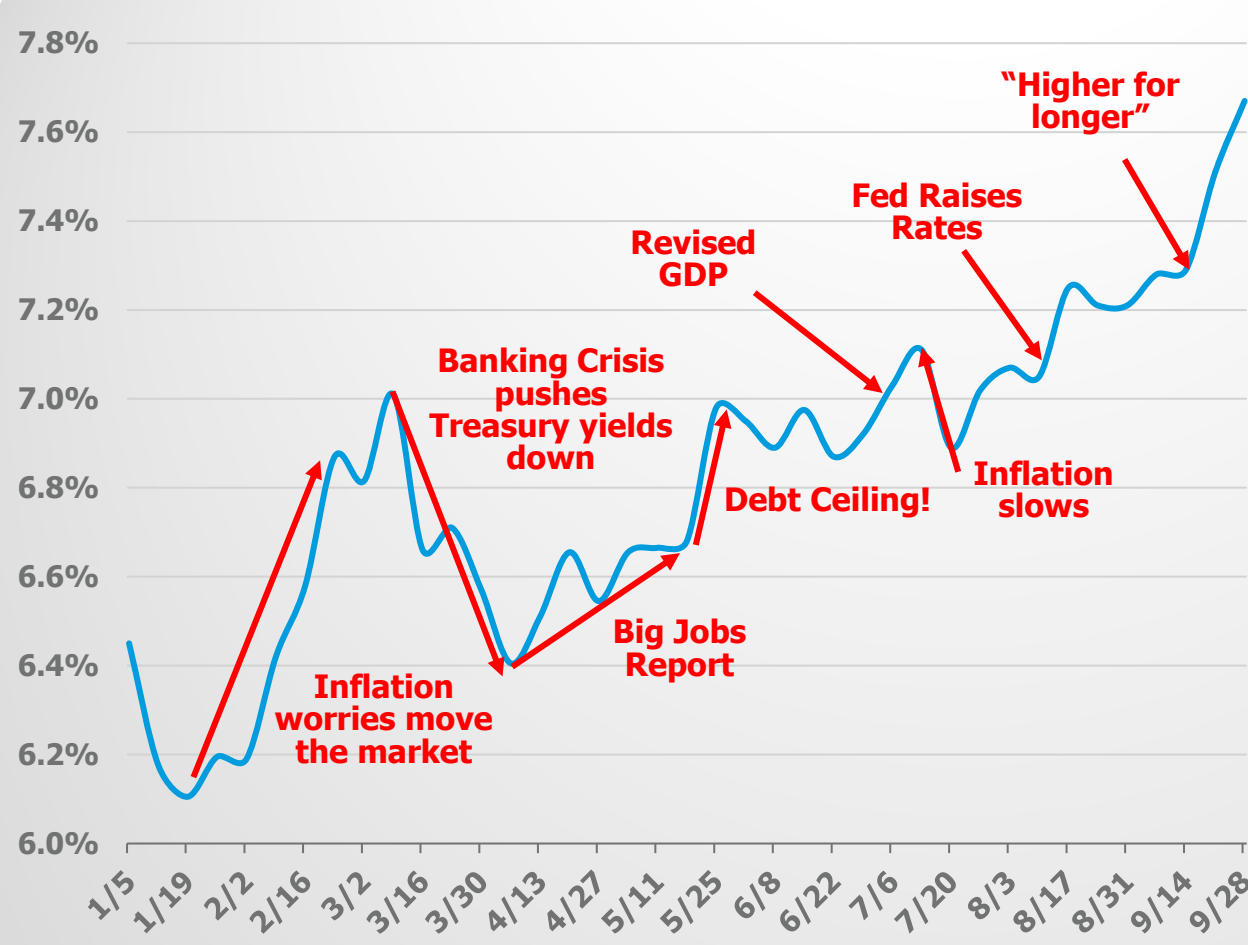
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Washington State is Similar
 86.3% of mortgaged homeowners have a rate below 5%. This will likely lead to it taking longer than the nation before sellers decide to relinquish their current rate

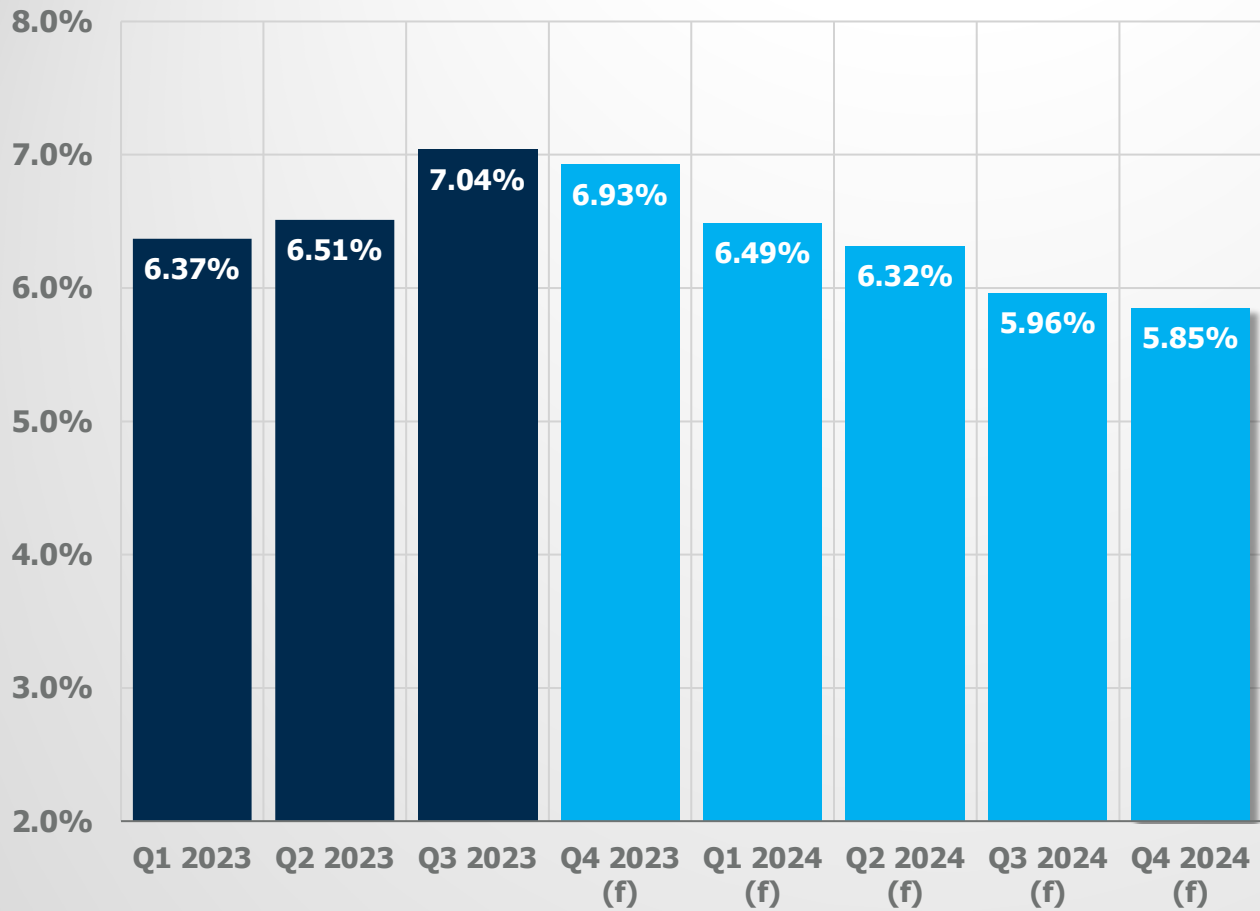
Source:
 FHFA National
 Mortgage database;
 Q1-2023

RATES FOR OUTSTANDING MORTGAGES (WA)



Rates Trying to Find Direction

Bonds are no longer the "grown-ups" in the room! They are overreacting to economic data. It's not good enough that growth is slowing – it's not slowing fast enough!



Rates Peaked Last Quarter

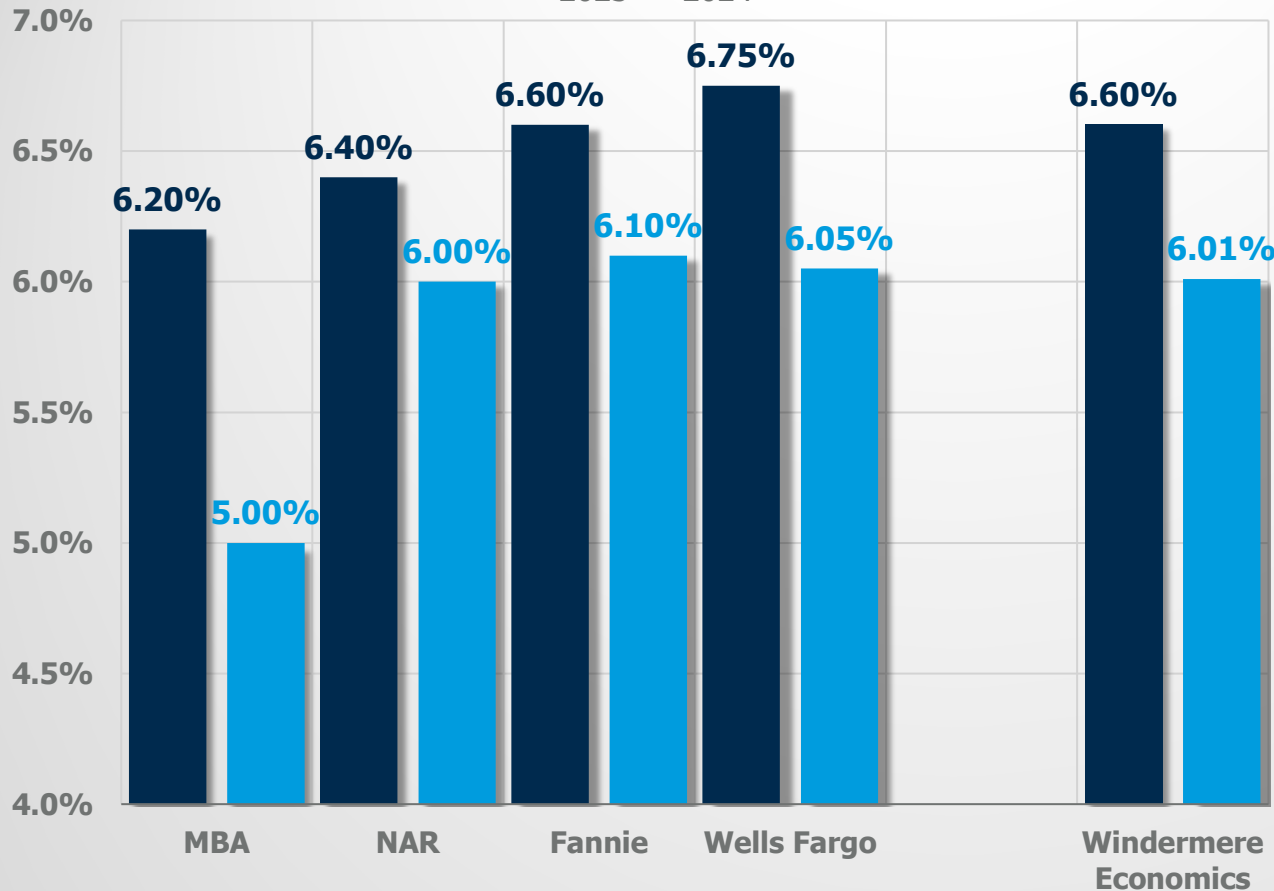
There will still be periods of turbulence, but as the US economy starts to slow, rates will start trending lower BUT..... Don't expect a return to sub-3% financing

Source: Freddie Mac history & Windermere Economics forecasts for a conventional 30-year mortgage

