



August | 2024

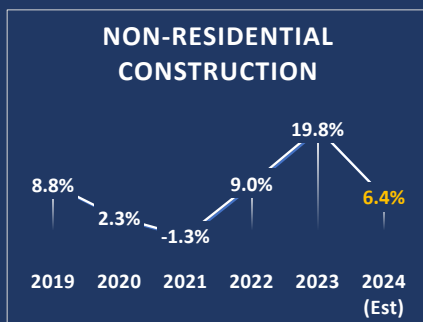
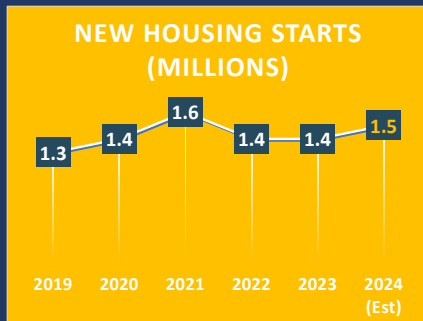
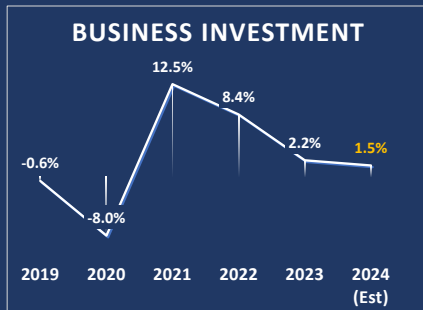
# ECONOMIC NEWSLETTER

*for the construction industry*



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### Selected Indices



### Big Items

**Real GDP:** The 2nd quarter is in the rear view and the focus will now turn to projections for the third quarter. But before we put Q2 in the past, we can see what this did to expectations. The GDPNow data for the end of the quarter predicted 2.2% growth but the final numbers hit 2.8%. The first quarter's slump to 1.4% was considered an anomaly. Most of that decline in Q1 can be attributed to a reduced level of government expenditure and that resumed to a significant degree in Q2. Now the assertion is that Q3 will end up close to 2.0% but expectations have been as high as 3.0% depending on what the consumer looks like in the next several weeks.

**Raw Material Prices/Availability:** There has been considerable volatility in the raw materials and commodity sectors – especially for the inputs important to the construction sector. Three factors have driven that volatility. The most vexing has been speculator interest. They anticipated a surge in demand as the global economy grew and invested heavily – driving prices up. Then that demand cooled and they tried to reduce their positions. The second issue has been the supply chain as it has been affected by the conflict in the Red Sea, Panama Canal drought issues and now the threat of a major strike affecting the US ports on the East Coast and Gulf Coast. Finally, there is uncertainty around interest rates and when big projects will gear up as financing costs shift.

**Labor Situation / Labor Costs:** The construction sector Employment Cost Index showed that overall labor costs are still high but have now retreated slightly. It is now at 161.2 in Q1 (latest available), down from 162.5 in Q1. More importantly, wages are still growing at a 4.3% annual rate. This is higher than the 3.6% in Q1 of 2022 but still historically high. The average prior to the pandemic was 2-3% annually and that means that wages are still growing at nearly twice the annual rate. There has been a reduction in job offers in construction and that reflects the slowdown in some projects but it also signals that companies are reluctant to keep posting for positions when there are so few qualified applicants.

**Manufacturing:** S&P Global data showed the USMCA markets all contracting through the end of July. The Canadian rail strike will push conditions in Canada further south for August, with a likely snap-back when the strike ends. Europe is still in contraction but the Asian markets are back in expansion territory. India was still the fastest growing market in the world. But in the US, new orders are sluggish, input prices are still high (raw materials, component parts, labor, and energy), and selling prices are facing some pressure. Global inventories more balanced than in prior quarters, the hope is that global activity will gain some pace and lift all sectors.

### Risks

**Geopolitics and Inflation:** The crucial issue in the geopolitical arena is the ongoing threat to traffic in the Red Sea. The shipping industry has to reroute as they can't get insurance. It has been impossible to defend the ships traversing the region. If the Iran-Israel conflict escalates there is a threat to the Strait of Hormuz that would interrupt oil shipments. Overall, the reaction of the oil sector has been muted with prices staying in the 70s.

**Hurricane Season and Severe Storms:** It is expected to be an active storm season in the US as the year goes on and that usually stimulates a significant increase in reconstruction activity. The construction sector hardly celebrates natural disasters, but the reality is that work has to be undertaken and fast. There is a large backlog of infrastructure activity that will be government funded. The question is what projects will get the go-ahead and that rests on US political developments. A GOP dominated Congress is more interested in traditional projects such as roads, bridges, ports etc. while Democrats are more geared towards alternative energy efforts.

# Macroeconomic Viewpoints

- Dr. Chris Kuehl

**Noise vs. Reality** – There is a tendency in the media to over dramatize and that is especially the case when the subject is economics. It seems that all that data strikes people as boring and it is the mission of the media commentators to make it more exciting. This can very often be misleading. A case in point was the recent frenzy in the markets that had people asserting a recession was certain and imminent. What was really going on? There were three triggers and all tended to be somewhat misread. The first issue was a less than robust jobs report from the US. The expectation had been that another 200,000 jobs had been created but the data showed only 115,000. Furthermore, the rate of unemployment rose to 4.3% (from around 3.9%). This rate is still historically low but higher than it has been in a few years. The point that was missed was that much of that rate hike was due to people moving from the U-6 category to U-3. The Bureau of Labor Statistics has six cuts of the data and U-3 is the simplest as it just counts the people on unemployment or officially in the system. The U-6 reading captures the “discouraged worker” and the “involuntary part-time”. As these people decide to reenter the formal system to seek a job they shift from U-6 to U-3. The data showed there were fewer people in U-6 and more in U-3. Workforce participation levels actually went up. The bottom line is that there have been no mass layoffs and there is still an acute labor shortage.

The second trigger is a bit more obscure. The yen carry-trade process has altered significantly and that has triggered some investor panic. The process is complex but essentially it means that investors borrow money in a country with very low interest rates so that they can invest in another nation where rates are higher. The Japanese have had extremely low rates even as other nations have been hiking them. They were still at zero. Then the Bank of Japan decided that inflation was an issue and started to hike rates – they also wanted to bolster the weak yen. That put all those investment schemes in jeopardy and many were forced to start selling assets. The Japanese markets fell to thirty-year lows and that panic spread. It will take a while for that dust to settle but the impact has been minimal. This triggered a tech sell off as these investors needed to make their margin calls and sold assets – such as their tech stock holdings. In just a few days other investors snapped up these stocks.

The bottom line for all this is that overreaction can present a major problem. This becomes even more of an issue in an election year as every candidate resorts to scare tactics to convince the voter. Every blip becomes a major deal but many are simply a blip. The underlying data in the economy remains positive – solid GDP growth expected in Q3 after a 2.8% pace in Q2, unemployment still at historic lows, retreating pace of inflation despite wage gains, and solid retail numbers as holiday season approaches. There are certainly still factors to create concern but an imminent recession appears very unlikely.

