Building Products Industry Market Update

Industry Specialty Team | September 2024

Taylor Howerton | Building Products Industry Manager **|** Taylor.Howerton@Truist.com
Omar Azmi | Building Products Analyst **|** Omar.Azmi@Truist.com

Economic & Industry Backdrop

- The U.S. economy grew more than expected in the first half of 2024 - seemingly on course for a "soft landing" despite mixed economic data and heightened geopolitical risks. Real GDP grew 3.0% y/y in Q2, up from 1.6% y/y growth in Q1. The August jobs report raised concerns of a slowing labor market as the unemployment rate moved up to 4.2%. **Notably, for our audience, construction employment continued to trend higher in August (+34K jobs); above July (+25K) and nearly double the average monthly gain over the last 12 months (+18K).**

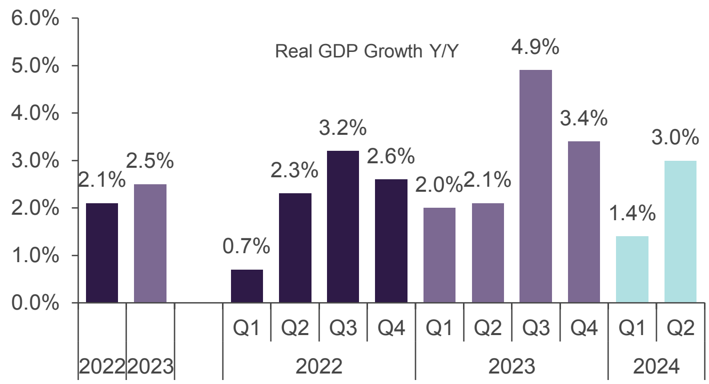
- ISM Manufacturing increased in August and has contracted (below 50) 20 out of the last 21 months. Manufacturing has slowed against higher input costs, a stronger dollar and consumer spending shifts from goods to services post-pandemic. However, ISM Services expanded in the same period; **the Services Index has been above 50 (expansion) 19 of the last 21 months** - supporting the lift to the economy as the services sector accounts for 2/3rds of U.S. GDP.

- Inflation has moderated and is near the Fed's target of 2.0%, allowing the Fed's attention to shift towards the employment objective of their dual mandate. With inflation easing and the labor market cooling the Fed began its cutting cycle in September **with a 50 basis points (bps) decrease to the Fed Funds rate. The Fed's current forecast reflects a series of cuts that will take the policy rate to ~3.50% by the end of 2025.** Accordingly, mortgage rates have declined with the prevailing 30yr fixed rate mortgage down more than 100 bps since May.

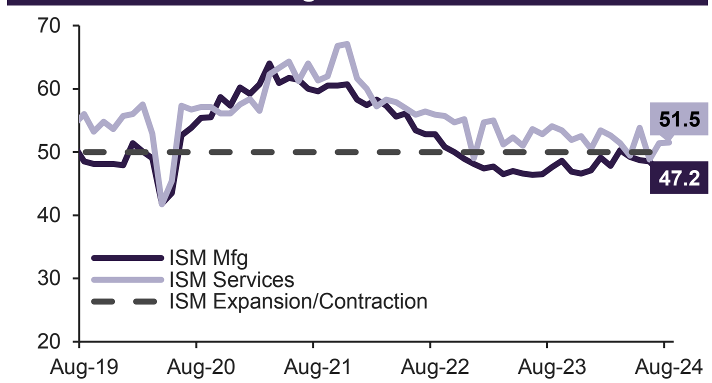
- As interest rates decline, residential end-markets for building materials are poised for growth. A signature issue in the housing market has been supply lagging demand since the end of the Great Financial Crisis (GFC). **Demand from newly formed households (plus demolitions) is estimated at ~ 1.8MM units per year, while housing starts have only averaged 1.1MM per year since the end of the GFC.** This structural scarcity in housing supply helps explain in part the resiliency of the sector even as affordability has been strained. Over the last two years mortgage rates more than doubled to 20yr highs, yet housing starts over that period were 30% above their 15y average, and 19% above 2019 levels. Supply constraints will persist given on-going labor shortages, permitting/zoning challenges, however, as interest rates move lower, we should continue to see starts activity that aligns more closely with the underlying demand fundamentals.

