

Market Insight

January 2023

December Jobs Report—Payrolls rise by 223,000, and the unemployment rate falls to 3.5%. The last read on U.S. job growth in 2022 showed the labor market remained strong in December, even as the Federal Reserve raised interest rates to the highest level in 15 years. In 2022, the U.S. economy added 4.5 million new jobs, an average monthly increase of 375,000.

Average hourly earnings rose in December rose at a slightly lower pace of 0.3%, down from a revised 0.4% increase in November. On an annual basis, wages rose 4.6% in December, a slower pace than the 4.8% seen in November. [Full Story](#) *Source: Yahoo! Finance, 01.06.23*

Job Openings Hold Strong Despite Rate Hikes—Demand for employment remained high in November as companies looked for workers to fill positions despite worries of a looming

recession, the Labor Department reported January 4.

The Job Openings and Labor Turnover Survey for the month showed available positions at 10.46 million, down just fractionally from October's total and above the 10 million forecast by FactSet. The JOLTS survey is closely watched by Federal Reserve officials for signs of labor market slack.

As a share of the labor force, job openings remained at 6.4%, indicating demand for workers is still high despite the Fed's efforts to cool the economy and bring down inflation, which has been driven partially by rising wages.

A separate data point showed that the U.S. manufacturing sector contracted for the second consecutive month. The ISM Manufacturing Index for December came in at 48.4%, representing the percentage of companies showing expansion. That was about in line with

the 48.5% estimate from Dow Jones. A reading below 50% indicates contraction. On the jobs front, the JOLTS report showed a slight decrease in hiring and a bit of an increase in layoffs. However, the report had little indication of substantial labor market softening.

The quits level increased by 126,000, which took the rate up one-tenth of a percentage point to 2.7%, for a reading that is indicative of worker confidence that they can leave their jobs and find other employment. Open positions outnumbered available workers by about 1.7 to 1.

The ISM report also showed that the labor market for the manufacturing sector is solid. The jobs index component of the reading rose 3 points to 51.4. At the same time, the prices index, a gauge of inflation, declined to 39.4, a drop of 3.6 points. *Source: CNBC, 01.04.2023*

Economic Growth, Manufacturing Readings Improve At End Of 2022

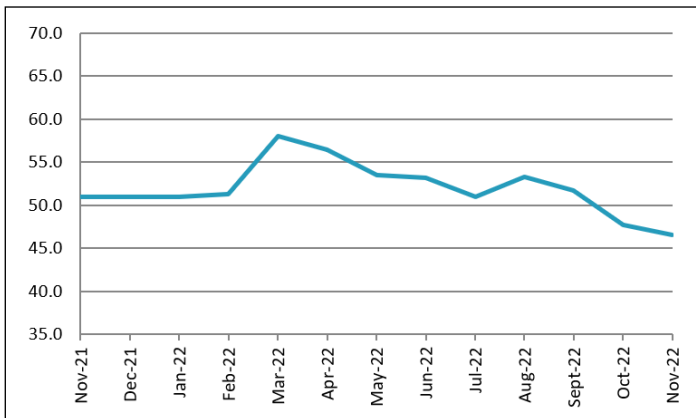
Here are the major economic headlines from the last week of 2022:

- Real gross domestic product (GDP) in the U.S. increased at an annual rate of 3.2% in the third quarter of 2022 according to the federal government's third and final estimate. In the second estimate, the increase in real GDP was just 2.9%. The updated estimates primarily reflected upward revisions to consumer spending and nonresidential fixed investment. In related news: The Conference Board's Leading Economic Index, a key indicator of future growth, fell 1% in November 2022 to 113.5 while the Federal Reserve Bank of Chicago's National Activity Index, another predictor of growth, fell to -0.05 in October, down from +0.17 in September.
- Canada's gross domestic product expanded by 0.1% from September 2022 to October 2022. The service sector grew for the six month in a row while goods-producing industries contracted for the fourth straight month. Leading the decline was a 2% drop in the oil and gas sector.
- The manufacturing sectors in some U.S. regions seemed to strengthen last month while other parts of the country

