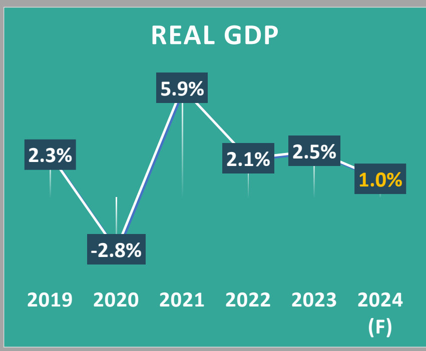
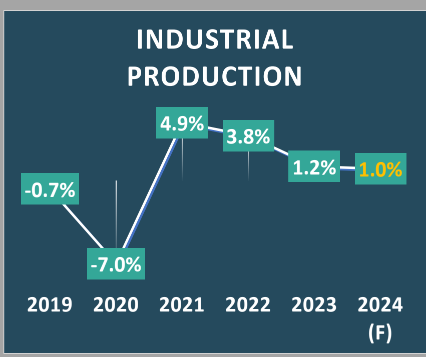
AMERICAN SUPPLY ASSOCIATION

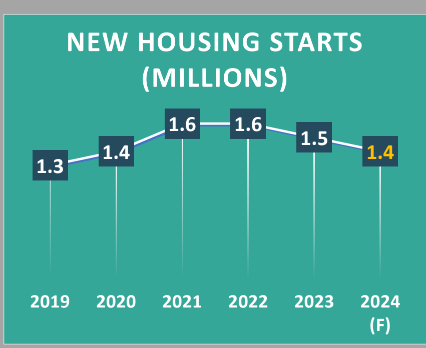
Monthly Economic Report (MER)

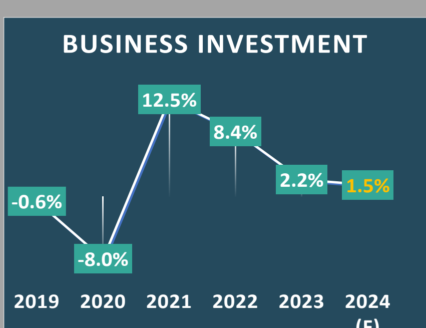
June 2024

Selected Indices









Executive Summary – June '24

Big Items

GDP: The 2nd quarter is nearly complete, and the focus will now turn to projections of the third quarter. But before we put Q2 in the rear view, we can see what the latest estimate might be. The GDPNow data for the end of the quarter concluded there was 2.2% growth (down from 3.2% as projected earlier in June). We will get real GDP data in a few weeks but the first quarter slump to 1.4% was something of an anomaly. Most of that decline in Q1 can be attributed to a reduced level of government expenditure and that resumed to a significant degree in Q2.

Industrial Production: Industrial production numbers defied most estimates in the latest reading. It was expected the data would trend down and some even expected a dramatic decline. Instead, there was a 0.9% M/M increase in overall industrial production and much of this gain was driven by manufacturing itself with a 0.9% gain. Mining was up slightly by 0.3% M/M (this is mostly oil and gas. Utilities were up 1.6% M/M as the summer heat arrived and increased demand. The gains in manufacturing were seen in everything from automotive to aerospace and overall machinery. Capacity utilization is still a little below the long term trend but is sitting at 78.7%.

Housing Starts: The starts data slumped a little in the last reading and there was a downward revision of last month's numbers. This month is down 3.8% against last month and is down 9.5% against May 2023. Single family was down 2.9% against April. This is a little worrisome as this is traditionally a busier time for housing. As is always the case there is a great deal of variation regionally and the majority of the slowdown can be attributed to population shifts from high cost of living states on the West Coast and Northeast. There is still growth in the Southwest and Southeast.

Home Improvement Retail: According to data provided by the National Association for the Remodeling Industry (NARI) there has been a reduction in major home improvement activity. The push to build home offices has faded and there has been little movement on the part of existing homeowners preparing to sell. The hot sectors are still kitchens and bathrooms but this time of year there is more interest in outdoor projects such as pools and landscaping.

Manufacturing: The US has been hovering around the 50 mark on the Purchasing Managers' Index and the latest reading has the US at 51.3 after having been slightly under 50 for the last few months. In general, there has been improvement in the global PMI with only nine nations in contraction (out of 30 tracked) as compared to 16 a few months ago. Asia is mostly in the expansion zone and Europe is still languishing in contraction. India still leads the pack.

Big Risks

Interest Rates – The focus is still on the central banks. Will they lower, when, and by how much? To the degree there is any consensus there is an expectation the Fed will reduce rates by a quarter point in late Q4 and another half point in early 2025. That would leave rates at 4.75% by Q2 of next year. The ECB is likely to cut rates this summer as Europe is facing more recession threats.

What to Watch

Global Elections – Mexico has its first female President and first Jewish President in Claudia Scheinbaum. That was expected but the success of her party (Morena) was not. They have a supermajority now and can do whatever they desire as far as the Mexican constitution. They want to strengthen the President and reduce the role of the legislature. Meanwhile, Narendra Modi in India now has to form coalitions to govern, and this complicates policy decisions.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

Economic "Noise" – There is always a certain amount of "noise" when the subject is the economy. The definition of noise is a little loose but basically it is hyperbolic information that is blown out of proportion to some degree. There are lots of reasons for this behavior – the media likes drama and manufactures it; economists like to argue and scare people to some degree and then there are the political motivations. These intensify in an election year as the incumbents seek to paint a rosy picture while their opponents portray the end of the world. How does anyone wade through all this to figure out what is actually going on? There are three techniques.

Number one – determine what actually matters to your business and community. If there is a crisis in an industry or region that you have nothing to do with, you can basically ignore the problems. If you don't import goods affected by a tariff you need not lose sleep. If your region is booming it really doesn't affect you if another region isn't. There are industries that are little affected by recession and even some that do not feel the pinch of inflation as much as others.

Number two – trust the data. This is a lot harder than it seems since data very often tells contradictory stories. It forces you to understand what the data is actually saying, what is being measured, and is it being measured accurately? Look at data like the Consumer Price Index or the Consumer Confidence Surveys. The CPI gets quoted a lot as it is released early each month, but it is based on assumptions. It is supposedly the buying patterns of an average family of four and there are not that many of these around anymore. It is based on a mythical basket of goods this family buys but if one gets the basket of goods and services wrong it is not accurate. The Fed uses Personal Consumption Expenditures because it is what we bought but that data often lags by a month or two. The final piece is the consumer confidence survey which asks people their opinion in a phone interview – a random sample asking five questions. Do these people have any real idea what is going on? Are they even being honest?

Number three – consider the source. What is the motivation of the person or institution providing the information? The politician assures us that all is well if they are the ones in power while the opposition asserts everything is wrong. An economist working for a firm that does well when people are worried about the future will paint a bleak picture. Economists differ strenuously over values and outcomes. An economist that is oriented towards the worker will welcome higher wages and expanded job protections while the economist that favors the investors and business owners will worry about wages that get too high and protections that hamper productivity. Everyone has a point of view and that affects the conclusions they reach even when there are basic agreements on the data itself. Is low unemployment a good thing or bad? To the employee it is good, but not necessarily to the employer.

Reader Question of the Month

Q: What is Going on with Copper Prices?

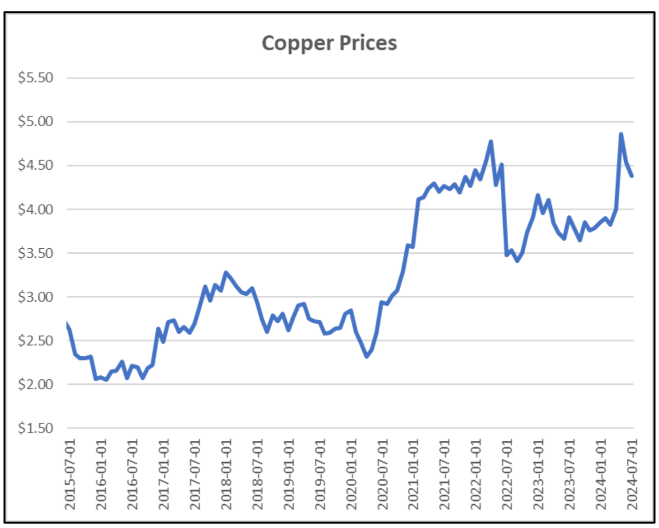
A: After sitting at record levels for months, the price of copper has started to drift back down and is at levels not seen since March. Overall prices have been up almost 12% for the year but the latest trends seem to suggest that something has changed. The fact is that copper (and many other commodities) are affected dramatically by the actions of speculators and investors and there has indeed been a shift in their behavior.