If we are to ignore the hysterics of the last week, what should we be paying attention to? There are three threats that bear watching. The first is the supply chain as there has been a major hike in container prices – over 150%. This is due to the continued threats to shipping in the Red Sea. This is not going away anytime soon. Threat number two is connected to inflation reaction. The rate of inflation has deteriorated but the prices are still high and that has triggered consumers to start spending less – especially those in the lower- and middle-income categories. The last threat comes as the US gets more aggressive on trade. In the long term this may mean more domestic production but short term it means import prices will be up. What does all this mean to you – the consumer of economic data? Of course, the first conclusion to reach is that you can only trust the data and interpretation that comes from Armada!

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# Regional MSA Construction Potential Index

The following section shows the Construction Potential Index developed by [Armada](#) in conjunction with [Pioneer IQ](#) for the largest Metropolitan Statistical Areas (MSAs) in the country. This index measures growth potential and construction spending per capita to create a construction potential index. The score itself is not as important as the index in relation to all other markets, which is important in understanding and the index incorporates both residential and nonresidential construction potential. Q1 data is the latest available.

Rank	MSA	Construction Scoring System	Change in Gross Construction GDP		BEA Region
		Construction Potential Score	Q1 2024 Q/Q Change in Gross Construction GDP	Q1 2024 Y/Y Change in Gross Construction GDP	
1	Dallas-Fort Worth-Arlington, TX	2575.7	1.9%	11.5%	SW
2	Chicago-Naperville-Elgin, IL-IN-WI	2442.9	2.0%	10.2%	GL
3	New York-Newark-Jersey City, NY-NJ-PA	2438.7	1.7%	7.1%	ME
4	Houston-The Woodlands-Sugar Land, TX	2389.5	1.9%	11.5%	SW
5	Washington-Arlington-Alexandria, DC-VA-MD-WV	2314.6	1.5%	8.9%	ME
6	Los Angeles-Long Beach-Anaheim, CA	2151.6	1.7%	11.6%	FW
7	Phoenix-Mesa-Scottsdale, AZ	1780.6	1.9%	12.7%	SW
8	Atlanta-Sandy Springs-Roswell, GA	1676.2	2.3%	11.0%	SE
9	Miami-Fort Lauderdale-West Palm Beach, FL	1438.7	2.2%	10.4%	SE
10	San Francisco-Oakland-Hayward, CA	1411.4	1.7%	11.6%	FW
11	Seattle-Tacoma-Bellevue, WA	1322.3	1.2%	5.3%	FW
12	Boston-Cambridge-Newton, MA-NH	1210.0	2.1%	12.0%	NE
13	Minneapolis-St. Paul-Bloomington, MN-WI	1209.3	2.0%	10.5%	GL
14	Las Vegas-Henderson-Paradise, NV	1152.8	4.0%	14.0%	FW
15	Denver-Aurora-Lakewood, CO	1082.8	2.3%	7.8%	RM
16	Baltimore-Columbia-Towson, MD	1033.1	0.0%	7.8%	ME
17	Riverside-San Bernardino-Ontario, CA	1015.1	1.7%	11.6%	FW
18	Orlando-Kissimmee-Sanford, FL	932.8	2.2%	10.4%	SE
19	Austin-Round Rock, TX	925.3	1.9%	11.5%	SW
20	Portland-Vancouver-Hillsboro, OR-WA	914.8	0.8%	6.9%	FW
21	Tampa-St. Petersburg-Clearwater, FL	888.1	2.2%	10.4%	SE
22	Salt Lake City, UT	813.0	2.2%	10.8%	RM
23	Indianapolis-Carmel-Anderson, IN	762.4	4.6%	11.9%	GL
24	Nashville-Davidson-Murfreesboro-Franklin, TN	743.5	2.2%	9.2%	SE
25	Sacramento-Roseville-Arden-Arcade, CA	724.9	1.7%	11.6%	FW
26	Charlotte-Concord-Gastonia, NC-SC	680.2	2.2%	8.6%	SE
27	San Diego-Carlsbad, CA	677.7	1.7%	11.6%	FW
28	St. Louis, MO-IL	667.7	1.2%	8.6%	P
29	Detroit-Warren-Dearborn, MI	664.4	7.0%	12.3%	GL
30	Raleigh, NC	621.9	2.2%	8.6%	SE
31	San Antonio-New Braunfels, TX	607.7	1.9%	11.5%	SW
32	Columbus, OH	605.9	-0.9%	8.9%	GL
33	San Jose-Sunnyvale-Santa Clara, CA	547.3	1.7%	11.6%	FW
34	Kansas City, MO-KS	534.3	3.0%	8.7%	P
35	Cincinnati, OH-KY-IN	523.4	1.4%	11.0%	GL
36	Jacksonville, FL	498.0	2.2%	10.4%	SE
37	Baton Rouge, LA	482.2	1.8%	7.9%	SE
38	Provo-Orem, UT	395.6	2.2%	10.8%	RM
39	Boise City, ID	386.1	4.0%	15.9%	RM

