Market Insight

June 2023

U.S. Hiring Accelerated In May

The unemployment rate, which is calculated from a separate survey of households, rose from a five-decade low of 3.4% to 3.7%, the Labor Department said Friday.

Economists surveyed by Bloomberg had estimated that 195,000 jobs were added last month.

Also, payroll gains for March and April were revised up by a total 93,000, depicting a stronger labor market in late winter and early spring than believed.

The job market has been remarkably sturdy despite the Federal Reserve's aggressive interest rate hikes aimed at tamping down hiring and wage growth, and wrestling down inflation.

Fed officials have said they could pause the rate increases at a meeting this month but the blockbuster May jobs report and more worrisome data on inflation later this month could scuttle that plan. Full Story ***Source: USA Today, 06.02.2023***

Inflation Rose 0.4% In April And 4.7% From Last Year

Inflation stayed stubbornly high in April, potentially reinforcing the chances that interest rates could stay higher for longer, according to a gauge released May 26 that the Federal Reserve follows closely. The personal consumption expenditures price index, which measures a variety of goods and services and adjusts for changes in consumer behavior, rose 0.4% for the month excluding food and energy costs, higher than the 0.3% Dow Jones estimate. On an annual basis, the gauge increased 4.7%, 0.1 percentage point higher than expected, the Commerce Department reported.

Including food and energy, headline PCE also rose 0.4% and was up 4.4% from a year ago, higher than the 4.2% rate in March. Despite the higher inflation rate, consumer spending held up well as personal income increased. The report showed that spending jumped 0.8% for the month, while personal income accelerated 0.4%. Both numbers were expected to increase 0.4%.
Full Story ***Source: CNBC, 05.26.2023***

U.S. Manufacturing Contracts Again In April, But Pace Slows

U.S. manufacturing pulled off a three-year low in April as new orders improved slightly and employment rebounded, but activity remained depressed amid higher borrowing costs and tighter credit, which have raised the risk of a recession this year. Despite the weakness in factory activity and demand for goods reported by the Institute for Supply Management (ISM) on May 1, there was a build-up of inflation pressures last month.

This supports expectations that the U.S. Federal Reserve will raise interest rates by another 25 basis points to a 5%-5.25% range on May 3 before potentially pausing its fastest monetary policy tightening campaign since the 1980s. "The economy will likely slide into recession later this year," said Jeffrey Roach, chief economist at LPL Financial in Charlotte, North Carolina. "The persistent pricing pressure on manufacturers should abate in the coming months. Still, the Fed will likely hike rates this week and perhaps start telegraphing their likely decision to pause the rate-hiking campaign later this summer."

The ISM said its manufacturing PMI increased to 47.1 last month from 46.3 in March, which was the lowest reading since May 2020. Economists polled by Reuters had forecast 46.8. It was the sixth straight month that the PMI remained below 50, which indicates contraction. And activity could remain subdued as the ISM noted that customers' inventory levels "are now at the low end of the 'too high' level," and "likely not conducive to future output growth."

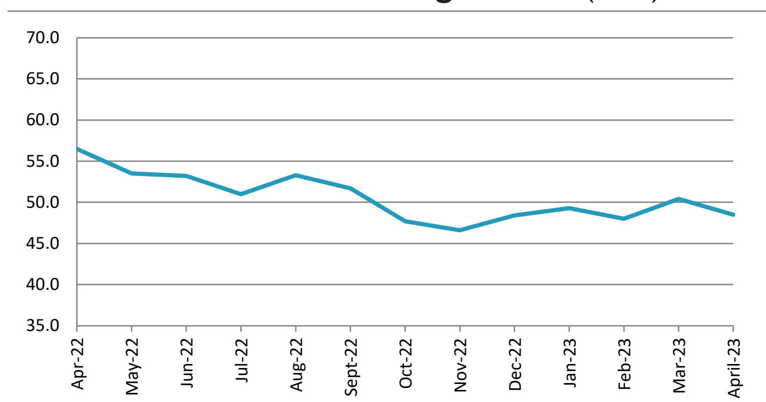
Though a separate S&P Global survey showed manufacturing expanding for the first time in six months in April, factories continued to report hesitancy among customers to place orders because of higher prices and economic uncertainty. The ISM says a PMI reading below 48.7% over a period of time generally indicates the economy is in recession. The ISM said 73% of manufacturing gross domestic product was contracting, up from 70% in March. But it noted that fewer industries declined sharply.

The proportion of manufacturing GDP with a composite PMI calculation at or below 45 percent - a good barometer of overall manufacturing weakness - was 12 percent in April, compared to 25 percent in March," said Timothy Fiore, chair of the ISM Manufacturing Business Survey Committee. Only two of the six biggest manufacturing industries, petroleum and coal products as well as transportation equipment, reported growth.