- Across non-residential end-markets, construction spend is more robust. However, the rate of growth has slowed to mid-single digits compared to the mid-teens growth seen last year. Construction spend in manufacturing, healthcare, education, and highway facilities remain strong, but A.I. driven data center demand is becoming a much larger contributor. **Data center demand is expected to grow 15% per year through 2030 and will use up to 8% of U.S. power by the same period** – underscoring the need for additional infrastructure spend - which will be a further catalyst for growth across the building products space.

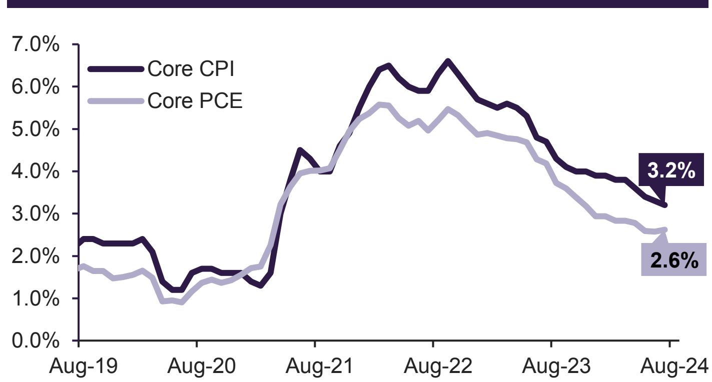
U.S. Economic Growth



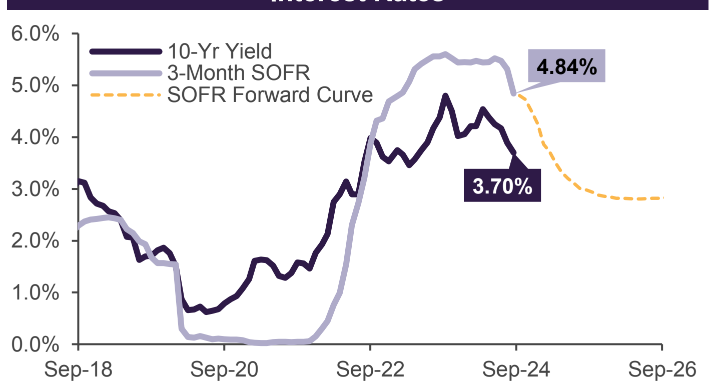
Manufacturing vs. Services Sectors



Inflation



Interest Rates



TRUIST

Data updated as of 9/15/2024
Sources: *Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Company Reports, Institute for Supply Management, U.S. Census Bureau, Harvard Joint Study on Housing, National Association of Home Builders, Industry Reports*

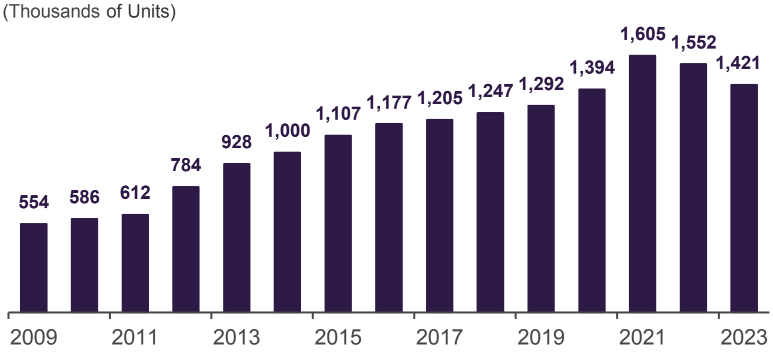
Building Products Industry Market Update