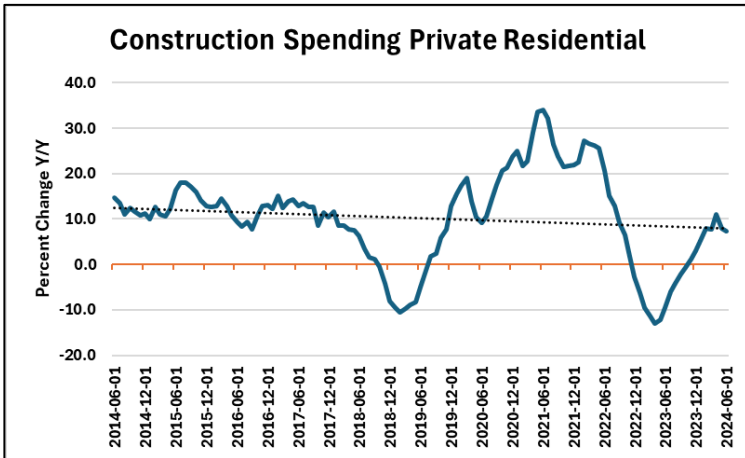
Rank	MSA	Construction Scoring System	Change in Gross Construction GDP		BEA Region
		Construction Potential Score	Q1 2024 Q/Q Change in Gross Construction GDP	Q1 2024 Y/Y Change in Gross Construction GDP	
40	Charleston-North Charleston, SC	383.0	2.2%	11.3%	SE
41	Louisville-Jefferson County, KY-IN	347.9	3.5%	13.1%	SE
42	Richmond, VA	347.3	2.8%	9.9%	SE
43	Reno, NV	325.5	4.0%	14.0%	FW
44	Grand Rapids-Wyoming, MI	318.3	7.0%	12.3%	GL
45	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	310.4	1.5%	8.7%	ME
46	North Port-Sarasota-Bradenton, FL	305.9	2.2%	10.4%	SE
47	Cape Coral-Fort Myers, FL	297.8	2.2%	10.4%	SE
48	Urban Honolulu, HI	291.0	1.7%	7.8%	FW
49	Milwaukee-Waukesha-West Allis, WI	290.6	2.8%	11.7%	GL
50	Ogden-Clearfield, UT	289.8	2.2%	10.8%	RM
51	Greenville-Anderson-Mauldin, SC	275.1	2.2%	11.3%	SE
52	Des Moines-West Des Moines, IA	270.2	4.3%	9.5%	P
53	New Orleans-Metairie, LA	270.1	1.8%	7.9%	SE
54	Oklahoma City, OK	266.7	4.1%	15.0%	SW
55	Colorado Springs, CO	250.6	2.3%	7.8%	RM
56	Omaha-Council Bluffs, NE-IA	225.1	3.4%	8.8%	P
57	Columbia, SC	221.9	2.2%	11.3%	SE
58	Lakeland-Winter Haven, FL	206.8	2.2%	10.4%	SE
59	Tucson, AZ	199.9	1.9%	12.7%	SW
60	Birmingham-Hoover, AL	199.9	2.3%	11.8%	SE
61	Memphis, TN-MS-AR	199.2	2.3%	9.1%	SE
62	Durham-Chapel Hill, NC	197.3	2.2%	8.6%	SE
63	Tulsa, OK	194.3	4.1%	15.0%	SW
64	Myrtle Beach-Conway-North Myrtle Beach, SC-NC	190.4	2.2%	9.4%	SE
65	Madison, WI	187.5	2.8%	11.7%	GL
66	Fresno, CA	174.9	1.7%	11.6%	FW
67	Greensboro-High Point, NC	172.0	2.2%	8.6%	SE
68	Albuquerque, NM	168.2	1.6%	12.1%	SW
69	Naples-Immokalee-Marco Island, FL	167.1	2.2%	10.4%	SE
70	Deltona-Daytona Beach-Ormond Beach, FL	165.3	2.2%	10.4%	SE
71	Stockton-Lodi, CA	159.1	1.7%	11.6%	FW
72	Palm Bay-Melbourne-Titusville, FL	156.9	2.2%	10.4%	SE
73	Lancaster, PA	156.2	1.7%	7.7%	ME
74	Albany-Schenectady-Troy, NY	156.0	1.2%	4.9%	ME
75	Fayetteville-Springdale-Rogers, AR-MO	155.8	2.9%	8.8%	SE
76	Greeley, CO	151.4	2.3%	7.8%	RM
77	Bridgeport-Stamford-Norwalk, CT	149.7	1.7%	9.2%	NE
78	Augusta-Richmond County, GA-SC	147.0	2.3%	11.1%	SE
79	Santa Rosa, CA	146.8	1.7%	11.6%	FW
80	Knoxville, TN	144.9	2.2%	9.2%	SE
81	Rochester, NY	142.9	1.2%	4.9%	ME
82	Little Rock-North Little Rock-Conway, AR	137.4	1.7%	8.3%	SE
83	Bakersfield, CA	136.2	1.7%	11.6%	FW
84	Lexington-Fayette, KY	132.6	1.4%	15.6%	SE
85	Oxnard-Thousand Oaks-Ventura, CA	127.3	1.7%	11.6%	FW
86	Corpus Christi, TX	126.5	1.9%	11.5%	SW
87	Salisbury, MD-DE	125.4	0.2%	7.9%	ME
88	Fort Collins, CO	125.3	2.3%	7.8%	RM
89	Huntsville, AL	123.5	1.8%	7.9%	SE
90	Pensacola-Ferry Pass-Brent, FL	117.9	2.2%	10.4%	SE
91	Vallejo-Fairfield, CA	117.3	1.7%	11.6%	FW
92	Spokane-Spokane Valley, WA	116.6	1.2%	5.3%	FW
93	Wichita, KS	109.2	2.3%	8.2%	P
94	Port St. Lucie, FL	107.8	2.2%	10.4%	SE
95	Anchorage, AK	102.4	1.7%	7.9%	FW
96	Savannah, GA	99.6	2.3%	11.0%	SE
97	Fargo, ND-MN	98.1	1.3%	9.2%	P
98	Killeen-Temple, TX	97.4	1.9%	11.5%	SW
99	Kennewick-Richland, WA	96.3	1.2%	5.3%	FW



Rank	MSA	Construction Scoring System	Change in Gross Construction GDP		BEA Region
		Construction Potential Score	Q1 2024 Q/Q Change in Construction GDP	Q1 2024 Y/Y Change in Construction GDP	
100	Sioux Falls, SD	95.7	3.9%	21.7%	P
101	McAllen-Edinburg-Mission, TX	90.7	1.9%	11.5%	SW
102	Modesto, CA	84.2	1.7%	11.6%	FW
103	Santa Maria-Santa Barbara, CA	74.8	1.7%	11.6%	FW
104	Lafayette, LA	61.3	1.8%	7.9%	SE
105	Visalia-Porterville, CA	48.1	1.7%	11.6%	FW

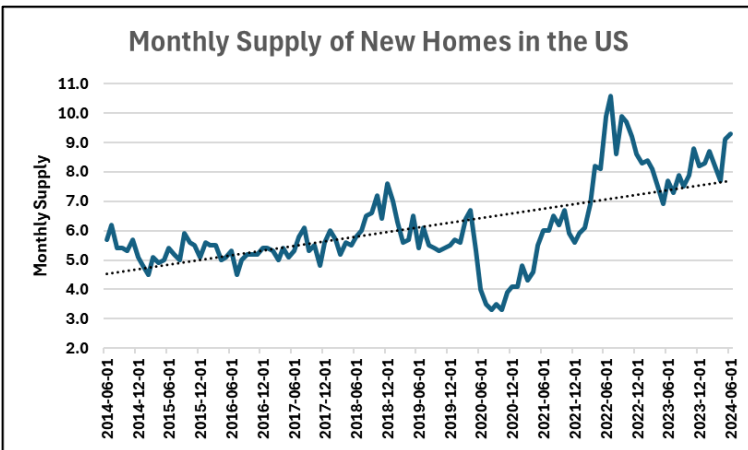
## Residential Construction

The following section includes viewpoints on factors in the residential construction sector.



### Residential Construction Spending (PRRESCONS)

- Total residential construction spending came in at a \$927.9B annual rate in June, compared to \$931.1B in May. These are still short of the peak last May when they hit \$969.6 but remain 7.3% higher Y/Y (down 0.3% M/M).
- Outlook:** Problems in the US housing market continue to be “lurking” through Q2 and into Q3. As data below shows, inventories are building, and home prices are starting to drop in many markets as builders discount prices to move units. Total permits are down 7.0% Y/Y; single-family permits were down 1.6% Y/Y through July. Multi-family projects are still slowing dramatically. Permits were down 18.2% Y/Y through July and were off by 12.4% M/M. Uncertainty about market conditions over the next 6-12 months is outweighing demand for housing units (which still stands between 1-2 million) much of which will have to come from multi-family housing).



### Monthly Supply of Homes (MSACSR)

- The monthly supply of homes came in at 9.3, which is up from the 9.1 registered last month. It is also significantly higher than the 7.7 months registered a year ago. A balanced market would be roughly 6 months of inventory on hand.
- Outlook:** The surge in new home inventory is worrisome for many builders. Custom home builders are still finding some strength in the marketplace while spec home builders are struggling more. Again, as is mentioned frequently, housing performance is impacted more by regional differences in economic performance than perhaps any other sector of the economy. Some regions are still seeing a housing inventory deficit while others are experiencing a stalling market early in Q3.

