Monthly Economic Report (MER)

September 2024

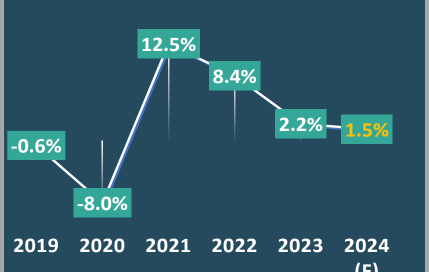
Selected Indices

REAL GDP

INDUSTRIAL PRODUCTION

NEW HOUSING STARTS (MILLIONS)

BUSINESS INVESTMENT



Executive Summary – Sep '24

Big Items

GDP: Q3 GDP is still moving along better than expected with current growth estimated at nearly 3%. This is higher than analysts' expectations for 1.8% but is still sluggish against last year's 5.2% rate. The east coast port strike could throw cold water on growth in Q4, some estimates predict as much as a half a point of GDP could be lost during the strike for Q4. The strike itself is expected to cost the economy more than $5 billion a day and lead to inventory shortages across many sectors of the economy.

Industrial Production: Total industrial production was flat year-over-year through August but had managed to inch up by 0.8% month-over-month. Manufacturing industrial production was slightly higher by 0.9% M/M and 0.2% Y/Y. Better to be holding its own than contracting, but it was essentially flat. Mining industrial production was up 0.8% M/M and was up a marginal 0.1% year-over-year. Lastly, utility industrial production (which includes electric and gas) was flat M/M and was down 0.9% Y/Y. Hurricane Helene will become a footnote and affect Industrial Production in the coming months.

Housing Starts: New housing starts are volatile right now and came in at a 1.356-million-unit rate on an annualized basis (higher than last month's adjusted 1.238 million annual rate); and the outlook for the rest of 2024 remains flat based on current industry trends. Single family starts were higher in August by 15.8% M/M (latest available) and were higher by 5.2% Y/Y against easier comparisons. Multi-family starts are volatile and were down by 6.7% M/M and were down 6.2% Y/Y.

Home Improvement Retail: Home Improvement retailers reported a mild 0.1% increase month-over-month in retail sales through August. Sales were also down 0.1% Y/Y in the same period. It is uncertain what impacts Hurricane Helene, and the East Coast Port strike might have on industry. In many cases, it will create a surge in activity across most regions, especially in the southeast. But there could be some inventory issues as retailers struggle to get products on the shelf after being depleted by the two events.

Manufacturing: The data from the various purchasing managers' indices show the US manufacturing sector in contraction, S&P Global showed a PMI of 47.3 which is down from 47.9 last month (a reading below 50 is considered to be contraction territory). This is a global phenomenon as more than 19 of the 30 top markets had manufacturing also in contraction. New orders remain sluggish, and some manufacturers were watching headcount more closely with some opting to trim staff despite the challenges in attracting quality talent.

Big Risks

East Coast Port Strike: At the time of writing, the East Coast Port Strike was ongoing. Estimates show that a work stoppage extending more than a week could take more than 3-5 weeks to unravel. If the strike were to go more than 3 weeks, it might take until January of 2026 to get backlogs cleared. In the meantime, inventories will be depleted in the near term as shipping stalls and shipping costs will rise in the months to come as containers and ships get moderately stranded awaiting docking.

What to Watch

Global Supply Chain: The Middle East tensions were still growing at the time of writing and threats to oil infrastructure were still on the table. Oil prices have not surged yet, but the volatility in the region is of concern.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

Kansas Weather and the Economy – I bet you are struggling to figure out the connection at this very moment. There is a saying here that if one doesn't like the weather, just wait five minutes. One could say that about the performance of the economy these days. If you are tired of the current state of the economy, all you need to do is wait a day and it will change – maybe for the better and maybe for the worse.

In just the last week we have seen some major shifts that will deeply impact the end of this year and the start of next. The first shock (albeit a minor one) was the Fed's decision to reduce the interest rates by a half point as opposed to the expected quarter point. This essentially means the Fed is no longer all that concerned about inflation even though wage rates are still twice the underlaying rate of inflation. The sense is that the Fed is on the path to rates between 2.75% and 3.50% by the end of next year (or early 2026).

The second shift has just started, and few have a sense of what happens from here. The dock workers are on strike throughout the east and gulf coast. This has been telegraphed for months and many operations have been preparing for it by loading up on inventory earlier than usual. If the strike is relatively short (two weeks or so) the impact will be minimal but if it drags on for weeks and months the economy will take a big hit. The west coast strike of a few years ago ended up lasting multiple weeks and cost over a point of US GDP (billions of dollars for every day of the strike). The key issue here is job security and the deployment of technology. The US ports are the most inefficient in the world and productivity is miserable.

The third shift is due to concerns about the Middle East war. How far does this go? Both sides are deepening their engagement, but both are also showing initial signs of restraint. Israel has not penetrated deep into Lebanon as yet and Iran has not brought all it has to the fight – yet. The problem is that there seems no room for negotiation yet. The impact on oil prices has been minimal thus far – Brent up to just $75 a barrel and WTI at less than that.

The fourth potential crisis involves Taiwan. China seems to have given up on the idea of outright invasion and now threatens some kind of blockade or quarantine. This would all but cut off trade between Taiwan and the world – even communications are being threatened. The US and Japan have been reacting and are trying to warn China off. The US announced that Seal Teams could help with training and that is a direct threat to a seagoing effort. Japan has declared Taiwan to be part of their defense perimeter. Given China's economic challenges the question is whether they can afford to keep irritating their primary trade partners. They just launched a major stimulus effort, and they need exports to make this work.

Reader Question of the Month

Q: What Would Keep Interest Rates from Dropping?

A: The rate cutting has finally started. What now? There are two main schools of thought. The first asserts that this is just the beginning of a rapid reduction with an ultimate goal of rates between 2.75% and 3.50%. This position asserts that rates would be at these lower levels by the end of next year. The counter position is that rates will drop far more slowly and that by the end of 2025 they will be down no more than to 4.0%-4.5%. What would keep the rates from falling?

The most important consideration for the Fed remains wages. The rate of wage increase is still almost twice as fast as the overall inflation rate. The driver for these wage hikes has been obvious for some time and we have been hammering on this point for years. The fact that 72 million Boomers will have reached retirement age by 2030 means a worker shortage that Is not easily addressed. Workers have leverage and they know it. Persistent wage hikes will keep inflation high and that worries the Fed. The second issue is the return of other inflation drivers such as transportation costs and the price of oil. The Red Sea conflict already drove container inflation over 200% due to rerouting. Now comes the dock strike along the east and gulf coast. The estimate is that shipping inflation could hit 300% if the strike lasts more than a few weeks. Then there is oil. The Middle East war has not pushed per barrel prices into the stratosphere yet (up to $75 a barrel thus far) but if Israel elects to attack Iran’s oil facilities the impact will be much greater. These situations may not play out, but the central banks have to assume they are possible and that keeps the idea of “higher for longer” intact.

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 $4.64/lb. ($4.10/lb. last month).
- The Producer Price Index (PPI) for August (latest PPI available) was 549.499 down month-over-month by 4.0% (+1.4% last month). It was up 9.9% year-over-year (+13.9% last month). The all-time high was 596.7 in May 2024 and the low was 302.9 in 2016.
- **Looking Ahead**: Copper prices are still surging and were 17.5% higher YTD and were 24.46% higher Y/Y. As mentioned in the prior section, many of these higher costs for raw materials have not yet transferred into the producer side of the market, those producer prices will react in the next 30-45 days, and we expect them to go higher.

