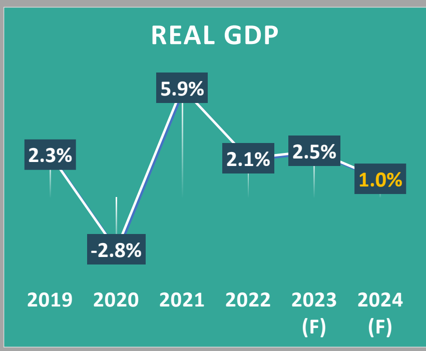
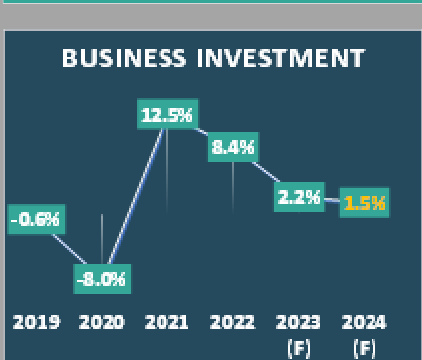
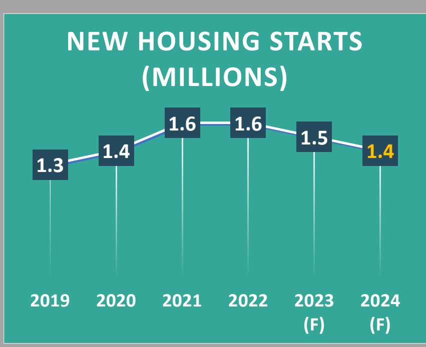
Monthly Economic Report (MER)

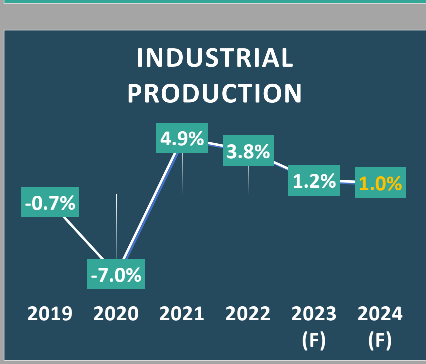
February 2024

Selected Indices









Executive Summary – February '24

Big Items

GDP: First quarter GDP is currently running at 3%, far above expectations. The good news for ASA members is that it is coming largely on the back of strong corporate and private investment, much of that through nonresidential construction and facility expansion and consumer spending. There are risks percolating on the consumer front (higher debt costs, some inflation remaining sticky, growing pressure in lower and middle income households) but a stable job environment will help consumers pull through this period. Wage growth was still clipping along at 4.5% and with inflation running 2.6%, households will be more willing to continue to spend.

Industrial Production: Industrial Production (IP) was essentially flat in January once again. Total IP was down 0.1% but was flat year-over-year. The manufacturing portion of IP was down 0.5% M/M and was 0.9% lower Y/Y. The volatile mining sector was down 2.3% M/M and was 1.2% lower Y/Y as the country moved into the spring season. Utility production was up 6% M/M and 9% Y/Y during a cold winter snap that hit in January. That will likely ease as the country moves deeper into the warmer spring season.

Housing Starts: Single family starts dove in January (likely on weather related issues) by 4.7%. But we can rule out seasonality issues because it was 22% higher than this time last year – showing that there is some solid demand building in the single family sector. Despite mortgage costs rising to 6.9% with an elevated 10-Year Treasury rate, builders are more confident, and buyers are finding their way into the market. Certainly, many housing metrics are slowing, but far slower than expected with Federal Reserve rate hikes that were aggressive over the past 18 months.

Home Improvement Retail: Home improvement retailers were reporting that Q4 sales were sluggish across the home improvement categories and that the trend had continued at least through January. Smaller projects that required less financing were winning out over larger home improvement projects. And there was noticeable movement "down the pricing ladder" by consumers as they worked to minimize costs on the products that they were purchasing. This price sensitivity was noted by many large, big-box retailers in Q4 and early in Q1.

Manufacturing: The US manufacturing sector data had not yet been released for February at the time of writing, but the Flash preliminary report showed that the manufacturing PMI likely improved again in February. That would include new orders, which are critically important to activity up and down the supply chain. Global manufacturing was also increasing based on early reports, which is perhaps a sign that the global manufacturing slump is coming to an end. That could affect raw material availability and prices.

Big Risks

Inflation: Trends are showing inflation cooling, but there are pockets that remain "sticky". Most data points show inflation headed toward the Fed's target rate of 2%, current measures show it running at about 2.6%. This is good, but what everyone is watching is the impact of new manufacturing activity, conservative mining activity, and a disrupted global maritime sector.

What to Watch

Hurricane Season: Most forecasters are watching a shift between a strong El Nino pattern and a transition directly into at least a weak La Nina scenario this spring. That, coupled with warm Atlantic and Gulf waters, could fuel strong hurricanes this year. Historically, this has led to more named storms and more US landfalls.

Macroeconomic Viewpoints

- Dr. Chris Kuehl

ASA MER Contents:

Will 2024 Be a "Stormy" Year? – Both literally and figuratively, this year will be an interesting one from the perspective of storms. We have seen a storm on Wall Street, one that has created a significant tailwind and has pushed some of the indexes to record highs. But like all storms, winds of change can come quickly, and volatility is the key.

This is also a Presidential election year and historically, only 4 times in history have we had an election year that led to a significant drop in the S&P 500. Unfortunately, two of those years have come in the last 20 years – so it is fresh in our minds. Whether 2024 will matter for stocks is one question, but surveys are showing that about 10% of executives are saying that the election is their number one concern for 2024. That's a high figure, and it could be affecting their willingness to take on risk and invest in expansion, new technology, etc. A combined 17% said that the health of the economy and impact on sales revenue was their biggest concern for 2024. The top answer was labor availability for the year. If they could find the right talent, they would hire it. Job openings are still running more than 9 million when 6 is considered a balanced market.

On a literal basis, forecasters are watching a transition out of a strong El Nino pattern and directly into La Nina. La Nina cycles typically lead to more hurricanes in the Gulf/Atlantic basin, and this year this will come on top of extra-warm waters in both regions. This can create strong storms that make landfall, especially since the upper atmospheric wind sheer that has ripped the tops out of storms will be weakening under La Nina. How this affects reconstruction, material supply, oil prices and oil production is yet to be seen. It could have a beneficial effect because the Panama Canal has been hampered by drought and less than 60% of normal throughput has been able to transit the canal as a result. A La Nina cycle could bring more rain to South America and could help refill reservoirs that are used to pump water into the lock system that moves ships through the Canal.

Figuratively, storm clouds are still brewing on the global conflict front and defense spending has accelerated in the past quarters. New appropriations could boost manufacturing activity by nearly $90 billion in Fiscal 2024/2025, creating opportunity and competition for raw materials and resources in the process. Copper, aluminum, plastics, and other materials used in missiles, munitions, aircraft and heavy armor equipment, ships, and many other military assets could get "first nod" on resource allocations.

At the same time, global manufacturing activity is showing signs of coming out of some doldrums that have been in place since the fall of 2022. Global overstocks led to a destocking trend that affected new order volumes, and global manufacturing slumped as a result. With the destocking trend ending, new manufacturing order demand will generate new activity – and competition for resources. - KP

Reader Question of the Month

Q: What are the top 4 challenges for construction in 2024 and beyond?