30-YEAR MORTGAGE RATE FORECAST



■ 2023 ■ 2024

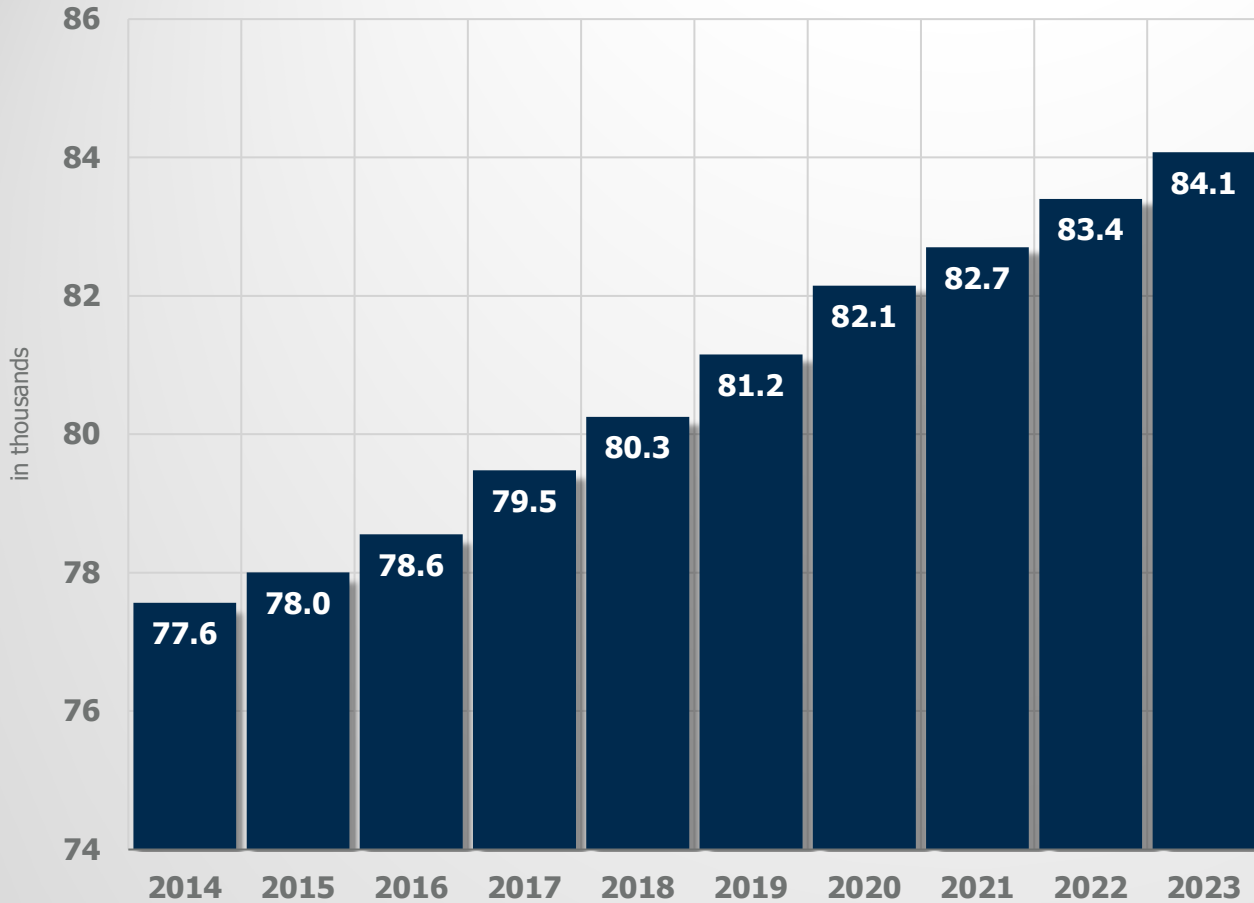


**& My Colleagues
Generally Agree**
The consensus is that
rates will be lower in 2024

LEWIS COUNTY DEMOGRAPHICS



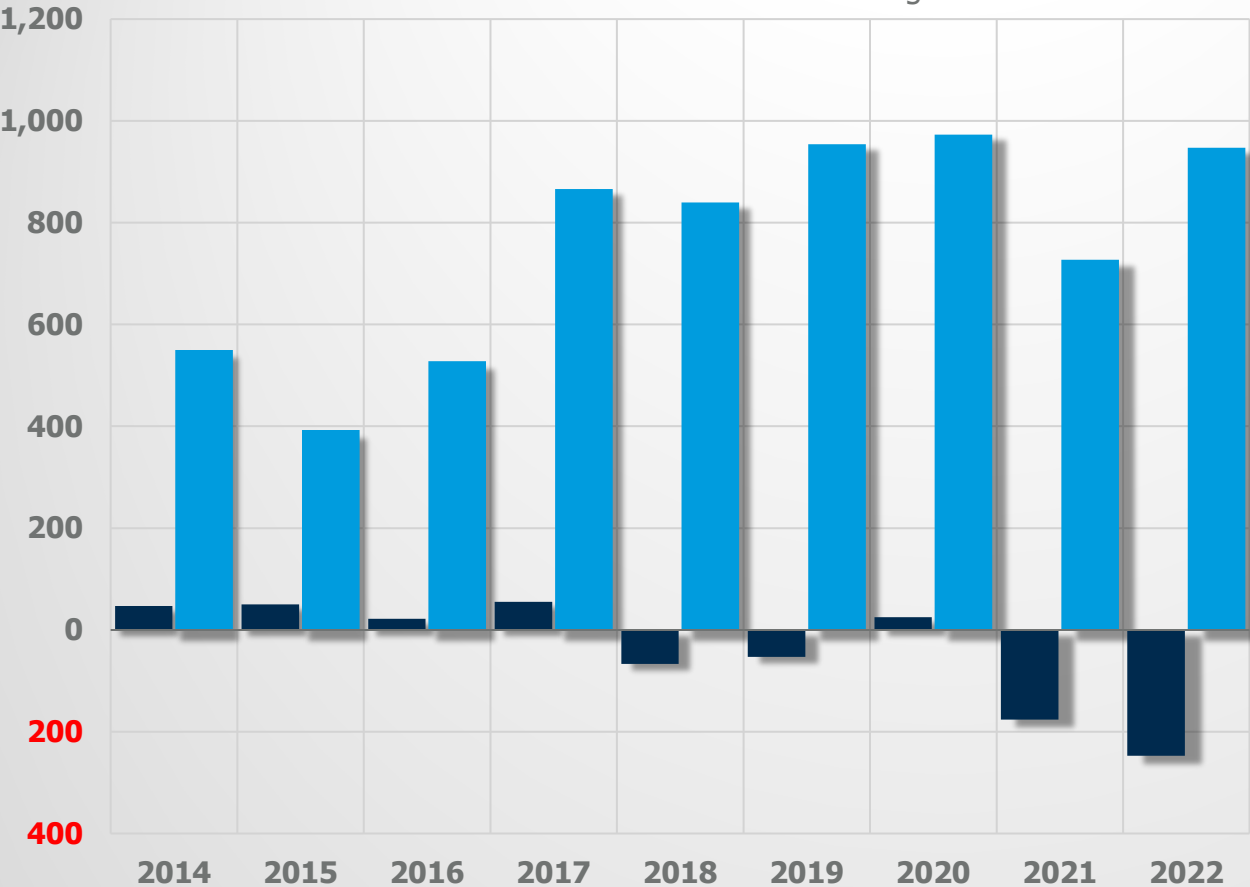
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The County Population Continues to Grow
Total population has risen by 9.2% over the past decade

■ Natural Increase

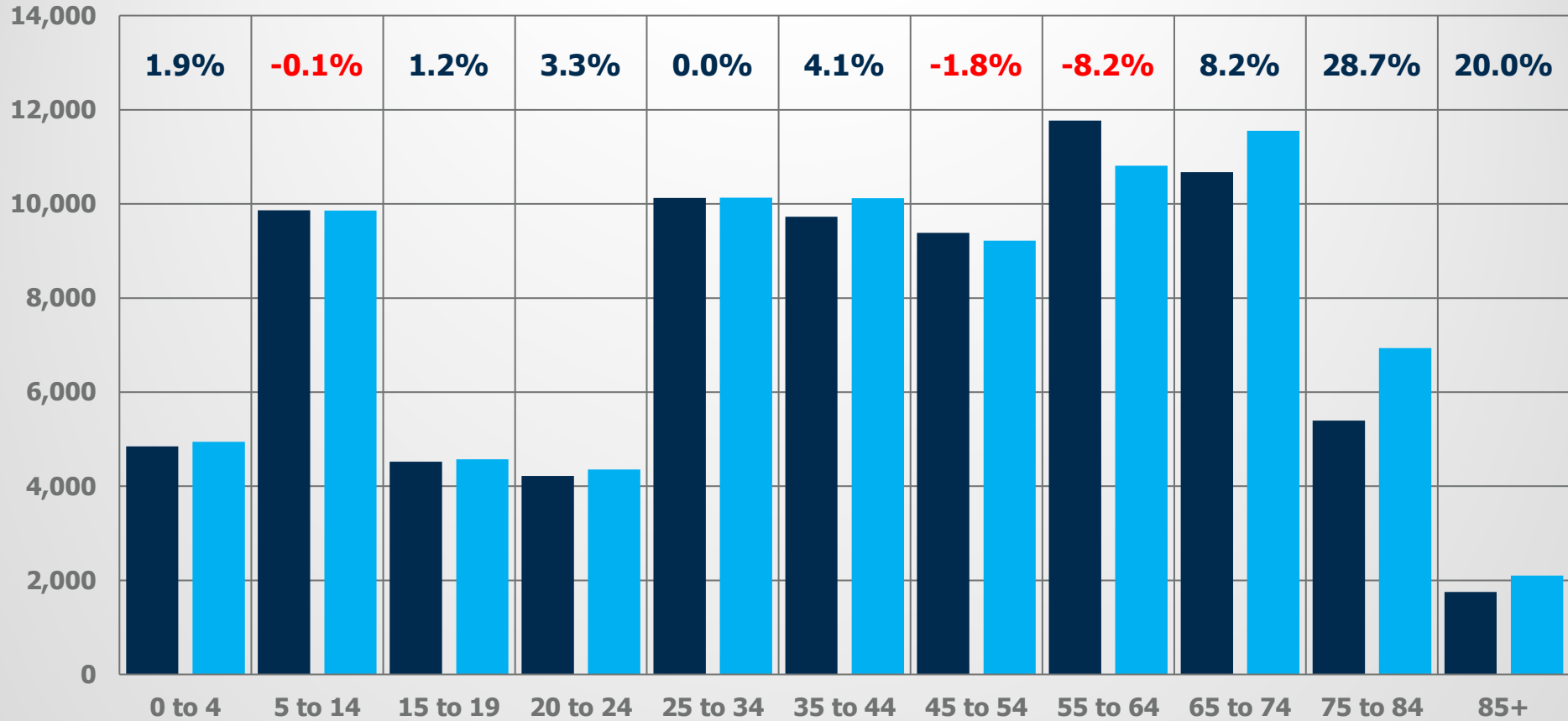
■ Net Migration



But Growth is Coming From Outside

All growth over the past decade has come from migration, and not "natural" growth & 90% from inside the U.S.

■ 2022 ■ 2027 (f)



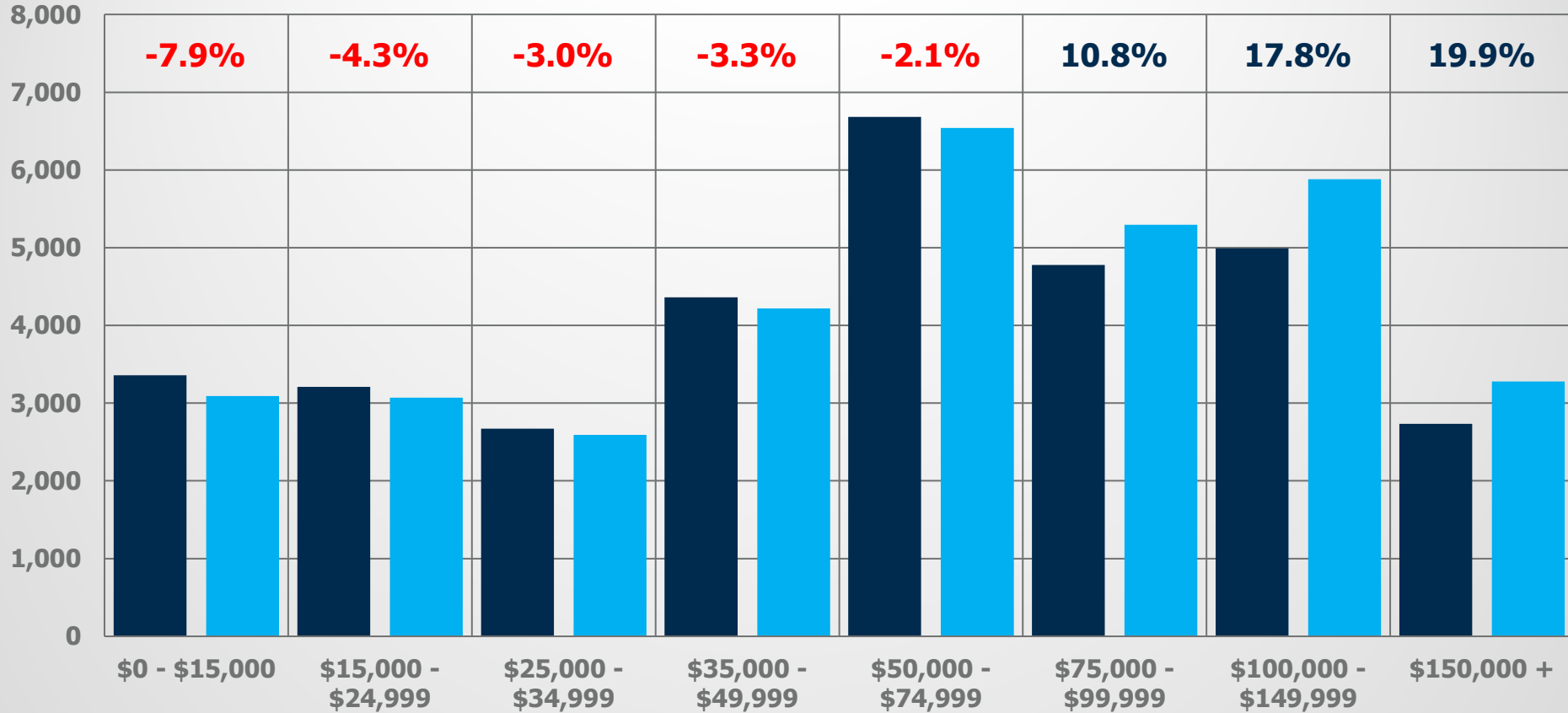
Source:
Windermere Economics'
forecasts of Census
Bureau baseline data

POPULATION BY AGE



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■ 2022 ■ 2027 (f)



Source:
Windermere Economics'
forecasts of Census
Bureau baseline data

HOUSEHOLDS BY INCOME



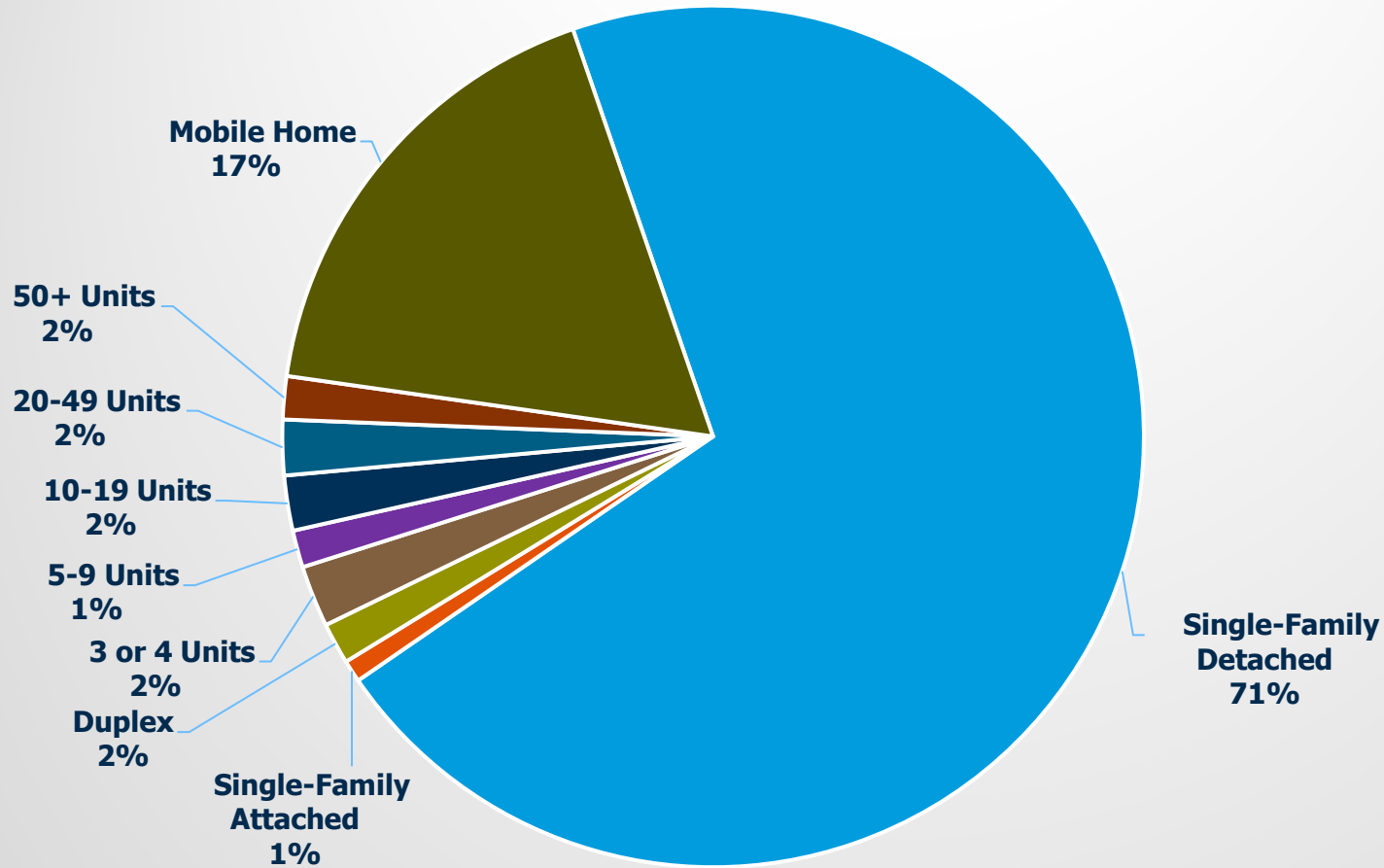
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THE LEWIS COUNTY HOUSING MARKET



