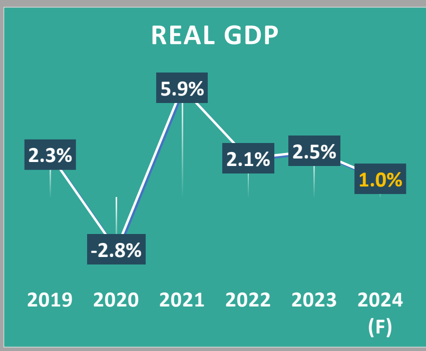
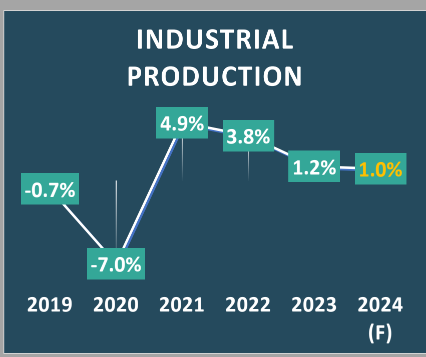
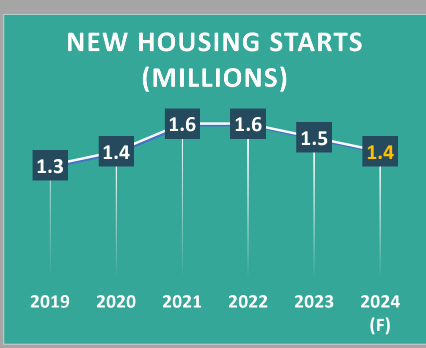
# Monthly Economic Report (MER)

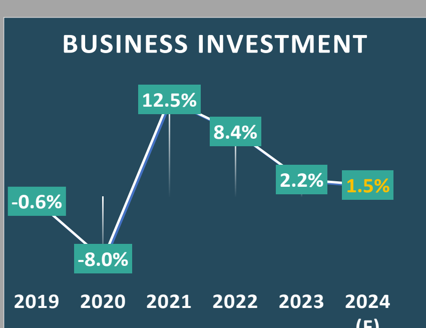
April 2024

## Selected Indices




# Executive Summary – April '24

## Big Items

**GDP:** Q1 2024 was partially stunning to analysts. At one point in the quarter, analysts thought it might have been growing by as much as 3%, but the first reading on Q1 had it come in at 1.6%. This will be adjusted a bit, but it was still a stable reading for Q1. Consumer spending was still a primary driver and government spending carried more weight this quarter. The second quarter is expected to grow at nearly 1% while Q3 could be lackluster at 2%. For the full year, estimates on Real GDP have been pushed up from 1% to at least 2% and perhaps higher if these trends continue.

**Industrial Production:** Industrial production trended up slightly between February and March (latest available). The index rose by 0.4% month-over-month, but it was flat year-over-year. Manufacturing was slightly better, rising 1% year-over-year (which is still lackluster). Automotive was still the star in the sector, rising by 10.5% Y/Y. Aerospace was also growing at a 7% annual rate. Both utilities and mining were down Y/Y by 2% and 3.1% respectively.

**Housing Starts:** Starts data is mixed. Single family homes are still benefiting from an inventory mismatch – there simply aren't enough homes for potential buyers in most markets. Inventories are growing, however, and prices have started to inch down. Interviews with builders suggest that conditions could ease this fall, and some are saying that they are discounting to find projects and keep employees engaged. Single-family starts were sluggish and down more than 12% M/M through March but remained 21% stronger than March of 2023. Multi-family starts were also down 20.8% M/M and were 43.7% lower than March of last year. Many multi-family projects are finding financing more difficult to get in some markets and this uncertainty has impacted new starts. Again, this market is volatile and can turn quickly, both positively and negatively.

**Home Improvement Retail:** The home improvement season has started to get underway, and the numbers have been reflecting these gains at a modest level. Retail sales in the home improvement category were up 0.7% between February and March but remained slightly lower year-over-year. Interest rates are still a factor keeping many individuals from tackling large projects that are interest-bearing. The DIY market was still reportedly strong, but those were largely lower ticket projects and had less plumbing, heating, and electrical involved in them. Most of the projects being done were simple cosmetic changes.

**Manufacturing:** S&P Global data shows the US near contraction territory with a reading of 50.0 in early Q2. For most of Q1, manufacturing showed some slight expansion, but that has now flattened. Mexico was the only USMCA market still growing based on the latest data. Europe was showing some signs of recovery at the end of Q1, and many Asian markets were ticking up. India was still the fastest growing market in the world. But in the US, new orders are sluggish, input prices are still high (raw materials, component parts, labor, and energy), and selling prices are facing some pressure. Heading through Q2, with global inventories more balanced than in prior quarters, the hope is that global activity will gain some pace and lift all sectors.

## Big Risks

**Geopolitics and Inflation:** Developments in the Middle East are in a constant state of flux, and that has pushed the price of oil higher. At the time of writing, West Texas Intermediate was still near $79 a barrel and Brent North Sea Crude was nearly $83. Although some of the volatility in the Middle East was easing at the time of writing, there are some estimates that oil prices could touch $100 a barrel by July based on supply/demand dynamics and if global economic activity picks up pace as current trends appear to show.

# Macroeconomic Viewpoints

**- Dr. Chris Kuehl**

**ASA MER Contents:**



**Things Can Change in a Hurry! –** As I write this on May 3 the economic world is busy digesting some unexpected news, and this comes on the heels of some other data releases that seem to reverse a trend that many had been counting on. A quick review of the consensus view expressed in 2023 is probably in order. If you go back and look at what the economists thought they would see last year, you would have seen predictions of recession or near recession numbers from the first quarter through the year. This never happened. Quarter after quarter the data showed growth (even record levels in Q3). The consensus shifted and a new one emerged. Now the analysts were confident there would be no recession or major slowdown in 2024. The first assessment in 2023 was a hard landing, and then it seemed more likely that a soft landing would emerge, and just last month the assertion was no landing at all.

Then comes the note regarding slow growth in the first quarter – just 1.6% when many had expected 2.0% or 2.5% at least. Next up was the job data released on May 3. The expectation was another 250,000 jobs but there were only 175,000 created. Those that did appear were almost entirely government jobs and there was a sharp reduction in the service sector. The service part of the economy accounts for 60% of GDP and a whopping 70% of jobs. The latest service version of the Purchasing Managers' Index has fallen into contraction territory and that is an early indicator of a downturn.

There have been four drivers of the economy over the last several years and it was only a year or so ago that all four were contributing. The top of the list was consumer spending activity, and it is still going strong. The one cautionary note is that this spending has been rooted in the upper third of income earners while the lower third is now living paycheck to paycheck while the middle third is hanging on according to perceived job stability. The second driver that is still contributing is non-residential construction activity, but this sector has already noted that the pipeline of projects has started to dry up for later this year and into 2025. The next two drivers are slipping. Inventory build was very potent a couple of years ago as companies reacted to the supply chain mess, but that build has been slowing fast. The last of these drivers has been government expenditures and this has slowed as the last of that pandemic cash has vanished and there has not been a surge of infrastructure spend as was anticipated.

The weaker job numbers had an immediate impact on the markets as there is now an assumption that this will trigger the Fed to reduce interest rates much sooner than they have been planning. That remains to be seen as the Fed's latest comments suggested that a reduction before Q4 is not likely. More important is the fact that lower rates might not have such a big impact on consumer spending or even government activity. High inflation will still dampen these activities.