Industry Specialty Team | September 2024

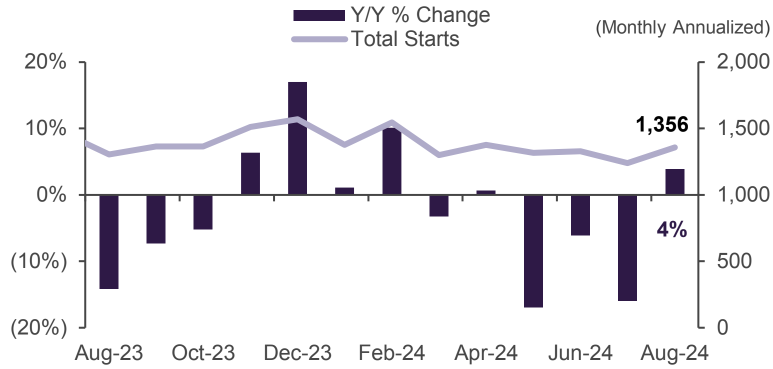
Residential Fundamentals

Despite much higher mortgage rates over the last year, housing starts have held up well but remain volatile month-to-month. Single-family (SF) starts saw early gains in the year, but have since softened, while multi-family (MF) starts contracted nearly 30% YTD, and may remain challenged given increased MF supply over the last two years. Going forward SF starts should gain momentum from lower rates combined with pent-up demand associated with demographics and household formation.

Total U.S. Housing Starts

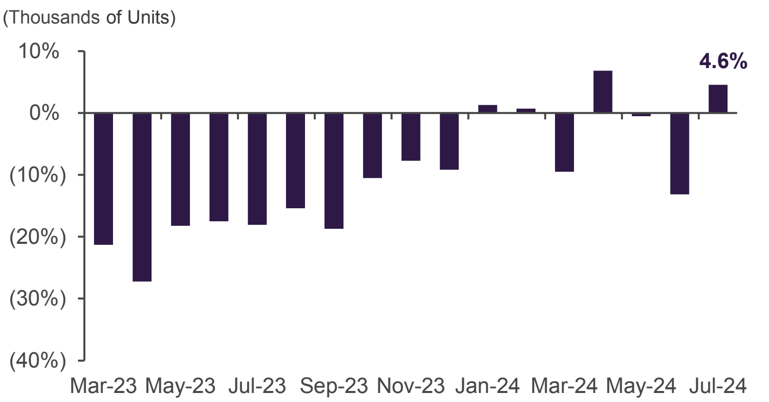


Housing Starts YoY % Change



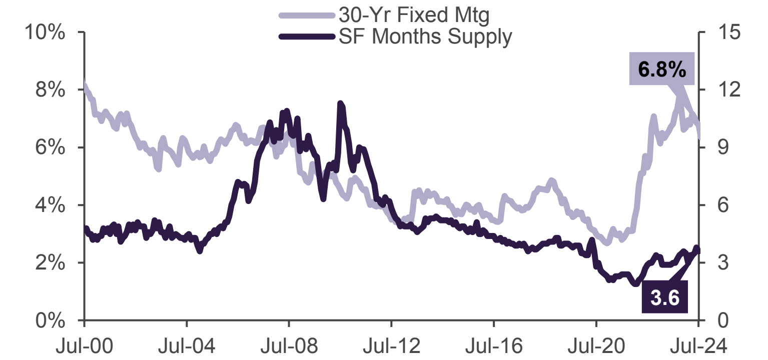
Existing Home Sales YoY % Change

Existing home sales increased in July, a sign that lower mortgage rates might start to drive higher turnover going forward...



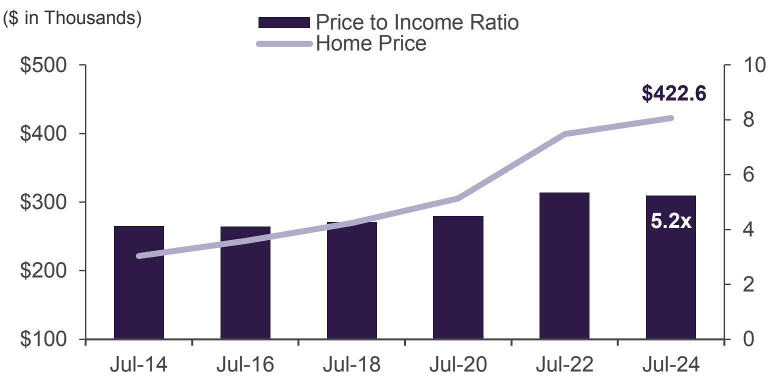
Home Supply

...but inventory remains tight, partly driven by the lock-in-effect from existing low-rate mortgages, of which ~ 80% are below 5%



