Market Insight

September 2022

<u>U.S. Job Growth Slows From Red Hot Pace</u>—As expected, moderation in the labor market may have begun, as the Federal Reserve tries to engineer a slowdown and tame inflation.

Job growth slowed in August but stayed solid, suggesting that rising interest rates and fear of a possible recession are leading companies to pull back on hiring — but that the labor market recovery remains resilient.

The unemployment rate rose to 3.7%, from a half-century low of 3.5% in July. That rate only counts people who are actively looking for jobs, and the uptick came alongside a big increase in the size of the labor force—a sign that rising wages, abundant job opportunities and the receding pandemic are leading more people to look for jobs. Full Story
Source: NYTimes, 09.02.2022

<u>U.S. GDP Contracted 0.6% in Q2, Less Than Initial Report</u>—The American economy contracted in the April-June quarter but not as much as initially reported, as revised data showed stronger U.S. exports and spending, according to government data released August 25. Second quarter GDP fell 0.6%, annualized, less than the 0.9% drop the Commerce Department announced in the initial estimate last month.

Coming after the steep 1.6% contraction in the first quarter, the data still feeds concerns about a recession in the world's largest economy, which is often defined as two quarters of negative growth. But many economists have argued that definition does not apply to the current situation, given that the very strong labor market and resilient U.S. consumer mean the downturn is not widespread throughout the economy.

Ian Shepherdson of Pantheon Macroeconomics notes that incomes also increased in the latest quarter, which bodes well for continued upward revisions to the data. "We are reasonably confident that when the comprehensive revisions are published in October, the declines in GDP in Q1 and Q2 will be revised away," he said. The report said the upward revision in the most recent data "primarily reflected an upturn in exports and a smaller decrease in federal government spending," as well as higher consumer spending. "The increase in consumer spending reflected an increase in services (led by food services and accommodations)," the report said.
Source: Agence France-Presse, 08.25.2022

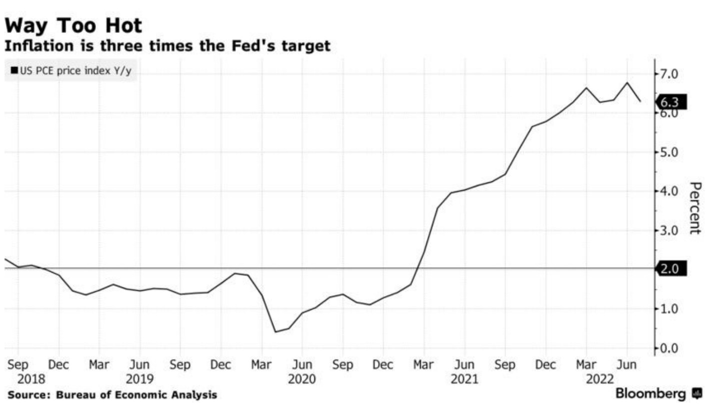
<u>Consumer Confident Rises For The First Time In Four Months On Cheaper Gas And Slower Inflation</u>—The numbers: A survey of U.S. consumer confidence rose in August for the first time in four months thanks to falling gasoline prices, suggesting a slowing economy stabilized toward the end of summer. Economists polled by *The Wall Street Journal* had forecast the index to rise to 97.4 from 95.7 in the prior month. Full Story
Source: MarketWatch, 08.30.2022

Powell Abandons Soft Landing Goal As He Seeks Growth Recession

<u>Forget about a soft landing</u>. Federal Reserve Chair Jerome Powell is now aiming for something much more painful for the economy to put an end to elevated inflation. The trouble is, even that may not be enough. It's known to economists by the paradoxical name of a "growth recession." Unlike a soft landing, it's a protracted period of meager growth and rising unemployment. But it stops short of an outright contraction of the economy.