# Reader Question of the Month

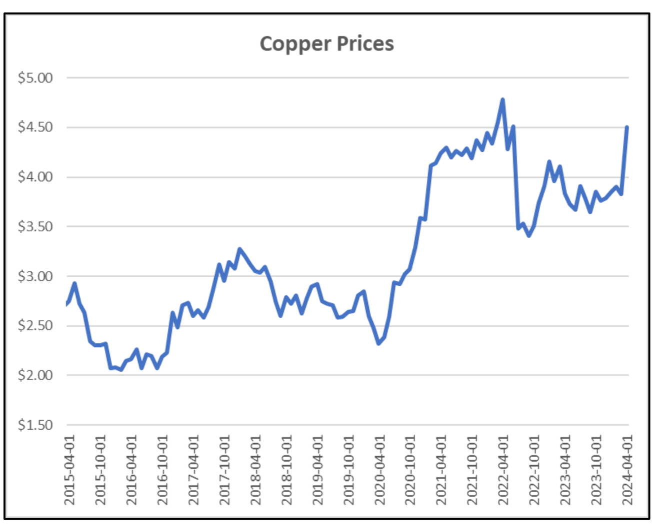
**Q: Has the Interest Rate Conversation Changed?**

**A:** In a word, yes! The assumption has been that growth in the economy was going to stay stable for the bulk of 2024. The numbers seemed to bear this out. Unemployment rates were expected to stay low and job creation was expected to stay high (both in services and manufacturing). The quarterly macroeconomic growth rates were above expectation as well. Inflation numbers were a continuing concern and primarily due to the wage situation. Suddenly all these expectations shifted. The slower pace of job creation sets off a series of assertions. If there is less hiring in the future, there will soon be more unemployed people and overall wage demands will diminish. That starts to affect inflation projections. The Fed starts to look at a different set of circumstances.

The Fed is now looking at three important changes that will affect their interest rate conversation. The first is that overall growth is slowing – only 1.6% in first quarter GDP when 2.5% was expected. The European Central Bank, Bank of Canada and Bank of England had already noted this and suggested that rates will come down by June. The second point is that inflation may start to ease as wages start to decline and that removes a barrier to Fed action. The challenge is to get prices to fall. The rate of inflation has eased but prices have stayed stubbornly high. The third change is the attitude of the markets. They now fully expect the Fed to reduce rates and maybe as early as June. If the Fed doesn't agree the markets will swoon and the big gains of the last few days will reverse and cause disruption. The Fed hates altering rates in an election year, but they may be forced to deal with this sooner than they wanted to.

## 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 $4.50/lb. ($3.83/lb. last month).
- The Producer Price Index (PPI) for March (latest PPI available) was 534.431, up month-over-month by 5.1% (+0.6% last month). It was up 0.4% year-over-year (-5.4% last month). The ten-year index high was 572.0 in May 2022 and the low was 302.9 in 2016.
- **Looking Ahead**: A lot of speculation is helping drive the price of copper higher. Copper producers are suggesting that supplies are tight, and demand is steady across most markets. Some stockpiling of raw materials in Asia is boosting demand – despite some real manufacturing activity being slightly muted.

## General Commodities Discussion:

**Nickel: (WPU102504)**

- LME Nickel Prices have moved up over the past 30 days and were @$8.51 per lb. ($7.51 in the last update). But Producer prices for nickel have not adjusted yet but likely will with the next PPI release for April, prices were still 0.3% lower month-over-month through March (latest available) and were still 6.7% lower than last year at this time.
- **Outlook**: *"A massive supply response of Class II nickel (NPI & nickel sulfate) followed the huge price spike on the LME and threw supply and demand out of any semblance of balance. The recent announcement pertaining to sanctions that will ban imports of Russian-produced nickel on the LME and CME may provide additional tailwinds for demand and pricing in (at least) the short-term."*

**Carbon Steel: (WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were slightly higher over the past 30 days and were $810.00 per ton in early May ($865 per ton in the last update). This is still down from a peak of $1,943 hit in August of 2021.
- Producer Prices for steel pipe and tube were down slightly in the latest data from the end of March (latest available). They were down 2.6% month-over-month (up 1.2% last month). Year-over-year, the PPI was 10.3% lower (-8.0% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "*After a brief producer-initiated spike to welcome the start of April, hot-rolled coil prices have largely settled back into a lower station. Officially, HRC is trading 12% down from the start of April. STEEL MARKET UPDATE reports that flat roll producers are more willing to negotiate pricing than in the recent past. Specifically, the increased proliferation of import steel pipe in the market has contributed to suppressing prices this year. The delta between import and domestic has grown, putting pressure on domestic producers to keep pricing low.*"

**Stainless Steel: (WPU10170674)**

- The Producer Price Index for stainless pipe and tube were lower in March (latest available). Producer prices for stainless pipe fell by 0.2% month-over-month (-0.3% last month); and they were down 9.8% Y/Y (down 10.4% last month).
- **Outlook**: "*Stainless steel pipe and fittings prices had remained under consistent, downward pressure since the end of 2022. The major reason was the precipitous fall of nickel prices following the astonishing runup of LME (Class I) nickel prices during the first half of 2022. Stainless steel raw material prices seemingly bottomed out in early February of this year but finished product prices have remained depressed in lieu of mediocre global demand levels*."

**Ferrous Metal Scrap**: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap fell in March vs. the prior month, coming in with an index of 475.62 (512.39 last month). This was lower by 9.6% M/M (-3.4% last month). Year-over-year it was down sharply by 18.3% Y/Y (-3.4% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.
- **Outlook**: Data from the rail sector shows growth in ferrous metal scrap shipments of 9.0% YTD (3.9% YTD in the last report) against the same time frame in 2023 – suggesting that more scrap is moving in the nation's distribution system than did last year. This increased flow of scrap volume is currently helping push prices lower.

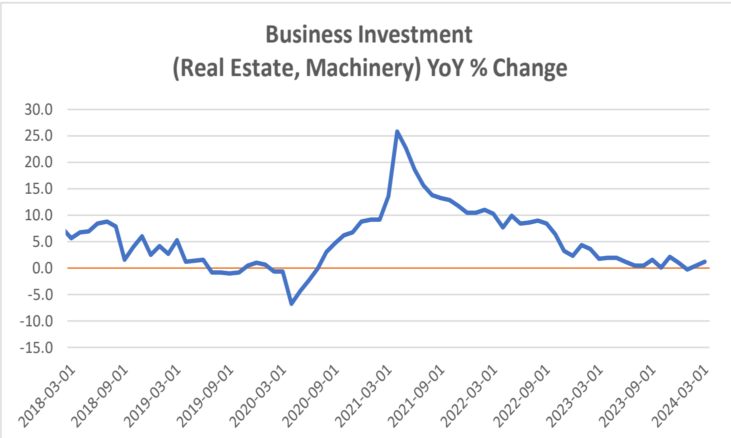
**Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.**

# 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.

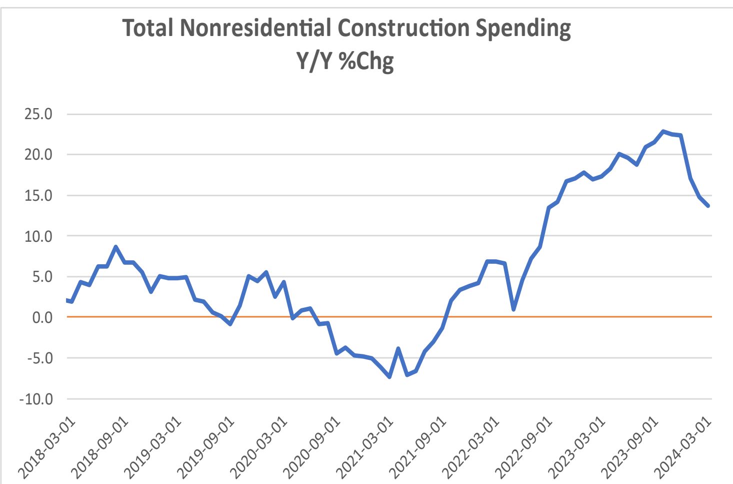
| Producer Price Index - Key Industry Products | | | | | | |
|---|---|---|---|---|---|---|
| Category | PPI Code | Mar-24 | Feb-24 | M/M% Chg | Mar-23 | Y/Y % Chg |
| **Pipe, Valves and Fittings** | | | | | | |
| Metal valves, except fluid power | WPU114902 | 439.8 | 439.9 | 0.0% | 428.9 | 2.6% |
| Gates, globes, angles and check valves | WPU114902011 | 170.9 | 170.5 | 0.3% | 165.1 | 3.5% |
| Ball valves | WPU11490202 | 557.3 | 557.3 | 0.0% | 557.9 | -0.1% |
| Butterfly valves (formerly W2421490203) | WPU11490203 | 297.0 | 322.2 | -7.8% | 301.7 | -1.5% |
| Industrial plug valves | WPU11490204 | 325.4 | 324.4 | 0.3% | 297.7 | 9.3% |
| 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 | 402.7 | 399.3 | 0.8% | 395.3 | 1.9% |
| Automatic valves | WPU11490211 | 263.3 | 261.3 | 0.8% | 248.9 | 5.8% |
| Metal pipe fittings, flanges and unions | WPU11490301 | 489.9 | 475.8 | 3.0% | 480.0 | 2.1% |
| Steel pipe and tube | WPU101706 | 383.8 | 394.1 | -2.6% | 427.7 | -10.3% |
| Steel pipe and tube, alloy | WPU10170673 | 109.5 | 109.5 | 0.0% | 109.5 | 0.0% |
| Steel pipe and tube, stainless | WPU10170674 | 139.2 | 139.5 | -0.2% | 154.4 | -9.8% |
| Copper & copper-base alloy pipe and tube | WPU10250239 | 342.9 | 342.9 | 0.0% | 376.9 | -9.0% |
| Plastic pipe | WPU07210603 | 188.1 | 189.2 | -0.5% | 206.5 | -8.9% |
| Plastic pipe fittings and unions | WPU07210604 | 323.8 | 321.4 | 0.7% | 326.7 | -0.9% |
| | | | | | | |
| **Plumbing Fixtures, Fittings and Trim** | WPU105402 | 400.0 | 400.0 | 0.0% | 394.6 | 1.4% |
| Bath and shower fittings | WPU10540211 | 286.7 | 286.7 | 0.0% | 286.7 | 0.0% |
| Lavatory and sink fittings | WPU10540218 | 207.7 | 207.7 | 0.0% | 203.5 | 2.1% |
| Enameled iron and metal sanitary ware | WPU1056 | 284.5 | 284.5 | 0.0% | 290.1 | -1.9% |
| | | | | | | |
| **Steam and Hot Water Equipment** | WPU1061 | 428.5 | 428.5 | 0.0% | 423.9 | 1.1% |
| Cast iron heating boilers, radiators and convectors | WPU10610106 | 289.7 | 289.7 | 0.0% | 289.7 | 0.0% |
| Domestic water heaters | WPU106601 | 580.1 | 570.9 | 1.6% | 570.6 | 1.7% |
| Electric water heaters | WPU10660101 | 575.4 | 464.5 | 23.9% | 564.3 | 2.0% |
| Non-electric water heaters | WPU10660114 | 352.9 | 347.9 | 1.4% | 347.7 | 1.5% |
| | | | | | | |
| **Warehousing, Storage and Relates Services** | WPU321 | 142.6 | 141.4 | 0.9% | 140.1 | 1.8% |