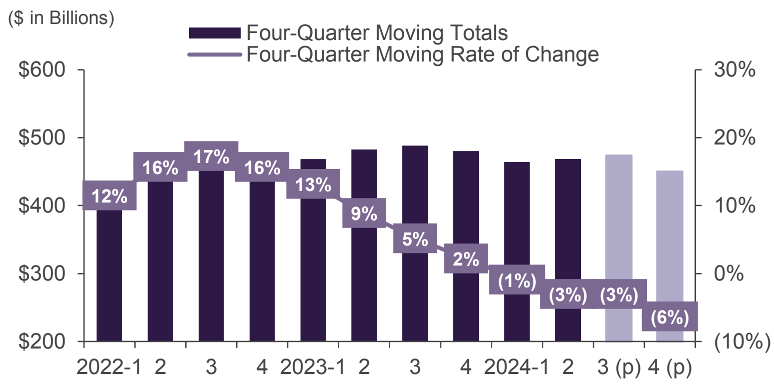
Median Home Price vs. Household Income

Affordability remains challenged given a lack of supply that pushed prices higher as demand grows



Repair & Remodel

Repair & Remodel spend has slowed post-pandemic against a slower pace of existing home sales and affordability challenges



TRUIST

Data updated as of 9/15/2024

Sources: *Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Company Reports, Institute for Supply Management, U.S. Census Bureau, Harvard Joint Study on Housing, National Association of Home Builders, Industry Reports*

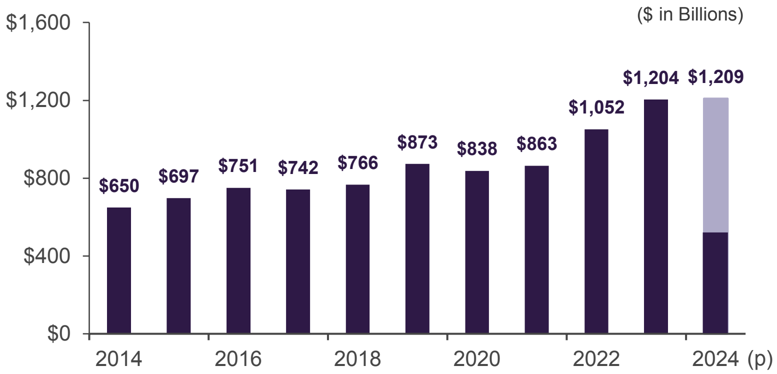
Building Products Industry Market Update

Industry Specialty Team | September 2024

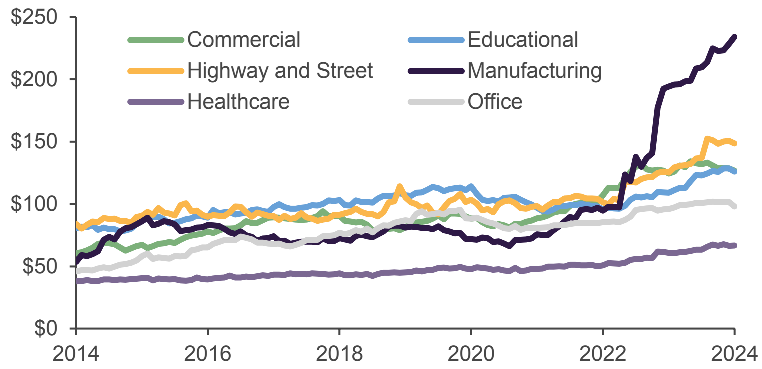
Non-Residential Fundamentals

Non-residential construction spend has been well supported by fiscal stimulus and trends associated with on-shoring, energy, data center, manufacturing and infrastructure. Recent data reflects a slowing in the growth rate compared to 2023, but total spend remains well above pre-pandemic levels.