General Commodities Discussion:

Nickel: (WPU102504)

- LME Nickel Prices have risen over the past 30 days and were @$7.62 per lb. ($7.37 in the last update). Producer prices for nickel were higher month-over-month in August (latest available) by 1.3%. But they remained 1.8% lower year-over-year.
- **Outlook**: "*ING has set their nickel forecast for $19,500/t for the third quarter of 2024, down from $21,000/t hit in Q2. BMI has a long-range forecast for nickel to average near $27,000/t by 2027.*"

Carbon Steel: (WPU101706)

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were inching up over the past 30 days and were $743.00 per ton in early October ($705 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 August (latest available). They were down 1.3% month-over-month (down 0.1% last month). Year-over-year, the PPI was 6.5% lower (also -6.5% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "*Carbon steel pricing is up 15% over the last month, while down just over 30% year-to-date. Increased pressure on imports has driven up imported steel pipe quotes, matching domestic increases. On international fronts, China has been exporting large amounts of steel all year, while India has seen demand for its steel offerings diminish while its own imports rise. Global scrap prices have remained relatively flat, leading one to wonder if these recently increased carbon steel prices will stick.*"

Stainless Steel: (WPU10170674)

- The Producer Price Index for stainless pipe and tube inched up in August (latest available). Producer prices for stainless pipe rose by 1.3% month-over-month (1.4% last month); but they were still down 1.8% Y/Y (down 7.2% last month).
- **Outlook**: "*The stainless weld fitting market continues to have a less-than-stellar year as prices remain flat. It still seems that major projects that have any swing with the election results are waiting until there is a clear winner.*"

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap were unchanged in August vs. the prior month, coming in with an index of 469.1 (470.76 last month). This was lower by 0.4% M/M (2.9% last month). Year-over-year it was down by 1.3% Y/Y (-0.1% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.
- **Outlook**: "*Long term forecasts still show that global increases in scrap volume will be needed in the next 10 years. By volume, scrap will account for 50% of the global iron content in steel by 2030, up from 35% today. By that point, annual scrap consumption in both China and the US will likely be 40% to 50% higher than today, much of it to make more steel*."

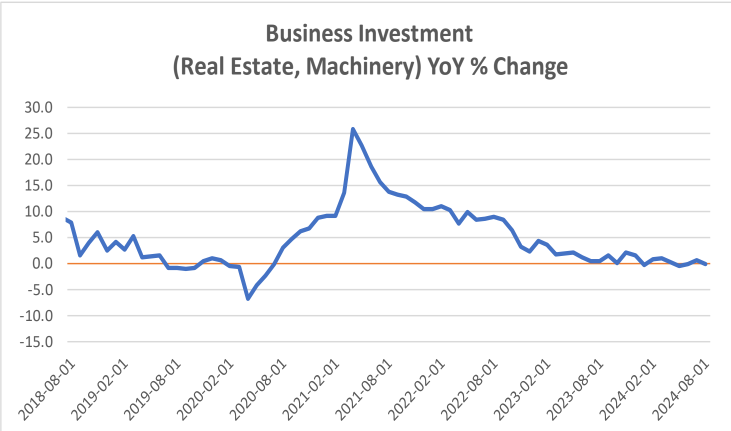
Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.

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.

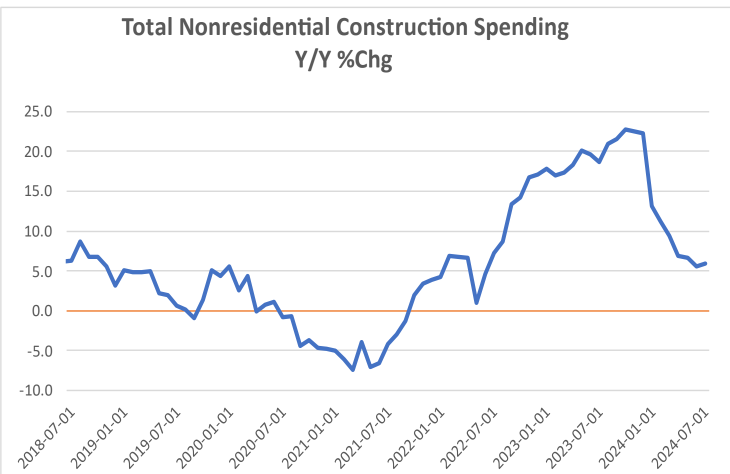
Producer Price Index - Key Industry Products						
Category	PPI Code	Aug-24	Jul-24	M/M% Chg	Aug-23	Y/Y % Chg
Core Materials						
Copper	WPUSI019011	549.4	579.8	-5.2%	499.8	9.9%
Lumber	WPU081	252.3	247.6	1.9%	255.7	-1.3%
Nickel	WPU102504	215.9	213.2	1.3%	219.9	-1.8%
Cement	PCU32732032732(	390.1	390.7	-0.2%	374.5	4.2%
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	441.4	441.4	0.0%	437.0	1.0%
Gates, globes, angles and check valves	WPU114902011	171.5	171.5	0.0%	165.8	3.4%
Ball valves	WPU11490202	570.2	570.2	0.0%	590.0	-3.4%
Butterfly valves (formerly W2421490203)	WPU11490203	318.0	318.0	0.0%	306.1	3.9%
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%	389.8	0.0%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	407.9	407.9	0.0%	406.2	0.4%
Automatic valves	WPU11490211	263.7	263.7	0.0%	249.1	5.9%
Metal pipe fittings, flanges and unions	WPU11490301	509.8	509.8	0.0%	477.0	6.9%
Steel pipe and tube	WPU101706	364.9	369.9	-1.3%	390.2	-6.5%
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	133.9	137.2	-2.4%	144.5	-7.3%
Copper & copper-base alloy pipe and tube	WPU10250239	440.7	440.7	0.0%	338.8	30.1%
Plastic pipe	WPU07210603	188.0	188.5	-0.3%	196.1	-4.1%
Plastic pipe fittings and unions	WPU07210604	322.1	320.3	0.6%	318.2	1.2%
Plumbing Fixtures, Fittings and Trim	WPU105402	402.0	402.0	0.0%	395.0	1.8%
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	207.9	207.9	0.0%	204.6	1.6%
Enameled iron and metal sanitary ware	WPU1056	284.5	284.5	0.0%	284.4	0.0%
Steam and Hot Water Equipment	WPU1061	456.5	450.6	1.3%	428.5	6.5%
Cast iron heating boilers, radiators and convectors	WPU10610106	309.9	304.7	1.7%	289.7	7.0%
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	139.2	141.0	-1.3%	135.9	2.4%

PHCP & PVF



Capital Goods New Orders (NEWORDER)

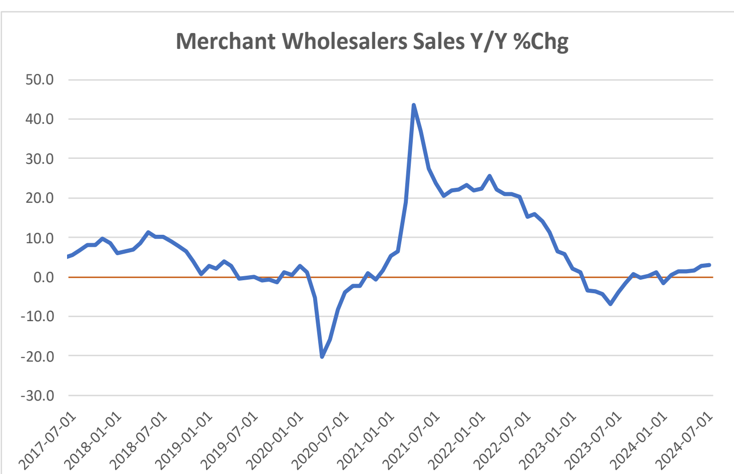
- The value of manufacturers' new orders for capital goods went down 0.7% in August M/M (+0.7% last month). Investments were down by 0.1% Y/Y (up 0.6% last month) but continued to be stable overall on total spending.
- **Outlook**: Most analysts keep expecting business investment to swoon as the economy slows down. But there have been many instances where firms have increased spending and investment in technology, automation, and increasing capacity to help with long-term profitability. Although the rate of growth has slowed, total spending is still well above the long-term trend and that level of spending (at more than $75 billion) is showing no signs of softening off this level.