In addition to the higher interest rates and tighter lending standards by banks following the recent financial market turmoil, manufacturing, which accounts for 11.3% of the economy, is also being dragged down by a shift in spending away from goods, typically bought on credit, to services. Businesses are cutting back on restocking in anticipation of weaker demand later this year. The government reported last week that private inventory investment fell in the first quarter for the first time since the third quarter of 2021.
Full Story ***Source: Reuters, 05.01.2023***

Key Economic Indicators

Architecture Billings Index (ABI)

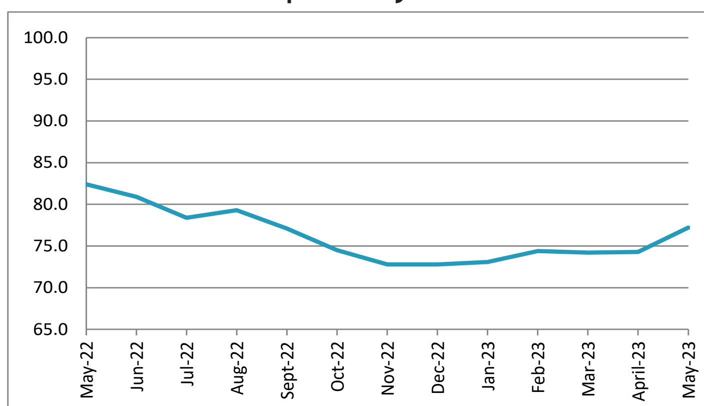


Architecture firms reported a modest decrease in April billings. However, there was a slight increase in inquiries into future project activity according to a report released today from The American Institute of Architects (AIA).

The billings score for March decreased from 50.4 in March to 48.5 in April (any score below 50 indicates a decrease in firm billings). However, firms reported that inquiries into new projects accelerated slightly to 53.9, while most firms continued to report a decline in the value of new design contracts, with a score of 49.8.

"The AIA/Deltek 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. The survey panel asks participants whether their billings increased, decreased, or stayed the same in the month that just ended. According to the proportion of respondents choosing each option, a score is generated, which represents an index value for each month. 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: AIA, 05.25.2023***

Steel Capability Utilization

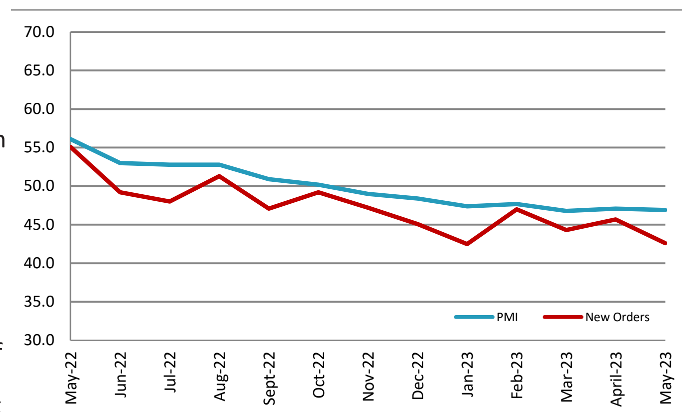


In the week ending on May 27, 2023, domestic raw steel production was 1,737,000 net tons while the capability utilization rate was 77.2 percent. Production was 1,771,000 net tons in the week ending May 27, 2022 while the capability utilization then was 81.1 percent. The current week production represents a 1.9 percent decrease from the same period in the previous year. Production for the week ending May 27, 2023 is up 0.5 percent from the previous week ending May 20, 2023 when production was 1,728,000 net tons and the rate of capability utilization was 76.8 percent.

Adjusted year-to-date production through May 27, 2023 was 35,352,000 net tons, at a capability utilization rate of 75.1 percent. That is down 3.9 percent from the 36,774,000 net tons during the same period last year, when the capability utilization rate was 80.5 percent.

Steel Capability Utilization is a domestic report based on the estimates from companies representing approximately 90% of the industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. ***Source: AISI, 05.27.2023***

Purchasing Managers Index (PMI)®



The May Manufacturing PMI® registered 46.9 percent, 0.2 percentage point lower than the 47.1 percent recorded in April. Regarding the overall economy, this figure indicates a sixth month of contraction after a 30-month period of expansion. The New Orders Index remained in contraction territory at 42.6 percent, 3.1 percentage points lower than the figure of 45.7 percent recorded in April. The Production Index reading of 51.1 percent is a 2.2-percentage point increase compared to April's figure of 48.9 percent. The Prices Index registered 44.2 percent, down 9 percentage points compared to the April figure of 53.2 percent. The Backlog of Orders Index registered 37.5 percent, 5.6 percentage points lower than the April reading of 43.1 percent. The Employment Index indicated another month of expansion, registering 51.4 percent, up 1.2 percentage points from April's reading of 50.2 percent. The Supplier Deliveries Index figure of 43.5 percent is 1.1 percentage points lower than the 44.6 percent recorded in April; this is the index's lowest reading since March 2009 (43.2 percent). The Inventories Index dropped 0.5 percentage point to 45.8 percent; the April reading was 46.3 percent. The New Export Orders Index reading of 50 percent is 0.2 percentage point higher than April's figure of 49.8 percent. The Imports Index remained in contraction territory, registering 47.3 percent, 2.6 percentage points lower the 49.9 percent reported in April."