# PHCP & PVF



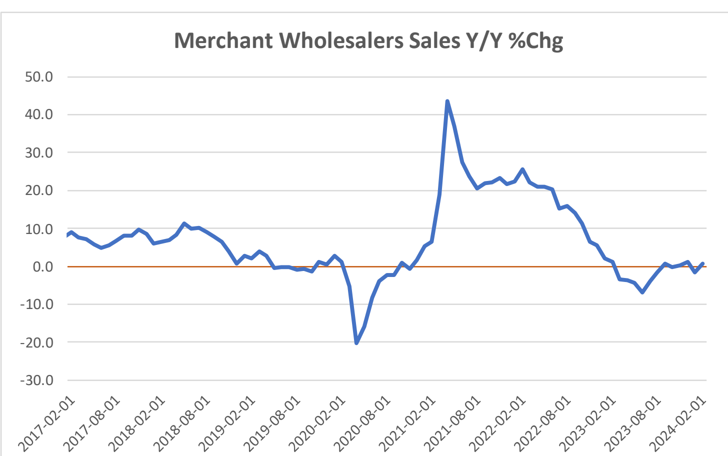

## Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods went up 0.7% in March M/M (+0.7% last month). They remained up by 1.1% Y/Y (up 0.4% last month) and continued to be stable overall.
- **Outlook**: Capital investment is continuing to flatten, but it continued to be near long-term highs at more than $73.8 billion in annualized spending. Purchases of automation and productivity improvement technology are driving much of it, but expansions of facilities are also common, especially in the industrial sector. Business investments in reshoring production continue, and total spending in manufacturing construction are still running 4 times higher than an average rate prior to the pandemic.




## Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in March (latest available) was 13.7% higher than it was a year ago (14.8% higher last month) and was 1.1% lower M/M (down 2.3% in the last report). Overall spending was at a new all-time high of $1.178T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: Public infrastructure projects still make up a significant number of the fastest growing subsectors of nonresidential construction. Manufacturing and industrial facility construction projects are still the fastest growing at more than $223 billion in annual spending (more than 4 times the average amount as mentioned). Commercial, office, lodging, and communication sectors are slower, but power, sewer and wastewater, and other infrastructure sectors are still growing at double-digits.

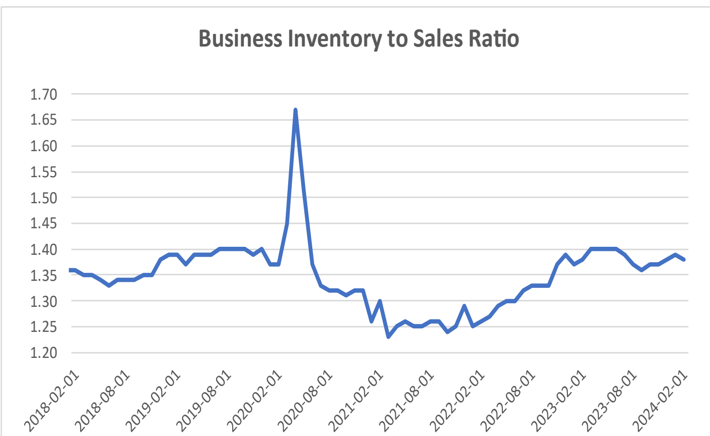



## Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 0.8% Y/Y through February (latest available; down 1.7% Y/Y in the last update). Month-over-month, sales were increasing by 0.9% (-2.8% last month).
- Wholesale inventories were down 1.5% year-over-year in February (latest available; down 2.2% last month).
- **Outlook**: There continue to be some improvements in estimated inventory levels in the past 30 days for the sixth month in a row (this data is delayed more than 30 days). Some products in the wholesale market are still in a stockout situation (primarily electrical panels and transformers), and that is holding up the movement of other wholesale products because it delays construction projects. With inventories lower, new order demand will increase the demand for global raw materials and upstream products.


## Manufacturing (AMTMNO)

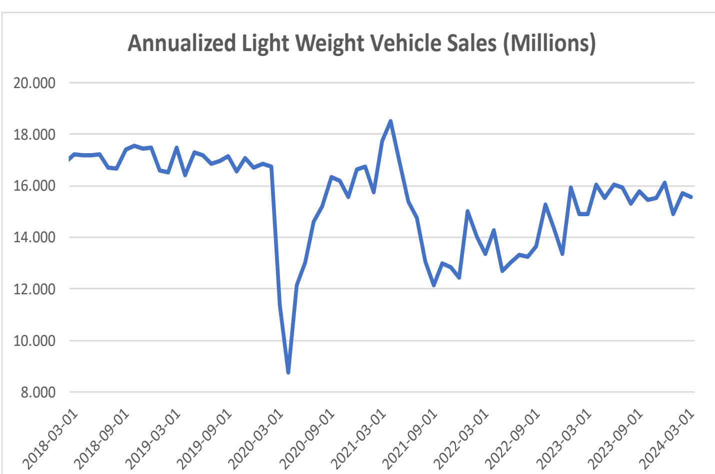
- Federal data on manufacturing was up 1.7% Y/Y (-1.0% last month) through March (latest available). It was also up sequentially 1.6% month-over-month (1.4% last month).
- The S&P Global US manufacturing PMI came in at 50.0 in April, down from 51.9 in March.
- **Outlook**: Global data from the Purchasing Manager's Indexes showed 13 countries had manufacturing sectors remaining in contraction through April. However, 19 out of 30 countries experienced deterioration (slowing) between March and April in what is a global sluggishness for new orders. Many were reporting higher input costs due to rising energy and transportation costs. But most remain optimistic about the quarters ahead.