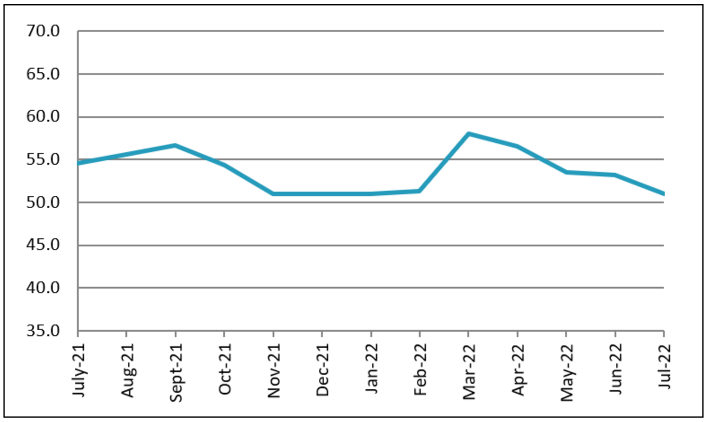
Powell "buried the concept of a soft landing" with his August 26 speech in Jackson Hole, Wyoming, said Diane Swonk, chief economist at KPMG LLP. Now, "the Fed's goal is to grind inflation down by slowing growth below its potential," which officials peg at 1.8%. "It's a bit like dripping water torture," added Swonk, who attended the Fed's annual Jackson Hole symposium last week. "It is a torturous process but less torturous and less painful than an abrupt recession."

The shift in Powell's message got the attention of Wall Street. Stock prices have swooned since the Fed chair vowed to do what it takes to rid the economy of too-high inflation. Politicians in Washington took note too. Massachusetts Senator and former Democratic Party presidential hopeful Elizabeth Warren voiced concern that the Fed could tip the economy into a recession, while Senate Republican Party leader Mitch McConnell said a downturn was likely as the central bank raises rates to combat inflation. Full Story *Source: Bloomberg, 08.31.2022*



Key Economic Indicators

Architecture Billings Index (ABI)

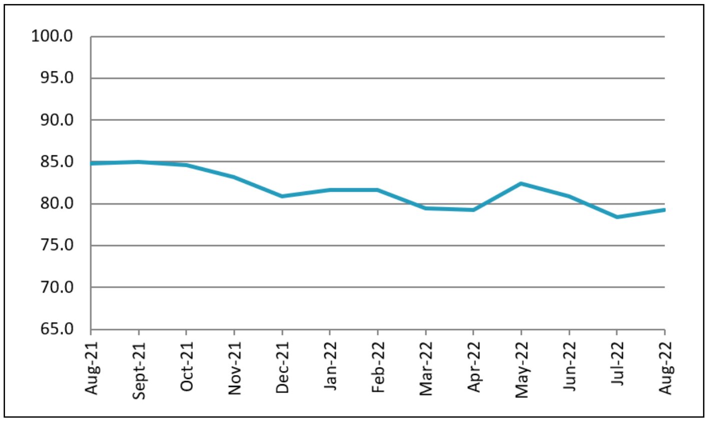


For the eighteenth consecutive month architecture firms reported increasing demand for design services in July, according to a new report today from The American Institute of Architects (AIA).

The AIA Architecture Billings Index (ABI) score for July was 51.0. While this score is down from June's score of 53.2, it still indicates stable business conditions for architecture firms (any score above 50 indicates an increase in billings from the prior month). Also in July, both the new project inquiries and design contracts indexes moderated from June but remained strong with scores of 56.1 and 52.9 respectively..

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, 08.24.2022

Steel Capability Utilization

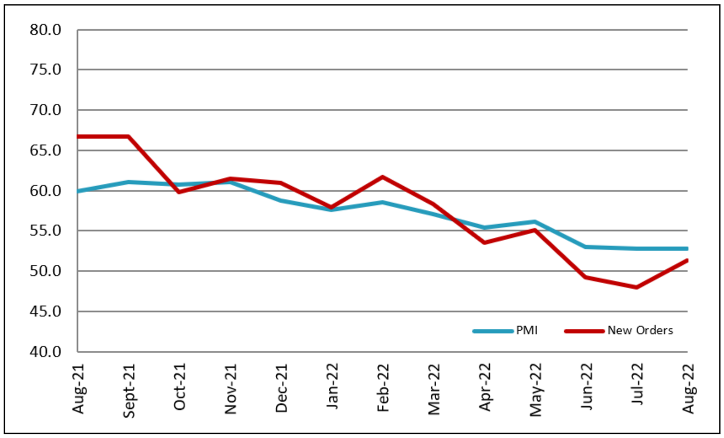


In the week ending on August 27, 2022, domestic raw steel production was 1,747,000 net tons while the capability utilization rate was 79.3%. Production was 1,872,000 net tons in the week ending August 27, 2021 while the capability utilization then was 84.8%. The current week production represents a 6.7% decrease from the same period in the previous year. Production for the week ending August 27, 2022 is down 0.5% from the previous week ending August 20, 2022 when production was 1,756,000 net tons and the rate of capability utilization was 79.7%.