Total Non-Residential Construction Spend

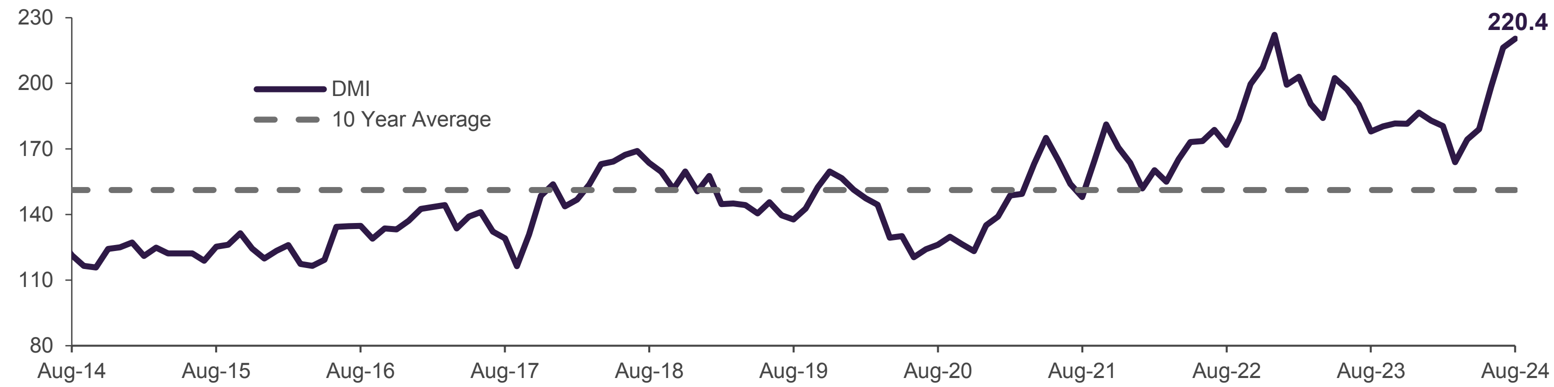


Non-Residential Construction Spend By Segment



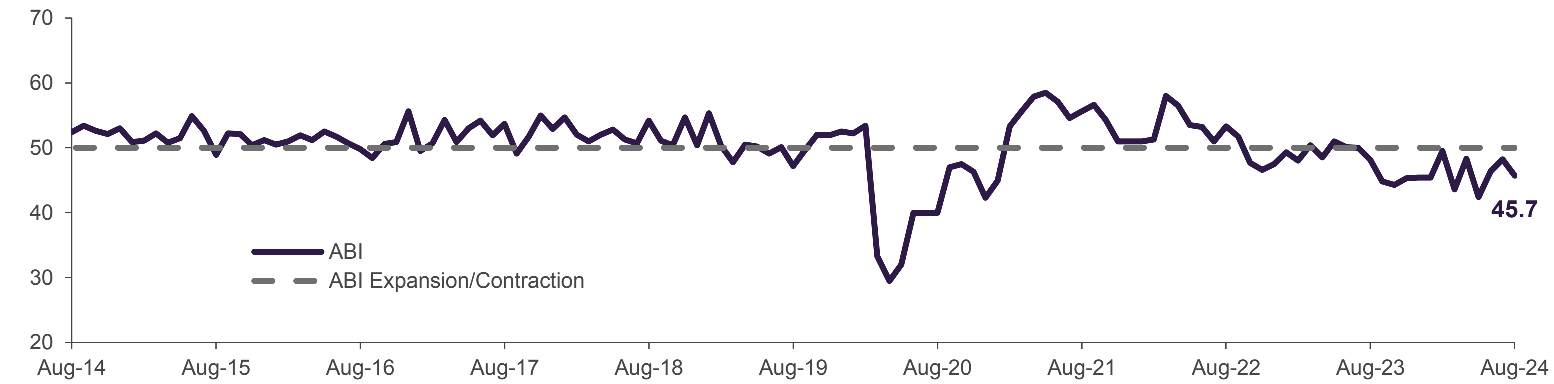
Dodge Momentum Index (DMI)

DMI increased 17% y/y in July and was up 7.9% m/m. Data center planning continued to be a primary driver, but other non-residential projects are starting to broaden the momentum. The DMI is a measure of non-residential projects in planning, and leads spending by 12 months



Architecture Billings Index (ABI)

ABI is a measure of construction spend outside of single-family construction, likely to occur 9-12 months out. Recent data shows a decline in billings likely tied to light commercial and multifamily, however, overall project inquiries are strong, potentially suggesting future growth



TRUIST

Data updated as of 9/15/2024
Sources: *Bloomberg, Wall Street Journal, Capital IQ, Federal Reserve Economic Data, Company Reports, Institute for Supply Management, U.S. Census Bureau, Harvard Joint Study on Housing, National Association of Home Builders, Industry Reports*