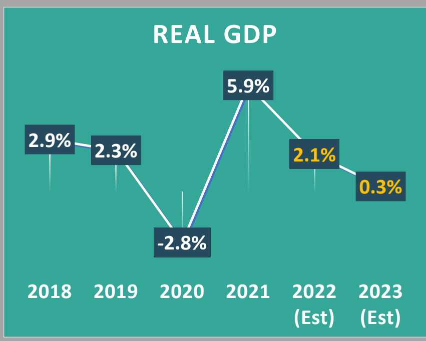
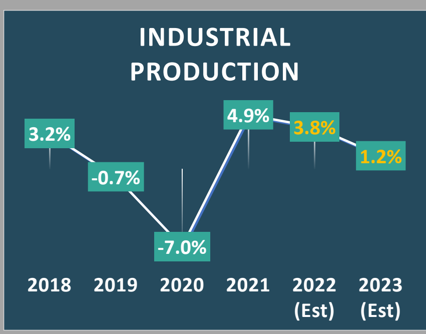
AMERICAN SUPPLY ASSOCIATION

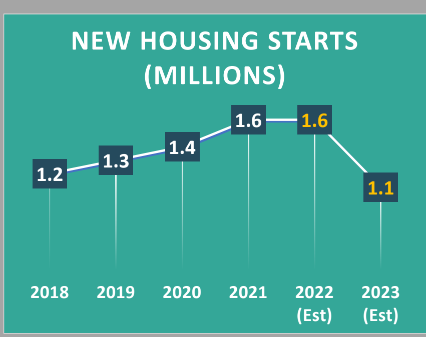
Monthly Economic Report (MER)

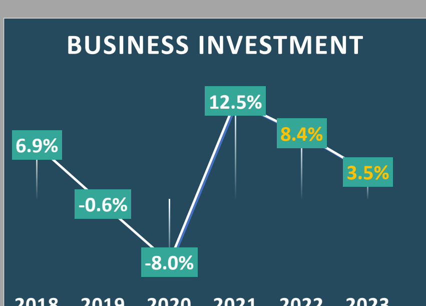
April 2023

Selected Indices









Executive Summary – April '23

Big Items

GDP: The first set of Q1 GDP numbers are in, and they are more worrisome than expected. It was only a few weeks ago that data from GDPNow (from the Atlanta Fed) suggested that GDP could be as high as 3.2%. After that peak expectation the forecasts started to fall and in the end the data indicated a very weak rate of 1.1%. This is certainly not negative growth, but it is also far from encouraging and reinforces some of the expectations for a series of negative GDP numbers in the next few quarters. The bottom line is that the consumer is slowing down.

Industrial Production: Industrial production in March rose by 0.4% but it was not due to any gains in the manufacturing sector. Manufacturing fell by 0.5%. The same decline was noted in the mining sector which is primarily oil and gas. The only reason the whole industrial sector was not falling was that utilities saw a gain of 8.4%. That was triggered by an odd combination of cold and heat – some parts of the country getting too much of one or the other. Capacity utilization rose slightly and got very close to that "normal" level of 80%. It currently stands at 79.8%.

Housing Starts: Housing starts are 0.8% below the adjusted February data and a full 17.2% below what they were in March of last year. There has been a similar decline in permit activity. The split between the single-family home market and multi-family still exists. One of the assertions has been that there are upwards of 5 million too few homes. Other estimates hold it is only a shortage of 1.5 million. Why the disparity? The high estimate is based on past demographic behavior – the assumption that people in their early 20s will seek their own places. Current demographic trends appear to be trending differently, at least for now. Whether this holds is yet to be seen.

Home Improvement Retail: Home improvement trends are still reflecting the fact that fewer people are considering a move. They are putting their money into altering their current space. One of the fastest growing sectors is closets. Now that many people have done the kitchen remodel and the bathroom the next on the list is a new and more impressive closet arrangement. These have become as pricey as some of the other remodeling moves.

Manufacturing: The latest version of the Purchasing Manager' Index from the Institute for Supply Management has the index down again for the fifth straight month. It has slipped 1.3 points from last month and is now sitting at 46.5. This is not yet crisis level, but it is getting a lot closer. The fall into the low 40s is generally seen as a major recessionary signal and so far, the readings have held in the mid-40s but after five months of deterioration the expectations for the next few months are not positive.

Big Risks

Inflation and Recession Potential: The next piece looks at the risks of stagflation – the period when the economy is both slowing and experiencing inflation. There is no sense that stagflation is imminent as the unemployment rate is still too low, but the fact is that job markets can shift very quickly. A big series of layoffs will spook consumers as they will start to think they will be next.

What to Watch

Geopolitics: The geopolitical threat of the moment is still the tension between China and Taiwan. Even passive aggressive behavior toward Taiwan increases tension between the US and China and quasi blockades of key trade lanes with Taiwan from time to time can disrupt supply chain flows.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

Is Stagflation a Real Possibility? - Stagflation is something that is supposed to be technically impossible. One either has slow growth or one has inflation. By definition, these are supposed to be mutually exclusive. Inflation is generally driven by faster growth that creates a disconnect between supply and demand. Unfortunately, there have been periods in the past when growth has been slow, and inflation has been a problem anyway. One of those times seems to be now. The growth numbers that are coming in from the US, Europe and other countries are anemic and even going into the negative, but inflation is still roaring along despite the efforts of the central banks to slow things down. Suddenly the worst of economic situations looms. What is a central bank to do in these circumstances? If it slows the rate hikes or reverses them the inflation issue gets much worse. If it doesn't take its foot off the rate accelerator the risk of a significant recession increases, and it seems that is already starting to happen.

The last time there was a significant threat from stagflation was in the 1970s and the remedies eventually deployed were brutal. The Nixon administration ended up imposing wage freezes and price controls to force the end of the inflation surge. That technique was intensely controversial at the time, and it would be impossible to pull off today. The ingredients for a classic stagflation are still not in place but the risks are rising. The economy is showing signs of stagnating as growth numbers show. There have been predictions of negative growth in the next three quarters (although that has not been a universal opinion). If this takes place the economy will indeed meet the criteria for a recession and the main questions will be how deep and how long. The Federal Reserve has the tools needed to address a recession – throw money at it. Lower the Federal Funds rate, buy treasuries, adjust the rates that banks receive for keeping money at the Fed, mess with the reserve ratio and so on. The problem is that these moves will push inflation as it means putting more money in the economy. The Fed also has those same tools to halt inflation if they want to push hard enough. They can jack up rates the way that Paul Volcker did in the 1980s. The next time you want to panic over rates at 5.0% look at the Volcker years when rates soared past 20%.

Right now, there is no clear direction for the Fed or the other central banks. They can all make the argument that inflation is the scourge, and they can all make the argument that growth is slowing fast enough to create economic distress. One of the missing ingredients as far as stagflation is concerned is the labor market. In the 1970s the rate of unemployment was very high. A substantial lack of growth is required for the stagnation part of stagflation. The prime driver for inflation right now is wages and that is both a problem and a good thing. The labor shortage that has been basically ignored for the last twenty years is wreaking havoc. Companies can't find the talent they need and are overpaying so they can poach others. That is the bad part, the good part is that all of these wage hikes have left many consumers with more money and the ability to fend off inflation to a degree. The challenge for the central banks is to find a way to take the wind out of the sails of the wage inflation surge without wrecking the ability of the consumer to keep spending enough to grow the economy. At this stage there is no immediate indication of a stagflation period emerging, but the chances are a lot better than they were even a few months ago.
- CK

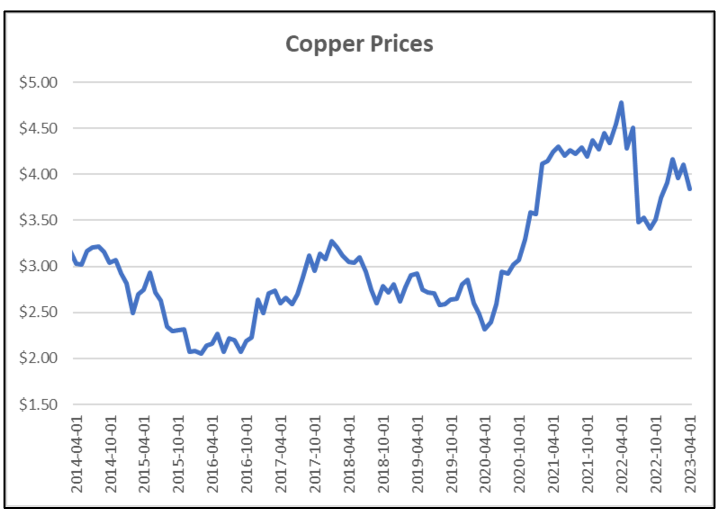
Reader Question of the Month

Q: Does a recession really mean anything for the commercial/industrial side?