Month	United States				
	Total	1 unit	2 units	3 to 4 units	5 units or more
Jun 2023	135.7	91.0	3.1	1.9	39.7
Jul 2023	118.7	77.8	2.4	1.4	37.1
Aug 2023	141.8	88.3	3.5	2.1	47.9
Sep 2023	116.7	76.5	2.3	1.7	36.2
Oct 2023	125.3	79.8	2.8	1.7	41.0
Nov 2023	108.8	69.6	2.3	1.4	35.5
Dec 2023	104.9	64.9	2.0	1.5	36.6
Jan 2024	114.8	75.9	2.1	1.7	35.1
Feb 2024	119.1	79.4	2.5	1.6	35.6
Mar 2024	124.3	85.2	2.8	1.5	34.8
Apr 2024	132.3	93.6	3.5	1.6	33.7
May 2024	132.4	94.1	3.5	1.7	33.1
Jun 2024	125.7	83.7	2.6	1.5	37.8

## Housing Permits (<https://www.census.gov/construction/bps/>)

- Housing Permits were down 4% M/M in June (latest available) vs. May and were 7.0% lower year-over-year. Single-family permits were down 0.1% M/M and were 1.6% lower vs. June of last year. Multi-family was a different story, permits were down 12.4% M/M in June and were down sharply by 18.2% Y/Y.
- Looking Ahead:** Permits are our best gauge looking forward into the future. Still, permit activity was running at its fifth highest volume level in the past year and third highest since the beginning of the year through June. Multifamily permits (which had been decelerating) hit their highest level since last October in June, but they still remain nearly 18% lower vs. year at this time as mentioned (against adjusted data). Single-family permits have also started to decelerate early in Q3 and hit their lowest levels since February.

The following section shows housing permits authorized by region for total, single-family, and multi-family.

Month	Northeast											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
Jun 2023	10.5	-30.9%	-0.8%	-14.6%	5.8	9.4%	9.0%	5.5%	4.7	-52.5%	-1.7%	-30.9%
Jul 2023	8.9	-31.5%	4.9%	-15.2%	4.5	-16.7%	0.0%	-22.4%	4.4	-42.1%	13.9%	-6.4%
Aug 2023	11.0	-3.5%	-2.1%	23.6%	5.2	0.0%	-0.5%	15.6%	5.8	-6.5%	-1.8%	31.8%
Sep 2023	8.4	-18.4%	-5.1%	-23.6%	4.6	-13.2%	-6.1%	-11.5%	3.8	-24.0%	-3.0%	-34.5%
Oct 2023	10.5	26.5%	8.3%	25.0%	4.9	14.0%	3.5%	6.5%	5.6	40.0%	14.9%	47.4%
Nov 2023	7.1	-27.6%	-10.3%	-32.4%	4.3	7.5%	-5.8%	-12.2%	2.8	-51.7%	-12.4%	-50.0%
Dec 2023	8.1	-23.6%	2.2%	14.1%	3.5	-10.3%	-8.1%	-18.6%	4.6	-31.3%	20.6%	64.3%
Jan 2024	10.7	42.7%	4.6%	32.1%	4.4	18.9%	-1.7%	25.7%	6.3	65.8%	17.1%	37.0%
Feb 2024	14.3	95.9%	26.6%	33.6%	4.2	27.3%	0.9%	-4.5%	10.1	152.5%	53.9%	60.3%
Mar 2024	12.4	-1.6%	17.5%	-13.3%	4.4	-2.2%	8.6%	4.8%	8.0	-1.2%	25.5%	-20.8%
Apr 2024	12.1	42.4%	6.0%	-2.4%	5.6	19.1%	9.2%	27.3%	6.5	71.1%	6.9%	-18.8%
May 2024	10.9	-11.4%	-8.5%	-9.9%	5.8	5.5%	11.9%	3.6%	5.1	-25.0%	-20.4%	-21.5%
Jun 2024	11.8	12.4%	-1.4%	8.3%	5.7	-1.7%	9.7%	-1.7%	6.1	29.8%	-6.9%	19.6%

Month	Midwest											
	Total	Y/Y	3-Month Moving Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
Jun 2023	18.9	-1.0%	3.6%	-0.5%	11.5	-5.0%	7.5%	0.9%	7.4	5.7%	2.1%	-2.6%
Jul 2023	15.4	-13.5%	2.0%	-18.5%	10.2	-1.9%	1.2%	-11.3%	5.2	-29.7%	4.6%	-29.7%
Aug 2023	20.4	2.5%	4.5%	32.5%	11.6	5.5%	1.1%	13.7%	8.8	-1.1%	12.3%	69.2%
Sep 2023	17.2	-13.6%	-0.6%	-15.7%	10.5	2.9%	-2.4%	-9.5%	6.7	-30.9%	5.2%	-23.9%
Oct 2023	16.6	-16.6%	4.4%	-3.5%	10.6	9.3%	1.7%	1.0%	6.0	-41.2%	11.6%	-10.4%
Nov 2023	14.9	-4.5%	-9.8%	-10.2%	8.6	17.8%	-9.1%	-18.9%	6.3	-24.1%	-9.8%	5.0%
Dec 2023	11.8	2.6%	-11.5%	-20.8%	6.9	25.5%	-12.6%	-19.8%	4.9	-18.3%	-9.2%	-22.2%
Jan 2024	12.3	25.5%	-8.9%	4.2%	6.6	37.5%	-14.3%	-4.3%	5.7	14.0%	-0.3%	16.3%
Feb 2024	14.3	34.9%	-0.1%	16.3%	8.8	49.2%	3.1%	33.3%	5.5	17.0%	-3.1%	-3.5%
Mar 2024	15.9	-9.7%	10.6%	11.2%	10.6	14.0%	16.5%	20.5%	5.3	-36.1%	3.1%	-3.6%
Apr 2024	16.2	6.6%	9.8%	1.9%	12.2	22.0%	23.0%	15.1%	4.0	-23.1%	-10.6%	-24.5%
May 2024	18.3	-3.7%	8.7%	13.0%	11.8	3.5%	10.8%	-3.3%	6.5	-14.5%	11.4%	62.5%
Jun 2024	18.1	-4.2%	4.6%	-1.1%	11.2	-2.6%	2.2%	-5.1%	6.9	-6.8%	14.7%	6.2%