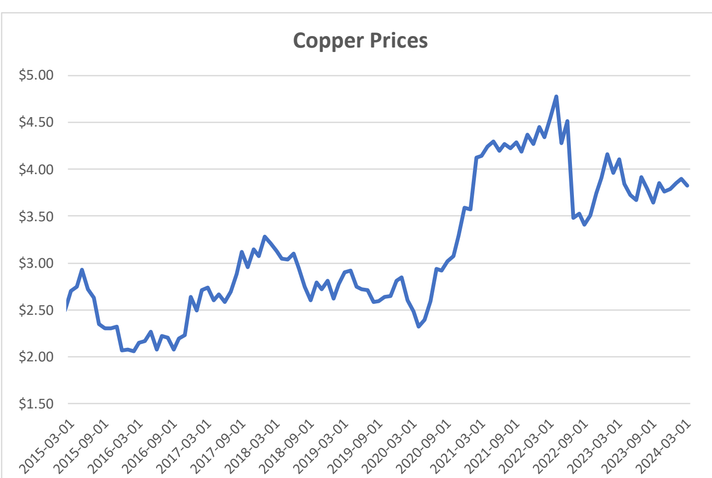
A: There are two lingering challenges and two that are emerging as we look at the construction sector into the future. The first is continued supply chain issues primarily in electrical panels and transformers, but other materials are facing enough shortages that they are higher in price or short in supply (or both). Second, labor shortages in construction are a chronic problem now. We still have more than 449,000 job openings in the sector (normal in the decade prior to the pandemic was roughly 150,000).

In the future, there are two looming challenges that the industry will have to work through. The one catching the most attention is the challenge in commercial real estate and loan/lease maturities over the next four years. Including 2024, some estimates suggest that there is nearly $2 trillion in debt maturities that must be renewed between now and 2027. These maturations are coming off low interest rate levels and will get renegotiated at rates that will be much higher. Additional square footage will also be vacant as a result of lease renewals (firms renewing at smaller square footage levels in the work-from-home era). Eventually, a growing corporate world (a generally expanding economy) will absorb this spare capacity, but it will take time. Reconfiguring this space into mixed-use in the meantime will be the most popular trend for the next several years.

Lastly, although not a significant challenge, but the construction sector is trying to figure out how to incorporate AI into operations. This creates opportunities, and challenges. How suppliers interact with dynamic estimating and planning systems will be important – and could affect competitiveness in the coming years.

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. ($3.90/lb. last month).
- The Producer Price Index (PPI) for January (latest PPI available) was 510.755, down month-over-month by 6.0% (+2.3% last month). It was down 5.7% year-over-year (+1.7% 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, but global demand could be improving. Early reports at the end of February suggest that manufacturing demand is improving in the wake of the Lunar New Year.

General Commodities Discussion:

Nickel: **(WPU102504)**

- LME Nickel Prices have stabilized over the past 30 days and were @$7.81 per lb. ($7.37 in the last update). Street level producer prices were down 4.2% M/M through January and were down 8.9% Y/Y.
- **Outlook**: "LME nickel had its largest weekly increase since last July as news of potential increased sanctions against Russian metals triggered short covering of bets of lower prices by traders. Additionally, the rampant destocking that occurred throughout 2023 as prices fell, may be coming to an end as buyers move off the sidelines. On the bearish side of the equation is the prospect that China's economic growth will slow further than it did during 2023; moreover, neighboring countries Japan and South Korea both forecast tepid growth this year."

Carbon Steel: **(WPU101706)**

- NYMEX Domestic Hot-rolled Coil steel prices (CRU-HRCc1) continued to fall over the past 30 days and were $800 per ton in late February ($969 per ton in the last update). The peak was $1,943 hit in August of 2021.
- Producer Prices for steel pipe and tube inched up in the latest data from the end of January (latest available). They were up 2.2% month-over-month (-2.6% last month). However, year-over-year, the PPI was 13.4% lower (-17.6% Y/Y in the last update) against much more difficult comparisons.
- **Outlook**: ""February brings us an uptick in quoting on meaningful projects. Our customer base is optimistic based on the number of large to mid-size projects in the books. Sales were down in January vs a very strong 2023, but February is showing signs of a slight gain over 2023."

Stainless Steel: **(WPU10170674)**

- The Producer Price Index for stainless pipe and tube were up slightly in January (latest available). Producer prices for stainless pipe rose by 0.3% month-over-month (down 1.2% last month); and they were down 10.2% Y/Y (down 7.9% last month).
- **Outlook**: "The market seems to have hit a bit of a lull in January. Still active for quoting projects, but orders have not been following as quickly. Pricing has remained stable with plenty of inventory available. Optimism is still stronger for the balance of the year. There is concern about the pause for LNG projects going forward. This sector has been one of the strongest in our industry, especially since the Russians disrupted the world. We have plenty of supply in this country and the facilities are great consumers of stainless products and create good paying jobs."

Ferrous Metal Scrap: (PPI: PCU4299304299301)

- Producer prices for ferrous metal scrap increased in December vs. the prior month, coming in with an index of 535.71 (541.4 last month). This was sharply lower by 0.9% M/M (+11.3% last month). Year-over-year it was up by 7.0% Y/Y (+19.7% in the last update). The highest producer price prior to this was in July of 2008 when the index hit 731.4 points.
  Outlook: Data from the rail sector shows growth in ferrous metal scrap shipments of 4.1% YTD against the same time frame in 2023 – suggesting that more scrap is moving in the nation's distribution system than did last year. It was nearly 19% higher than the same week in February.

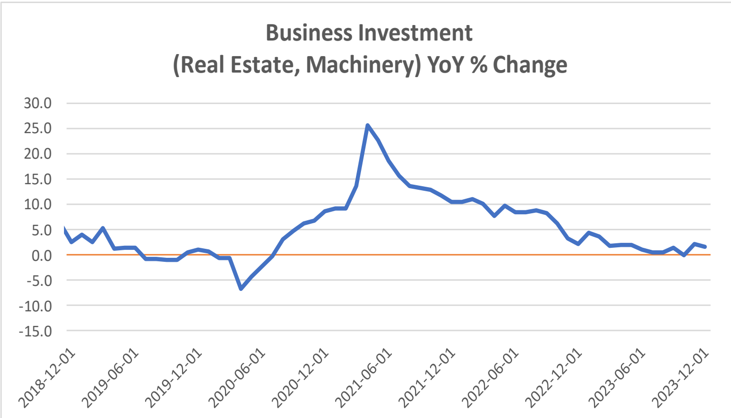
Additional commodities and finished product pricing are addressed in the Producer Price Index review on the next page.

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.

