MARKETING
INSIDER BRIEFS

Higher material prices here to stay
Construction Dive

More upward pressure on the cost of building products will lead to a permanent shift in prices, according to construction industry sources. About 82.5% of construction materials experienced a significant cost increase since 2020, such as steel, concrete and electrical conduit. The rollercoaster ride of construction material prices is lining up to throw contractors for another loop. Although prices for key input commodities should continue to fall in 2023 and 2024, according to a report from Oxford Economics, the level remains greatly elevated compared to pre-pandemic. About 82.5% of construction materials experienced a significant cost increase since 2020, with an average jump of 19%, according to a construction materials report from construction cost data tracking firm Gordian. Despite the rising costs of certain materials, some prices this year have begun to show signs of softening, said Sam Giffin, director of data operations at Gordian. But don't expect materials prices to sustain that falling trajectory, Giffin said. "Although we're in the middle of a downswing from historic pricing peaks in 2022, it's likely that increasing demand for construction will sustain materials and labor pricing through 2024 and 2025," said Giffin. "For example, although our models show concrete material decreasing 1% to 2% per year through 2025, we anticipate materials like wood, plastics, composites, plaster, gypsum and thermal protection to hit average increases up to 6.5% per year in the same period."

AUTOMOTIVE NEWS
FROM AN

Automakers face slow U.S. sales growth in 2024
Automotive News

Automakers will have to work harder to sell vehicles in 2024 despite heading into what many expect will be the most normal year they've had since the pandemic. Rising interest rates, often above 7 percent, and tightening credit have sidelined a portion of consumers, and that could hinder sales of the replenished dealership inventory that automakers spent most of 2023 building back. Vehicle prices are stabilizing even as automakers begin to toss aside some of their incentive discipline of the past four years. Discounting also is expected to increase, and both factors will continue to push average transaction prices down. Industry watchers have fretted that the EV surge is slowing. But new EV registrations represented 7.4 percent of the U.S. market at the end of October, up from 5.3 percent a year earlier, according to data from Experian. Still, analysts predict slow growth for the industry in general in 2024, with many forecasting around 16 million new-vehicle sales. But factory supply chain disruptions that crimped output and starved dealership lots are solidly in the rearview mirror as are some of the worries around vehicle affordability that resulted from high demand and limited supply. Even though the major turbulence is easing, the industry will keep pace with the economy — which also has slowed in terms of job creation and gross domestic product growth. Many brands that pushed the accelerator have since slowed down, partly in response to the Inflation Reduction Act, which tightened the rules on how vehicles can qualify for the $7,500 federal tax credit. Hyundai, Kia and Genesis logged 76,441 new EV registrations through October, according to Experian. The South Korean brands were ahead of the 64,075 registrations from General Motors' Chevrolet, Cadillac, GMC and BrightDrop brands and the 55,155 from Ford. Tesla, by comparison, had 537,622 new registrations. Both Ford and GM have said they plan to slow their EV rollouts and place more emphasis on the sale of gasoline vehicles, which will mean more incentives and discounts.

Ford cutting 2024 F-150 Lightning production plans by half, suppliers told

The news comes amid an industrywide pullback in EV investment due to slower-than-expected sales growth. Ford Motor Co. is dialing back planned output of the electric F-150 Lightning pickup by half next year because of "changing market demand," a steep pullback of a high-profile nameplate the automaker spent most of this year working to build in larger numbers. According to a planning memo obtained by Automotive News, Ford has told suppliers to prepare for an average volume of around 1,600 Lightnings a week at its Rouge Electric Vehicle Center in Dearborn, Mich. starting in January. It had planned to assemble an average of 3,200 a week, toward an annual goal of 150,000. The output of gasoline-powered pickups at plants in Michigan and Missouri is expected to be essentially unchanged, the company said in the memo. Recently, though, EV demand has slowed, prompting Ford and other automakers to rethink ambitious production targets. The cuts have also upended suppliers that have invested millions of dollars in tooling and equipment to meet automaker's plans. Ford has delayed roughly $12 billion in EV investments and postponed some production targets. The company has said it was reducing some Mustang Mach-E production and postponing opening one of two battery plants planned in Kentucky with partner SK On.

General Motors is laying off 1,314 employees at two manufacturing plants in Michigan on the heels of reaching a new labor contract with the UAW.

The automaker will cut 945 jobs at its Orion Assembly subsystems plant in Orion Township starting Jan. 1 with the final phase on Jan. 15, according to a WARN notice filed with the state and received Dec. 6. The layoffs are in addition to those announced for the factory in October, the notice said. The company told the state it was unable to provide more advanced notice of the layoffs because it was waiting for the UAW contract to be ratified, which happened Nov. 16. The UAW strike cost GM $1.1 billion, and the automaker said the new contract will increase its labor costs by $1.5 billion in 2024. GM's latest round of job cuts in Michigan come while troubles mount at its self-driving car subsidiary Cruise, which fired nine employees Wednesday, including senior leadership, as it is investigated for a pedestrian-involved crash in California in October.