## Business Inventory to Sales Ratio (ISRATIO)

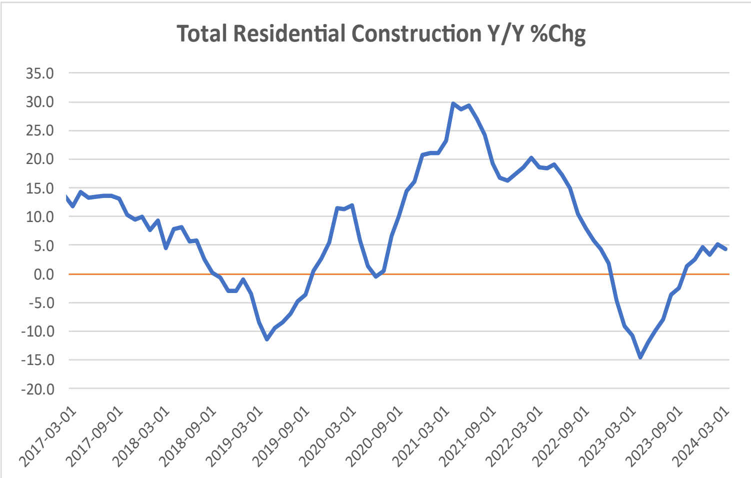
- The current inventory to sales ratio for all businesses is at 1.38 months of inventory on hand in February (latest available; 1.39 last month). Relative to sales, inventories are about where they should be, this month's ratio was 0.7% higher Y/Y (+1.5% last month).
- **Outlook:** Only 30% of the goods producing and moving industry are still facing inventory levels that are between 3% and 25% higher than they were in the entire decade prior to the pandemic (when supply chains were in-cycle). This is representative of a balanced market and should rest the global supply chain from procurement of raw materials to energy utilization, labor, and other inputs into the assembly process. That will lift demand across the global spectrum.

# PHCP




## Auto Sales (ALTSALES; AISRSA)

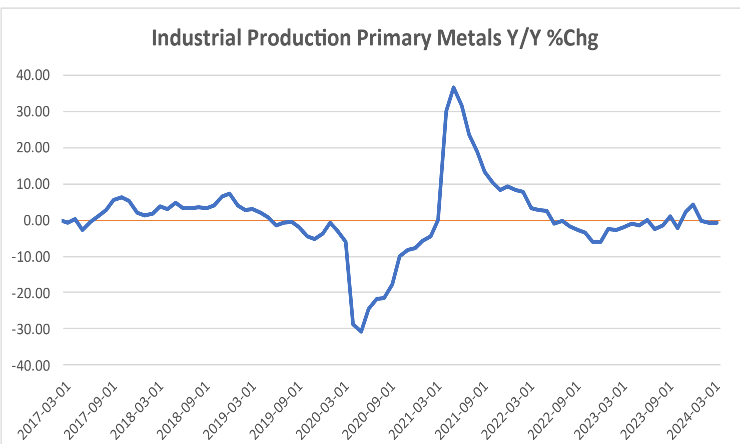
- US auto sales were trending at a 15.736-million-unit annual rate (15.726M last month) through April (latest available). This is up 0.4% year-over-year (+4.3% in the last update).
- The domestic auto inventory to sales ratio was up 101.3% Y/Y in March (latest available). On a monthly basis, it was up 2.3% (down 26.3% last month).
- **Outlook**: Automotive output was fairly flat in April and was approximately 1.5 million units (at an annual rate) lower than the average in the decade prior to the pandemic. There is notable slowing in demand for many models in the automotive sector. Buyers are becoming more selective about purchases, and EV inventories have now surged well above 100 days or more in inventory. Many OEMs are shifting back to hybrid models to alleviate range anxiety, and that will lift auto parts production when assembly lines get converted.




## Total Residential Construction (PRRESCONS)

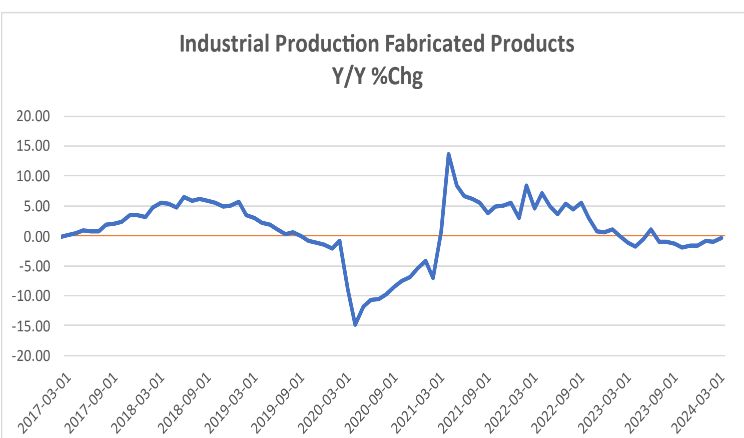
- Total residential construction in March (latest available), was up by 4.4% Y/Y (up 5.1% last month). It was down 0.7% M/M (+1.7% last month).
- **Outlook**: Housing activity continues to remain stronger than expected in the past month, partly due to buyers coming off the sidelines. And even though housing inventory has improved in many markets, some pockets of the country continue to have some mild housing shortages despite higher interest rates. Unfortunately, the 10-Year treasury has risen in recent weeks and that has pushed mortgage rates back above 7%. This is affecting the number of buyers willing to switch from current mortgages at sub-3% rates into new units (if they don't have to move). It is slowing down the market in the interim and a Fed that is willing to pause longer could slow conditions further.

# PVF



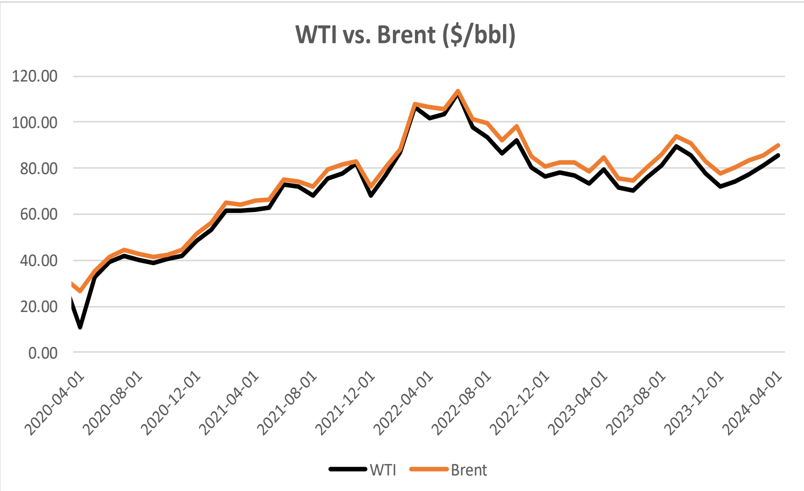

## Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was down 0.6% Y/Y through March (down 0.8% in the last update). It was up 0.2% M/M (down 0.5% M/M in the last update).
- **Outlook**: Some forecasts are still showing a much weaker trend for primary metal manufacturing late in 2024 and early in 2025. That could change, this is one of the more volatile sectors for demand and historical swings in activity are common. Given the volume of global reconstruction activity that is likely to start taking place at some point in 2024/2025, and the competition for raw materials and inputs into global construction activity should lift demand overall – offsetting those forecasts for weaker output.




## Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 0.4% Y/Y through March (down 1.0% last month). It was up 0.6% on a month-over-month basis, (down 0.2% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and activity through March was still trailing slightly behind last year's volumes. Models that forecast fabricated product manufacturing still show it improving through most of 2024 and volumes continue to remain stable (but flat) through the first half of 2025.




## WTI and Brent

- WTI is currently at $78.97 a barrel ($81.28 last month) and Brent is at $83.73 ($85.44 last month).
- **Outlook:** At the time of writing, OPEC+ was considering extending output restrictions for another quarter. These decisions are already built into the market price for petroleum. In addition, there was some easing of tensions between Iran and Israel at the time of writing and overall cooling of Middle East tensions was helping pull the geopolitical premium off oil prices. More importantly, the US dollar continues to remain strong, which has a dampening effect on oil prices overall. And lastly, but in a contra trend, US oil inventories remain at the lower end of the 5-year average. Any small changes in supply (news or events in the Ukraine War, Persian Gulf, or anywhere) will result in quick upswings in prices. Therefore, the outlook suggests that oil prices will remain volatile, but will tend to remain in the $70-$80 per barrel range.

