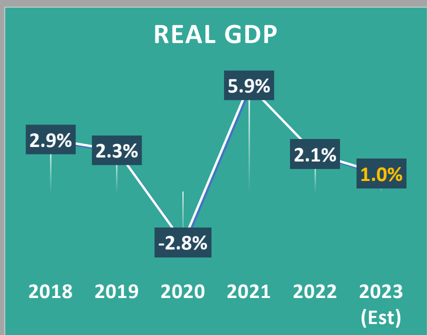
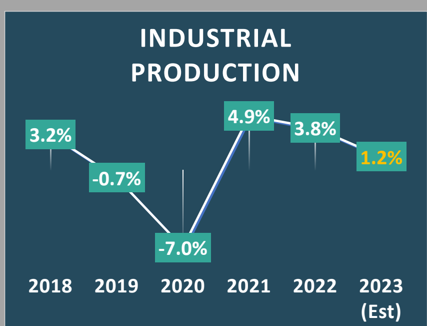
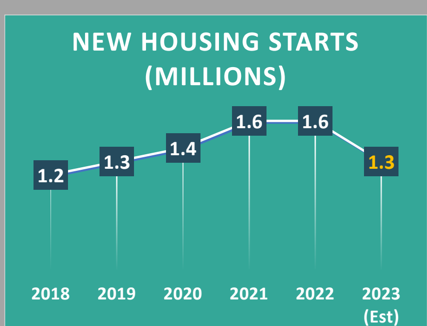
Monthly Economic Report (MER)

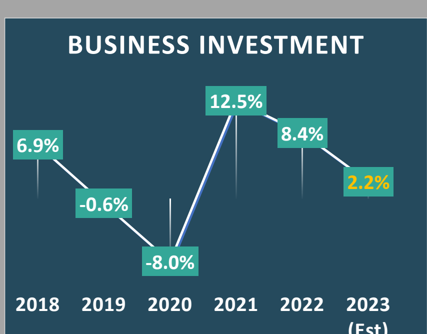
October 2023

Selected Indices









Executive Summary – October '23

Big Items

GDP: The GDP numbers for Q3 were stunning to say the least. The "advance estimate" came in at 4.9% after most analysts had been predicting growth closer to 3.0%. This is not the final word on GDP as there will be revisions, but it is rare that these adjustments deviate a great deal from the advance reading. The growth was a result of consumer spending as well as some inventory building as business started to work through all the accumulation that had taken place earlier in the year. The initial estimates for Q4 GDP growth are at 5.4%.

Industrial Production: Industrial production data look pretty good at this point. The latest data (from September) showed that overall production rose by 0.3%. Manufacturing was up by 0.4% and mining (oil and gas) was likewise up by 0.4%. Utilities dipped by 0.3% but that is expected during a season that is not too hot or cold. Overall industrial production is up by 0.1% over last year at this time. Capacity utilization was up by 0.2% and is now sitting at 79.7. Given that readings between 80 and 85 are in the normal range, this is a good signal of economic progress.

Housing Starts: The housing starts data has improved over last month but remains down compared to last year. The gain was 7.0% over levels from August but still 7.0% below the numbers in September of last year. Single family rates were 3.2% above the levels seen in August and that is an improvement over the last several months. There is still more activity in the multi-family space than in the single-family sector but there has been some unexpected development in the single-family category. It should be noted that everything in the residential category is highly dependent on regional trends – hot markets in one area and cold markets in others.

Home Improvement Retail: The home improvement season has started to come to an end – especially the sector focused on outside projects. The driver for remodeling has changed over the last few years. The push was geared to getting a house ready to sell and now the renovations are aimed at making the home better for current residents. Kitchens and bathrooms still dominate but storage has become a major focus as well. There has been less focus on creating home offices as the surge of remote work has started to fade a little.

Manufacturing: The latest PMI reading has climbed yet again and is sitting at 49.0. Anything above 50 is considered expansion and the US is now back within striking distance. In June the reading was at 46 and that was the low point thus far. On the other hand, it was only September of 2021 when the readings were at 61.1. It is going to be a while before these numbers get back to that level, but the recent trends are encouraging – especially with all the conversation around recession.

Big Risks

Inflation and Recession Potential: As pointed out in the next article the central banks will always favor an anti-inflation policy over an anti-recession approach. Ideally, they want neither of these but as long as inflation is above their target (2.0%) there is an incentive to keep hiking rates.

What to Watch

Supply Issues – Just as this section was being written came word that there is a tentative agreement between the UAW and the Big 3. There is a decent chance that the 60-day old strike will be coming to an end in the next few weeks.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

Some Insight into Fed Priorities – There has been a good bit of debate regarding the potential for recession given that the US economy has been dodging it for the better part of a year. The definition of a recession (generally) is two consecutive quarters of negative GDP growth and thus far we have seen growth of between 2.0 and 3.0 percent. Some suggest the recession arrives in 2024 and possibly as soon as first and second quarters. There are many demanding the Fed do something to avert this but it should be understood that this may not be the Fed's highest priority.

There are two economic scourges – recession and inflation. Of the two, economists and central bankers worry more about inflation than recession. The reality is that recession doesn't hit everyone and there are many that actually benefit from a downturn. There are recession-proof industries, and people and businesses that still have money or still have business. In a recession they can take advantage of lower prices, businesses may be able to buy competitors or otherwise expand more cheaply. Half the Fortune 100 experienced their biggest growth surges during recessions. Furthermore, central banks can address a recession relatively easily as they can lower rates and get an almost instant response.

Inflation hits everybody regardless of wealth status. Those on fixed incomes are hit hardest but even the rich see the value of their money deteriorate. Nobody escapes the impact and that makes it far more dangerous and insidious. The central banks have very limited control of inflation as they can only try to reduce the level of money in the system with interest rate hikes and other techniques. There are sectors of the economy connected to the shadow banking system (non-bank financial intermediaries) and they keep pumping cash into the economy. Inflation is too much money and too much demand and controlling this is both difficult and painful. It has been described as bashing the economy with a baseball bat. Just remember Paul Volcker's Fed in the 1980s.

So the Fed is not eager to let up on fighting inflation even as the threat of recession looms. The current rate of inflation as measured by Trimmed Mean Personal Consumption Expenditures is 3.9% on an annual basis. It is coming down as in March of this year it was at 4.8%. That is a good trend, but the Fed would still like to see this come down to between 2.0% and 2.5%. The mantra of the central bank is that they hike rates until they break something and then they lower rates to fix what they broke. The measure of whether they broke anything is usually employment. As long as the rate of joblessness is at 3.8% and the economy is adding 339,000 jobs in a month the Fed will assert it has room to keep hiking rates. This is not to say a rate hike in November is guaranteed but it is certainly a possibility, and it is very likely that rates will stay high for several more quarters. The goal is to subdue inflation – whatever it takes.

Reader Question of the Month

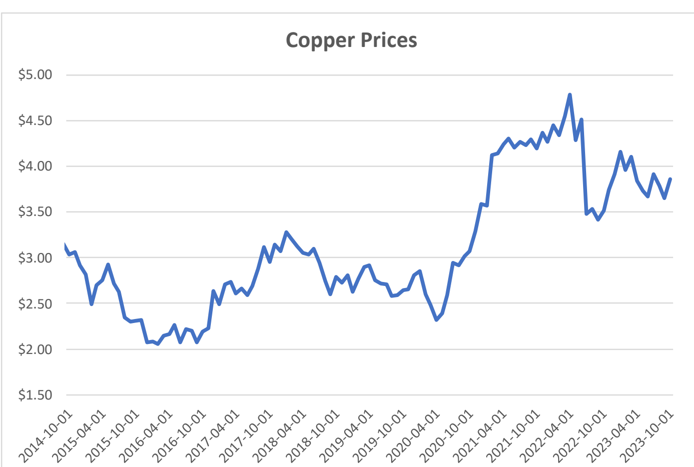
Q: Will the War between Israel and Hamas Affect the Oil Market?