Construction Starts Hit 10-Month Low, Declining 15% in November
Dodge Construction Network

Total construction starts fell 15% in November, dropping to a seasonally adjusted annual rate of $927 billion, according to Dodge Construction Network. Nonresidential building starts fell 29% during the month, residential starts lost 6%, and nonbuilding starts dropped 2%. "Construction starts are deeply feeling the impact of higher rates," said Richard Branch, chief economist for Dodge Construction Network. "While the Federal Reserve seems poised to start cutting rates in the New Year, the impact on starts will lag. As a result, starts are expected to be weak through the mid-point of 2024 before growth resumes." Nonbuilding construction starts in November fell 2%, amounting to a seasonally adjusted $223 billion. Highway and bridge starts decreased 8%, environmental public works starts fell 4%, utility/gas starts rose 17%, and miscellaneous nonbuilding starts improved by 1%. Year-to-date through November, nonbuilding starts were up 19% overall. Utility/gas plants rose 49%, and miscellaneous nonbuilding starts increased 18%. Highway and bridge starts gained 9%, and environmental public works rose 11%. Nonresidential building starts decreased 29% in November to a seasonally adjusted annual rate of $345 billion. Manufacturing starts plummeted 74% following several strong project starts in October. Commercial starts fell 19% with office buildings being the only category to see a gain. Institutional starts rose 7% due to a significant uptick in healthcare activity. Year-to-date through November, total nonresidential starts were 7% lower than in 2022. Institutional starts gained 5%, while commercial and manufacturing starts fell 13% and 18%, respectively. Regionally, total construction starts in November fell in the Midwest, South Atlantic, South Central and West regions, but rose in the Northeast.

Commercial real estate volume may pick up in 2024 as Federal Reserve signals interest-rate cuts
CBRE

Commercial real estate transactions slowed considerably in 2023, amid high interest rates, declining values and pricing uncertainty. Investment volume declined by 42% in 2023 from the prior year, according to CBRE Group Inc. (NYSE: CBRE). The Dallas-based commercial real estate firm is expecting deal volume to be down again in 2024, but by a more modest 5% year over year. Richard Barkham, global chief economist and global head of research at CBRE, said there's been "enormous excitement" since the 10-year Treasury yield recently dropped, to about 4%. Combined with the Federal Reserve's signaling of some interest-rate cuts next year, that should propel more commercial real estate transactions in 2024. CBRE is forecasting an average 10-year Treasury yield of 3.3% between 2025 and 2028. That will likely result in more deal volume in the medium term rather than in 2024, though transactions are likely to start picking up in the second half of 2024, Barkham said. CBRE isn't predicting a recession in 2024 but expects the economy to slow, with a projected unemployment rate of 4.5% — up modestly from the rate of 3.7% last month — and the inflation rate to cool to about 2.7% by the end of 2024. Tim Bodner, real estate deals leader at PricewaterhouseCoopers LLP, said there's new optimism among real estate investors since the Fed's announcement recently. The economy is also holding up fairly well, with inflation coming down and the consumer and labor market overall resilient, he added. "All of these things provide a really nice backdrop for ... the commercial real estate market," Bodner said. But it's inevitable a looming wave of debt maturities will need to be addressed, and most who track the commercial real estate industry closely expect an uptick in distress and foreclosures in 2024. Moody's Analytics Inc. estimates there will be $182 billion in commercial real estate debt maturing next year.

THE BOURBON REVIEW: Kentucky Sets New Record for Aging Whiskey Barrels
The Bourbon Review

Back in 2010, former Kentucky Governor Steve Beshear touted there were over 4,000,000 barrels of aging whiskey in Kentucky, essentially one for every person in the state. Now, more than a decade later and under Governor Andy Beshear, that number was reported by the KY Distillers Association (KDA) to be at a towering 12.6 million barrels of aging whiskey, 3 to 1 barrel to person ratio in Kentucky. This is a new record for barrel inventory in Kentucky. New barrel production clocked in at 2.7 million as 2m has been topped annually for five consecutive years. Total yearly barrel production (brandy, vodka, et) hit 13.3 million, a record in itself. In 2022, the KDA reported that whiskey production has shot up 475% since 1999. In short, the industry is rolling. With robust production comes an increase in all associated materials needed to make the whiskey, to store the whiskey, and labor put forth to make both the whiskey and the barrels. The flipside to the coin, the KDA reported another record that the industry is not too thrilled about. Dishing out $50.2 million in barrel related taxation. This is also a record of a reported 30% increase in paid taxes from the prior year which approached $40 million. The year prior to that, taxation was closer to $30 million. Kentucky is the ONLY state in all of America that imposes a yearly property value related tax on all spirit barrel inventory. As a result, it got hot here in the Bourbon State between government and industry, hotter than the top floor of a 100 story rickhouse in August.