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Makeup of Housing Supply (2022)

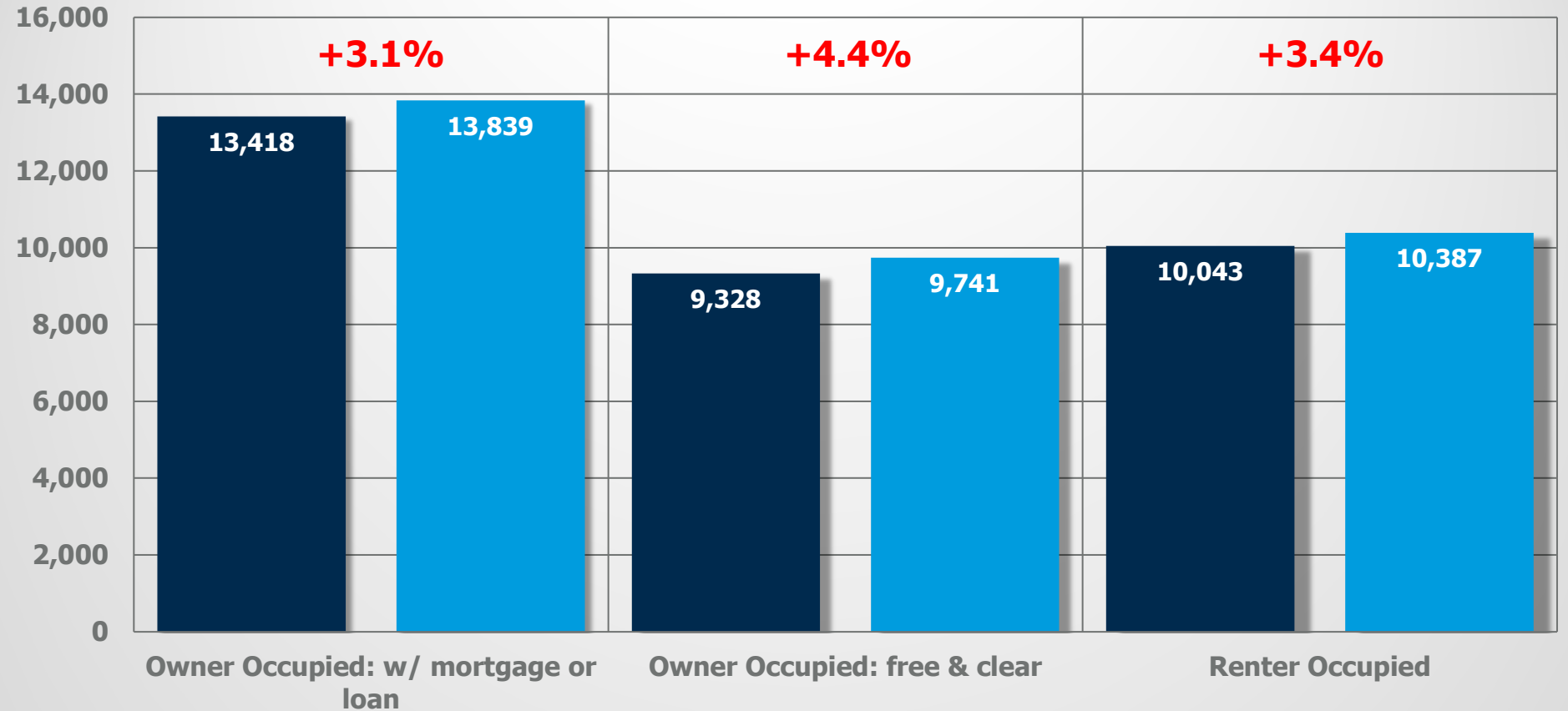


Source:
Windermere Economics analysis of
Census data



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■ 2022 ■ 2027 (f)



Source:
Windermere Economics'
forecasts of Census
Bureau baseline data

OWNERSHIP TENURE & FORECAST



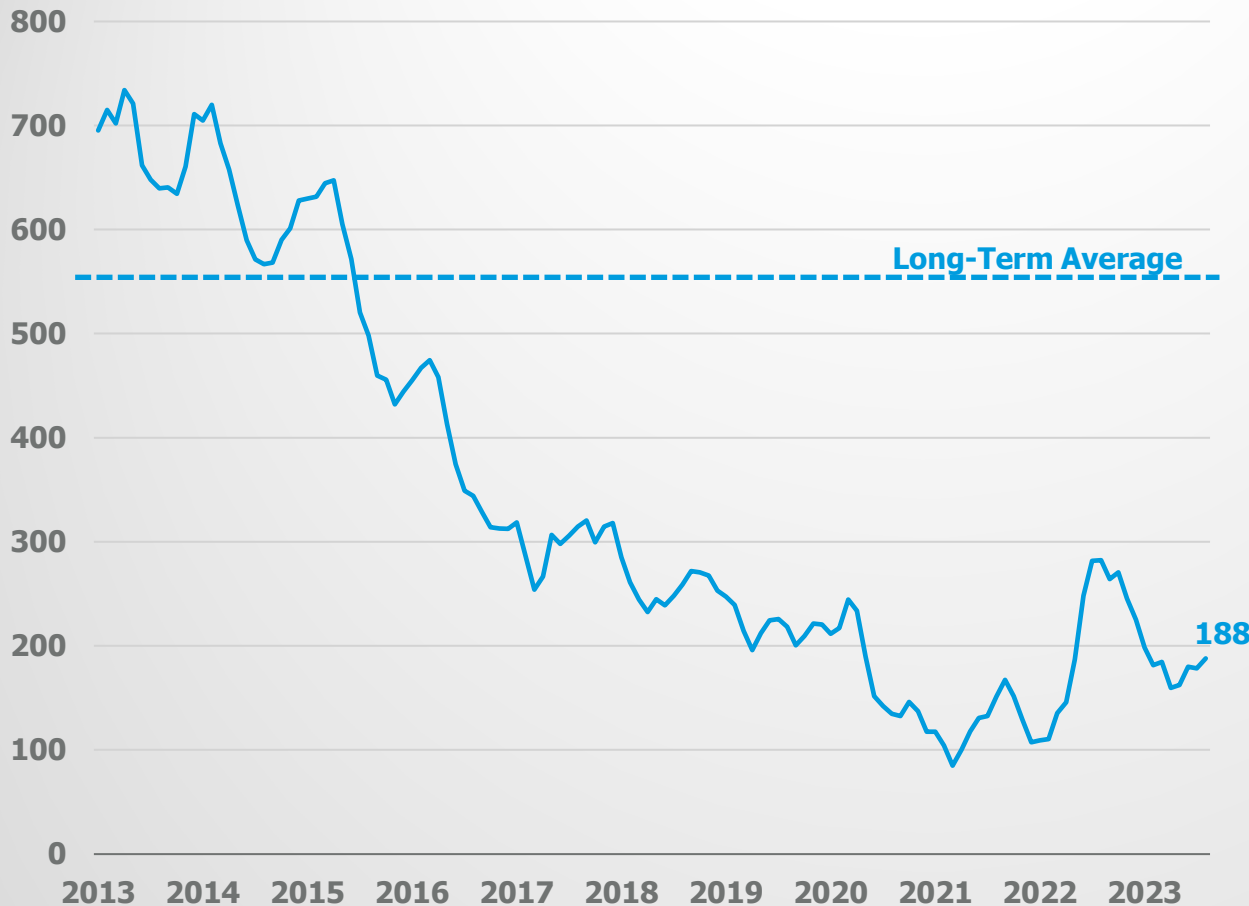
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RESALE HOUSING

(SINGLE-FAMILY UNITS)



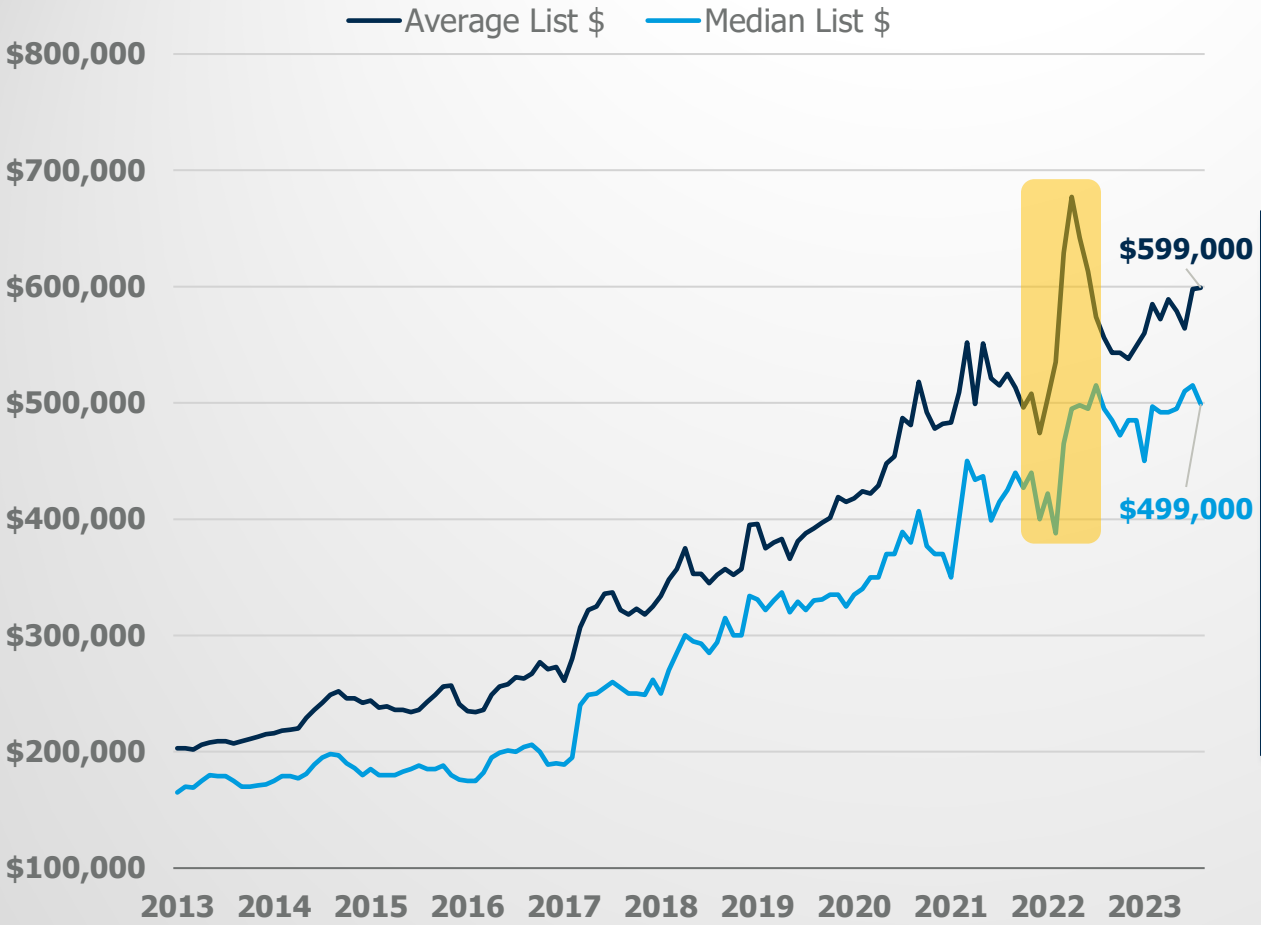
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The Market is Significantly Out of Balance
 Listing activity in August was 33% lower than August '22