A: As the war between Hamas and Israel began there was an immediate assumption that oil prices would spike. Some analysts were suggesting per barrel prices of between $120 and $150. At the time of this writing WTI was at $83 and Brent crude was at $87, they have been falling for the past week or so. Why have oil prices not surged as expected?

The bottom line is that Arab oil producers have not reacted in support of Hamas – at least to the extent of limiting production or threatening a boycott. This may yet occur as the war intensifies as the humanitarian crisis in the Gaza Strip is intensifying but thus far the majority of the producing states are holding Iran and Hamas responsible for much of this situation. The strategy behind the Hamas attack was rooted in classic revolutionary rhetoric. One stages a vicious attack on the enemy with the assumption that it will provoke an intense response. That response will then cause a wider revolution and it is assumed the world will forget the initial attack and focus on the response and thus sympathize with the initial attacker. Although the world has been urging Israel to temper its response to avoid civilian catastrophe, there has been no sympathy pouring out in support of an organization that slaughtered young people at a concert and savagely killed children, women, and men. It may seem churlish to focus on oil prices during a tragic situation such as this, but the reality is that this is the issue that has the most global of implications. Thus far the oil world has not responded and the price per barrel is still expected to stay in the 80s and possibly fall to the 70s again in the next few months. - CK

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 $3.86/lb. ($3.65/lb. last month).
- The Producer Price Index (PPI) for August (latest PPI available) was 498.6, up month-over-month by 0.2% (-2.4% last month). It was up 2.3% year-over-year (+2.5% last month). The ten-year index high was 572.0 in May 2022 and the low was 302.9 in 2016.
- **Looking Ahead**: A drop in global demand is still the primary factor slowing down copper prices. Inventories are still tighter than historical norms, but weaker demand is offsetting it. For now, copper prices are roughly 5.9% lower YTD but remain 7.2% higher than this time last year.

General Commodities Discussion:

Nickel:

- LME Nickel Prices have slipped marginally over the past 30 days and were @$8.17 per lb. ($8.28 in the last update). And warehouse levels inched up again this month to 45,564 tons (42.204 tons in the last update) and are still near lows not seen since 2007 (and well off the peak inventory level hit in 2021 of 260,000 tons).
- **Outlook**: "Global manufacturing data is still slipping, many of the world's manufacturing sectors are in recession and some throughout Europe are in deep recession. Despite inventories of bulk nickel being very low, the drop in global demand is offsetting a weaker supply environment and is keeping a cap on prices. A strong US dollar is also helping cap import prices."

Carbon Steel: **(WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were sharply higher over the past 30 days and were $884 per ton in late October ($695 per ton in the last update). This is down from a peak of $1,943 hit in August of 2021.
- Producer Prices for steel pipe and tube were lower in the latest data from the end of September (latest available). They were down 1.7% month-over-month (down 1.6% last month). Year-over-year, the PPI was 20.6% lower (-22.5% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "The last month has seen hot-rolled coil (HRC) prices increase by just over 20%. Lead times have also increased that amount. What is unknown is how much of this increase is self-imposed, nor how long these increases will last. Interesting to note that domestic HRC pricing is once again higher than import. This month-over-month increase ends a slide that began in July of this year. Domestic steel pipe pricing has seen two price increases in as many weeks."

Stainless Steel: **(WPU10170674)**

- The Producer Price Index for stainless pipe and tube were down in September (latest available). Producer prices for stainless pipe fell by 0.5% month-over-month (down 2.9% last month); and they were down 6.5% Y/Y (down 9.5% last month).
- **Outlook**: "Stainless pricing remains flat within most domestic segments of materials as we start to end the year. There remains a caution regarding near-term economic reports as there are signs that the aggressive raising of interest rates is hitting some sectors of consumer spending harder than others. Industries that rely on infrastructure spending, such as clean air, and semi-conductors, still are showing strength. The next year of 2024 is being looked at optimistically as a year of falling rates and increased activity as the climate of raising rates dissipates."

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap inched up in September vs. the prior month, coming in with an index of 480.1 (487.2 last month). This was higher by 0.8% M/M (4.6% last month). Year-over-year it was still up by 4.3% Y/Y (2.5% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.

  Outlook: Scrap prices once again took a mild rebound this month. Unlike last month, the building of activity in the Baltic Dry Index has abated, the index is now down 13.5% over the past 30 days. We were concerned that there was a late season surge in some raw material building activity and that it would soften before the end of the season, and that appears to be the case. For now, scrap prices are stable, keeping overall input prices slightly elevated.

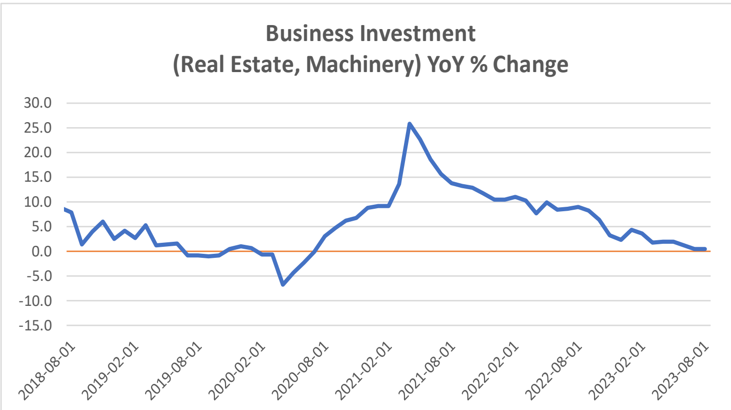
Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.

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.

