

Segment Shows Optimism Marine Index Pops Higher

Briefing Date: June 2025

BLUF (Bottom Line Up Front): The Marine Leading Index improved in the latest data. The demand index was 108.9, up sharply from 97.6 last month. Sales in this industry can be volatile, but this index is a leading indicator of future demand (over the next 6 months) and it was highly optimistic this month. Disposable income rebounded and was nearly 3% higher Y/Y, inflation was subdued, and wage growth was still nearly 4%. Consumer sentiment was improving over the past 30 days; and small business sentiment was improving. Conditions are still volatile, and trends could reverse.

Favorable Economic Conditions:

- Q2 GDP Surges** – The current trend for second quarter GDP is much hotter than expected. The Atlanta Fed is showing the GDPNow estimate at 3.8%, much higher than Blue Chip Economist estimates for 1%. Consumer spending and commercial investment was leading the surge. This runs contrary to general sentiment and concerns over potential recession risk. Most of the outlook has now turned, and it would accelerate if the budget bill is passed and the remaining 17 trade agreements are signed before July 7th. The risk of economic slowing is still possible; the environment is still highly volatile and is being buffeted by key factors that can affect economic growth (both positive and negative). But for now, the overall economic signals are good for big ticket item purchases.
- Job Data Shows Stability.** - Despite concerns over Government layoffs and a declining labor market, the latest data shows a resilient job market and healthy consumer markets. Through May, the unemployment rate was unchanged, private sector hiring added 139,000 jobs and most importantly, wage growth was still hovering near 3.8%. With wages outpacing inflation, households are slowly building some strength (especially in segments that are marine purchasing groups). Getting over their concerns about the economy is the first step, and surveys suggest that this may have been happening late in May. Slowing could still come, but the next couple of months look to be improving for now.
- Good Signs from Income Data.** – Sectors like marine are often driven by a few key metrics. First is the stock market. Many affluent buyers will base their purchase decisions on their stock portfolio and growth trends. Many will leverage those investments or will assume that they can use cash (since their investments are doing well) when their portfolios are growing. In 2024, more than \$220 billion in consumer spending was driven by a health stock market. This year, despite the volatility with trade, the S&P 500 is up 7.1% Y/Y. In addition, we watch inflation-adjusted personal income. When it is growing at a 2.5-3.5% rate, spending on big ticket items increases. Through May, US consumer incomes were growing at 2.9% Y/Y, which should help with marine sales in the second half of the year when trade uncertainty and the budget bill is passed (which removes a key tax increase risk that some consumers could be waiting to see eliminated before they dive into new durable goods purchases).

Risks Creating Headwinds for Sales

- Risk/Opportunity: 10 Year Treasury Rates**- This is also a recurring theme across all NCM sectors this month. The 10-Year Treasury is the bar for long-term borrowing. In sectors like recreational marine sales, when households are able to refinance higher mortgage rates, we always see an immediate spike in sales in the sector. This is one of the fastest means of adding monthly disposable income to consumers.

Unfortunately, at this time, the 10 Year Treasury is not budging from elevated levels. The current yield rate is 4.474%, which is lower than the 4.7880% level hit in January of this year, but it is much higher than the 2% rates on average from 2010 to 2021. US Treasury Secretary Scott Bessent believes that the 10Y can fall below 4%, which would push mortgage rates closer to 6%. Based on the average national mortgage balance, that would free up at least \$150 per month for most households to apply to other monthly payments. The risk comes in as the 10Y remains stubbornly higher, and if US Government debt increases and inflation moves up with it, the 10Y rate could go higher.

Conclusions:

1. The NCM Leading Index for marine equipment improved month-over-month by nearly 8% and was 11% higher year-over-year. This is a leading index and shows optimism for the next 6 months.
2. Reversing last month's trend, consumer spending found renewed strength in May and disposable income (after inflation) was growing at a brisk 2.9%. This , and a strong stock market, helps fuel marine purchases.
3. There is still an interim period over the next six weeks when some trade pressure is still present, and economic data may begin to show some weakness (a carryover from reciprocal tariff shocks that hit in April and early May).

