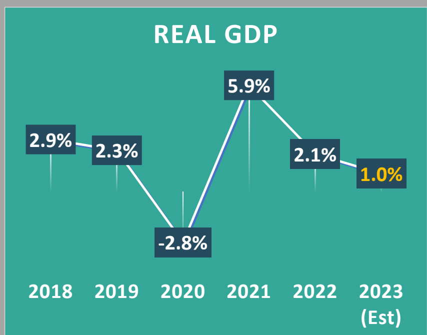
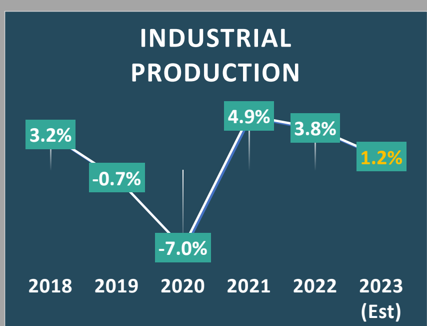
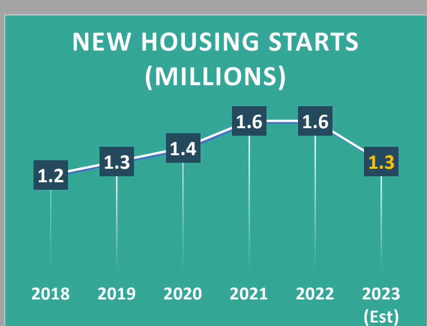
Monthly Economic Report (MER)

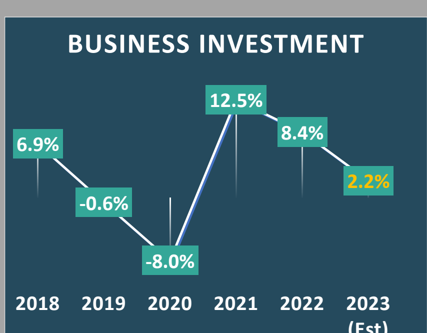
August 2023

Selected Indices









Executive Summary – August '23

Big Items

GDP: The GDP estimates for the third quarter have been volatile but thus far they have been on the confident side. The latest data from the GDPNow report shows estimates between 3.0% and 3.5%. There are many factors that could push these forecasts down – slumping consumer activity, reaction to oversupply, inflation impact and so on. Given the time of year the sector to pay close attention will be retail. Halloween is now the second largest spending holiday on the calendar and heralds the start of holiday shopping.

Industrial Production: Industrial production recovered a bit in July with an increase of 1.0%. Manufacturing rose by 0.5% and this was tied primarily to a big surge in the automotive sector (5.2%). Mining also increased by 0.5% and this was down to the increases in the oil and gas sector. As expected, there was a big surge in the utilities category as the summer temperatures soared – it is up by 5.4%. Overall, the production numbers were just 0.2% down from what was noted a year ago. Capacity utilization came in at 79.3 and that is just 0.4% lower than the ten-year average. Readings above 50 suggest there is little industrial slack.

Housing Starts: Building permit numbers improved slightly. They were up 0.1% over the levels noted in June but these are still 13.0% below the levels seen a year ago. The start numbers were a bit more dramatic. They are 3.9% above the previous month and 5.9% above the levels set last year at this time. Single family starts are 6.9% above what was noted in June. Most of the single family activity has been in the upper end of the housing market. Multi-family development still dominates and has been growing twice as fast as single family units.

Home Improvement Retail: There have been some significant shifts in the home improvement and remodeling sector of late. The slowdown in the housing market has convinced people to upgrade rather than sell. The hot areas of improvement continue to be kitchens and bathrooms, but storage and closet space is now a strong third. This is the time of year that outside projects emerge although that will be fading in the coming months. The dominant project outdoors continues to be decks but more complex versions with more built-in support for cooking and entertainment.

Manufacturing: The latest reading for the US is now at 46.4 and that is a very slight improvement from the 46.0 that was noted last month. The readings suggest the US is still in contraction territory along with 20 other nations. The Mexican reading is still barely into the expansion zone with a reading of 50.9 but Canada has also slipped to the mid-40s. These are not desperate numbers but a far cry from the readings even a year ago. The highest numbers globally are showing up in India.

Big Risks

Inflation and Recession Potential: The inflation and recession numbers have been unexpectedly positive but there are factors to watch. Inflation is still driven primarily by wages but that is also what has been supporting consumer activity. A recession is not expected until perhaps well into 2024 but most now think it could be entirely avoided.

What to Watch

Supply Issues – The supply chain crisis is basically over but now the problem is that there is too much inventory and that has disturbed the re-order cycle. Some 65% of businesses report an oversupply situation and that inventory needs to be worked off.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

What Threats Dominate the Final Part of 2023? – I suppose it is time to retrieve our reputation as dismal scientists. In previous reports we have been uncharacteristically upbeat as we discussed the fact that we kept managing to miss recession, but this is not to say that everything is going swimmingly. What are the issues that will merit consideration through the rest of the year?

At the top of that list is the potential for further Fed action on interest rates. Inflation is still quite a bit higher than would be preferred. The favored measure for the Fed is Personal Consumption Expenditures and this is sitting at 3.0% - down from 4.2% in March. This is much better than it has been, but the Fed's target is still 2.0%. Given the conversation among Fed members it seems there is a 50/50 chance there will be another quarter point hike before the end of the year – bringing the Fed Funds rate to between 5.5% and 5.75%. Nowhere close to record highs (remember the 1980s when rates were at 20%?) but far higher than it has been in the last two decades.

The second issue is recession. If these rates keep rising will there be the recession that we have been warned about for the past year? There have been several factors pointing away from recession and these will be the ones to watch. At the top of that list was consumer spending. The pace of spending at the retail level has been well above the twenty year trend line. Wage hikes have equipped consumers (some of them) with money to spend and they have been. There is a major split between those in the upper third of income earners and those in the lower third. One group is spending freely and the other is living paycheck to paycheck, The crucial question is what happens to the middle third. If they hang on to their jobs and see some wage gains, the economy will keep missing recession. But if higher prices and layoffs start to push them into that lower tier, the economy stutters.

The third set of issues to pay attention to are linked to the other two. Two of the more pressing issues for any set of businesses have been labor shortage and wages. These are inextricably linked and hit the business with dual challenges. The chronic lack of skilled talent and willing workers means that companies are unable to expand when they want to. If they hire people without the necessary skills and education, they will have to devote resources to training them. It takes between 12 and 24 months to fully train a person from scratch and the process takes time from the experienced workers that are doing the training. To make matters worse the shortage means that these new hires are more costly. Even the unskilled are getting paid at higher rates. If the new hire is getting paid at a higher level the existing workforce demands a raise as well, the cycle is hard to break. Businesses then must hike prices to offset the wage hikes and that boosts the inflation threat. This is the dreaded wage/price spiral that worries the central banks. It is almost impossible to call a halt to that pattern. - CK

Reader Question of the Month

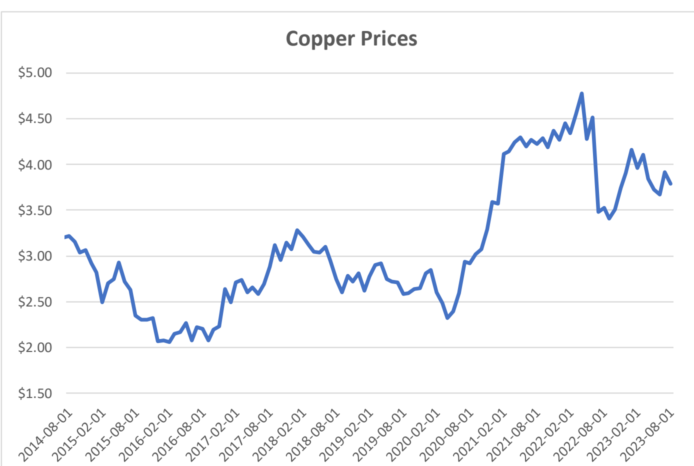
Q: What is the Future of US-China Trade?