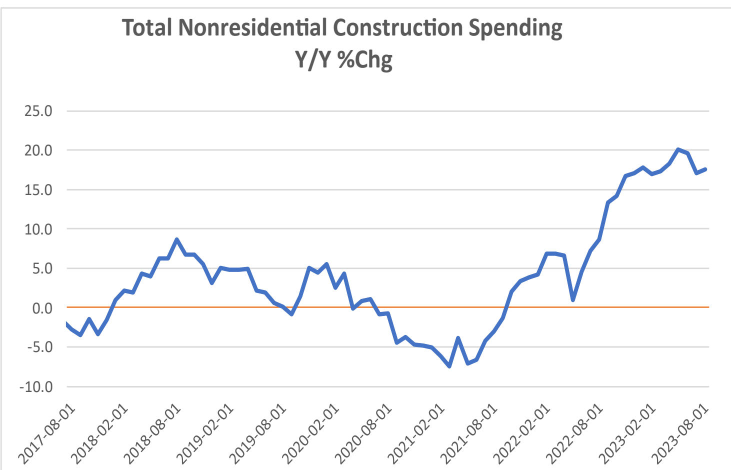
Producer Price Index - Key Industry Products						
Category	PPI Code	Sep-23	Aug-23	M/M% Chg	Sep-22	Y/Y % Chg
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	438.0	438.0	0.0%	415.3	5.4%
Gates, globes, angles and check valves	WPU114902011	165.8	165.8	0.0%	159.6	3.9%
Ball valves	WPU11490202	590.1	590.1	0.0%	543.8	8.5%
Butterfly valves (formerly W2421490203)	WPU11490203	306.1	306.1	0.0%	285.3	7.3%
Industrial plug valves	WPU11490204	308.7	308.7	0.0%	283.0	9.1%
Plumbing and heating valves (low pressure)	WPU11490205	389.8	389.8	0.0%	376.4	3.6%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	409.4	409.4	0.0%	391.5	4.6%
Automatic valves	WPU11490211	249.1	249.1	0.0%	232.0	7.4%
Metal pipe fittings, flanges and unions	WPU11490301	477.9	477.0	0.2%	469.8	1.7%
Steel pipe and tube	WPU101706	383.5	390.2	**-1.7%**	483.2	**-20.6%**
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	143.7	144.5	**-0.5%**	153.7	**-6.5%**
Copper & copper-base alloy pipe and tube	WPU10250239	338.9	338.8	0.0%	371.3	**-8.7%**
Plastic pipe	WPU07210603	196.6	196.6	0.0%	219.1	**-10.3%**
Plastic pipe fittings and unions	WPU07210604	317.5	319.3	**-0.6%**	327.7	**-3.1%**
Plumbing Fixtures, Fittings and Trim	WPU105402	394.5	395.0	**-0.1%**	386.5	2.1%
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	204.6	204.6	0.0%	196.3	4.2%
Enameled iron and metal sanitary ware	WPU1056	290.6	284.4	2.2%	287.1	1.2%
Steam and Hot Water Equipment	WPU1061	428.5	428.5	0.0%	393.3	8.9%
Cast iron heating boilers, radiators and convectors	WPU10610106	289.7	289.7	0.0%	269.9	7.3%
Domestic water heaters	WPU106601	570.6	570.6	0.0%	569.2	0.2%
Electric water heaters	WPU10660101	564.3	564.3	0.0%	563.9	0.1%
Non-electric water heaters	WPU10660114	347.7	347.7	0.0%	346.5	0.3%
Warehousing, Storage and Relates Services	WPU321	138.7	136.4	1.7%	132.2	4.9%

PHCP & PVF



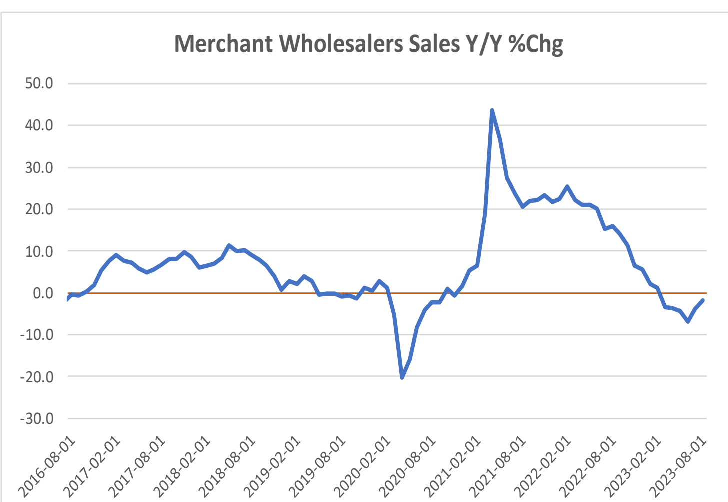
Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods had no change in August M/M (down 0.7% last month). But they remained up by 0.4% Y/Y (up 0.4% last month) and continued to be stable overall.
- **Outlook**: Q3 GDP activity showed some resilient business investment activity was taking place, but mostly in the building of inventories. Other types of business capital investment have begun to slow from a percent change basis, even though the total volume of dollars being spent is still relatively high. Some inflation is a factor, but companies are still investing in automation and other types of methods to improve productivity – especially when trying to reshore activity and straighten out supply chain weaknesses.



Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in August (latest available) was 17.6% higher than it was a year ago (17.1% higher last month) and was 0.5% higher M/M (down 2.5% in the last report). Overall spending was at a new all-time high of $1.071T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: Nonresidential construction was still partially leading the economy at the end of Q3. Among the primary components of US GDP growth, nonresidential construction is carrying a lot of the growth (in addition to consumer and government spending). Leading the non-residential construction sector in growth is the manufacturing construction sector, which is still 65.5% higher Y/Y on nearly $198 billion in spending.



Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were down 1.7% Y/Y through August (latest available; down 1.7% Y/Y in the last update). Month-over-month, sales were increasing by 2.1% (-3.0% last month).
- Wholesale inventories were down 1.0% year-over-year in August (latest available; up 0.4% last month).
- **Outlook**: As mentioned last month, wholesalers across many sectors of the economy are struggling to get inventory levels down far enough to restart more aggressive reorder programs. Broad measures of the inventory to sales ratios across the wholesale sector show many industries still near multi-decade high inventory levels (relative to sales volumes). New estimates through October suggest to us that the inventory backlog situation could be cleared by Q2 of next year, restarting the entire global supply chain and returning replenishment activity to "normal" levels.

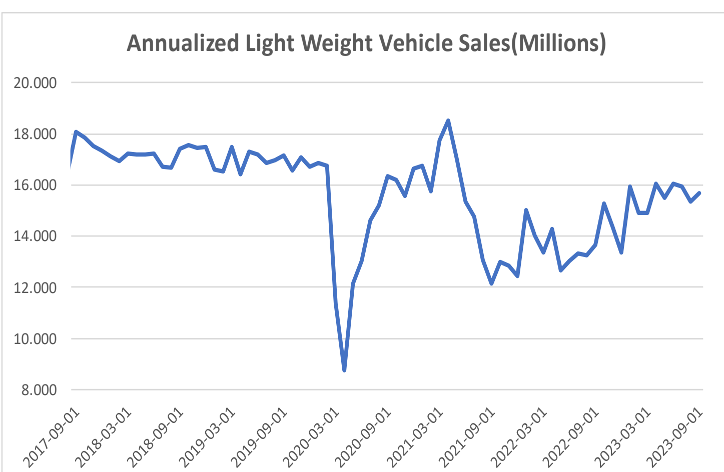
Manufacturing (AMTMNO)

- Federal data on manufacturing was up 0.5% Y/Y (-0.7% last month) through August (latest available). It was also up sequentially by 1.2% month-over-month (+0.5% last month).
- The S&P Global US manufacturing PMI came in at 49.0 in October, down from 50.2 in September.
- **Outlook**: Most forward-looking manufacturing measures suggest that the manufacturing sector likely performed better than expected in October. This late-season activity was boosted by a global scramble for certain stockouts of merchandise and peak retail season building. But it was also being driven partially by a global surge in defense contractor activity supporting two significant conflicts. That increases demand for global commodities as well, something that will have a bigger effect in the coming months.