Source:
 NWMLS w/Windermere
 Economics' seasonal
 adjustments;
 LTA: 552

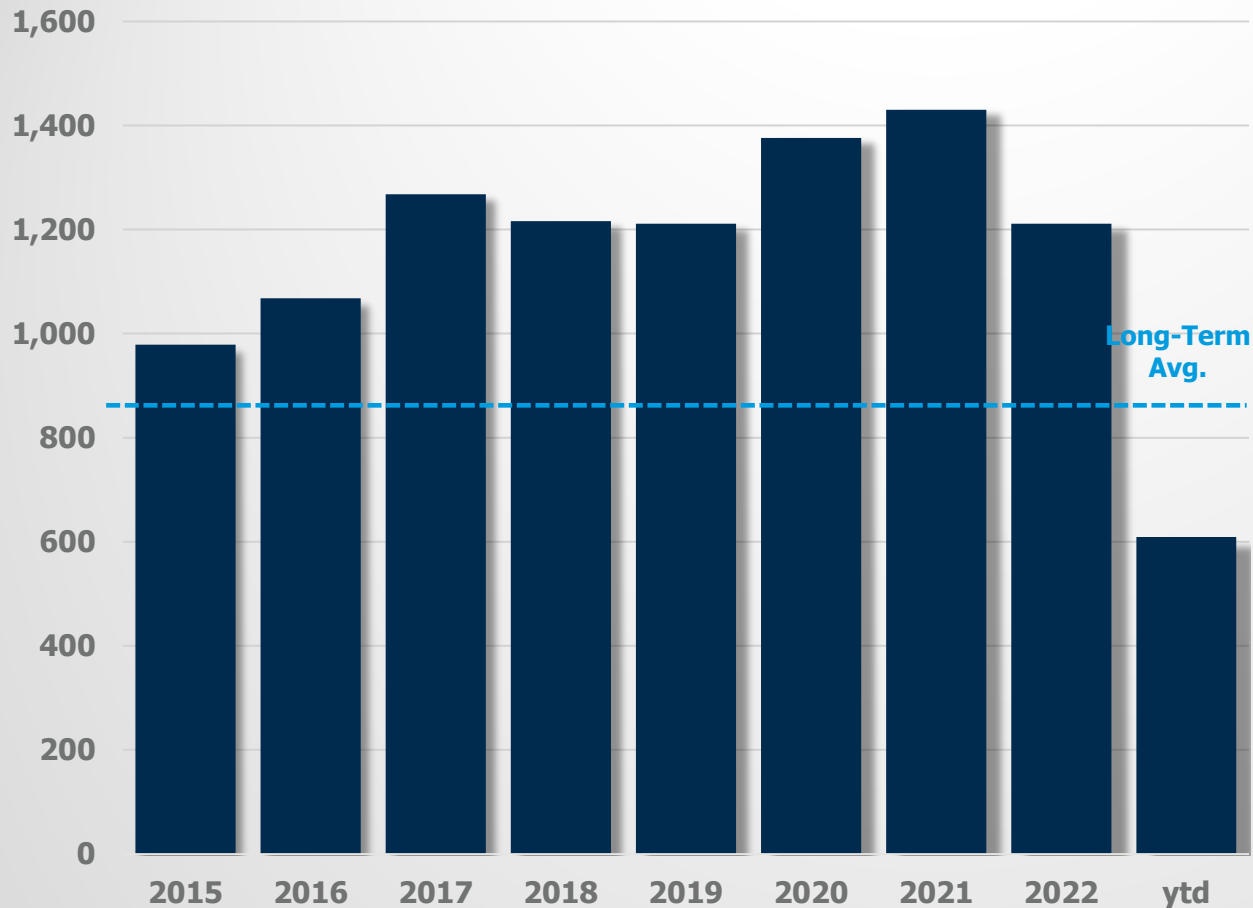
LISTING ACTIVITY



Home Sellers are a Little Less “Bullish”

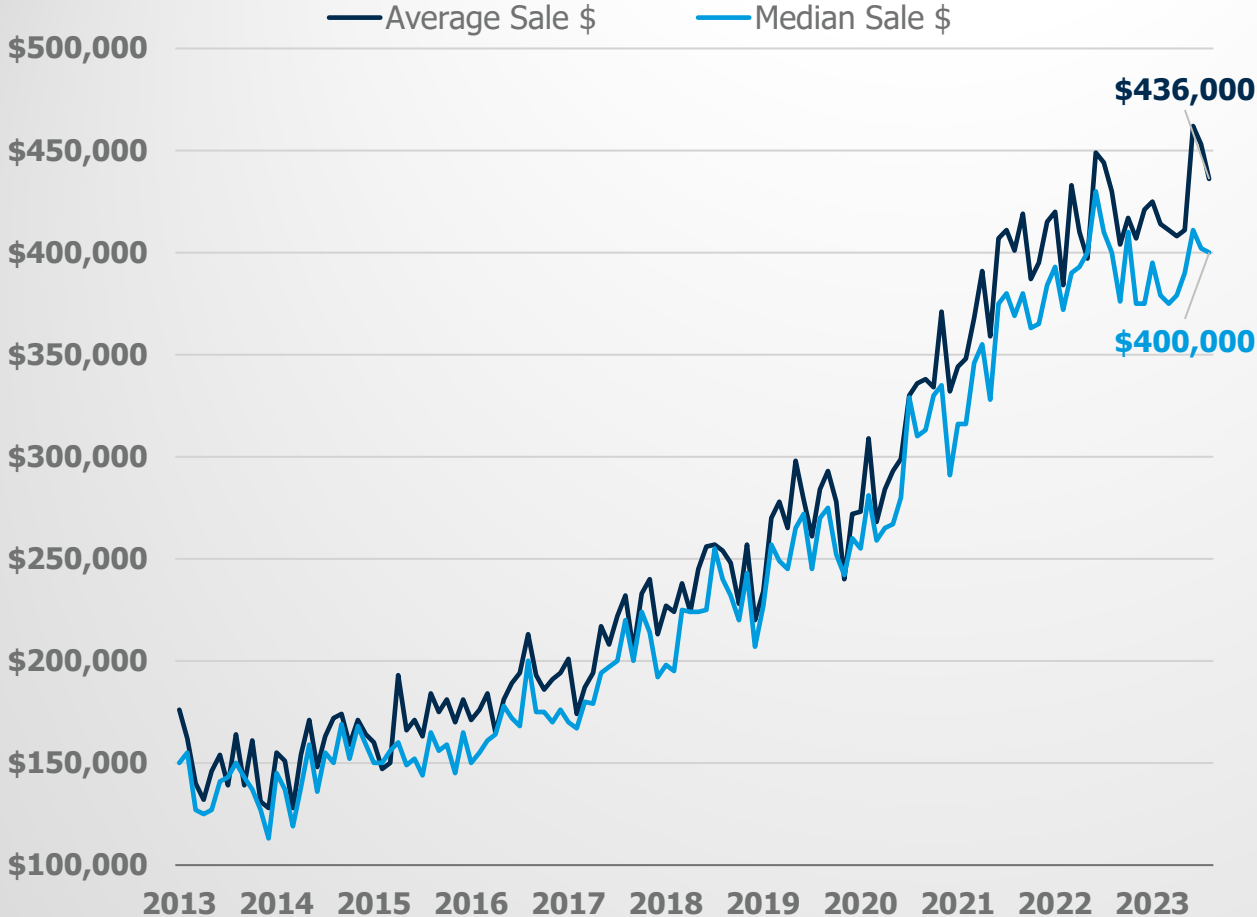
Average list prices are up 7.7% y/y, but are still down 11.5% from their 2022 peak.

Median prices, however, are up 0.2% from peak, & are 0.8% higher y/y

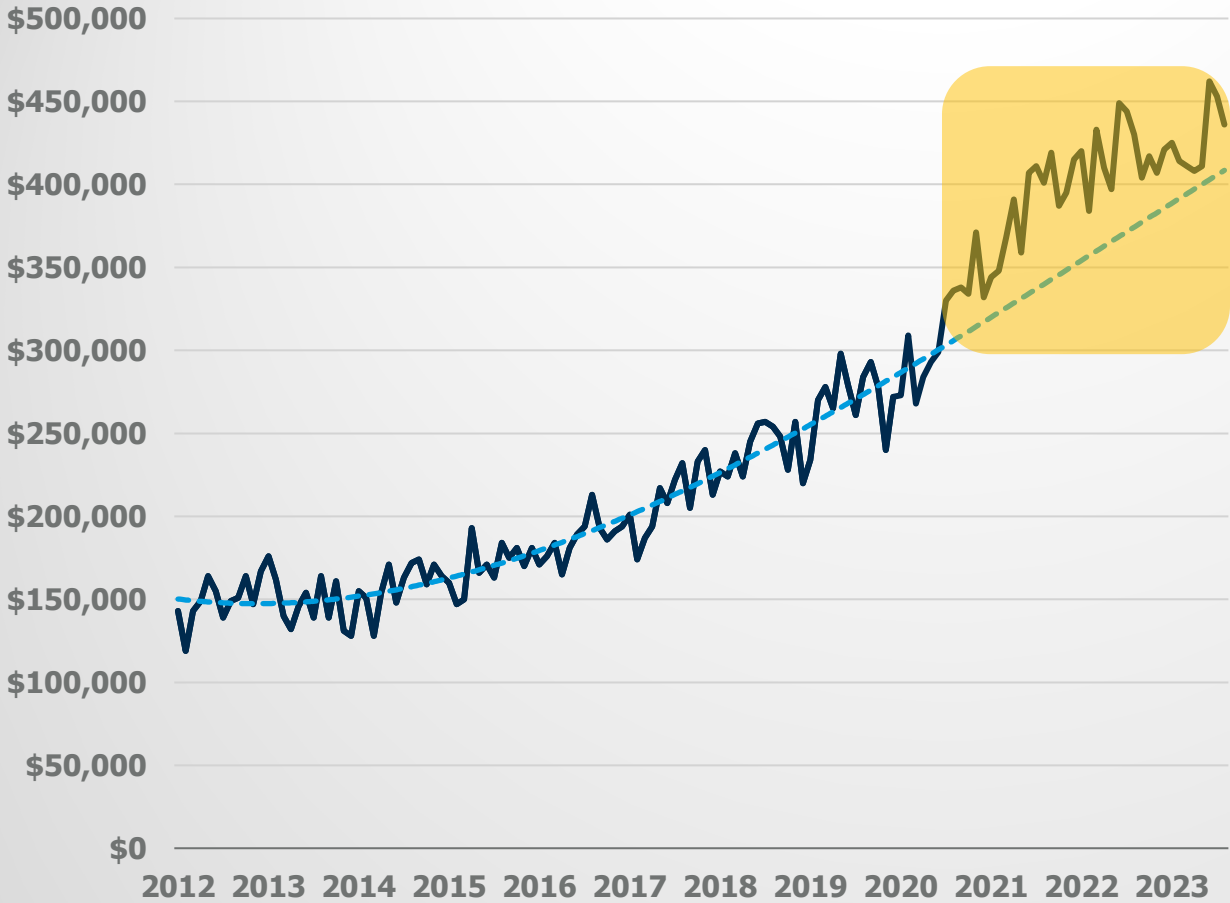


Sales Slow on Inventory Limitations

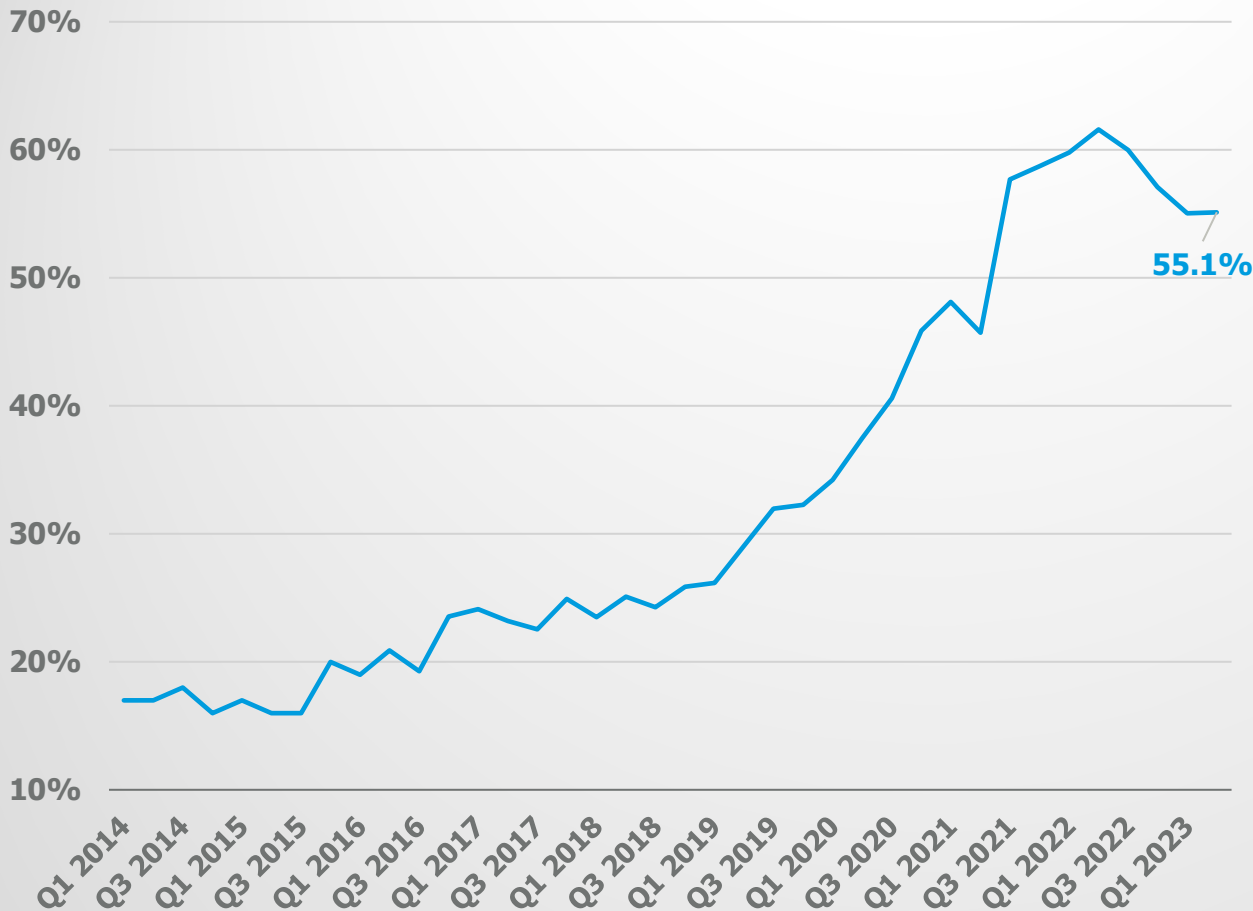
2022 sales were 15% below 2021 levels and ytd sales are off by 26% from the same period in 2022



Sale Prices are Recovering
Average prices are down by only 1.8% from their 2022 peak, but median sale prices are 7% lower