- continued to struggle. According to the Federal Reserve Bank of Kansas City, manufacturing activity in the Midwest declined in December at a slightly faster pace than it did during November. Specifically, the composite index was -9 in December, down from -6 in November. The slower pace in factory growth was driven by decreased activity in printing, wood products, machinery manufacturing, and food manufacturing.
- During the same month, however, the Texas manufacturing sector improved. The Federal Reserve Bank of Dallas said growth in its region resumed in December. The bank's production index rose nine points to +9.7 and the new orders reading rose to -9.2 from -20.9. Capacity utilization in Texas also returned to positive territory. Additionally, the Federal Reserve Bank of Richmond reported that its composite manufacturing index increased to +1 in last month from -9 in November. Each of its three component indexes—shipments, new orders and employment—improved. [Full Story](#) *Source: MSCI, 01.02.2023*

Key Economic Indicators

Architecture Billings Index (ABI)



In the week ending on December 31, 2022, domestic raw steel production was 1,602,000 net tons while the capability utilization rate was 71.8%. Production was 1,768,000 net tons in the week ending December 31, 2021 while the capability utilization then was 80.1%. The current week production represents a 9.4% decrease from the same period in the previous year. Production for the week ending December 31, 2022, is down 0.7% from the previous week ending December 24, 2022, when production was 1,614,000 net tons and the rate of capability utilization was 72.3%.

The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.

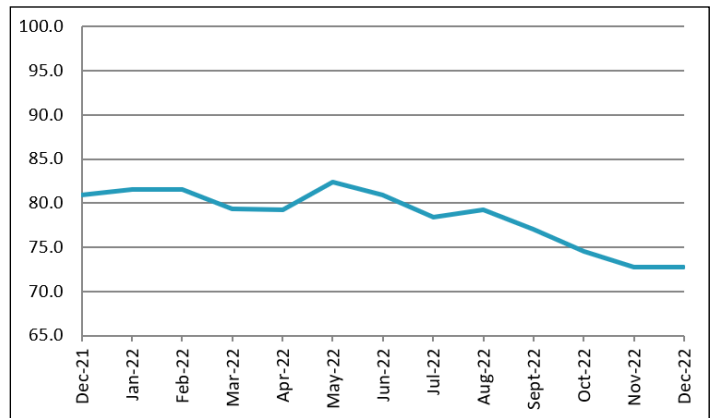
Source: American Institute for Architects, 12.14.2022

Purchasing Managers Index (PMI)®

The December Manufacturing PMI® registered 48.4%, 0.6 percentage point lower than the 49% recorded in November. Regarding the overall economy, this figure indicates contraction after 30 straight months of expansion. The Manufacturing PMI® figure is the lowest since May 2020, when it registered 43.5%. The New Orders Index remained in contraction territory at 45.2%, 2 percentage points lower than the 47.2% recorded in November. The Production Index reading of 48.5% is a 3 percentage point decrease compared to November's figure of 51.5%. The Prices Index registered 39.4%, down 3.6 percentage points compared to the November figure of 43%; this is the index's lowest reading since April 2020 (35.3%). The Backlog of Orders Index registered 41.4%, 1.4 percentage points higher than the November reading of 40%. The Employment Index returned to expansion territory (51.4%, up 3 percentage points) after contracting in November (48.4%). The Supplier Deliveries Index reading of 45.1% is 2.1 percentage points lower than the November figure of 47.2%; this is the index's lowest reading since March 2009 (43.2%). The Inventories Index registered 51.8%, 0.9 percentage point higher than the November reading of 50.9%. The New Export Orders Index reading of 46.2% is down 2.2 percentage points compared to November's figure of 48.4%. The Imports Index continued in contraction territory at 45.1%, 1.5 percentage points below the November reading of 46.6%.

The two manufacturing industries that reported growth in December are: Primary Metals; and Petroleum & Coal Products. The 13 industries reporting contraction in December, in the following order, are: Wood Products; Fabricated Metal Products; Chemical Products; Paper Products; Plastics & Rubber Products; Electrical Equipment, Appliances & Components; Furniture & Related Products; Apparel, Leather & Allied Products; Computer & Electronic Products; Machinery; Food, Beverage & Tobacco Products; Transportation Equipment; and Miscellaneous Manufacturing. *Source: Institute for Supply Management, 01.01.2023*

