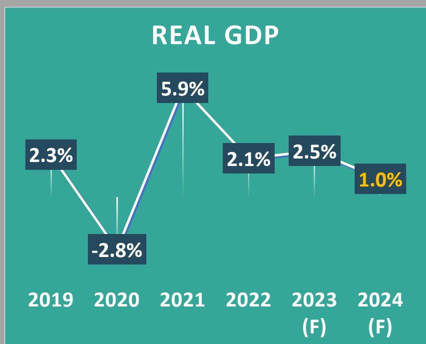
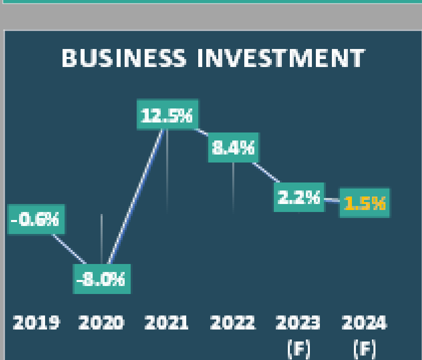
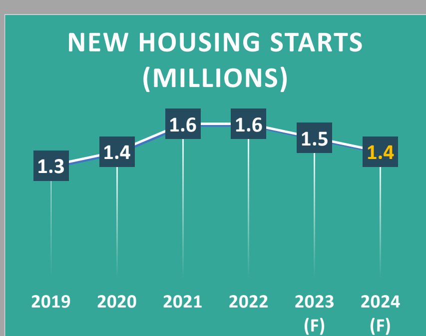
# Monthly Economic Report (MER)

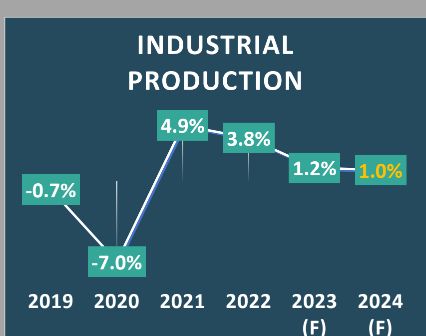
January 2024

## Selected Indices




# Executive Summary – January '24

## Big Items

**GDP:** GDP once again surprised analysts in Q4, coming in at 3.3% against expectations of 1.5-2%. The growth was on the back of strong exports of energy (mostly refined fuels), good consumer spending, strong nonresidential construction, and continued government spending (local, state, and federal). For 2024, most analysts are still calling for some sluggishness in the first half as consumers try to pay down credit card debt. But just as we have seen in the past year, the consumer has continued to surprise all of us, and with that spending accounting for 70% of GDP, it should keep total economic growth stable unless layoffs accelerate (and some evidence of that is showing up in the IT sector).

**Industrial Production:** Industrial production rose by 0.1 percent in December (essentially flat). The manufacturing sector also inched up by 0.1% and was up an anemic 1.2% year-over-year. Mining activity was up 4.3% year-over-year and utility production was down 4.9% compared to last year. The cold snap in the front half of January could have boosted utility production more, but inventories are balanced, and prices should continue to remain stable.

**Housing Starts:** Single family starts approached their second highest levels since the 2005-2006 surge. They were down slightly in December versus November's levels, but there are signs that the single-family housing market could be turning around. Many builders have figured out how to reduce the overall cost of a home to target some segments of home buyers that are reluctant to jump back into the market, using smart designs and effective use of every inch of the footprint to keep overall costs down amid higher interest rates. That still will not pull the buyer back into the market that is sitting on a sub-3% interest rate, but there is some movement in the housing market.

**Home Improvement Retail:** The problem with December Home Improvement Retail sales is that we don't really know how much of the sales in December were due to Christmas shopping and gift giving, and how much was part of a bigger renovation work trend. Home prices are still higher, and many consumers are trying to improve their current homes. Some anecdotes suggest that many consumers are looking ahead and are anticipating that the Federal Reserve will reduce interest rates later this year, and they want to be ready to put their home on the market and perhaps get into a different home at that time. That could help fuel a renovation and updating trend through 1H of '24.

**Manufacturing:** The US manufacturing sector snapped back in January according to the S&P Global PMI. The PMI came in at 50.7 in January, and it slid slightly into expansion territory. That was higher than the 47.9 posted last month.

## Big Risks

**Inflation and Recession Potential:** Nobody really knows whether a mild recession is coming or not, that's clear from how quickly forecasts are changing. New consensus forecasts now show Q1 coming in perhaps as high as 1%, with Q2 and Q3 now showing contraction of 0.7% and 0.4% respectively. The Fed still expects the full year to come in at 1% - 1.2%.

## What to Watch

**Global Manufacturing:** The JP Morgan global manufacturing PMI improved to 50 (a balanced reading at the midpoint between expansion and contraction), slightly higher than 49.0 posted last month. The Eurozone manufacturing sector was still in recession, pockets of Asia have popped higher and are showing some mild expansion.

# Macroeconomic Viewpoints

**- Dr. Chris Kuehl**

**ASA MER Contents:**



**Illness as Inspiration –** As I write these monthly screeds on the state of the economy, I am always looking for some angle that makes them relevant to the ASA member. The economy is constantly in flux, that is true. There is always something changing and (half the time) the change is unexpected. On occasion the shifts can be positive and other times the shifts are not so welcome. The inspiration this month has been from me coming down with the flu. Suddenly all the best laid plans for the week were thrown into disarray – missed deadlines, canceled appearances, and altered plans. Kind of like what has been happening in an economy that looks weaker than many had expected.

As the year started there was boundless enthusiasm in the market over the rapid rate of inflation reduction. The core rate of inflation was at 4.7% at the start of 2023 and is now slated to be at 2.5% or below by Q2 of this year. That is the Fed's target rate. Surely this means that interest rates will be cut in Q2 – right? That is what the markets expect but this is like the fever breaking. Now that temperatures are down; we can expect a speedy rebound. Except it doesn't seem to work that way. The patient is still sick, and the Fed still sees the impact of the illness. The factors that drove inflation down are volatile – energy prices and food prices predominantly. Other prices are still very high. Wages are way up and still climbing, and the consumer has seen very little relief from these price declines outside of the price at the pump. Most business has not seen a reduction in costs commensurate with this drop in inflation. The fever may be down, but we still feel cruddy.

Just like with an illness there are ups and downs. At the start of the year the supply chain ordeal seemed to have finally reached an end. The data collected by the New York Fed showed an end to the supply chain crisis as production levels recovered in China and ports got back to normal. The inventory to sales ratios were getting back to traditional levels. But then the recovery was interrupted by another round of transportation illness – shipping. The Hamas War spread to the Red Sea as the Iran-backed Houthi rebels began attacking shipping through the region and through the Suez Canal. Insurance pressures mounted, and shipping was diverted with more than nine days added to standard transit times. Pile that on top of the Panama Canal drought that limited the number of passages from 35 a day to 18. Then pile on the Russian explosive anti-ship mining of the transit route through the Black Sea and suddenly the supply chain mess is back - somewhat. Progress towards economic health has been interrupted once again.

When confronting the flu there are few options. It all comes down to treating symptoms so that one can struggle through the illness. Eventually the body fights it off and a recovery process starts. The economic stress of the last few years has been intense and has left scars. There is evidence that the economy is on the mend, but recovery is going through many phases, and some regression could be expected.

# Reader Question of the Month

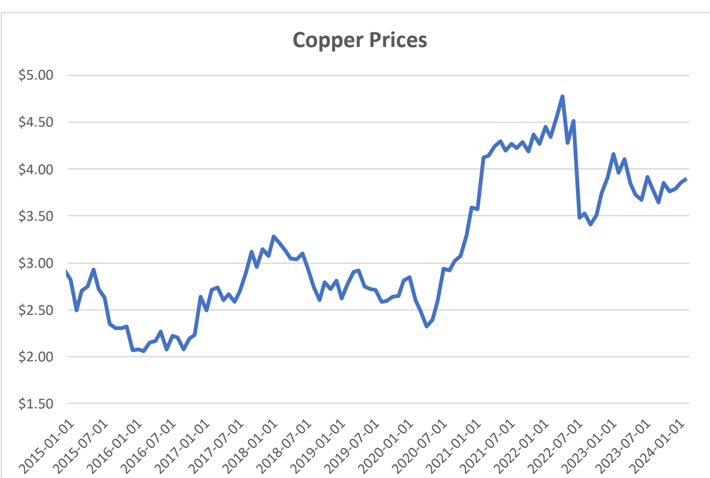
**Q: Why are the central banks still worried?**

**A:** The inflation question has been driving economic expectations for the last two years. The assumption has been that interest rate decisions would follow the pace of inflation (as that is usually the pattern). The crux of the issue now is that there are many motivators for inflation and central banks react to them differently. The drop in inflation has been attributed to energy costs, food costs and other commodity costs. This is indeed good news as these are crucial inputs and that is especially true for the ASA community. The problem has been that other costs have not fallen as quickly – namely labor costs. The central banks would like to see those costs fall but that means a higher rate of unemployment, and nothing yet suggests that jobless numbers are on the verge of increasing.