Business Inventory to Sales Ratio (ISRATIO)

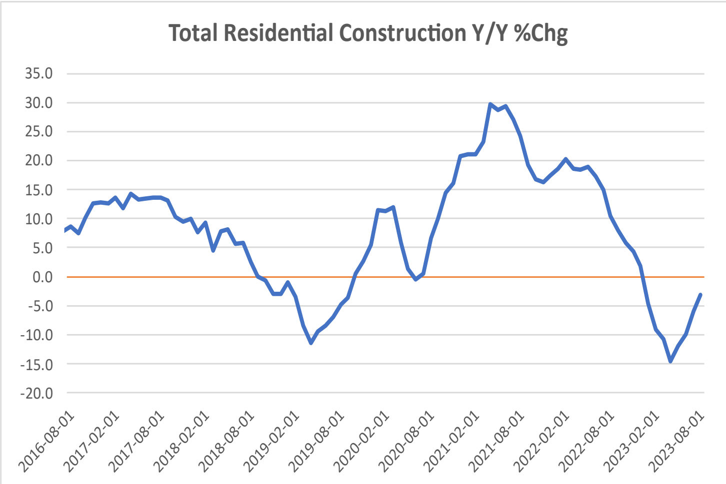
- The current inventory to sales ratio for all businesses is at 1.37 months of inventory on hand in August (latest available; 1.39 last month). Relative to sales, inventories are elevated, once again this month's ratio was 0.7% higher Y/Y (3.0% higher last month).
- **Outlook:** It is difficult to get a full picture of the entire industry with this macro view. When looking at sub-sectors across the industry, approximately 64.5% of the goods producing and moving industry are 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). We now believe that inventory to sales ratios will be more balanced by Q2 of 2024, and a steadier global reorder process will take place.

PHCP



Auto Sales (ALTSALES; AISRSA)

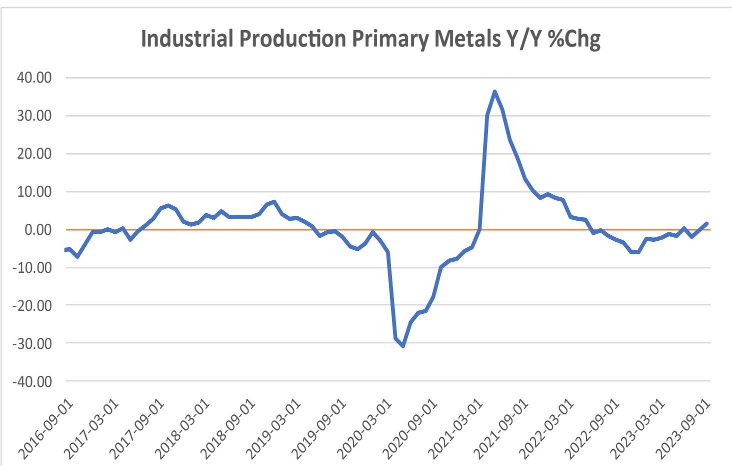
- US auto sales were trending at a 15.667-million-unit annual rate (15.344M last month) through September (latest available). This is up 14.3% year-over-year (+13.7% in the last update).
- The domestic auto inventory to sales ratio was up 58.1% Y/Y in August (latest available). On a monthly basis, it was up 9.4% (down 1.0% last month).
- **Outlook**: Although the inventory to sales ratio in this sector shows strong year-over-year growth, it remains near all-time lows and nearly 67% lower than it was prior to the pandemic. The UAW strike will certainly have an impact on this data as survey data catches up with strike activity (next month's data). It may take another 30-60 days for the full impact to show up in macro data. Again, as mentioned, the ripples are spreading throughout the supplier sector.



Total Residential Construction (PRRESCONS)

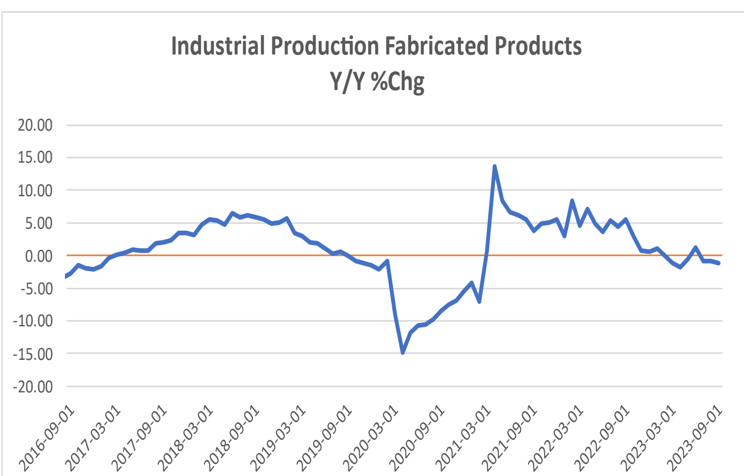
- Total residential construction in August (latest available), was down by 3.1% Y/Y (down 5.9% last month). It was up 2.8% M/M (4.0% last month).
- **Outlook**: Housing starts and permits are starting to show the strains of higher interest rates, and tightening credit standards. Builder sentiment is inching up slightly as builders recognize that they are finding enough demand in certain home price categories. First time home buyers are still in the market (not knowing any different on the interest rate front), but home builders must adjust the size of the home and the cost of fixtures to keep the overall price of the home lower (to offset higher interest rates). Regions of the country also make a huge difference in demand. Markets where job openings are increasing are seeing demand for homes to support workers that are forced to relocate, and those housing markets remain tight.

PVF



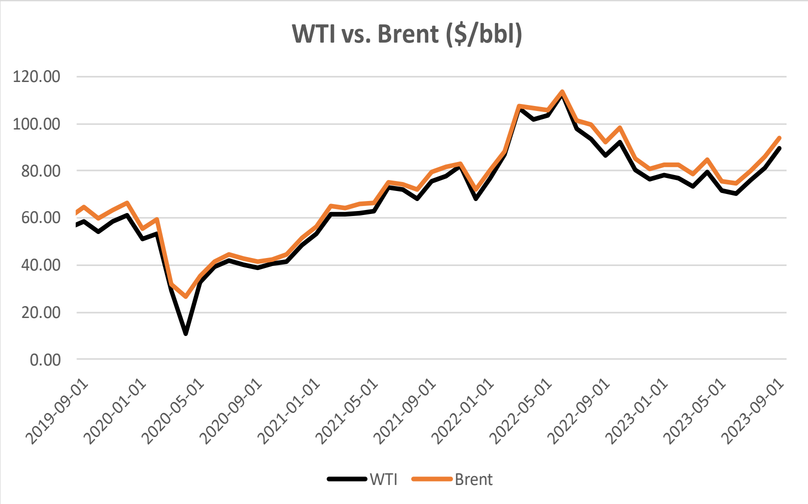
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was up 1.6% Y/Y through September (-0.3% in the last update). It was up 1.9% M/M (up 1.6% M/M in the last update).
- **Outlook**: As mentioned, there are five primary sectors that are driving demand, which is creating enough activity to keep the sector essentially stable year-over-year (despite now slowing by 3%). The infrastructure bill is finally contributing $50 billion a year in incremental spending across many different segments of infrastructure. And despite the current automotive strike, the automotive, aerospace, defense, and nonresidential construction sectors are keeping demand stable. And that should continue into 2024.



Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 1.2% Y/Y through September (down 0.8% last month). It was down 0.4% on a month-over-month basis, (up 0.1% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and activity through August was still trailing slightly behind last year's volumes. As mentioned last month, many sectors that feed the fabricated metals sector are showing some slight improvements in demand heading into the peak retail season. But inventories are still high across most sectors, which is affecting new orders for raw materials.



WTI and Brent

- WTI is currently at $82.20 a barrel ($81.39 in the last update) and Brent is at $87.68 ($85.81 in the last update).
- **Outlook:** Despite US crude inventories in Cushing, Oklahoma showing volumes less than 21% of their total capacity (the real figure could be lower), price for oil have remained stable. Sitting at decade lows, this and a low Strategic Petroleum Reserves is keeping the petroleum supply side of the industry uncertain. But a strong US dollar and (so far) fairly contained conflict in the Middle East has not disrupted global oil supply. Couple that with weaker than expected global consumption, the price of oil is remaining lower than might otherwise be expected. But markets remain volatile, and surges in price are not out of the question, especially with so much global geopolitical uncertainty at hand.