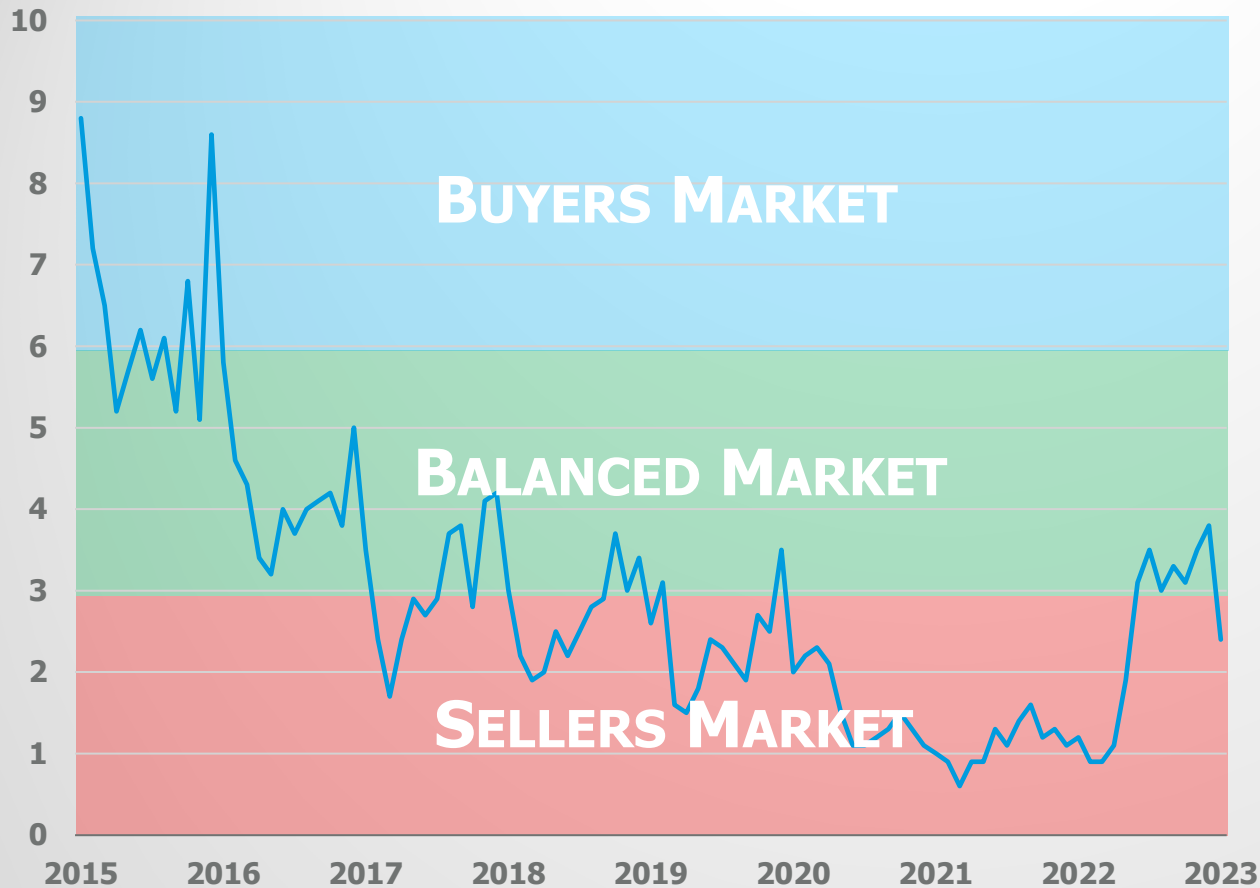
Prices are Correcting
& are unlikely to fall much further before stabilizing and returning to the long-term trend in price growth



Owners Hold Significant Equity
 Most homeowners are in a remarkably secure financial position when it comes to their homes.

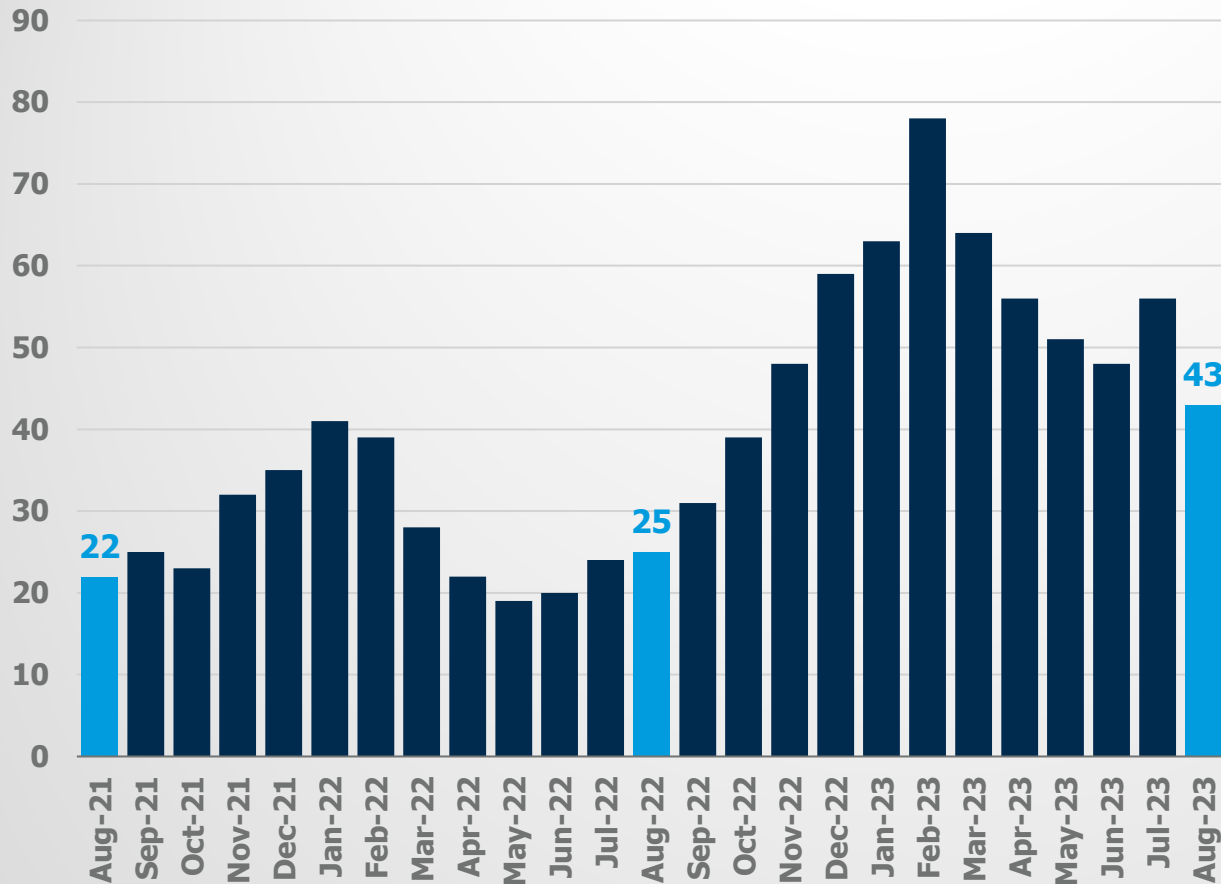
Source:
 Attom Data Solutions
 Island County
 homeowners with more
 than 50% equity

EQUITY RICH HOMEOWNER



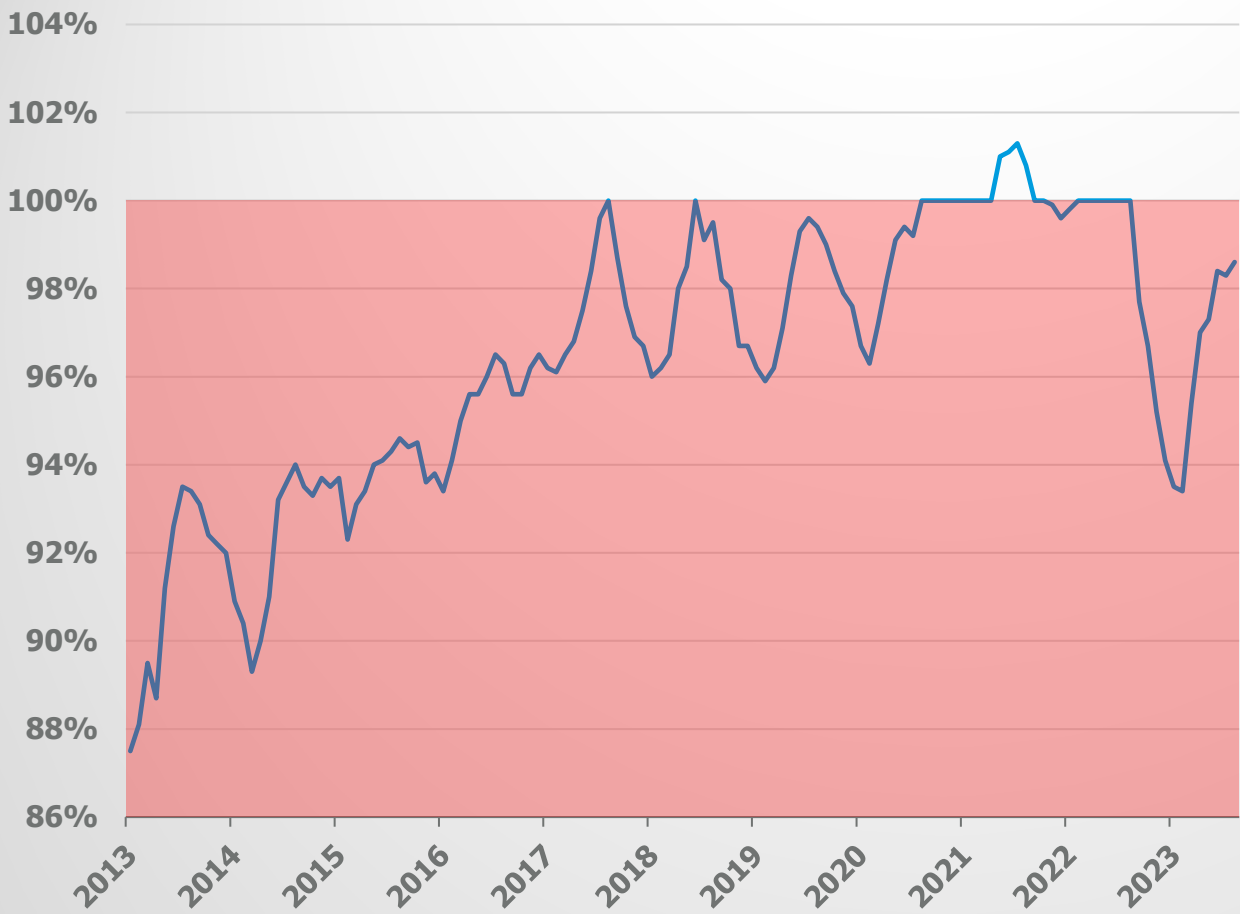
The Market Still Out of Balance

With fewer listings and higher pending sales, the county has “technically” returned to favoring sellers.



But it's Still Taking Longer to Find a Willing Buyer

Sellers are starting to consider concessions – something they have not been used to

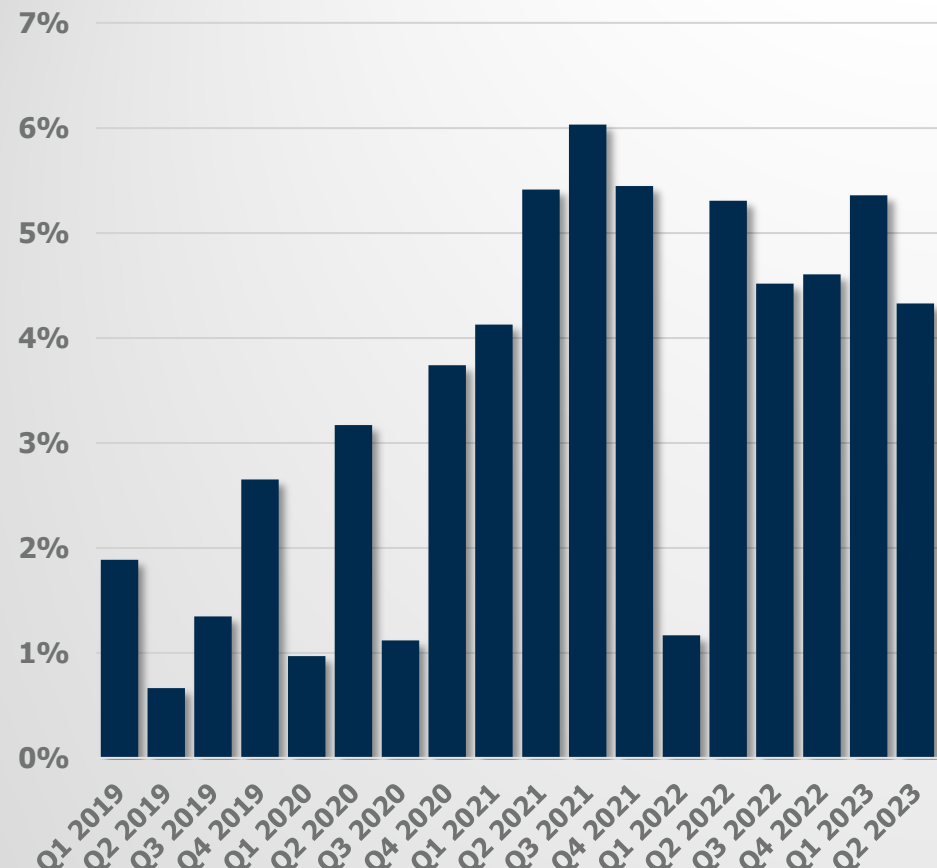


Deals Still to Be Had
Discounts are fewer, but were still being found with median sale prices in August at 98.6% of the asking price