Steel Capability Utilization

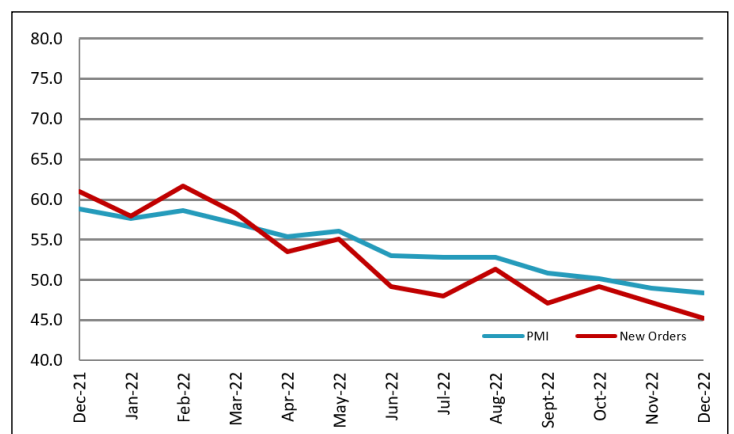


In the week ending on November 26, 2022, domestic raw steel production was 1,625,000 net tons while the capability utilization rate was 72.8%. Production was 1,828,000 net tons in the week ending November 26, 2021 while the capability utilization then was 82.8%. The current week production represents a 11.1% decrease from the same period in the previous year. Production for the week ending November 26, 2022 is down 0.2% from the previous week ending November 19, 2022 when production was 1,628,000 net tons and the rate of capability utilization was 73.0%.

Adjusted year-to-date production through November 26, 2022 was 81,245,000 net tons, at a capability utilization rate of 78.5%. That is down 5.2% from the 85,705,000 net tons during the same period last year, when the capability utilization rate was 81.3%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute.

Source: AISI, 12.31.2022



Biden's Signature Advances Major Projects In Water Bill

President Joe Biden signed a large defense bill on December 23 that includes a water bill that directs the Army Corps of Engineers on major infrastructure projects to improve navigation and protect against storms worsened by climate change. The biggest project by far this year is a \$34 billion Texas coastal barrier featuring massive floodgates and other structures to protect the Houston region with its concentration of oil refineries and chemical plants, at risk during major hurricanes. The Water Resources Development Act of 2022 also includes a \$3.2 billion authorization for a new Soo Lock on the St. Mary's River which connects Lake Superior with Lake Huron.

Nearly all U.S. iron ore is mined near Lake Superior, but to create steel and build cars, it needs to travel on large vessels through a single, aging Michigan lock that federal officials have called the Achilles' heel of the North American industrial economy. There are two locks operating but only one is big enough to handle the roughly 1,000 feet (305 meters) freighters the industry uses. "Everything was built around water transport on the Great Lakes," said Kevin Dempsey, president and CEO of a steel industry group. If the lock fails, it could upend industry and manufacturing, he said. Roads and rail aren't workable alternatives.

After years of studies and planning, members of Congress push to include their preferred projects in the water bill, typically every two years. If they are successful, they tout the job creation and local benefits back in their districts. This water bill includes 25 project authorizations. Versions of the new Michigan lock have been authorized by Congress before and it is already under construction. But the Army Corps said inflation, design changes and other factors have significantly increased its cost. This year Congress authorized the Corps to spend much more. Some of the money still needs to be allocated. Officials say the new lock should be finished in 2030.

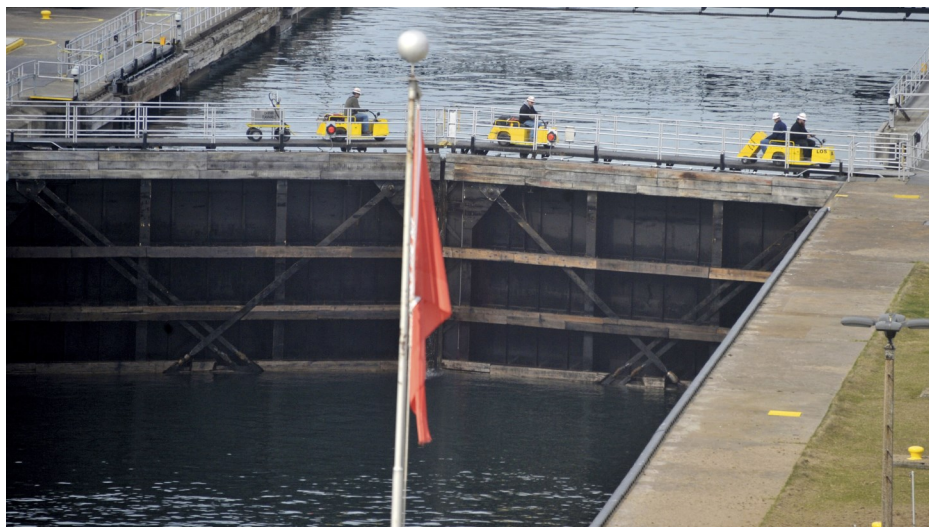
The new Soo Lock is in Sault Ste. Marie on Michigan's eastern Upper Peninsula, about 346 miles (556 kilometers) north of Detroit. The existing Poe Lock is growing older and Army Corps officials don't want it to be a single point of failure for a critical supply chain.