A: There is a great deal changing as far as China is concerned and these shifts have profound implications for the world and for the US. The US still imports over $450 billion from China and exports about $165 billion. Each nation is a major trading partner for the other. It was only a few years ago that China was considered half partner and half rival but these days it is more like 10% partner and 90% rival. There are serious diplomatic confrontations and a sense that military conflict risk is high. The US is blocking certain exports to China that would be seen as compromising national security and China is interfering with exports to the US. Is this a relationship that is destined to deteriorate?

It is obvious that both nations have become much more cautious with one another. China is actively trying to reduce its dependence on exports and the US is focused on rebuilding its manufacturing sector. On the other hand, the business between China and the US is not really government to government. The Chinese business community is aware of who their consumers are, and the US business community is aware of where they can get products at a good price. The level of interaction between the two business communities remains high. Recently the US established a new working group charged with finding ways to reduce trade tensions. It is mostly a diplomatic gesture but there will be opportunities to examine current policy. The US business community is most concerned about the tariffs and regulations imposed by their own government as these moves have been inhibiting much of the traditional trade. - 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 $3.79/lb. ($3.91/lb. last month).
- The Producer Price Index (PPI) for July (latest PPI available) was 506.123, down month-over-month by 1.0% (-0.7% last month). It was up 5.8% year-over-year (-7.5% 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 at the LME have improved slightly but remain near the bottom of the long-term trend. The latest data shows inventories at 97,525 tons, just before the pandemic in 2018 inventories were above 280,000 tons and touched 340,000 tons in November of 2019. Demand being weaker has kept prices lower.

General Commodities Discussion:

Nickel:

- LME Nickel Prices have slipped over the past 30 days and were @$9.27 per lb. ($9.66 in the last update). And yet, warehouse levels fell this month to 36,936 tons (37,536 tons in the last update) and are still near lows not seen since 2007.
- **Outlook**: "The overall raw materials remain a bid softer as nickel continues to hover at or near $9.00 per pound as the China market remains stagnant. The domestic industries will continue to see positive movement for the foreseeable future, unless the economy takes a turn toward recession. Nickel prices have remained choppy since our last report, and August surcharges are expected to be down slightly compared to July. Recent news from Macquarie Group, Ltd., forecasts a large influx of Class One (battery grade) nickel will hit LME warehouses next year. Much of that volume is anticipated to come from new plants in China expected to successfully convert intermediate, raw products (e.g., ferronickel) into Class One nickel."

Carbon Steel: (WPU101706)

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) were sharply lower over the past 30 days and were $727 per ton in late August ($825 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 July (latest available). They were down 2.8% month-over-month (down 5.0% last month). Year-over-year, the PPI was 22.0% lower (-20.0% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: "A few factors go into this precipitous fall [in prices]. First, the inflation of steel pricing due to the Russian invasion of Ukraine has been corrected as Russian exports of both steel and iron ore products have been supplanted by other nations. A big factor is that supply fears have all but disappeared even with a near-global slowdown of steel production. China's demand is also slowing. Currently, China is the world's leading consumer of steel. A potential energy shortage could have an impact on steel prices if it becomes too cost prohibitive to produce steel. That is likely a far-off scenario."

Stainless Steel: (WPU10170674)

- The Producer Price Index for stainless pipe and tube were down in June (latest available). Producer prices for stainless pipe fell by 1.0% month-over-month (down 1.1% last month); and they were down 9.0% Y/Y (down 11.8% last month).
- **Outlook**: "This has been a stable year for pricing on stainless fittings. Inventories remain sufficient to cover the market demand. There continues to be solid activity in some of the industry sectors such as oil and gas, chemical and petrochemical."

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap fell again in July vs. the prior month, coming in with an index of 452.6 (468.2 last month). This was lower by 3.5% M/M (-12.1% last month). Year-over-year it was down by 12.4% Y/Y (-21.3% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.

  Outlook: The outlook for scrap prices continues to be weaker as demand softens and inventories remain stable. Some continued strength in pockets of durable goods manufacturing and stable nonresidential construction activity will continue to be a driver of moderate demand.

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

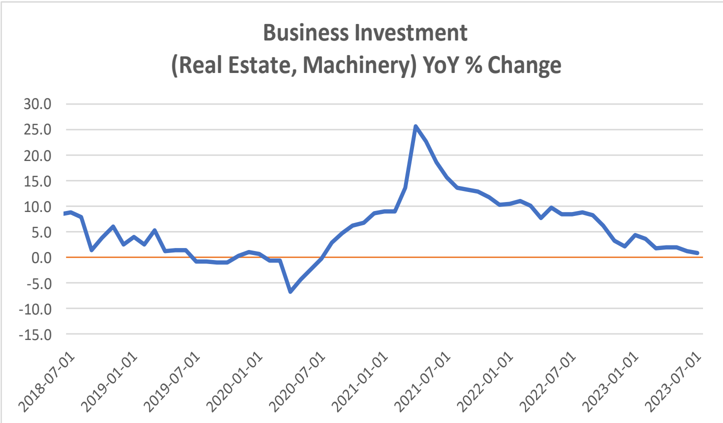
Producer Price Index – Key Industry Products

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

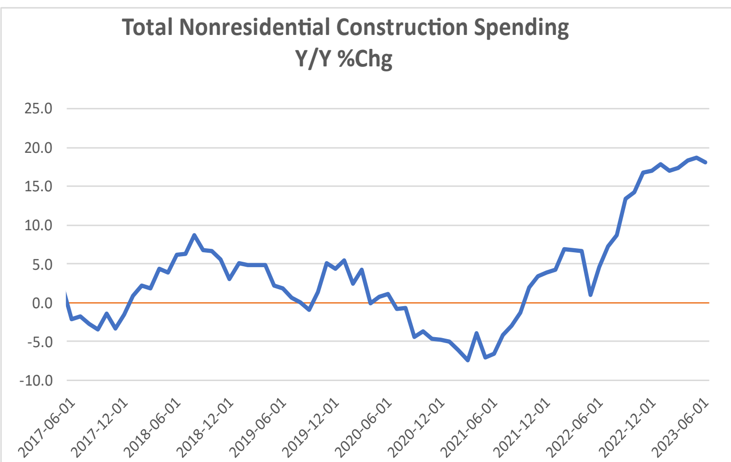
Category	PPI Code	Jul-23	Jun-23	M/M% Chg	Jul-22	Y/Y % Chg
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	433.8	434.0	0.0%	406.1	6.8%
Gates, globes, angles and check valves	WPU114902011	165.8	165.8	0.0%	155.4	6.7%
Ball valves	WPU11490202	557.9	557.9	0.0%	536.3	4.0%
Butterfly valves (formerly W2421490203)	WPU11490203	303.0	303.0	0.0%	275.2	10.1%
Industrial plug valves	WPU11490204	308.7	308.7	0.0%	269.6	14.5%
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	403.8	403.8	0.0%	371.9	8.6%
Automatic valves	WPU11490211	248.9	248.9	0.0%	232.0	7.3%
Metal pipe fittings, flanges and unions	WPU11490301	484.1	484.2	0.0%	471.8	2.6%
Steel pipe and tube	WPU101706	395.9	407.5	**-2.8%**	507.5	**-22.0%**
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	148.3	149.8	**-1.0%**	162.8	**-9.0%**
Copper & copper-base alloy pipe and tube	WPU10250239	347.6	349.9	**-0.7%**	365.9	**-5.0%**
Plastic pipe	WPU07210603	196.9	199.5	**-1.3%**	221.4	**-11.1%**
Plastic pipe fittings and unions	WPU07210604	313.4	316.6	**-1.0%**	323.1	**-3.0%**
Plumbing Fixtures, Fittings and Trim	WPU105402	395.0	395.0	0.0%	386.3	2.2%
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%	192.7	6.2%
Enameled iron and metal sanitary ware	WPU1056	290.6	286.8	1.3%	289.2	0.5%
Steam and Hot Water Equipment	WPU1061	428.5	428.5	0.0%	383.2	11.8%
Cast iron heating boilers, radiators and convectors	WPU10610106	289.7	289.7	0.0%	263.6	9.9%
Domestic water heaters	WPU106601	570.6	570.6	0.0%	569.1	0.3%
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%	346.3	0.4%
Warehousing, Storage and Relates Services	WPU321	135.6	133.8	1.3%	128.8	5.3%