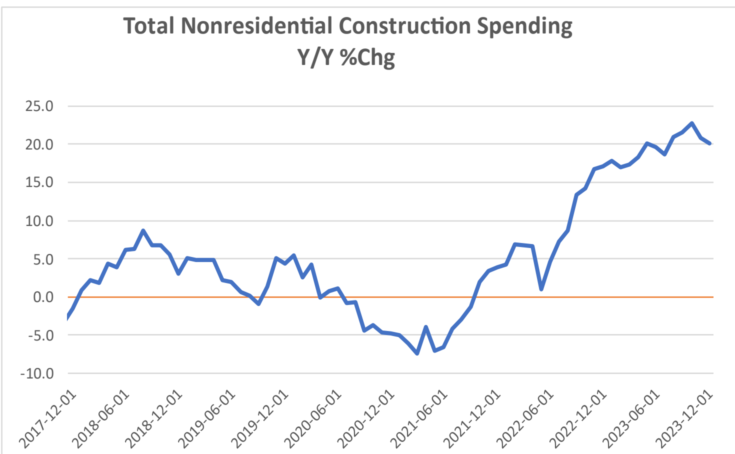
Producer Price Index - Key Industry Products						
Category	PPI Code	Jan-24	Dec-23	M/M% Chg	Jan-23	Y/Y % Chg
Pipe, Valves and Fittings						
Metal valves, except fluid power	WPU114902	437.5	444.1	-1.5%	427.3	2.4%
Gates, globes, angles and check valves	WPU114902011	169.9	165.8	2.4%	163.3	4.1%
Ball valves	WPU11490202	590.0	590.0	0.0%	557.9	5.8%
Butterfly valves (formerly W2421490203)	WPU11490203	314.1	307.5	2.1%	297.4	5.6%
Industrial plug valves	WPU11490204	317.9	317.9	0.0%	297.7	6.8%
Plumbing and heating valves (low pressure)	WPU11490205	389.8	393.4	-0.9%	374.3	4.1%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	396.3	414.6	-4.4%	394.2	0.5%
Automatic valves	WPU11490211	260.9	260.9	0.0%	248.9	4.9%
Metal pipe fittings, flanges and unions	WPU11490301	477.1	477.1	0.0%	476.9	0.0%
Steel pipe and tube	WPU101706	389.4	380.9	2.2%	449.4	-13.4%
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	140.0	139.5	0.3%	155.9	-10.2%
Copper & copper-base alloy pipe and tube	WPU10250239	341.3	342.5	-0.4%	359.0	-4.9%
Plastic pipe	WPU07210603	189.6	190.6	-0.5%	212.6	-10.8%
Plastic pipe fittings and unions	WPU07210604	320.6	318.1	0.8%	323.8	-1.0%
Plumbing Fixtures, Fittings and Trim	WPU105402	399.4	395.0	1.1%	394.6	1.2%
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	207.7	204.6	1.6%	203.5	2.1%
Enameled iron and metal sanitary ware	WPU1056	290.6	278.1	4.5%	284.9	2.0%
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	571.3	570.6	0.1%	569.4	0.3%
Electric water heaters	WPU10660101	564.6	564.3	0.1%	563.9	0.1%
Non-electric water heaters	WPU10660114	348.2	347.7	0.2%	346.7	0.4%
Warehousing, Storage and Relates Services	WPU321	137.3	137.5	-0.1%	136.7	0.5%

PHCP & PVF



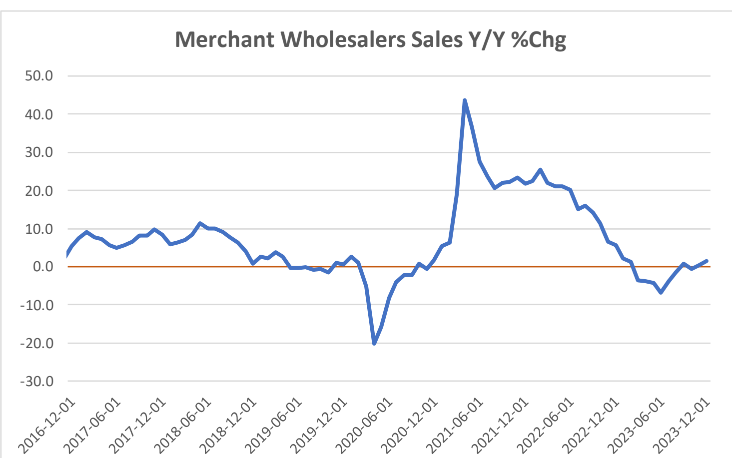
Capital Goods New Orders (NEWORDER)

- The value of manufacturers' new orders for capital goods went up 0.1% in January M/M (-0.6% last month). They remained higher by 0.1% Y/Y (up 0.9% last month) and continued to be stable overall.
- **Outlook**: Capital spending was essentially flat, 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 $73 billion a year, which is near the top of the historic range. But the growth rate is flattening.



Total Non-Residential Construction (TLNRESCONS)

- Total Non-Residential Construction activity in December (latest available) was 20.1% higher than it was a year ago (20.8% higher last month) and was 0.7% lower M/M (down 2.0% in the last report). Overall spending was at a new all-time high of $1.173T (the prior annualized run rate peak of $900B was in September of 2022).
- **Outlook**: Leading the non-residential construction sector in growth is still the manufacturing construction sector, which is still 60.1% higher Y/Y on nearly $213 billion in spending (a normal year prior to the pandemic was $60Billion). Other sectors involving infrastructure were also showing double-digit growth.



Wholesale Trade (WHLSLRSMSA, WHLSLRIMSA)

- Merchant wholesalers' sales were up 1.6% Y/Y through December (latest available; up 0.4% Y/Y in the last update). Month-over-month, sales were increasing by 1.2% (+1.0% last month).
- Wholesale inventories were down 2.7% year-over-year in December (latest available; down 3.3% last month).
- **Outlook**: Wholesalers are still working on destocking, many wholesalers in the supply distribution category are still "sitting heavier" than they were in the decade prior to the pandemic. Project demand is improving, but some key components used in completing projects (primarily in electrical supply) are holding up projects and slowing demand for some wholesale products.

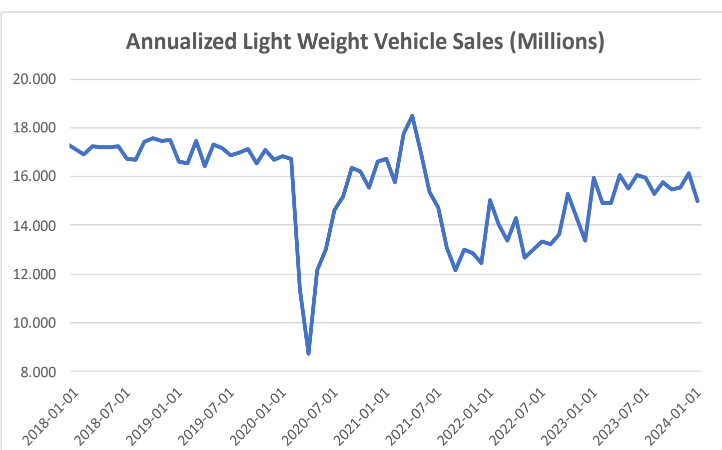
Manufacturing (AMTMNO)

- Federal data on manufacturing was up 2.3% Y/Y (+3.2% last month) through December (latest available). It was down 1.1% month-over-month (+5.1% last month).
- The S&P Global US manufacturing PMI came in at 50.7 in January, up from 47.9 in December.
- **Outlook**: In a reversal from last month, early Flash reports show that manufacturing activity in the US accelerated in February (still awaiting final data at the time of writing). In the post Lunar New Year period, less than 15 countries were still in contraction. Some mild acceleration in global manufacturing activity was starting to take place. Remember that at some point in time, hundreds of thousands of structures in more than 10 countries will need to be rebuilt (by earthquakes, conflict, flooding, wildfires, typhoons).

Business Inventory to Sales Ratio (ISRATIO)

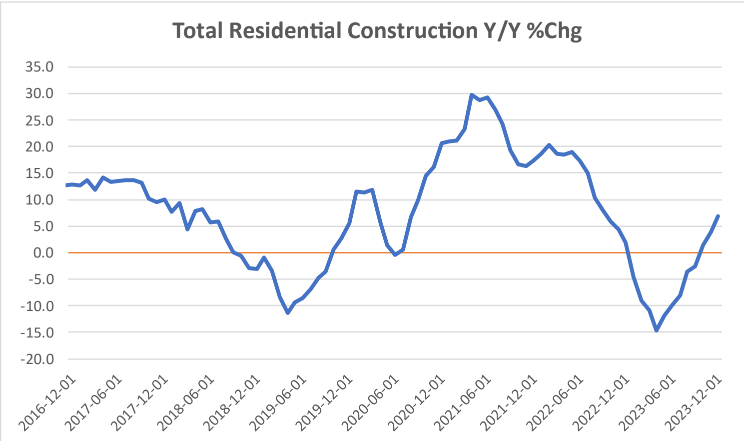
- The current inventory to sales ratio for all businesses is at 1.37 months of inventory on hand in December (latest available; 1.37 last month). Relative to sales, inventories are low, this month's ratio was 2.1% lower Y/Y (-0.7% higher last month).
- **Outlook:** As mentioned last month, it is difficult 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 all but 5 of 19 sub-sectors saw declines in inventories between November and December and further destocking likely took place in January and February.