Total Non-Residential Construction

(TLNRESCONS)

- Total Non-Residential Construction activity in August (latest available) was 5.2% higher than it was a year ago (5.9% higher last month) and was 0.1% higher M/M (+0.3% in the last report). Overall spending was still near all-time highs at $1.132T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: When adjusted for inflation again this month, communication, health care, lodging, office, and commercial sectors contracted vs. last year's levels. But other sectors were growing, even after inflation adjustments. Manufacturing was still among the strongest and good for ASA members, but infrastructure spending was also strong and helping drive growth in the sector, some facets of which may help distributors.

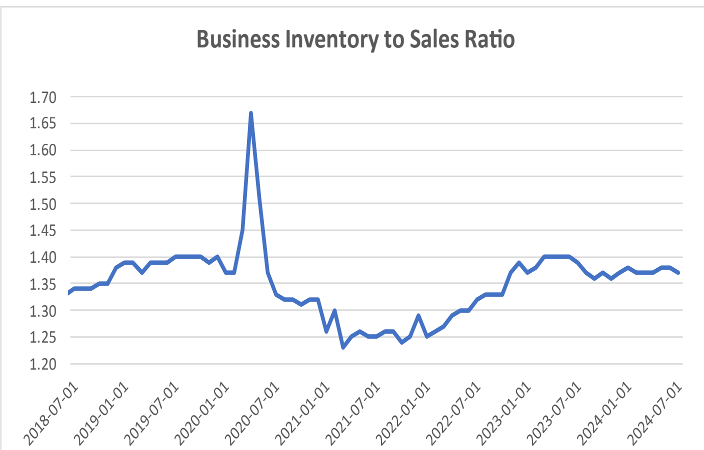


Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 2.9% Y/Y through July (latest available; up 2.7% Y/Y in the last update). Month-over-month, sales were increasing by 0.2% (+1.0% last month).
- Wholesale inventories were up 0.4% year-over-year in July (latest available; down 0.1% last month).
- **Outlook**: The US East and West Coast port strike could really disrupt this data, especially on the inventory side of things. Some estimates suggest that a strike of two weeks would take the rest of the year to unravel. Even a short term strike of just 5 days could take more than 2-3 weeks to fix. Although it may take a lot to return us to the supply chain crisis of 2021/2022, this is the closest Black Swan event to that scenario – if it continues to go past this coming weekend. Inventories will get depleted quickly at the wholesale level.

Manufacturing (AMTMNO)

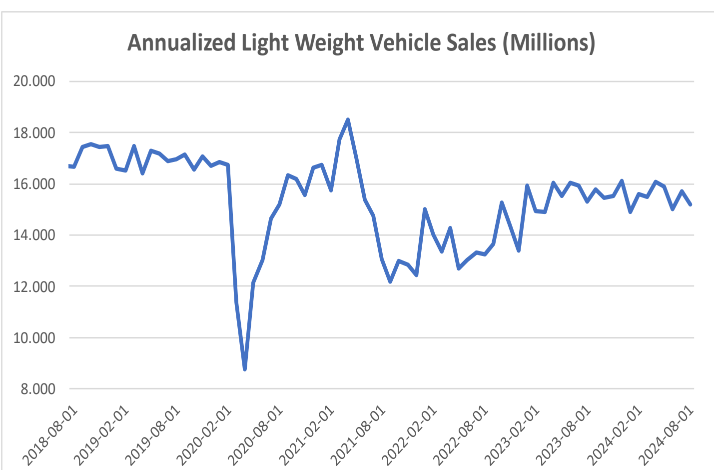
- Federal data on manufacturing was up 2.2% Y/Y (-3.7% last month) through July (latest available). It was down up 5.9% month-over-month (-4.7% last month).
- The S&P Global US manufacturing PMI came in at 47.3 in September, down from 47.9 in August.
- **Outlook**: This was a surprise heading into the peak retail season, and another concerning signal. The ISM PMI (which also includes a lot of government manufacturing orders) was similarly weak at 47.2. Global manufacturing sluggishness was evident on a broad basis, and more than 19 countries out of 30 major markets monitored had manufacturing sectors in contraction. This should help free up commodities in some cases, but it is also creating sluggish demand environments which limit pricing power.



Business Inventory to Sales Ratio (ISRATIO)

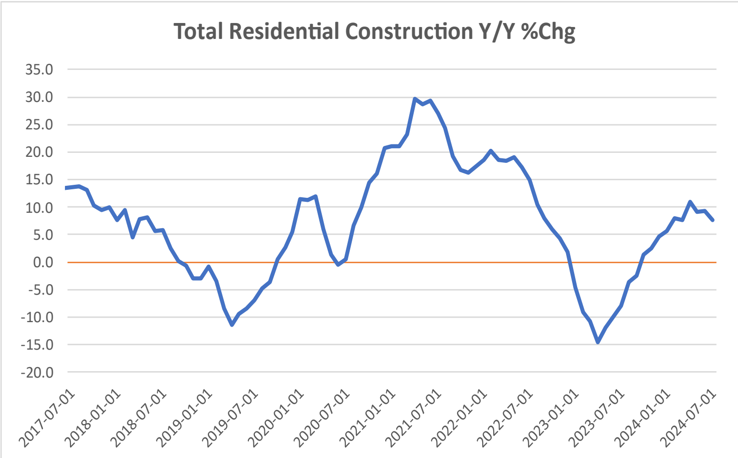
- The current inventory to sales ratio for all businesses is at 1.37 months of inventory on hand in July (latest available; 1.38 last month). Relative to sales, inventories are more balanced with some sectors underweight, this month's ratio was 0.0% lower Y/Y (0.0% last month as well).
- **Outlook:** Similar to the past two months, **o**nly 27% of the goods producing, handling, and selling industries in the US were overstocked when stripping out large durable goods (planes, trains, ships, etc.). Some retailers and manufacturers had leaned out their inventories so much that the current port strike could work against them in a big way. Many retailers are seeing a run on certain product categories, and stockouts could rise in many sectors.