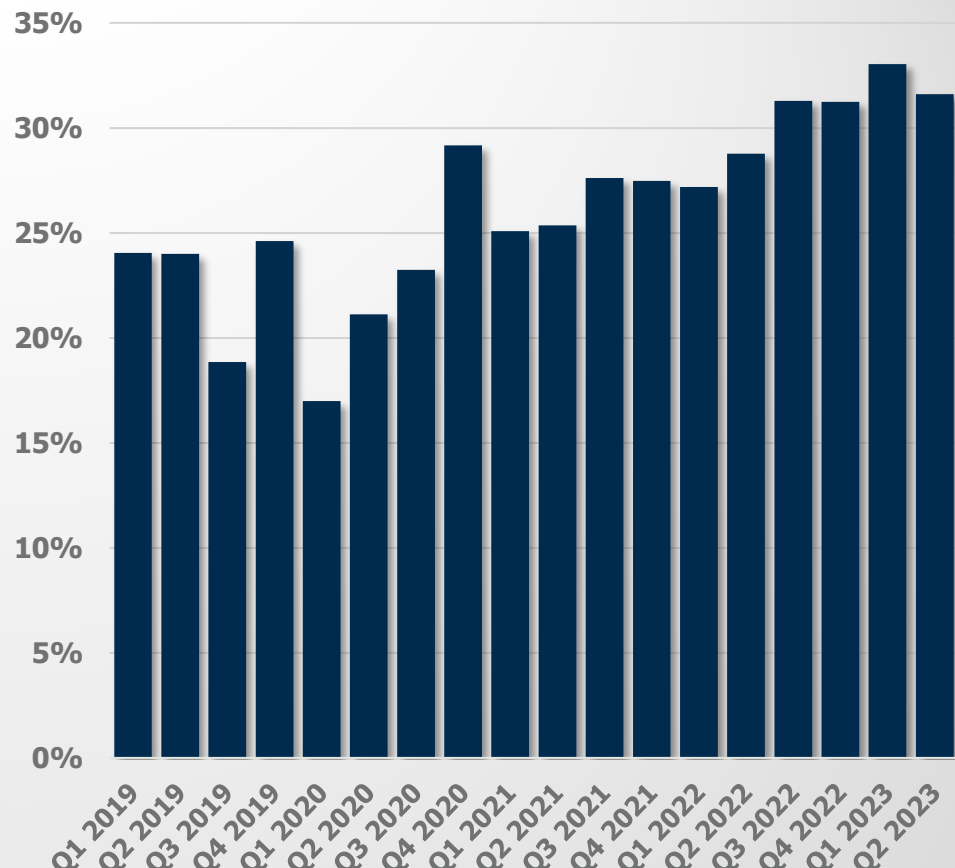
Source: NWMLS
3-Mo. Rolling Average

SALE PRICE AS % OF LIST PRICE

Institutional Investor Share of Sales



Cash Purchaser Share of Sales



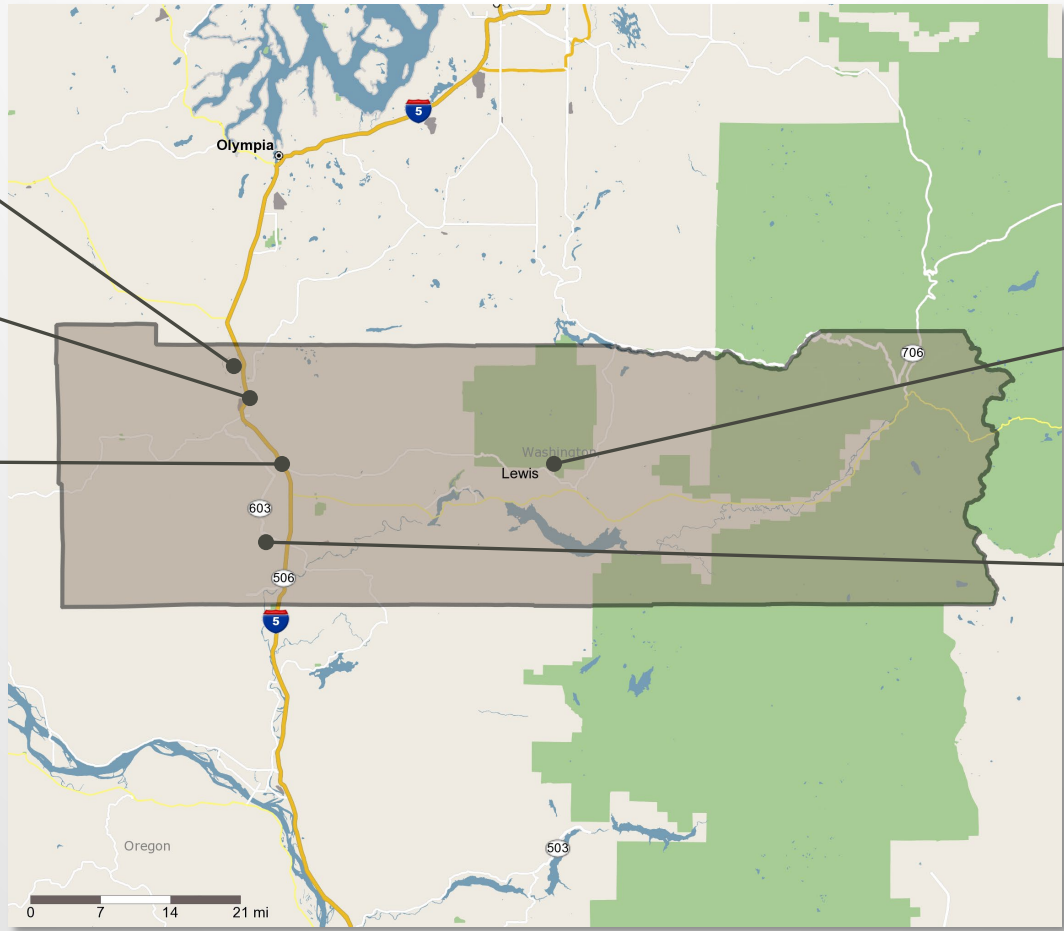
Centralia
\$380,000 (+7.0%)

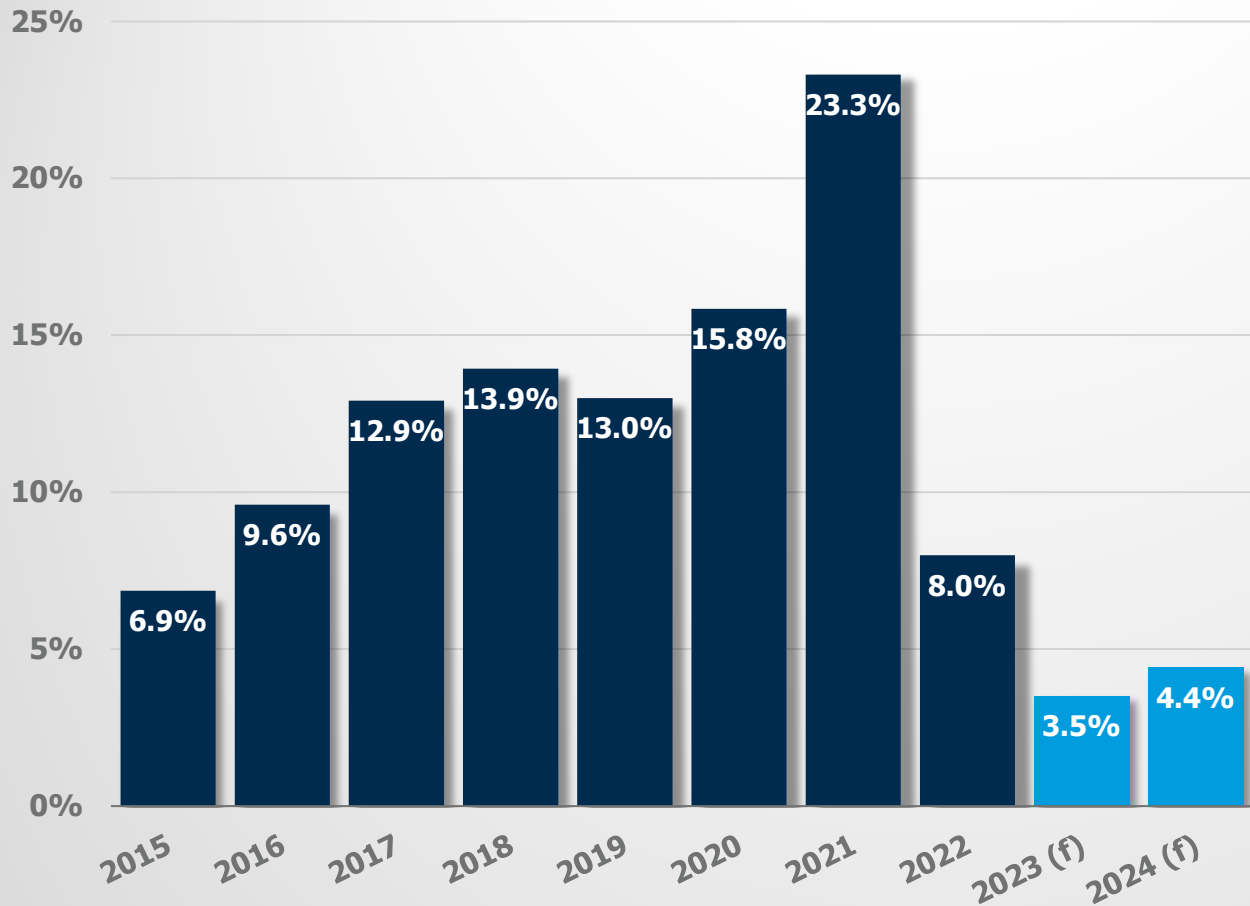
Chehalis
\$446,000 (-1.1%)

Napavine
\$361,000 (-19.8%)

Morton
\$465,000 (+111.4%)

Winlock
\$385,000 (-22.7%)





Home Prices Remain Positive
I expect the average sale price to rise by \$20,000 between now and the end of 2024

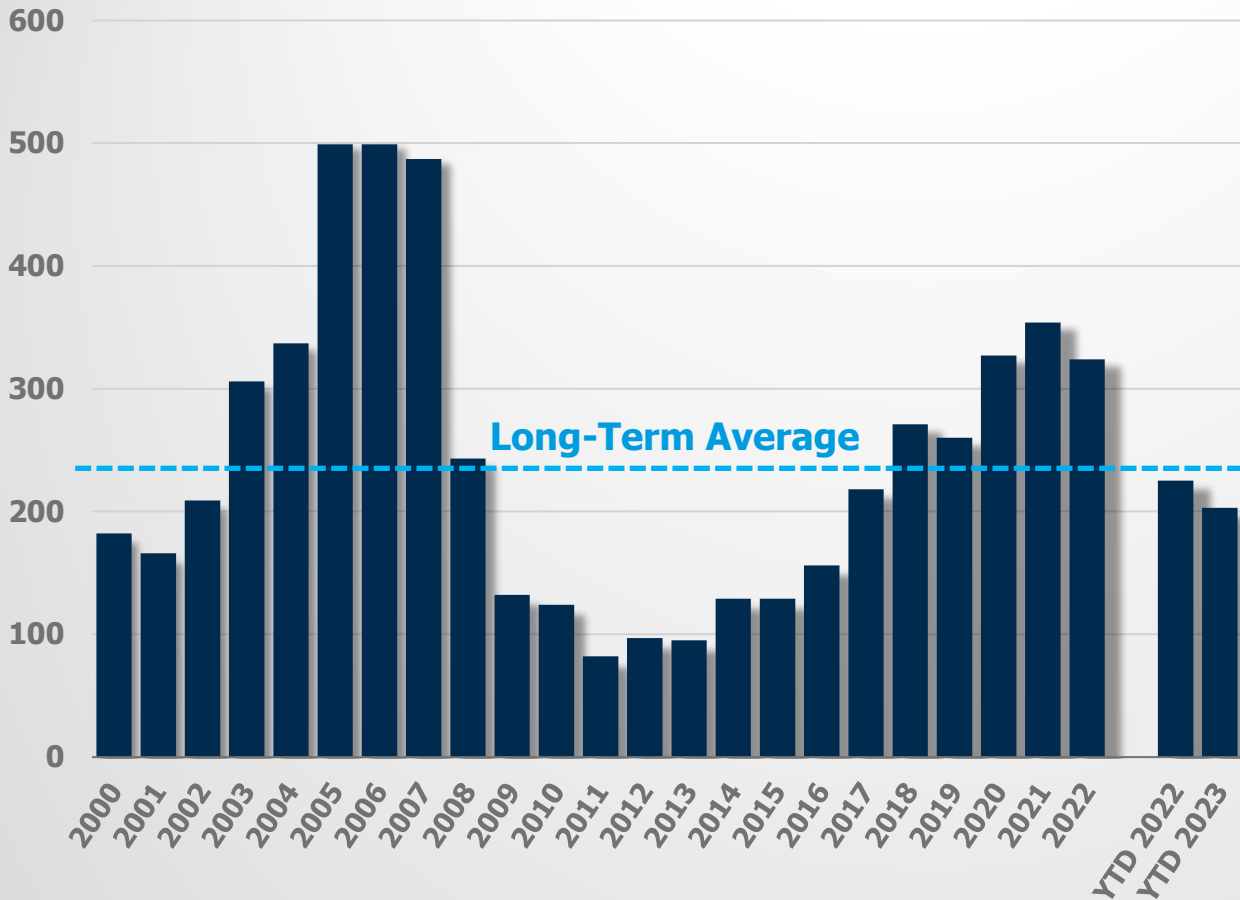
Source: NWMLS history w/Windermere Economics' forecast

SINGLE-FAMILY HOME PRICE FORECAST

NEW CONSTRUCTION



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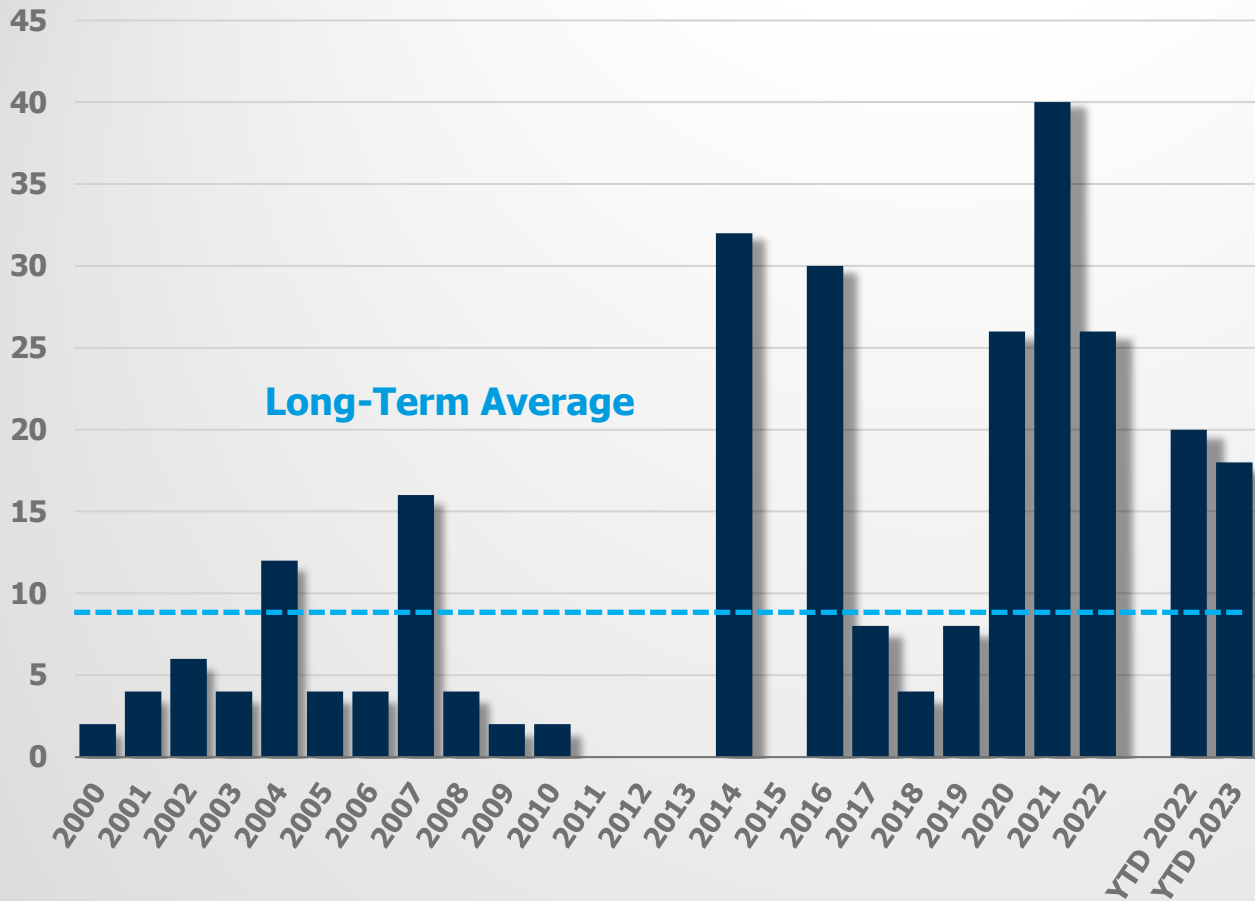