Month	South											
	3-Month Moving Avg.				1 unit				5 unit			
	Total	Y/Y	Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
Jun 2023	73.3	-11.6%	1.2%	-3.6%	53.5	-0.7%	3.4%	1.7%	19.8	-31.7%	-3.8%	-15.4%
Jul 2023	66.5	-9.4%	0.8%	-9.3%	46.3	5.5%	1.5%	-13.5%	20.2	-31.5%	0.1%	2.0%
Aug 2023	76.5	1.1%	0.7%	15.0%	52.5	11.5%	0.5%	13.4%	24.0	-16.1%	1.8%	18.8%
Sep 2023	64.1	-6.8%	-3.5%	-16.2%	45.7	10.9%	-4.3%	-13.0%	18.4	-33.3%	-0.8%	-23.3%
Oct 2023	70.6	4.4%	3.0%	10.1%	47.8	21.9%	1.7%	4.6%	22.8	-19.7%	6.5%	23.9%
Nov 2023	56.2	1.4%	-8.8%	-20.4%	41.1	23.1%	-7.5%	-14.0%	15.1	-31.4%	-11.1%	-33.8%
Dec 2023	59.1	5.3%	-1.7%	5.2%	39.4	28.3%	-4.5%	-4.1%	19.7	-22.4%	6.9%	30.5%
Jan 2024	66.7	7.2%	-0.8%	12.9%	48.0	39.5%	1.2%	21.8%	18.7	-32.7%	-2.8%	-5.1%
Feb 2024	64.9	-0.9%	5.1%	-2.7%	49.5	31.0%	6.9%	3.1%	15.4	-44.4%	2.6%	-17.6%
Mar 2024	67.2	-6.4%	4.6%	3.5%	51.2	4.5%	9.5%	3.4%	16.0	-29.8%	-6.3%	3.9%
Apr 2024	77.5	17.6%	5.4%	15.3%	56.0	23.6%	5.3%	9.4%	21.5	4.4%	6.9%	34.4%
May 2024	73.2	-3.7%	4.4%	-5.5%	55.8	6.1%	4.2%	-0.4%	17.4	-25.6%	6.4%	-19.1%
Jun 2024	67.2	-8.3%	0.5%	-8.2%	48.3	-9.7%	-1.5%	-13.4%	18.9	-4.5%	8.0%	8.6%

Month	West											
	3-Month Moving Avg.				1 unit				5 unit			
	Total	Y/Y	Avg.	M/M	1 unit	Y/Y	3-Month Moving Avg.	M/M	5 unit	Y/Y	3-Month Moving Avg.	M/M
Jun 2023	32.9	-17.8%	4.2%	2.2%	20.2	0.0%	7.8%	3.6%	12.7	-35.9%	0.0%	0.0%
Jul 2023	27.8	-7.9%	0.6%	-15.5%	16.8	5.7%	5.0%	-16.8%	11.0	-23.1%	-4.7%	-13.4%
Aug 2023	33.9	5.9%	2.9%	21.9%	19.0	7.3%	0.0%	13.1%	14.9	4.2%	7.4%	35.5%
Sep 2023	27.1	-11.4%	-4.5%	-20.1%	15.7	11.3%	-7.0%	-17.4%	11.4	-30.9%	-0.5%	-23.5%
Oct 2023	27.6	10.4%	1.2%	1.8%	16.5	31.0%	0.3%	5.1%	11.1	-10.5%	3.1%	-2.6%
Nov 2023	30.6	41.7%	-2.4%	10.9%	15.6	44.4%	-5.9%	-5.5%	15.0	38.9%	3.0%	35.1%
Dec 2023	26.0	-1.1%	-0.8%	-15.0%	15.1	49.5%	-1.2%	-3.2%	10.9	-32.7%	1.7%	-27.3%
Jan 2024	25.1	16.7%	-2.5%	-3.5%	17.0	66.7%	1.3%	12.6%	8.1	-28.3%	-6.0%	-25.7%
Feb 2024	25.6	-6.6%	-5.5%	2.0%	16.9	45.7%	2.9%	-0.6%	8.7	-44.9%	-15.2%	7.4%
Mar 2024	28.8	-1.7%	3.7%	12.5%	18.9	13.9%	7.9%	11.8%	9.9	-22.0%	-1.5%	13.8%
Apr 2024	26.5	-5.4%	2.2%	-8.0%	19.8	30.3%	5.3%	4.8%	6.7	-47.7%	-3.7%	-32.3%
May 2024	30.0	-6.8%	5.9%	13.2%	20.6	5.6%	6.9%	4.0%	9.4	-26.0%	7.3%	40.3%
Jun 2024	28.6	-13.1%	0.2%	-4.7%	18.5	-8.4%	-0.5%	-10.2%	10.1	-20.5%	5.1%	7.4%

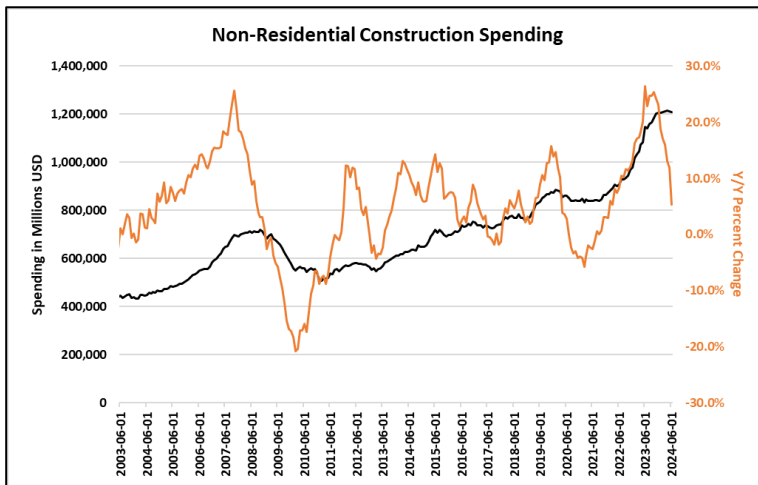
### NAHB Housing and Interest Rate Forecast, 07/31/2024

	2020	2021	2022	2023	2024	2025	2026
<b>Housing Activity (000)</b>							
Total Housing Starts	1,394	1,605	1,552	1,421	1,326	1,351	1,489
Single Family	1,000	1,131	1,006	949	1,005	1,019	1,104
Multifamily	393	474	546	473	322	332	385
New Single Family Sales	831	770	637	666	660	727	781
Existing Single-Family Home Sales	5,057	5,425	4,533	3,674	3,743	4,118	4,405
<b>Interest Rates</b>							
Federal Funds Rate	0.36%	0.08%	1.68%	5.03%	5.32%	4.55%	3.03%
Ten Year Maturity	0.89%	1.44%	2.95%	3.96%	4.28%	3.82%	3.59%
Fixed Rate Mortgages	3.11%	2.96%	5.34%	6.81%	6.80%	6.14%	5.75%
Prime Rate	3.54%	3.25%	4.85%	8.19%	10.28%	10.69%	8.78%

[For more forecast details, visit www.nahb.org.](http://www.nahb.org)



# Nonresidential Construction



## Total Non-Residential Construction

(TLNRESCONS)