PHCP



Auto Sales (ALTSALES; AISRSA)

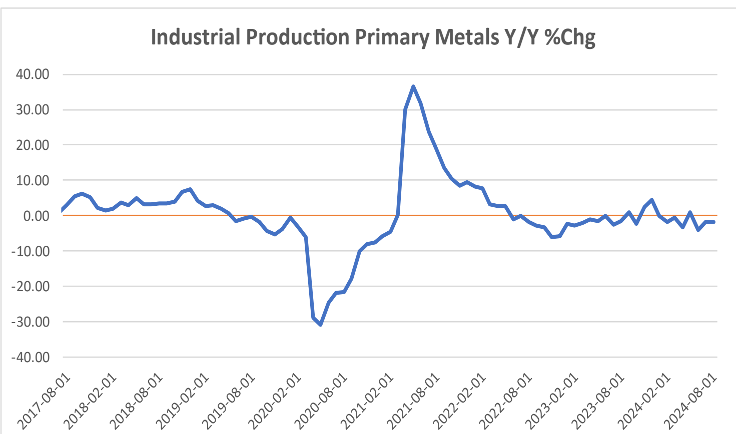
- US auto sales were trending at a 15.210-million-unit annual rate (15.702M last month) through August (latest available). This is down 1.1% year-over-year (-0.6% in the last update).
- The domestic auto inventory to sales ratio was up 34% Y/Y in August (latest available). On a monthly basis, it was down 41.9% (down 3.4% last month).
- **Outlook**: For perspective, auto sales were averaging 17.5 million units between 2014 and 2019. After diving to 12.5 million in September of 2021, they have climbed up into the 15.2 million range as reported. But sales by specific OEMs are showing deceleration through Q2 and Q3. Independent brands are also performing very differently. Over time, Fed rate cuts will help impact automotive interest rates, but it will take time for that to manifest at the consumer level and new auto sales.



Total Residential Construction (PRRESCONS)

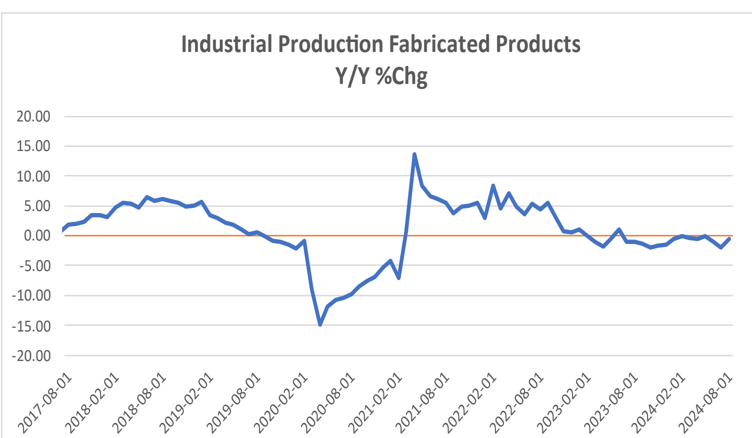
- Total residential construction in August (latest available), was up by 2.7% Y/Y (up 7.7% last month). It was down 0.3% M/M (-1.6% last month).
- **Outlook**: The Fed's 50 basis point cut in September will not have an immediate impact on new home sales or starts. It will take time for moves at the Fed to translate into lower treasury rates, which in turn pull mortgage rates down. That being said, refinancing of mortgages was almost instantaneous as bond rates fell, some refinancing activity was up 35% week over week in early September. Bond rates have been volatile of late, but if they continue to inch lower on Fed rate cut expectations, that will eventually lure new buyers into the market. As mentioned last month, spec home builders may start to inch back into the market with these rate cuts, custom home builder activity will remain robust.

PVF



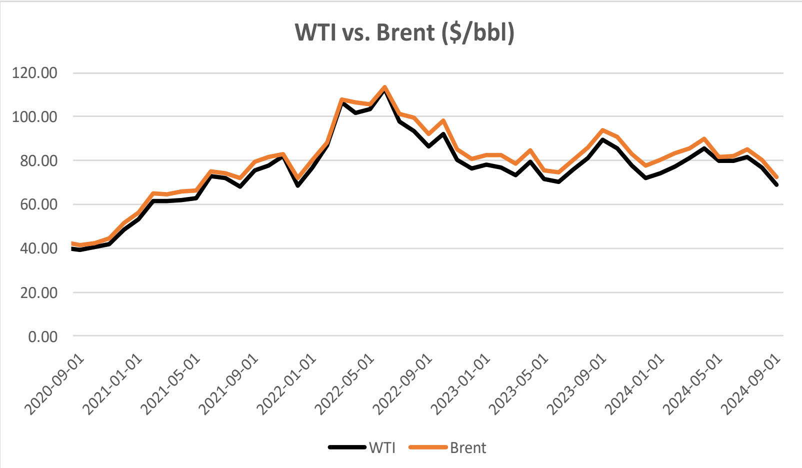
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was down 1.8% Y/Y through August (down 1.7% in the last update). It was down 0.1% M/M (up 2.4% M/M in the last update).
- **Outlook**: The Primary Metals sector continued to face strong headwinds through September. 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 0.6% Y/Y through August (down 2.0% last month). It was down up 1.4% on a month-over-month basis, (down 1.0% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and activity through September was slightly weaker. Models that forecast fabricated product manufacturing still show it improving through most of 2024 and through much of 2025. Growth in the sector (demand) is expected to remain stable despite some softness seen in some of the sectors that drive its growth.



WTI and Brent

- WTI is currently at $70.40 a barrel ($76.68 last month) and Brent is at $74.22 ($80.36 last month).
- **Outlook:** The latest tension in the Middle East put roughly a $5 geopolitical premium on oil prices. At the time of writing, Israel had yet to respond to an Iranian missile barrage on October 1st but vowed to strike within days (reports suggested at the time that some oil infrastructure could be among the targets). With that potential volatility, prices could go higher. What is interesting is that the industry is still fighting through any number of Black Swan events that could disrupt output and prices are not reacting as they have in the past. New production technologies allow the industry to become more dynamic, and output can fluctuate with demand. That helps keep prices in a solid $65-$80 range. What changes often will be the total amount of production (mentioned below in detail).

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

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	27-Sep-24	587	-1	-36
Canada	27-Sep-24	218	7	27
International	Aug-24	931	-3	-21

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 36 Y/Y (-48 in the last update) at 587 (1,049 in 2019); Canadian counts were up by 27 Y/Y (up 33 in the last update). International counts are down by 21 Y/Y (-27 in the last update).
- **Outlook**: US production of oil was still running near all-time highs at nearly 13.2 million barrels per day through September. The new EIA forecast shows the US hitting production levels near 13.7 million barrels per day by early 2026. Geopolitical events in the Middle East could speed up this urgency to bring on more US domestic production, and of course the outcome of the Presidential election could accelerate production and investment depending on the winner. The EIA still predicts that US consumption of oil will remain near 20.5 million barrels a day, keeping demand fairly steady with historical levels. Hurricane activity still needs to be monitored in the Gulf through the end of October. Thus far, despite some temporary issues with Hurricane Helene, the season has been relatively calm by most historical measures.

Construction Outlook

Residential construction: 30-year national average mortgage rates fell through early September to 6.08% (6.35% in the last update). But home builder confidence was slightly higher in September according to the NAHB/Wells Fargo index, it rose to 41 points (up from the August reading of 39). The all-time high was 90 points in November of 2020. Builders' confidence improved on Fed interest rate cuts and easing of mortgage rates prior to the September Fed meeting.