Last year the markets looked at the proposed production plans in the industry and realized it did not match up very well with expected demand. There has been an expected surge in the need for copper for EVs, the AI revolution and everything else related to technology. This prompted the assumption that demand would greatly exceed supply, and this would drive up prices. The assumption was that prices would soar, and this prompted investors to get in and buy with the expectation they would sell later when prices spiked. This activity prompted other reactions – namely a steady escalation of copper prices to record levels.

What happens when prices climb like this? Producers seize the opportunity to bring more copper to market in response. This rapid development reverses the expectation of a shortage and suddenly there is an anticipation of excess supply. That convinces speculators to start dumping copper as they now think the prices have peaked and will only head lower. It is as basic as it gets – supply and demand. As the expectation of excess supply dominates investor opinion the price falls – at least until the high prices fade enough that producers decide to start reducing output again.

Key Commodity Outlook

The following section includes viewpoints on key commodities. Wherever possible, the Producer Price Index (PPI) is used as a gauge of prices for specific commodities. The PPI is derived from monthly Government surveys of those that purchase specific products and services. The PPI includes views on both spot and contract pricing for a given product or service and is more representative of general changes in street-level pricing trends.



Copper Prices (WPUSI019011)

- The price of copper has been fluctuating since last month and is trading at $4.38/lb. ($4.54/lb. last month).
- The Producer Price Index (PPI) for April (latest PPI available) was 596.7, up month-over-month by 8.5% (+4.7% last month). It was up 17.1% year-over-year (+4.5% last month). The all-time high was 596.7 in May 2024 and the low was 302.9 in 2016.
- **Looking Ahead**: Producer Prices continue to hit new highs while the price of raw copper has started to pull off its second all-time high. Mining production is still slow to improve, and elevated demand is pushing prices higher as mentioned prior. Added speculative purchasing has helped push prices to these all-time high levels.

General Commodities Discussion:

Nickel: **(WPU102504)**

- LME Nickel Prices have moved up again over the past 30 days and were @$7.84 per lb. ($8.99 in the last update). Producer prices for nickel were also slightly higher month-over-month in May (latest available) by 0.1%. But they remain 9.8% lower year-over-year.
- **Outlook**: Despite issues that would normally affect supply (Australian mines pulling back production, LME banning Russian-origin metal into its warehouses, protests in New Caledonia potentially disrupting output, and others), lack of order demand from China headed into the peak season has pushed prices well below 2022 and 2023 levels and well off their most recent peak hit in March of last year.

Carbon Steel: **(WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were lower again over the past 30 days and were $679.00 per ton in late June ($745 per ton in the last update). This is still down sharply from a peak of $1,943 hit in August of 2021.
- Producer Prices for steel pipe and tube were down marginally in the latest data from the end of May (latest available). They were down 0.1% month-over-month (down 2.3% last month). Year-over-year, the PPI was 12.0% lower (-11.9% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "*Carbon Steel has continued its decline that started in the beginning of 2024. In that period, hot-rolled coil prices are down 30% and steel pipe prices are matching that downward trend. Recently, an abundance of Vietnam produced steel in the U.S. has put additional downward pressure on the domestic market. Inventories are up, and demand is down, providing the ideal environment for decreasing quotes.*"

Stainless Steel: **(WPU10170674)**

- The Producer Price Index for stainless pipe and tube were lower in May (latest available). Producer prices for stainless pipe fell by 0.9% month-over-month (+0.6% last month); but they were down 8.3% Y/Y (down 9.5% last month).
- **Outlook**: "*Raw material prices have softened a bit as nickel prices continue to slide. Weld fitting prices have remained stable, though closer to a low point over the past year. Activity has been a bit spotty as projects remain on the drawing board more than the construction phase. We still expect to see stronger activity over the next two quarters.*"

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap fell in May vs. the prior month, coming in with an index of 469.12 (481.41 last month). This was lower by 2.2% M/M (+1.0% last month). Year-over-year it was down sharply by 13.0% Y/Y (-15.5% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.
- **Outlook**: Although some scrapping of large ships took place last year, it was not enough to feed the scrap market with enough inventory. Now, some spot weakness in demand is weighing on scrap prices. This lowering of input costs could help lower overall production costs to a degree.

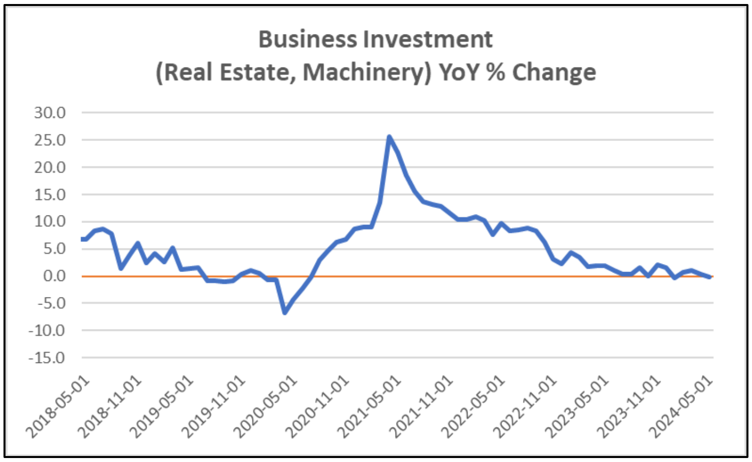
Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.

Producer Price Index – Key Industry Products

The Producer Price Index (PPI) for key supply industry metrics is listed in the chart below including month-over-month and year-over-year comparisons. To the degree that the PPI is derived from monthly Government Surveys of actual purchasers and users of the following products, it provides a more accurate street-level pricing viewpoint. Some data is delayed and may not have been updated by the time of publication.

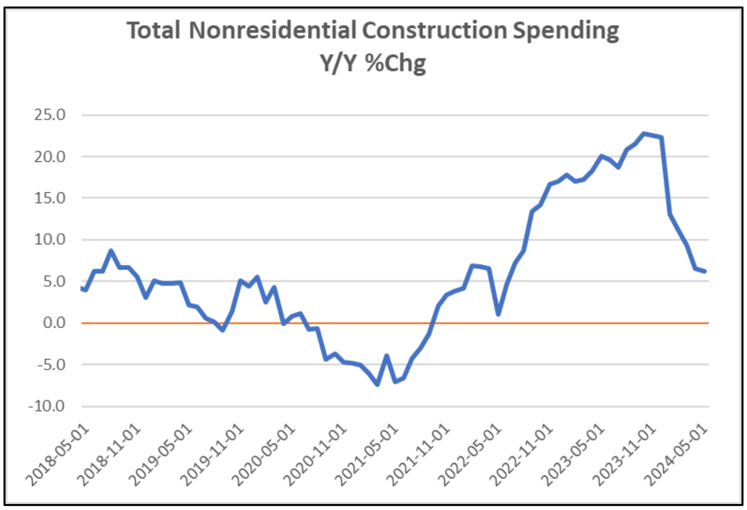
Producer Price Index - Key Industry Products						
Category	PPI Code	May-24	Apr-24	M/M% Chg	May-23	Y/Y % Chg
Core Materials						
Copper	WPUSI019011	596.7	550.1	8.5%	509.4	17.1%
Lumber	WPU081	250.5	255.0	-1.8%	261.4	-4.2%
Nickel	WPU102504	211.6	211.5	0.1%	234.5	-9.8%
Cement	PCU32732032732(	389.5	391.0	-0.4%	369.0	5.6%
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	444.2	444.0	0.0%	434.0	2.4%
Gates, globes, angles and check valves	WPU114902011	171.6	171.1	0.3%	165.8	3.5%
Ball valves	WPU11490202	570.2	570.2	0.0%	557.9	2.2%
Butterfly valves (formerly W2421490203)	WPU11490203	328.4	328.4	0.0%	303.0	8.4%
Industrial plug valves	WPU11490204	325.4	325.4	0.0%	308.7	5.4%
Plumbing and heating valves (low pressure)	WPU11490205	389.8	389.8	0.0%	393.4	-0.9%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	403.4	403.3	0.0%	403.8	-0.1%
Automatic valves	WPU11490211	263.7	263.7	0.0%	248.9	6.0%
Metal pipe fittings, flanges and unions	WPU11490301	497.2	487.9	1.9%	484.2	2.7%
Steel pipe and tube	WPU101706	376.7	377.1	-0.1%	428.3	-12.0%
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	138.8	140.1	-0.9%	151.3	-8.3%
Copper & copper-base alloy pipe and tube	WPU10250239	414.8	375.0	10.6%	363.4	14.1%
Plastic pipe	WPU07210603	189.2	191.5	-1.2%	202.6	-6.6%
Plastic pipe fittings and unions	WPU07210604	325.5	326.6	-0.3%	319.6	1.9%
Plumbing Fixtures, Fittings and Trim	WPU105402	401.1	400.0	0.3%	395.0	1.6%
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	207.9	207.7	0.1%	204.6	1.6%
Enameled iron and metal sanitary ware	WPU1056	284.5	278.1	2.3%	289.2	-1.6%
Steam and Hot Water Equipment	WPU1061	428.5	428.5	0.0%	428.5	0.0%
Cast iron heating boilers, radiators and convectors	WPU10610106	289.7	289.7	0.0%	289.7	0.0%
Domestic water heaters	WPU106601	590.6	590.6	0.0%	570.6	3.5%
Electric water heaters	WPU10660101	586.6	586.6	0.0%	564.3	4.0%
Non-electric water heaters	WPU10660114	359.0	359.0	0.0%	347.7	3.3%
Warehousing, Storage and Relates Services	WPU321	142.7	144.6	-1.4%	137.1	4.1%