PHCP & PVF



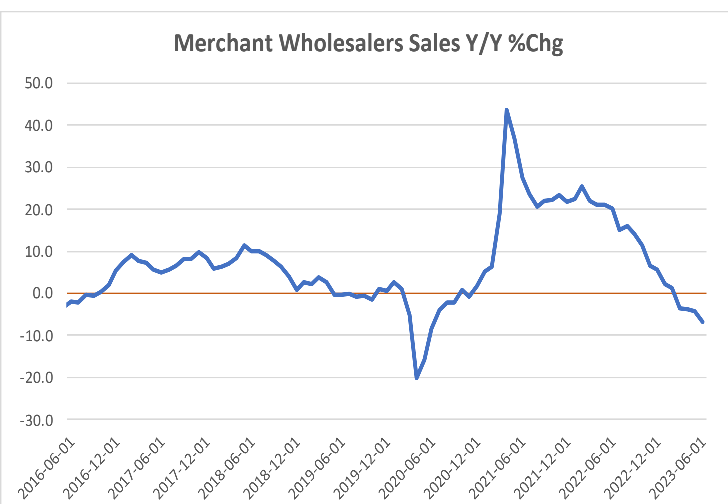
Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods was mixed in July (latest available), spending was down by 0.3% sequentially M/M (down 0.8% last month). But they remained up by 0.9% Y/Y (up 1.2% last month) and continued to be stable overall.
- **Outlook**: Capital investment by businesses is slowing on a sequential basis as expected. Rising interest rates and the need to trim non-headcount costs is affecting other types of spending. Spending on a historical basis has grown at a 3-4% annual rate and when adjusted for inflation, this current level of spending would be at deficit levels year-over-year. Despite this, spending is still running roughly $74 billion a year, which has been consistent over the past two years. There is just a decline in the growth rate.



Total Non-Residential Construction
(TLNRESCONS)

- Total Non-Residential Construction activity in June (latest available) was 18.1% higher than it was a year ago (18.7% higher last month) and was 0.6% lower M/M (up 0.4% 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 is still strong but there are concerns growing within the construction sector. Firms still have a great deal of work this year and are likely to continue into the early part of 2024, but the reports suggest the pipeline of new projects is still diminishing. This could set up a more strained 2024. Infrastructure spending is still strong as federal money flows.



Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were down 6.7% Y/Y through June (latest available; down 4.3% Y/Y in the last update). Month-over-month, sales were declining by 2.4% (-0.6% last month).
- Wholesale inventories were up 1.3% year-over-year in June (latest available; up 3.7% last month).
- **Outlook**: Relative to sales, inventory levels are still far too high. This has been detailed in examining the inventory to sales numbers. The estimate has been that over 65% of businesses are in an overstock status and that has altered the usual reorder cycle. There has been steady retail demand, but it has not been enough to bring levels down. It now looks like it will take until mid-2024 to get these inventory levels back down to levels that can restart the global supply chain. At that point, new orders should improve, and a more consistent order flow will result.

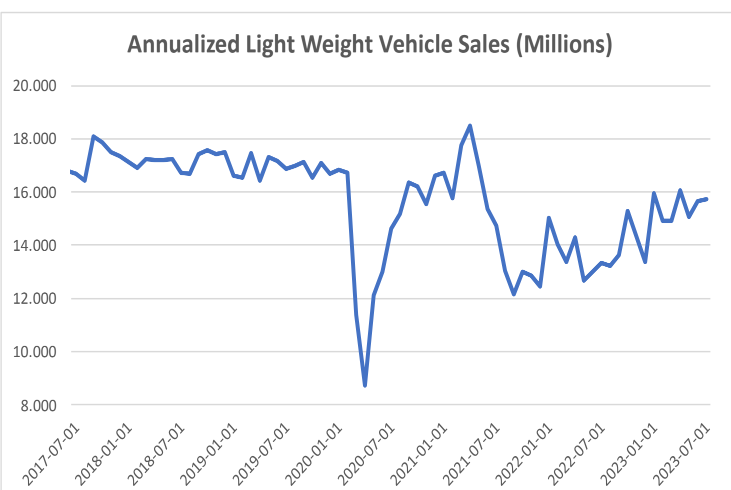
Manufacturing (AMTMNO)

- Federal data on manufacturing was down 0.2% Y/Y (down 0.9% last month) through June (latest available). It was also up sequentially by 0.7% month-over-month (-0.9% last month).
- The S&P Global US manufacturing PMI came in at 49.0 in July, up from 46.3 in June.
- **Outlook**: The data for the purchasing managers' indices (all of them) has been sinking into the contraction zone. Most are showing the US in the mid-40s and that doesn't constitute an immediate crisis, but these are trending in the wrong direction. Mexico has been hanging on to expansion by a thread with numbers just over 50. Canada is down with the US and that is the case for 21 other nations. This is not a deep collapse as in 2020 but it is back to low levels seen in the 2014-2016 period.

Business Inventory to Sales Ratio (ISRATIO)

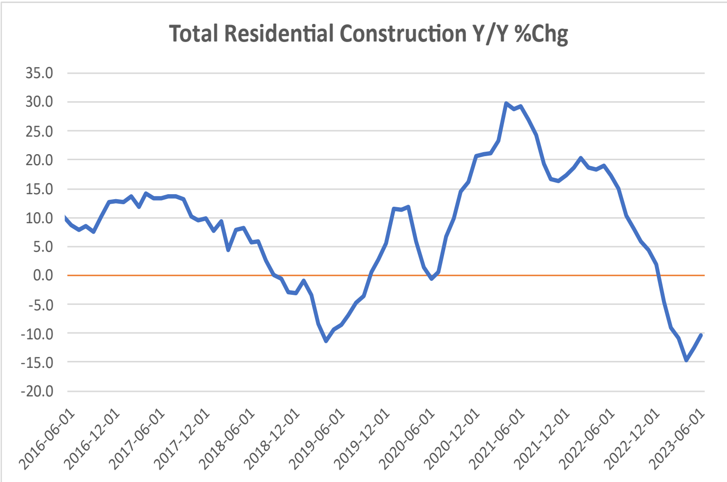
- The current inventory to sales ratio for all businesses is at 1.40 months of inventory on hand in June (latest available; 1.40 last month). Relative to sales, inventories are elevated, once again this month's ratio was 5.3% higher Y/Y (6.9% higher last month).
- **Outlook:** The last time the inventory-to-sales ratio was this higher, the entire upper end of the global supply chain was shut off. This took place in 2014 (because of a surging US dollar) and it took until 2016 for companies to get their inventories back in line, to open up the reorder process for raw materials, hiring, transportation services, etc. This period may not be that prolonged, but it could be the primary culprit for sluggishness through Q2 of next year.