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

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	27-Oct-23	625	1	-143
Canada	27-Oct-23	196	-2	-16
International	Sep-23	940	-12	61

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 143 Y/Y (-142 in the last update) at 6253 (1,049 in 2019); Canadian counts were down by 16 Y/Y (down -22 in the last update). International counts are up by 61 Y/Y (+92 in the last update).
- **Outlook**: Well counts are staying low because of the efficiency of modern technologies, the volume of output and the need to keep those wells in top maintained condition is paramount currently. Overall, well counts are down substantially from where the market was a year ago in the US, and they continue to soften on an international basis. As mentioned prior, we cannot ignore the low US inventory levels currently in place. Any dip in supply or increase in demand, a weaker US dollar, or other factors will push the price of oil higher, and quickly. Those factors are always a consideration and should not surprise us if they occur.

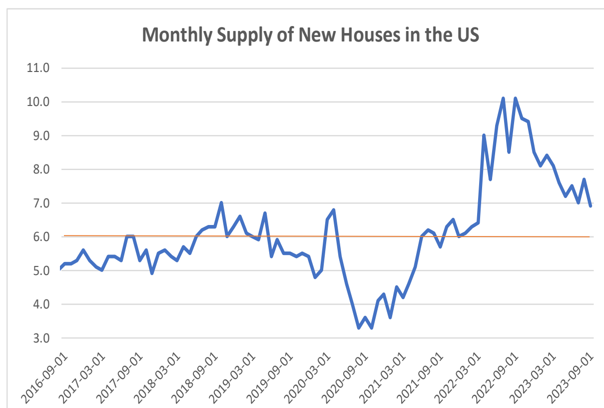
Construction Outlook

<u>Residential construction</u>: 30-year national average mortgage rates continued to rise in late October, at 7.79% (7.31% in the last update). Home builder confidence fell M/M in October by 9.1% according to the <u>NAHB/Wells Fargo index</u>, it fell to 40 points (down from the September reading of 44) and the weakest since April. The all-time high was 90 points in November of 2020. Builders' confidence has started to wane with the Federal Reserve keeping rates likely "higher for longer", and some cracks showing up in consumer spending activity. Additional banking pressure is tightening lending standards, creating an additional headwind for the industry.

NAHB/Wells Fargo National and Regional Housing Market Index (HMI)													
NATIONAL													
(Seasonally Adjusted)	2022	2023										M/M	Y/Y
	Oct.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug	Sep. Revised	Oct. Prelim.		
Housing Market Index	38	35	42	44	45	50	55	56	50	44	**40**	-9.1%	5.3%
Housing Market Index Components													
Single Family Sales: Present	45	40	47	49	51	56	61	62	57	50	**46**	-8.0%	2.2%
Single Family Sales: Next 6 Months	35	37	48	47	50	56	62	59	55	49	**44**	-10.2%	25.7%
Traffic of Prospective Buyers	25	23	28	31	31	33	37	40	35	30	**26**	-13.3%	4.0%
REGIONAL HMI													
(Seasonally Adjusted)	2022	2023										M/M	Y/Y
	Oct.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug	Sep. Revised	Oct. Prelim.		
Northeast	47	34	46	46	44	45	52	60	55	48	**47**	-2.1%	0.0%
Midwest	37	32	36	36	40	42	48	46	42	38	**37**	-2.6%	0.0%
South	41	39	46	50	50	56	60	58	55	48	**43**	-10.4%	4.9%
West	25	29	37	36	40	48	50	54	46	42	**35**	-16.7%	40.0%
https://www.nahb.org/news-and-economics/housing-economics/indices/housing-market-index													

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index is up 5.3% against October of 2022 (down 2.2% last month).

Adjusted housing inventories increased in August (latest available), coming in at 6.9 months of inventory on hand. This is higher than the "ideal range" of 6 months of inventory on hand and is still lower than the 9.5 month peak we saw last October. The increase in inventory could be a worrisome sign.



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. But new permit and starts data remains volatile.

New housing starts are volatile right now and came in at a 1.358-million-unit rate on an annualized basis (slightly higher from last month's adjusted 1.283 million annual rate); and the outlook for the rest of 2023 is stable based on current industry trends.

Single family starts were higher in September by 3.2% M/M (latest available) but were up 8.6% Y/Y. Multi-family starts are volatile and were up 17.1% M/M but were down 31.5% Y/Y.

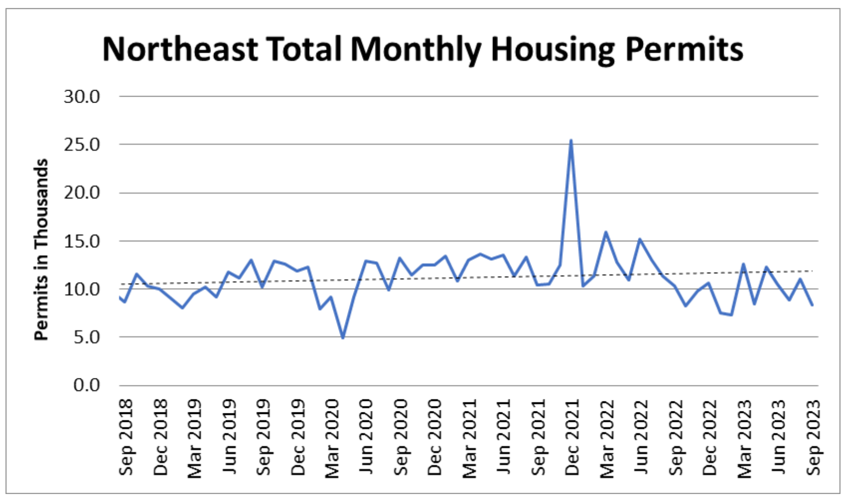
National Outlook: The Federal Reserve paused rate hikes in September as expected, but debate continues about the need for a hike in November. Inflation is cooling, but it remains hotter than Fed expectations. At the same time, economic growth remains stable, despite some slowing in consumer spending beginning to show up. 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 now due to funding difficulties). That has superseded the lack of availability of labor and products used in construction activity.

	2019	2020	2021	2022	2023	2024	2025
Housing Activity (000)							
Total Housing Starts	1,292	1,397	1,606	1,551	1,402	1,355	1,449
Single Family	889	1,003	1,132	1,004	904	946	1,027
Multifamily	403	394	474	547	498	409	423
New Single Family Sales	685	833	769	637	687	731	792
Existing Single-Family Home S	4,746	5,057	5,420	4,530	3,790	4,222	4,452
Interest Rates							
Federal Funds Rate	2.16%	0.36%	0.08%	1.68%	5.07%	5.08%	3.52%
Fixed Rate Mortgages	3.94%	3.11%	2.96%	5.34%	6.80%	6.40%	5.57%
Prime Rate	5.28%	3.54%	3.25%	4.85%	10.23%	11.48%	9.09%
For more forecast details, visit www.nahb.org.							