PHCP



Auto Sales (ALTSALES; AISRSA)

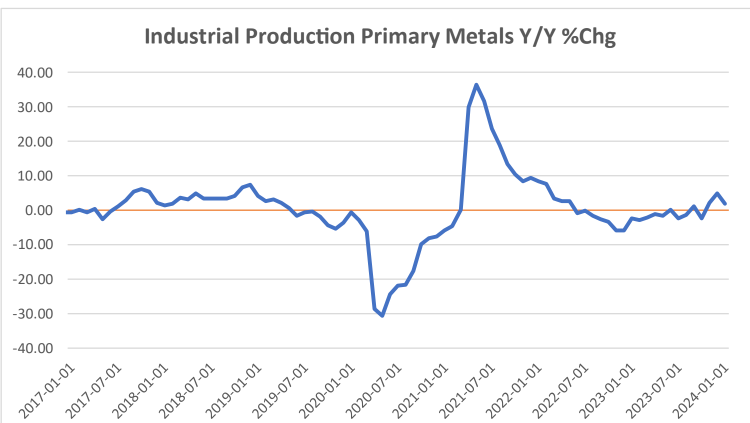
- US auto sales were trending at a 14.999-million-unit annual rate (16.115M last month) through January (latest available). This is down 0.7% year-over-year (+18.9% in the last update).
- The domestic auto inventory to sales ratio was up 82.1% Y/Y in December (latest available). On a monthly basis, it was down 29.6% (up 23.3% last month).
- **Outlook**: Auto sales are beginning to slow. High prices for vehicles, rebounding inventory levels, high finance costs, and slightly tighter credit standards are pushing potential buyers away. Sales of EVs have also slowed, but advanced plug-in hybrids are still popular, and OEMs are shifting to that strategy as pure EV inventories surge (more than 110 days of inventory on hand for many EV dealerships). ICE vehicles (internal combustion engine) are still facing some shortages of some models and production continues for those vehicles.



Total Residential Construction (PRRESCONS)

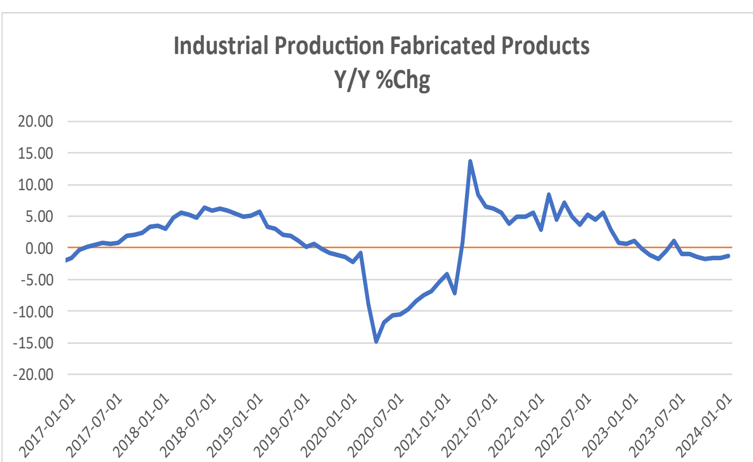
- Total residential construction in December (latest available), was up by 6.8% Y/Y (up 3.9% last month). It was up 2.9% M/M (+2.5% last month).
- **Outlook**: There was an important rebound at the end of the year for residential construction activity. Starts were relatively unchanged through January but were 0.7% lower Y/Y. At 1.331 million units, this was still a stable level of total starts and remained in a strong range (the second strongest level of housing starts since 2005/2006 aside from the 2021/2022 period coming out of the lockdown). Multi-family starts were weaker on a percent change basis, but remain strong on a historical basis and were especially strong in 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



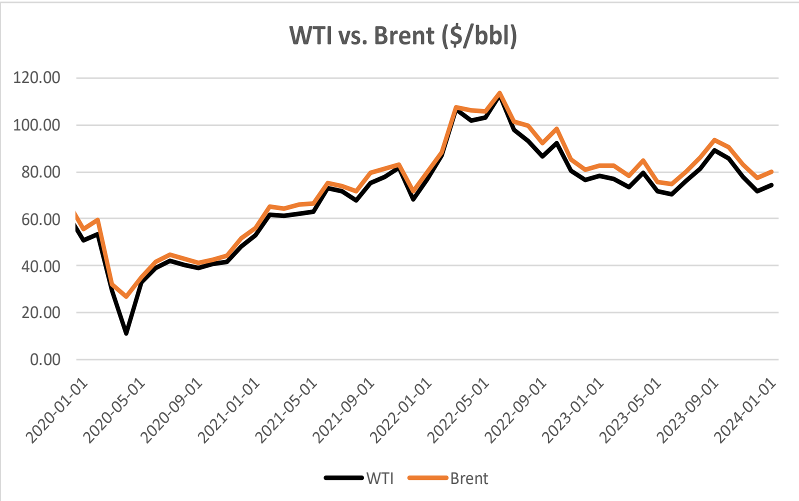
Industrial Production Primary Metals (IPG331S)

- Industrial production for primary metals was up 1.9% Y/Y through January (up 5.0% in the last update). It was down 3.1% M/M (up 2.9% 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 January (down 1.6% last month). It was up 0.3% on a month-over-month basis, (down 0.0% 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 $74.15 a barrel ($71.90 last month) and Brent is at $80.12 ($77.63 last month).
- **Outlook:** OPEC is poised to maintain current production cuts through the end of the year based on latest comments by officials. But US production is still producing nearly 13.1 million barrels a day, and inventories are starting to build (except in the Strategic Petroleum Reserves). The SPR can only be refilled at a moderate pace (due to refilling capacity constraints) and the market is well supplied. There is also (reportedly) a significant amount of "shut-in" oil, wells that have been drilled and are ready to produce and could be brought on-line in fairly short order. But the industry is well balanced in a price range of $70-$80 a barrel (a good balance between adequate industry profits and affordable energy costs for consumers), and there is little incentive to produce more when prices remain in this range. Conditions can change, and when they do, more production will be brought on-line. But for now, demand is slightly weaker than supply.

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

	Last Count	Count	Change from Prior Count	Change from Last Year
U.S.	1-Feb-24	**626**	**5**	**-127**
Canada	1-Feb-24	**231**	**-3**	**-13**
International	Jan-24	**965**	**10**	**64**

Rotary Rig Counts (Baker Hughes)

- Baker Hughes US active rig counts were down 127 Y/Y (-150 in the last update) at 626 (1,049 in 2019); Canadian counts were down by 13 Y/Y (down 17 in the last update). International counts are up by 64 Y/Y (+55 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 with some net building of inventories in 2025, assuming the production of oil continues to grow at current rates. None of these forecasts currently incorporate any disruptions in supply (whether physical or geopolitical through sanctions). OPEC is considering extending oil production cuts through the end of the year and 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 keep demand for US output steady. There is also a greater risk for Gulf hurricanes this year as El Nino is replaced with La Nina – and warmer Gulf waters could provide the fuel for stronger storms.