PHCP & PVF



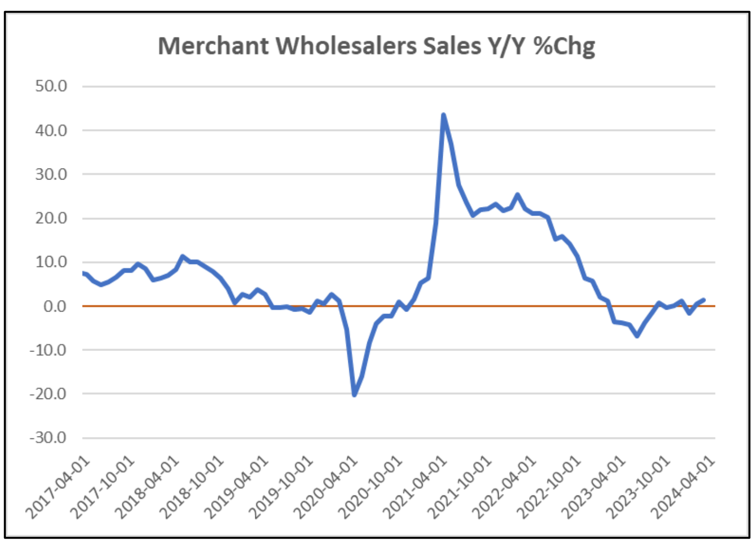
Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods dropped 0.6% in May M/M (-0.7% last month). Investments were down by 0.2% Y/Y (up 0.3% last month) but continued to be stable overall on total spending.
- **Outlook**: This data is the tale of two tales. First, spending continued to remain at all-time highs (impact of inflation is a factor here). And investments in equipment, technology, automation, and facility expansion continue to provide solid investment growth. As mentioned earlier, Gross Private Investment was growing at nearly an 8% rate overall (which also includes consumer investment). But the rate of growth was showing signs of slight deceleration as mentioned, dropping by 0.2% versus last year's levels.



Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in May (latest available) was 6.2% higher than it was a year ago (6.6% higher last month) and was 0.1% lower M/M (down 0.2% in the last report). Overall spending was at a new all-time adjusted high of $1.209T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: this data is not adjusted for inflation, and commercial inflation rates in the nonresidential construction sector are running 6-8% depending on the region. Effectively, the sector is somewhat flat. Some sectors of construction like industrial/manufacturing are still growing at a 12-14% inflation-adjusted rate and infrastructure spending is still robust. But as mentioned elsewhere, other sectors are now drifting lower year-over-year, especially when adjusted for inflation.

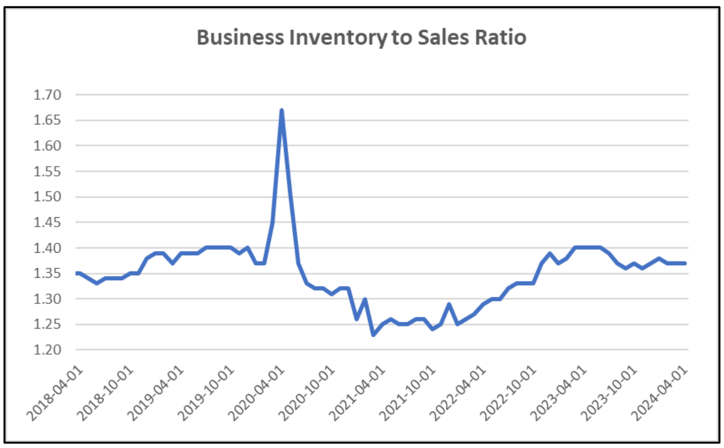


Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 1.4% Y/Y through April (latest available; also up 1.4% Y/Y in the last update). Month-over-month, sales were increasing by 0.1% (+0.9% last month).
- Wholesale inventories were down 1.7% year-over-year in April (latest available; down 2.3% last month).
- **Outlook**: A recent survey by the National Federation of Independent Business found that small and medium sized wholesalers felt that they were understocked and were light on inventory. The national data shown here would suggest that they are still sitting a bit heavier and are trying to get inventories leaner headed into the latter half of the year. Inventory levels have come off their peaks, but the inventory-to-sales-ratios for most wholesalers are still sitting 10-15% higher than they were in the decade prior to the pandemic.

Manufacturing (AMTMNO)

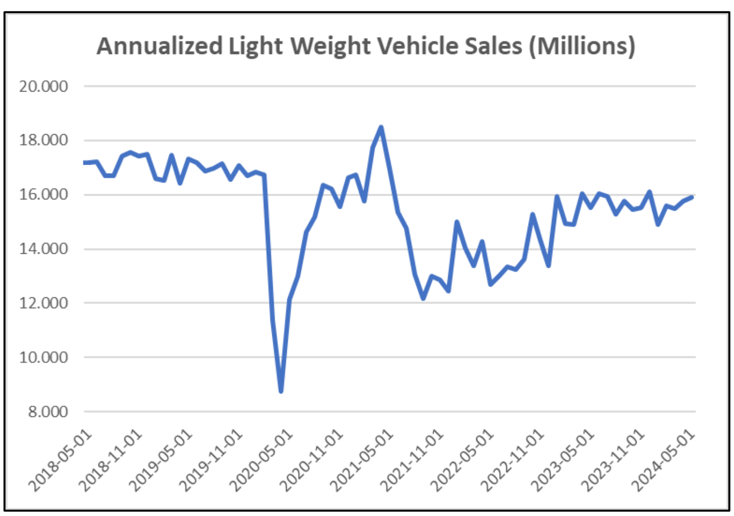
- Federal data on manufacturing was up 1.3% Y/Y (1.5% last month) through April (latest available). It was down 0.2% month-over-month (+0.7% last month).
- The S&P Global US manufacturing PMI came in at 51.6 in June, up from 51.3 in May.
- **Outlook**: Global manufacturing surveys at the end of June are showing “frustratingly weak” manufacturing new order demand from both domestic and foreign markets. Many attribute it to higher inflation pressuring nearly 62% of the population while the hangover from product spending during the 2020 lockdown period is still creating sluggish product demand (for appliances, furniture, electronics, etc.) while purchasing managers remain conservative in inventory building activity headed into the second half of the year.