"When you have steel components that are in the water for 50 years, they do tend to fatigue and deteriorate," said Kevin McDaniels, deputy district engineer for the Army Corps Detroit District.

The Senate voted 83-11 earlier this month to pass the national defense bill. In addition to water infrastructure, it increases spending on defense programs and includes a Republican-favored measure to end COVID-19 vaccination mandates for U.S. service members. It passed the House with broad, bipartisan support. The water bill also makes it easier for the Corps to shift toward using wetlands and other nature-based solutions to combat flooding.

"There is a lot in here that is important for our environment, our economy and for climate resilience," said Amy Souers Kober, a spokesperson with American Rivers. For example, when hurricanes hit, coastal protections can be built with climate change in mind, allowing designers to think about how much seas will rise when they make their plans.

There are numerous other provisions. The bill improves outreach with tribes, allows the Corps to focus more on water conservation in drought-prone areas and supports ecosystem restoration projects. In Michigan, it shifts more of the costs to the federal government for a project aimed at protecting the Great Lakes from invasive carp. **Source: AP, 12.23.2022**



Source: AP

Industry News

Steel Imports Fall 17% In November

The U.S. imported 2 million tons of steel in November, down 17% versus October, according to preliminary U.S. Census Bureau data. The figure included 1.758 million tons of finished steel that would not need to be further processed by American workers, such as those at steel companies at the Port of Indiana-Burns Harbor.

Finished steel imports were up 10.7% from October, according to preliminary data from the U.S. Census Bureau. So far this year, total steel imports are up 0.2% as compared to the same period in 2021.

Finished steel imports are up 14.1% through the end of November as

compared to the first 11 months of last year, according to the American Iron and Steel Institute, the Washington D.C.-based steel lobbyist and trade association. Year-over-year, steel imports are up 4.8% and finished steel imports up 17.4%. Finished steel imports grabbed 22% of the market share in November and 24% so far this year, according to the AISI.

In November, imports of oil country goods were up 35% and plates in coils by 11%. Over the past 12 months, imports of standard pipe were up by 52%, oil country goods by 48%, heavy structural shapes by 43%, line pipe by 41% and wire rods by 40%.

Last month, the largest suppliers of foreign-made steel were Canada, Mexico, Brazil, South Korea and Germany.

Steel imports fell by 6% from Canada, by 41% from Mexico and by 28% from Brazil, according to the AISI. Imports from Germany rose by 10%.

Over the last 12 months, imports are flat at 6.89 million tons from Canada, up 22% to 5.44 million tons from Mexico, up 4% to 2.82 million tons from South Korea, down 33% to 2.72 million tons from Brazil and up 14% to 1.216 million tons from Japan. **Source: Northwest Indiana Times, 12.31.2022**

Feds Order Review Of Power-Grid Security After Attacks

Federal regulators on December 15 ordered a review of security standards at the nation's far-flung electricity transmission network, following shootings at two electric substations in North Carolina that damaged equipment and caused more than 45,000 customers to lose power. The order by the Federal Energy Regulatory Commission directs officials to study the effectiveness of existing reliability standards for the physical security of the nation's power grid and determine whether they need to be improved.

"The security and reliability of the nation's electric grid is one of FERC's top priorities," FERC Chairman Richard Glick said at a commission meeting December 15. "In light of the increasing number of recent reports of physical attacks on our nation's infrastructure, it is important that we fully and clearly review the effectiveness of our existing physical security standard to determine whether additional improvements are necessary to safeguard the bulk power system," Glick said. The order comes less than two weeks after one or more people drove up to two substations in central North Carolina, breached the gates and opened fire on them. Outages began shortly after the Dec. 3 nighttime attack and lasted several days before powers was restored to almost all households in Moore County four days later.

