Executive Briefing
Marine

Briefing Date: Mar 2024

Index Remains Strong in January

Marine Index Shoots Higher

BLUF (Bottom Line Up Front): The Marine Leading Index was lower based on the latest data available. The demand index was 93.5, down from an adjusted 96.8 last month and it continued to remain near the long-term trend. The consumer generally remains stable, wage growth in some segments of the economy are growing at more than 10% (national average wage growth is still 4.5% and private sector growth is above 5.1%). Those conditions generally favor big-ticket purchases.

Favorable Economic Conditions:

- **Updated Economic Outlook Positive. –** For now, economic growth is exceeding expectations. If these trends continue, the US should see annual growth of nearly 2%, up nearly a full percentage point from estimates at the beginning of the year. Consumer spending is still trending ahead of expectations and corporate investment is generally remaining stable. There is no question that global geopolitics are weighing on expectations and have started to push some consumers to "bunker" (building cash reserves "just in case"), especially with uncertainties surrounding the election. But overall, the economy continues to be stable on the back of a solid jobs market. Without stable wage growth and employment, conditions would change quickly. And that's the data point to keep an eye on.

- **Interest Rate Questions Remain.** Just when it looked like the Federal Reserve would be poised to start cutting interest rates, the economy threw some curve balls at it. In the latest report from the Fed in March, expectations still hold for up to three, quarter-point cuts in 2024. The first quarter-point cut was projected to come as early as June, but those notions are starting to fade. Stronger than expected economic growth, sticky inflation, and a strong jobs market could keep the Fed in place longer. For now, most analysts still project that interest rates will move from a Fed Funds rate of 5.25% to 4.75% by the end of the year.

- **Real Disposable Income Slips M/M –** There has always been a stronger correlation between unit sales and disposable income. Current, inflation-adjusted disposable income grew at a 1.7% rate through February (slower than January's 2.1% rate). This is a slower rate than we saw over the past year (the 2023 average was 4.2%), but it is still positive when stripping out the impact of inflation. Consumers in general will still feel that they have capacity to spend, and their total income will still be growing based on this data. For the full year, economists expect disposable income to grow at just 1.4% in both 2024 and 2025, down from last year's rate of 4.2% as mentioned.

Risks Creating Headwinds for Sales:

- **Still Watching Layoff Risk.** Federal data on job openings still show a strong labor environment. Job openings are officially running at more than 8.5 million (6 million is normally a balanced labor environment). That keeps wage costs higher and keeps pressure on employers to manage costs. Again, it isn't showing up in the Federal data, but private survey data and layoff announcements might suggest that the labor environment is weaker than expected. Many of the jobs being created at this time are part-time, and fewer full-time jobs are being added. And many of the better paying jobs being added are highly regional in nature. New corporate headquarters locations, manufacturing sites, data centers and construction activity are heavy in some regions and light in others. That may explain why some regions are still seeing strong demand for boats while others may be struggling. For instance, a movement into coastal regions (especially in the southeast) could be pushing more yacht and offshore sales. Whereas fishing boat sales in some regions where layoffs or job openings are tighter could be lagging.

- **"Nothing to Fear but Fear Itself?"** There are multiple surveys now starting to show that the election, geopolitical issues and conflict, and general uncertainty about the future is hurting some consumers and their willingness to take on longer-term debt obligations. Although in most election years, the stock market will outperform most years. Only 4 times since the 1920's has the S&P 500 fell in an election year. Still, fear is one of the biggest factors preventing some households from diving into a new purchase, and that can work with non-essential debt-laden purchases.

Conclusions:

1. The Spader Leading Index for marine equipment slipped in February but it remained within the long-range expectations. We expect it to improve with improving weather conditions.

2. Job openings are still high and for the most part, job stability is still helping sales. But some fear of the upcoming election and global instability along with real pressures on disposable income could be affecting sales in some markets.