Business Inventory to Sales Ratio (ISRATIO)

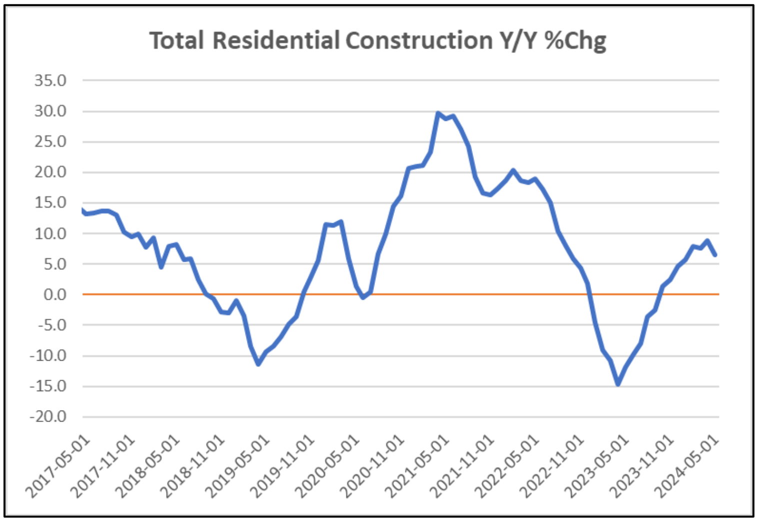
- The current inventory to sales ratio for all businesses is at 1.37 months of inventory on hand in April (latest available; 1.37 last month as well). Relative to sales, inventories are more balanced with some sectors underweight, this month's ratio was 0.7% lower Y/Y (-1.4% last month).
- **Outlook:** As mentioned last month, Only 27% of the goods producing, handling, and selling industries in the US were overstocked when stripping out large durable goods (planes, trains, ships, etc.). With inventories back in-line, order volumes will be more in tune with real demand (retail, construction, and end-use final goods applications). This helps stimulate demand up and down the entire supply chain – not just in the downstream portions of it.

PHCP



Auto Sales (ALTSALES; AISRSA)

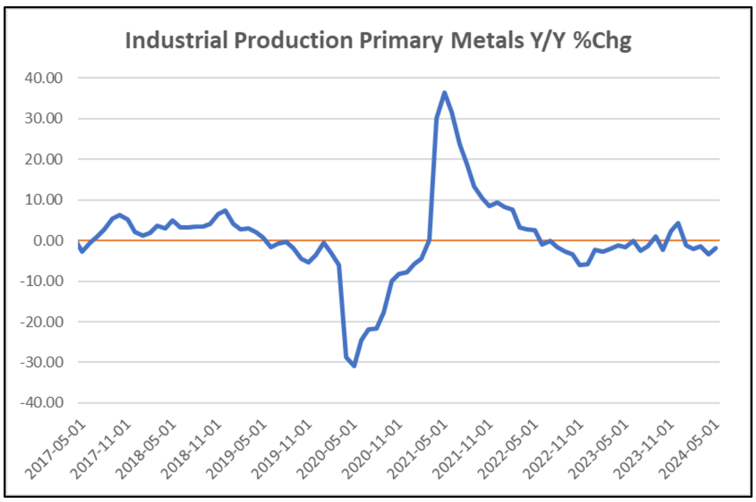
- US auto sales were trending at a 15.891-million-unit annual rate (15.753M last month) through May (latest available). This is up 2.4% year-over-year (+0.5% in the last update).
- The domestic auto inventory to sales ratio was up 72.3% Y/Y in May (latest available). On a monthly basis, it was down 10.2% (down 11.4% last month).
- **Outlook**: Automotive demand is still running stable, but only for certain types of models. Many dealers are experiencing growing inventories of models that they can’t sell, and shortages of popular models continue. As the sales data shows, those categories of vehicles in higher demand (luxury hybrids, some pickups, and higher end SUVs) are still selling strongly and backorders are still a problem. This should keep OEM activity stable for most facilities through Q3 at a minimum and perhaps well into Q4.



Total Residential Construction (PRRESCONS)

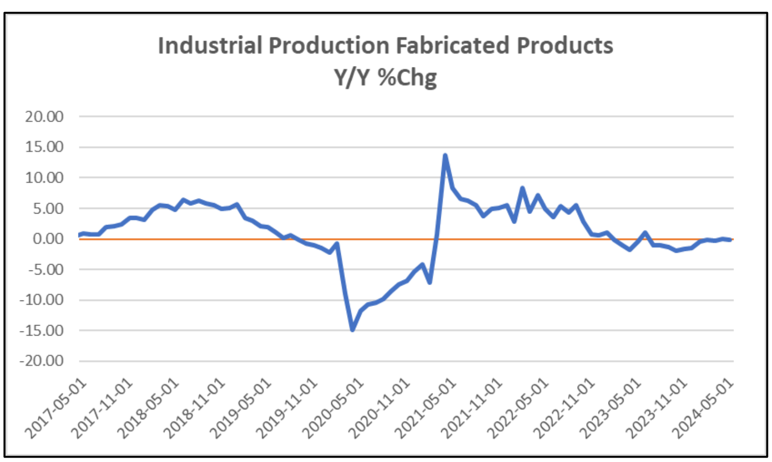
- Total residential construction in May (latest available), was up by 6.5% Y/Y (up 8.9% last month). It was down 0.2% M/M (+0.9% last month).
- **Outlook**: The residential construction sector is being driven heavily by single-family construction. Single-family construction spending was up 13.8% year-over-year but was 0.7% lower month-over-month. Further in the Monthly Economic Report are starts and permits by region. Multi-family was much weaker, however. On a month-over-month basis spending was unchanged while they were 4.6% lower year-over-year. Stripping out the impact of inflation, sales were down year-over-year. Some financing pull-back has taken place in large multi-family projects in some markets. Interest rates have fallen slightly, which is helping some buyers stay in the market in the near term.

PVF



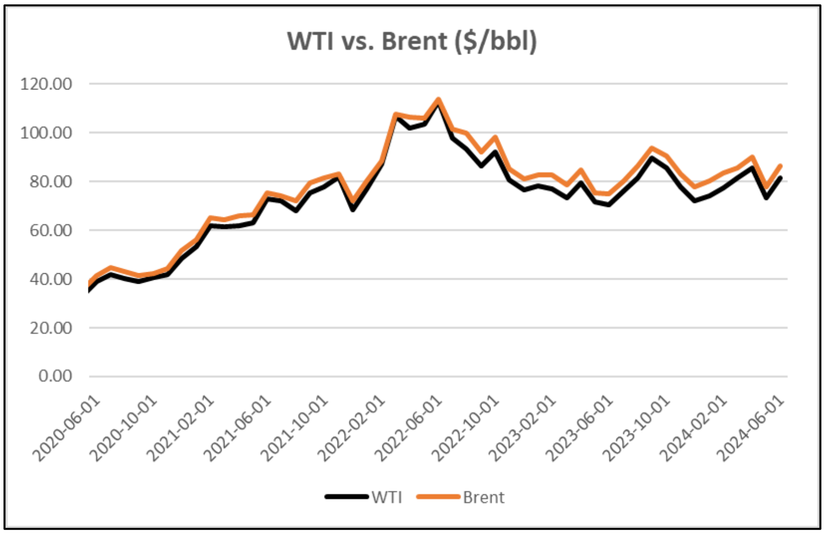
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was down 1.8% Y/Y through May (down 2.5% in the last update). It was up 0.9% M/M (down 2.0% M/M in the last update).
- **Outlook**: The Primary Metals sector continues to face some strong headwinds. Many durable sectors that would normally be driving strong demand have continued to slow (machinery, transportation, and Ag). But strong nonresidential construction and infrastructure spending is still providing some pockets of demand. Foreign cross border imports of primary metals are also eating into US industrial production market share, which is part of the challenge for the sector.



Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 0.1% Y/Y through May (up 0.1% last month). It was up 0.5% on a month-over-month basis, (up 0.3% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and activity through May was slightly higher. Models that forecast fabricated product manufacturing still show it improving through most of 2024 and even now into 2025. Growth in the sector (demand) is expected to remain stable despite some softness seen in some other sectors.