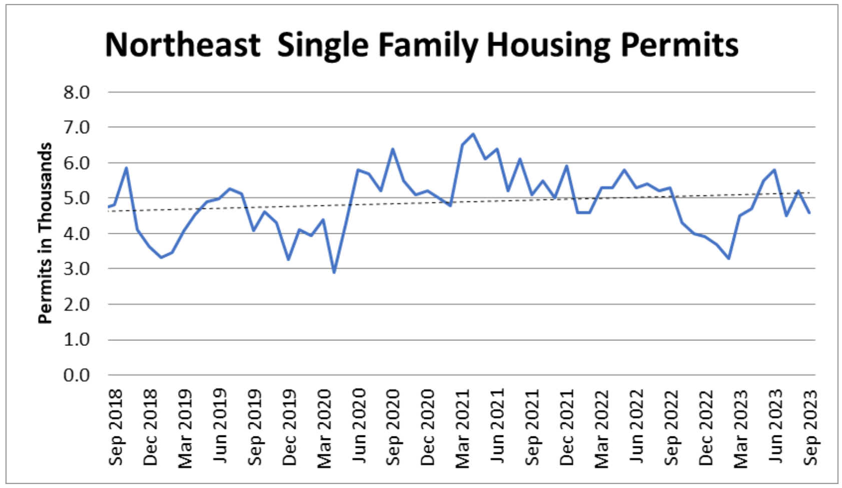
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

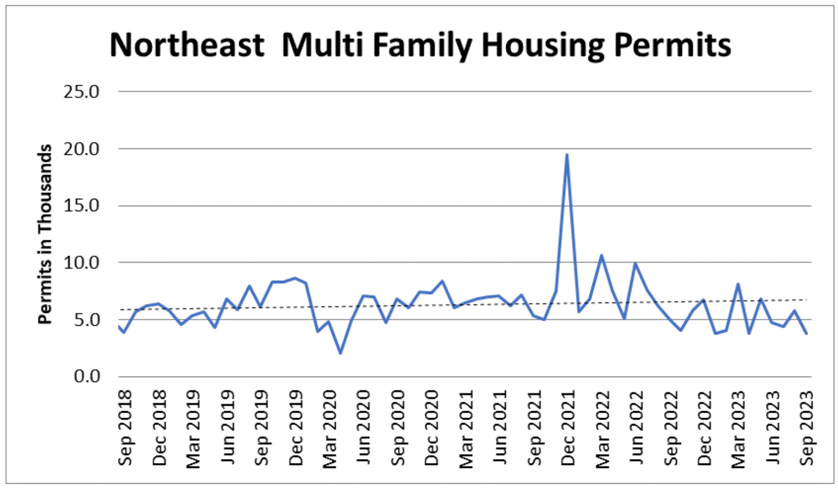
- Northeast total housing units authorized for construction were down in September by 23.6% M/M (+23.6% last month). September was the latest regional data available throughout this series.
- The 3-month moving monthly average was down 5.1% (-2.1% last month).
- On a year-over-year basis, permits were down 18.4% (-3.5% in the last update).



- Month-over-month single family permits were down 11.5% (+15.6% last month).
- On a 3-month moving average basis, permits were down 6.1% (-0.5% last month).
- Year-over-year permits were down 13.2% (unchanged last month).

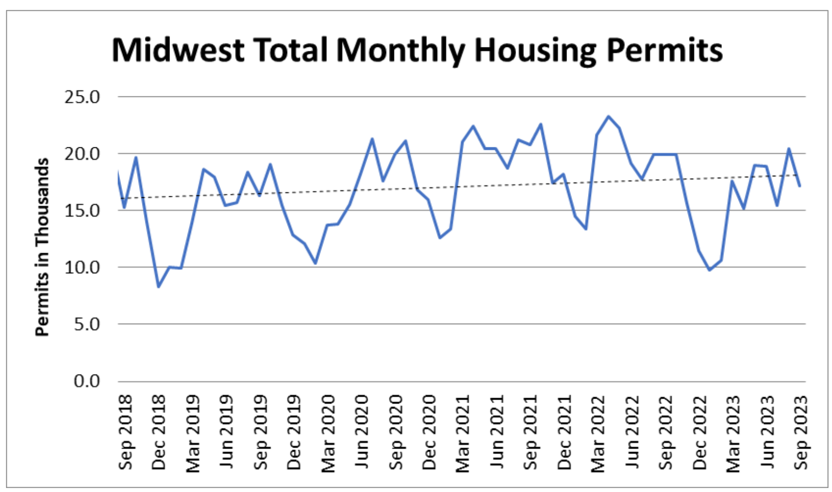


- Multi-family housing permits authorized for construction were down 34.5% M/M (+31.8% in the last update).
- They were up 3.0% on a rolling 3-month average (-1.8% last month).
- On a year-over-year basis, they were down 24.0% (-6.5% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

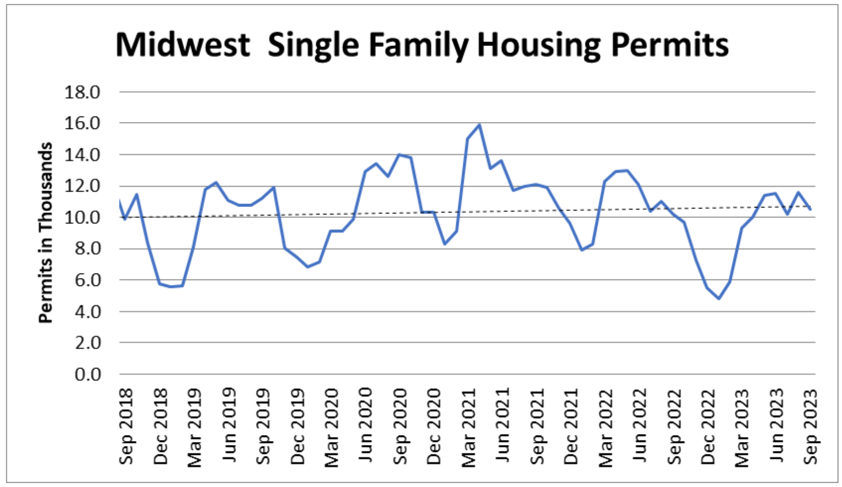


Regional market outlook: Midwest

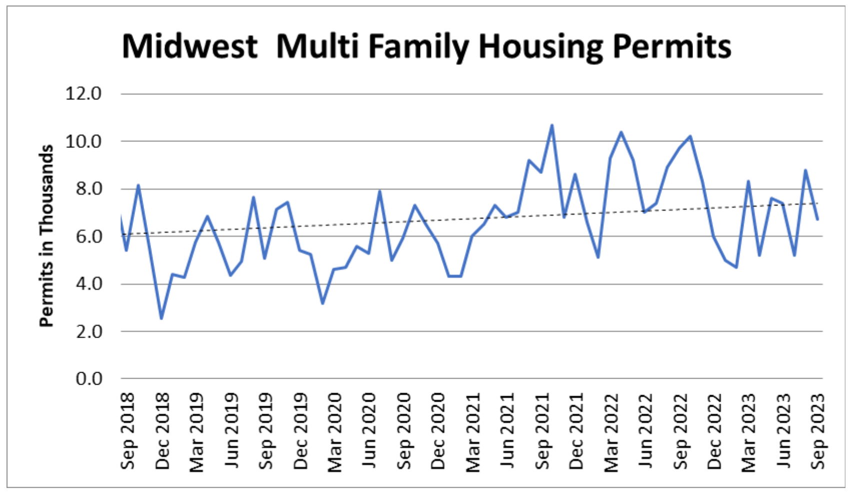
- Midwest total housing permits were down 15.7% month-over-month (+32.5% in the last update).
- The 3-month average was down 0.6% (+4.5% in the last update).
- On a year-over-year basis, permits were down 13.6% (+2.5% in the last update).