A: This a question that was originally submitted as something that might make a good topic for one of the podcasts I do. It seems a good one to bring up here. On the surface it would seem obvious that a recession would damage the commercial and industrial sector as much as any other, but the reality is that there is considerable variation in terms of what sectors would be most affected. There are no parts of the economy that are "recession proof" but some are not as vulnerable as others. Public sector spending is often untouched as there is a constant need to keep the infrastructure intact. There will be demand for those products that are favored by the upper 30% of income earners so there is often expansion in hospitality and entertainment. As people are priced out of single-family homes, they turn to multi-family options and the growth here has been as good as it has been since the 1980s. An area that may start to slow will be warehouse and logistics as consumer spending has started to ebb and that demands less storage. The retail sector has been taking hits for the last few years and will continue to as malls and shopping centers steadily lose their anchor tenants. The office building is starting to make a comeback as people are required to come back to the office but at the same time these businesses are laying people off. Medical facilities will keep growing just because of the demographic realities. Education may also start to see some improvement as people tend to go back to school when the jobless rate increases. At the moment the rate of unemployment is still very low and that has delayed the rush back to training and education. - 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 $3.84/lb. ($4.11/lb. last month).
- The Producer Price Index (PPI) for March (latest PPI available) was 523.1, up month-over-month by 3.6% (1.2% last month). It was down 8.48% year-over-year (-5.1% last month). The ten-year index high was 572.0 in May 2022 and the low was 302.9 in 2016.
- **Looking Ahead**: Copper inventories once again started to improve slightly in the month, and that added to some of the pressure on copper prices. Concerns over recession are also weighing heavily on the metal, which can often be a proxy for overall manufacturing activity. Shortages of electronic products and component parts could push copper demand higher, and China reopening will start to play a role as well.

General Commodities Discussion:

Nickel:

- LME Nickel Prices have inched up over the past 30 days and were @$10.95 per lb. ($10.64 in the last update). Warehouse levels (subject to change as a member note in the stainless-steel section below suggests) fell again this month to 40,836 tons (44,364 tons in the last update) and are below lows not seen since November 2007 (at 42,091 tons).
- **Outlook**: "*Nickel remains exceptionally volatile due mainly to the fact that trading volumes have reduced substantially in the aftermath of last March's epic short squeeze that roiled nickel markets and the LME. A key catalyst to the chaotic short squeeze was the large global migration towards EV. Nickel as a key raw material for EV batteries, has been undergoing somewhat of an "identity crisis" with respect to its price drivers."*

Carbon Steel: **(WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were unchanged over the past 30 days and were $1,067 per ton in late April ($1,060 per ton in the last update). This is down from a peak of $1,943 hit in August of 2021.
- However, Producer Prices for steel pipe and tube continued to drop in the latest data from the end of March (latest available). They were down 0.5% month-over-month (down 4.7% last month). Year-over-year, the PPI was 13.2% lower (-16.0% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "*Carbon steel prices have fallen over the last 30 days, but don't expect steel pipe prices to follow suit just yet. Hot-rolled coil prices have fallen just over 5% over the last 30 days, settling at $1,086/ton, down from $1,140 at the end of March. Despite the softening of steel futures, demand is still better than expected and there have been some production delays at domestic mills, preventing finished goods prices from reflecting the relative decline in commodity prices. Expect pipe prices to drop slightly over the next 30 days*."

Stainless Steel: **(WPU10170674)**

- The Producer Price Index for stainless pipe and tube were down in March (latest available). Producer prices for stainless pipe fell by 0.9% month-over-month (down 0.3% last month); but they were up 2.9% Y/Y (up 3.3% last month).
- **Outlook**: "*Long regarded as an industrial metal, nickel's price direction had been significantly dictated by activity in the energy and industrial sectors. With the broad, continuing development of nickel pig iron mined from laterite ores, most of the global trading of nickel is centered on lower grade material which is not stocked on the LME. To address the disconnect between high-grade nickel and lower-grade nickel, the UK-based, Hong Kong-owned LME has announced plans to collaborate with QianhaI Mercantile Exchange - which is also owned by the same parent company – to launch a lower-grade contract that should bring more clarity to actual cost drivers of stainless steel PVF."*

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap continued to rebound in March vs. the prior month, coming in with an index of 588.8 (550.1 last month). This was higher by 10.8% M/M (5.6% last month). But, year-over-year it was down by 22.0% Y/Y (-8.7% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.

  Outlook: As mentioned last month, sources are pointing to the trend of conversions from blast furnaces to EAF (electric arc furnace) as one of the trends that will increase scrap demand. This is a longer-term trend, and many analysts are asking whether the scrap industry can keep pace with this shift in process, EAF of course creating more demand for metal scrap. For now, more metal scrap is moving via rail data.

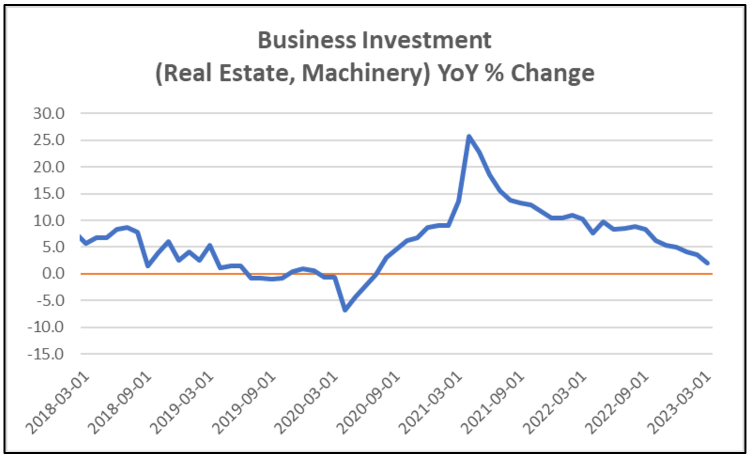
Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.

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.