There is another motivation for inflation concern and one that will be harder to dissipate. The reality is that inflation has increased so quickly and hit such highs that individuals and businesses have not had time to adjust. Even as there has been some decline, people are not feeling it as they remember what prices used to be. They are still shocked and still resisting the changes. It has not helped that many companies have been engaged in "greedflation" as they have taken advantage of the situation and kept prices higher than they really needed to be. It is changing spending patterns among consumers as they are shopping differently, reducing the spend on eating out and so on. This is still mostly seen in the lower third of income earners as 85% are living paycheck to paycheck but now 55% of the middle third finds itself in that same situation. This leaves the banks in a quandary as they are still waiting to see these threats dissipate.

## 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 \$3.87/lb. (\$3.85/lb. last month).
- The Producer Price Index (PPI) for December (latest PPI available) was 516.985, up month-over-month by 2.7% (-4.9% last month). It was up 2.2% year-over-year (-0.5% last month). The ten-year index high was 572.0 in May 2022 and the low was 302.9 in 2016.
- **Looking Ahead**: A continued drop in global demand is the primary factor still slowing copper demand. Inventories have now also improved, at a time when 20 countries still have manufacturing sectors in contraction. That drop in global demand is keeping prices muted. For now, copper prices are essentially flat, they were just 0.8% lower YTD and are now 6.4% lower than this time last year.

## General Commodities Discussion:

**Nickel: (WPU102504)**

- LME Nickel Prices have stabilized over the past 30 days and were @$7.37 per lb. ($7.18 in the last update). Street level producer prices were down 0.2% M/M through December and were down 4.2% Y/Y. Data covering global inventories has become more difficult to obtain, and the data is misleading, which is why we have dropped that coverage for now.
- **Outlook**: "Producers have started to put new mining projects on hold as the price of nickel has fallen. A global manufacturing recession is largely to blame as demand from Asia and Europe has fallen in the past 6 months. Analysts believe that this reduction in output could start to show up in the second half of the year when demand picks up, potentially pushing prices much higher."

**Carbon Steel: (WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) have fallen over the past 30 days and were $969 per ton in early February ($1,028 per ton in the last update). The peak was $1,943 hit in August of 2021.
- Producer Prices for steel pipe and tube were lower again in the latest data from the end of December (latest available). They were down 2.6% month-over-month (up 0.2% last month). Year-over-year, the PPI was 17.6% lower (-18.1% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "It has not been a great month for hot-rolled coil or steel in general. Carbon steel prices have been in decline since the start of the new year. HRC pricing is down 26% year-to-date. This is due primarily to new, additional capacity having been brought online, as well as a decline in demand. It is anticipated that steel pipe pricing, both import and domestic will face serious price erosion soon."

**Stainless Steel: (WPU10170674)**

- The Producer Price Index for stainless pipe and tube were down in December (latest available). Producer prices for stainless pipe fell by 1.2% month-over-month (down 1.1% last month); and they were down 7.9% Y/Y (down 8.0% last month).
- **Outlook**: "2024 has started as a promising year for projects and stainless steel to be used on those projects. Prices have leveled out with some signs that we will see an upward movement, like carbon steel prices. Most customers are expecting the economy to strengthen as interest rates may be reduced in the coming months. Most in the PVF industry support projects that use our products."

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

- Producer prices for ferrous metal scrap increased in December vs. the prior month, coming in with an index of 541.4 (486.6 last month). This was sharply higher by 11.3% M/M (+3.9% last month). Year-over-year it was up by 19.7% Y/Y (+13.1% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.

  **Outlook**: Scrap prices are still bouncing. Some of the distribution challenges affecting the Red Sea are starting to impact the national scrap market, as supply of scrap remains tighter than expected. But global manufacturing is still going through a recessionary downturn, and that has demand for finished products lower at this time. And yet, at some point, global conflicts will create surplus scrap as countries begin to rebuild entire cities that have been leveled.

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

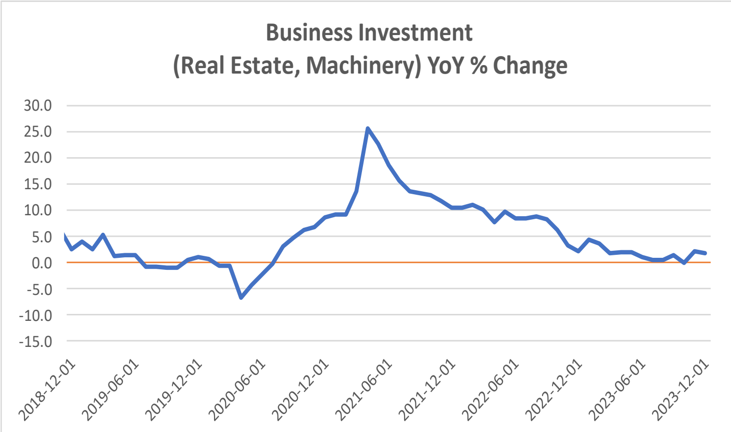
# Producer Price Index – Key Industry Products

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**

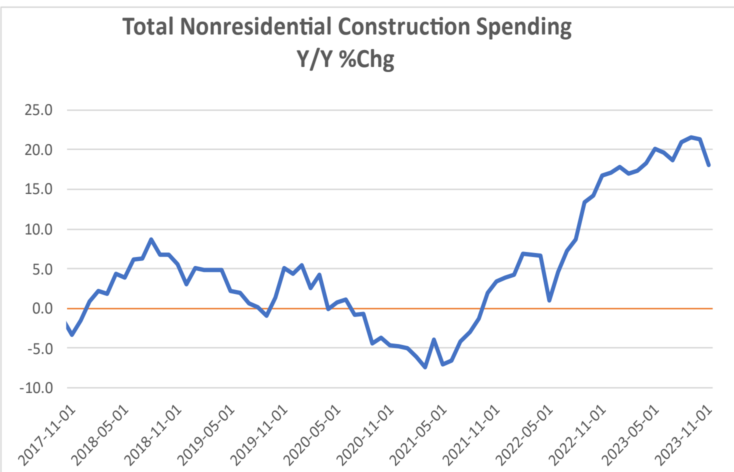
| Category | PPI Code | Dec-23 | Nov-23 | M/M% Chg | Dec-22 | Y/Y % Chg |
|---|---|---|---|---|---|---|
| **Pipe, Valves and Fittings** | | | | | | |
| Metal valves, except fluid power | WPU114902 | 444.3 | 442.1 | 0.5% | 423.4 | 4.9% |
| Gates, globes, angles and check valves | WPU114902011 | 165.8 | 165.8 | 0.0% | 159.6 | 3.9% |
| Ball valves | WPU11490202 | 590.0 | 590.0 | 0.0% | 557.9 | 5.8% |
| Butterfly valves (formerly W2421490203) | WPU11490203 | 308.3 | 306.1 | 0.7% | 292.0 | 5.6% |
| Industrial plug valves | WPU11490204 | 317.9 | 308.7 | 3.0% | 297.7 | 6.8% |
| Plumbing and heating valves (low pressure) | WPU11490205 | 389.8 | 393.4 | -0.9% | 376.4 | 3.6% |
| Solenoid valves | WPU11490208 | 372.2 | 372.2 | 0.0% | 372.2 | 0.0% |
| Other industrial valves, including nuclear | WPU11490209 | 414.6 | 414.6 | 0.0% | 392.4 | 5.7% |
| Automatic valves | WPU11490211 | 260.9 | 260.9 | 0.0% | 248.9 | 4.8% |
| Metal pipe fittings, flanges and unions | WPU11490301 | 477.1 | 477.1 | 0.0% | 475.9 | 0.3% |
| Steel pipe and tube | WPU101706 | 374.0 | 383.9 | -2.6% | 454.1 | -17.6% |
| Steel pipe and tube, alloy | WPU10170673 | 109.5 | 109.5 | 0.0% | 109.5 | 0.0% |
| Steel pipe and tube, stainless | WPU10170674 | 139.5 | 141.2 | -1.2% | 151.5 | -7.9% |
| Copper & copper-base alloy pipe and tube | WPU10250239 | 337.4 | 329.4 | 2.4% | 357.0 | -5.5% |
| Plastic pipe | WPU07210603 | 190.6 | 193.1 | -1.3% | 214.1 | -11.0% |
| Plastic pipe fittings and unions | WPU07210604 | 318.3 | 316.1 | 0.7% | 324.8 | -2.0% |
| | | | | | | |
| **Plumbing Fixtures, Fittings and Trim** | WPU105402 | 395.0 | 395.0 | 0.0% | 388.5 | 1.7% |
| 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% | 197.3 | 3.7% |
| Enameled iron and metal sanitary ware | WPU1056 | 290.6 | 285.2 | 1.9% | 286.2 | 1.5% |
| | | | | | | |
| **Steam and Hot Water Equipment** | WPU1061 | 428.5 | 428.5 | 0.0% | 407.7 | 5.1% |
| Cast iron heating boilers, radiators and convectors | WPU10610106 | 289.7 | 289.7 | 0.0% | 279.2 | 3.8% |
| Domestic water heaters | WPU106601 | 570.6 | 570.6 | 0.0% | 569.4 | 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% | 346.7 | 0.3% |
| | | | | | | |
| **Warehousing, Storage and Relates Services** | WPU321 | 137.1 | 137.2 | -0.1% | 133.0 | 3.1% |