3. This year's weather patterns could be interesting for boat sales in the Gulf and along the Atlantic coastline. A more active hurricane season is expected in 2024 as a strong El Nino cycle is expected to transition into a La Nina cycle later this year, increasing the chances for strong storms.

Related Macro Items We are Watching:

1. **Petroleum Prices and Inflation.** At the time of writing, petroleum prices were rising and were up 19.6% year-to-date and were 15.9% higher vs. this time last year. JP Morgan is predicting that oil prices could move above $100 a barrel by July. And when it comes to many commodities, there may not be a more important item shaping global economics.

   Geopolitical issues and recent drone strikes on Russian refinery infrastructure has elevated concerns about global supply. Prior to these events, the EIA had projected supply matching demand for most of 2024 and into 2025. With China's economy perhaps performing a bit better than expected, some strength in India and slight improvements in Europe, demand projections could be moved upward. And with hits to production raising concerns of global oil supply, it is pushing overall oil price expectations higher. As mentioned, for now.

   Lastly, there is some risk in trying to predict the weather, but the hurricane forecast for 2024 is ramping up to be one of the most active in recent history. With warm Gulf and Atlantic waters coupled with a shift to La Nina (which changes upper wind currents and reduces wind shear), the number of US landings has the potential to be higher. Gulf oil production has been unimpeded for several years, and that could change this year. This would also push oil prices higher. If a strong storm were to make landfall in the Gulf region, it would push refined fuels and petroleum prices higher. Oil prices surged 39% in the three months after Katrina in 2005.

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Briefing Date: For Mar 2024

Adjusted Data Still Shows Growth, But Sluggishly

Leading Index:

- February 93.5
- January 96.8
- December 88.0
- November 89.8
- October 91.0
- September 100.0
- August 102.9
- July 101.0

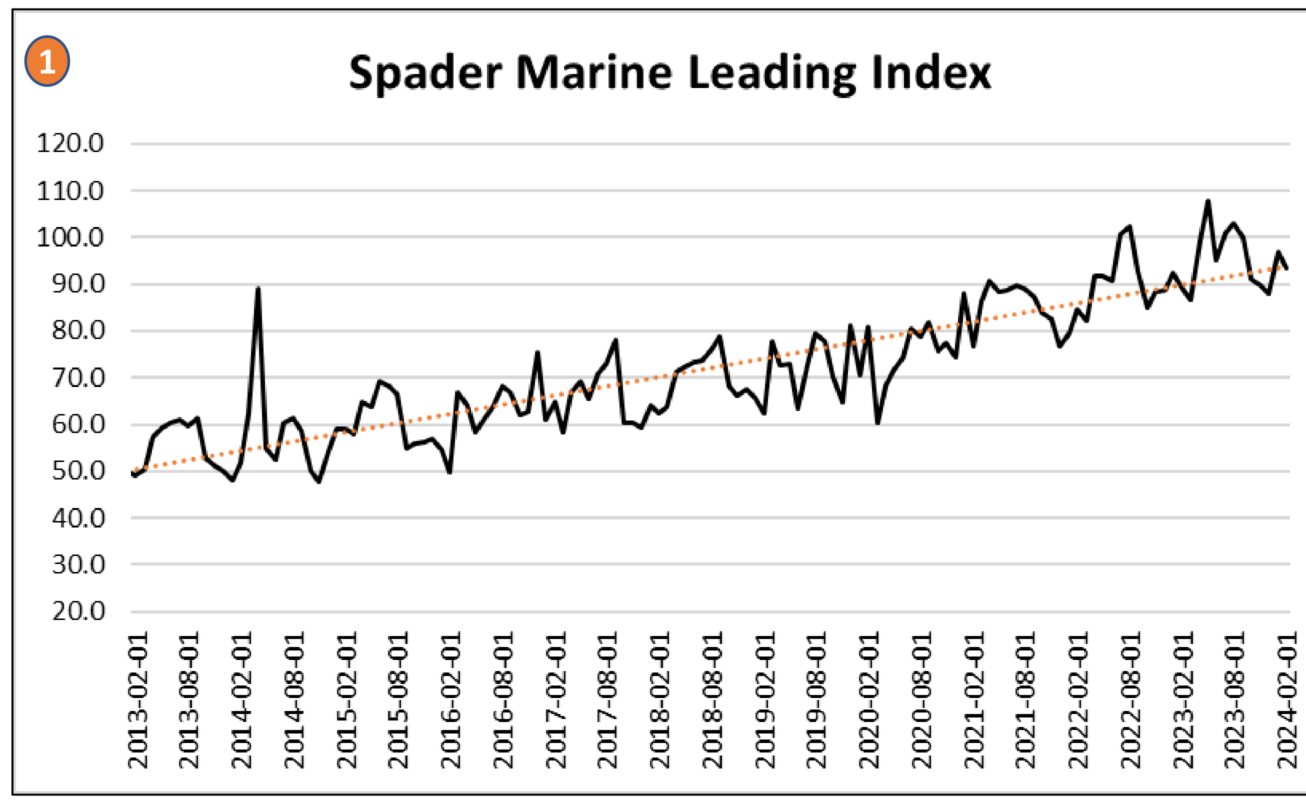
BLUF (Bottom Line Up Front): the **Spader Marine Leading Index was lower in February; it fell from an adjusted 96.8 to 93.5 month-over-month.** As is sometimes the case, data can be volatile, especially in an industry with big-ticket orders in some categories. Government data used to create the index were adjusted downward sharply in the latest wave, and that affected the outlook. Weather was also a real factor in January and February, and global supply chain issues were also a factor hampering seasonal demand at a national level.