NAHB/Wells Fargo National and Regional Housing Market Index (HMI)

NATIONAL

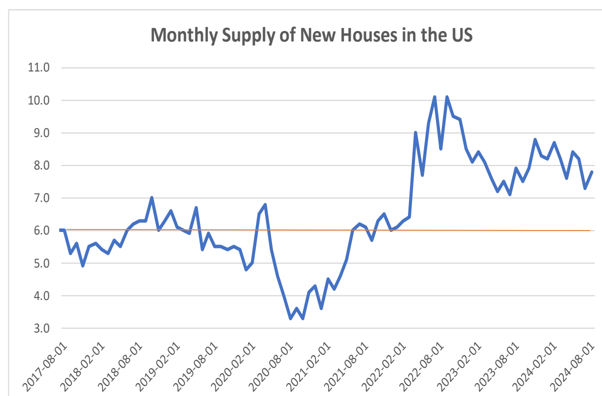
(Seasonally Adjusted)	2023				2024						
	Sep.	Oct.	Nov.	Dec.	May	Jun	Jul	Aug Revised	Sep Prelim.	M/M	Y/Y
Housing Market Index	**44**	**40**	**34**	**37**	**45**	**43**	**41**	**39**	**41**	**5.1%**	**-6.8%**
Housing Market Index Components											
Single Family Sales: Present	50	46	40	41	51	48	46	44	**45**	**2.3%**	**-10.0%**
Single Family Sales: Next 6 Months	49	44	39	45	51	47	48	49	**53**	**8.2%**	**8.2%**
Traffic of Prospective Buyers	30	26	21	24	30	28	27	25	**27**	**8.0%**	**-10.0%**

REGIONAL HMI

(Seasonally Adjusted)	2023				2024						
	Sep.	Oct.	Nov.	Dec.	May	Jun	Jul	Aug Revised	Sep Prelim.	M/M	Y/Y
Northeast	48	46	53	55	59	62	47	46	**55**	**19.6%**	**14.6%**
Midwest	38	37	31	35	50	40	39	38	**42**	**10.5%**	**10.5%**
South	48	43	35	39	45	43	43	39	**40**	**2.6%**	**-16.7%**
West	42	36	28	29	37	38	37	37	**42**	**13.5%**	**0.0%**

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was down 6.8% against September of 2023 (down 22% month-over-month).

Adjusted housing inventories were flat in August (latest available), coming in at 7.8 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 1.356-million-unit rate on an annualized basis (higher than last month's adjusted 1.238 million annual rate); and the outlook for the rest of 2024 remains flat based on current industry trends.

Single family starts were higher in August by 15.8% M/M (latest available) and were higher by 5.2% Y/Y against easier comparisons. Multi-family starts are volatile and were down by 6.7% M/M and were down 6.2% Y/Y.

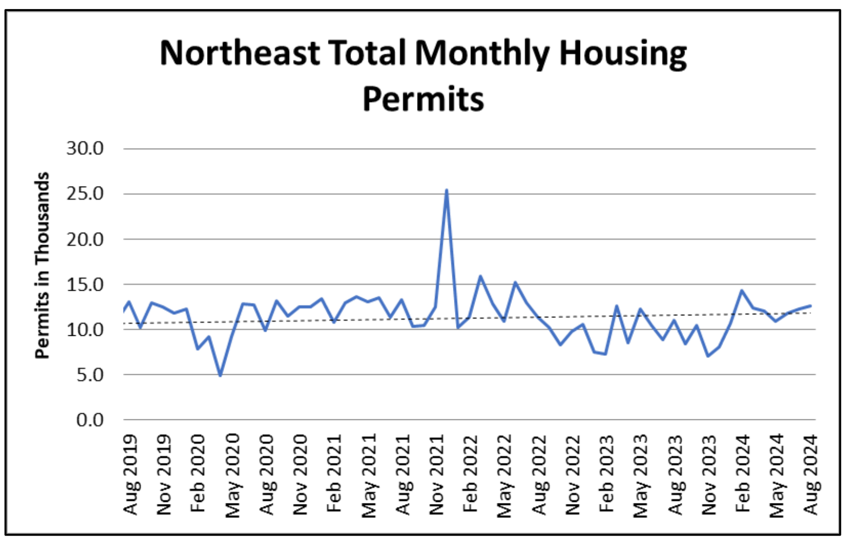
<u>National Outlook</u>: The Federal Reserve cut interest rates by a full 50 basis points, slightly ahead of expectations. More importantly, the Fed signaled that rate cuts could be more aggressive than expected with the Fed hitting its long-term target rate of 2.9% by early 2026. That would suggest another 50 basis point cut between now and the end of the year and as much as a full point in cuts in 2025. <u>That will energize the construction market in some sectors, especially in the residential markets</u>. Office projects will still be slow to rekindle despite lower rates (but are highly regionalized and some pockets will experience good growth), but other nonresidential sectors could get a boost from rate cuts.

NAHB Housing and Interest Rate Forecast, 09/13/2024							
	2020	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**
Housing Activity (000)							
Total Housing Starts	1,394	1,605	1,552	1,421	1,333	1,350	1,489
Single Family	1,000	1,131	1,006	949	998	1,019	1,104
Multifamily	393	474	546	473	335	331	385
New Single Family Sales	831	770	637	666	679	727	781
Existing Single-Family Home Sales	5,057	5,425	4,533	3,674	3,759	4,118	4,417
Interest Rates							
Federal Funds Rate	0.36%	0.08%	1.68%	5.03%	5.25%	4.10%	3.16%
Ten Year Maturity	0.89%	1.44%	2.95%	3.96%	4.12%	3.53%	3.32%
Fixed Rate Mortgages	3.11%	2.96%	5.34%	6.81%	6.64%	5.86%	5.49%
Prime Rate	3.54%	3.25%	4.85%	8.19%	8.42%	7.25%	6.29%
For more forecast details, visit www.nahb.org.							

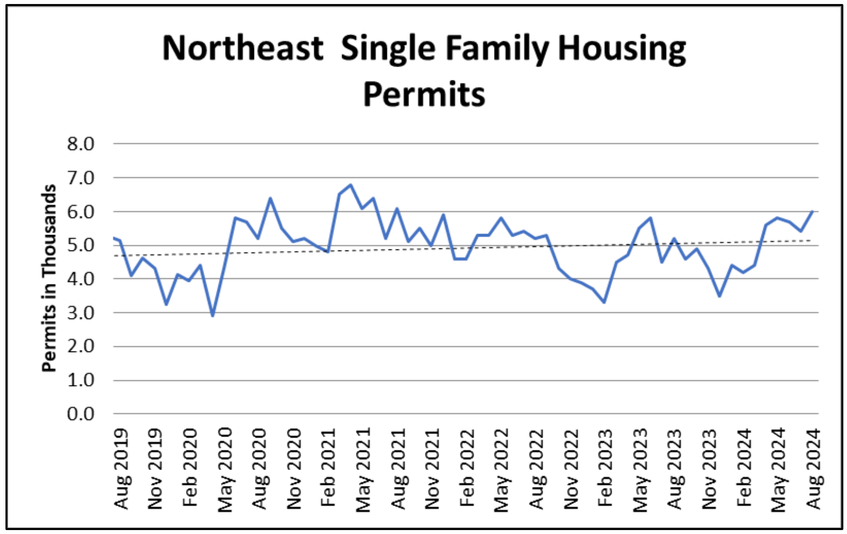
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

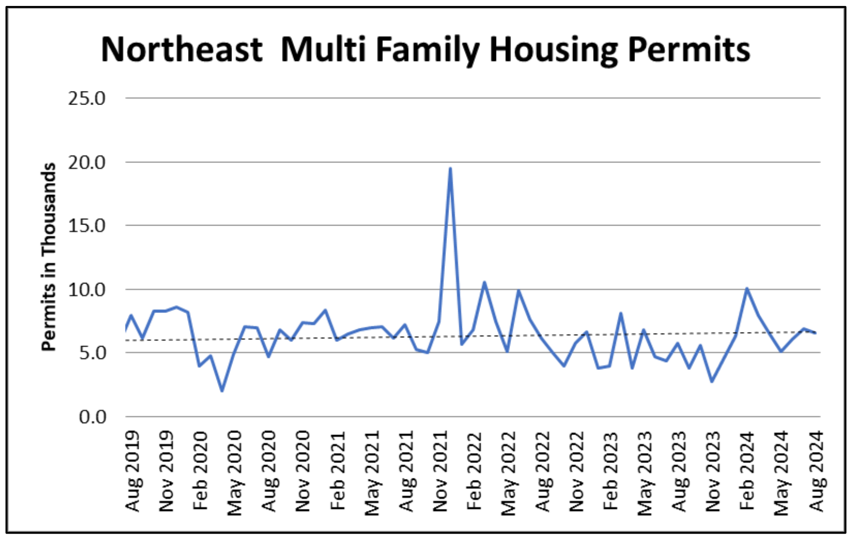
- Northeast total housing units authorized for construction were up in August by 2.4% M/M (4.2% last month). August was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 5.0% (0.9% last month).
- On a year-over-year basis, permits were up 14.5% (38.2% in the last update).