# PHCP & PVF



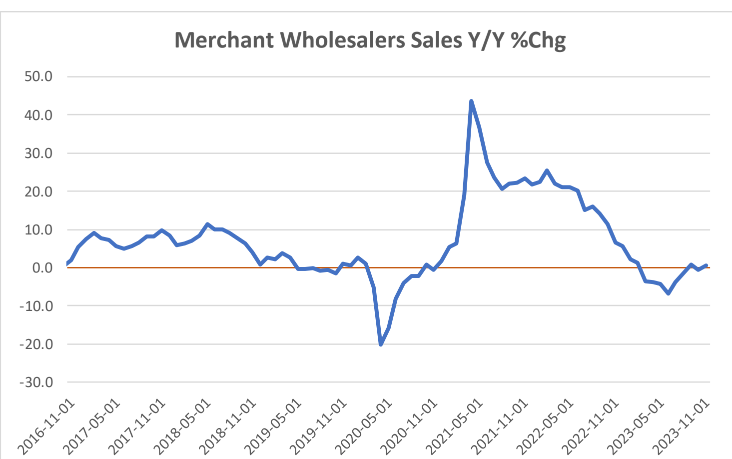

## Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods went down 0.4% in December M/M (+2.2% last month). They remained higher by 1.8% Y/Y (up 2.2% last month) and continued to be stable overall.
- **Outlook**: Capital spending was starting to decelerate late into the end of the year, and there are some concerns that it could continue to be weak early in 2024. Some industries are still investing heavily, especially in construction and ASA member industries where automation and expanding capacity is critical. Total dollars of capital spending are still near $75 billion a year, which is near the top of historic range. But the growth rate is flattening.




## Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in November (latest available) was 18.1% higher than it was a year ago (21.3% higher last month) and was 3.2% lower M/M (down 0.2% in the last report). Overall spending was at a new all-time high of $1.131T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: Nonresidential construction is one of three legs of a stool that contributes to pushing GDP higher. Trends (such as sourcing diversification) and funding mechanisms in place should continue to keep it stable in 2024. Leading the non-residential construction sector in growth is still the manufacturing construction sector, which is still 81.9% higher Y/Y on nearly $211 billion in spending.

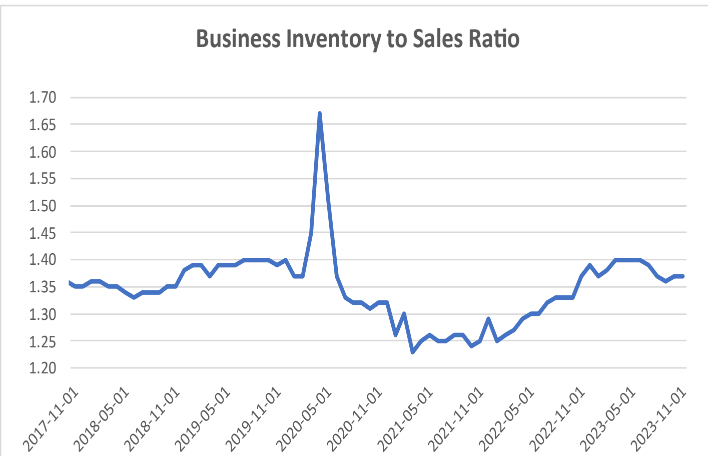



## Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 0.5% Y/Y through November (latest available; down 0.6% Y/Y in the last update). Month-over-month, sales were increasing by 0.9% (-1.4% last month).
- Wholesale inventories were down 3.0% year-over-year in November (latest available; down 2.2% last month).
- **Outlook**: There is a global manufacturing recession ongoing, one that started early in 2023. Wholesalers became quickly overstocked coming out of the global supply chain crisis in 2021 and 2022, and they have been working on destocking since that. Although the data is not showing a complete reset in place, anecdotes suggest that inventories are closer to becoming balanced, and that will start to generate new orders for products. This is good if true, and it resets the global supply chain and manufacturing base.


## Manufacturing (AMTMNO)

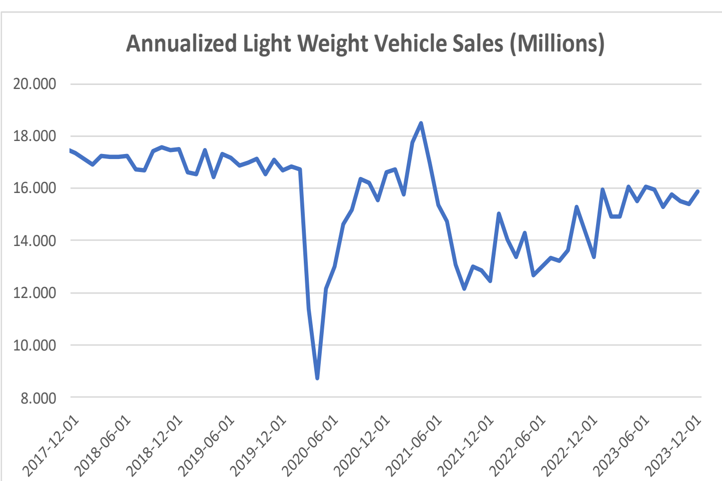
- Federal data on manufacturing was up 3.1% Y/Y (-1.9% last month) through November (latest available). It was also up sequentially by 5.0% month-over-month (-4.4% last month).
- The S&P Global US manufacturing PMI came in at 47.9 in December, down from 49.4 in November.
- **Outlook**: It looks like the globe is struggling through a global manufacturing recession, largely due to broader economic weakness in Europe and Asia. The lack of new orders is largely a result of overstocks of inventory across many sectors of the global economy. Demand for many products remains stable (especially in the United States), but until the destocking process is finalized, sales at the consumer level are still not activating the upstream portion of the supply chain.