Adjusted year-to-date production through August 27, 2022 was 59,715,000 net tons, at a capability utilization rate of 80.1%. That is down 3.4% from the 61,832,000 net tons during the same period last year, when the capability utilization rate was 80.7%.

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, 08.27.2022

Purchasing Managers Index (PMI)®



The August Manufacturing PMI® registered 52.8%, the same reading as recorded in July. This figure indicates expansion in the overall economy for the 27th month in a row after contraction in April and May 2020. For a second straight month, the Manufacturing PMI® figure is the lowest since June 2020, when it registered 52.4%. The New Orders Index registered 51.3%, 3.3 percentage points higher than the 48% recorded in July. The Production Index reading of 50.4% is a 3.1 percentage point decrease compared to July's figure of 53.5%. The Prices Index registered 52.5%, down 7.5 percentage points compared to the July figure of 60%; this is the index's lowest reading since June 2020 (51.3%). The Backlog of Orders Index registered 53%, 1.7 percentage points above the July reading of 51.3%. After three straight months of contraction, the Employment Index expanded at 54.2%, 4.3 percentage points higher than the 49.9% recorded in July. The Supplier Deliveries Index reading of 55.1% is 0.1 percentage point lower than the July figure of 55.2%. The Inventories Index registered 53.1%, 4.2 percentage points lower than the July reading of 57.3%. The New Export Orders Index contracted at 49.4%, down 3.2 percentage points compared to July's figure of 52.6%. The Imports Index remained in expansion territory at 52.5%, but 1.9 percentage points below the July reading of 54.4%.

Ten manufacturing industries reported growth in August, in the following order: Nonmetallic Mineral Products; Petroleum & Coal Products; Transportation Equipment; Computer & Electronic Products; Printing & Related Support Activities; Plastics & Rubber Products; Primary Metals; Machinery; Miscellaneous Manufacturing; and Food, Beverage & Tobacco Products. The seven industries reporting contraction in August compared to July, in the following order are: Wood Products; Apparel, Leather & Allied Products; Furniture & Related Products; Paper Products; Chemical Products; Fabricated Metal Products; and Electrical Equipment, Appliances & Components. ***Source: Institute for Supply Management, 09.01.2022***

Industry News

U.S. Labor Market, Manufacturing Resilient Despite Rising Interest Rates

The number of Americans filing new claims for unemployment benefits fell to a two-month low last week while layoffs dropped in August, suggesting the Federal Reserve would need to continue aggressively raising interest rates to slow the labor market. The weekly unemployment claims report from the Labor Department on September 1, the most timely data on the economy's health, also showed fewer people applied for jobless benefits in the prior week than initially estimated.

Strong demand for workers was reinforced by an Institute for Supply Management (ISM) survey September 1 that showed a sharp rebound in manufacturing employment in August after three straight months of contraction.

The ISM survey found that "companies continued to hire at strong rates in August, with few indications of layoffs, hiring freezes or head-count reductions through attrition." The Fed has been delivering hefty rate hikes to tame inflation by dampening demand in the overall economy.

"Employers remain in a mad scramble to fill open positions and are likely holding onto staff despite ebbs in demand," said Matt Colyar, an economist at Moody's Analytics in West Chester, Pennsylvania. "The experience of the past year, an extremely competitive labor market and a fast-moving business cycle, leave businesses loath to let workers go." Initial claims for state unemployment benefits decreased 5,000 to a seasonally adjusted 232,000 for the week ended Aug. 27, the lowest level since late June. Data for the prior week was revised to show 6,000 fewer applications filed than previously reported. Economists polled by Reuters had forecast 248,000 applications for the latest week.

Unadjusted jobless claims slipped 2,492 to 176,793 last week. There were notable declines in Connecticut, Missouri, Oklahoma and Georgia. Those drops offset big increases in Massachusetts and New York. The number of people receiving benefits after an initial week of aid, a proxy for hiring, increased 26,000 to 1.438 million in the week ending August 20. Aggressive rate increases by the U.S. central bank have raised the risk of a recession. The Fed has hiked its policy rate by 225 basis points since March. So far, there are few signs that higher borrowing costs are cooling demand for labor.