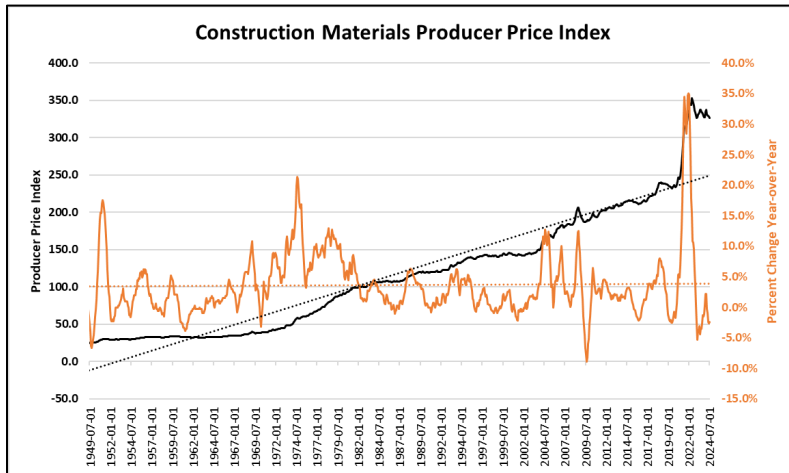
- Total Non-Residential Construction activity in June continued to show solid gains (\$1.208T annually) – far more than in previous years. Spending was still 5.3% higher year-over-year against difficult comparisons and was down between May and June by 0.2%.
- **Outlook:** Nonresidential construction spending continues to be driven by two primary conditions. First, manufacturing is still one of the shining areas (up 19% Y/Y against difficult comparisons) as companies work to diversify supply chain risk. Many have been forced to work on reshoring at least a portion of their product sourcing, which is driving significant nonresidential construction in the sector. Secondly, government spending in bipartisan bills is pumping billions of dollars into the construction sector annually, and that spending will remain higher than normal throughout 2025.

## Non-Residential Spending by Sector

(<https://www.census.gov/construction/c30/c30index.html>)

- The fastest growing non-residential construction sector has continued to be connected to manufacturing. It is still growing at a 19.1% pace year over year. This has been driven by factors such as reshoring and the need to add technological capacity. There has also been a new expansion in manufacturing that hugs new transportation corridors, and many new facilities are chasing inexpensive water, electricity, and other key input measures.
- Infrastructure spending is still expected to accelerate rapidly as funds continue to flow out of the CHIPS Act, Infrastructure Bill, and Inflation Reduction Act. Spending in these categories stretches across power, water supply, sewage, and highway and street construction.
- Some notable sluggishness has continued to decelerate since Q1 and through Q2. Each sector that is starting to struggle has an undercurrent that is difficult to overcome in the near term.
- Obviously, sectors heavily influenced by office attendance are struggling. Office construction activity is up just 0.8%.
- On a real basis, lodging and commercial sectors are down 9.8% and 13.5% Y/Y respectively.
- Many reports still suggest that some projects are waiting on the Federal Reserve to move on interest rates – and it looks like there are two cuts imminent in the second half of 2024. This half a point cut (the first one coming in September and the second likely in December) is expected to help spur design and planning activity with “shovels hitting dirt” in the first half of 2025. Whether it will offset deceleration in other areas is another story. But many projects that have been put on hold will start to come forward early next year.

Type of Construction	Jun 2024 <sup>P</sup>	May 2024 <sup>T</sup>	Jun 2023	Percent change Jun 2024 from -	
				May 2024	Jun 2023
<b>Total Construction</b>	<b>2,148,444</b>	<b>2,154,816</b>	<b>2,023,013</b>	<b>-0.3</b>	<b>6.2</b>
Residential	939,806	943,162	875,539	-0.4	7.3
New single family	431,020	436,449	392,079	-1.2	9.9
New multifamily	130,083	129,902	140,455	0.1	-7.4
<b>Nonresidential</b>	<b>1,208,638</b>	<b>1,211,653</b>	<b>1,147,474</b>	<b>-0.2</b>	<b>5.3</b>
Public safety	18,832	18,656	14,707	0.9	28.0
<b>Manufacturing</b>	<b>235,532</b>	<b>235,406</b>	<b>197,693</b>	<b>0.1</b>	<b>19.1</b>
Power	143,880	144,687	128,241	-0.6	12.2
Water supply	31,252	30,834	28,444	1.4	9.9
Sewage and waste disposal	45,251	45,667	42,548	-0.9	6.4
Religious	3,907	3,932	3,686	-0.6	6.0
Highway and street	144,470	145,034	136,774	-0.4	5.6
Conservation and development	12,202	11,581	11,671	5.4	4.5
Educational	126,104	127,015	120,756	-0.7	4.4
Amusement and recreation	38,436	38,224	36,897	0.6	4.2
Transportation	67,130	66,866	65,009	0.4	3.3
Health care	66,283	67,101	64,643	-1.2	2.5
Communication	28,355	28,368	28,037	0.0	1.1
<b>Office</b>	<b>98,481</b>	<b>98,520</b>	<b>97,709</b>	<b>0.0</b>	<b>0.8</b>
Lodging	23,350	23,273	25,891	0.3	-9.8
<b>Commercial</b>	<b>125,171</b>	<b>126,491</b>	<b>144,770</b>	<b>-1.0</b>	<b>-13.5</b>



## Construction Materials Price Index (WPUSI012011)

- The Producer Price Index for Construction Materials fell by 0.6% M/M and 2.5% Y/Y through July. The current index is at 326 points; the peak in the index was 349 in May of 2022.
- Outlook:** On a historical basis, prices are still significantly higher than they were prior to the pandemic. Many builders are still experiencing this, when trying to compare project costs with prior projects conducted before the pandemic. But the rate of inflation on prices has eased and was inflating at a 2.5% annual rate as mentioned, which is fairly normal compared to historical rates. On average, prices were inflating at a 3-4.5% rate in the decade prior to the pandemic.

Producer Price Index - Key Industry Products						
Category	PPI Code	Jul-24	Jun-24	M/M% Chg	Jul-23	Y/Y % Chg
<b>Core Materials</b>						
Copper	WPUSI019011	581.8	578.6	0.6%	509.2	14.3%
Lumber	WPU081	247.6	249.8	-0.9%	272.3	-9.1%
Nickel	WPU102504	213.5	209.5	1.9%	221.7	-3.7%
Cement	PCU32732032732	388.7	389.1	-0.1%	370.3	5.0%
<b>Pipe, Valves and Fittings</b>						
Metal valves, except fluid power	WPU114902	441.9	445.5	-0.8%	434.7	1.7%
Gates, globes, angles and check valves	WPU114902011	171.5	171.5	0.0%	165.8	3.4%
Ball valves	WPU11490202	570.2	570.2	0.0%	557.9	2.2%
Butterfly valves (formerly W2421490203)	WPU11490203	328.4	328.4	0.0%	306.1	7.3%
Industrial plug valves	WPU11490204	325.4	325.4	0.0%	308.7	5.4%
Plumbing and heating valves (low pressure)	WPU11490205	389.8	389.8	0.0%	389.8	0.0%
Solenoid valves	WPU11490208	372.2	372.2	0.0%	372.2	0.0%
Other industrial valves, including nuclear	WPU11490209	407.9	407.9	0.0%	403.8	1.0%
Automatic valves	WPU11490211	263.7	263.7	0.0%	249.1	5.9%
Metal pipe fittings, flanges and unions	WPU11490301	511.0	510.8	0.0%	484.1	5.5%
Steel pipe and tube	WPU101706	369.9	370.3	-0.1%	395.8	-6.5%
Steel pipe and tube, alloy	WPU10170673	109.5	109.5	0.0%	109.5	0.0%
Steel pipe and tube, stainless	WPU10170674	137.2	135.3	1.4%	147.9	-7.2%
Copper & copper-base alloy pipe and tube	WPU10250239	440.7	440.7	0.0%	349.3	26.2%
Plastic pipe	WPU07210603	188.5	188.0	0.3%	198.3	-4.9%
Plastic pipe fittings and unions	WPU07210604	320.3	323.1	-0.9%	314.7	1.8%
<b>Plumbing Fixtures, Fittings and Trim</b>						
Bath and shower fittings	WPU10540211	286.7	286.7	0.0%	286.7	0.0%
Lavatory and sink fittings	WPU10540218	207.6	207.9	-0.1%	204.6	1.5%
Enameled iron and metal sanitary ware	WPU1056	284.5	278.1	2.3%	290.4	-2.0%
<b>Steam and Hot Water Equipment</b>						
Cast iron heating boilers, radiators and convectors	WPU10610106	304.7	304.2	0.2%	289.7	5.2%
Domestic water heaters	WPU106601	590.6	590.6	0.0%	570.6	3.5%
Electric water heaters	WPU10660101	586.6	586.6	0.0%	564.3	4.0%
Non-electric water heaters	WPU10660114	359.0	359.0	0.0%	347.7	3.3%
<b>Warehousing, Storage and Related Services</b>						
	WPU321	138.8	139.9	-0.8%	137.4	1.0%