PHCP



Auto Sales (ALTSALES; AISRSA)

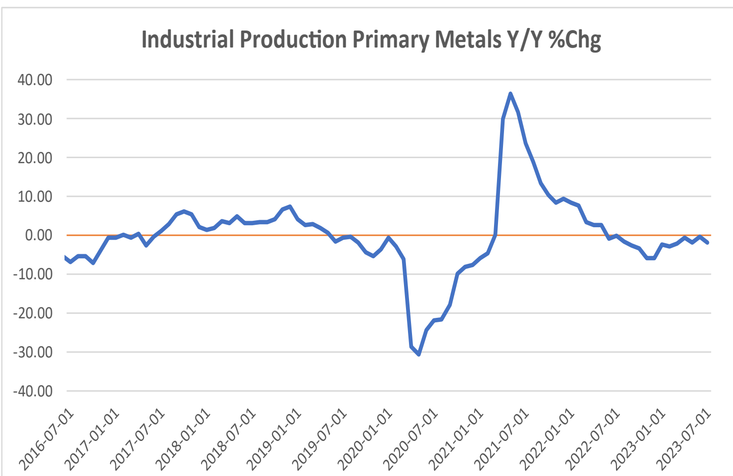
- US auto sales were trending at a 15.735-million-unit annual rate (15.657 M last month) through July (latest available). This is up 18.2% year-over-year (+20.0% in the last update).
- The domestic auto inventory to sales ratio was up 52.4% Y/Y in June (latest available). On a monthly basis, it was 4.3% higher (up 5.5% last month).
- **Outlook**: As mentioned, conditions are beginning to change quickly in the auto sector. Credit is getting tighter and EV vehicle inventories are surging, leaving some dealers overstocked on units (which can affect new manufacturing activity). There is still pent-up demand as the average age of a vehicle is now over 12.5 years but the bottom third of income earners will be hard pressed to buy a new car. The used car market continues to boom as many are priced out when average new car prices are around $46,000.



Total Residential Construction (PRRESCONS)

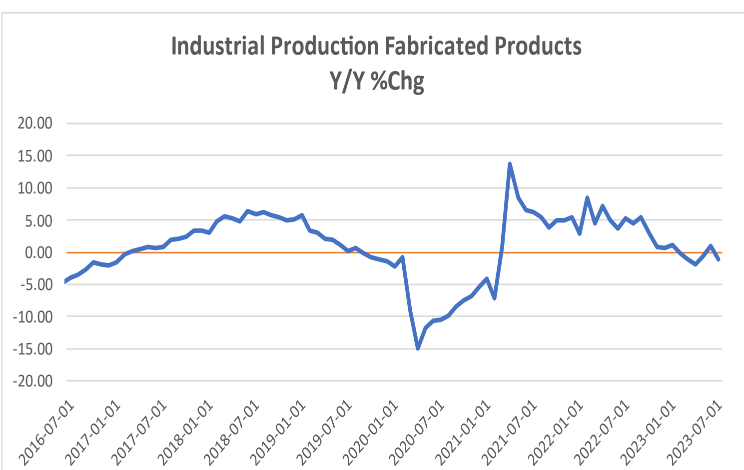
- Total residential construction in June (latest available), was down by 10.4% Y/Y (down 12.5% last month). It was up 2.1% M/M (2.1% last month).
- **Outlook**: Single family home demand is still down by more than 20% on an annual basis while multi-family has been up by about 22%. Figures vary considerably by region. With interest rates hitting levels not seen in two decades, most builders are continuing to reduce the square footage on new units to try and bring the total price down as well as helping with discounts and incentives to get buyers into new homes. The problem is that the percentage of people holding a mortgage rate under 4% is out of the market, unless they are being forced to purchase due to relocation, a major life change, etc. Builder sentiment is also weakening as reported later in this month's brief.

PVF



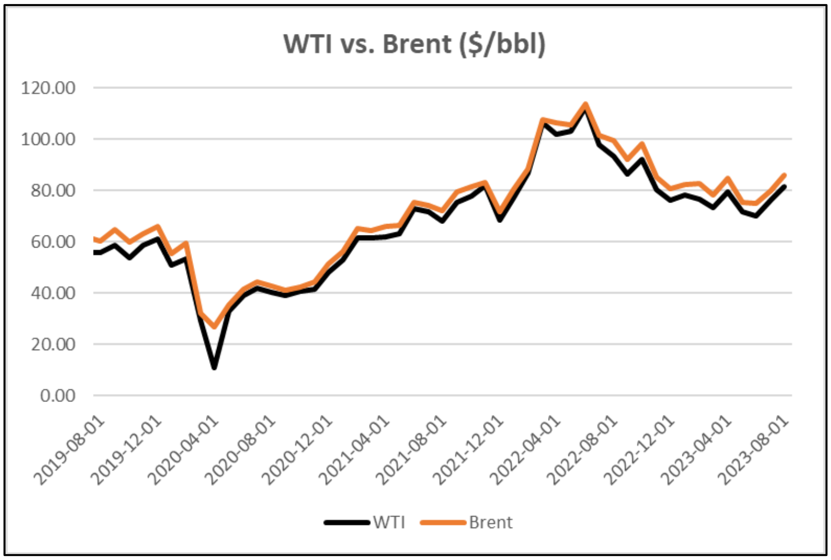
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was down 2.0% Y/Y through July (-0.3% in the last update). It was down 1.7% M/M (up 1.6% M/M in the last update).
- **Outlook**: Primary metal demand is highly fluctuating. Steel producers are starting to anticipate infrastructure projects later this year and into next and they are buying inventory now. Copper continues to be affected by geopolitics as stability in Chilean and Peruvian production has yet to materialize. Demand has started to return to normal levels but there remains confusion regarding Chinese demand and output. As their manufacturing sector slows, they demand less and are more likely to dump their output on the global market.



Industrial Production Fabricated Metals (IPG332S)

- Fabricated metal industrial production was down 1.1% Y/Y through July (up 1.6% last month). It was also down 0.4% on a month-over-month basis, (up 1.8% in the last update).
- **Outlook**: Fabricated metal production is a key feeder into other sectors of manufacturing and activity through July is now slipping and trailing slightly behind last year's volumes. 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 $81.63 a barrel ($79.30 in the last update) and Brent is at $85.95 ($82.98 in the last update).
- **Outlook:** New data from the Energy Information Administration shows that 2023 and 2024 are likely to now show a balanced level of output. We still believe that the EIA may be estimating low. Both global output and demand are expected to increase, but a combination of replenishing the Strategic Petroleum Reserves at some point and increasing demand will lead to a greater imbalance than expected. The US dollar is also getting weaker, which is typically one of the catalysts for pushing oil prices higher. Oil inventories are still expected to trend largely in the middle of the 5-year average while diesel prices will trend at the low end of the 5-year average and gasoline will likely trend on the upper end of that curve.

