Executive Briefing
RV Sector

Briefing Date: Mar 2024

Index Moves Up in February

Demand Index Moves Up to 115.4

BLUF (Bottom Line Up Front): The indexes tracked for the RV sector increased in February, the RV Demand Index came in at 115.4 which was higher than the adjusted 114.9 posted last month. This increase was a rebound from last month, and some better weather in February helped. On an optimistic note, the index was 8.6% higher versus demand from a year ago. The retail sales index for RVs was weaker, falling 7.4% against last year at this time.

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 auto 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.

- **RV Rentals Mixed in February.** The rental of RVs for various purposes was mixed again in February data; it was up 1.3% Y/Y but was down 0.4% month-over-month. This is according to the Producer Price Index for RV Rental and Leasing (WPU442102). Non-residential construction activity was still growing at over a 14.2% annual rate through February. The construction sector often uses RVs and mobile homes for temporary housing and demand is still strong. Job openings in the construction are still at 441,000 (449,000 last month) and this workforce is mobile; they shift from project to project. Most construction outlooks now show that the nonresidential sector should remain strong through most of 2024 and even into 2025. In addition, and as mentioned last month is whether the US government will shift more spending and investment to forms of fixed housing trailer or RV rentals to house some migrant populations – which could spur some additional spending and investment in the sector.

Risks Creating Headwinds for Sales:

- **The Impact of the Stock Market on RV Sales**. It might not seem like a big factor, but the stock market can have a dramatic affect on sentiment and spending intentions for many buyers of big-ticket durable items. Many households in or near retirement have tremendous wealth sunk into the stock market.

  Estimates suggest that the surging stock market may have created as much as $900 billion in additional wealth in 2023. Of that, it would have generated more than $288 billion in incremental consumer spending activity – and when all direct and indirect impacts are measured, it would have contributed nearly $1.3 trillion in economic activity (76% of the contribution to GDP growth last year). The question is whether the stock market can continue to provide this level of contribution, or do consumers with large portfolios feel pressure and reduce spending expectations as a result?

  Predicting the stock market is difficult and investors have generally beat expectations for the past year or more. This remains an area to watch.

Conclusions:

1. The Spader RV Demand Index came in higher month-over-month by 0.4% but remained lower against the long-term trend. But it was higher by 8.6% Y/Y.

2. Disposable income has slowed a bit based on the most recent data. The outlook for 2024 and 2025 show growth of just 1.4% for disposable income after strong years of 4.5% or more in the past two years. This would keep sales stable, but more likely mirroring volumes in the era prior to the pandemic. Good stock market gains would be the counterbalance to this and could push demand higher.

3. Construction activity is still strong and migratory labor conditions are good – both favorable for some RV demand.

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

Index Improves in February

Demand Index Bounces to 115.4

BLUF (Bottom Line Up Front): the **Spader RV Demand Index moved up in February with a reading of 115.4 (latest data available).** As mentioned last month, demand levels are still relatively in-line with pre-pandemic demand levels (will differ region to region), but they remain below the long-term trendline that pulled upward during the boom in the pandemic. It remains well below the 180-point peak hit during the pandemic.

Demand Index:

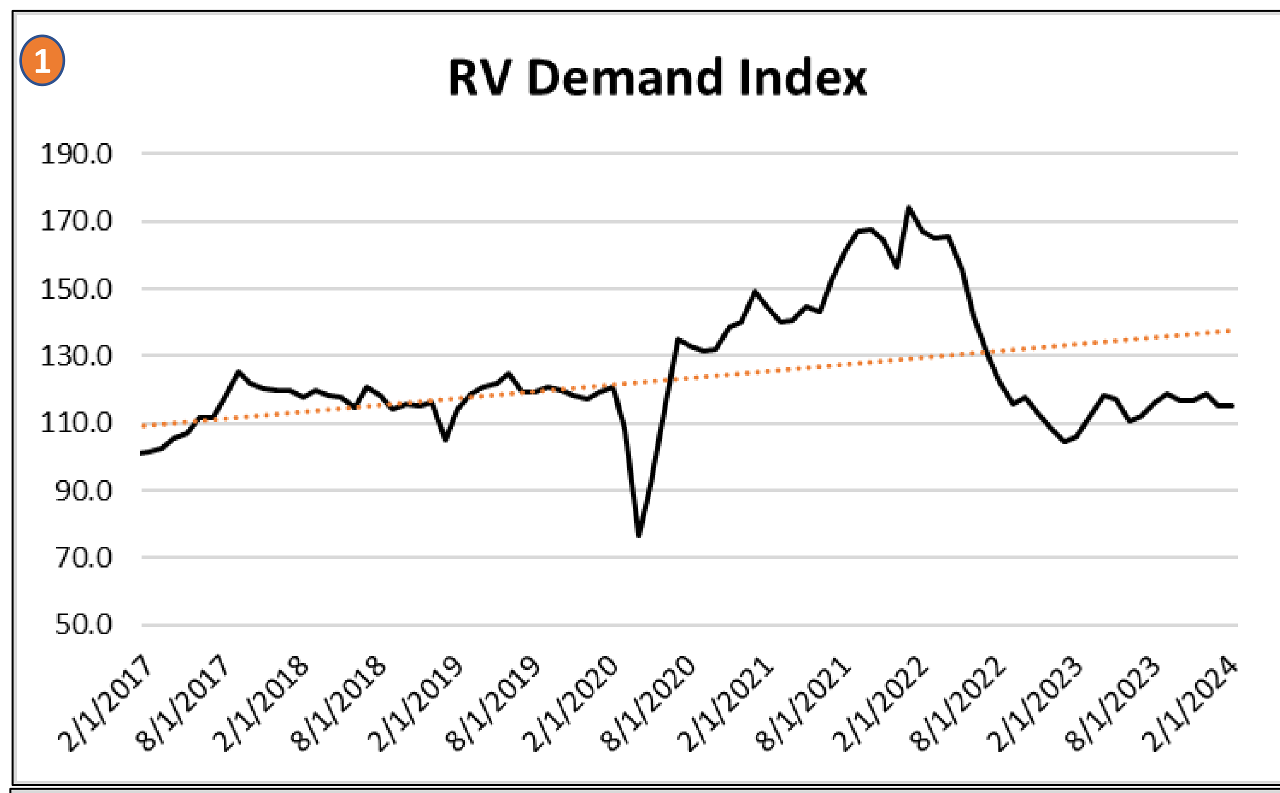
- February 115.4
- January 114.9
- December 118.6
- November 116.9
- October 116.7
- September 118.5
- August 116.3
- July 112.1

RV Demand Index:

- **February Demand Index at 115.4.** The RV Demand Index came in at 115.4, up 0.4% vs. the adjusted January reading of 114.9. And it was 8.6% higher vs. February of 2023.

- **Retail Price Index.** Prices for RV sales (shown in the Producer Price Index) are a good barometer of the balance between inventory supply and demand for new units. The index moved up in February, rising by 5.6% month-over-month; despite being lower by 7.4% versus February of 2023.

- **What Pushed on the Index?** The index stronger than this time last year (which removes some of the seasonal noise), but the demand side of things was lackluster and not sufficient to push the index back up to 2021/2022 levels. RV shipments are up but the missing factor is inventory. Anecdotes suggest that RV inventories are still getting bloated for many dealer lots, which could be a factor for producers in the coming quarters.



Looking Forward:

- **Fuel Prices Could Surge**. The impact of fuel prices can have an affect on RV sales, although there are other factors that likely weigh more on sales. Gasoline prices are currently slightly higher month-over-month, the national average is $3.54 a gallon ($3.32 last month). And diesel prices are now 4.0% lower than last year at $4.03 a gallon. But this is slightly higher than last month's $4.07 a gallon mark.

  Crude oil prices account for more than 50% of the price of a gallon of gasoline or diesel (it fluctuates), and new forecasts over the past thirty days suggests that oil prices could approach $100 a barrel by July. As mentioned throughout the briefing, conditions are set for oil prices to surge, which would push diesel prices back toward $5.00 a gallon and gasoline above $4.00 a gallon. If they do indeed surge to those levels, that would have an impact on RV sales and could override other positive trends.

- **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.