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

| | Last Count | Count | Change from Prior Count | Change from Last Year |
|---|---|---|---|---|
| U.S. | 3-May-24 | 605 | -8 | -143 |
| Canada | 3-May-24 | 120 | 2 | 27 |
| International | Apr-24 | 978 | 7 | 31 |

## Rotary Rig Counts (Baker Hughes)

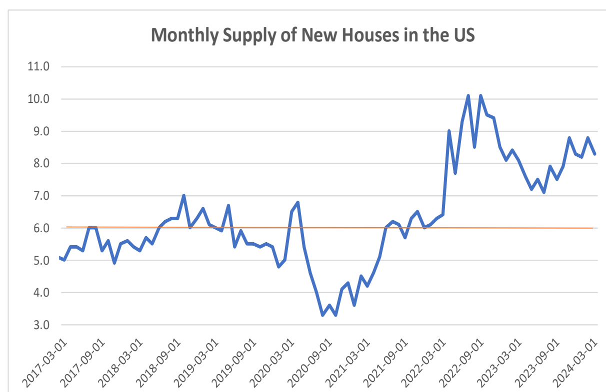
- Baker Hughes US active rig counts were down 143 Y/Y (-134 in the last update) at 605 (1,049 in 2019); Canadian counts were up by 27 Y/Y (up 20 in the last update). International counts are up by 31 Y/Y (+43 in the last update).
- **Outlook**: The EIA still shows the balance between global oil supply and demand to remain balanced through 2024, assuming the production of oil continues to grow at current rates. But in the US, even though rig counts are lower, modern wells are so much more efficient that total US output per day is higher (remaining near 13.1 million barrels per day). As US crude exports increase this year, there should be an increase in US domestic production. Strategic Petroleum Reserves are still lower, and the risk of an active hurricane season potentially in the Gulf could keep US production off-balance through part of the year.

# Construction Outlook

**<u>Residential construction</u>**: 30-year national average mortgage rates fell through late March to 7.22% (6.79% in the last update). Home builder confidence was flat in April according to the <u>NAHB/Wells Fargo index</u>, it remained at 51 points ( unchanged from the March reading of 51) and still tied for the strongest since July. The all-time high was 90 points in November of 2020. Builders' confidence has started to improve as buyers slowly jump back into the market and the Federal Reserve appears poised to ease interest rates at least 2-3 times in 2024.

| NAHB/Wells Fargo National and Regional Housing Market Index (HMI) | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| NATIONAL | | | | | | | | | | | | | | | |
| (Seasonally Adjusted) | 2023 | | | | | | | | | 2024 | | | | M/M | Y/Y |
| | Apr. | May | Jun | Jul | Aug | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar Revised | Apr Prelim. | | |
| Housing Market Index | 45 | 50 | 55 | 56 | 50 | 44 | 40 | 34 | 37 | 44 | 48 | 51 | 51 | 0.0% | 13.3% |
| Housing Market Index Components | | | | | | | | | | | | | | | |
| Single Family Sales: Present | 51 | 56 | 61 | 62 | 57 | 50 | 46 | 40 | 41 | 48 | 52 | 56 | 57 | 1.8% | 11.8% |
| Single Family Sales: Next 6 Months | 50 | 56 | 62 | 59 | 55 | 49 | 44 | 39 | 45 | 57 | 60 | 62 | 60 | -3.2% | 20.0% |
| Traffic of Prospective Buyers | 31 | 33 | 37 | 40 | 35 | 30 | 26 | 21 | 24 | 29 | 32 | 34 | 35 | 2.9% | 12.9% |
| REGIONAL HMI | | | | | | | | | | | | | | | |
| (Seasonally Adjusted) | 2023 | | | | | | | | | 2024 | | | | M/M | Y/Y |
| | Apr. | May | Jun | Jul | Aug | Sep. | Oct. | Nov. | Dec. | Jan. | Feb. | Mar Revised | Apr Prelim. | | |
| Northeast | 44 | 45 | 52 | 60 | 55 | 48 | 46 | 53 | 55 | 55 | 62 | 61 | 65 | 6.6% | 47.7% |
| Midwest | 40 | 42 | 48 | 46 | 42 | 38 | 37 | 31 | 35 | 35 | 38 | 49 | 50 | 2.0% | 25.0% |
| South | 50 | 56 | 60 | 58 | 55 | 48 | 43 | 35 | 39 | 49 | 50 | 52 | 51 | -1.9% | 2.0% |
| West | 40 | 48 | 50 | 54 | 46 | 42 | 36 | 28 | 29 | 38 | 47 | 45 | 49 | 8.9% | 22.5% |

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was up 13.3% against April of 2023 (up 15.9% month-over-month).




**Adjusted housing inventories increased in March** (latest available), coming in at 8.3 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 1.321-million-unit rate on an annualized basis (lower than last month's adjusted 1.521 million annual rate); and the outlook for the rest of 2024 is flat based on current industry trends.

Single family starts were lower in March by 12.4% M/M (latest available) and were up 21.2% Y/Y against easier comparisons. Multi-family starts are volatile and were down 20.8% M/M and down 43.7% Y/Y.

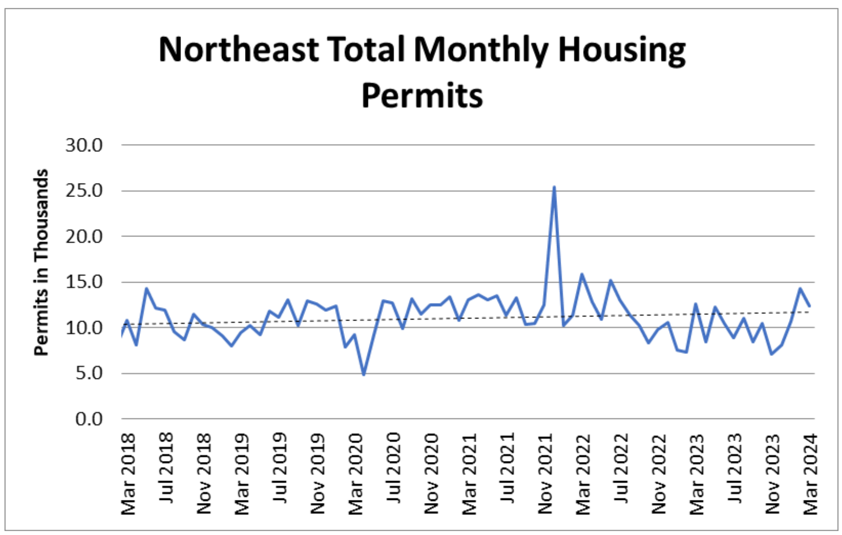
**National Outlook**: The Federal Reserve continues to keep rate hikes on pause, and officials are giving mixed views on whether cuts will happen in 2024. Inflation is cooling, but at a slow pace. At the same time, economic growth remains stable, despite some slowing in consumer spending. Surveys continue to show that lack of access to financial funding is the primary hindrance to many non-residential projects' starts (roughly 62% of project start delays are still due to funding difficulties). Some of the latest bank tightening data shows that fewer banks are tightening restrictions, despite some continuing to report challenges in funding new commercial real estate projects.

| Housing and Interest Rate Forecast, 04/10/2024 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
| **Housing Activity (000)** | | | | | | | |
| Total Housing Starts | 1,397 | 1,606 | 1,551 | 1,423 | 1,391 | 1,393 | 1,489 |
| Single Family | 1,003 | 1,132 | 1,004 | 946 | 1,026 | 1,048 | 1,104 |
| Multifamily | 394 | 474 | 547 | 476 | 365 | 345 | 385 |
| New Single Family Sales | 833 | 769 | 637 | 667 | 678 | 776 | 785 |
| Existing Single-Family Home Sal | 5,057 | 5,425 | 4,533 | 3,674 | 3,805 | 4,257 | 4,495 |
| | | | | | | | |
| **Interest Rates** | | | | | | | |
| Federal Funds Rate | 0.36% | 0.08% | 1.68% | 5.03% | 5.14% | 3.89% | 2.89% |
| Treasury Yield: | | | | | | | |
| Ten Year Maturity | 0.89% | 1.44% | 2.95% | 3.96% | 4.08% | 3.64% | 3.50% |
| Fixed Rate Mortgages | 3.11% | 2.96% | 5.34% | 6.81% | 6.68% | 6.01% | 5.67% |
| Prime Rate | 3.54% | 3.25% | 4.85% | 8.19% | 10.91% | 9.90% | 8.57% |
| For more forecast details, visit www.nahb.org. | | | | | | | |