- Month-over-month single family permits were up 11.1% (-5.3% last month).
- On a 3-month moving average basis, permits were up 1.4% (-1.1% last month).
- Year-over-year permits were up 15.4% (+20.0% last month).

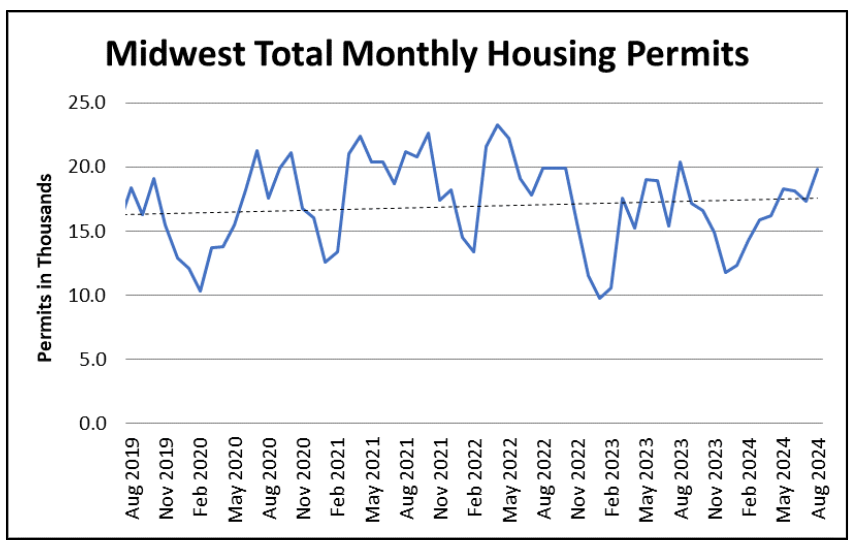


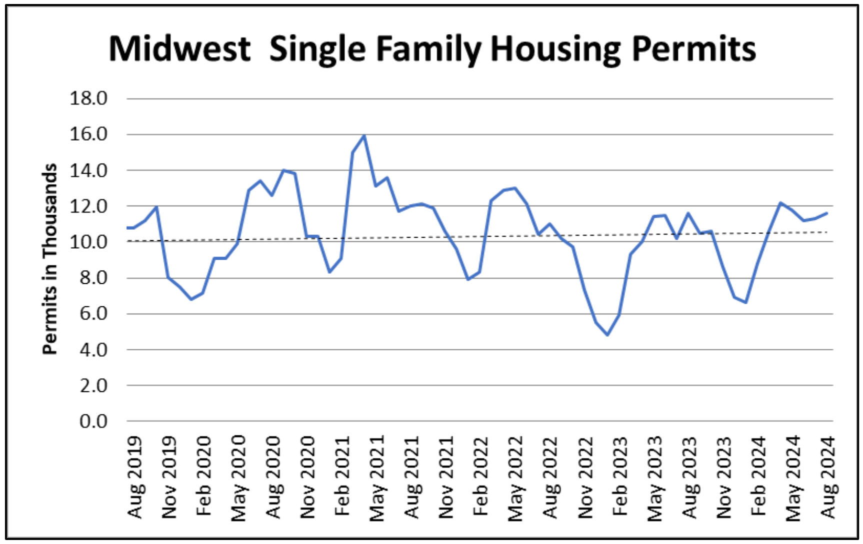
- Multi-family housing permits authorized for construction were down 4.3% M/M (+13.1% in the last update).
- They were up 9.5% on a rolling 3-month average (+3.7% last month).
- On a year-over-year basis, they were up 13.8% (+56.8% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.



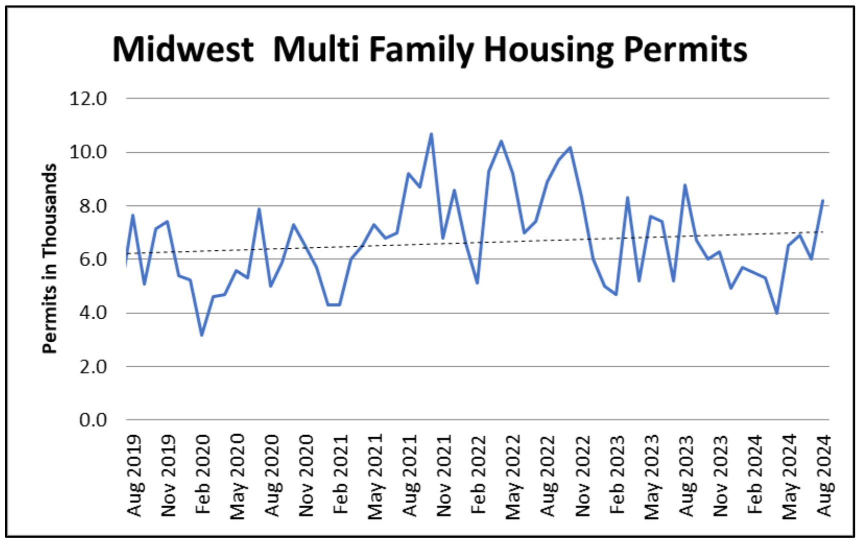
Regional market outlook: Midwest

- Midwest total housing permits were up 14.5% month-over-month (-4.4% in the last update).
- The 3-month average was up 3.0% (+2.5% in the last update).
- On a year-over-year basis, permits were down 2.9% (+12.3% in the last update).



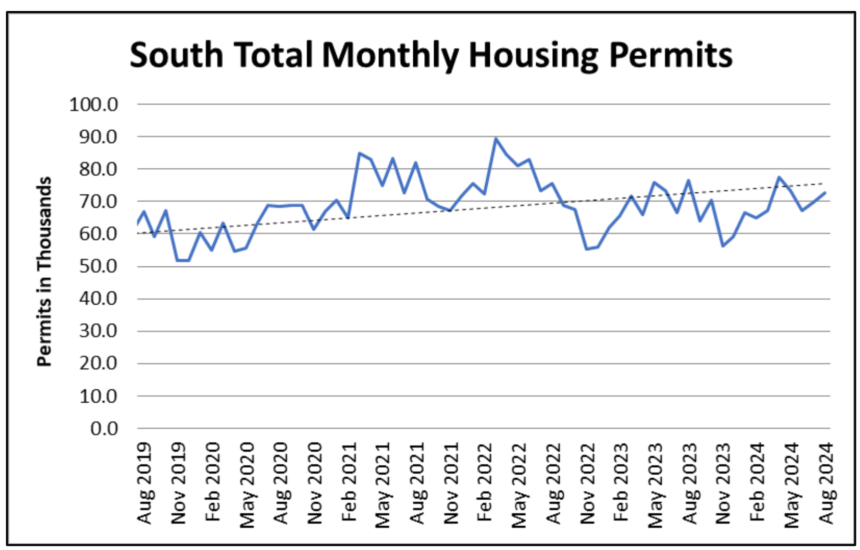


- M/M permit volumes were up 2.7% (+0.9% last month).
- The 3-month rolling average shows that permits were down 0.5% (-2.5% in the last update).
- Year-over-year, single family homes authorized by permits were unchanged (+10.8% in the last update).