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

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	25-Aug-23	632	-10	-133
Canada	25-Aug-23	190	1	-11
International	Jul-23	961	-6	128

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 133 Y/Y (-103 in the last update) at 632 (1,049 in 2019); Canadian counts were down by 11 Y/Y (also down -11 in the last update). International counts are up by 128 Y/Y (+143 in the last update).
- **Outlook**: New forecasts for global oil production show it rising throughout 2023 and into 2024 and we can see the global markets outpacing the US. The US has reduced the number of active rigs, but new data suggests that total oil output is still stable, and oil inventories remain in the middle of the 5-year average. Modern production is far more efficient than previous generations of wells. The EIA reported that oil production averaged 12.6 million barrels per day midway through 2023 and it will approach 12.8 million barrels per day in 2024. Some weather patterns are changing as mentioned last month, and it will be important to keep an eye on the Gulf as waters remain overheated and strong storm formation possibilities are improving. The latest Hurricane Idalia (which was the first to hit the Big Bend area of Florida as a major hurricane since the 1890's) shows that the weather pattern is changing.

Construction Outlook

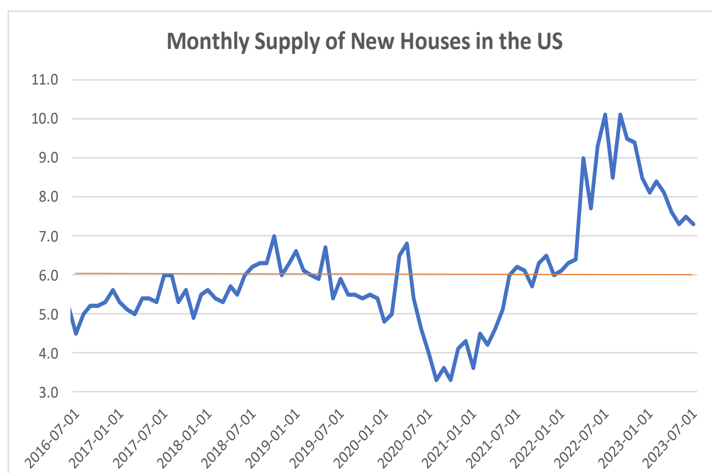
<u>Residential construction</u>: 30-year national average mortgage rates were slightly higher in late August at 7.23% (6.81% in the last update). Home builder confidence fell M/M in August by 10.7% according to the <u>NAHB/Wells Fargo index</u>, it fell to 50 points (down from the July reading of 56) and the weakest since May. The all-time high was 90 points in November of 2020. Builders' confidence has started to wane with the Federal Reserve signaling another possible rate hike before the end of the year, home construction prices remaining elevated, and many buyers deciding to sit out of the market because they are on.

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

NATIONAL											
(Seasonally Adjusted)	2022	2023									
	Aug.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug		
								Revised	Prelim.	M/M	Y/Y
Housing Market Index	**49**	**35**	**42**	**44**	**45**	**50**	**55**	**56**	**50**	-10.7%	2.0%
Housing Market Index Components											
Single Family Sales: Present	57	40	47	49	51	56	61	62	**57**	-8.1%	0.0%
Single Family Sales: Next 6 Months	47	37	48	47	50	56	62	59	**55**	-6.8%	17.0%
Traffic of Prospective Buyers	32	23	28	31	31	33	37	40	**34**	-15.0%	6.3%
REGIONAL HMI											
(Seasonally Adjusted)	2022	2023									
	Aug.	Jan.	Feb.	Mar.	Apr.	May	Jun	Jul	Aug		
								Revised	Prelim.	M/M	Y/Y
Northeast	48	34	46	46	44	45	52	60	**55**	-8.3%	14.6%
Midwest	42	32	36	36	40	42	48	46	**42**	-8.7%	0.0%
South	55	39	46	50	50	56	60	58	**55**	-5.2%	0.0%
West	42	29	37	36	40	48	50	54	**46**	-14.8%	9.5%

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was up 2.0% against July of 2022 (up 1.8% last month).

Adjusted housing inventories were softening in July (latest available), coming in at 7.3 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 month peak we saw last October.



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

New housing starts are volatile right now and came in at a 1.452-million-unit rate on an annualized basis (slightly higher from last month's adjusted 1.434 million annual rate); but the outlook for the rest of 2023 is weaker based on lack of inventory and tightening credit.

Single family starts were higher in July by 6.7% M/M (latest available) and were up 9.5% Y/Y. Multi-family starts are volatile and were flat M/M and slightly higher Y/Y by 0.4%; but they remain near the highest levels since 1987.

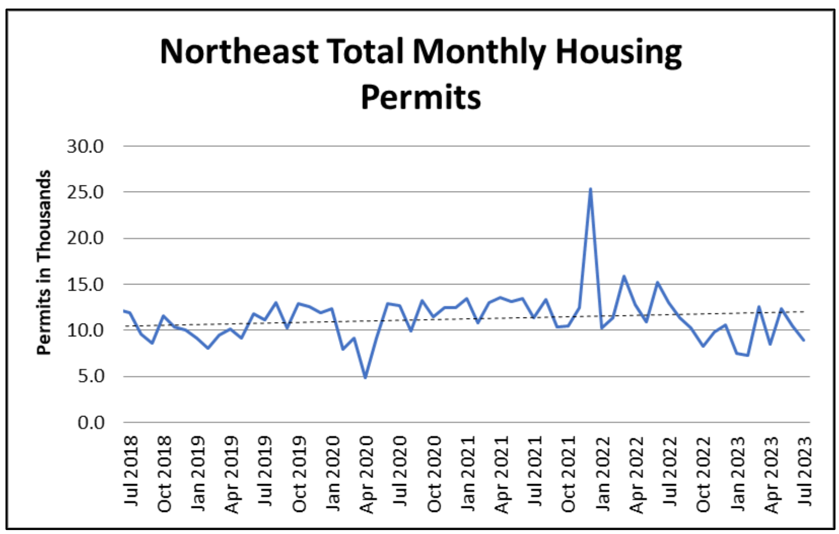
National Outlook: The Federal Reserve is likely to pause in the September meeting but remains hawkish. Odds of another November interest rate increase of another 25 basis points is possible. With rates approaching levels that we have not seen since 1999, the threat of tighter financial factors is weighing more heavily on construction forecasts. Surveys have started 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.

Housing and Interest Rate Forecast, 08/08/2023							
	2019	2020	2021	2022	2023	2024	2025
Housing Activity (000)							
Total Housing Starts	1,292	1,397	1,606	1,551	1,394	1,355	1,463
Single Family	889	1,003	1,132	1,004	896	946	1,040
Multifamily	403	394	474	547	499	409	423
New Single Family Sales	685	833	769	637	685	735	801
Existing Single-Family Home S	4,746	5,057	5,420	4,530	3,839	4,308	4,543
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%	6.69%	6.27%	5.52%
Prime Rate	5.28%	3.54%	3.25%	4.85%	10.12%	11.35%	9.04%
For more forecast details, visit www.nahb.org.							