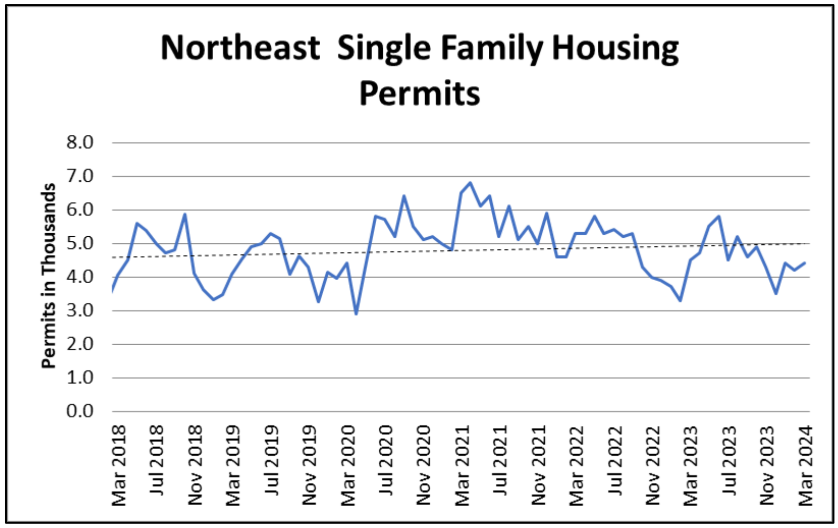
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

## Regional market outlook: Northeast

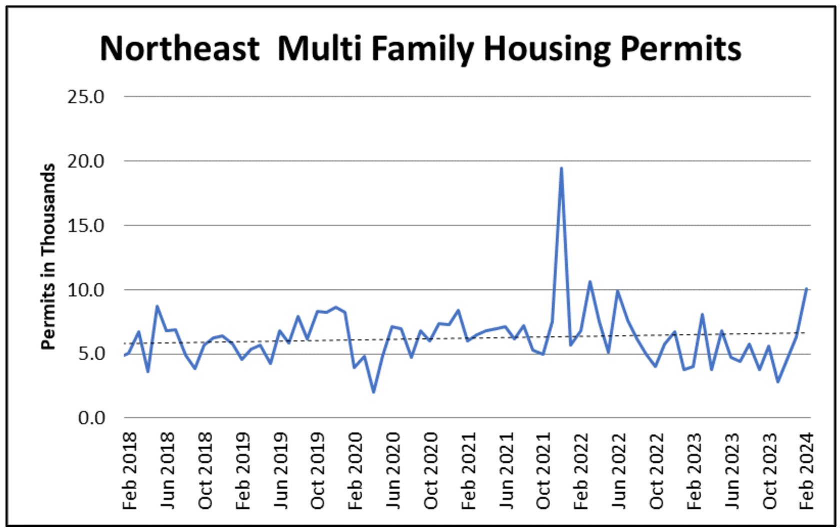
- Northeast total housing units authorized for construction were down in March by 13.3% M/M (+33.6% last month). March was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 17.5% (26.6% last month).
- On a year-over-year basis, permits were down 1.6% (95.9% in the last update).



- Month-over-month single family permits were up 4.8% (-4.5% last month).
- On a 3-month moving average basis, permits were up 8.6% (+0.9% last month).
- Year-over-year permits were down 2.2% (+27.3% last month).

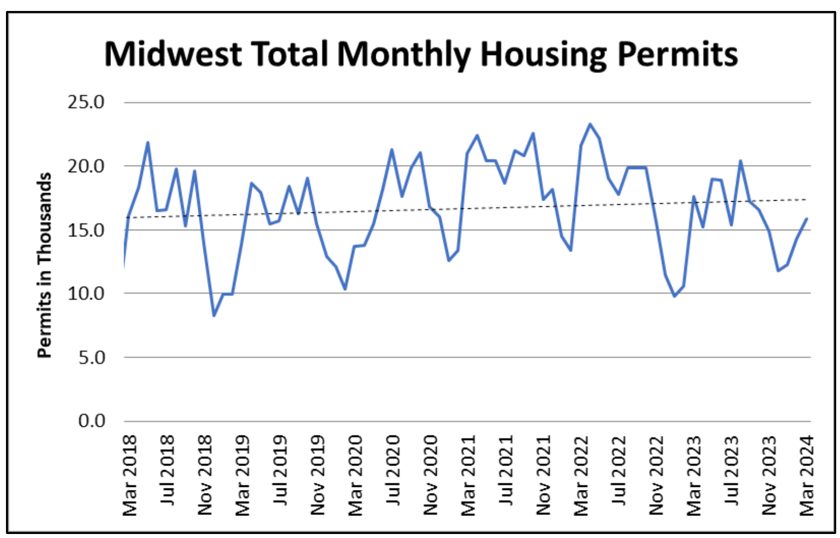



- Multi-family housing permits authorized for construction were down 20.8% M/M (+60.3% in the last update).
- They were up 25.5% on a rolling 3-month average (+53.9% last month).
- On a year-over-year basis, they were down 1.2% (152.5% in the last update). Weather and lower comparisons from last year were factors here.
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

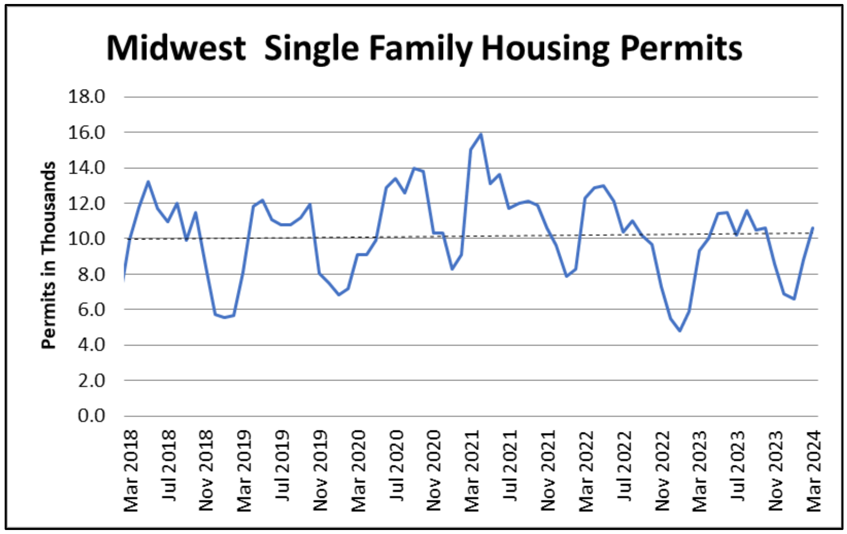



## Regional market outlook: Midwest

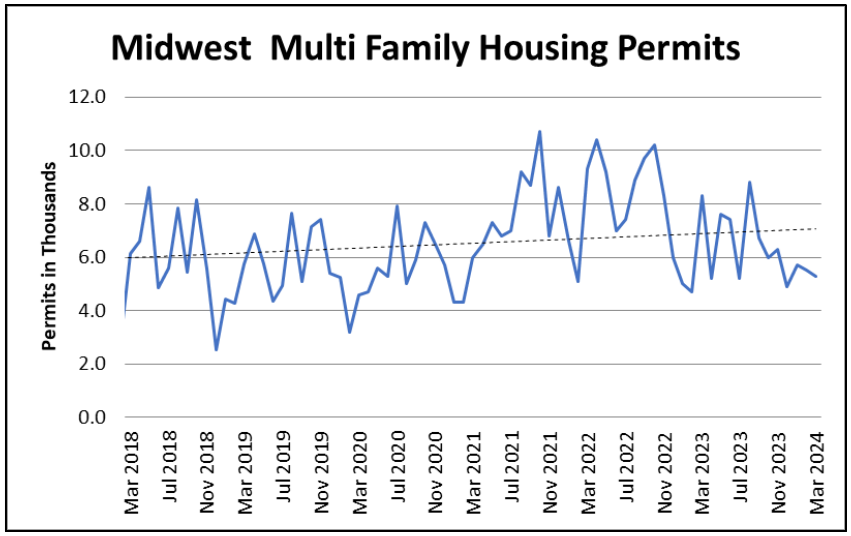
- Midwest total housing permits were up 11.2% month-over-month (16.3% in the last update).
- The 3-month average was up 10.6% (-0.1% in the last update).
- On a year-over-year basis, permits were down 9.7% (+34.9% in the last update).