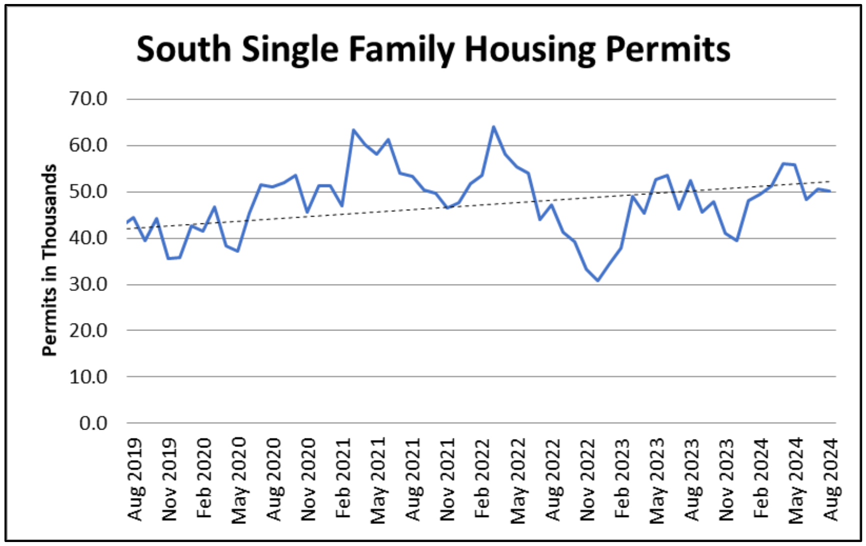
- Multi-family housing permits, again, are volatile month-over-month. This month, they were up 36.7% (-13.0% last month).
- On a 3-month rolling average basis, they were up 9.9% (+18.5% in the last update).
- On a year-over-year basis, permits were down 6.8% (+15.4% in the last update).

Regional market outlook: South

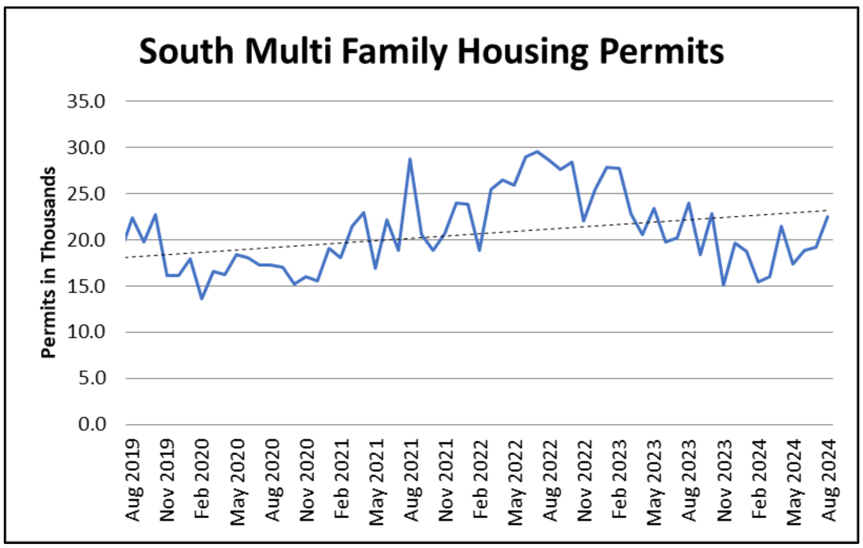


- Southern region housing permits were up 3.9% month-over-month (+4.0% in the last update).
- On a 3-month rolling average basis, permits were down 0.1% (-3.2% in the last update).
- On a year-over-year basis, total permits were down 5.1% (+5.1% in the last update).

- Southern region single family home permits were down 1.2% M/M (+5.0% last month).
- On a 3-month rolling average, they were down 3.2% (-2.9% in the last update).
- On a year-over-year basis, single family permits were down 4.6% (+9.5% in the last update).

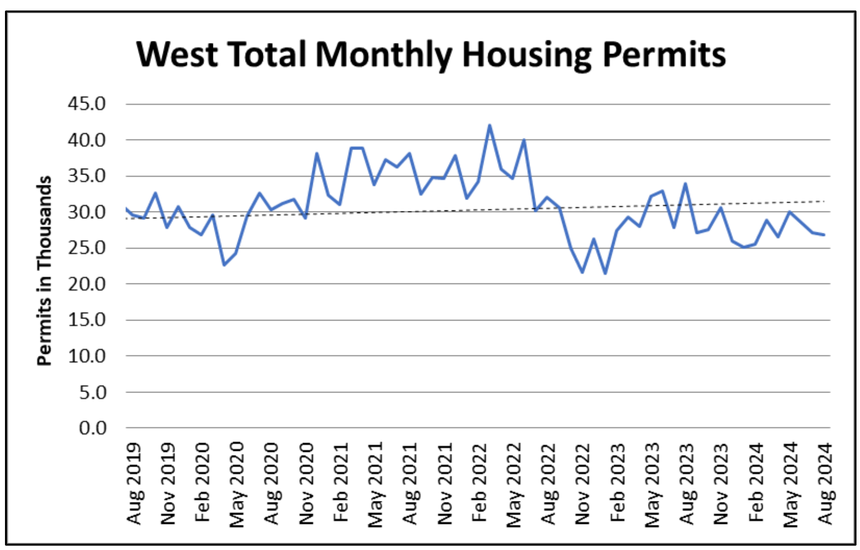


- Southern multi-family permits were up 17.2% M/M (+1.6% last month).
- On a 3-month rolling average basis, permits were up 9.1% (-3.0% last month).
- On a year-over-year basis, permits for multi-family housing were down 6.3% (-5.0% in the last update).