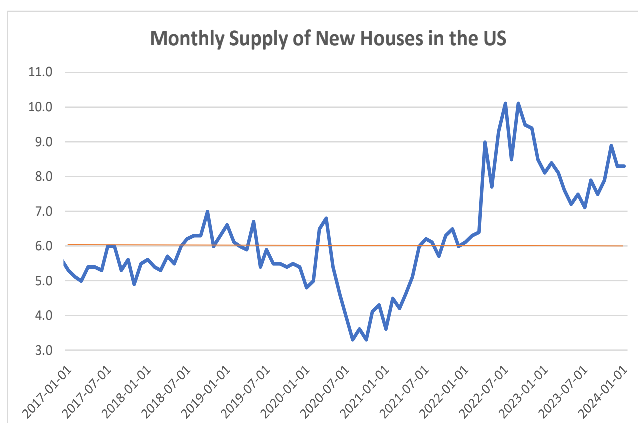
Construction Outlook

Residential construction: 30-year national average mortgage rates inched up in late February, at 6.90% (6.69% in the last update). Home builder confidence jumped M/M in February by 9.1% according to the NAHB/Wells Fargo index, it jumped to 48 points (up from the January reading of 44) and the strongest since September. The all-time high was 90 points in November of 2020. Builders' confidence remains stable as consumers still show a willingness to take on mortgages at higher rates. The first Fed interest rate cuts looming for sometime this summer are also boosting confidence, and prospects of 2-3 cuts in 2024 are helping.

NAHB/Wells Fargo National and Regional Housing Market Index (HMI)											
NATIONAL											
(Seasonally Adjusted)	2023							2024		% Change	
	Feb.	Jul	Aug	Sep.	Oct.	Nov.	Dec.	Jan. Revised	Feb. Prelim.	M/M	Y/Y
Housing Market Index	**42**	**56**	**50**	**44**	**40**	**34**	**37**	**44**	**48**	**9.1%**	**14.3%**
Housing Market Index Components											
Single Family Sales: Present	47	62	57	50	46	40	41	48	**52**	**8.3%**	**10.6%**
Single Family Sales: Next 6 Months	48	59	55	49	44	39	45	57	**60**	**5.3%**	**25.0%**
Traffic of Prospective Buyers	28	40	35	30	26	21	24	29	**33**	**13.8%**	**17.9%**
REGIONAL HMI											
(Seasonally Adjusted)	2023							2024		% Change	
	Feb.	Jul	Aug	Sep.	Oct.	Nov.	Dec.	Jan. Revised	Feb. Prelim.	M/M	Y/Y
Northeast	46	60	55	48	46	53	55	55	**62**	**12.7%**	**34.8%**
Midwest	36	46	42	38	37	31	35	35	**38**	**8.6%**	**5.6%**
South	46	58	55	48	43	35	39	49	**50**	**2.0%**	**8.7%**
West	37	54	46	42	36	28	29	38	**47**	**23.7%**	**27.0%**

On a year-over-year basis, the NAHB/Wells Fargo Housing Market Index was up 14.3% against February of 2023 (up 25.7% last month).

Adjusted housing inventories were flat in January M/M (latest available), coming in at 8.3 months of inventory on hand. This is higher than the "ideal range" of 6 months of inventory on hand and is still 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 still volatile and came in at a 1.331-million-unit rate on an annualized basis (down from last month's adjusted 1.460 million annual rate).

Single family starts were lower in January by 4.7% M/M (latest available) but were up 22.0% Y/Y. Multi-family starts are volatile and were down 35.8% M/M and down 37.9% Y/Y.

National Outlook: There has been no change in the Fed outlook since last month. 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. Recent wage and macro inflation pressures are exceeding Fed expectations and could delay the first rate cuts. In addition, with the Presidential election looming, cuts after the July meeting will be difficult. Most Federal Reserve boards are reluctant to change interest rate policy near an election to try and prevent accusations of election influence.

Housing and Interest Rate Forecast, 02/05/2024

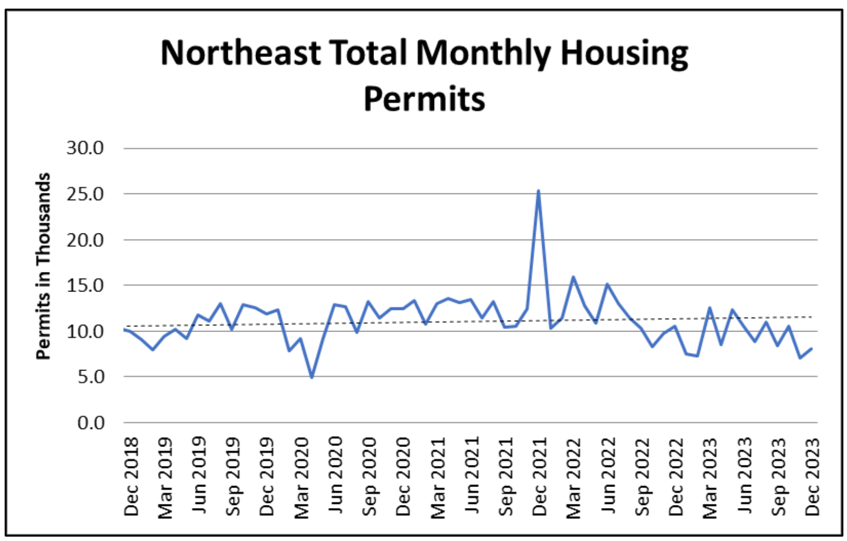
	2019	2020	2021	2022	2023	2024	2025
Housing Activity (000)							
Total Housing Starts	1,292	1,397	1,606	1,551	1,415	1,366	1,417
Single Family	889	1,003	1,132	1,004	943	988	1,029
Multifamily	403	394	474	547	472	379	388
New Single Family Sales	685	833	769	637	668	736	792
Existing Single-Family Home Sales	4,746	5,057	5,420	4,530	3,673	3,784	4,229
Interest Rates							
Federal Funds Rate	2.16%	0.36%	0.08%	1.68%	5.03%	4.94%	3.55%
Fixed Rate Mortgages	3.94%	3.11%	2.96%	5.34%	6.81%	6.39%	5.57%
Prime Rate	5.28%	3.54%	3.25%	4.85%	8.19%	11.32%	9.12%

For more forecast details, visit www.nahb.org.

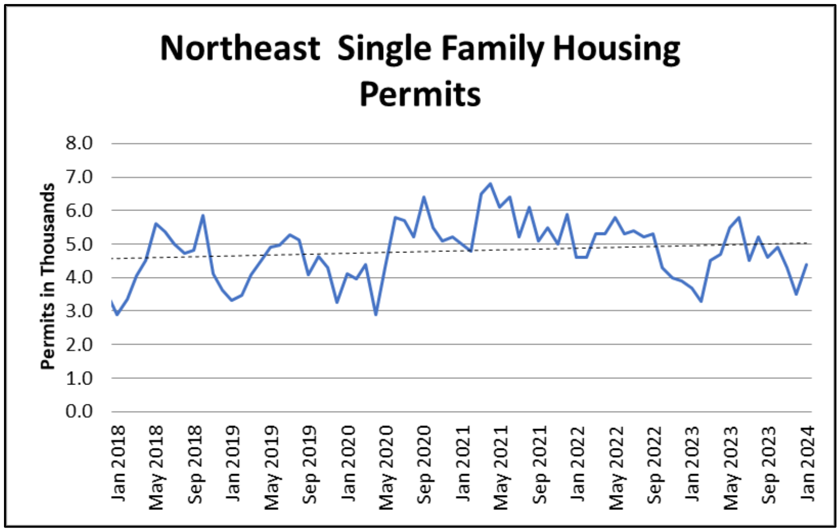
The following section provides monthly housing permit data for each major region in total, single family, and multi-family units.