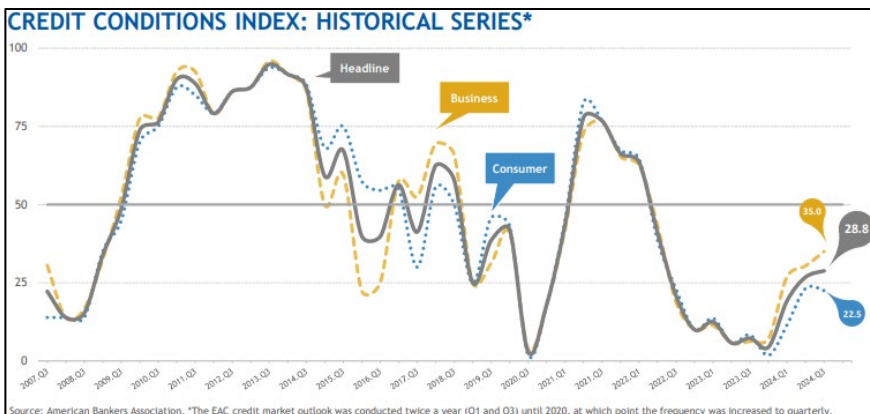
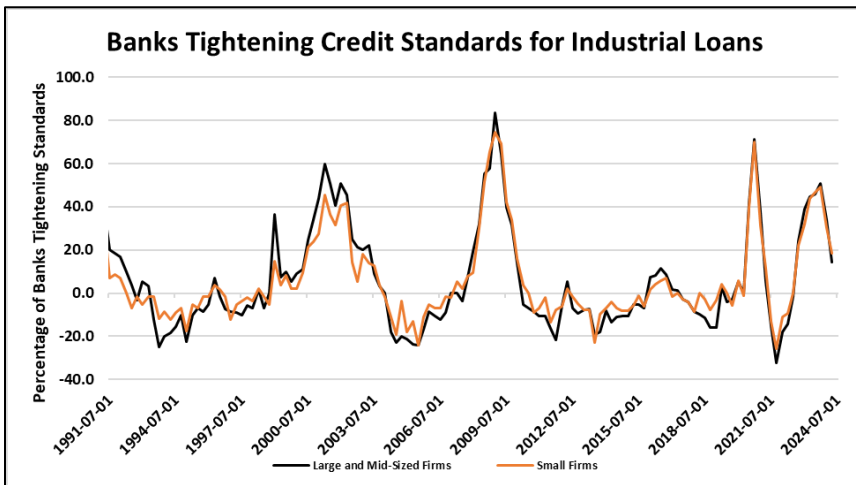
# Banking Credit and Finance

**Overall Observations:** The Federal Reserve is expected to take at least one quarter-point interest rate cut this year, and current estimates give September a 93% chance for that first cut. The Federal Reserve itself has telegraphed as many as two cuts yet this year, making the chances of a second cut in December much better. Second quarter GDP came in at 2.8%, inflation rates were easing and getting closer to the Fed’s 2% target rate, and job creation was starting to slow midway in the third quarter. Those slowing conditions should give the Fed the confidence that it needs to follow through with rate cuts. The Fed is projecting perhaps as many as 4 more quarter-point cuts in 2025, bringing the Fed Funds Rate down to 4%.

## Banks Tightening Conditions

(DRTSCILM; DRTSCIS)

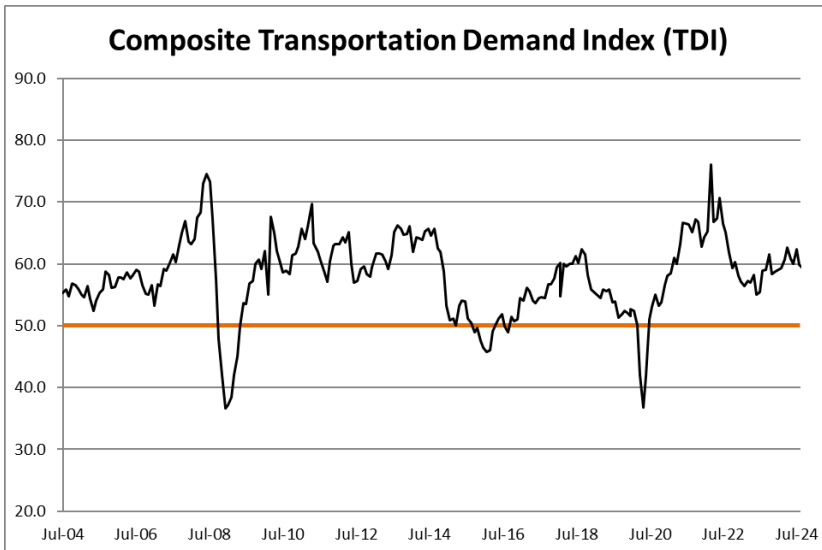
- The latest view of the number of banks tightening credit standards was stable at 15.6% for large and medium-sized commercial firms and 19.7% for smaller firms.
- **Outlook:** Banks have begun to ease their rate tightening trends; they must lend to generate revenue. Stress testing shows the majority of US banks in good condition and as financial risk has eased over the past year (since the March 2023 mini banking crisis), the need for risk aversion has eased and just a handful of banks are still tightening. Many firms are still being selective in the types of projects that they will entertain, and commercial real estate projects are still going to be scrutinized both on a project type basis and based on regional dynamics. Some markets will see very little aversion to commercial projects while others will see little activity or willingness to consider projects in those markets where urban property vacancies are high.



