



Executive Briefing Powersports



Briefing Date: Mar 2024

Index Rebounds in February

Leading Index Remains Elevated, 2.1% Higher Y/Y

BLUF (Bottom Line Up Front): The index tracked for the powersports sector rebounded in February. The data shows the leading index (which provides an estimate of whether the market is facing strong underpinning for growth) was higher by 1.5% month-over-month and was 2.1% higher vs. February of last year. And historically, the index continues to trend in-line with the ten-year averages, suggesting that the environment is still positive for growth going deeper into Q2.

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.
- **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.
- **“Doom Spending”.** Some categories of customers are engaging in what economists are calling “doom spending”. This happens when consumers feel that the economic environment is going to worsen, and they have little interest in saving for a rainy day – so they spend their cash like “there’s no tomorrow”. The notion is metaphorical, but it suggests that there could be a lot of consumer cash chasing deals in the powersports segment.
- **What Election Year?** Most people believe that consumer spending suffers during a presidential election year. But that appears to be far from the truth. Data shows that only four times in history has the S&P 500 been down in an election year. It seems to be a factor because two of those times have been in the last 23 years. But in general, it shouldn’t have an affect on consumer spending activity.

Risks Creating Headwinds for Sales:

- **Concerns About Some Input Costs.** Inflation has been a factor for some time since the pandemic started, but they were easing. March manufacturing reports suggest that input costs may be going back up for a variety of reasons. That, plus higher manufacturing wage and energy costs, could be a factor in future unit costs (pushing retail prices higher for equipment).
- **Waffling Federal Reserve.** It was expected that the Federal Reserve would ease interest rates in 2024, and indeed when one looks at the Fed expectations, it still calls for three cuts of a quarter-point each bringing the Fed funds rate from 5.25% to 4.75%. But that might not be the case. Current economic activity is strong, the jobs market is stable, consumer spending is still strong, and banking risk seems to have eased for now. So, a rate cut prior to the election is coming into more question, and that could also keep the Fed at bay. It will typically not change rates close to a presidential election for fear that it might be accused of election interference. A cut in rates would certainly help powersports sales, but if the Fed keeps the status quo, it will keep this “headwind” in place a bit longer.

Conclusions:

1. The Spader Powersports Leading Index came in higher by 1.5% month-over-month and continued to remain above the long-term growth trendline. It was higher by 2.1% Y/Y.
2. General economic fundamentals (especially the job market) continue to remain positive for demand. Consumers are still spending, and banks are easing lending standards for some forms of borrowing, especially durable goods like powersports.
3. Disposable income was slightly weaker, and that might be the only significant headwind to watch. Petroleum prices are also inching up, which could reverse some gains on inflation.

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.