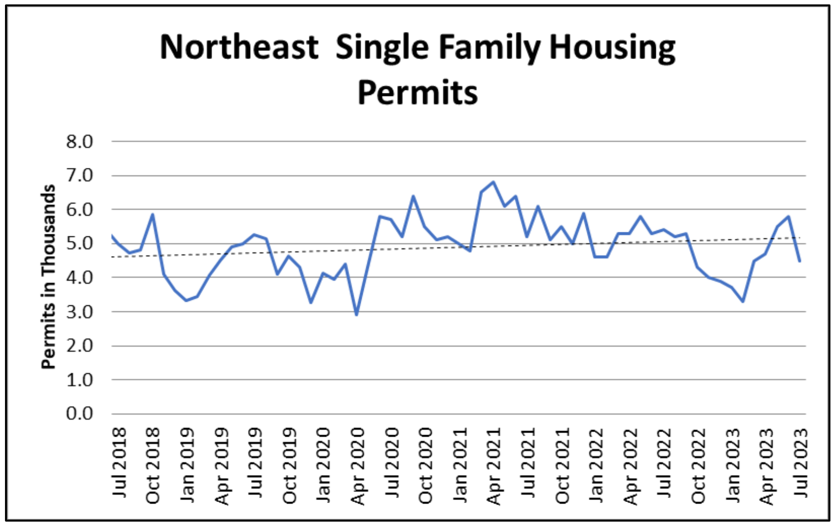
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

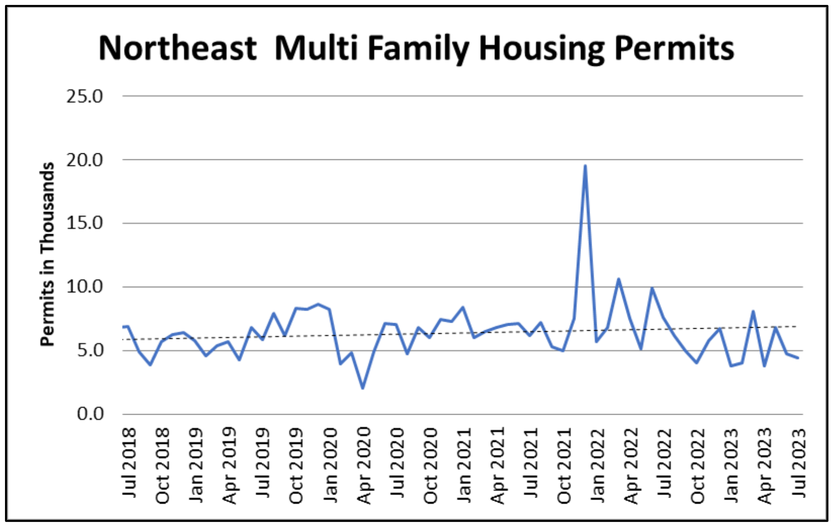
- Northeast total housing units authorized for construction were down in July by 15.2% M/M (-14.6% last month). July was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 4.9% (-0.8% last month).
- On a year-over-year basis, permits were down 31.5% (-30.9% in the last update).



- Month-over-month single family permits were down 22.4% (5.5% last month).
- On a 3-month moving average basis, permits were flat (9.0% last month).
- Year-over-year permits were down 16.7% (9.4% last month).

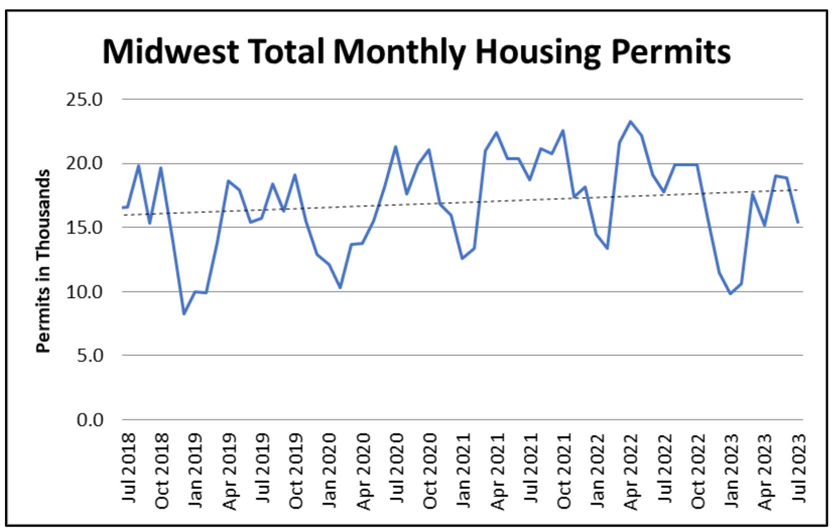


- Multi-family housing permits authorized for construction were down 6.4% M/M (-30.9% in the last update).
- They were up 13.9% on a rolling 3-month average (-1.7% last month).
- On a year-over-year basis, they were down 42.1% (-52.5% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

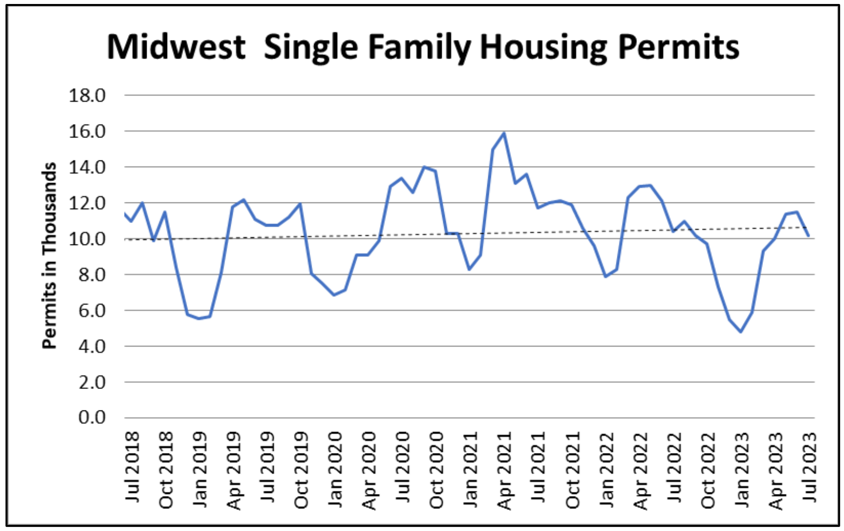


Regional market outlook: Midwest

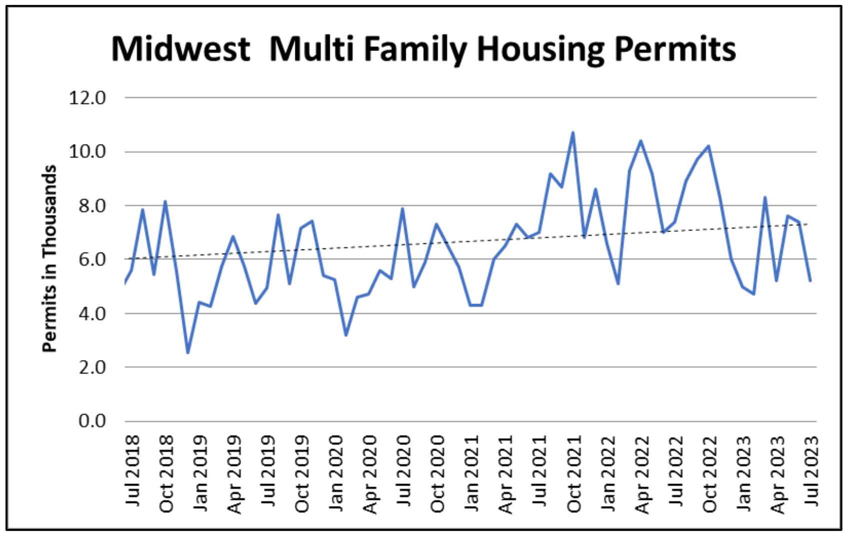
- Midwest total housing permits were down 18.5% month-over-month (-0.5% in the last update).
- The 3-month average was up 2.0% (3.6% in the last update).
- On a year-over-year basis, permits were down 13.5% (-1.0% in the last update).