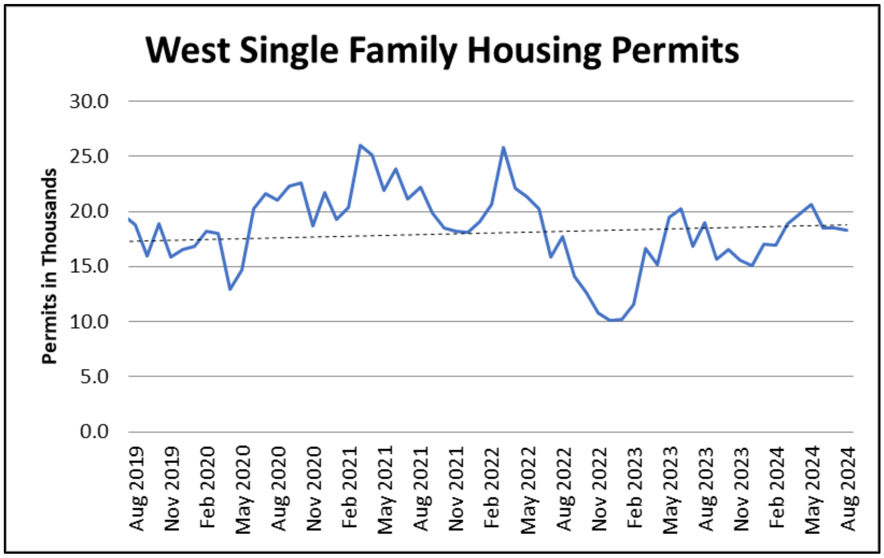


Regional market outlook: West

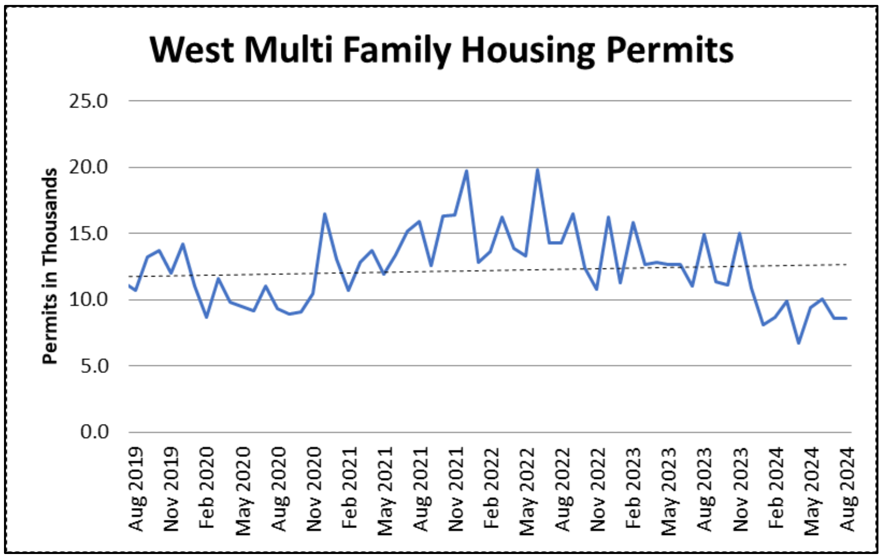
- Western region total monthly housing permits were down 0.7% M/M (-5.2% last month).
- On a 3-month rolling average basis, they were down 3.5% (+1.1% last month).
- On a year-over-year basis, permits were down 20.6% Y/Y (-2.5% in the last update).



- Single-family permits were down 1.1% M/M (unchanged last month).
- On a 3-month moving average basis, permits were down 3.8% (-2.1% in the last update).
- Year-over-year, single family permits were down 3.7% (+10.1% in the last update).



- Multi-family permits were unchanged M/M (-14.9% in the last update).
- On a 3-month rolling average, it was down 2.5% (+11.0% in the last update).
- Year-over-year, multi-family unit permits were down 42.3% (-21.8% last month).



Industry Outlook

ASA Sales were lower by 3.1% Y/Y (+8.6% last month) in August (latest available). Year-to-date through August, sales were down 0.1% (+0.7% in the last update). For the trailing twelve months prior, sales were down 0.7% (+0.3% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

	August Y/Y % Change in Total Dollar Sales	YTD % Change vs. YTD 2023	Trailing Twelve Months % Change
All Businesses	**-3.1%**	**-0.1%**	**-0.7%**
By Primary Business			
PHCP	-2.2%	2.1%	1.2%
PVF	-3.8%	-8.2%	-6.1%
PHCP & PVF	-4.4%	1.8%	-0.5%
By Region			
1 (SWPD & WSA)	-0.9%	2.0%	1.3%
2 (ASA Central)	-2.8%	-1.9%	-2.3%
3 (SWCD)	-15.2%	-12.8%	-8.9%
4 (NCWA)	-1.5%	2.4%	1.6%
5 (ASA Northeast)	-3.8%	-2.5%	-2.5%
6 (SWA)	-4.9%	0.7%	0.5%
*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 July (still delayed from the BTS) and it showed that the TSI was at 139.0 for freight, down 0.2% M/M and down 0.5% Y/Y (0.7% 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 September (latest available) that spot truck freight demand was **<u>19.4% lower than it was a year ago</u>**. Spot trucking rates have fallen 6.4% Y/Y, and fuel surcharges are down -21.5% Y/Y.

The EIA is still projecting that oil production will stay at 13.2 million barrels per day in 2024 (from 13.1 million in Q1) and consumption will remain above 20.45 million barrels per day (up from 19.75 million barrels per day – an increase of 255,000 barrels per day). But it is now projecting production to touch 12.7 million barrels per day by 2026.

Once again, this month, conflict in the Middle East is still keeping analysts on edge as exchanges between Israel and 1) Hezbollah in Lebanon; 2) Iran; 3) Houthis Rebels from Yemen; and 4) Hamas in Gaza were still a concern at the time of writing. Oil prices were slightly elevated in the wake of 180 or more ballistic missiles being fired from Iran and promises from Israel for a response (still no response at the time of writing). Oil prices had moved up by nearly 7% to the low $70's per barrel for WTI and Brent had inched up to nearly $75 a barrel as tensions remained high.

Retail sales were higher in August (latest available) across many categories' month-over-month. Total retail sales were marginally higher month-over-month and were 2.1% higher year-over-year. Stripping out fuel and automotive, they were still up 0.1% M/M and were 2.0% higher Y/Y.

When adjusted for inflation, sales were lower month-over-month in August and were down by 0.4% 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 generally still an issue. Many discretionary sectors were lower year-over-year. And again, the East Coast Port Strike will largely impact sales over the next 30-60 days and skew data.

Home improvement retail sales volumes inched up again month-over-month in August, they were higher by 0.1% M/M and they were slightly lower by 0.1% against last year. Despite nationwide trends, retailers will see a bump in activity in the south and southeastern corridors of the US as the cleanup from Hurricane Helene takes materials and inventory from retailers. Watch for a significant bump in product demand in the coming weeks in the wake of cleanup efforts.

Kind of Business	Percent Change	
	Aug. 2024 Advance from --	
	Jul. 2024	Aug. 2023
Retail & food services, total	**0.1**	**2.1**
Retail	0.1	2.0
Motor vehicle & parts dealers	**-0.1**	**1.3**
Furniture & home furn. stores	**-0.7**	**-0.7**
Electronics & appliance stores	**-1.1**	**1.9**
Building material & garden eq. & supplies dealers	**0.1**	**-0.1**
Food & beverage stores	**-0.7**	**1.6**
Grocery stores	-0.6	1.5
Health & personal care stores	**0.7**	**3.5**
Gasoline stations	**-1.2**	**-6.8**
Clothing & clothing accessories stores	**-0.7**	**1.0**
Sporting goods, hobby, musical instrument, & book stores	**0.3**	**-3.6**
General merchandise stores	**-0.3**	**2.1**
Department stores	-1.1	-2.1
Nonstore retailers	**1.4**	**7.8**
Food services & drinking places	**0.0**	**2.7**

According to the GDPNow estimates from the Atlanta Federal Reserve, Q3 is likely to come in with 3.0% growth, up from consensus forecasts for growth of about 1.8%. 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 was flat through the quarter. This is slowing dramatically based on prior growth rates.

The outlook for Non-residential construction has eased in the latest forecast. Now that the Fed has made its first move and has signaled that it would continue to cut rates well into the end of the year, many are still mentioning the election and getting past it. Outside of manufacturing construction, government investment from the Infrastructure Bill, CHIPs Act, and Inflation Reduction Act is carrying nonresidential construction activity at the moment. When adjusted for inflation, other sectors are contracting Y/Y.

There is a lot of volatility in the marketplace. Scrambling for inventories during the port strike will be part of the story, recovery efforts in the wake of Hurricane Helene will boost some business as well. The dark cloud hovering over everything is the tension in the Middle East. Each of these events by themselves could be a Black Swan Event or October Surprise that is so frequent in Presidential Election years.