Regional market outlook: Northeast

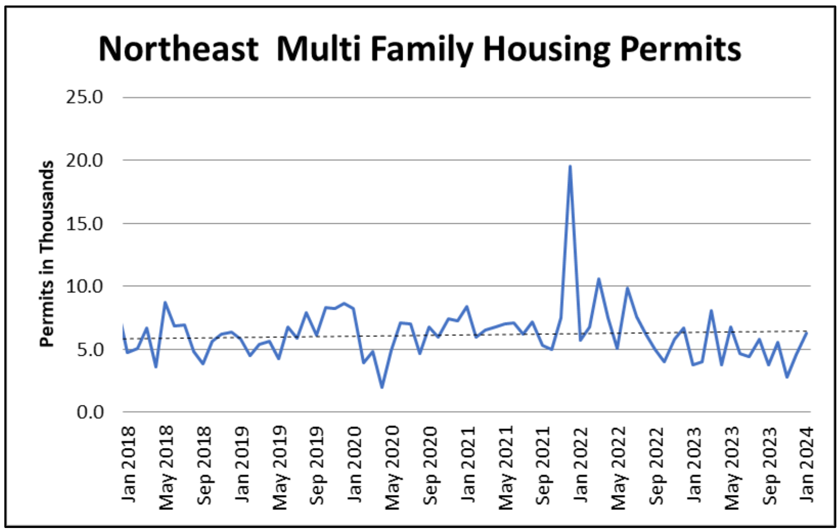
- Northeast total housing units authorized for construction were up in January by 32.1% M/M (14.1% last month). January was the latest regional data available throughout this series.
- The 3-month moving monthly average was up 4.6% (2.2% last month).
- On a year-over-year basis, permits were up 42.7% (-23.6% in the last update).



- Month-over-month single family permits were up 25.7% (-18.6% last month).
- On a 3-month moving average basis, permits were down 1.7% (down 8.1% last month).
- Year-over-year permits were up 18.9% (-10.3% last month).

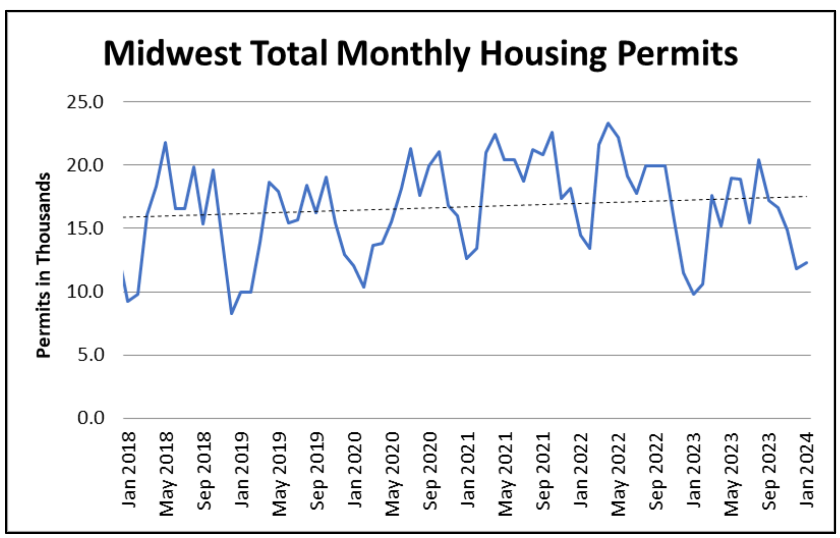


- Multi-family housing permits authorized for construction were up 37.0% M/M (64.3% in the last update).
- They were up 17.1% on a rolling 3-month average (20.6% last month).
- On a year-over-year basis, they were up 65.8% (-31.3% in the last update).
- These figures are based on a small number of units so the percentages can seem higher and more volatile.

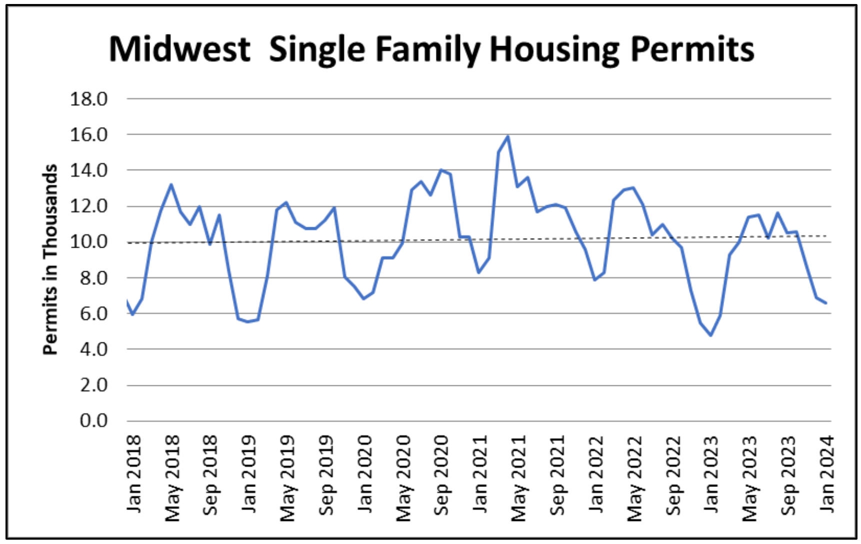


Regional market outlook: Midwest

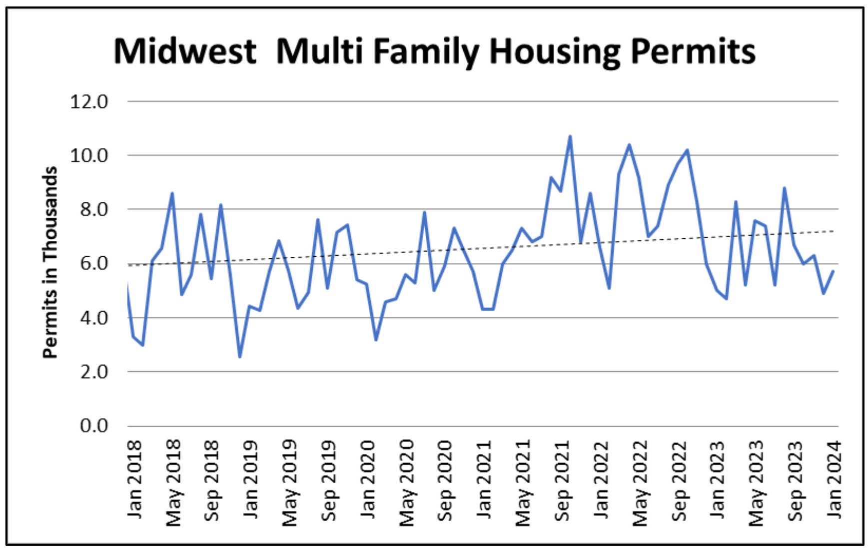
- Midwest total housing permits were up 4.2% month-over-month (-20.8% in the last update).
- The 3-month average was down 8.9% (-11.5% in the last update).
- On a year-over-year basis, permits were up 25.5% (2.6% in the last update).



- M/M permit volumes were down 4.3% (-19.8% last month).
- The 3-month rolling average shows that permits were down 14.3% (-12.6% in the last update).
- Year-over-year, single family homes authorized by permits were up 37.5% (25.5% in the last update).