- M/M permit volumes were down 11.3% (0.9% last month).
- The 3-month rolling average shows that permits were up 1.2% (7.5% in the last update).
- Year-over-year, single family homes authorized by permits were down 1.9% (-5.0% in the last update).

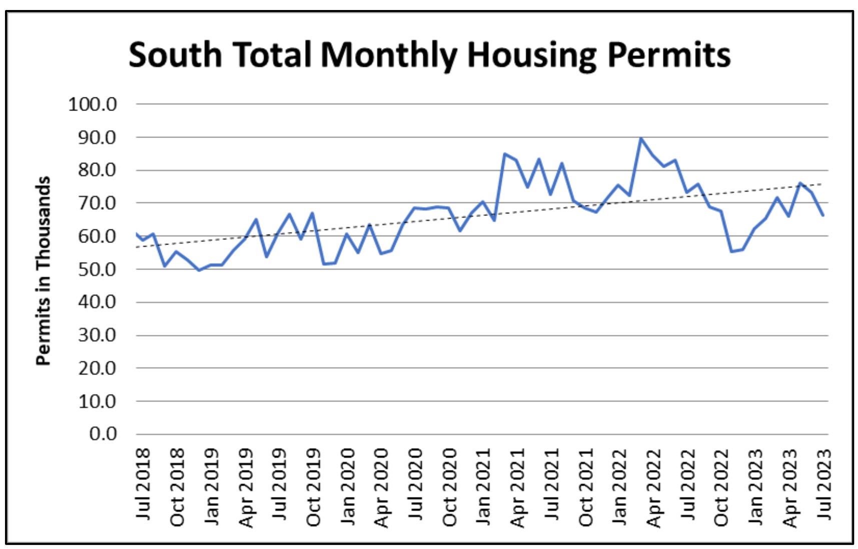


- Multi-family housing permits, again, are volatile month-over-month. This month, they were down 29.7% (-2.6% last month).
- On a 3-month rolling average basis, they were up 4.6% (2.1% in the last update).
- On a year-over-year basis, permits were down 29.7% (5.7% in the last update).

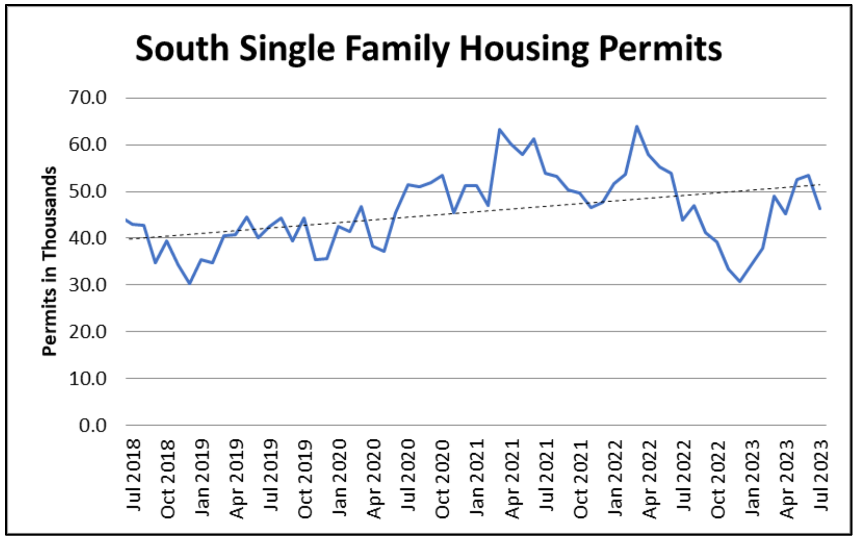


Regional market outlook: South

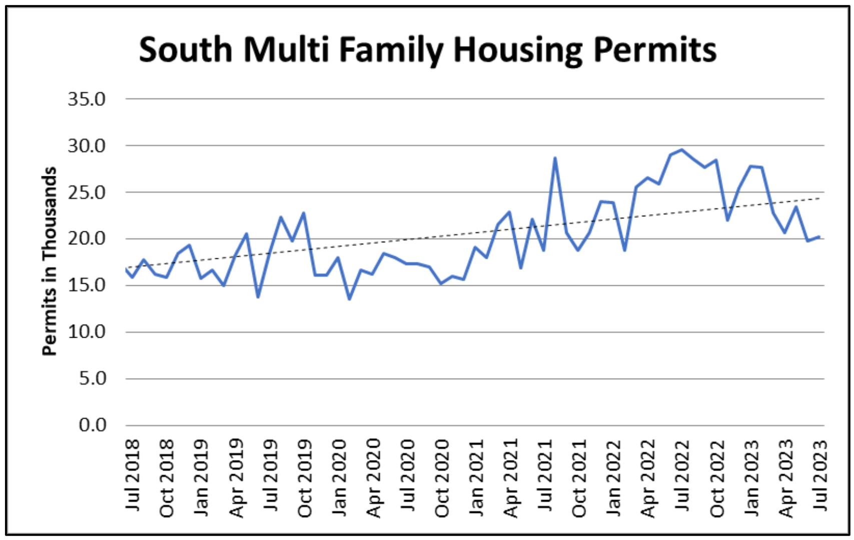
- Southern region housing permits were down 9.3% month-over-month (-3.6% in the last update).
- On a 3-month rolling average basis, permits were up 0.8% (1.2% in the last update).
- On a year-over-year basis, total permits were down 9.4% (-11.6% in the last update).



- Southern region single family home permits were down 13.5% M/M (1.7% last month).
- On a 3-month rolling average, they were up 1.5% (3.4% in the last update).
- On a year-over-year basis, single family permits were up 5.5% (-0.7% in the last update).

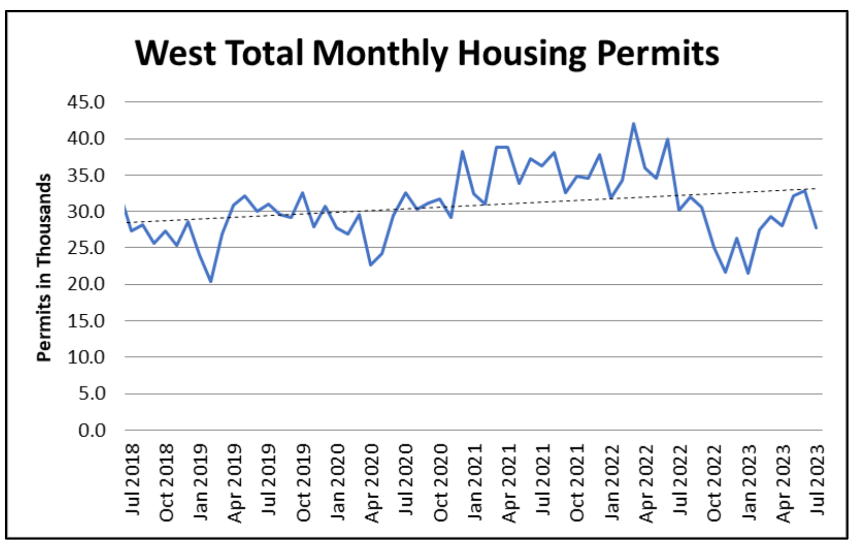


- Southern multi-family permits were up 2.0% M/M (-15.4% last month).
- On a 3-month rolling average basis, permits were up 0.1% (-3.8% last month).
- On a year-over-year basis, permits for multi-family housing were down 31.5% (-31.7% in the last update).