WTI and Brent

- WTI is currently at $81.43 a barrel ($73.36 last month) and Brent is at $86.40 ($77.59 last month).
- **Outlook:** Concerns about OPEC+ holding production cuts for another quarter and US and global demand increases has helped push prices higher over the past 30 days. Speculation concerning an expanding conflict in the Middle East and continued attacks in the Red Sea have also spurred concerns around global oil distribution. But thus far, Wall Street predictions for oil to hit $100 a barrel by July are falling short of those expectations. The EIA is still predicting global oil production to fall short of global oil demand in the near term, leading to a net draw in global inventories between now and the end of the year. Expectations for a more active hurricane season have (so far) not created risk for production in the US Gulf region, and that has helped keep oil price increases tame thus far.

https://bakerhughesrigcount.gcs-web.com/rig-count-overview

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	28-Jun-24	581	-7	-93
Canada	28-Jun-24	176	10	9
International	May-24	953	-25	-12

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 93 Y/Y (-96 in the last update) at 581 (1,049 in 2019); Canadian counts were up by 9 Y/Y (up 31 in the last update). International counts are down by 12 Y/Y (+31 in the last update).
- **Outlook**: The EIA is calling for inventories to be lower between now and late Q4, but they have kept their forecast for Brent North Sea Crude to remain at just $84 for the full year. Something there doesn't make sense, unless they are projecting a drop in demand. And in other releases late in June, they revised total US consumption higher at 20 million barrels per day (up from 19.75 million barrels a day – an increase of 255,000 B/D of consumption). Production is also being revised slightly higher, rising to 13.25 MB/D from 13.1 MB/D. With consumption in the US rising faster than overall production, it would normally push prices higher. A strong dollar has created weight on prices in general, and that factor is clearly helping keep prices in the mid $80's currently. Again, any geopolitical impacts to production or distribution (challenges erupting in the Strait of Hormuz) would quickly push prices higher.

Construction Outlook

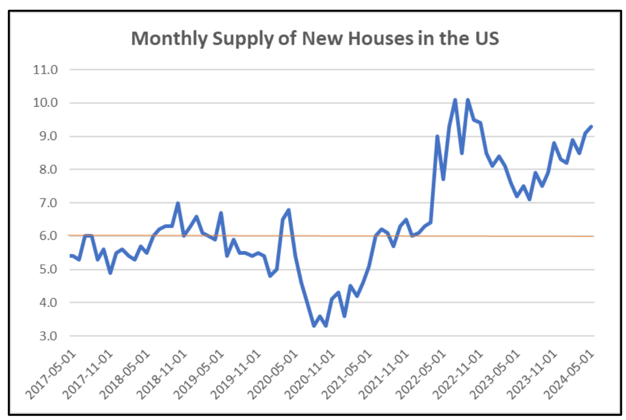
Residential construction: 30-year national average mortgage rates fell through late June to 6.86% (7.03% in the last update). But home builder confidence was lower in June according to the NAHB/Wells Fargo index, it fell to 43 points (down from the May reading of 45). The all-time high was 90 points in November of 2020. Builders' confidence retreated in the month as buyer contracts continued to be lower and economic data appeared to give the Federal Reserve confidence in continuing to keep interest rates higher.

NAHB/Wells Fargo National and Regional Housing Market Index (HMI)											
NATIONAL											
(Seasonally Adjusted)	2023			2024						M/M	Y/Y
	Jun	Jul	Aug	Jan.	Feb.	Mar	Apr	May	Jun		
								Revised	*Prelim.*		
Housing Market Index	**55**	**56**	**50**	**44**	**48**	**51**	**51**	**45**	**43**	-4.4%	-21.8%
Housing Market Index Components											
Single Family Sales: Present	61	62	57	48	52	56	57	51	**48**	-5.9%	-21.3%
Single Family Sales: Next 6 Months	62	59	55	57	60	62	60	51	**47**	-7.8%	-24.2%
Traffic of Prospective Buyers	37	40	35	29	32	34	34	30	**28**	-6.7%	-24.3%
REGIONAL HMI											
(Seasonally Adjusted)	2023			2024						M/M	Y/Y
	Jun	Jul	Aug	Jan.	Feb.	Mar	Apr	May	Jun		
								Revised	*Prelim.*		
Northeast	52	60	55	55	62	61	65	59	**62**	5.1%	19.2%
Midwest	48	46	42	35	38	49	50	50	**40**	-20.0%	-16.7%
South	60	58	55	49	50	52	50	45	**43**	-4.4%	-28.3%
West	50	54	46	38	47	45	48	37	**38**	2.7%	-24.0%

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was down 21.8% against June of 2023 (down 10.0% month-over-month).

Adjusted housing inventories increased in May (latest available), coming in at 9.3 months of inventory on hand. This is higher than the "ideal range" of 6 months of inventory on hand and is still marginally lower than the 9.5 month peak we saw last October.

The housing market is highly regionalized, and each region has different levels of housing activity, but macro demand is still being tempered by lack of affordable single-family housing inventories and steep housing prices which are only easing in some markets.



New housing starts are volatile right now and came in at a 1.277-million-unit rate on an annualized basis (lower than last month's adjusted 1.352 million annual rate); and the outlook for the rest of 2024 remains flat based on current industry trends.

Single family starts were lower in May by 5.4% M/M (latest available) and were down 1.7% Y/Y against easier comparisons. Multi-family starts are volatile and were down 10.3% M/M and were down 51.7% Y/Y.

National Outlook: The Federal Reserve's latest outlook on interest rates shows that it is still considering a single cut in 2024 of a quarter-point. Based on most estimates, that could come as early as next month or September, but odds are leaning more toward December. Most general contractors are reporting some mild project delays as project managers decide to wait until the first rate cut to start the design and planning phase or move into construction phases. But if the Fed takes a quarter-point cut in December, most Fed estimates show four more cuts following quarterly in 2025. That will energize the construction market in some sectors, especially in the residential markets. But some nonresidential projects are also showing some hesitation amid a higher rate environment and higher construction material prices.

NAHB Housing and Interest Rate Forecast, 06/12/2024

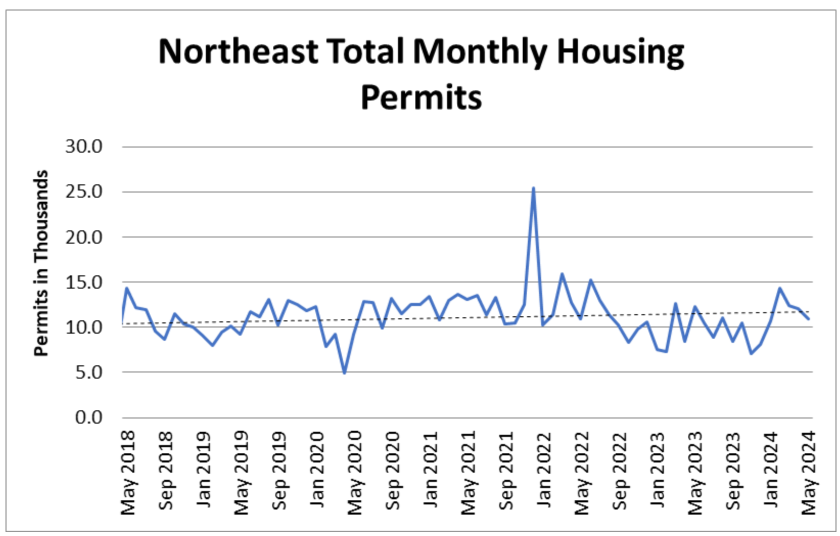
	2020	2021	2022	2023	2024	2025	2026
Housing Activity (000)							
Total Housing Starts	1,394	1,605	1,552	1,421	1,372	1,393	1,489
Single Family	1,000	1,131	1,006	949	1,030	1,048	1,104
Multifamily	393	474	546	473	342	345	385
New Single Family Sales	831	770	637	666	663	744	781
Existing Single-Family Home Sales	5,057	5,425	4,533	3,674	3,757	4,118	4,394
Interest Rates							
Federal Funds Rate	0.36%	0.08%	1.68%	5.03%	5.32%	4.55%	3.03%
Ten Year Maturity	0.89%	1.44%	2.95%	3.96%	4.33%	3.82%	3.59%
Fixed Rate Mortgages	3.11%	2.96%	5.34%	6.81%	6.85%	6.14%	5.75%
Prime Rate	3.54%	3.25%	4.85%	8.19%	11.28%	10.69%	8.78%

For more forecast details, visit www.nahb.org.