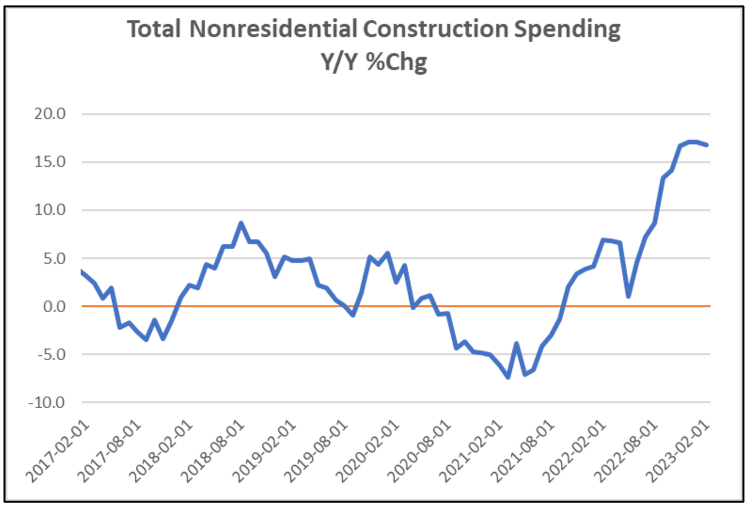
Producer Price Index - Key Industry Products						
Category	PPI Code	Mar-23	Feb-23	M/M% Chg	Mar-22	Y/Y % Chg
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	429.8	427.3	0.6%	387.7	10.9%
Gates, globes, angles and check valves	WPU114902011	164.8	163.3	0.9%	150.9	9.2%
Ball valves	WPU11490202	557.9	557.9	0.0%	492.0	13.4%
Butterfly valves (formerly W2421490203)	WPU11490203	308.3	297.4	3.7%	265.9	16.0%
Industrial plug valves	WPU11490204	297.7	297.7	0.0%	267.9	11.1%
Plumbing and heating valves (low pressure)	WPU11490205	393.4	393.4	0.0%	372.9	5.5%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	395.8	394.2	0.4%	355.5	11.3%
Automatic valves	WPU11490211	248.9	248.9	0.0%	229.7	8.4%
Metal pipe fittings, flanges and unions	WPU11490301	486.7	490.6	**-0.8%**	429.6	13.3%
Steel pipe and tube	WPU101706	426.2	428.1	**-0.5%**	490.9	**-13.2%**
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	154.3	155.8	**-0.9%**	150.0	2.9%
Copper & copper-base alloy pipe and tube	WPU10250239	378.1	371.9	1.7%	381.8	**-1.0%**
Plastic pipe	WPU07210603	206.7	206.4	0.1%	208.9	**-1.0%**
Plastic pipe fittings and unions	WPU07210604	323.4	317.8	1.8%	295.0	9.6%
Plumbing Fixtures, Fittings and Trim	WPU105402	394.6	394.6	0.0%	383.8	2.8%
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	203.5	203.5	0.0%	190.3	7.0%
Enameled iron and metal sanitary ware	WPU1056	290.6	283.1	2.6%	260.0	11.8%
Steam and Hot Water Equipment	WPU1061	419.7	407.7	2.9%	375.5	11.8%
Cast iron heating boilers, radiators and convectors	WPU10610106	289.7	279.2	3.8%	251.7	15.1%
Domestic water heaters	WPU106601	571.2	571.2	0.0%	566.6	0.8%
Electric water heaters	WPU10660101	564.7	564.7	0.0%	561.4	0.6%
Non-electric water heaters	WPU10660114	348.1	348.1	0.0%	344.9	0.9%
Warehousing, Storage and Relates Services	WPU321	139.6	140.1	-0.4%	121.1	15.2%

PHCP & PVF



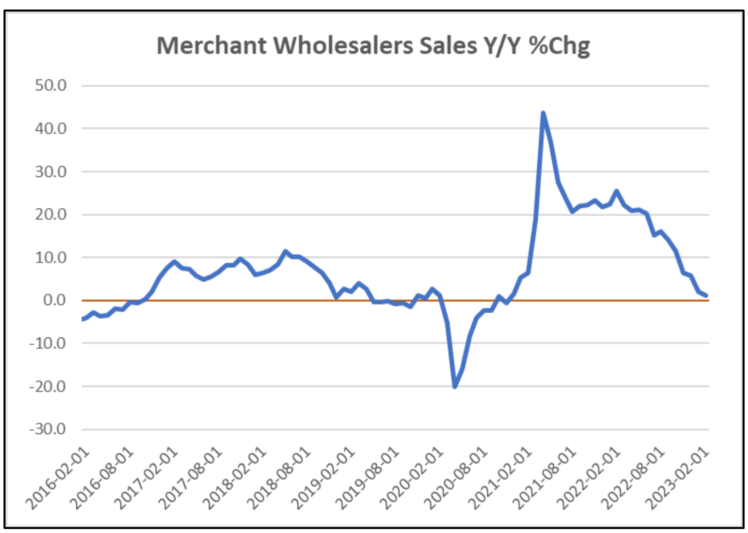
Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods was mixed in March (latest available), spending was down by 3.6% sequentially M/M (-0.4% last month). But they remained up by 2.0% Y/Y (up 3.6% last month) and continued to be stable overall.
- **Outlook**: Businesses were still spending at an annual rate of @$74.3 billion in capex. First the first time in a long while, corporate investment and spending was beginning to show the pressures of higher interest rates and tightening bank credit conditions on small and medium sized industrial firms. Spending was rising at just a 2% rate year-over-year, and when adjusted for inflation, it was lower vs. 2022 levels.



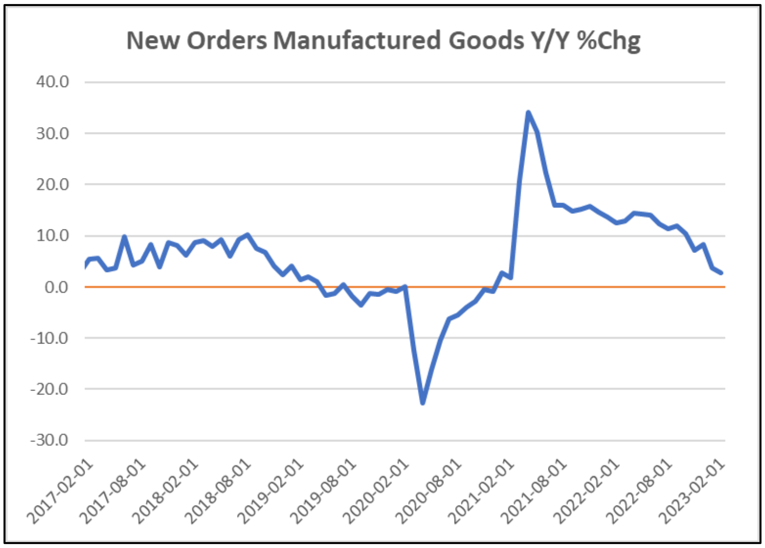
Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in February (latest available) was 16.8% higher than it was a year ago (17.1% higher last month) but was 0.3% lower M/M (-0.2% in the last report). Overall spending was at an annual rate of $982B (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: Nonresidential construction continues to set new records (with some inflation impact involved). But there are undoubtedly some strong trends pushing areas like industrial manufacturing construction, commercial, lodging and entertainment, and multi-family construction trends. But there is also a surge in infrastructure spending across all of those sectors as funds finally start to hit the street (pun intended).



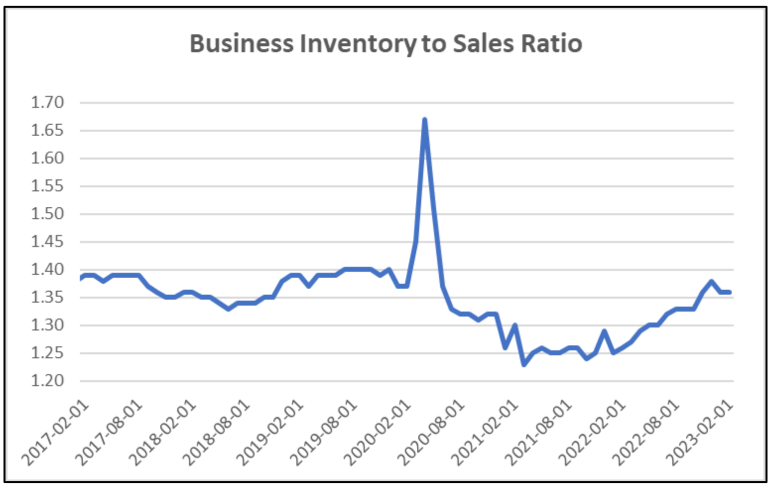
Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 1.3% Y/Y through February (latest available; up 2.1% Y/Y in the last update). Month-over-month, sales were declining (down 0.8% last month).
- Wholesale inventories were up 12.0% year-over-year in February (up 15.0% last month).
- **Outlook**: Relative to sales, the inventory to sales ratio for wholesalers is 10.5% higher year-over-year (11.7% higher last month) through February (latest available). Hardware, plumbing, and heating wholesalers are still sitting 20.5% heavier with inventory than they were in the 10-year average prior to the pandemic. Construction material wholesalers were also 10.7% higher than they had in the 10-year average prior to the pandemic. Yet, some are still reporting many materials backordered 10-12 months or more, especially electronics. This is holding back growth in other areas.