## Business Inventory to Sales Ratio (ISRATIO)

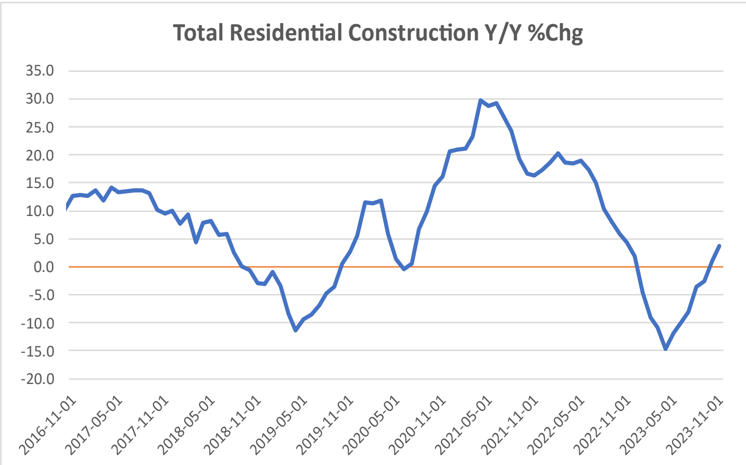
- The current inventory to sales ratio for all businesses is at 1.37 months of inventory on hand in November (latest available; 1.37 last month). Relative to sales, inventories are low, this month's ratio was 0.7% lower Y/Y (0.7% higher last month).
- **Outlook:** As mentioned last month, it is difficult to get a full picture of the entire industry with this macro view. When looking at sub-sectors across the industry, approximately 60% of the goods producing and moving industry are still facing inventory levels that are between 3% and 18% higher than they were in the entire decade prior to the pandemic (when supply chains were in-cycle). But again, anecdotes suggest that there has been tremendous progress made in the past 12 months in destocking, and new orders will stimulate the entire supply chain, reaching far upstream into raw material, energy, and labor components of manufacturing inputs.

# PHCP




## Auto Sales (ALTSALES; AISRSA)

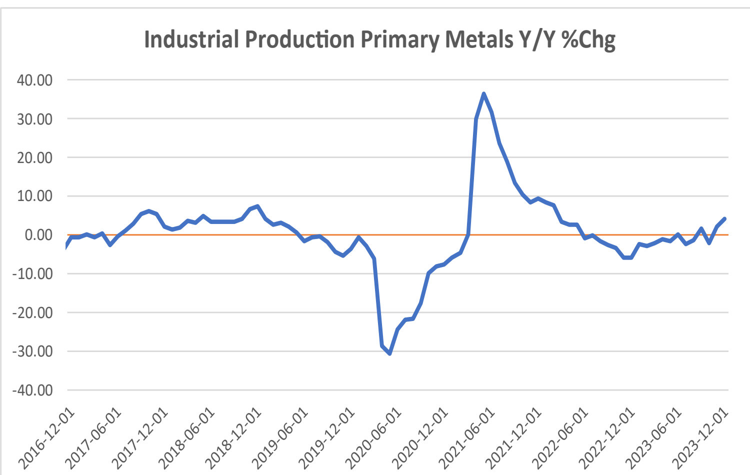
- US auto sales were trending at a 15.893-million-unit annual rate (15.390M last month) through December (latest available). This is up 17.3% year-over-year (+7.8% in the last update).
- The domestic auto inventory to sales ratio was up 82.1% Y/Y in December (latest available). On a monthly basis, it was down 29.6% (up 23.3% last month).
- **Outlook**: With the UAW strike now well in the past, the industry has recovered, and rebuilding of inventories is underway, inventories that are still very low for some models (and well overstocked in others). Dealer inventories have begun to recover, but there is still a lot of progress that needs to be made to return to pre-pandemic levels. The second half of 2024 could enter a new period in which inventories are balanced, and OEM production must adjust to what could be slower consumer sales.




## Total Residential Construction (PRRESCONS)

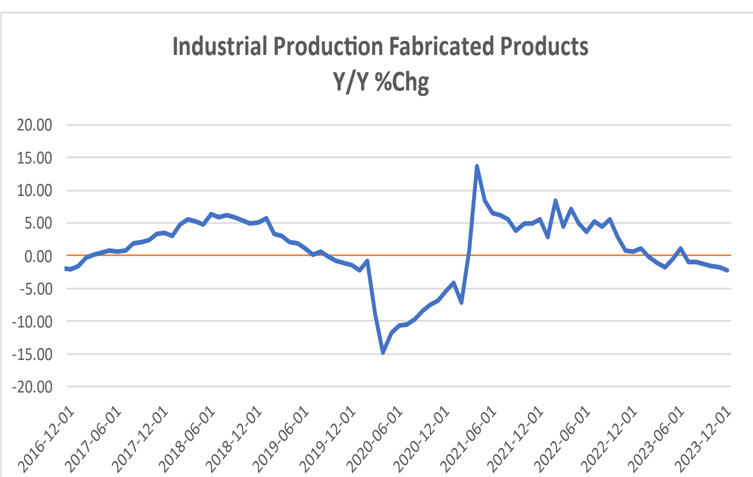
- Total residential construction in November (latest available), was up by 3.7% Y/Y (up 1.1% last month). It was up 2.6% M/M (+3.6% last month).
- **Outlook**: There was an important rebound at the end of the year for residential construction activity. Starts improved in the final two months of the year and were 15.8% higher year-over-year. At 1.027 million units, this was the second strongest level of housing starts since 2005/2006 (aside from the 2021/2022 period coming out of the lockdown). Multi-family starts also showed some near-term improvement toward the end of the year, despite much of this activity being focused on regional pockets of the country. Many builders have figured out how to reduce square footage and use more affordable materials to create homes that first time buyers can get into. But it will still be difficult to pull owners that have mortgages under 3% off the sidelines, at least for a while.

# PVF



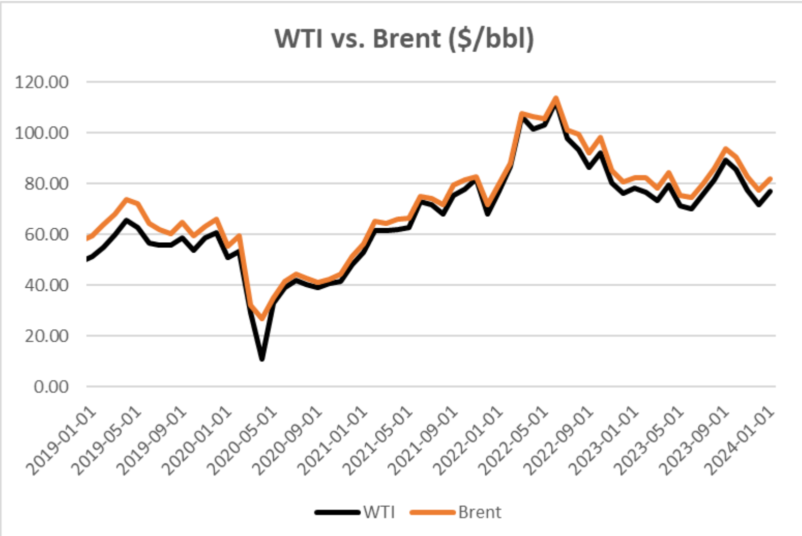

## Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was up 4.2% Y/Y through December (up 2.20% in the last update). It was up 2.0% M/M (up 4.3% 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. The infrastructure bill is finally contributing $50 billion a year in incremental spending across many different segments of infrastructure. Most of those sectors are up double-digits year-over-year in construction spending. Defense spending is also rising, which will create competition for some of these materials.




## Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 2.3% Y/Y through December (down 1.8% last month). It was down 0.5% 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 December was still trailing slightly behind last year's volumes. And yet, models that forecast fabricated product manufacturing show it improving through the first half of 2024 before softening slightly in the back-half of 2024 and early in 2025. These are better described as flattening of growth, not contraction.




## WTI and Brent

- WTI is currently at $76.70 a barrel ($77.69 last month) and Brent is at $81.32 ($82.94 last month).
- **Outlook:** The war in the Middle East was still not affecting oil prices at the time of writing. Prices were still in the long-term range of $70-$80 a barrel range set by OPEC. It seems as though the global manufacturing recession was creating more downside weight on oil prices than speculative oil supply risk emanating out of the Middle East. US production is still at or near all-time highs in daily output, on fewer active wells. The efficiency of modern installations is tremendous, but production and drilling will continue – especially through the Permian Basin. Other regions of the country are also active, but lack of good distribution systems is keeping them throttled, and investment is lackluster in many of those areas.