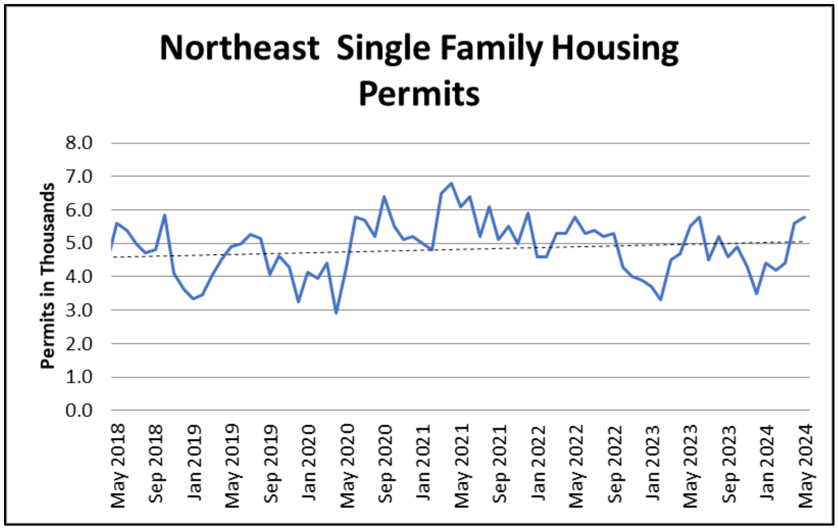
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

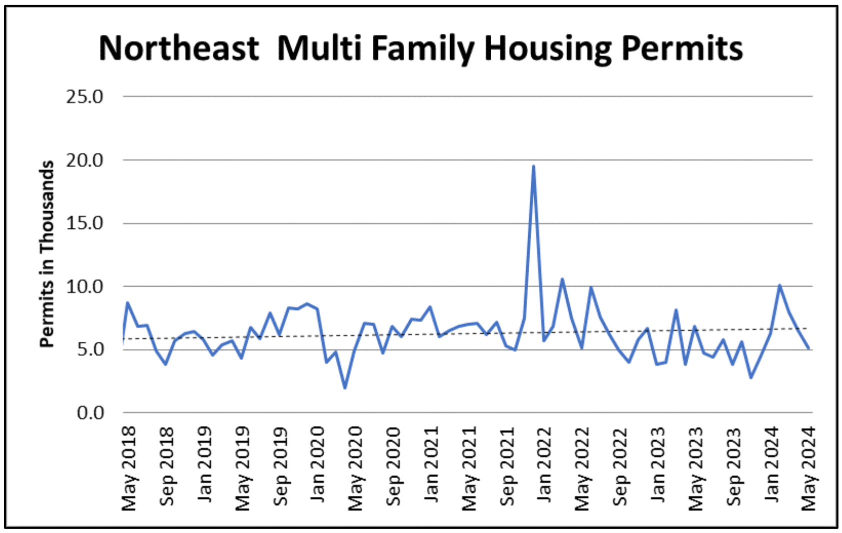
- Northeast total housing units authorized for construction were down in May by 9.9% M/M (-2.4% last month). May was the latest regional data available throughout this series.
- The 3-month moving monthly average was down 8.5% (+6.0% last month).
- On a year-over-year basis, permits were down 11.4% (+42.4% in the last update).



- Month-over-month single family permits were up 3.6% (+27.3% last month).
- On a 3-month moving average basis, permits were up 11.9% (+9.2% last month).
- Year-over-year permits were up 5.5% (+19.1% last month).

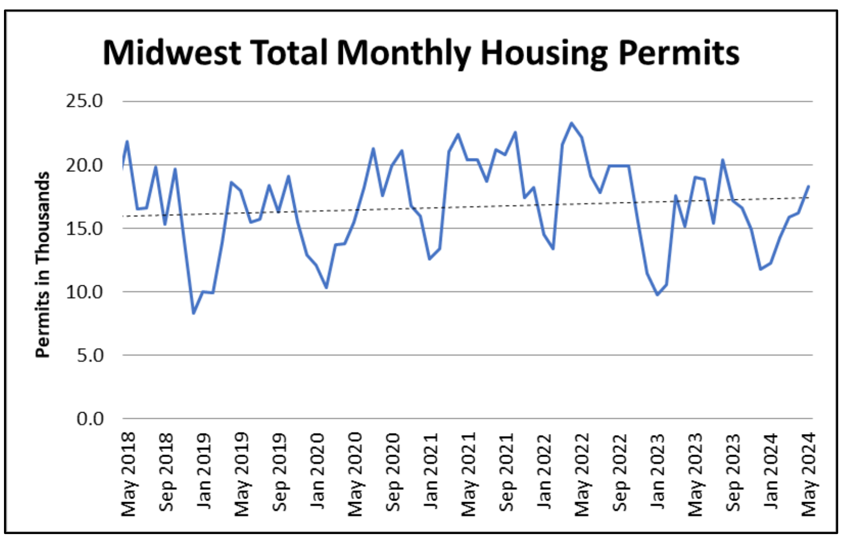


- Multi-family housing permits authorized for construction were down 21.5% M/M (-18.8% in the last update).
- They were down 20.4% on a rolling 3-month average (+6.9% last month).
- On a year-over-year basis, they were down 25.0% (+71.1% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

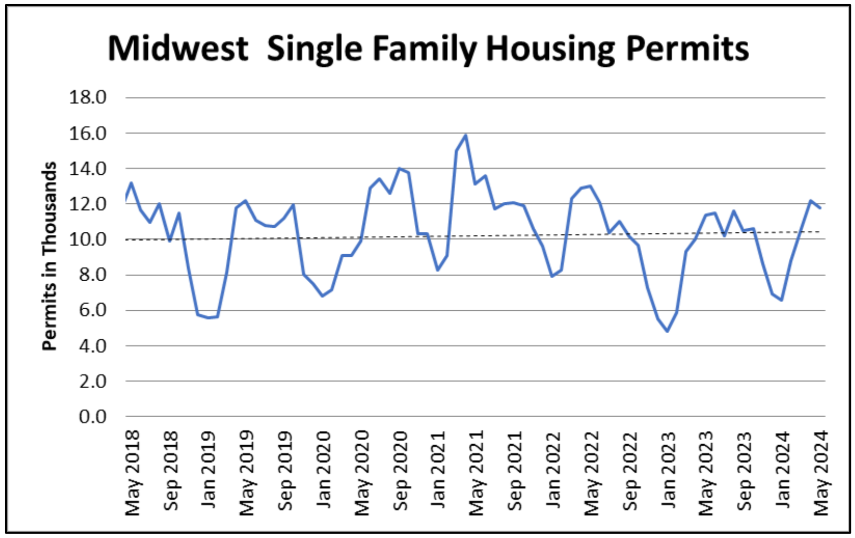


Regional market outlook: Midwest

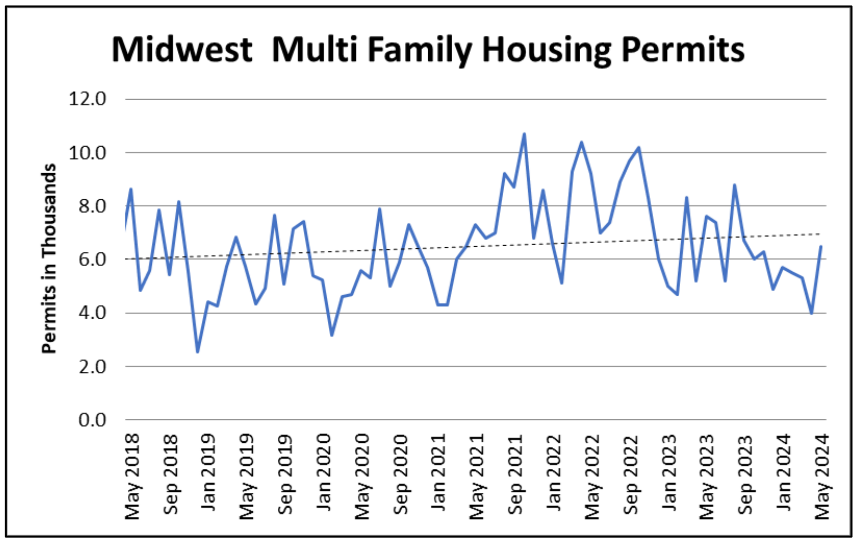
- Midwest total housing permits were up 13.0% month-over-month (+1.9% in the last update).
- The 3-month average was up 8.7% (+9.8% in the last update).
- On a year-over-year basis, permits were down 3.7% (6.6% in the last update).



- M/M permit volumes were down 3.3% (+15.1% last month).
- The 3-month rolling average shows that permits were up 10.8% (+23.0% in the last update).
- Year-over-year, single family homes authorized by permits were up 3.5% (+22.0% in the last update).