Manufacturing (AMTMNO)

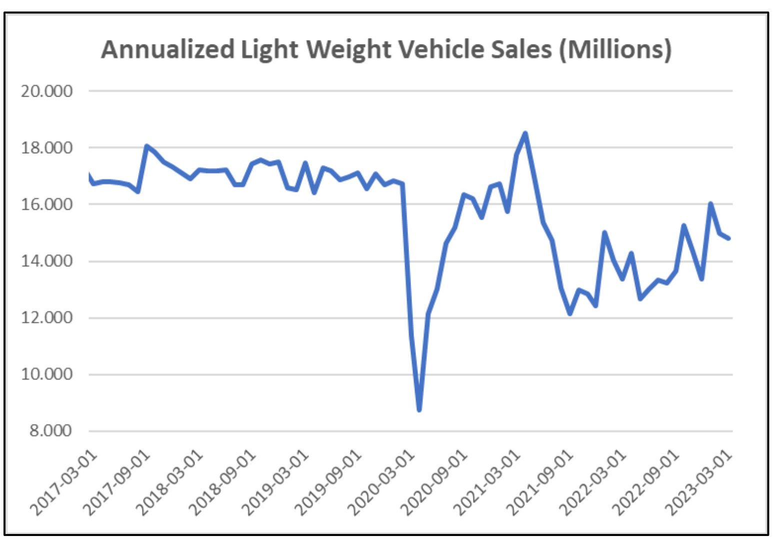
- Federal data on manufacturing was up 2.7% Y/Y (up 3.8% last month) through February (latest available). It was down sequentially by 1.1% month-over-month (-4.6% last month).
- The S&P Global US manufacturing PMI came in at 49.2 in March, up from 47.3 in March.
- **Outlook**: There was not much change month-over-month in the readings. A PMI reading over 50 is evidence of a sector that is expanding and growing, and this measure continued to contract slightly in March. New orders were pulling heavily on the overall index, new orders were still weaker in general in March. Manufacturers were also continuing to trim hiring activity and were cost cutting through attrition in what continues to be a slow start to the first half of 2023. Prices remained elevated, although some softening of input prices was noted.



Business Inventory to Sales Ratio (ISRATIO)

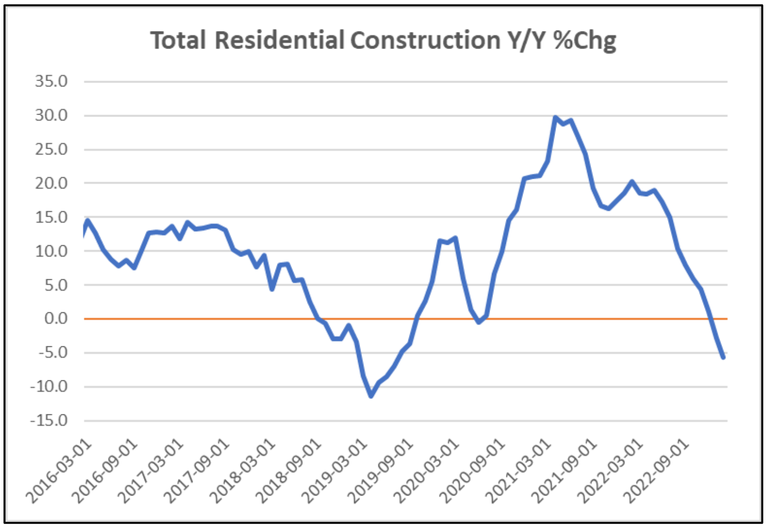
- The current inventory to sales ratio for all businesses remained at 1.36 months of inventory on hand in February (latest available; 1.36 last month). Relative to sales, inventories are elevated, this month's ratio was 5.4% higher Y/Y (6.3% higher last month).
- **Outlook:** There are a lot of crosscurrents and data discrepancies right now in inventories. Inventory building activity was weak in Q1, and this pulled overall GDP down. Although top line inventory levels appear to be outstripping sales volumes, some construction firms and automotive manufacturers, aerospace, and parts of the machinery sector are still complaining of stockouts and problems getting certain components.

PHCP



Auto Sales (ALTSALES; AISRSA)

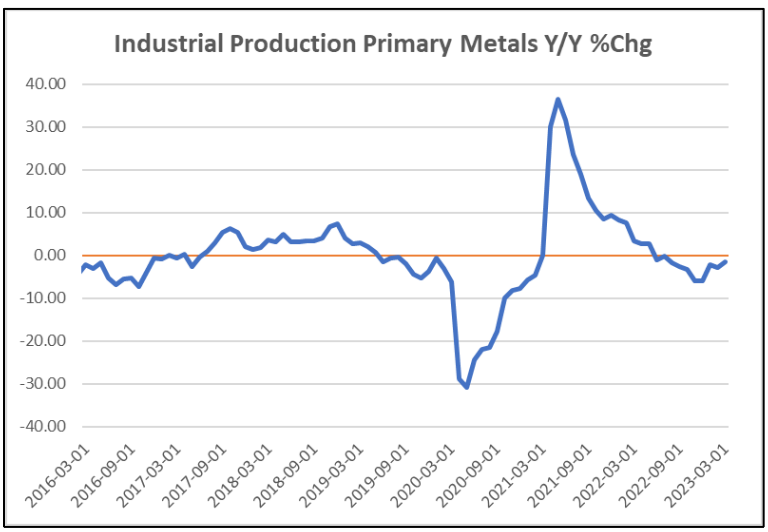
- US auto sales were trending at a 14.816-million-unit annual rate (15.000M last month) through March (latest available). This is up 4.1% year-over-year (+4.7% in the last update).
- The domestic auto inventory to sales ratio was up 48.8% Y/Y in March (latest available). On a monthly basis, it was 15.6% higher than it was last month.
- **Outlook**: Concerns are building that the mini banking crisis is throwing a wet blanket on automotive consumers. Rising auto prices, higher interest rates, and higher inflationary pressures on consumer products is creating auto consumer headwinds (in lower- and middle-income categories). But OEMs are going to continue to manufacture products until dealer inventories are fully replenished. This will keep the manufacturing side of the industry continuing to remain active through this period.



Total Residential Construction (PRRESCONS)

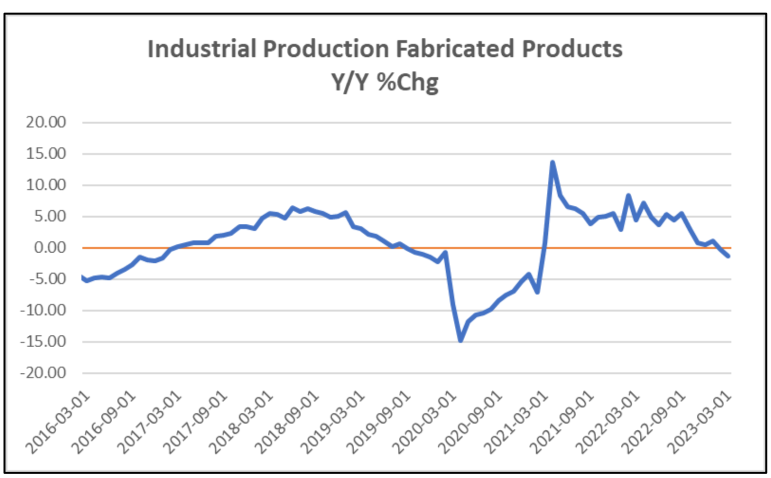
- Total residential construction in February (latest available), was down by 5.7% Y/Y (down 2.8% last month). It was down 2.9% M/M (also down 3.9% last month).
- **Outlook**: New data on housing suggests that lack of inventory could be having a bigger impact on the industry than rising interest rates. Certainly, homeowners that are in a mortgage below 3% have a hard time purchasing a new home if they like their current situation. Those that are being forced to move or first-time home buyers are being forced to adjust the price of home that they can afford because of rising rates, but that is not historically different than other periods when the housing sector was doing well. Too little inventory and home prices that are too high are the primary factors holding back buyers. Materials supply is part of that equation.