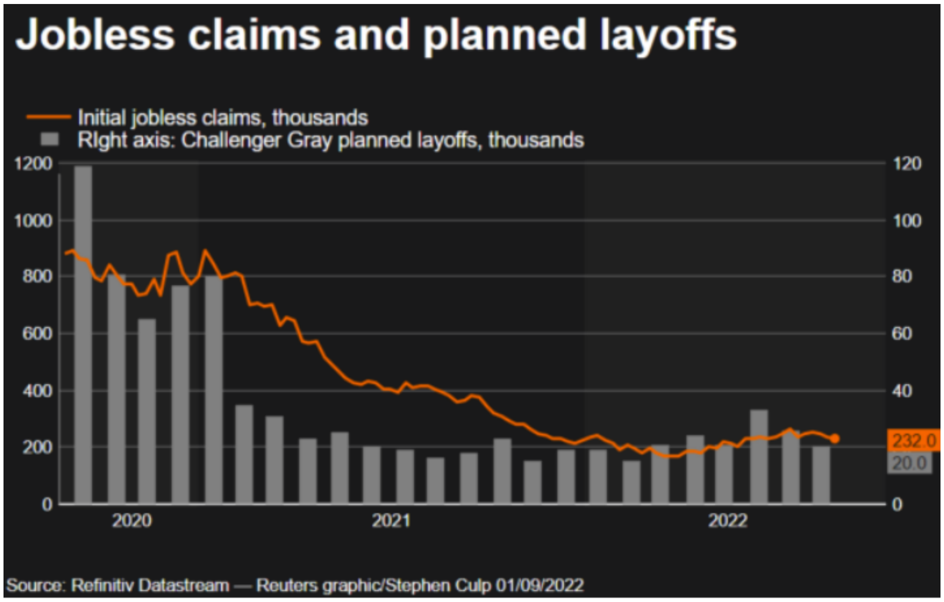
The government reported this week that there were 11.2 million job openings at the end of July, with two jobs for every unemployed person. Labor market resilience continues to dispel fears that the economy is in recession after gross domestic product contracted in the first half of the year.

Signs that the economy continues to expand were bolstered by the ISM survey, whose manufacturing PMI was unchanged at 52.8 last month. A reading above 50 indicates expansion in manufacturing, which accounts for 11.9% of the U.S. economy.

Five of the biggest six manufacturing industries, including machinery, transportation equipment, and computer and electronic products, registered moderate-to-strong growth. Makers of computer and electronic products reported "demand from customers is still strong." Manufacturers of transportation equipment said "strong sales continue." While there were signs that supply bottlenecks were easing, helping to slow inflation pressures at the factory gate, shortages persisted for machinery makers. "The feared recession does not seem to be imminent," said Scott Murray, an economist at Nationwide in Columbus, Ohio. U.S. factories are outperforming their global peers, with manufacturing contracting in Europe and Asia this month.

The claims data has no bearing on August's employment report, which is scheduled to be released on September 2, as it falls outside the survey week. According to a Reuters survey of economists, nonfarm payrolls likely increased by 300,000 jobs last month after surging by 528,000 in July. While job growth is slowing, labor market conditions remain tight.

A separate report from global outplacement firm Challenger, Gray & Christmas showed job cuts announced by



Jobless claims and challenger gray

U.S. Labor Market, Manufacturing Resilient Despite Rising Interest Rates (Continued)

U.S.-based employers fell 21% to 20,485 in August. Though layoffs rose 30% from a year ago, they were down 27% in the first eight months of this year compared to the same period in 2021. The technology industry accounted for nearly a quarter of the job cuts announced in August.a Technology companies have announced 14,408 layoffs so far this year, a 70% surge from the same period last year. Overall, employers announced plans to hire 41,985 workers in August, up 65% from July.

Economists still expect job growth to slow, especially with worker productivity continuing to plummet at unsustainable rates, putting upward pressure on labor costs. Weak productivity could also make it harder for the Fed to steer inflation back to its 2% target.

Another report from the Labor Department showed nonfarm productivity dropped at a 4.1% annualized rate last quarter, revised up from the previously reported 4.6% pace of contraction reported last month. It tumbled at a 7.4% rate in the first quarter. Productivity fell at 2.4% rate from a year ago, instead of the 2.5% pace estimated last month. It was still the biggest year-on-year decline since the government started tracking the series in the first quarter of 1948.