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

| | Last Count | Count | Change from Prior Count | Change from Last Year |
|---|---|---|---|---|
| U.S. | 26-Jan-24 | 621 | 1 | -150 |
| Canada | 26-Jan-24 | 230 | 7 | -17 |
| International | Dec-23 | 955 | -23 | 55 |

## Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 150 Y/Y (-159 in the last update) at 621 (1,049 in 2019); Canadian counts were down by 17 Y/Y (down 3 in the last update). International counts are up by 55 Y/Y (+68 in the last update).
- **Outlook**: The oil market is still being battered by a fluctuating dollar, low supply inventories and an uncertain demand environment as mentioned. The EIA 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. None of these forecasts at this time incorporate any disruptions in supply (whether physical or geopolitical through sanctions). There is still a lot of volatility and conflict in oil regions, and a miscalculation could quickly put pressure on the global oil market. Challenges in the Black Sea and Baltic Sea are also creating more demand for US refined fuels, and that will also increase demand for US output.

# Construction Outlook

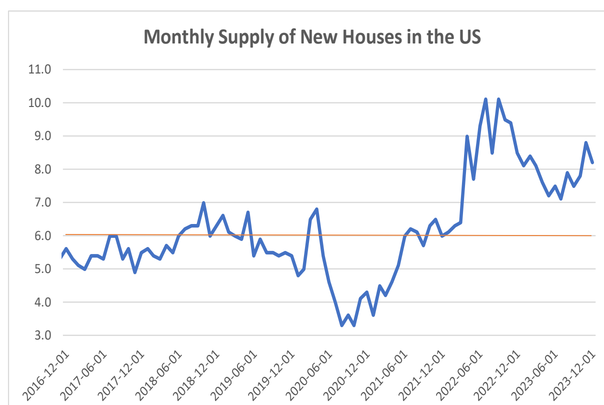
**<u>Residential construction</u>**: 30-year national average mortgage rates continued to be stable in late January, at 6.69% (6.61% in the last update). Home builder confidence jumped M/M in January by 18.9% according to the <u>NAHB/Wells Fargo index</u>, it jumped to 44 points (up from the December reading of 37) and the strongest since September. The all-time high was 90 points in November of 2020. Builders' confidence has rebounded as interest rates soften slightly and consumers still show a willingness to take on mortgages at higher rates. An end to Fed hikes is also boosting confidence, and prospects of 2-3 cuts in 2024 are helping.

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

| NATIONAL | 2022 | 2023 | | | | | | | | | | | | 2024 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (Seasonally Adjusted) | Dec. | Jan. | Feb. | Mar. | Apr. | May | Jun | Jul | Aug | Sep. | Oct. | Nov. | Dec. *Revised* | Jan. *Prelim.* | M/M | Y/Y |
| **Housing Market Index** | **31** | **35** | **42** | **44** | **45** | **50** | **55** | **56** | **50** | **44** | **40** | **34** | **37** | **44** | 18.9% | 25.7% |
| **Housing Market Index Components** | | | | | | | | | | | | | | | | |
| **Single Family Sales: Present** | 36 | 40 | 47 | 49 | 51 | 56 | 61 | 62 | 57 | 50 | 46 | 40 | 41 | **48** | 17.1% | 20.0% |
| **Single Family Sales: Next 6 Month** | 35 | 37 | 48 | 47 | 50 | 56 | 62 | 59 | 55 | 49 | 44 | 39 | 45 | **57** | 26.7% | 54.1% |
| **Traffic of Prospective Buyers** | 20 | 23 | 28 | 31 | 31 | 33 | 37 | 40 | 35 | 30 | 26 | 21 | 24 | **29** | 20.8% | 26.1% |
| **REGIONAL HMI** | 2022 | 2023 | | | | | | | | | | | | 2024 | | |
| (Seasonally Adjusted) | Dec. | Jan. | Feb. | Mar. | Apr. | May | Jun | Jul | Aug | Sep. | Oct. | Nov. | Dec. *Revised* | Jan. *Prelim.* | M/M | Y/Y |
| **Northeast** | 32 | 34 | 46 | 46 | 44 | 45 | 52 | 60 | 55 | 48 | 46 | 53 | 55 | **56** | 1.8% | 64.7% |
| **Midwest** | 30 | 32 | 36 | 36 | 40 | 42 | 48 | 46 | 42 | 38 | 37 | 31 | 35 | **35** | 0.0% | 9.4% |
| **South** | 35 | 39 | 46 | 50 | 50 | 56 | 60 | 58 | 55 | 48 | 43 | 35 | 39 | **49** | 25.6% | 25.6% |
| **West** | 25 | 29 | 37 | 36 | 40 | 48 | 50 | 54 | 46 | 42 | 36 | 28 | 29 | **38** | 31.0% | 31.0% |

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 was up 25.7% against January of 2023 (up 3.0% last month).




**Adjusted housing inventories increased in December** (latest available), coming in at 8.2 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. But some regions are still short on housing supply.

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 1.460-million-unit rate on an annualized basis (down from last month's adjusted 1.525 million annual rate).

Single family starts were lower in December by 8.6% M/M (latest available) but were up 15.8% Y/Y. Multi-family starts are volatile and were up 7.5% M/M and down 9.5% Y/Y.

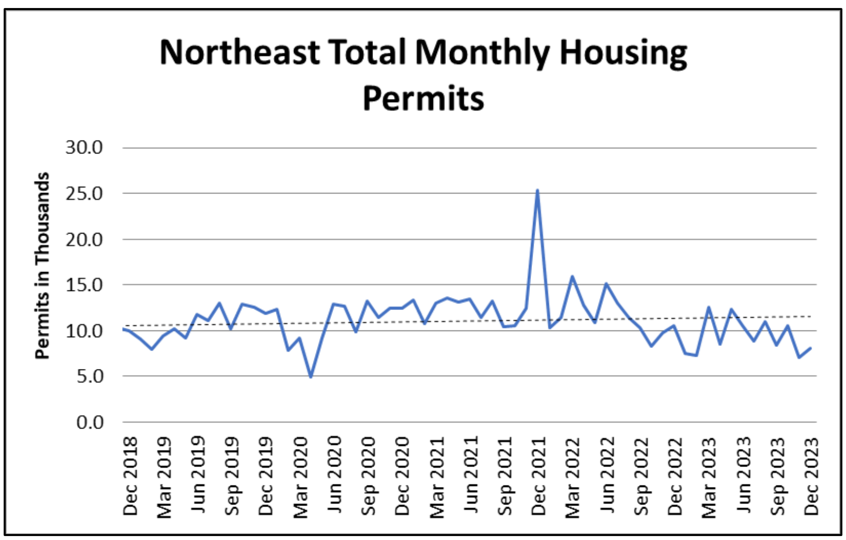
**National Outlook**: The Federal Reserve has signaled that there could be between 2-3 interest rate cuts in 2024, each being roughly a quarter of a point. That would set the Fed Funds rate at 4.5% to 4.75% by the end of the year. In 2025, estimates suggest another full point of cuts with a long-term Fed target rate of 2.5% to 3% by 2026. Much of that will depend on disinflation continuing at its current pace and eventually approaching the Fed's target inflation rate of 2%. At the time of writing, some hints of accelerating layoffs might push the timeline for the Fed earlier for their first rate cut of the year. But at this time, it looks as though the first cut will come at one of the Fed's summer meetings.

| Housing and Interest Rate Forecast, 12/12/2023 | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
| **Housing Activity (000)** | | | | | | | |
| Total Housing Starts | 1,292 | 1,397 | 1,606 | 1,551 | 1,394 | 1,336 | 1,414 |
| Single Family | 889 | 1,003 | 1,132 | 1,004 | 927 | 958 | 1,027 |
| Multifamily | 403 | 394 | 474 | 547 | 468 | 379 | 388 |
| New Single Family Sales | 685 | 833 | 769 | 637 | 673 | 719 | 792 |
| Existing Single-Family Home Sales | 4,746 | 5,057 | 5,420 | 4,530 | 3,691 | 3,784 | 4,229 |
| **Interest Rates** | | | | | | | |
| Federal Funds Rate | 2.16% | 0.36% | 0.08% | 1.68% | 5.03% | 5.13% | 3.81% |
| Fixed Rate Mortgages | 3.94% | 3.11% | 2.96% | 5.34% | 6.83% | 6.77% | 5.79% |
| Prime Rate | 5.28% | 3.54% | 3.25% | 4.85% | 9.26% | 11.91% | 9.60% |
| For more forecast details, visit www.nahb.org. | | | | | | | |