PVF



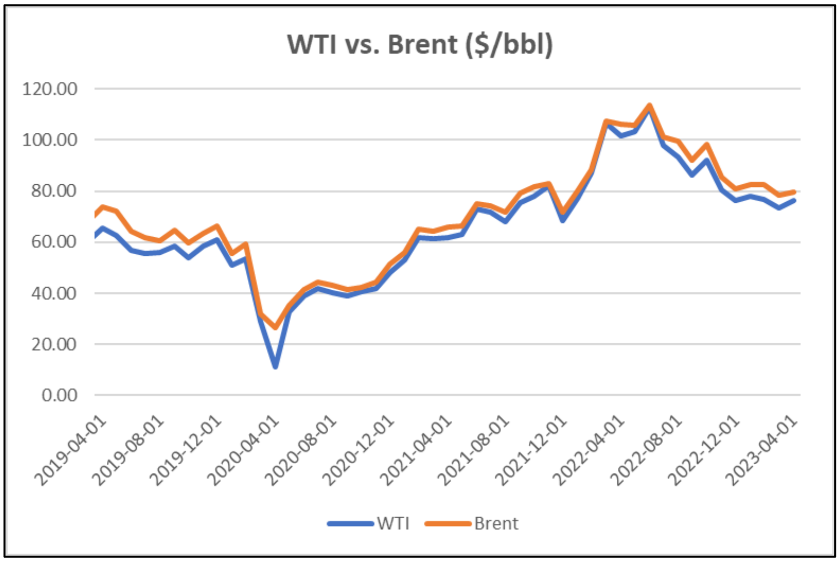
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was down 1.5% Y/Y through March (-2.9% in the last update). It was up 1.4% M/M (-0.8% M/M in the last update).
- **Outlook**: Primary metals demand continued to be sluggish again this month on the back of global manufacturing slowdowns. Commodity inventories remain low however, and the reopening of China will have to be watched closely. Any surge in demand throughout Asia would have an impact on commodity prices, especially with inventories so low. The biggest question for analysts is whether the global slowdown creates enough of a headwind that inventories fully recover, or if a soft landing keeps demand stable and low inventories lead to increases in some metal prices.



Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 1.3% Y/Y through March (down 0.3% last month). It was also down 1.1% on a month-over-month basis, (-1.3% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and there is a significant amount of durable goods demand that helped keep production volumes strong again this month. Forecasts for the rest of 2023 show the outlook for machinery, computers, electronic equipment, and other durables weakening through Q3 and now continuing into Q4 and the end of the year.



WTI and Brent

- WTI is currently at $76.40 a barrel ($76.83 in the last update) and Brent is at $79.43 ($82.59 in the last update).
- **Outlook:** Some analysts are now speculating that oil supply could be nearly 2 million barrels per day lower than expected in the second half of the year. Demand is also expected to be lower if the global economy continues to struggle, but there could easily be a net drawdown in inventories if this relationship continues. The EIA in contrast still shows global production keeping pace with demand and perhaps outpacing it slightly. Purchasing oil to replenish the Strategic Petroleum Reserves at some point in time will consume some of the oil that would otherwise go into refineries. This will keep the price of oil in a band between $65 and $75 a barrel for the next one to two years.

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

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	28-Apr-23	755	2	57
Canada	28-Apr-23	93	-12	-2
International	Mar-23	930	15	115

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were up 57 Y/Y (up 88 in the last update) at 755 (1,049 in 2019); Canadian counts were down by 2 Y/Y (+25 in the last update). International counts are up by 115 Y/Y (+102 in the last update).
- **Outlook**: New forecasts for global oil production shows it rising throughout 2023 and into 2024. The US is also expected to increase output during that period of time, but new data suggests that total output is weaker than expected and oil inventories remain below the 5-year average. The EIA reported that oil production averaged 11.6 million barrels per day but will approach the 2.5 million barrels per day predicted for last year sometime in 2023.

Construction Outlook

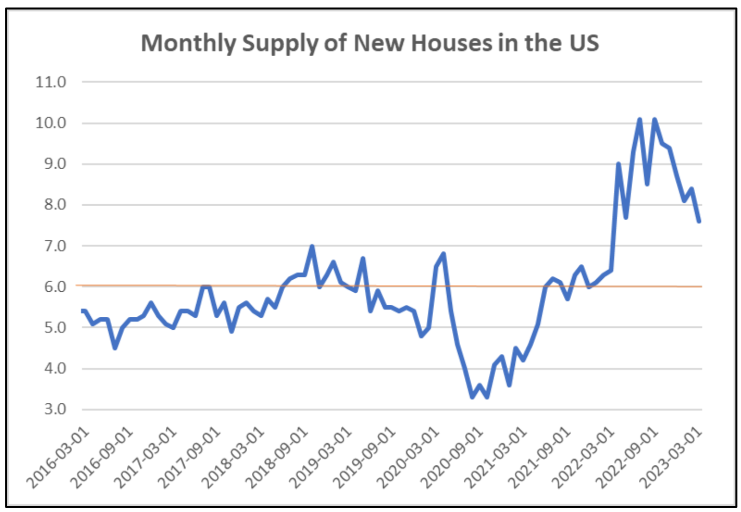
Residential construction: 30-year national average mortgage rates reversed course and increased slightly in April to 6.43% (6.32% in the last update). Home builder confidence moved up again M/M in April by 2.3% according to the NAHB/Wells Fargo index, it increased to 45 points (up from the March reading of 44). The all-time high was 90 points in November of 2020. Builders are still concerned about a Fed-induced recession on the back of higher interest rates. Input prices are also still elevated, and reports suggest some materials are still in short supply. Demand seems to be better than expected.

Table 1. NAHB/Wells Fargo National and Regional Housing Market Index (HMI)

NATIONAL							
(Seasonally Adjusted)	2022	2023					
	Apr.	Jan.	Feb.	Mar.	Apr.		
				Revised	Prelim.	M/M	Y/Y
Housing Market Index	**77**	**35**	**42**	**44**	**45**	2.3%	-41.6%
Housing Market Index Components							
Single Family Sales: Present	86	40	47	49	**51**	4.1%	-40.7%
Single Family Sales: Next 6 Months	73	37	48	47	**50**	6.4%	-31.5%
Traffic of Prospective Buyers	61	23	28	31	**31**	0.0%	-49.2%
REGIONAL HMI							
(Seasonally Adjusted)	2022	2023					
	Apr.	Jan.	Feb.	Mar.	Apr.		
				Revised	Prelim.	M/M	Y/Y
Northeast	74	34	46	46	**46**	0.0%	-37.8%
Midwest	62	32	36	36	**39**	8.3%	-37.1%
South	82	39	46	50	**50**	0.0%	-39.0%
West	84	29	37	36	**41**	13.9%	-51.2%

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was down 41.6% against April of 2022 (down 44.3% last month).

Adjusted housing inventories were lower in March, coming in at 7.6 months of inventory on hand. This is closer to the "ideal range" of 6 months of inventory on hand and is much lower than the 9.5 months we saw in October.



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

But new housing starts came in at a 1.420-million-unit rate on an annualized basis (down slightly from last month's 1.450 million annual rate); but the outlook for the rest of 2023 is obviously still weaker on interest rate pressures.

Single family starts were up in March by 2.7% M/M (latest available) but were down 27.7% Y/Y. Multi-family starts are volatile and were down 6.7% M/M but remained 6.1% higher Y/Y.

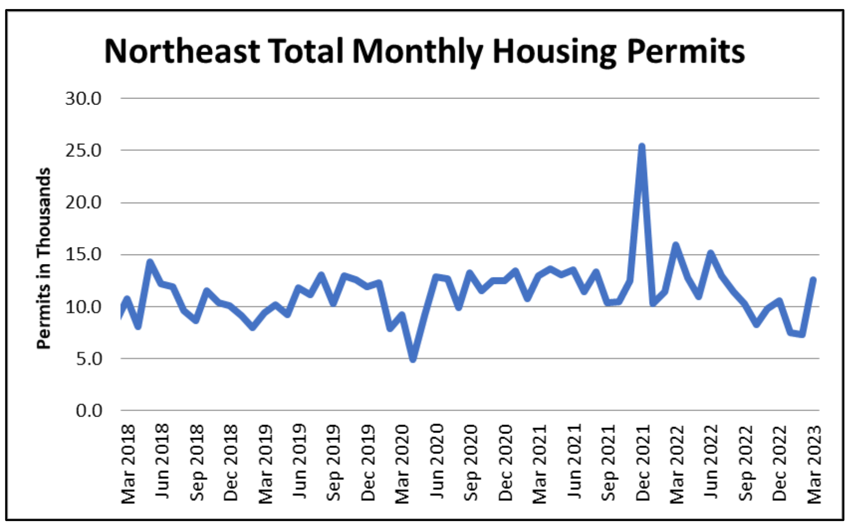
National Outlook: The latest events within the regional banking situation has changed speculation about the number and degree of interest rate hikes and where the Federal Reserve's Effective Funds Rate will peak. Some still expect the Fed Peak to touch 5.1%. Estimates also suggest that banks taking independent action to tighten their own credit standards (to reduce default risk) will work much like a 25 to 50 basis point hike in Federal Reserve interest rates. This could keep the Fed in a more dovish position moving forward, and some estimates from the Fed still show the potential for rate easing in 2024 a high likelihood.