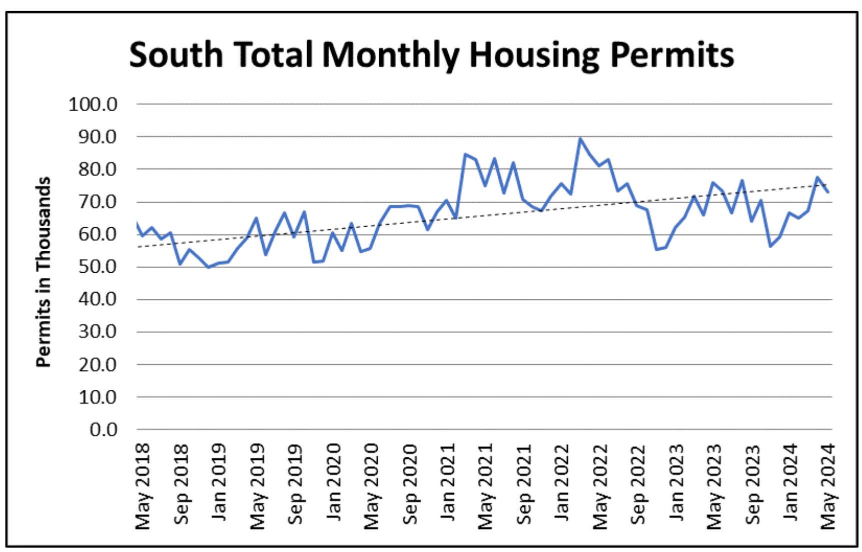


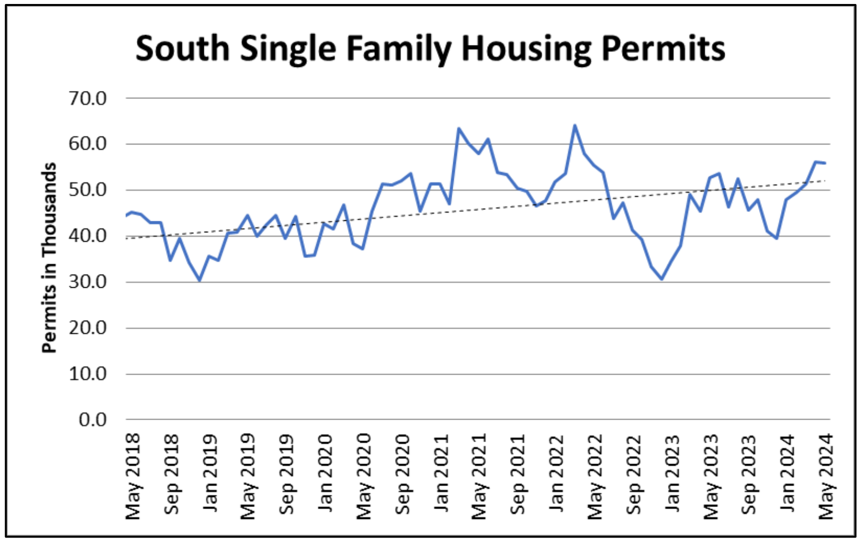
- Multi-family housing permits, again, are volatile month-over-month. This month, they were up 62.5% (-24.5% last month).
- On a 3-month rolling average basis, they were up 11.4% (-10.6% in the last update).
- On a year-over-year basis, permits were down 14.5% (-23.1% in the last update).



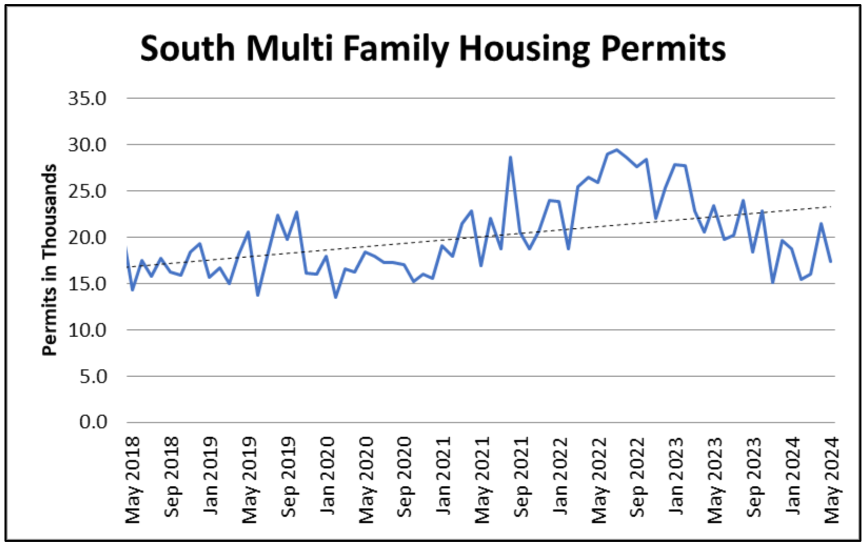
Regional market outlook: South

- Southern region housing permits were down 5.5% month-over-month (+15.3% in the last update).
- On a 3-month rolling average basis, permits were up 4.4% (+5.4% in the last update).
- On a year-over-year basis, total permits were down 3.7% (+17.5% in the last update).



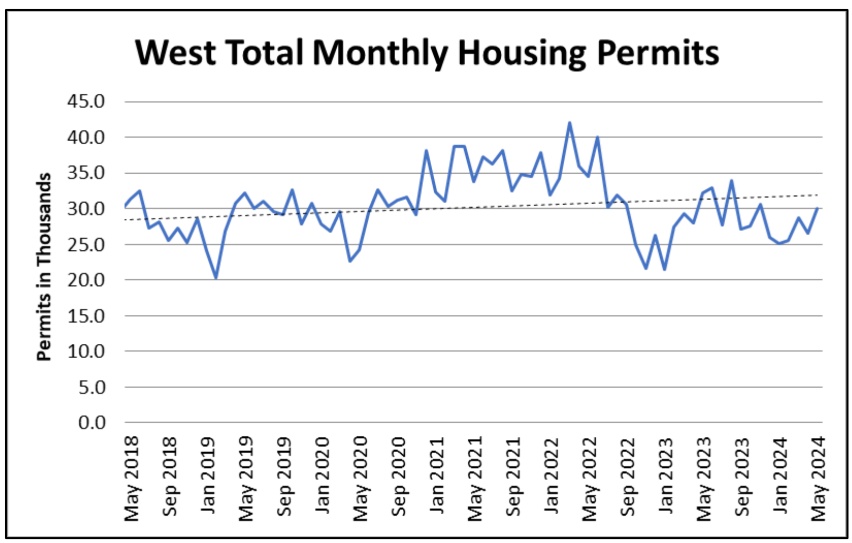


- Southern region single family home permits were down 0.4% M/M (+9.4% last month).
- On a 3-month rolling average, they were up 4.2% (+5.3% in the last update).
- On a year-over-year basis, single family permits were up 6.1% (+23.6% in the last update).



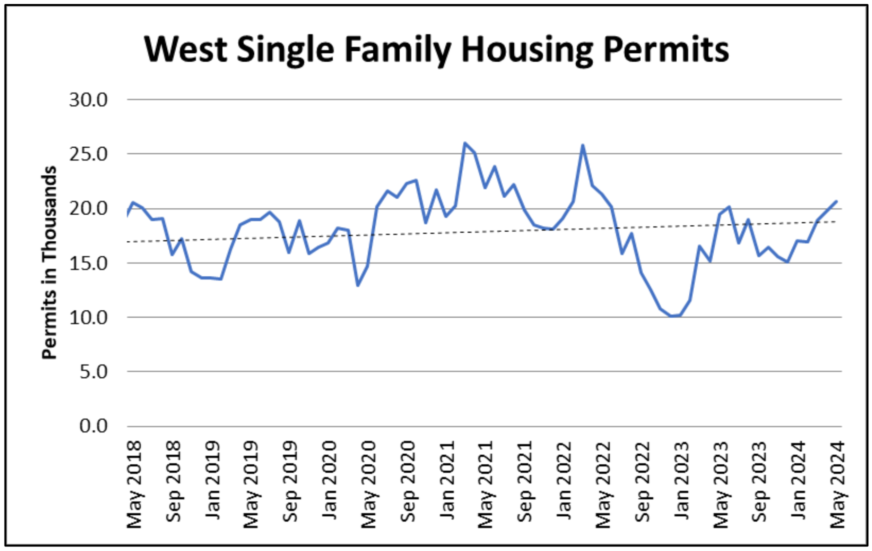
- Southern multi-family permits were down 19.1% M/M (+34.4% last month).
- On a 3-month rolling average basis, permits were up 6.4% (+6.9% last month).
- On a year-over-year basis, permits for multi-family housing were down 25.6% (+4.4% in the last update).