- M/M permit volumes were down 9.5% (+13.7% last month).
- The 3-month rolling average shows that permits were down 2.4% (1.1% in the last update).
- Year-over-year, single family homes authorized by permits were up 2.9% (+5.5% in the last update).

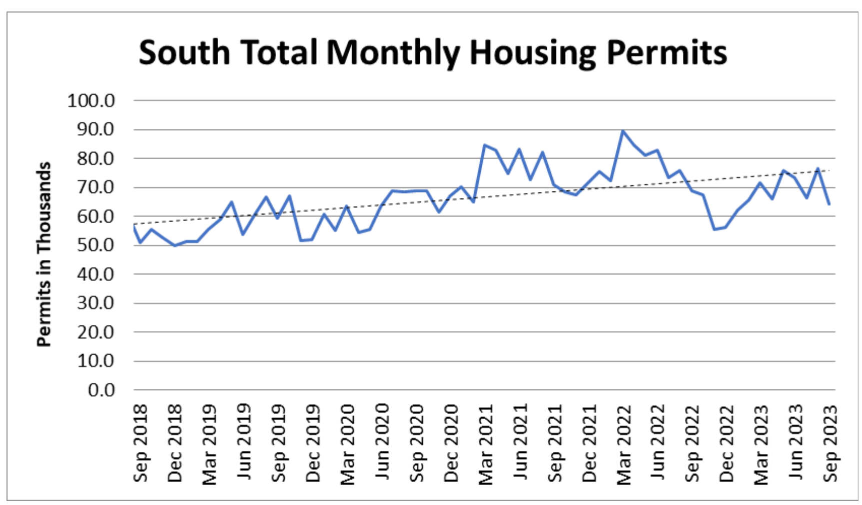


- Multi-family housing permits, again, are volatile month-over-month. This month, they were down 23.9% (69.2% last month).
- On a 3-month rolling average basis, they were up 5.2% (12.3% in the last update).
- On a year-over-year basis, permits were down 30.9% (-1.1% in the last update).

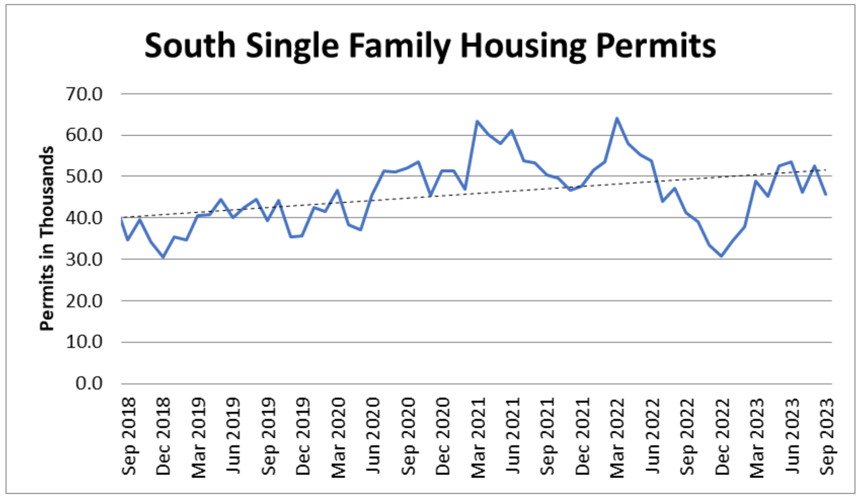


Regional market outlook: South

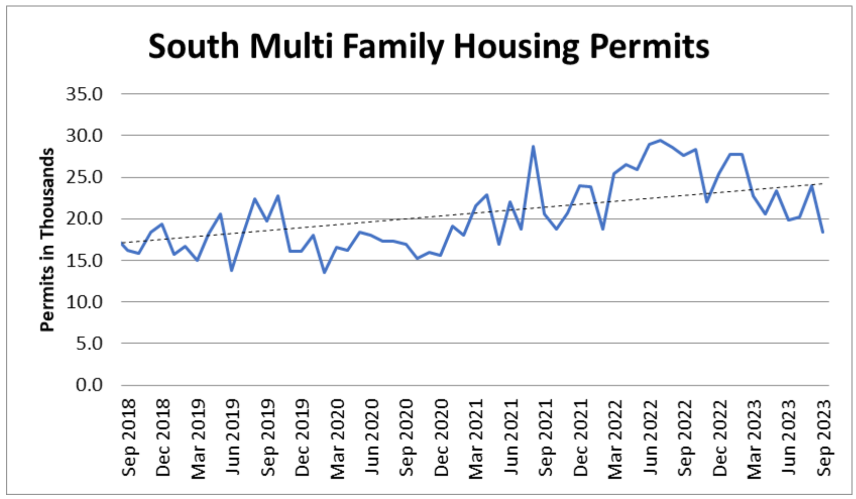
- Southern region housing permits were down 16.2% month-over-month (+15.0% in the last update).
- On a 3-month rolling average basis, permits were lower by 3.5% (0.7% in the last update).
- On a year-over-year basis, total permits were down 6.8% (+1.1% in the last update).



- Southern region single family home permits were up 13.4% M/M (-13.5% last month).
- On a 3-month rolling average, they were down by 4.3% (0.5% in the last update).
- On a year-over-year basis, single family permits were up 10.9% (11.5% in the last update).

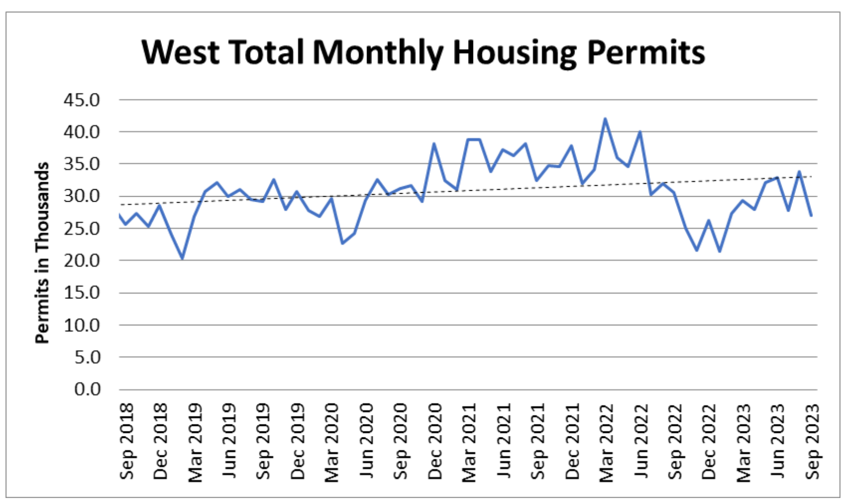


- Southern multi-family permits were down 23.3% M/M (+18.8% last month).
- On a 3-month rolling average basis, permits were down 0.8% (1.8% last month).
- On a year-over-year basis, permits for multi-family housing were down 33.3% (-16.1% in the last update).