Housing and Interest Rate Forecast, 04/10/2023							
	2019	2020	2021	2022	2023	2024	2025
Housing Activity (000)							
Total Housing Starts	1,291	1,395	1,605	1,554	1,241	1,289	1,488
Single Family	889	1,002	1,131	1,007	795	923	1,063
Multifamily	402	393	474	547	446	366	425
New Single Family Sales	683	831	769	641	653	739	811
Existing Single-Family Home Sales	4,746	5,057	5,420	4,530	3,924	4,308	4,543
Interest Rates							
Federal Funds Rate	2.16%	0.36%	0.08%	1.68%	5.05%	4.62%	3.20%
Fixed Rate Mortgages	3.94%	3.11%	2.96%	5.34%	6.56%	6.07%	5.49%
Prime Rate	5.28%	3.54%	3.25%	4.85%	10.82%	10.69%	8.69%
For more forecast details, visit www.nahb.org.							

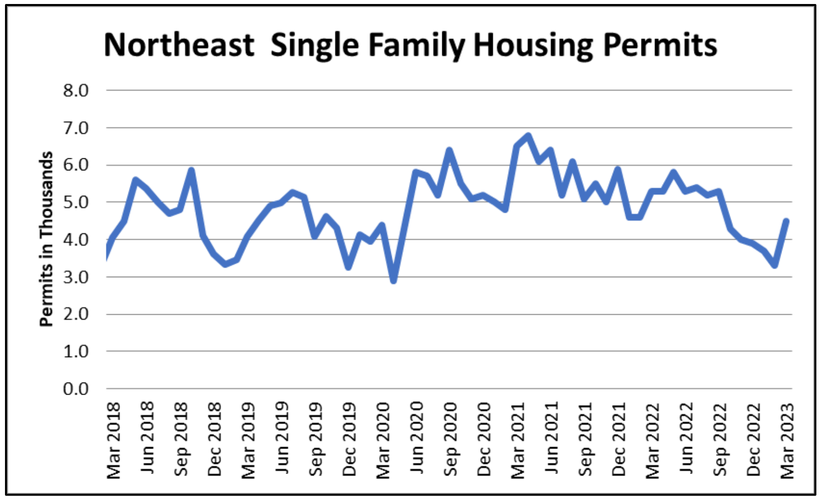
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

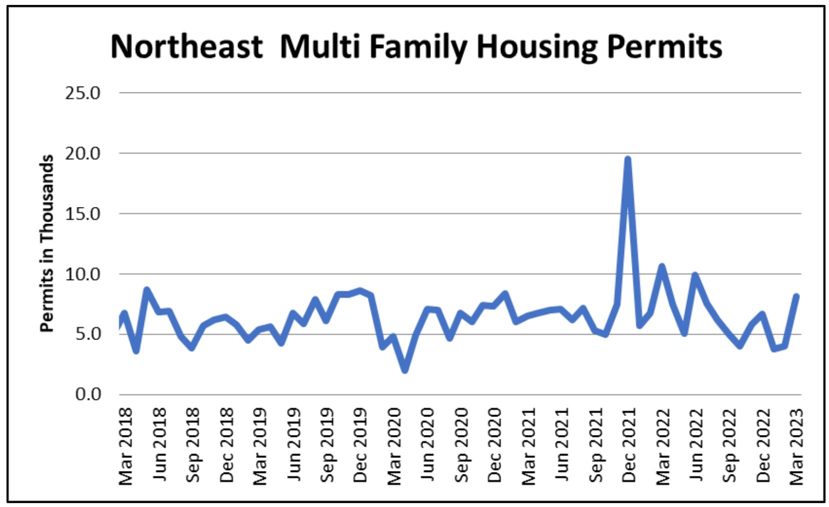
- Northeast total housing units authorized for construction surged in March by 72.6% M/M (-2.7% last month). March was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 13.6% (-7.9% last month).
- On a year-over-year basis, permits were down 20.8% (-36.0% in the last update).



- Month-over-month single family permits were up 36.4% (-10.8% last month).
- On a 3-month moving average basis, permits were up 6.8% (-6.1% last month).
- Year-over-year permits were down 15.1% (-28.3% last month).

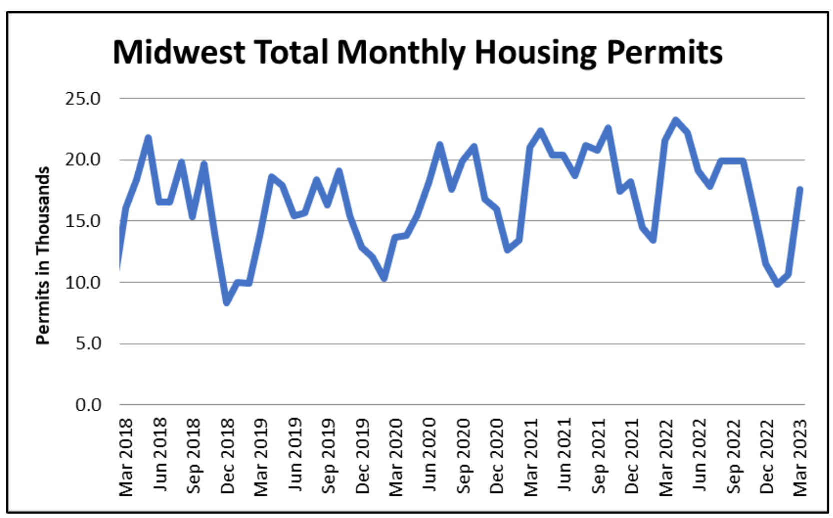


- Multi-family housing permits authorized for construction were up 102.5% M/M (+5.3% in the last update).
- They were up 21.5% on a rolling 3-month average (-7.5% last month).
- On a year-over-year basis, they were down 23.6% (-41.2% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

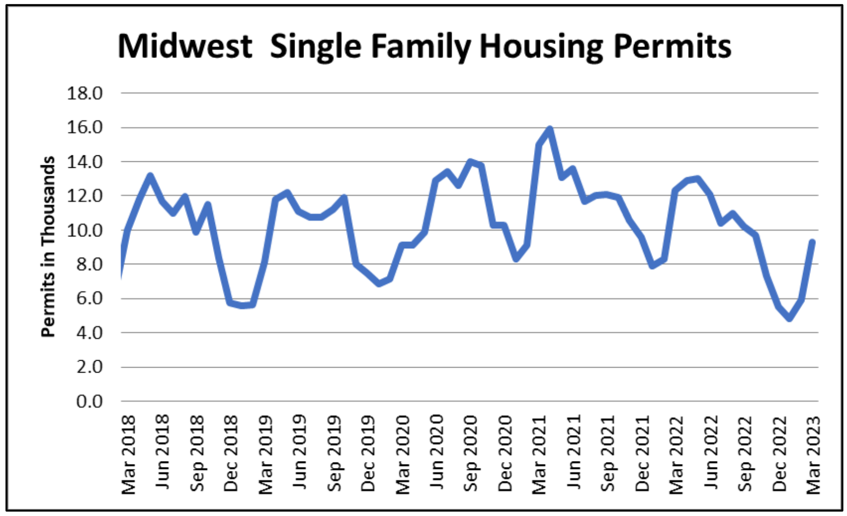


Regional market outlook: Midwest

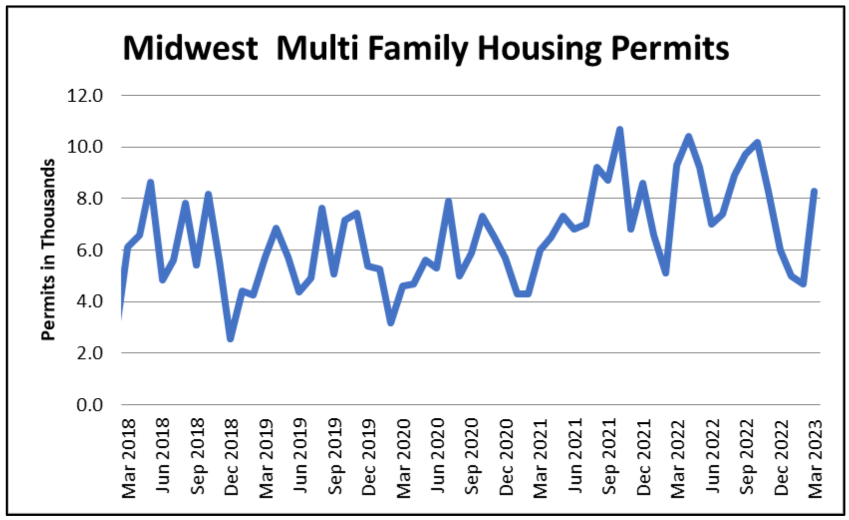
- Midwest total housing permits were up 66.0% month-over-month (+8.2% in the last update).
- The 3-month average was up 19.8% (-11.0% in the last update).
- On a year-over-year basis, permits were down 18.5% (-20.9% in the last update).