Permit Issuance is "Impressive"
 Permit activity continues to exceed the long-term average

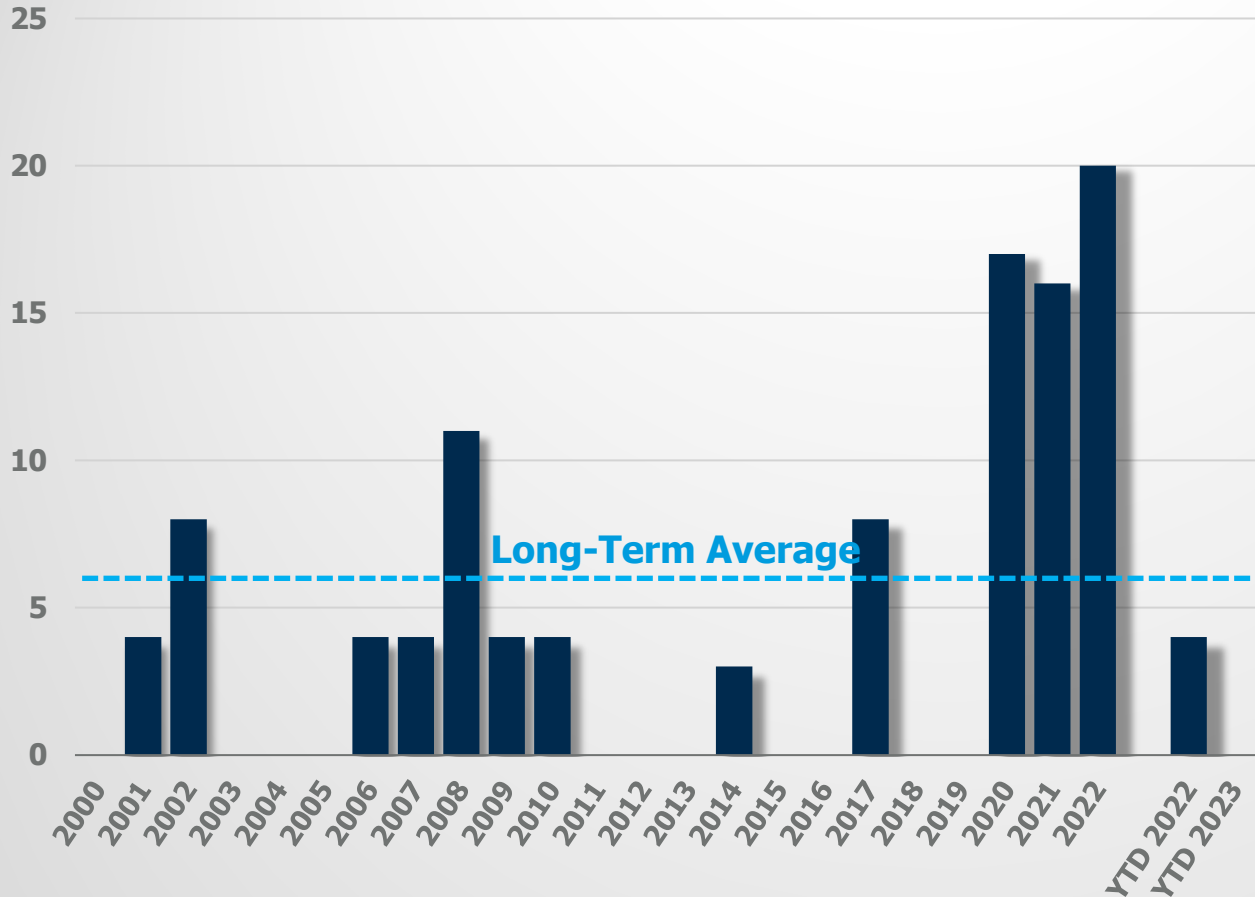
Source:
 U.S. Census
 LTA: 235; ytd thru'
 August

SINGLE-FAMILY PERMIT ACTIVITY (LEWIS CO.)



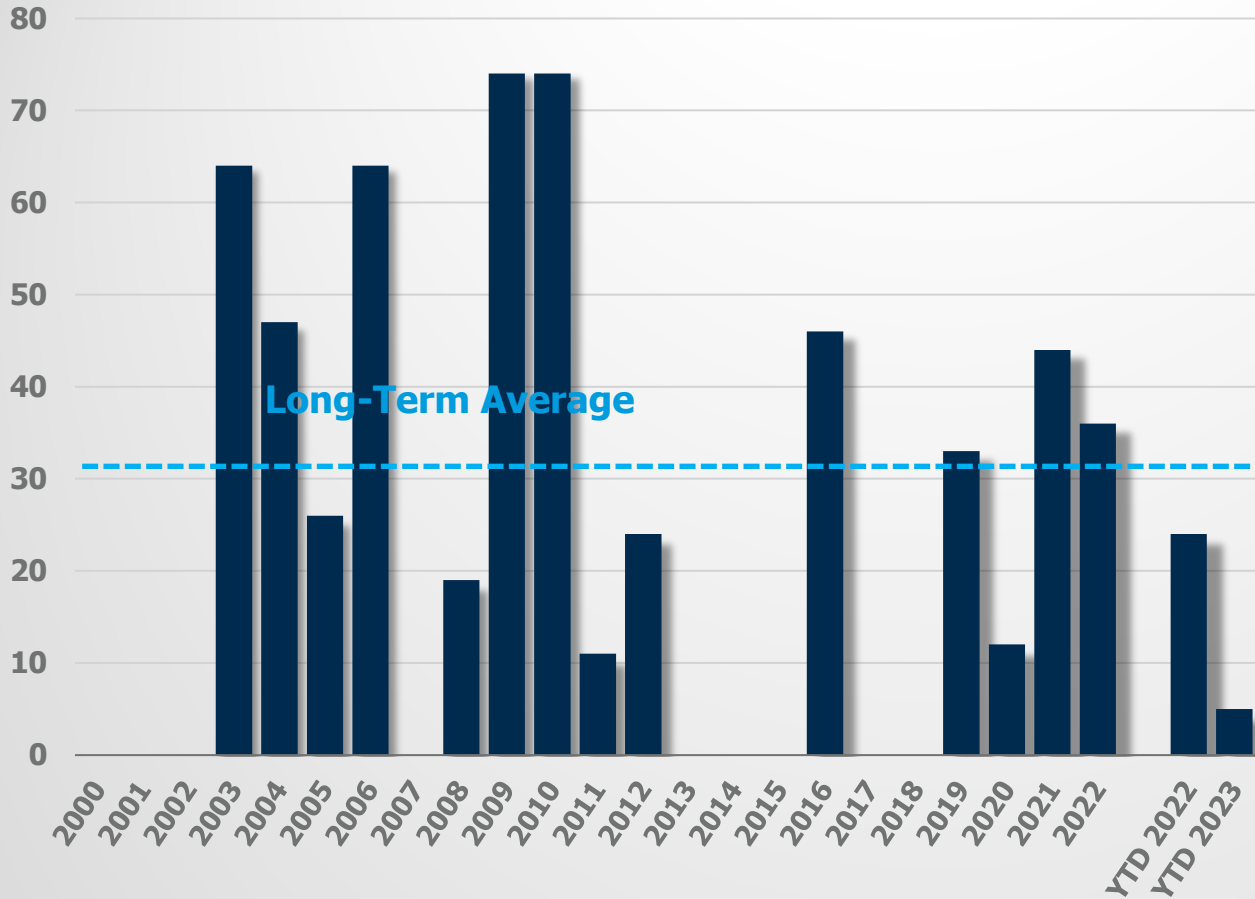


Duplex Permit Issuance Picks Up
 More interest in multifamily housing, but absolute growth is still minimal



Triplexes & Quads Were Also Gaining Traction!

The pandemic likely created some interest in this housing type, but that has subsequently tailed off



Little Interest in Larger Multifamily Developments
 It's still too early for larger multifamily development – mainly due to rental rates not covering cost