Related Macro Items We are Watching:

1. **The Whiplash Shockwaves.** Across all NCM sectors, each have (and will) go through a similar set of significant shockwaves this year. The first shockwave hit in the first quarter when consumers and businesses were trying to get ahead of a potential port strike and tariffs (which at the time looked tame compared to the reciprocal tariffs).

From April 2nd through the present, reciprocal tariff fears (even after they were reduced for most countries to 10% for 90 days) led to a drop in consumer and corporate sentiment. It affected some sectors in an unexpected way, many consumers jumped out to try and make big ticket purchases before tariffs hit. But there was also an economic headwind created in the process.

Economic data could show some soft pockets over the next 30 – 60 days, despite most indexes showing an improving 6-month outlook.

But by July, if specific scenarios play out as expected, the second half of the year could be set for rapid growth. The budget deal is expected to be completed by early July (if it isn't, there will be a completely different set of expectations set for the remainder of the year and 2026 outlook). In the bill are provisions that would stimulate construction, manufacturing, and infrastructure buildout. Most households would see a continuation of current tax benefits, so there would be no real surge in consumer spending tied to that. But the fear of a tax hike would go away.

In addition, 17 more large trade agreements could be signed by then, boosting US exports by potentially \$350 billion a year. That could create a better 2H of '25 and a better outlook for '26.

Index Jumps in Latest Reading

Adjusted Data Shows Demand Improved

BLUF (Bottom Line Up Front): the NCM Marine Leading Index was higher in April (latest available); rising sharply. As is sometimes the case, data can be volatile, especially in an industry with big-ticket orders in some categories. Remember that **this is a leading index, it provides an indication of what is likely to come in the next six months.** A rising index signals that economic conditions are getting better whereas a declining index would suggest a weakening economic environment. Trade uncertainty is an unexpected event, and some of the hard data is still reacting to it. That could pull the index lower in the next month.

Marine Leading Index:

- **Leading Index at 108.9.** The Marine Leading Index came in surprisingly stronger at 108.9, higher vs. the adjusted March reading of 97.6. This is an increase of 7.7% month-over-month. Removing seasonality, it was 11.7% higher vs. April 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 is below the long-term trendline, and demand in the industry was weakening.
- **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 slightly higher in April by 0.1% M/M (latest available) but was 2.5% higher versus April of 2024 (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. Looking ahead, the outlook is rebounding and is stronger for sales. Disposable income has rebounded in the past 60 days. It was nearly 3% higher vs. April of 2024. Many consumers were concerned about the economic outlook, sentiment fell. But many will understand that they are in much better shape than they thought, inflation was still somewhat tame, and despite risk remaining the potential for stronger sales exists.