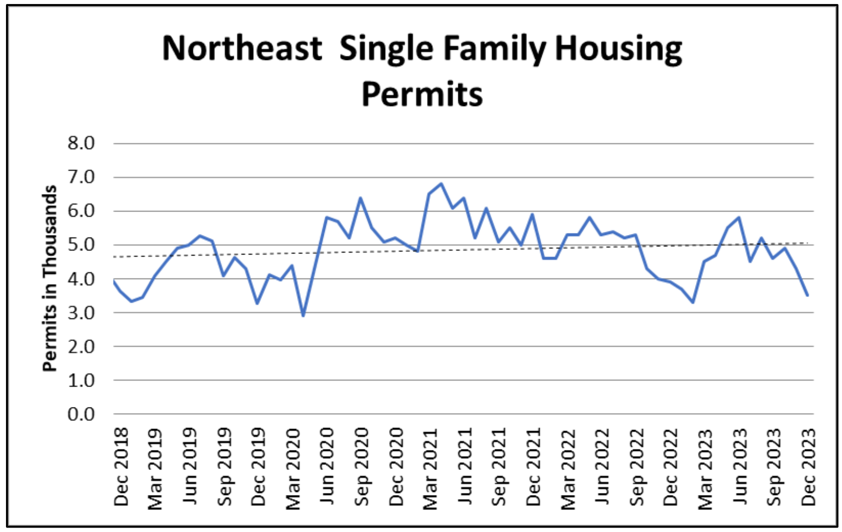
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

**Regional market outlook: Northeast**

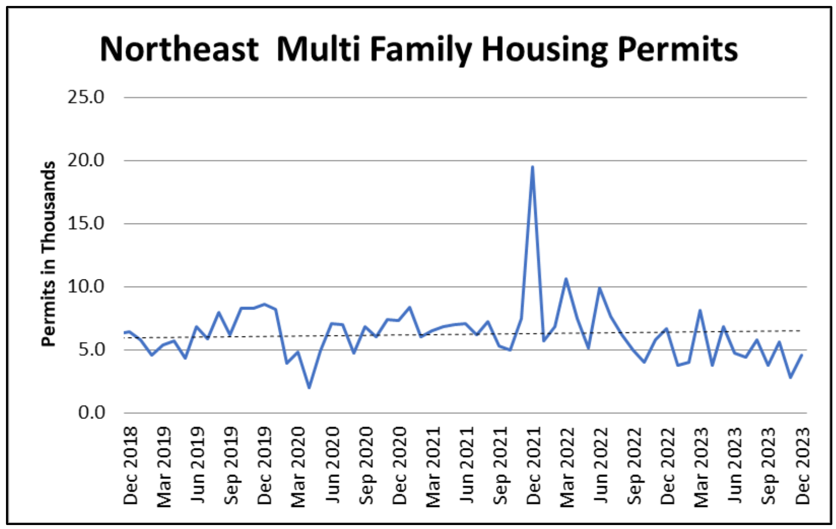
- Northeast total housing units authorized for construction were up in December by 14.1% M/M (-32.4% last month). December was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 2.2% (-10.3% last month).
- On a year-over-year basis, permits were down 23.6% (-27.6% in the last update).



- Month-over-month single family permits were down 18.6% (-12.2% last month).
- On a 3-month moving average basis, permits were down 8.1% (down 5.8% last month).
- Year-over-year permits were down 10.3% (+7.5% last month).

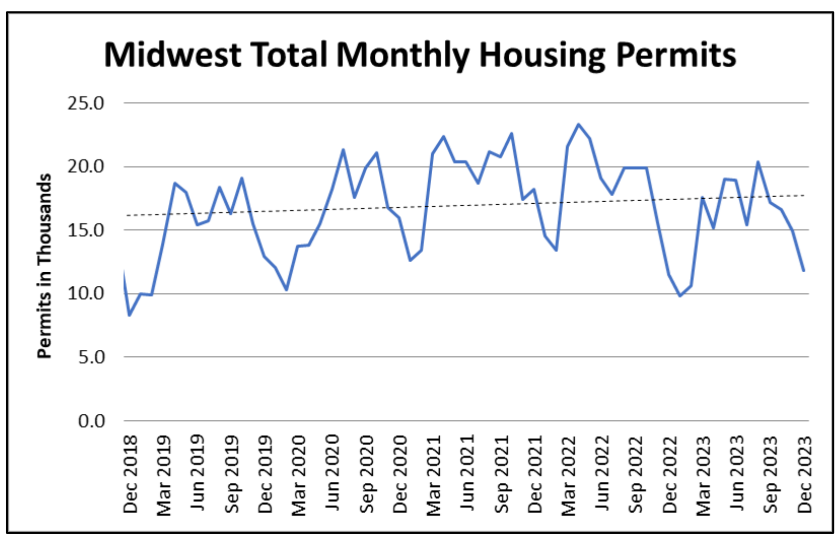



- Multi-family housing permits authorized for construction were up 64.3% M/M (-50.0% in the last update).
- They were up 20.6% on a rolling 3-month average (-12.4% last month).
- On a year-over-year basis, they were down 31.3% (-51.7% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

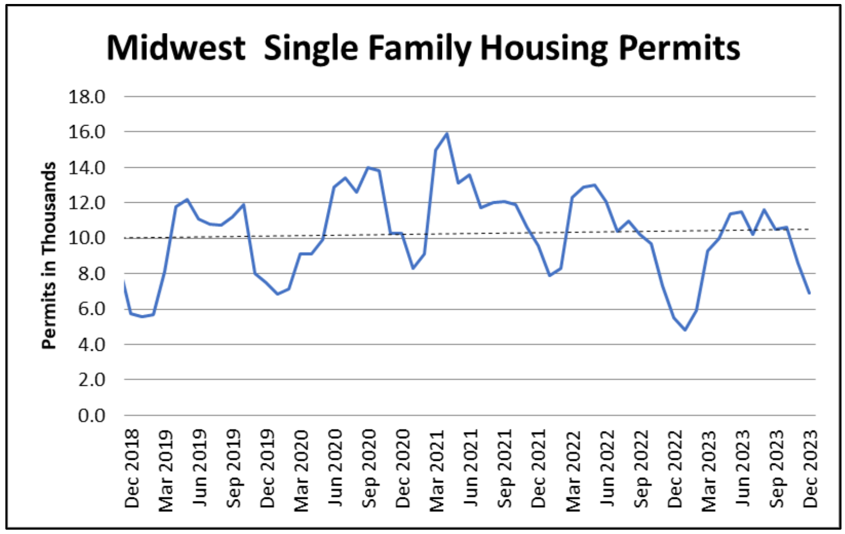



## Regional market outlook: Midwest

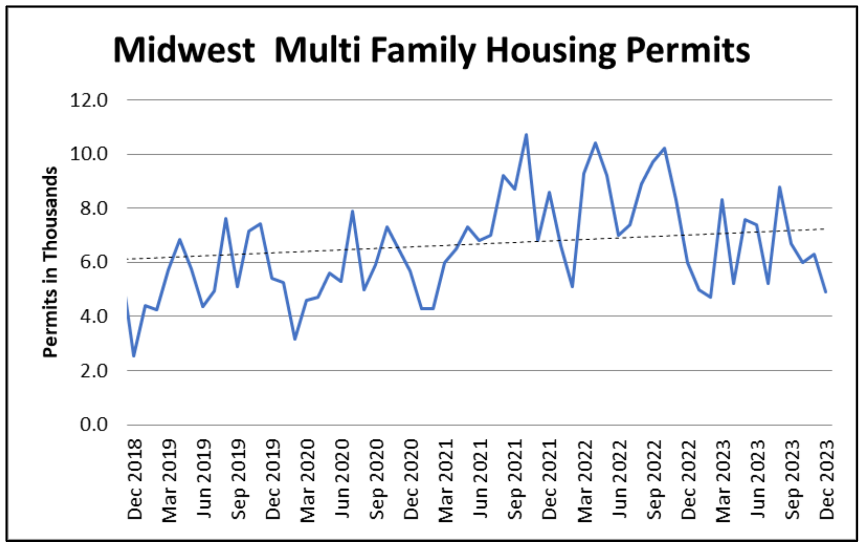
- Midwest total housing permits were down 20.8% month-over-month (-10.2% in the last update).
- The 3-month average was down 11.5% (-9.8% in the last update).
- On a year-over-year basis, permits were up 2.6% (-4.5% in the last update).