OWNER HOUSEHOLDS



22,746

Current Owner Households
in Lewis County

3.7%

Projected Growth over
the Next 5-Years

834

Additional Owner
Households to be Formed

Source: Census Bureau 2020 est. w/Windermere Economics' forecast

DEMAND FOR NEW OWNERSHIP HOUSING

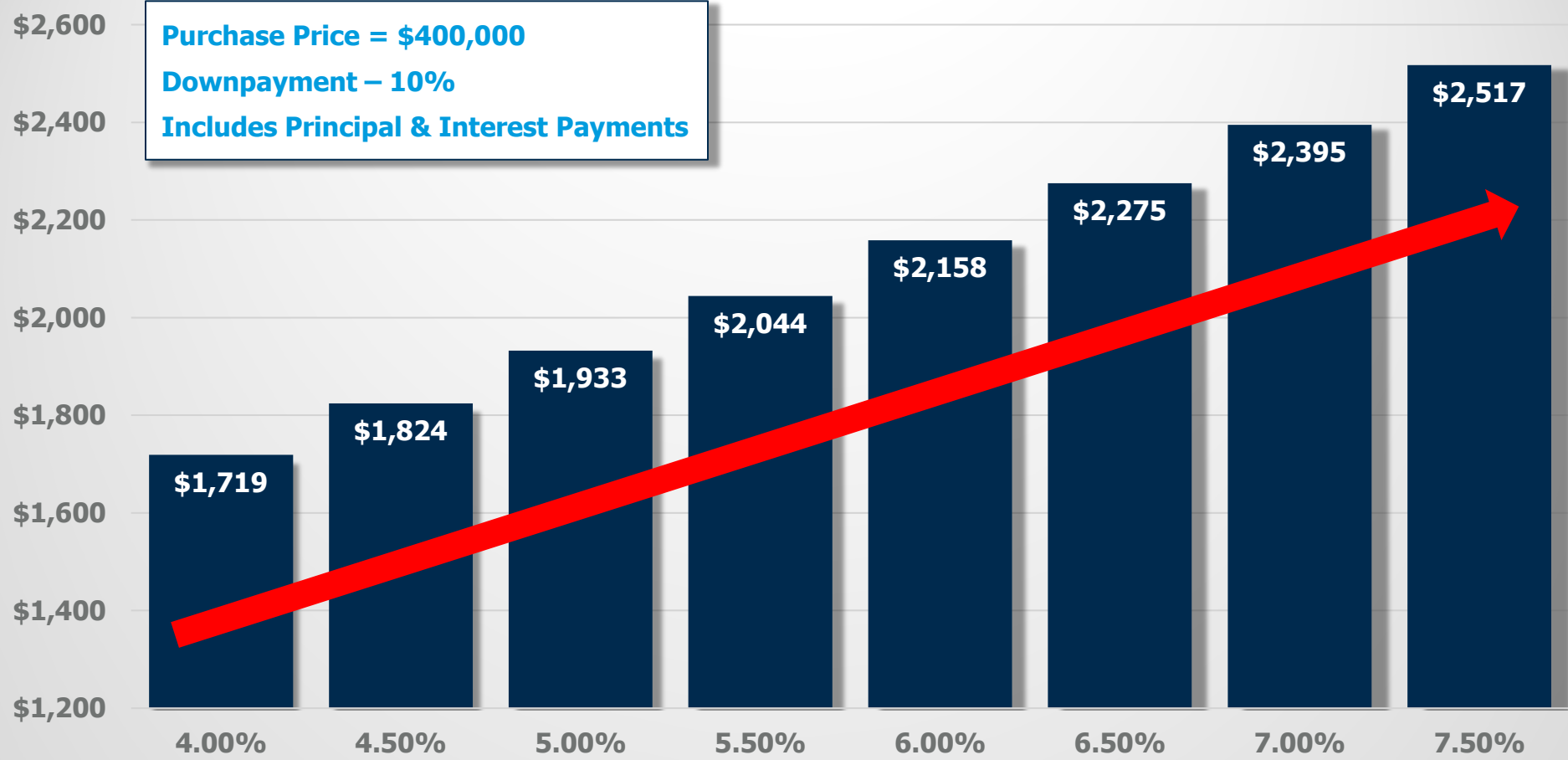


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HOUSING AFFORDABILITY



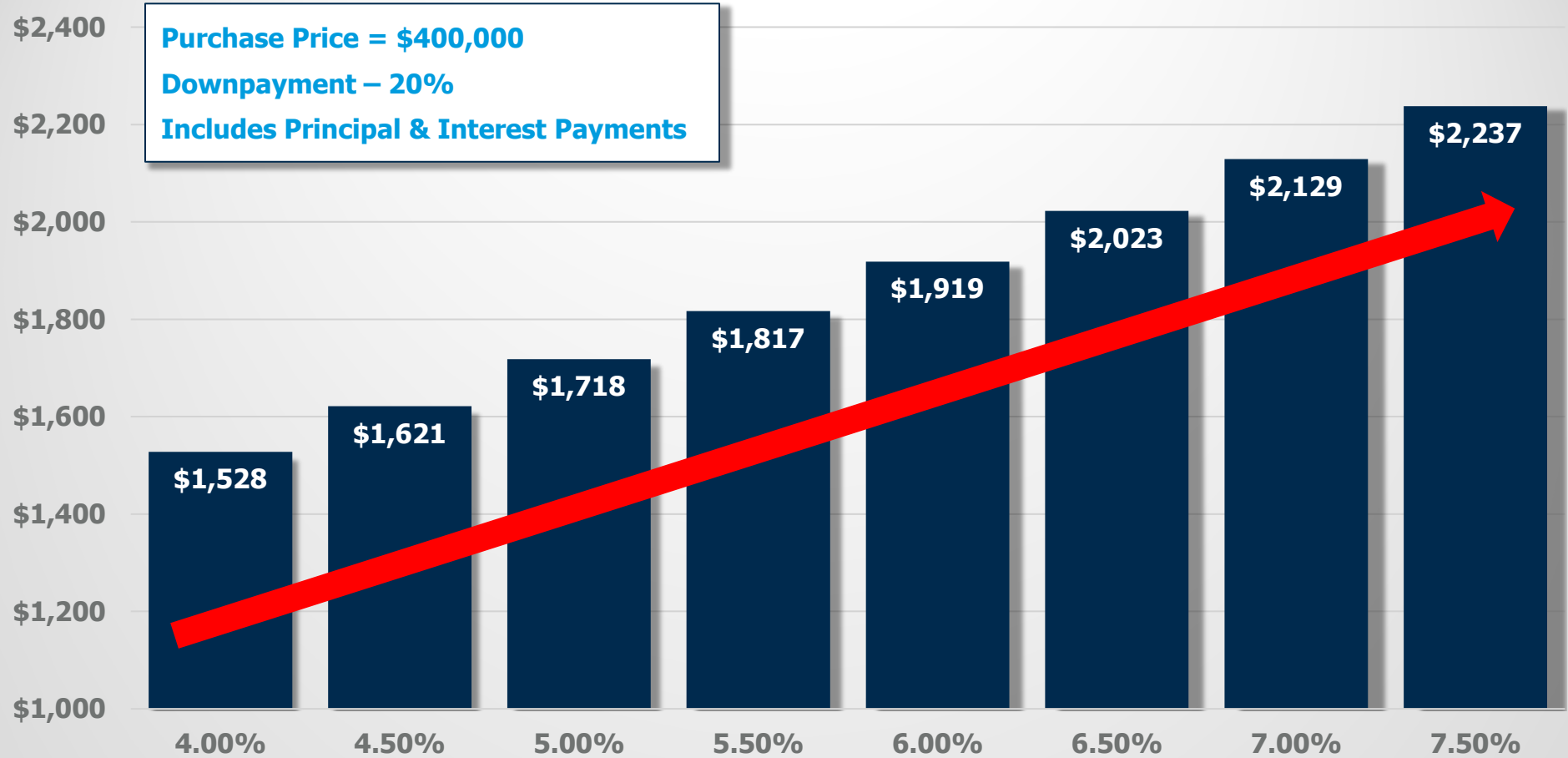
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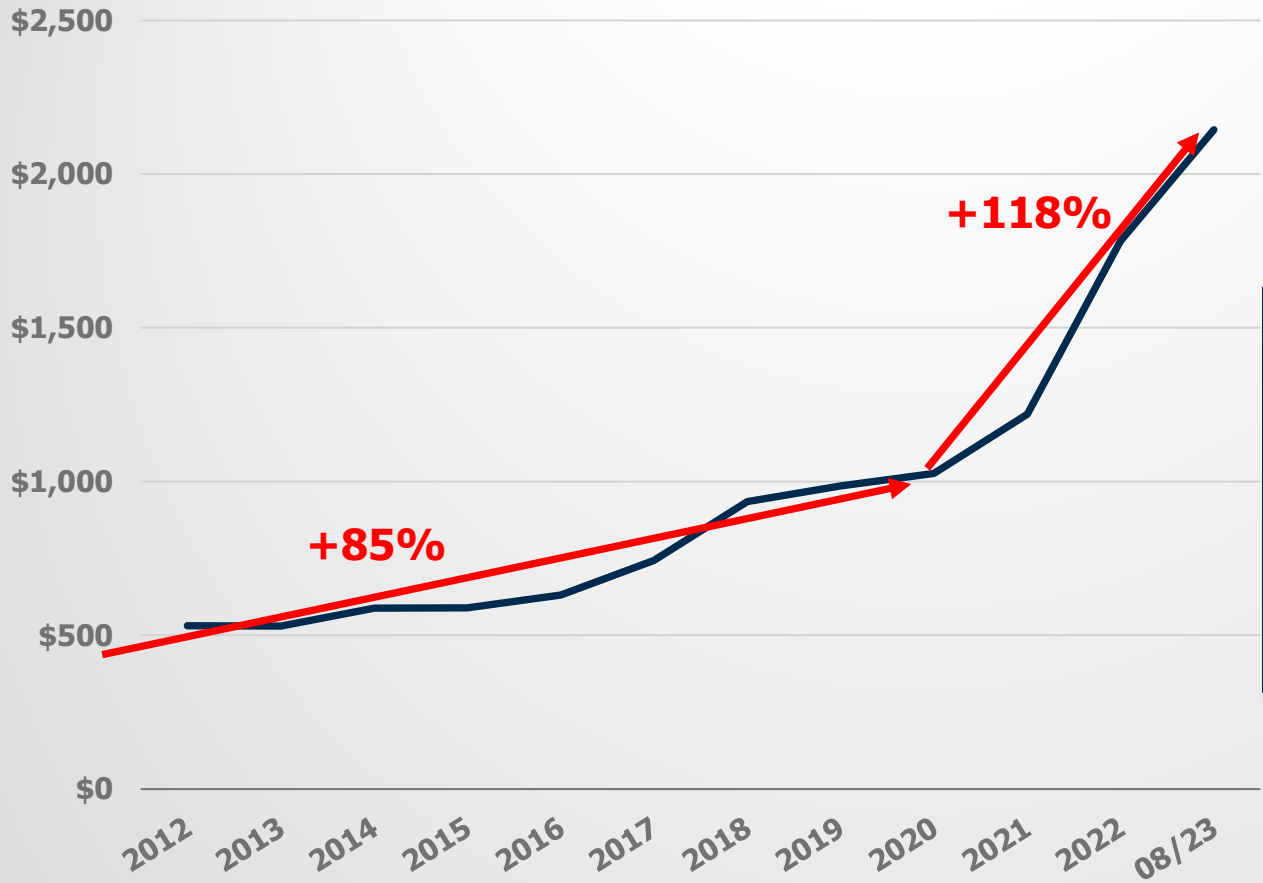
Purchase Price = \$400,000
Downpayment – 10%
Includes Principal & Interest Payments

MONTHLY PAYMENTS AT DIFFERENT MORTGAGE RATES

Purchase Price = \$400,000
Downpayment – 20%
Includes Principal & Interest Payments



MONTHLY PAYMENTS AT DIFFERENT MORTGAGE RATES



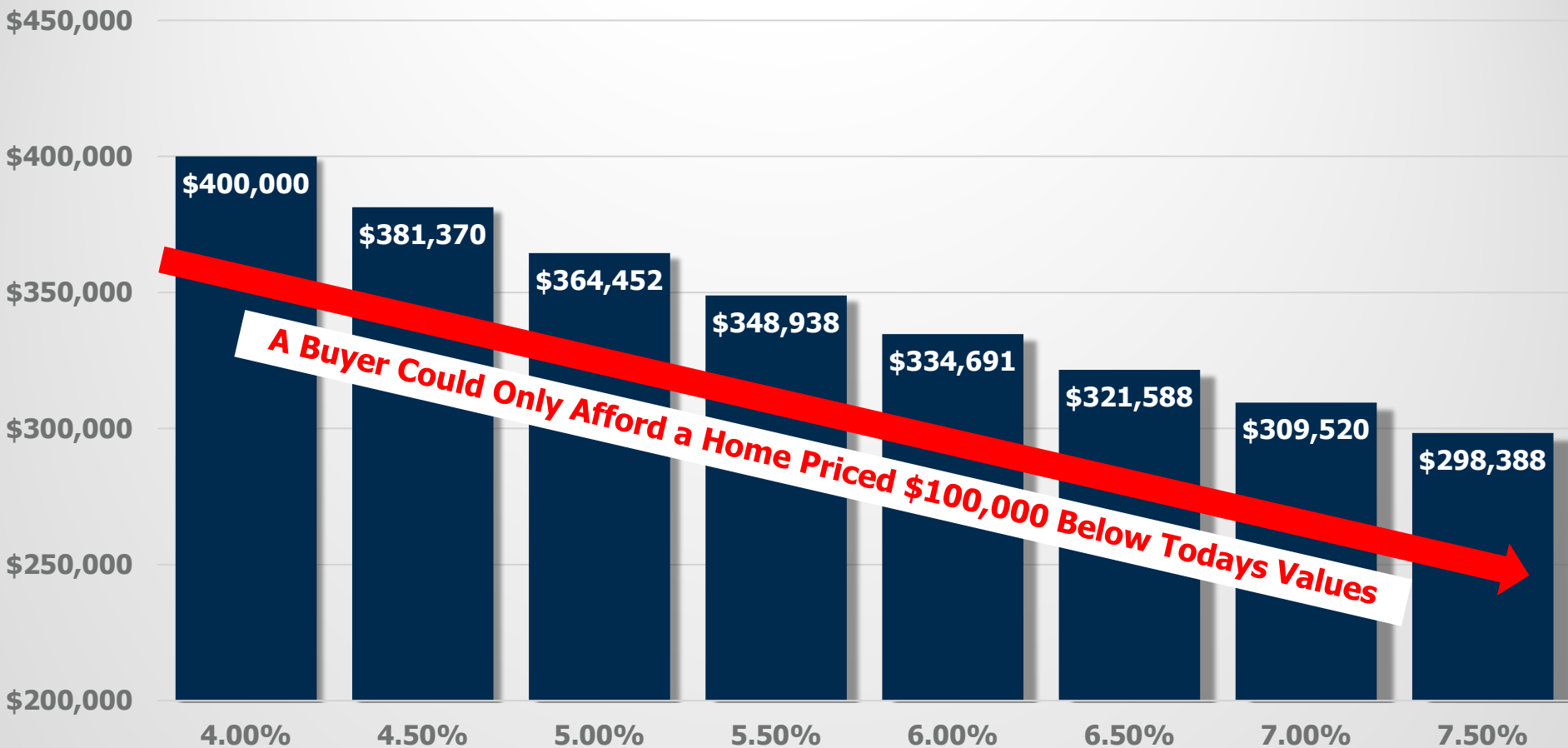
A Lot of Potential Buyers are Being Priced Out

Financing costs need to move significantly lower to aid buyers; however, the damage has been done

AVERAGE P&I MORTGAGE PAYMENTS

Source: Windermere Economics' analysis using NWMLS sale prices & Freddie Mac 30-yr. mortgage rates



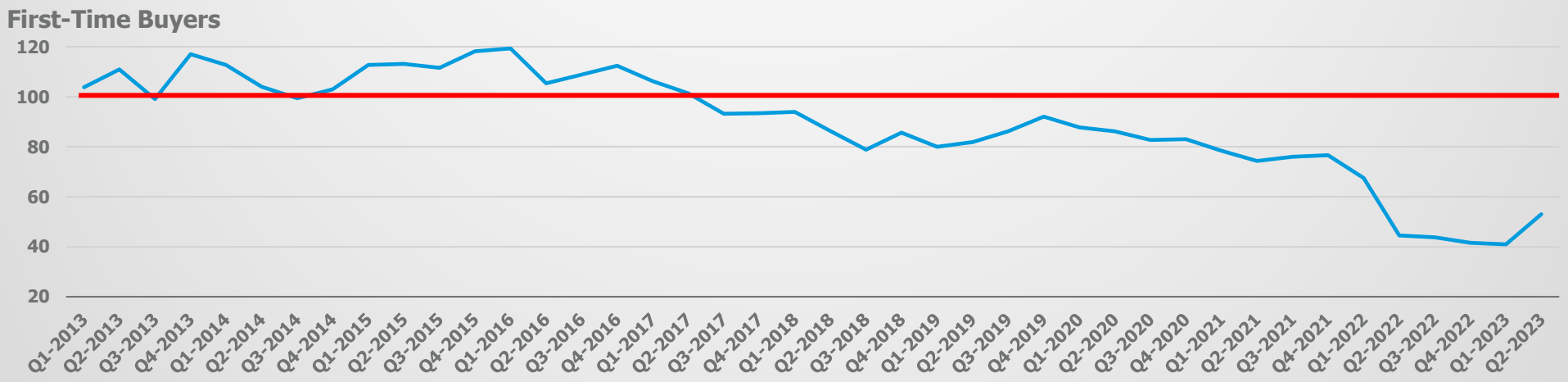
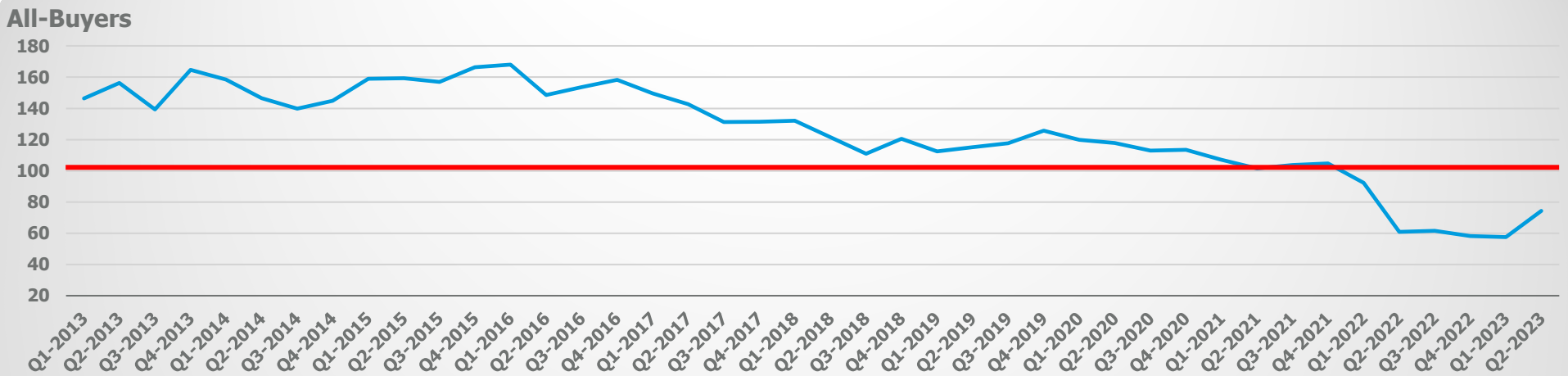


AFFORDABLE HOME PRICE AT DIFFERENT RATES

Windermere
Economics' analysis
assuming a 20%
downpayment; P&I
payment only



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FINAL THOUGHTS



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ANY QUESTIONS?



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LET'S KEEP IN TOUCH...!



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