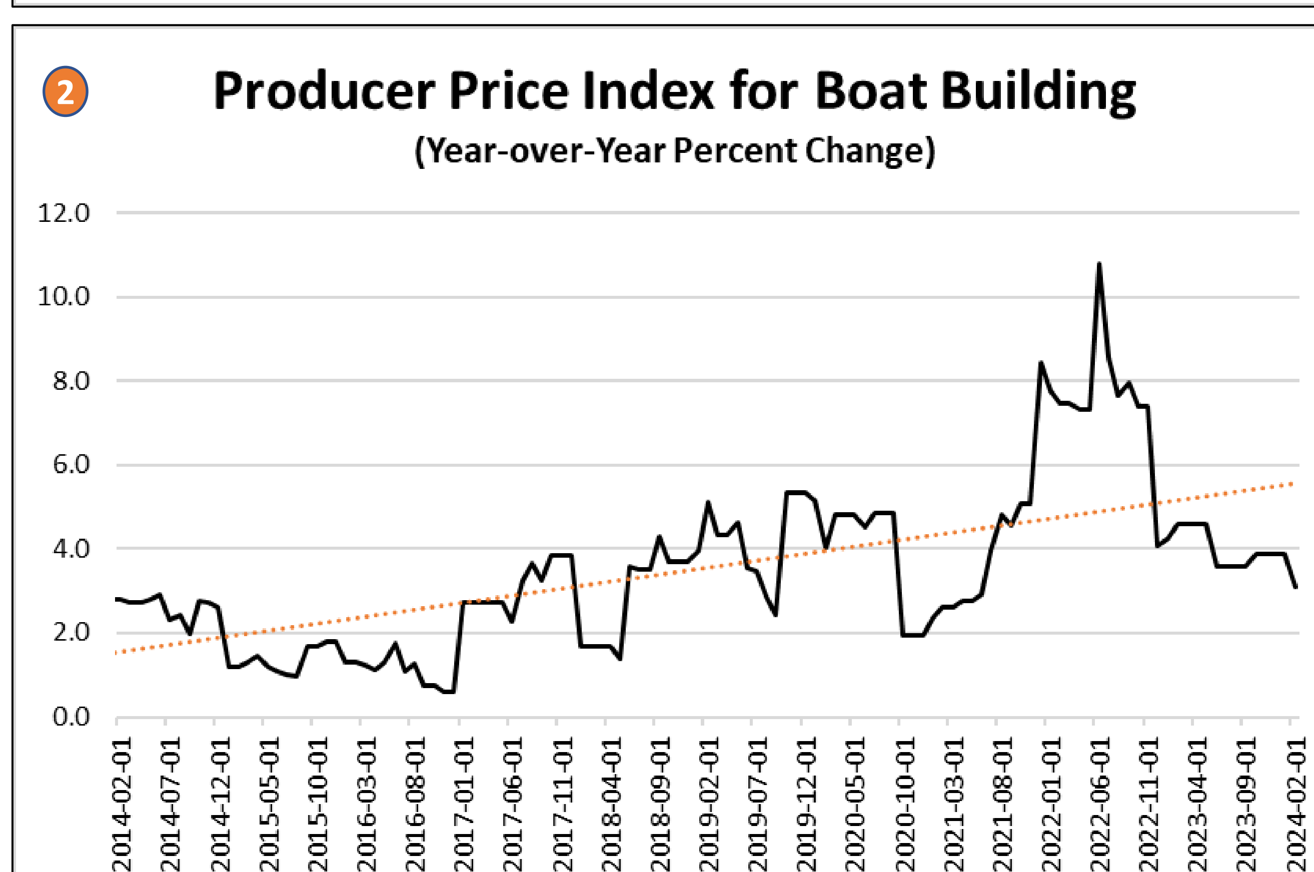
Marine Leading Index:

- 1 **February Leading Index at 93.5.** The Marine Leading Index came in at 93.5, lower vs. the adjusted February reading of 96.8. This is a decrease of 3.4% month-over-month heading into a stronger spring season. Removing seasonality, it was 5.1% stronger vs. February of last year. The Federal Government adjusted some of the input data used in the leading index, and that accounts for the sharp revisions in the past two months. The index still remains at or above the long-term trendline, and the industry is still generally showing a growing trend.

- 2 **Producer Price Index.** Prices for boat building (shown in the Producer Price Index) are a good barometer of the balance between inventory supply and demand for new units. The index was lower in February by 0.5% (latest available) month-over-month and was 3.1% higher versus February of 2023 (against very difficult comparisons).

- **What Pushed on the Index?** The Leading index uses a variety of variables to gauge the environment for boat sales and production demand in the months ahead. Some credit tightening risk is still working in the outlook and extreme weather was a factor coming out of January. But looking ahead, demand is still generally favorable for sales. As mentioned in prior months, certain categories of boats that fit upper and higher middle-income households are likely to do better than others. Fishing boats are also going to be stable with good construction, manufacturing, and other industry growth (good wage growth for those employees).





Looking Forward:

- **Spoke Too Soon, Oil Back on the Radar.** It was expected that we might be able to drop oil price coverage, but that was premature. As mentioned on the prior page, oil prices have increased, and that in-turn is pushing gas and diesel prices higher. If forecasts are correct, a wave of hurricanes moving through the Gulf could significantly change refinery activity, and push prices for fuels higher. Even without those risks, higher oil prices (being driven higher by OPEC+ and conflict risk) are possible for longer.

- **Hurricane Risk**. It seems odd to discuss storm risk, but significant storm activity can damage or destroy current vessels, damage harbors, and make it difficult for some owners to maintain their vessels. This year, hurricane prediction centers are increasing their forecasts for storms, and some forecasts show it to possibly be the biggest year for storms in several years. The ending of El Nino and beginning of La Nina will provide Gulf and Atlantic fuel for storms. In addition, La Nina changes the upper-level wind patterns and helps remove wind sheer which ripped the tops out of most hurricanes last year or steered them back out into the middle Atlantic where they lost energy and fizzled.