- M/M permit volumes were up 20.5% (+33.3% last month).
- The 3-month rolling average shows that permits were up 16.5% (+3.1% in the last update).
- Year-over-year, single family homes authorized by permits were up 14.0% (+49.2% in the last update).

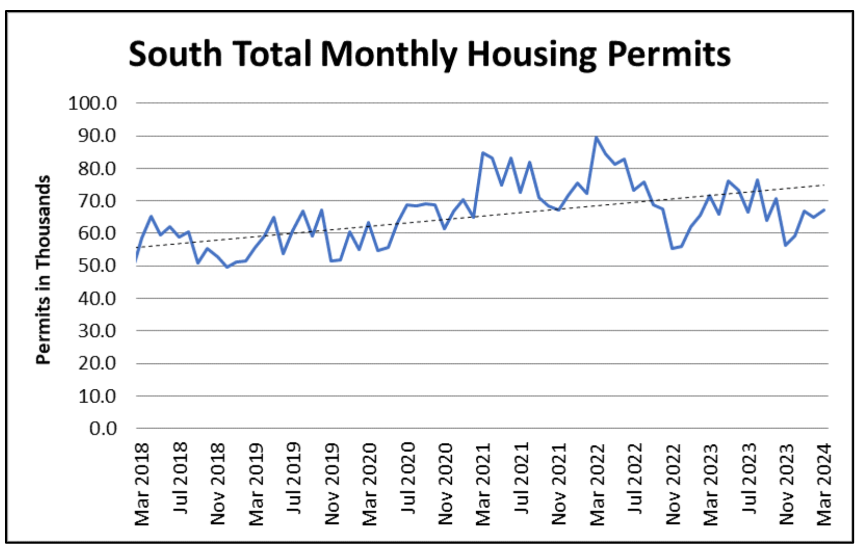



- Multi-family housing permits, again, are volatile month-over-month. This month, they were down 3.6% (-3.5% last month).
- On a 3-month rolling average basis, they were up 3.1% (-3.1% in the last update).
- On a year-over-year basis, permits were down 36.1% (+17.0% in the last update).

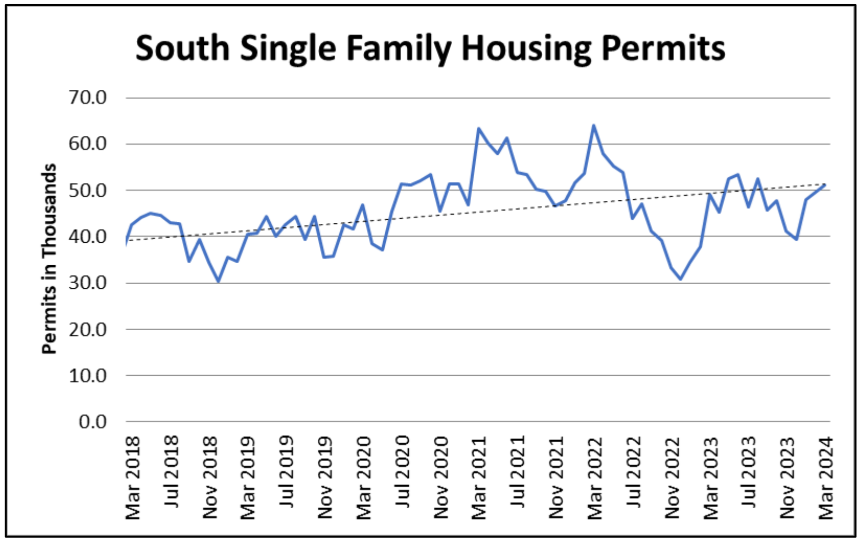



## Regional market outlook: South

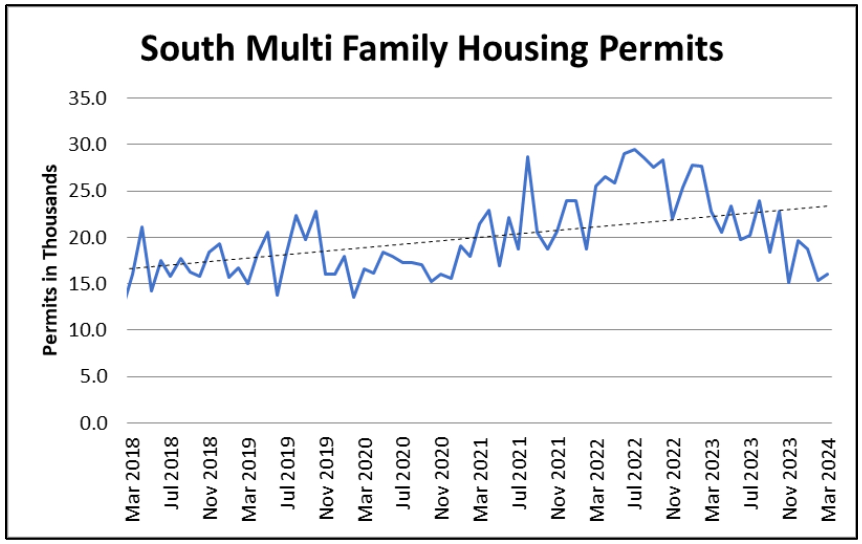
- Southern region housing permits were up 3.5% month-over-month (-2.7% in the last update).
- On a 3-month rolling average basis, permits were up 4.6% (+5.1% in the last update).
- On a year-over-year basis, total permits were down 6.4% (-0.9% in the last update).



- Southern region single family home permits were up 3.4% M/M (+3.1% last month).
- On a 3-month rolling average, they were up 9.5% (+6.9% in the last update).
- On a year-over-year basis, single family permits were up 4.5% (31.0% in the last update).

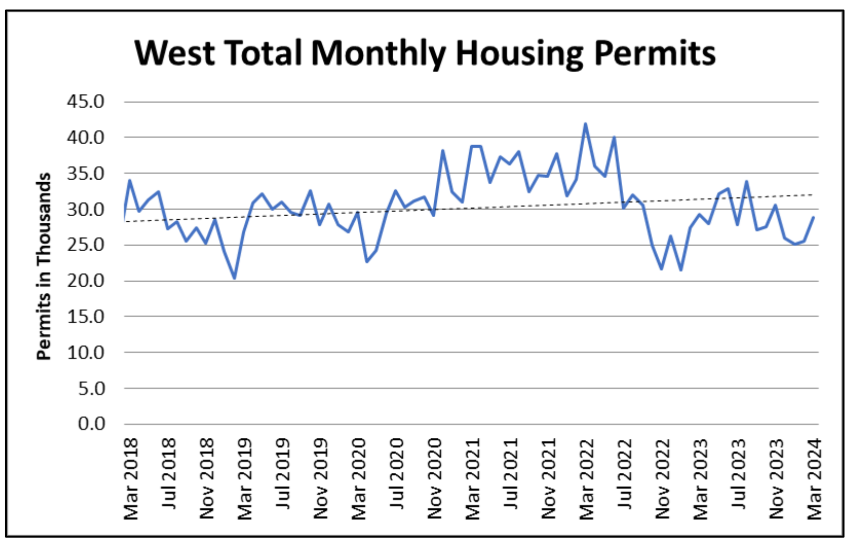



- Southern multi-family permits were up 3.9% M/M (-17.6% last month).
- On a 3-month rolling average basis, permits were down 6.3% (+2.6% last month).
- On a year-over-year basis, permits for multi-family housing were down 29.8% (-44.4% in the last update).