- M/M permit volumes were up 57.6% (+22.9% last month).
- The 3-month rolling average shows that permits were up 22.6% (-4.8% in the last update).
- Year-over-year, single family homes authorized by permits were down 18.5% (-28.9% in the last update).

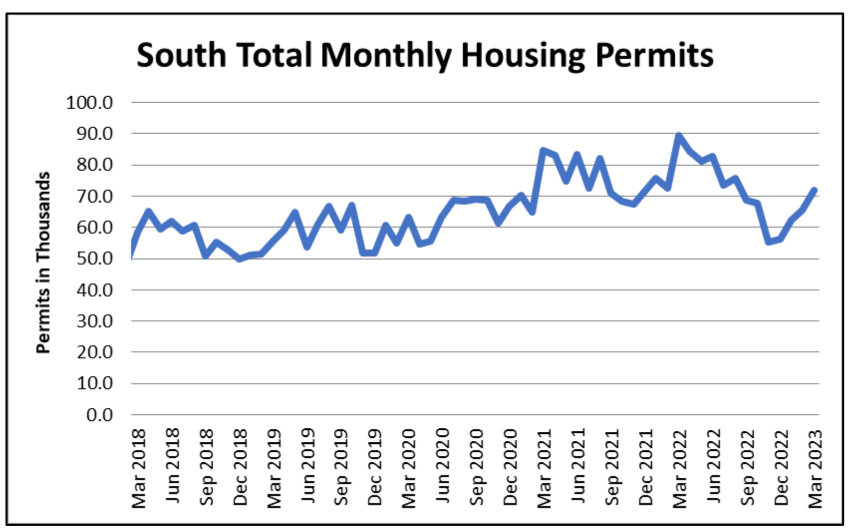


- Multi-family housing permits, again, are volatile month-over-month. This month, they were up 76.6% (-6.0% last month).
- On a 3-month rolling average basis, they were up 18.0% (-16.8% in the last update).
- On a year-over-year basis, permits were down 10.8% (-7.8% in the last update).

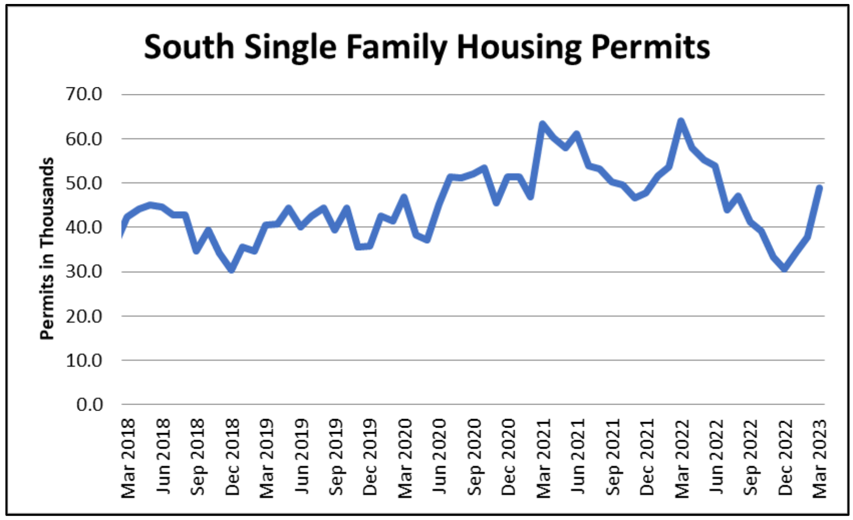


Regional market outlook: South

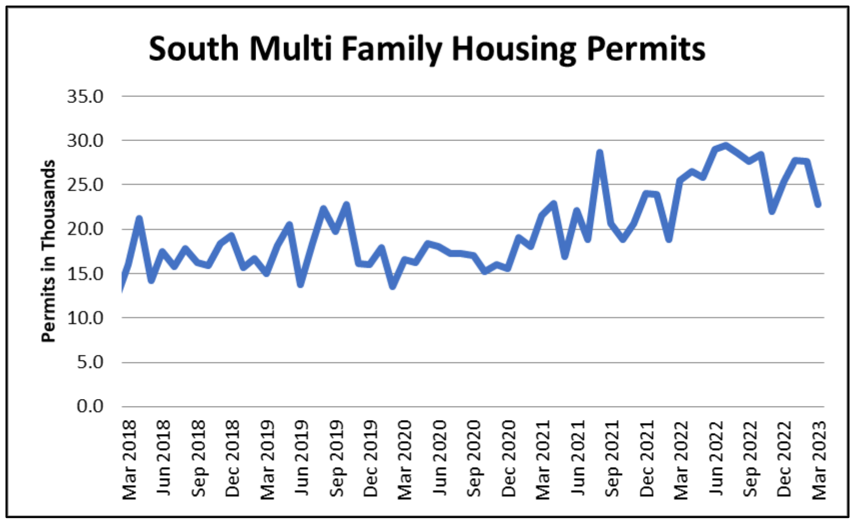
- Southern region housing permits were up 9.6% month-over-month (+5.3% in the last update).
- On a 3-month rolling average basis, permits were up 8.6% (+5.8% in the last update).
- On a year-over-year basis, total permits were down 19.8% (-9.5% in the last update).



- Southern region single family home permits were up 29.6% M/M (+9.9% last month).
- On a 3-month rolling average, they were up 17.2% (+4.6% in the last update).
- On a year-over-year basis, single family permits were down 23.4% (-29.5% in the last update).

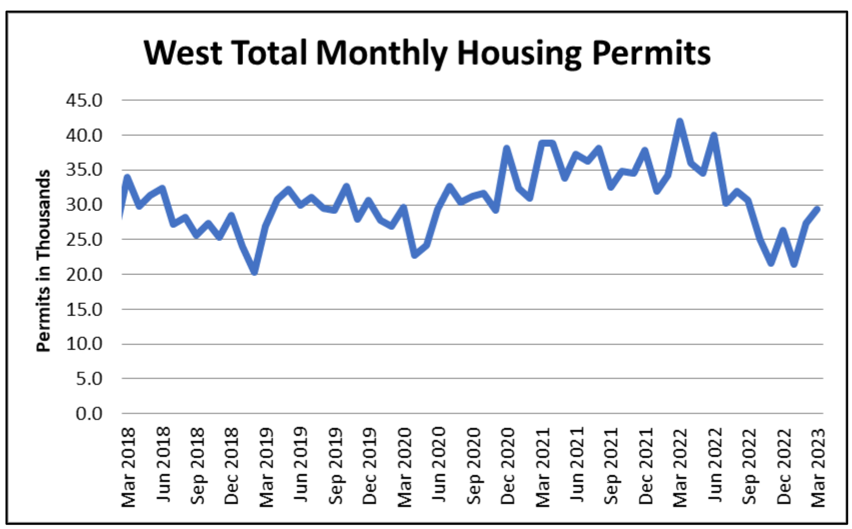


- Southern multi-family permits were down 17.7% M/M (+0.4% last month).
- On a 3-month rolling average basis, permits were down 2.9% (+8.2% last month).
- On a year-over-year basis, permits for multi-family housing were down 10.6% (+47.3% in the last update).