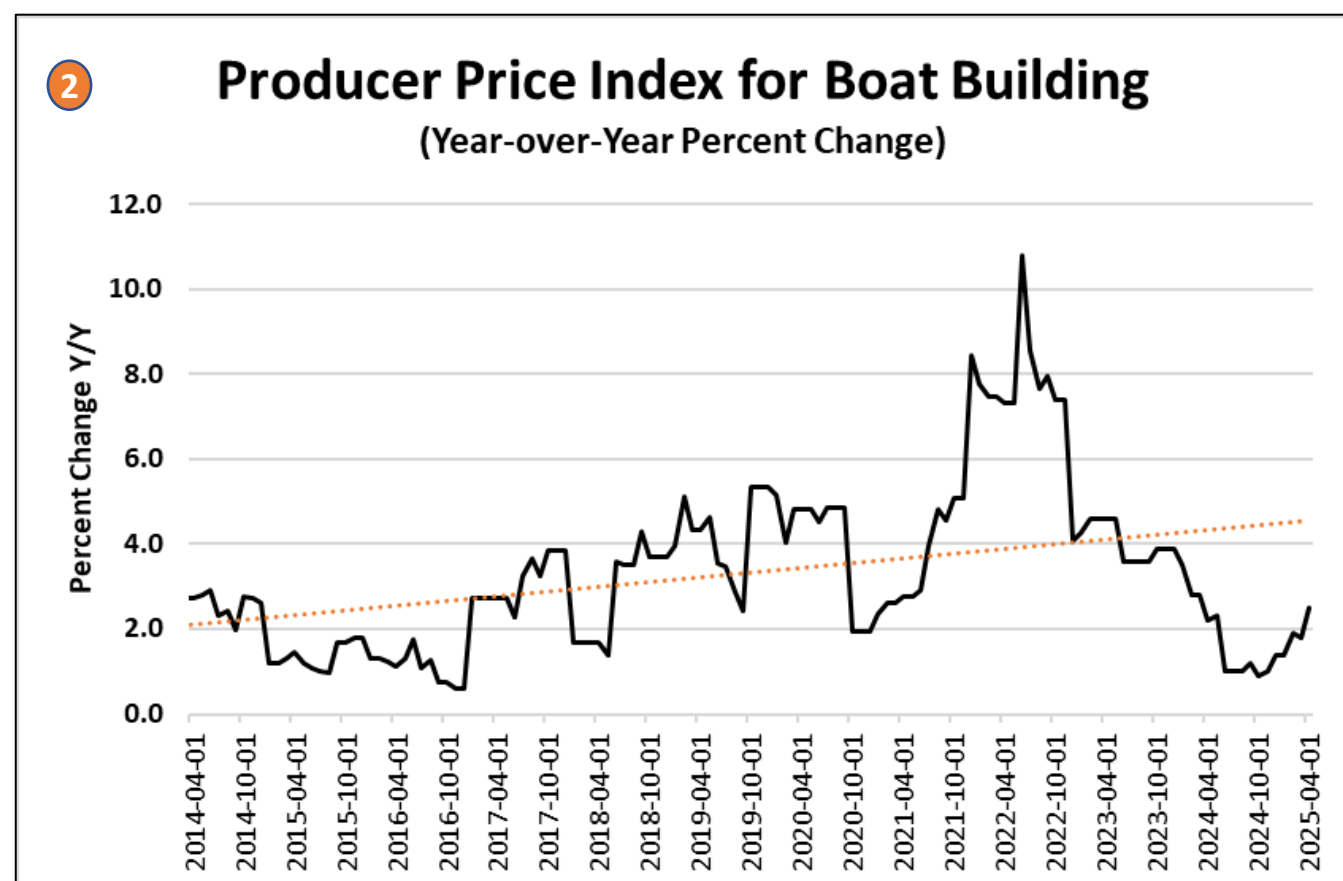
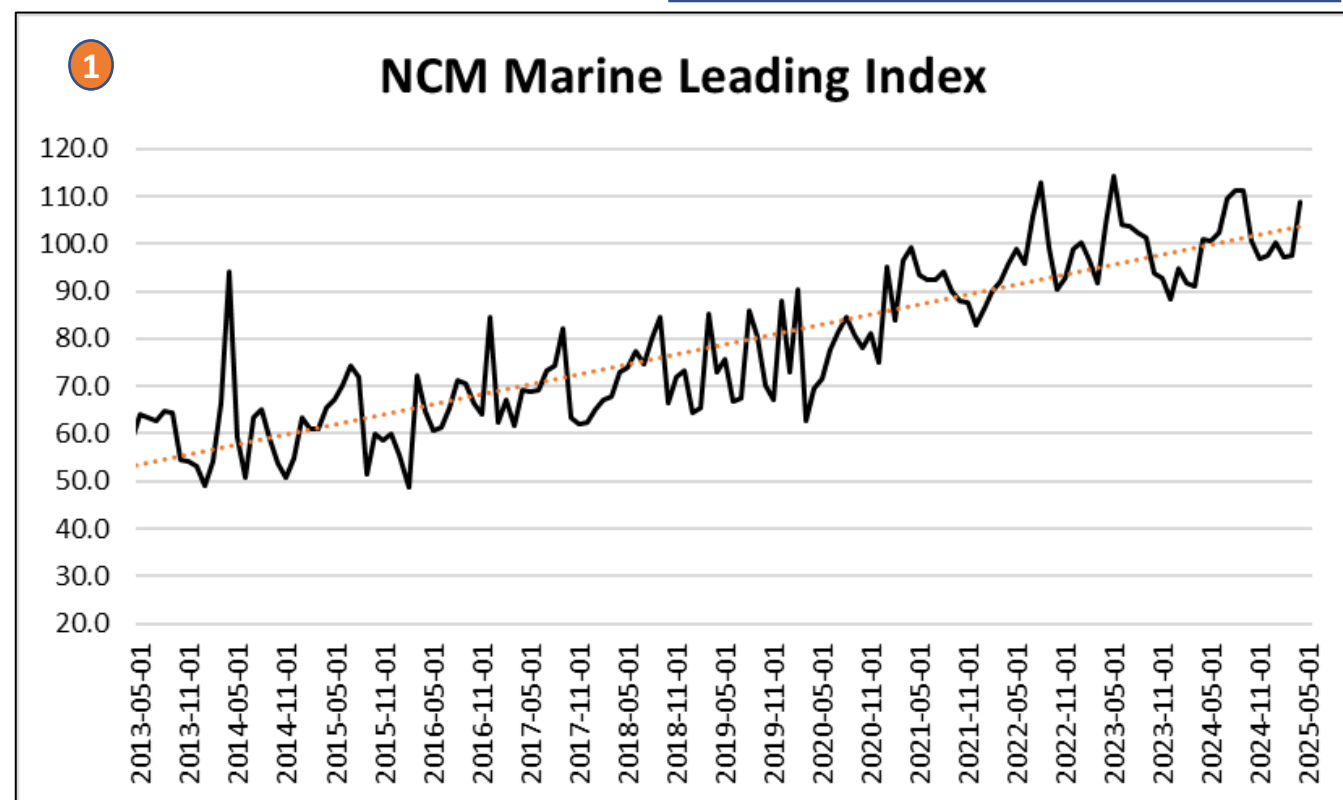
Looking Forward:

- **Marine Sectors to Watch for Growth.** Looking forward in the Marine sector, there are several sectors that shape national sales, and here is how each is expected to trend in 2025:
 - **Enthusiasts:** May data indicated increased consumer plans to purchase big-ticket items, such as homes, cars, and vacations, with a noticeable uptick in intentions to buy recreational products after May 12th. This suggests that consumers are feeling more optimistic about their financial prospects heading into the summer and recreational boat building is likely to increase as the indexes are showing.
 - **Freshwater Fishing Boats:** There was strong early-season demand and resilience in this segment, especially among middle-income buyers. Tariff concerns pushed some buyers into the market in April/May, but the outlook also remains stable.
 - **Pontoon Boats:** dealer sentiment surveys for the 2025 model year show that 32% of marine dealers expect pontoon boats to have the strongest demand, ahead of other categories like saltwater fishing and aluminum fish boats.
 - **Personal Watercraft (PWC):** Disposable income improvements should help with this segment, and a lower cost of entry for PWC vs. other boating segments.

Briefing Date: Early June 2025

Leading Index:

• April	108.9
• March	97.6
• February	97.1
• January	100.4
• December	97.5
• November	96.8



Looking Forward Continued:

- **Border Patrol:** orders for marine vessels used in patrolling offshore could see an increase in orders with the Trump Administration focus on securing waterborne immigration. With land-transits becoming more difficult, many will look to water-born transits into the US and the need for better water patrolling will increase.
- **Public spending:** Police forces and other types of public spending should have good state and local level tax receipts in F' 2025, which should help with spending in 2025. Rangers and game wardens should see increased demand.