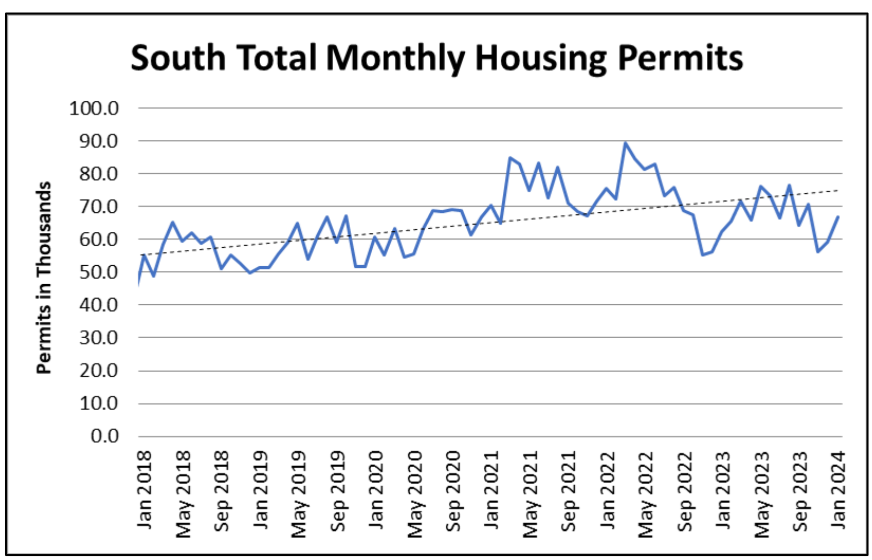


- Multi-family housing permits, again, are volatile month-over-month. This month, they were up 16.3% (-22.2% last month).
- On a 3-month rolling average basis, they were down 0.3% (-9.2% in the last update).
- On a year-over-year basis, permits were up 14.0% (-18.3% in the last update).

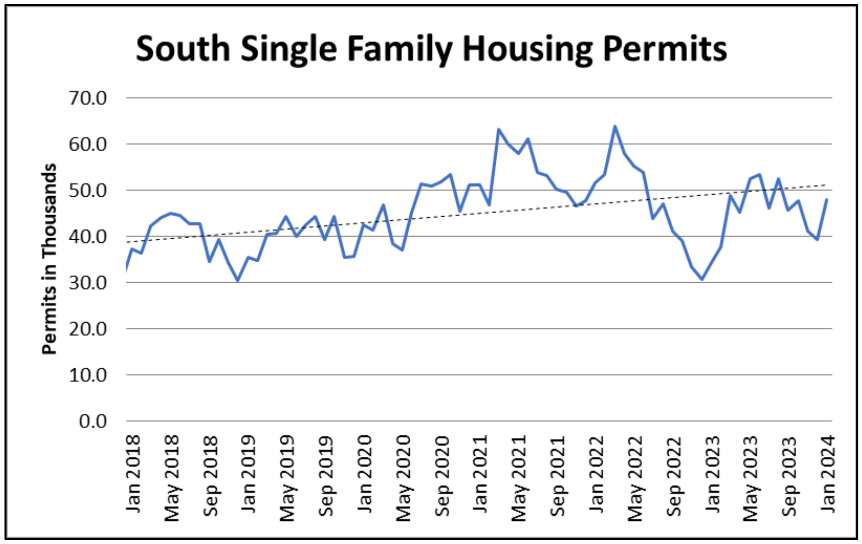


Regional market outlook: South

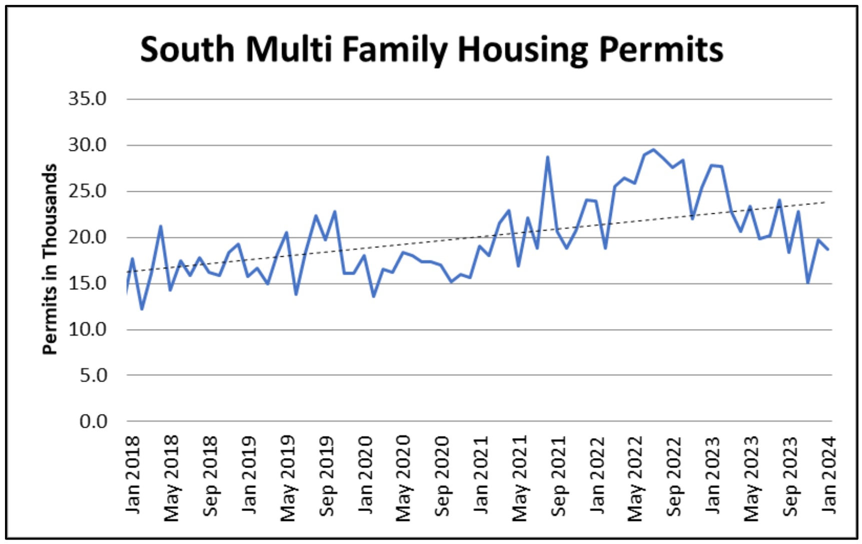
- Southern region housing permits were up 12.9% month-over-month (5.2% in the last update).
- On a 3-month rolling average basis, permits were down 0.8% (-1.7% in the last update).
- On a year-over-year basis, total permits were up 7.2% (5.3% in the last update).



- Southern region single family home permits were up 21.8% M/M (-4.1% last month).
- On a 3-month rolling average, they were up 1.2% (-4.5% in the last update).
- On a year-over-year basis, single family permits were up 39.5% (+28.3% in the last update).

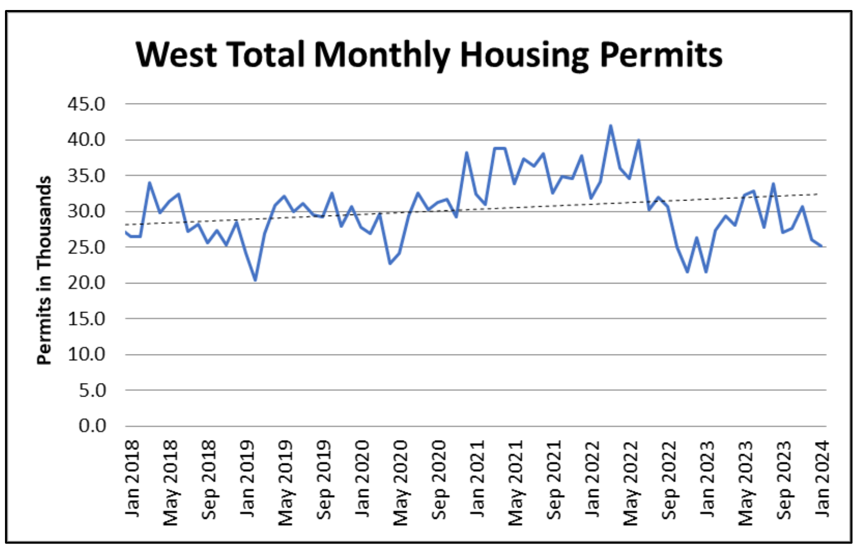


- Southern multi-family permits were down 5.1% M/M (30.5% last month).
- On a 3-month rolling average basis, permits were down 2.8% (6.9% last month).
- On a year-over-year basis, permits for multi-family housing were down 32.7% (-22.4% in the last update).