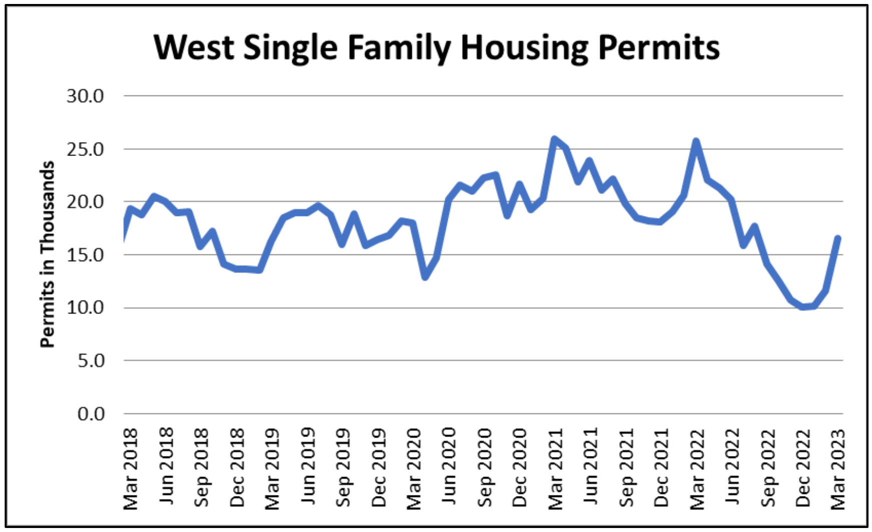


Regional market outlook: West

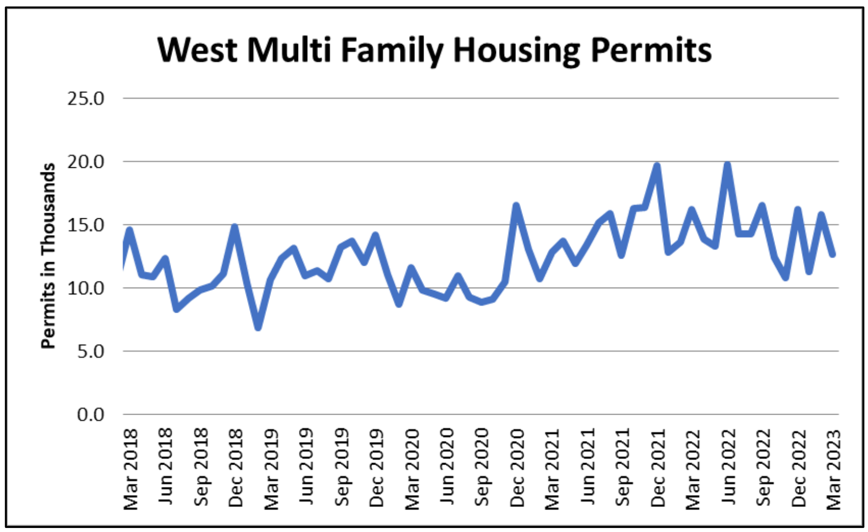
- Western region total monthly housing permits were up 6.9% M/M (+27.4% last month).
- On a 3-month rolling average basis, they were up 5.4% (+10.3% last month).
- On a year-over-year basis, permits were down 30.2% Y/Y (-19.9% in the last update).



- Single-family permits were up 43.1% M/M (+13.7% last month).
- On a 3-month moving average basis, permits were up 19.3% (+2.7% in the last update).
- Year-over-year, single family permits were down 35.7% (-43.7% in the last update).



- Multi-family permits were down 19.6% M/M (+39.8% in the last update).
- On a 3-month rolling average, it was down 3.3% (+19.9% in the last update).
- Year-over-year, multi-family unit permits were down 21.6% (+16.2% last month).



Industry Outlook

ASA Sales were stronger by 3.7% Y/Y (+14.3% last month) in March (latest available). Year-to-date through March, sales were up 11.0% (+16.2%in the last update). For the trailing twelve months prior, sales were up 15.8% (17.1% 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 2022	Trailing Twelve Months % Change
All Businesses	**3.7%**	**11.0%**	**15.8%**
By Primary Business			
PHCP	2.3%	8.9%	11.1%
PVF	-1.2%	8.5%	21.4%
PHCP & PVF	7.7%	15.5%	17.7%
By Region			
1 (SWPD)	-4.0%	3.9%	13.7%
2 (MWD)	3.5%	10.3%	15.9%
3 (SWCD)	6.4%	11.1%	29.9%
4 (NCWA)	7.1%	15.2%	11.5%
5 (ASA Northeast)	3.6%	8.9%	15.9%
6 (SWA)	2.4%	11.3%	16.1%
*ISD - Insufficient Data			

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months, was down in January (latest available yet to be updated). The report showed that the TSI was at 137.8 for freight, down 0.2% M/M and was down by 0.7% Y/Y (+0.5% 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 March that spot truck freight demand was **68.3% lower than it was a year ago**. Spot trucking rates have fallen 28.2% Y/Y, and now fuel surcharges are down -19.9% Y/Y.

New data shows that oil production in the US was just 11.6 million barrels per day but is expected to approach 12.5 million barrels per day sometime in 2023 (lower than the 13 million bpd estimates). Total oil inventories were slowly improving but remain at the lower end of the 5-year range, and the Strategic Petroleum Reserves are still at the lowest levels since the mid 1980's and rebuilding activity must begin at some point. This will continue to keep production steady through most of 2023 barring a significant global drop in demand (an event worse than a mild global recession). Private estimates by Wall Street firms suggest that the global oil supply could miss projections by more than 2 million barrels per day in the second half of the year. The EIA is still calling for a fairly balanced market by the second half of the year and a net inventory build throughout most of 2023 and into 2024.

Retail sales fell in March across many categories month-over-month, and some sectors remained stronger on a year-over-year basis (inflation boosting some of them).

When adjusted for inflation, sales were 0.7% lower month-over-month in March, and were lower by 2.5% year-over-year.

As we mentioned last month, approximately 60% of US households are under pressure and have little credit or savings to fall back on (down slightly from 62% a month ago). Consumer use of credit cards is still rising at one of the fastest rates on record, and among these households that are living check-to-check, credit card balances are still running at 97% of their credit limits. Credit card interest rates have also hit an all-time high above the national average of 24%. Those pressures may finally be impacting retail spending as consumers work on paying down higher credit card balances.

Home improvement retail sales volumes were down again in March, falling by 2.1% M/M and remained lower by 3.5% against last year. Again, when adjusted for inflation, sales were likely lower year-over-year.

Kind of Business	Percent Change Mar. 2023 Advance from --	
	Feb. 2023	Mar. 2022
Retail & food services, total	**-1.0**	**2.9**
Retail	-1.2	1.5
Motor vehicle & parts dealers	**-1.6**	**0.1**
Furniture & home furn. stores	**-1.2**	**-2.4**
Electronics & appliance stores	**-2.1**	**-10.3**
Building material & garden eq. & supplies dealers	**-2.1**	**-3.5**
Food & beverage stores	**-0.1**	**5.0**
Grocery stores	0.0	5.3
Health & personal care stores	**0.3**	**7.1**
Gasoline stations	**-5.5**	**-14.2**
Clothing & clothing accessories stores	**-1.7**	**-1.8**
Sporting goods, hobby, musical instrument, & book stores	**0.2**	**3.0**
General merchandise stores	**-3.0**	**2.4**
Department stores	-2.5	-1.2
Nonstore retailers	**1.9**	**12.3**
Food services & drinking places	**0.1**	**13.0**

Economic growth is still expected to be flat in 2023 (roughly 0.7% for the full year) with some recession risk still lingering for Q2 and Q3. The mini banking crisis that the global community is going through could also increase recession risk, depending on how it evolves. With China beginning to build some domestic economic momentum, consumption rates in China could begin to lift other markets and the US could see some improvements in global demand as a result. This could also impact commodities and material availability and some sectors are reporting shortages again of some construction materials and supplies (especially in the electronics and electrical equipment sectors). As that holds up construction projects, it affects demand for other products held up by construction delays.