"The degree of the drop in productivity looks implausible to us," said Conrad DeQuadros, senior economic advisor at Brean Capital in New York. "If productivity is not growing, this represents serious cost pressures to corporations. This is not an encouraging picture for a return towards 2% inflation in a timely fashion." ***Source: Reuters, 09.01.2022***

U.S. Charges Towards Green Energy

The U.S. seems well on its path to green energy. President Joe Biden recently signing into law the biggest clean energy investment in U.S. history. The package includes $370 billion in subsidies for solar and wind energy development, electric vehicles, etc. Taking a cue, US Steel and Shell U.S. Gas & Power LLC signed an agreement. This deal will set up a clean energy hub centralized in Pennsylvania, West Virginia and Ohio. This new hub will explore decarbonization opportunities that feature carbon capture utilization and storage. Hydrogen production and utilization are also on the agenda for the new hub, according to a press statement. The hub and its associated infrastructure, should generate new jobs, stimulate economic growth, and help achieve significant reductions in carbon emissions, if successful.

Green Energy Race Between the U.S. and China

The news seems to have been welcomed by U.S. producers. According to Grete Tveit, SVP Equinor Low Carbon Solutions, the new, low carbon hub in this region could have a "profound impact" on both the climate and the economy. The company has been investing in the Pennsylvania region for the last 14 years and has significant equity gas production in the Appalachia region.

This development is just one more step in the U.S.' stipulated plan of aiming for net-zero carbon emissions by 2050. Equinor and Shell plan on jointly applying for U.S. Department of Energy funding designated for the creation of regional clean energy hubs. But compared to China, the U.S. lags in clean energy development, and continues to play catch-up. Though admittedly, China remains a significant fossil fuel user–(2x what the U.S. uses). Last year, China invested about U.S. $380 billion in clean energy, while North America invested $235 billion.

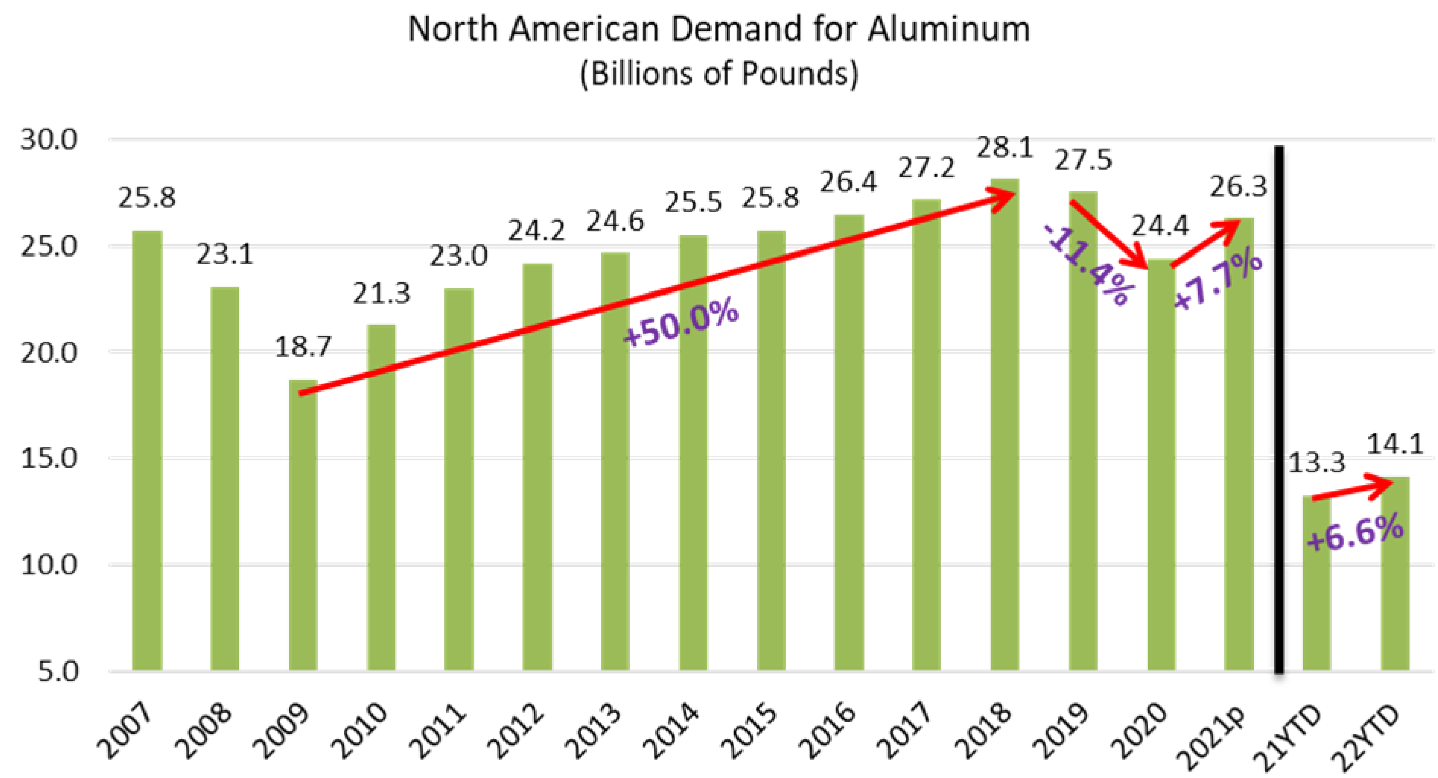
U.S. Clean Energy Benefits on The Horizon