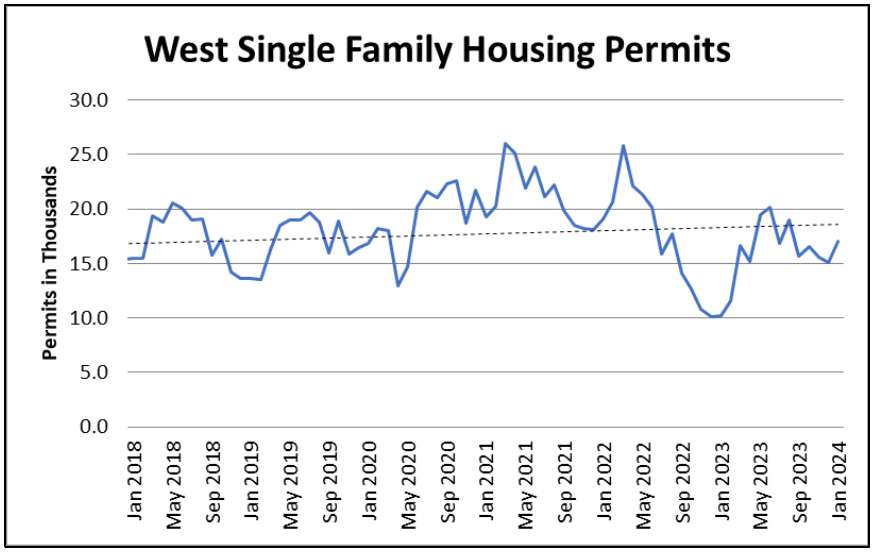


Regional market outlook: West

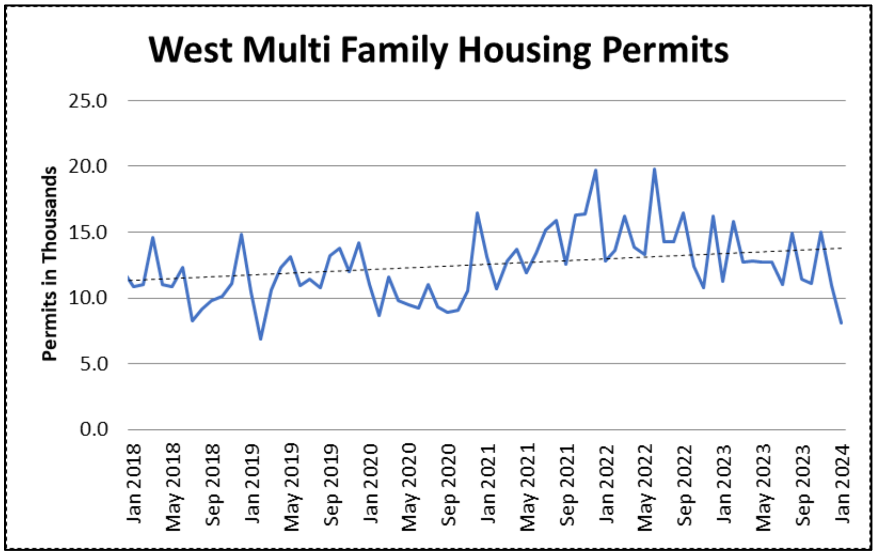
- Western region total monthly housing permits were down 3.5% M/M (-15.0% last month).
- On a 3-month rolling average basis, they were down 2.5% (-0.8% last month).
- On a year-over-year basis, permits were up 16.7% Y/Y (-1.1% in the last update).



- Single-family permits were up 12.6% M/M (-3.2% last month).
- On a 3-month moving average basis, permits were up 1.3% (-1.2% in the last update).
- Year-over-year, single family permits were up 66.7% (+49.5% in the last update).



- Multi-family permits were down 25.7% M/M (-27.3% in the last update).
- On a 3-month rolling average, it was down 6.0% (+1.7% in the last update).
- Year-over-year, multi-family unit permits were down 28.3% (-32.7% last month).



Industry Outlook

ASA Sales were weaker by 0.2% Y/Y (-2.0% last month) in January (latest available). Year-to-date through January, sales were down 0.2% (+3.4% in the last update). For the trailing twelve months prior, sales were up 1.1% (3.4% in the last update). ASA Pulse Report findings are reported monthly. The following chart shows the breakdown by primary business type and region.

	January Y/Y % Change in Total Dollar Sales	YTD % Change vs. YTD 2023	Trailing Twelve Months % Change
All Businesses	**-0.2%**	**-0.2%**	**1.1%**
By Primary Business			
PHCP	2.9%	2.9%	1.9%
PVF	-2.0%	-2.0%	3.4%
PHCP & PVF	-5.2%	-5.2%	-2.1%
By Region			
1 (SWPD & WSA)	6.1%	6.1%	-0.3%
2 (ASA Central)	-4.6%	-4.6%	2.0%
3 (SWCD)	5.8%	5.8%	-0.6%
4 (NCWA)	-2.0%	-2.0%	0.2%
5 (ASA Northeast)	-1.0%	-1.0%	1.5%
6 (SWA)	-3.6%	-3.6%	4.2%
*ISD - Insufficient Data			

The US Transportation Services Freight Index (TSIFRGHT), which typically leads ASA Sales by about five months. The last report available was from December and it showed that the TSI was at 139.1 for freight, up 0.9% M/M but was up by 1.8% Y/Y (up 0.9% Y/Y last month).

More recent data (comparing similar industry data to the TSI) from other sources show much weaker data. DAT Trendlines was reporting at the end of January (latest available) that spot truck freight demand was **36.7% lower than it was a year ago**. Spot trucking rates have fallen 10.0% Y/Y, and now fuel surcharges are down -8.4% Y/Y.

Oil inventories continued to improve through February, but just as in the past year, they are still at the lower end of 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. There are hints that pockets of the global manufacturing recession are breaking after the Lunar New Year holiday. A slumping global manufacturing sector has kept total oil demand lower than expected, but as it continues to recover, demand will pick up.

And with OPEC now vowing to keep current production cuts in place for the entire year, any hidden cuts in production will be exposed. The US is still hovering above the all-time high of 13.1 million barrels a day in domestic production and this will help mask a tight global market that is being impacted by the Red Sea diversion, OPEC cuts, War in Ukraine, and civil tensions building in Venezuela, Guyana, and parts of Africa.

Retail sales were mixed in January across many categories' month-over-month. Total retail sales were 0.8% lower month-over-month but were 0.6% higher year-over-year. They were essentially flat.

When adjusted for inflation, sales were lower month-over-month in January by 1.1% and were down by 1.2% compared to last year at this time (they were higher by 2.2% year-over-year last month). Most forecasts for retail show them continuing to remain stronger than expected through early 2025. This is largely dependent on the labor market and companies resisting layoffs if top line sales remain sluggish.

Home improvement retail sales volumes dropped sharply in January, falling by 4.1% M/M and they were sharply lower by 8.3% against last year. Retailers noted that they were experiencing lower volumes but expected smaller home improvement projects to pick up momentum late in Q1.

The first quarter GDP estimates are still trending better than expected on the back of stable consumer spending and growing gross domestic investment. Investment trends show broader private investment growing at a 4.2% rate early in Q1, and those factors combined are likely to push Q1 GDP to nearly 2% growth. For the full year, if these trends continue, the full year will grow slightly above 1%.

Kind of Business	Percent Change Jan. 2024 Advance from --	
	Dec. 2023	Jan. 2023
Retail & food services, total …………	-0.8	0.6
Retail …………	-1.1	-0.2
Motor vehicle & parts dealers ……	-1.7	-1.6
Furniture & home furn. stores ……	1.5	-9.8
Electronics & appliance stores ……	-0.4	-5.8
Building material & garden eq. & supplies dealers…………	-4.1	-8.3
Food & beverage stores……………	0.1	1.9
Grocery stores …………	0.6	2.3
Health & personal care stores ……	-1.1	5.0
Gasoline stations …………	-1.7	-7.5
Clothing & clothing accessories stores …………	-0.2	0.5
Sporting goods, hobby, musical instrument, & book stores ………	-0.2	-3.2
General merchandise stores………	0.0	0.9
Department stores …………	0.5	-6.7
Nonstore retailers …………	-0.8	6.4
Food services & drinking places …	0.7	6.3

Non-residential construction is still expected to keep current momentum throughout 2024 based on current models, which will continue to keep the supply industry chasing opportunities. Government investment from the Infrastructure Bill, CHIPs Act, and Inflation Reduction Act will likely keep spending steadily on construction activities in 2024. Private spending across many sectors is also expected to be strong spanning manufacturing, health care, lodging, and even logistics and transportation spending will pick up pace in the back half of 2024.

As mentioned last month, much of this will depend on the Federal Reserve and interest rate policy moving forward (and easing of interest rates could spur more growth). 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). Economic activity is still stable, and inflation (most importantly) is still hotter than target rates. The Fed has set a longer term rate target of 2.5% to 3% - likely hitting that in late 2025 or early 2026.