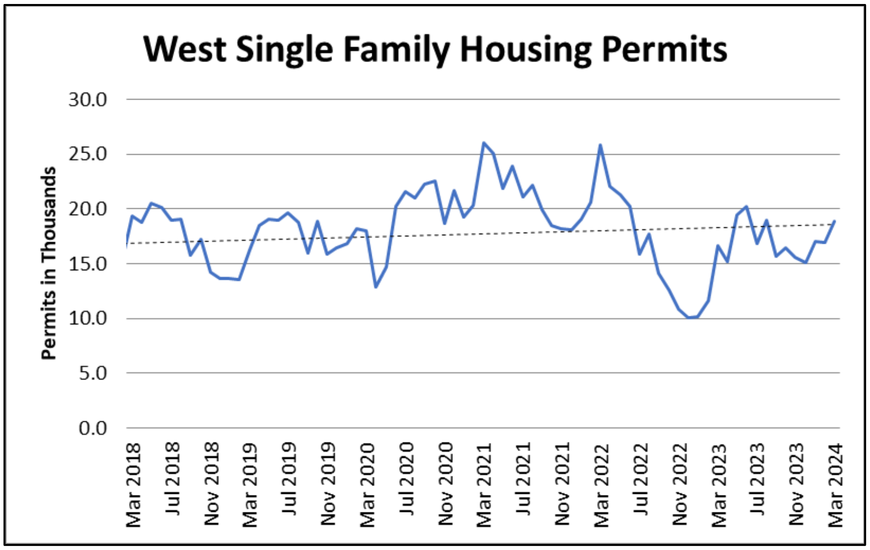



## Regional market outlook: West

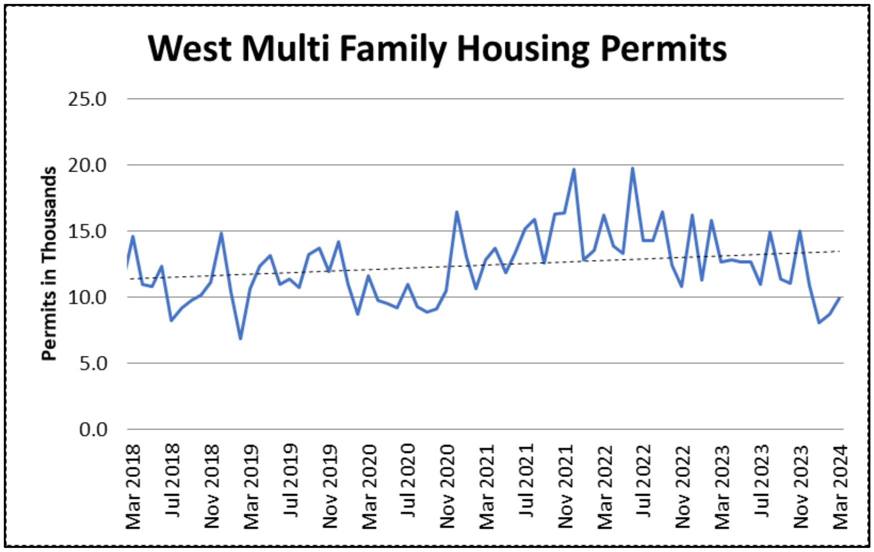
- Western region total monthly housing permits were up 12.5% M/M (+2.0% last month).
- On a 3-month rolling average basis, they were up 3.7% (-5.5% last month).
- On a year-over-year basis, permits were down 1.7% Y/Y (-6.6% in the last update).



- Single-family permits were up 11.8% M/M (-0.6% last month).
- On a 3-month moving average basis, permits were up 7.9% (+2.9% in the last update).
- Year-over-year, single family permits were up 13.9% (+45.7% in the last update).




- Multi-family permits were up 13.8% M/M (+7.4% in the last update).
- On a 3-month rolling average, it was down 1.5% (-15.2% in the last update).
- Year-over-year, multi-family unit permits were down 22.0% (-44.9% last month).



# Industry Outlook

ASA Sales were lower by 4.8% Y/Y (+3.9% last month) in March (latest available). Year-to-date through March, sales were down 0.3% (+1.1% in the last update). For the trailing twelve months prior, sales were up 1.3% (2.1% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

| | March Y/Y % Change in Total Dollar Sales | YTD % Change vs. YTD 2023 | Trailing Twelve Months % Change |
|---|---|---|---|
| **All Businesses** | **-4.8%** | **-0.3%** | **1.3%** |
| **By Primary Business** | | | |
| PHCP | -3.8% | 1.5% | 2.3% |
| PVF | -6.2% | -2.2% | 0.9% |
| PHCP & PVF | -5.2% | -2.3% | 0.2% |
| **By Region** | | | |
| 1 (SWPD & WSA) | 1.1% | 5.3% | 3.0% |
| 2 (ASA Central) | -2.2% | 0.6% | 2.6% |
| 3 (SWCD) | -16.7% | -8.6% | -1.0% |
| 4 (NCWA) | -1.8% | -1.6% | 0.3% |
| 5 (ASA Northeast) | -9.3% | -3.3% | -0.8% |
| 6 (SWA) | -8.5% | -0.1% | 2.7% |

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months. The last report available was from February (new report was delayed) and it showed that the TSI was at 138.1 for freight, up 3.1% M/M but down 1.1% Y/Y (up 1.8% Y/Y last month).

More recent data (comparing similar industry data to the TSI) from other sources show much weaker data. DAT Trendlines was reporting at the end of April (latest available) that spot truck freight demand was **4.3% lower than it was a year ago**. Spot trucking rates have fallen 3.8% Y/Y, and now fuel surcharges are down -4.7% Y/Y.

The US dollar is becoming a bigger story in the oil sector. A stronger dollar has been pushing oil prices down in recent weeks. As other currencies around the world struggle, the dollar is soaring. Through early May, the dollar index was 4% higher YTD and was 3.9% higher Y/Y. That may not be sustained, but if the Fed continues to pause and keeps rates higher, investors are still pushing the value of the dollar higher.

The biggest change in the oil outlook is the risk of geopolitical events hampering output, along with some increases in Atlantic hurricane activity potentially in 2024. Attacks on Russian oil infrastructure again through April and early May are also impacting the outlook for supply. The US is still hovering above the all-time high of 13.1 million barrels a day in domestic production output and this will help mask a tight global market that is being impacted by the Red Sea diversion, OPEC cuts, War in Ukraine, and tensions building elsewhere. If global demand begins to recover faster, output shortages would begin to show up more readily.

Retail sales were split in March (latest available) across many categories' month-over-month. Total retail sales were 0.7% higher month-over-month and were 4.0% higher year-over-year. Stripping out gas and automotive, they were 0.8% higher M/M and 3.6% higher Y/Y.

When adjusted for inflation, sales were flat month-over-month in February (rising by 0.1%) and were down by 1.6% compared to last year at this time (they were down by 3.0% year-over-year last month). This month, the divide between essential retail spending and discretionary categories was clear. Every discretionary sector except home improvement was lower month-over-month.

Home improvement retail sales volumes rebounded slightly in March with spring seasonal spending, they were higher by 0.7% M/M but they were lower by 0.6% against last year. Retailers noted that they were still experiencing lower volumes but expected smaller home improvement projects to pick up momentum in Q2 (normal seasonality).

| Kind of Business | Percent Change: Mar. 2024 Advance from -- | |
|---|---|---|
| | Feb. 2024 | Mar. 2023 |
| **Retail & food services, total** | **0.7** | **4.0** |
| Retail | 0.8 | 3.6 |
| **Motor vehicle & parts dealers** | **-0.7** | **2.8** |
| **Furniture & home furn. stores** | **-0.3** | **-6.1** |
| **Electronics & appliance stores** | **-1.2** | **-0.6** |
| **Building material & garden eq. & supplies dealers** | **0.7** | **-0.6** |
| **Food & beverage stores** | **0.5** | **1.4** |
| Grocery stores | 0.5 | 1.1 |
| **Health & personal care stores** | **0.4** | **2.3** |
| **Gasoline stations** | **2.1** | **-0.7** |
| **Clothing & clothing accessories stores** | **-1.6** | **1.4** |
| **Sporting goods, hobby, musical instrument, & book stores** | **-1.8** | **-3.9** |
| **General merchandise stores** | **1.1** | **5.7** |
| Department stores | -1.1 | -2.5 |
| **Nonstore retailers** | **2.7** | **11.3** |
| **Food services & drinking places** | **0.4** | **6.5** |

The first quarter's preliminary GDP results came in with a growth of 1.6%. This will be adjusted up to three more times, but adjustments are not likely to add more than two tenths of a point to GDP after revisions. This was weaker than expected, but still a good reading for any first quarter in the US. GDP was still growing on the back of stable consumer spending and government spending. For the full year, if these trends continue, the full year will grow nearer to 2%. As the forecast above shows, all recession forecasts have been removed from the 2024 outlook.

There was no change in the outlook for Non-residential construction from last month, it is still expected to keep its current momentum throughout 2024 based on current models, which will continue to keep the supply industry chasing opportunities. Government investment from the Infrastructure Bill, CHIPs Act, and Inflation Reduction Act will likely keep spending steadily on construction activities in 2024. Private spending across many sectors is also expected to be strong spanning manufacturing, health care, lodging, and even logistics and transportation spending will pick up pace in the back half of 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.