- M/M permit volumes were down 19.8% (-18.9% last month).
- The 3-month rolling average shows that permits were down 12.6% (-9.1% in the last update).
- Year-over-year, single family homes authorized by permits were up 25.5% (17.8% in the last update).

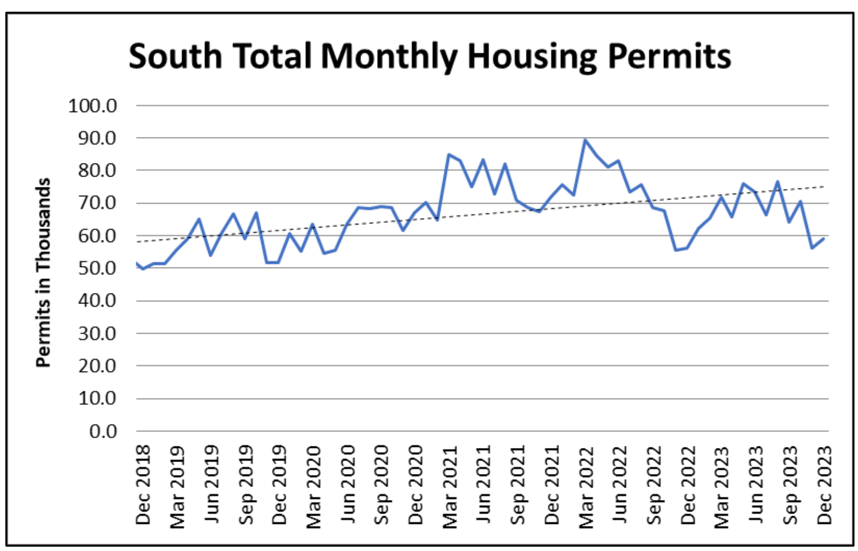



- Multi-family housing permits, again, are volatile month-over-month. This month, they were down 22.2% (+5.0% last month).
- On a 3-month rolling average basis, they were down 9.2% (-9.8% in the last update).
- On a year-over-year basis, permits were down 18.3% (-24.1% in the last update).

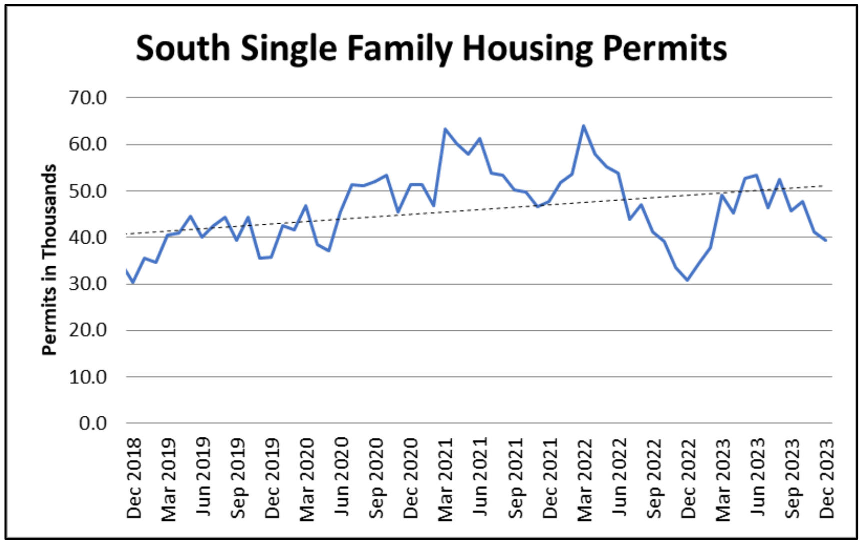



## Regional market outlook: South

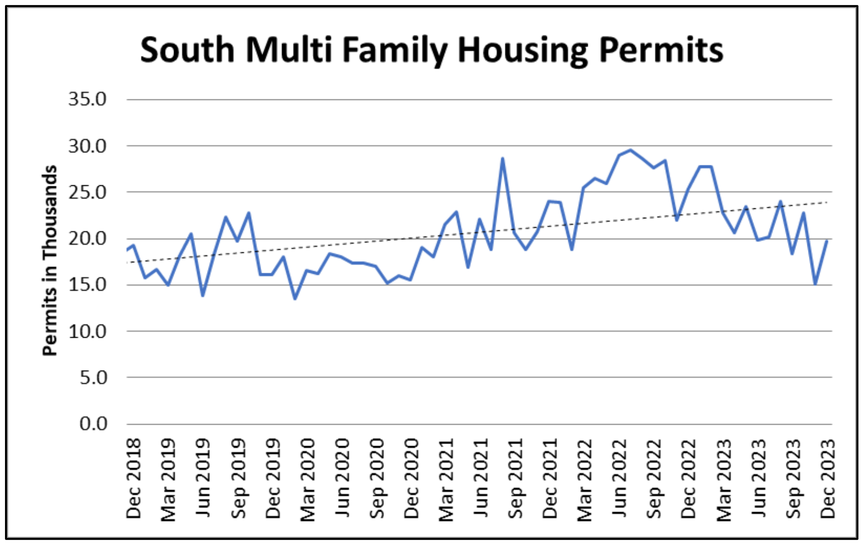
- Southern region housing permits were up 5.2% month-over-month (-20.4% in the last update).
- On a 3-month rolling average basis, permits were down 1.7% (-8.8% in the last update).
- On a year-over-year basis, total permits were up 5.3% (1.4% in the last update).



- Southern region single family home permits were down 4.1% M/M (-14.0% last month).
- On a 3-month rolling average, they were down 4.5% (-7.5% in the last update).
- On a year-over-year basis, single family permits were up 28.3% (+23.1% in the last update).

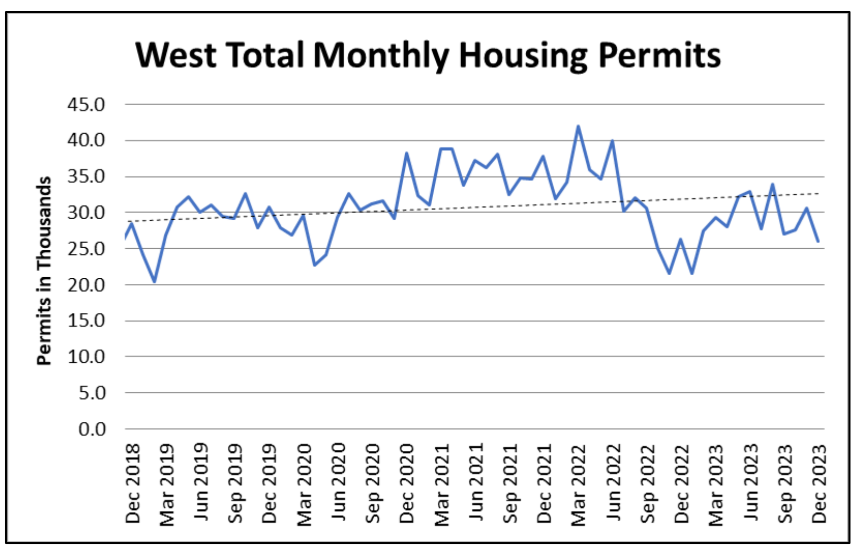



- Southern multi-family permits were up 30.5% M/M (-33.8% last month).
- On a 3-month rolling average basis, permits were up 6.9% (-11.1% last month).
- On a year-over-year basis, permits for multi-family housing were down 22.4% (-31.4% in the last update).