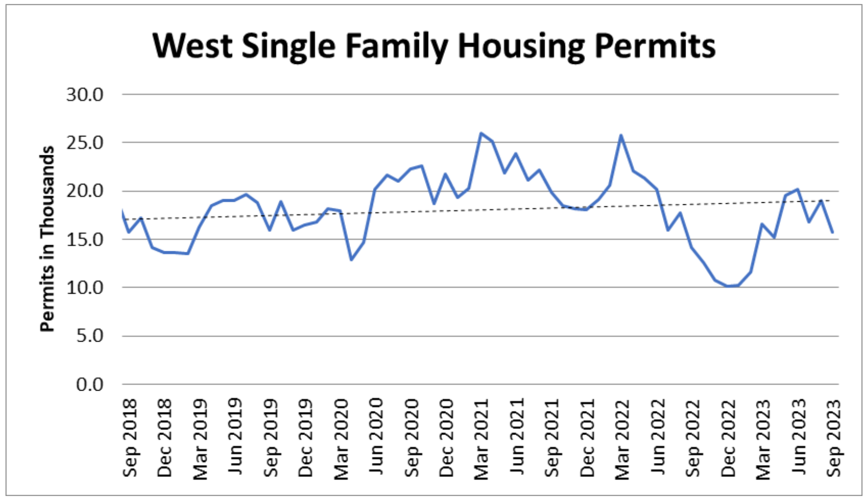


Regional market outlook: West

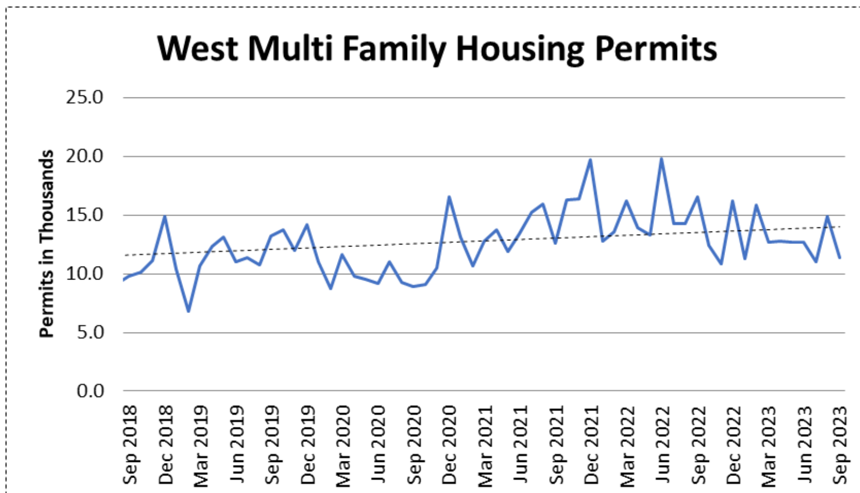
- Western region total monthly housing permits were down 20.1% M/M (21.9% last month).
- On a 3-month rolling average basis, they were down 4.5% (2.9% last month).
- On a year-over-year basis, permits were down 11.4% Y/Y (+5.9% in the last update).



- Single-family permits were down 17.4% M/M (+13.1% last month).
- On a 3-month moving average basis, permits were down 7.0% (unchanged in the last update).
- Year-over-year, single family permits were up 11.3% (+7.3% in the last update).



- Multi-family permits were down 23.5% M/M (+35.5% in the last update).
- On a 3-month rolling average, it was down 0.5% (+7.4% in the last update).
- Year-over-year, multi-family unit permits were down 30.9% (+4.2% last month).



Industry Outlook

ASA Sales were weaker by 2.7% Y/Y (also down -2.7% last month) in September (latest available). Year-to-date through September, sales were up 3.9% (+5.9% in the last update). For the trailing twelve months prior, sales were up 5.9% (7.6% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

	September Y/Y % Change in Total Dollar Sales	YTD % Change vs. YTD 2022	Trailing Twelve Months % Change
All Businesses	**-2.7%**	**3.9%**	**5.9%**
By Primary Business			
PHCP	2.1%	5.2%	5.3%
PVF	7.9%	8.7%	9.4%
PHCP & PVF	0.1%	5.1%	11.0%
By Region			
1 (SWPD & WSA)	-5.8%	0.2%	5.0%
2 (ASA Central)	0.0%	6.2%	6.9%
3 (SWCD)	-1.7%	-0.5%	5.5%
4 (NCWA)	-1.7%	4.4%	3.6%
5 (ASA Northeast)	-0.5%	4.6%	7.6%
6 (SWA)	-4.0%	6.4%	7.5%
*ISD - Insufficient Data			

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months, was mixed in the latest readings. The last report available was still from August and it showed that the TSI was at 138.5 for freight, up 0.2% M/M but was down by 1.9% Y/Y (down 0.9% 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 September (latest available) that spot truck freight demand was **43.4% lower than it was a year ago**. Spot trucking rates have fallen 13.9% Y/Y, and now fuel surcharges are down -8.6% Y/Y.

Forecast data still shows that oil production in the US is expected to hit 12.6 million barrels per day and will touch 12.8 million in 2024. Total oil inventories are running in the middle of the 5-year range, and the Strategic Petroleum Reserves are still at the lowest levels since the mid 1980's and rebuilding activity are slow to start in earnest. More recent data suggests that Cushing, Oklahoma is running at just 21% of capacity and could be even lower.

The uncertainty surrounding the conflict in the Middle East is one factor that is keeping conditions uncertain. At the time of writing, there was little spread of warfighting activity and supply was still stable. Again, this can change quickly and lower US petroleum inventory levels could quickly push prices higher.

Retail sales inched up again in September across many categories month-over-month, but some sectors continued to show some pressures on both a month-over-month and year-over-year basis. Total retail sales were 0.7% higher month-over-month and were 3.8% higher year-over-year.

When adjusted for inflation, sales were slightly lower month-over-month in September by 0.3% and were lower by 0.1% compared to last year at this time (they were lower by 1.2% year-over-year last month).

Home improvement retail sales volumes were lower in September, falling by 0.2% M/M and they remained marginally lower by 4.0% against last year. Again, when adjusted for inflation, sales were even lower year-over-year.

Economic growth is still outpacing expectations and is still expected to be higher by just 1% for all of 2023. With Q3 coming in hotter than expected at 4.9%, that could push total year growth higher. In the fourth quarter, GDP is likely to be 2.9%, based on weaker inventory building activity.

Non-residential construction is still doing well, and that momentum will continue to keep the supply industry chasing opportunities. Many durable goods sectors are also still experiencing growth and consumer spending was still stable through most of Q3 on the back of a strong jobs market. Job openings even surged with the fall wave of new hiring taking place. Openings are now back up above 9.5 million positions, 6 million is a balanced labor environment.

Kind of Business	Percent Change: Sep. 2023 Advance from --	
	Aug. 2023	Sep. 2022
Retail & food services, total	**0.7**	**3.8**
Retail	0.7	3.0
Motor vehicle & parts dealers	**1.0**	**6.2**
Furniture & home furn. stores	**0.0**	**-5.9**
Electronics & appliance stores	**-0.8**	**-2.2**
Building material & garden eq. & supplies dealers	**-0.2**	**-4.0**
Food & beverage stores	**0.4**	**1.6**
Grocery stores	0.4	1.6
Health & personal care stores	**0.8**	**8.3**
Gasoline stations	**0.9**	**-3.5**
Clothing & clothing accessories stores	**-0.8**	**0.1**
Sporting goods, hobby, musical instrument, & book stores	**0.0**	**-2.1**
General merchandise stores	**0.4**	**2.0**
Department stores	0.0	-4.7
Nonstore retailers	**1.1**	**8.4**
Food services & drinking places	**0.9**	**9.2**

As mentioned last month, the Federal Reserve could still increase interest rates early next year, but most believe that the Fed is at, or is approaching, its peak rate hikes in this cycle. Again, many new projects are facing some difficulties in getting funding in place, that will carry over into the early half of 2024.