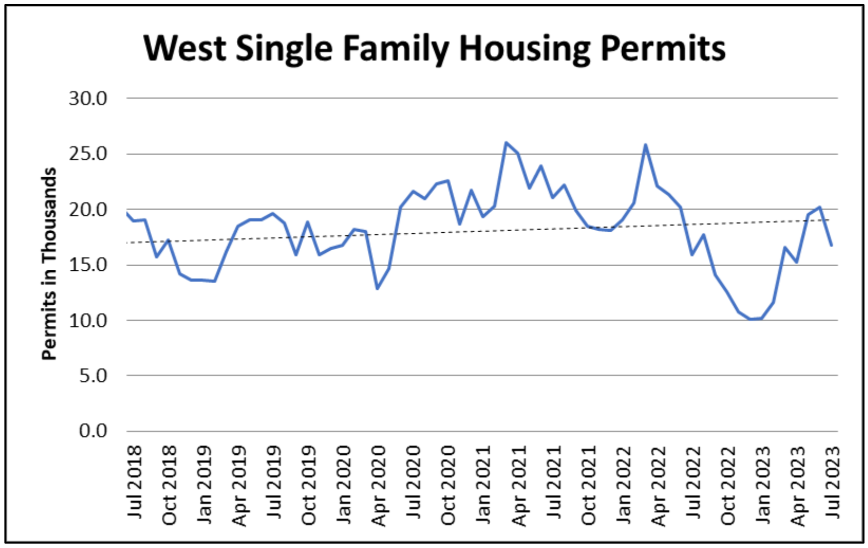


Regional market outlook: West

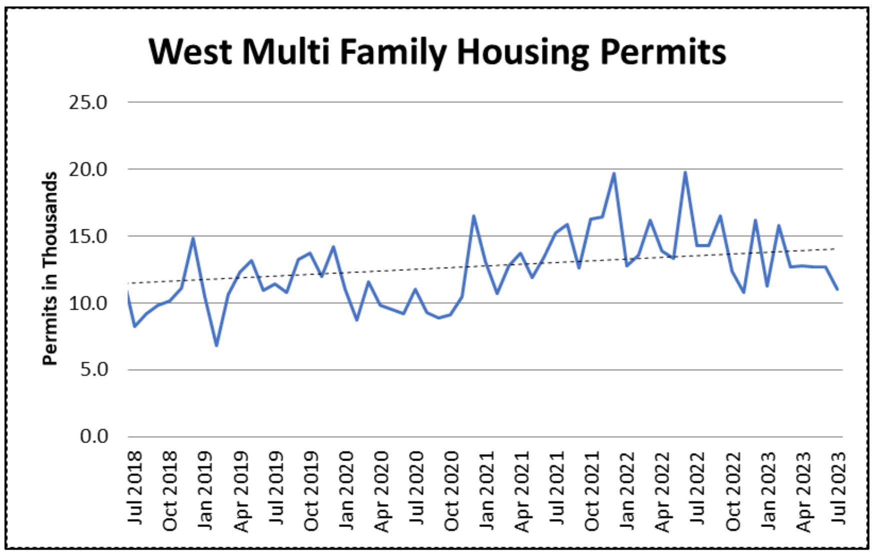
- Western region total monthly housing permits were down 15.5% M/M (2.2% last month).
- On a 3-month rolling average basis, they were up 0.6% (4.2% last month).
- On a year-over-year basis, permits were down 7.9% Y/Y (-17.8% in the last update).



- Single-family permits were down 16.8% M/M (3.6% last month).
- On a 3-month moving average basis, permits were up 5.0% (7.8% in the last update).
- Year-over-year, single family permits were up 5.7% (unchanged in the last update).



- Multi-family permits were down 13.4% M/M (unchanged in the last update).
- On a 3-month rolling average, it was down 4.7% (unchanged in the last update).
- Year-over-year, multi-family unit permits were down 23.1% (-35.9% last month).



Industry Outlook

ASA Sales were stronger by 2.0% Y/Y (+2.2% last month) in July (latest available). Year-to-date through July, sales were up 4.5% (+5.9%in the last update). For the trailing twelve months prior, sales were up 9.0% (10.0% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

	July Y/Y % Change in Total Dollar Sales	YTD % Change vs. YTD 2022	Trailing Twelve Months % Change
All Businesses	**2.0%**	**4.5%**	**9.0%**
By Primary Business			
PHCP	2.4%	3.1%	7.5%
PVF	5.3%	4.8%	9.6%
PHCP & PVF	-0.8%	7.3%	11.4%
By Region			
1 (SWPD & WSA)	-3.0%	0.5%	5.5%
2 (ASA Central)	2.0%	5.4%	9.0%
3 (SWCD)	1.1%	6.3%	14.5%
4 (NCWA)	3.9%	6.2%	7.8%
5 (ASA Northeast)	5.4%	3.7%	8.1%
6 (SWA)	1.3%	5.0%	11.8%
*ISD - Insufficient Data			

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months, was slightly higher in June (latest available). The report showed that the TSI was at 139.0 for freight, up 1.6% M/M but was down by 0.9% Y/Y (down 1.4% 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 July (latest available) that spot truck freight demand was **50.3% lower than it was a year ago**. Spot trucking rates have fallen 21.8% Y/Y, and now fuel surcharges are down -12.8% Y/Y.

New data shows that oil production in the US is expected to now 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.

OPEC has attempted to cut production as expected, and those cuts are now expected to be extended through October. That aside, oil prices were rising through the end of August with prices per barrel in the low $80 per barrel range and the EAI expects them to hover at about that rate through the end of the year and potentially fall into the mid-$70’s through much of next year.

Retail sales inched up in July 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 3.2% higher year-over-year.

When adjusted for inflation, sales were slightly higher month-over-month in July by 0.6% and were essentially flat compared to last year (they were lower by 0.1% year-over-year).

Home improvement retail sales volumes were slightly higher in July, rising by 0.7% M/M and they remained marginally lower by 3.3% 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% in 2023. That could be adjusted upward if Q3 continues to remain hot, current GDP growth is nearly 6% based on economic releases to-date.

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. Although some softening of job openings is showing and the quits rate is flattening (fewer workers willing to “job jump”), layoffs are still low, and wages are still growing.

Kind of Business	Percent Change Jul. 2023 Advance from --	
	Jun. 2023	Jul. 2022
Retail & food services, total	**0.7**	**3.2**
Retail	0.6	2.0
Motor vehicle & parts dealers	**-0.3**	**7.6**
Auto & other motor veh. dealers	-0.4	7.4
Furniture & home furn. stores	**-1.8**	**-6.3**
Electronics & appliance stores	**-1.3**	**-3.1**
Building material & garden eq. & supplies dealers	**0.7**	**-3.3**
Food & beverage stores	**0.8**	**2.5**
Grocery stores	0.8	2.3
Health & personal care stores	**0.7**	**8.1**
Gasoline stations	**0.4**	**-20.8**
Clothing & clothing accessories stores	**1.0**	**2.2**
Sporting goods, hobby, musical instrument, & book stores	**1.5**	**1.0**
General merchandise stores	**0.8**	**2.5**
Department stores	0.9	-3.4
Nonstore retailers	**1.9**	**10.3**
Food services & drinking places	**1.4**	**11.9**

The Federal Reserve will likely increase interest rates again before the end of the year, and that could have an impact on investment and spending in 2024. Again, many new projects are facing some difficulties in getting funding in place, that could carry over into 2024.