Regional market outlook: West

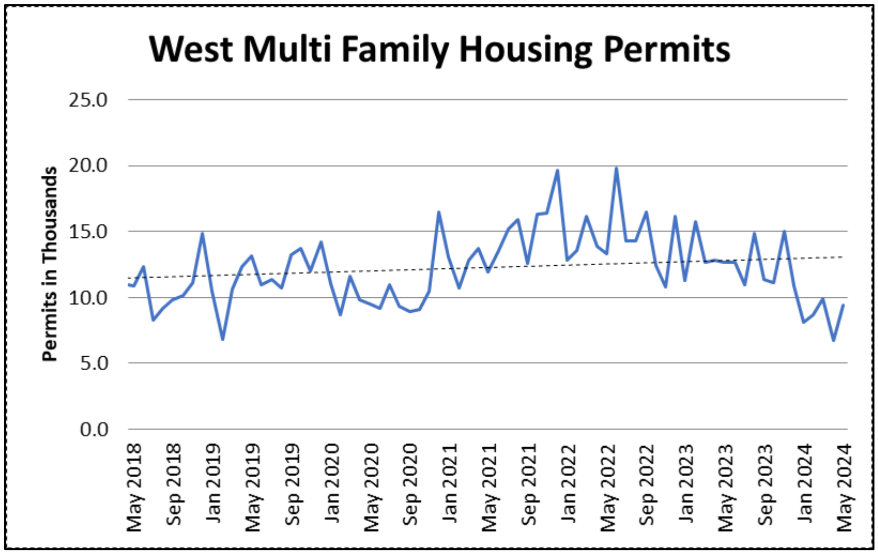


- Western region total monthly housing permits were up 13.2% M/M (-8.0% last month).
- On a 3-month rolling average basis, they were up 5.9% (+2.2% last month).
- On a year-over-year basis, permits were down 6.8% Y/Y (-5.4% in the last update).

- Single-family permits were up 4.0% M/M (+4.8% last month).
- On a 3-month moving average basis, permits were up 6.9% (+5.3% in the last update).
- Year-over-year, single family permits were up 5.6% (+30.3% in the last update).



- Multi-family permits were up 40.3% M/M (-32.3% in the last update).
- On a 3-month rolling average, it was up 7.3% (-3.7% in the last update).
- Year-over-year, multi-family unit permits were down 26.0% (-47.7% last month).



Industry Outlook

ASA Sales were higher by 0.7% Y/Y (10.2% last month) in May (latest available). Year-to-date through May, sales were up 0.3% (0.4% in the last update). For the trailing twelve months prior, sales were up 0.4% (1.2% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

	May Y/Y % Change in Total Dollar Sales	YTD % Change vs. YTD 2023	Trailing Twelve Months % Change
All Businesses	**0.7%**	**0.3%**	**0.4%**
By Primary Business			
PHCP	1.3%	1.3%	0.1%
PVF	-2.3%	-2.3%	0.5%
PHCP & PVF	1.4%	-0.1%	0.7%
By Region			
1 (SWPD & WSA)	-6.3%	1.5%	-0.8%
2 (ASA Central)	3.9%	-1.0%	1.3%
3 (SWCD)	-1.8%	-6.0%	-1.4%
4 (NCWA)	1.8%	1.9%	2.6%
5 (ASA Northeast)	1.2%	-0.2%	-0.8%
6 (SWA)	3.3%	-0.6%	-0.2%
*ISD - Insufficient Data			

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months. The last report available was from March (still delayed from the BTS) and it showed that the TSI was at 136.2 for freight, down 1.2% M/M but down 1.0% Y/Y (-1.1% Y/Y last month).

More recent data (comparing similar industry data to the TSI) from other sources show trends that are still weak. DAT Trendlines was reporting at the end of May (latest available) that spot truck freight demand was **2.6% lower than it was a year ago**. Spot trucking rates have fallen 2.1% Y/Y, and now fuel surcharges are down -2.4% Y/Y.

The EIA is projecting that oil production will approach 13.2 million barrels per day in 2024 (from 13.1 million in Q1) and consumption will remain above 20 million barrels per day (up from 19.75 million barrels per day – an increase of 255,000 barrels per day).

Conflict in the Middle East is keeping analysts on edge as exchanges between Israel and Hezbollah in Lebanon were increasing in intensity at the time of writing. Generally, OPEC+ has vowed to increase output by the end of Q3 but analysts are uncertain as to the capacity to add more inventory on the global stage beyond current levels. Some believe that members of OPEC+ may have been ignoring quotas to generate cash flows at a time of mild global distribution challenges (a result of the Red Sea closure). That has driven tanker costs higher and the primary cost of procuring oil from foreign sources has become elevated as a result. Offsetting that is a strong US dollar which discounts anything purchased in dollars from foreign markets.

Retail sales were mixed again in May (latest available) across many categories' month-over-month. Total retail sales were fairly flat month-over-month and were 2.3% higher year-over-year. Stripping out fuel and automotive, they were up 0.2% M/M and were 2.0% higher Y/Y.

Kind of Business	Percent Change May 2024 Advance from --	
	Apr. 2024	May 2023
Retail & food services, total	**0.1**	**2.3**
Retail	**0.2**	**2.0**
Motor vehicle & parts dealers	**0.8**	**1.3**
Furniture & home furn. stores	**-1.1**	**-6.8**
Electronics & appliance stores	**0.4**	**1.8**
Building material & garden eq. & supplies dealers	**-0.8**	**-4.3**
Food & beverage stores	**-0.2**	**1.6**
Grocery stores	**-0.4**	**1.3**
Health & personal care stores	**0.1**	**-0.7**
Gasoline stations	**-2.2**	**1.6**
Clothing & clothing accessories stores	**0.9**	**2.4**
Sporting goods, hobby, musical instrument, & book stores	**2.8**	**-2.6**
General merchandise stores	**0.1**	**2.7**
Department stores	**0.0**	**-1.6**
Nonstore retailers	**0.8**	**6.8**
Food services & drinking places	**-0.4**	**3.8**

When adjusted for inflation, sales were slightly higher month-over-month in May by 0.1% and were also down by 0.9% compared to last year at this time (they were down by 0.3% year-over-year last month). Again, this month, the divide between essential retail spending and discretionary categories was clear. Many discretionary sectors were lower month-over-month.

Home improvement retail sales volumes retreated in May, they were lower by 0.8% M/M and they were sharply lower by 4.3% against last year. Retailers noted that they were still experiencing lower volumes but were waiting on what they expect to be improvements in smaller home improvement projects to pick up this summer.

Second quarter GDP continued to slow from early estimates. The quarter started out at 4.2% but has now fallen to 2.2% according to the GDPNow estimates from the Atlanta Federal Reserve. This is a rolling estimate and the Atlanta Fed stated that it was an unexpected slowing in consumer spending once again that was starting to weigh on overall growth. In addition, although still strong, gross private investment slipped from a rolling growth rate of 8.8% to 8.7% in the latest data. Again, this is a strong private investment growth rate (including both individual households and corporate spending) according to the Atlanta Federal Reserve.

The outlook for Non-residential construction remained consistent for the next 18 months, it continued to show spending volumes in the upper end of the all-time highs hit earlier this year. As mentioned last month, anecdotes continue to suggest that some private projects are being put on hold pending the Federal Reserve's decisions on interest rates and some uncertainty being created by the US election. Government investment from the Infrastructure Bill, CHIPs Act, and Inflation Reduction Act will likely keep construction spending steady in 2024.

As mentioned last month, much of this will depend on the Federal Reserve and interest rate policy moving forward (and easing of interest rates could spur more growth). The latest estimates from the Fed suggest that a higher for longer policy is likely – but prospects for one or two quarter-point cuts are still in the conversation. Economic activity is still stable, and inflation (most importantly) is still hotter than target rates. The Fed has set a longer term rate target of 2.5% to 3% - likely hitting that in late 2025 or early 2026.