## ABA Credit Conditions (ABA)

- The American Bankers Association’s Credit Conditions Index for business credit increased by 2.0 points to 28.8 in early Q3 but is still well below the midpoint 50 line (latest available). The sub-50 score suggests that members expect credit conditions to deteriorate over the next six months.
- **Outlook:** Although the index continued to move through slow improvement, it remained below 50. Credit conditions for consumers and consumer loans are still expected to generally deteriorate over the next several quarters, they fell 0.7 points to 22.5 in early Q3. Bankers expect conditions to tighten for consumers in the second half of the year headed into the peak season. Business credit conditions are improving and have hit 35 points, up 4.6 points and the highest level in more than 2 years. The survey from the ABA showed that respondents were equally split between those that expect conditions to get better versus those that feel that conditions will continue to deteriorate over the next six months.

# Supply Chain and Transportation Situation



## Transportation Demand Balanced

- The Transportation Demand Index shows the current demand environment for freight services, and it was stable through July and was more commensurate with levels seen during the 2010-2014 period. The composite had a reading of 59.9, 1.7% higher than last year's reading of 58.9; but it was down 3.9% M/M vs. June levels.
- Outlook:** This index does not account for changes in capacity, it primarily focuses on the growth in demand. Construction shippers should be able to find transportation "deals" on freight costs at this time for anything moving in domestic markets. Truckload spot rates are still low against historical levels, and capacity is readily available. Other forms of transportation could be more expensive. Less-than-truckload rates are 6-8% higher in the wake of the Yellow bankruptcy last year and maritime rates are still higher on Red Sea disruptions.

	24-Jul	24-Jun	23-Jul	Y/Y Change %	M/M Change %
<b>Composite</b>	59.9	62.3	58.9	1.7%	<b>-3.9%</b>
<b>Rail</b>	57.7	59.8	56.4	2.3%	<b>-3.5%</b>
<b>Trucking</b>	59.9	62.4	59.2	1.2%	<b>-4.0%</b>
<b>Air</b>	68.2	70.3	63.7	7.1%	<b>-3.0%</b>
<b>Maritime</b>	66.3	68.4	61.8	7.3%	<b>-3.1%</b>

## Mode Demand Moving Higher

- Each mode of transportation was holding its own early in Q3, but all modes were weaker Y/Y. This index measures demand but does not have a capacity component to it. The rail sectors are seeing more intermodal activity, nearly 2 million containers a month hit US ports. But some speculation is that some of this was "pulled-forward" demand as shippers try to inbound freight to get ahead of a potential East Coast Port Disruption as labor contract negotiations stall. More on that below.

## What we are Watching in Transportation

- Red Sea Situation Keeping Maritime Rates High.** The Red Sea disruption to distribution has turned into a much larger problem than originally expected (and it is ongoing). Drewry showed in its latest [World Container Index](#) that prices to ship a 40ft container are still up 196% Y/Y. Lanes connecting Asia to the US are up 167% Y/Y to the west coast and are 147% higher to the east coast. Outbound lanes are much cheaper as carriers try to get empty vessels back to Asia. The Red Sea situation has stripped as much as 25% of global maritime capacity out of the industry – which has tightened available shipping capacity and subsequently pushed prices higher. Again, there is no end in sight to the situation off the coast of Yemen, and if conditions worsen in the Middle East, global maritime prices could go even higher.
- Labor Issues to Shape Q3.** At the time of writing, employees for rail carriers in Canada were on the verge of a strike. Given that talks had stalled on the eve of a strike authorization, rail management had the right to issue "lockouts", pushing workers back home until contract negotiations could commence. A similar situation is setting up at the nation's east and Gulf coast ports. The current labor contract expires on September 30<sup>th</sup> and covers more than 85,000 workers spanning from areas north of Maine to the Port of Corpus Christie and everything in-between. Unions have authorized strikes to commence on October 1<sup>st</sup>, and this will significantly disrupt US distribution patterns.

This has also been partly responsible for shippers opting to inbound freight much earlier than normal to get ahead of potential port disruptions. Still, the National Retail Federation anticipates inbound intermodal volumes to average 2 million units through Oct.

# Construction Industry Outlook

	2023				2024				2019	2020	2021	2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4							
Real GDP	1.1	2.4	5.2	2.5	1.3	2.8	1.0	1.3	2.3	-2.8	5.9	2.1	2.1	2.0	1.6
Unemployment rate (%)	3.5	3.6	3.7	3.7	3.8	3.9	4.1	4.2	3.7	8.1	5.4	3.6	3.6	4.0	4.0
PCE Inflation (%Y/Y)	4.6	3.9	3.3	2.8	2.8	2.8	2.5	2.5	1.5	1.1	4.0	5.6	3.7	2.5	2.5
Core PCE Inflation (%Y/Y)	4.8	4.6	3.8	3.2	3.1	2.9	2.8	2.5	1.7	1.3	3.5	4.8	4.1	2.5	2.2
Fed Funds Rate	4.9	5.1	5.3	5.4	5.4	5.2	5.0	5.0	1.6	0.1	0.1	4.4	5.4	5.0	3.0
Canada Real GDP	2.0	1.3	0.7	1.0	0.5	-	-	-	1.8	-5.2	4.5	3.4	1.1	1.0	1.5
Unemployment rate (%)	5.1	5.4	5.6	5.8	6.1	6.4	-	-	5.8	9.7	7.5	5.3	5.8	6.4	6.0
Mexico Real GDP	3.5	3.4	3.0	2.4	-	-	-	-	-1.8	-8.2	5.0	2.7	1.6	2.4	1.4
Unemployment rate (%)	3.6	3.6	3.8	4.0	3.9	3.8	-	-	5.0	7.9	7.1	4.1	3.8	3.8	4.0

The outlook for nonresidential construction has eased slightly, but remains near all-time levels of total spending. The model at right (which has a 98.1% accuracy rate 6 months in advance) shows that conditions will remain stable (declining slightly) before hitting new growth momentum by the second quarter of next year. This coincides with some of the Federal Reserve interest rate cuts anticipated between now and then.

Residential forecasts are more volatile, but also are showing a positive upside potential in the latter part of 2024 with some continued momentum in 2025. Trimming interest rates would have the greatest impact on the residential market. Small changes in 30-year mortgage rates led to refinancing activity that surged 34.4% between the week of August 2<sup>nd</sup> and the week of August 9<sup>th</sup>.

Government spending under the CHIPS Act, Inflation Reduction Act (IRA) and Infrastructure Bill will send \$75B to \$100B in additional spending into the construction sector this year (with economic multipliers on top of that could translate into several hundred billion in spending activity as a result).

Manufacturing and industrial is still finding some momentum, and the industries experiencing this expansion is diverse and varied. Many liken the increase to CHIPS Act projects or those in the data center industry, but in reality, it spreads across food and beverage, durable goods manufacturing capacity expansion, consumer staples, defense, aerospace, and many other sectors. One of the key aspects of where these projects are landing can be tied to 1) states with cheap energy prices; 2) good rail and truck distribution network access; 3) states offering tax incentives; and those with decent labor availability.

Material prices are easing slightly, but not enough to bring significant inflation or margin relief to the industry, yet. Labor costs are expected to remain higher for longer, but a combination of new entrants into the market and potential immigrant workers getting authority to participate in the workforce could start to ease workforce strains for some lower-skilled positions. Higher end, skilled positions will continue to face challenges in finding enough workers for the near term.