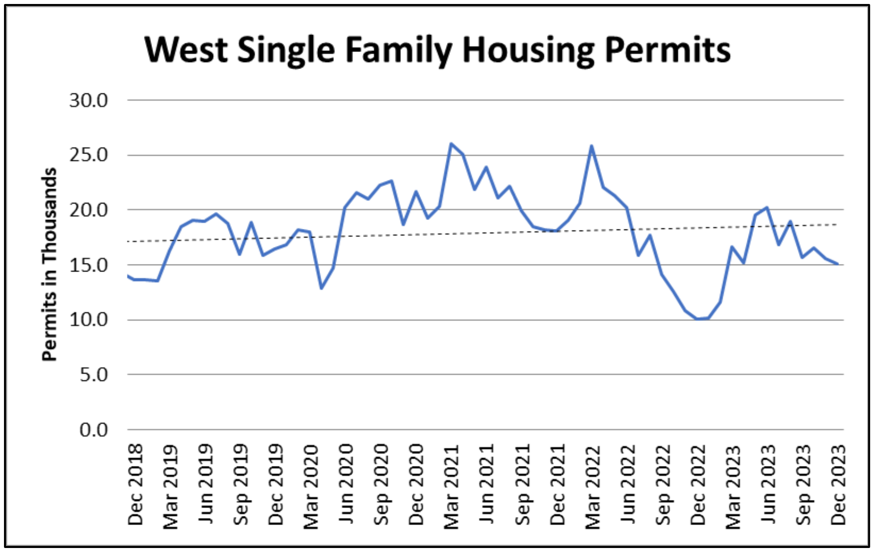



## Regional market outlook: West

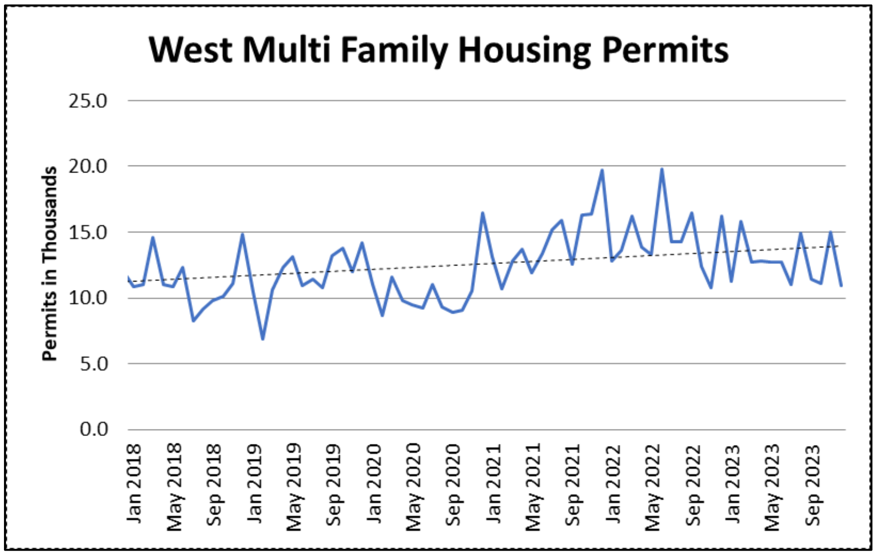
- Western region total monthly housing permits were down 15.0% M/M (+10.9% last month).
- On a 3-month rolling average basis, they were down 0.8% (-2.4% last month).
- On a year-over-year basis, permits were down 1.1% Y/Y (+41.7% in the last update).



- Single-family permits were down 3.2% M/M (-5.5% last month).
- On a 3-month moving average basis, permits were down 1.2% (-5.9% in the last update).
- Year-over-year, single family permits were up 49.5% (+44.4% in the last update).




- Multi-family permits were down 27.3% M/M (+35.1% in the last update).
- On a 3-month rolling average, it was up 1.7% (+3.0% in the last update).
- Year-over-year, multi-family unit permits were down 32.7% (+38.9% last month).



# Industry Outlook

ASA Sales were weaker by 2.0% Y/Y (+3.4% last month) in December (latest available). Year-to-date through December, sales were up 3.4% (+4.1% in the last update). For the trailing twelve months prior, sales were up 3.4% (4.9% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

| | December Y/Y % Change in Total Dollar Sales | YTD % Change vs. YTD 2022 | Trailing Twelve Months % Change |
|---|---|---|---|
| **All Businesses** | **-2.0%** | **3.4%** | **3.4%** |
| **By Primary Business** | | | |
| PHCP | 0.6% | 3.0% | 3.0% |
| PVF | -9.0% | 5.7% | 5.7% |
| PHCP & PVF | -4.0% | 3.2% | 3.2% |
| **By Region** | | | |
| 1 (SWPD & WSA) | -0.9% | 2.8% | 2.8% |
| 2 (ASA Central) | -3.6% | 2.7% | 2.7% |
| 3 (SWCD) | -7.1% | 4.2% | 4.2% |
| 4 (NCWA) | -0.9% | 3.6% | 3.6% |
| 5 (ASA Northeast) | -4.9% | 2.7% | 2.7% |
| 6 (SWA) | 0.9% | 6.3% | 6.3% |
| *ISD - Insufficient Data | | | |

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months, was delayed this month with the new release. The last report available was still from November and it showed that the TSI was at 138.6 for freight, down 1.0% M/M but was up by 0.9% Y/Y (up 0.1% 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 December (latest available) that spot truck freight demand was **57.2% lower than it was a year ago**. Spot trucking rates have fallen 12.5% Y/Y, and now fuel surcharges are down -15.7% Y/Y.

Total oil inventories in Cushing, Oklahoma have improved slightly through the end of January, but they are still low on the 5-year average, and the Strategic Petroleum Reserves are still at the lowest levels since the mid 1980's and rebuilding activity is slow. The US is still able to supply allies in Europe with refined fuels and petroleum (where it makes economic sense) to replace oil and resources that had been flowing from Russia. The global manufacturing recession has led to lower demand for petroleum and refined fuels, and a strong dollar has held up some of those US exports. When the manufacturing sector begins to find some strength in Q2/Q3, that could change oil prices in the near term and push them higher.

OPEC continues to keep a target price for oil at $70-$75 dollars a barrel and will use supply cuts to try and regulate pricing levels. But oil prices are still balanced due to lack of global demand and hints (as mentioned above) that the US is well supplied, and inventories could rebuild quickly based on current consumption rates. A strong dollar also helps keep prices lower.

Retail sales were better than expected in December across many categories of retail month-over-month. Total retail sales were 0.6% higher month-over-month and were 5.6% higher year-over-year.

When adjusted for inflation, sales were higher month-over-month in December by 0.2% and were up by 2.2% compared to last year at this time (they were higher by 0.8% year-over-year last month).

Home improvement retail sales volumes were better in December, rising by 0.4% M/M but they remained marginally lower by 2.3% against last year. Again, when adjusted for inflation, sales were even lower year-over-year.

Economic growth is still a big question mark for 2024. Most indicators would suggest that the conditions that pushed GDP to 3.3% growth for most of 2023 are going to continue in 2024. But there are some risks out there. US deficit spending could create competition for treasuries, and slow down funding for some construction projects that use municipal bonds for funding. However, bank lending is slowly improving, and credit conditions were easing slightly toward the end of the year, but that could still be a factor to watch in 2024.

| Kind of Business | Percent Change Dec. 2023 Advance from -- | |
|---|---|---|
| | Nov. 2023 | Dec. 2022 |
| **Retail & food services, total** | **0.6** | **5.6** |
| Retail Excluding Fuel and Auto | 0.6 | 4.8 |
| **Motor vehicle & parts dealers** | **1.1** | **10.3** |
| **Furniture & home furn. stores** | **-1.0** | **-4.7** |
| **Electronics & appliance stores** | **-0.3** | **10.7** |
| **Building material & garden eq. & supplies dealers** | **0.4** | **-2.3** |
| **Food & beverage stores** | **0.2** | **1.3** |
| Grocery stores | 0.2 | 0.9 |
| **Health & personal care stores** | **-1.4** | **10.7** |
| **Gasoline stations** | **-1.3** | **-6.6** |
| **Clothing & clothing accessories stores** | **1.5** | **4.3** |
| **Sporting goods, hobby, musical instrument, & book stores** | **0.3** | **0.9** |
| **General merchandise stores** | **1.3** | **3.3** |
| Department stores | 3.0 | -2.7 |
| **Nonstore retailers** | **1.5** | **9.7** |
| **Food services & drinking places** | **0.0** | **11.1** |

Non-residential construction is expected to keep current momentum throughout 2024, which will continue to keep the supply industry chasing opportunities. Job openings in the construction sector have surged over the past 60 days and government investment from the Infrastructure Bill, CHIPs Act, and Inflation Reduction Act will likely keep spending steady 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.

Much of this will depend on the Federal Reserve and interest rate policy moving forward (and easing of interest rates could spur more growth). Current estimates from the Fed suggest that some rate cuts could start as early as the end of Q2 of 2024, but those rate cuts are likely to be mild for the full year (now perhaps 2-3 three quarter-point cuts for the full year). The Fed has set a longer term rate target of 2.5% to 3% - likely hitting that in late 2025 or 2026.