The Chinese government, according to this report, set targets for wind and solar capacity. It extended credit lines to the private companies in this sector and allowed subsidies to help clean energy sources compete with cheaper coal-generated power before the U.S. ever had a blueprint. However, when the two clean energy plans are compared today, the U.S. is catching up with China. The U.S. will soon start reaping the benefits of its clean energy plan, just like China. In 2021, for example, China accounted for nearly half of new global renewable energy capacity.

In comparison, the U.S.' efforts on this front look modest. American solar and wind tax credits pushed growth in solar and wind energy sectors. Overall, financial and regulatory support for renewable electricity generation appears higher in China. However, China's renewable electricity share leapt from 16% in 2005 to 28% in 2021. These numbers are much higher than existing levels in the U.S. ***Source: MetalMiner, 08.29.2022***

Industry News

North American Aluminum Demand Up 6.6% Through First Half Of 2022



Aluminum Association; 2021 preliminary

As part of its monthly Aluminum Situation report, the Aluminum Association released preliminary estimates showing 6.6% year-to -date demand growth for the aluminum industry in North America (U.S. and Canada) through the first half of 2022. This is on top of a near 8% year-over-year increase estimated in 2021 and built on demand levels estimated during the first quarter. Since 2021, Aluminum Association member companies have announced more than $3.7 billion in domestic manufacturing operations – including new, U.S.-based greenfield facilities for the first time in decades. Other firms have announced additional aluminum investments in the U.S. in recent months totaling more than $4 billion.

"We are seeing strong demand and truly unprecedented levels of investment in the U.S. aluminum industry today," said Charles Johnson, president & CEO of the Aluminum Association. "America is one of the best places in the world to make aluminum and our industry is putting its money where its mouth is to ensure a strong, vibrant domestic industry for years to come."

Among key takeaways from the report:

- Aluminum demand in the United States and Canada (shipments by domestic producers plus imports) totaled an estimated 14.1 billion pounds through June, advancing 6.6% over the same period in 2021.
- Nearly all major semi-fabricated – or "mill" – product categories saw increased year-over-year demand growth in the first half, led by sheet and plate products (12.5%) and electrical wire and cable (9.2%). In total, mill product demand grew 9.1% year-over-year through June 2022.
- Aluminum exports (excluding scrap) to foreign countries declined 18% from the year-ago level.
- Imported aluminum and aluminum products into North America (US and Canada) have grown 35.7% year-to-date through the second quarter, reaching 4.7 billion pounds. While growing, the year-to-date import levels remain below the level of imports seen over the same period as recently as 2019.

A closer look at the demand for sheet and plate products reveals how growth in the containers and packaging segment has helped drive some of the increase in overall aluminum demand. Domestic producer shipments in this segment were up 13.1% year-to-date through June 2022, as companies and consumers increasingly look to aluminum for sustainable packaging solutions. Aluminum cans are the most sustainable beverage package on virtually every measure. They have a higher recycling rate and contain dramatically more recycled content than competing packaging types.

Source: Aluminum Association, 08.30.2022