Even as power was restored, Duke Energy Corp., which owns the two North Carolina substations, reported gunfire Dec. 7 near another Duke facility in South Carolina. Law enforcement officials say they have found no evidence linking incidents in the two states, although multiple state and federal agencies

continue to investigate. At least four electrical substations have been targeted in separate attacks in Oregon and Washington state since November, Oregon Public Broadcasting and other outlets reported. Attackers used firearms in at least some of the incidents, and some power customers in Oregon temporarily lost service.

Grid security experts have said the attacks demonstrate anew the vulnerability of the nation's electric grid, which includes more than 50,000 substations and more than 700,000 miles of transmission lines. Power transformers are highly visible in thousands of sites across the country and "are really vulnerable—sometimes to a drunk with a gun and an attitude," said FERC commissioner Mark Christie. "We have a lot of incidents of that. That's not unusual. The substations are a different ballgame." He called the North Carolina attack "sophisticated" and noted that it caused outages for more than 40,000 people.

While officials are likely to recommend changes such as high-definition cameras, 24-hour surveillance or opaque walls, "How are we going to pay for all the upgrades?" asked Christie, a Republican who has served on the panel since 2020. The bipartisan infrastructure law includes as much as \$15 billion for power grid upgrades and resilience, and Christie said he hopes some of the money is used for "deferring some of the cost of the hardening that we know is going to take place" as a result of the recent attacks. "I hope this does not flow through to ratepayers," he said. **Source: AP, 12.16.2022**

Special Section: Trade

U.S. Department Of Commerce Issues Several Metals-Related Trade Decisions

The U.S. government announced decisions in several antidumping and countervailing duty matters prior to, and after, the holidays. These matters include:

- Amending the final results of the administrative review for the antidumping duty order on large diameter welded pipe that is imported from Canadian steel producer Evraz, Inc. The review and change was necessary in order to correct ministerial errors. As a result of the review, the U.S. Department of Commerce (DOC) lowered the dumping

margins from 36.02% to 26.15%. Read more [here](#).

- The final results of the sunset reviews of antidumping duty orders on certain hot-rolled steel flat products from Turkey, which found revoking these duties would be likely to lead to continuation or recurrence of dumping. As a result of the finding, DOC set weighted-average dumping margins of 24.32% for these products. The DOC also extended antidumping tariffs on hot-rolled steel flat products from five other countries (Australia, Japan, the Netherlands, South Korea, and the

United Kingdom), but revoked antidumping duty order on these products from Brazil. Read more [here](#).

- A preliminary finding from the DOC that determined some producers and exporters from the United Arab Emirates had made sales of circular welded carbon-quality steel pipe at less than normal value between December 1, 2020 to November 30, 2021. As a result of the finding, preliminary antidumping duties ranging from 2.61% to 4.94% went into effect on December 28, 2022. Read more [here](#). *Source: MSCI, 01.02.2023*



U.S. Considers Steel, Aluminum Tariffs From High Carbon-Emitting Countries

The Biden administration is set to propose new import tariffs on steel and aluminum based on how much carbon the producing country's industries emit. The proposal would be negotiated with the European Union and is aimed at penalizing non-market economies like China. While the United States has not formally introduced this proposal, according to the draft obtained by Reuters, market-oriented countries would form a sort of "club" that would set emissions intensity standards for the production of specific steel and aluminum and products.

The club would exclude China and other non-market economies and would set out criteria to "prohibit member countries from contributing to the problem of unviable excess steel and aluminum capacity." Countries that are members of the global arrangement that produced emissions that exceed the standards would pay higher tariffs when exporting metals to countries with lower emissions. Countries with steel and aluminum plant emissions at or below those of the importing country would pay no carbon-based tariffs.

According to an unnamed source, "There would be an advantage of being in the club" since those in it "would provide a lower level of carbon tariffs, while countries outside the club would pay higher tariffs" for violating emissions standards.

The source also confirmed the proposal is still very much in the "conceptual" stage. Reuters also reported the "hurdles to the plan are significant" since "the Biden administration's legal authority for putting carbon-based tariffs in place is far from clear."

How would the proposal affect North American metals producers? According to Reuters, U.S. steelmakers have the world's lowest carbon emissions levels because 70% of American steel is made from scrap iron in electric-arc furnaces. European steelmakers rely more heavily on coal so the proposal would be advantageous to U.S. producers.

Source: MSCI, 12.13.2022