Executive Briefing Powersports



Briefing Date: For Mar 2024

Index Increases in February

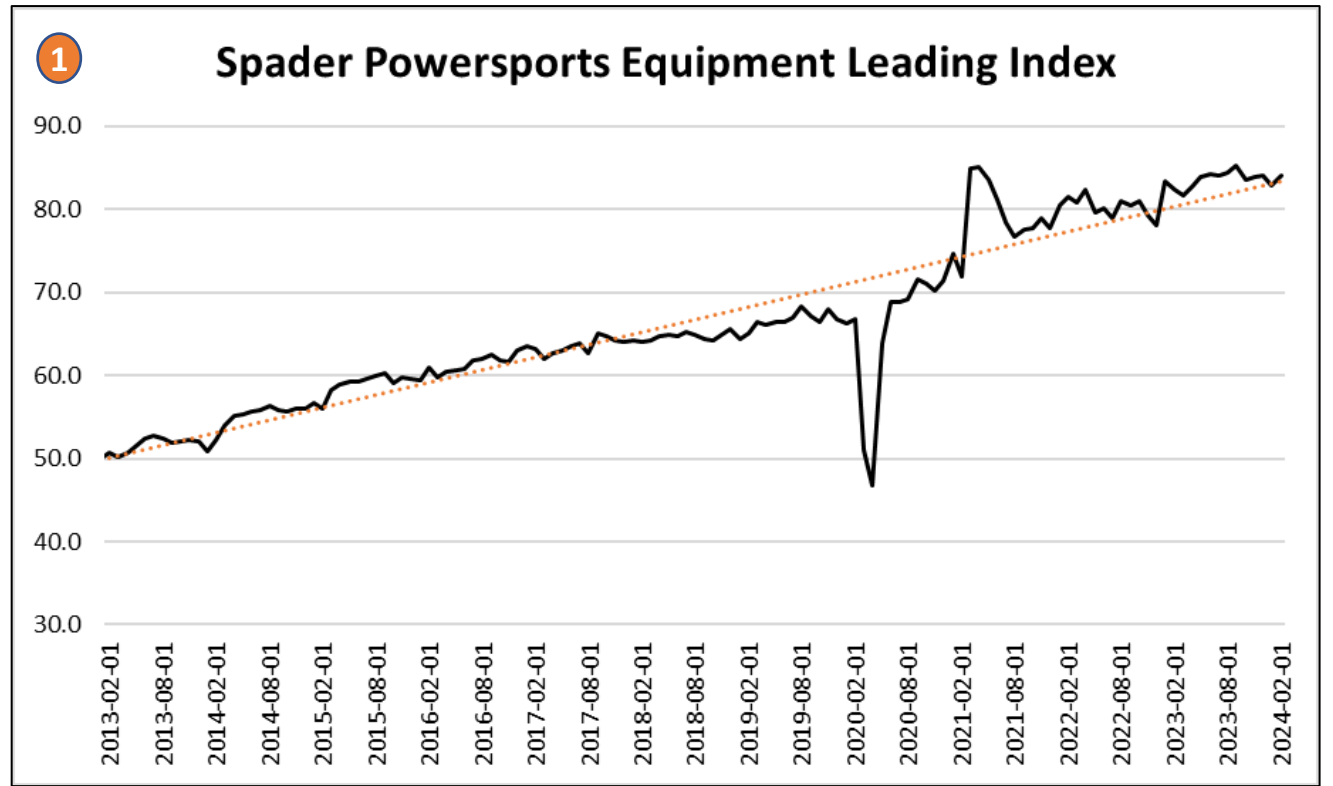
Leading Index Continues to Show Strong Signs

BLUF (Bottom Line Up Front): the Spader Powersports Leading Index rebounded month-over-month in February, the index came in at 84.1 (latest data available). The index uses multiple indexes to forecast forward-looking demand, and it remains strong on a historical basis and above the long-term trend. Looking forward, jobs remain stable for now and consumers are still spending. This could keep demand stable for a longer period.

Leading Index:	
• February	84.1
• January	82.8
• December	84.1
• November	83.9
• October	83.6
• September	85.2
• August	84.3
• July	84.1

Powersports Leading Index:

- 1 **February Leading Index at 84.1.** The Powersports Leading Index came in at 84.1, 1.5% higher against the adjusted January reading. It was 2.1% higher vs. February of 2023 (against historically strong comparisons from last year). The index continues to be in-line with the long-term trend (orange line in the graph at right).
- 2 **Retail Sales Index.** Sales for Powersports equipment (estimated change in the 3-month moving average shown below right) shows that the index was stronger in February, rising by 1.8% month-over-month. The index was 0.4% higher year-over-year but was down 0.1% in the 3-month moving average. This index also includes some small categories of retail sales that are loosely linked to Powersports. But the index provides a valuable reading on the general trend for industry activity.
- What Pushed on the Index?** The Leading Index uses a variety of variables to gauge industry demand and growth opportunities. The index again was higher from month-to-month and perhaps is best described as “stable” headed into the busier spring season. Many of the fundamentals that drive growth are performing well.



Looking Forward:

- Gasoline Prices to Touch \$4.00 Again?** If oil prices continue to rise at their current rate, gasoline prices would possibly approach \$4.00 a gallon once again (about 50 cents a gallon higher than today’s national average) sometime in early Q3. That would still be well short of the historic high of \$5.02, but the impact could keep some people out of the powersports segment while pushing others into it. Historically, some consumers have sought higher mpg scooters, motorcycles, and other equipment when prices surge, and it could be important to use some of that messaging in promotional materials if prices continue to escalate.
- A Consumer Shift to Assets?** All economic fundamentals run in cycles, and over the past two years, consumers slowly shifted their focus from product purchases to experiential spending. They took trips, went to concerts, and engaged in the “little luxuries” that they could afford. But with the cost of travel, lodging, food, and other factors pushing the cost of vacations and leisure higher, there are hints that consumers may be shifting back to “building assets”. They will still spend on entertainment, but it may come in the form of something that creates a tangible asset, and that trend would favor powersports of all types. It still provides the entertainment get away that they seek, but it also creates a tangible asset that (if they get bored with it) gives them an asset to sell. This is not a large shift, but even small percentages of vacation spending shifting into the powersports sector could have big, positive impacts on the industry.