The four manufacturing industries that reported growth in May are: Nonmetallic Mineral Products; Furniture & Related Products; Transportation Equipment; and Fabricated Metal Products. The 14 industries reporting contraction in May, in the following order, are: Wood Products; Primary Metals; Apparel, Leather & Allied Products; Textile Mills; Paper Products; Printing & Related Support Activities; Petroleum & Coal Products; Chemical Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Miscellaneous Manufacturing; and Machinery. ***Source: Institute for Supply Management, 06.01.2023***

Sliding Iron Ore Prices Show China's Recovery Is Still Dragging

The iron ore slump shows that the Chinese economy continues to struggle. Moreover, if things on the steel front do not improve quickly, demand will be low for the rest of the year. Indeed, the decline in iron ore prices, which recently hit a five-month low, has many analysts worried about the robustness of China's economic rebound. According to data released recently by the China Iron and Steel Association (CISA), steel inventories at major Chinese steel mills fell to 18.1 metric tons (MT) in late April. This represents a decline of 2.3% compared to mid-April. Meanwhile, an analyst report released by ING said China's steel consumption had fallen short of expectations during a peak construction season. This sent a wave of concern throughout the industry. Typically, March and April are the most productive months for China's steel market. However, in addition to the drop in steel inventories, crude steel production at major mills also declined by 3.6% during the same period, reaching 2.21 MT per day in late April.

China Baowu Steel, the country's top steel producer, dropped its factory-gate prices alongside at least two other mills. Meanwhile, local authorities officially directed mills in the Fengnan district of Tangshan City to curb crude steel output. These represent China's first batch of steel mills to observe another year-on-year administrative reduction in output after repeated cuts in 2021 and 2022. According to a World Steel Association report, China's steel production dropped 2% last year to 1.0 billion tons. Much of it was due to government-mandated production cuts.

According to the *Financial Times*, May 17, the cost of iron transportation to the northern Chinese harbor of Qingdao plummeted to $102.7. This represents a staggering 23% decline from its peak in March. That said, prices partially recovered to $107.9 as of Monday's market closure. As the world's largest user of iron ore, China's pricing benchmark holds significant weight in the global market. Consequently, shifting iron ore prices also affect Western mining firms' revenue. This includes such firms as BHP, Rio Tinto, and Vale, which count iron ore as a significant source of profits. According to the China Iron and Steel Association, first-quarter steel production at Chinese mills was 6.1% higher than last year. Though production outputs reached 262 million tons,

customer orders have not kept pace. There was, however, a silver lining when markets opened this week. According to this report, improved downstream demand and expectations of stimulus policies in China led to a rise in iron ore futures in Dalian and Singapore on Monday. The Dalian Commodity Exchange's most-traded September iron ore increased by 2.01% to 710 yuan ($102.72) per ton. Meanwhile, the benchmark June iron ore on the Singapore Exchange rose 1.01% to $100.45 per ton. Still, despite the rise, some analysts say there was no significant improvement in iron ore fundamentals.

Additional support came from increased crude steel output following production resumption at some mills. Indeed, estimates put China's daily crude steel output for the first ten days of May at 2.91 million tons. This represents a rise of 1.18% from the previous ten-day level. Additionally, coking coal gained 1.38%, and coke climbed 1.71%. Meanwhile, rebar on the Shanghai Futures Exchange rose by 1.03% to 3,632 yuan per ton, while hot-rolled coil advanced 1.34%, and wire rod climbed 2.24%.

Despite expectations of fresh stimulus policies, most observers believe that the rise in iron ore futures may be short-lived if demand does not improve soon. This suggests that the Chinese economy may be in for a more dramatic slowdown. ***Source: MetalMiner, 05.25.2023***

U. S. Manufactured Goods Orders Jumped

Orders of big-ticket manufactured items defied expectations to rise again in April, fueled by a sharp rise in orders for defense aircraft, according to U.S. government data released May 26. Manufactured durable goods rose by 1.1% in April from a month earlier to $283.0 billion, the Commerce Department announced in a statement.

April's figure built on a revised monthly increase of 3.3% in March and was far stronger than the median forecast of a 0.8% decline in a MarketWatch survey of economists. The largest factor behind the surprise rise in durable goods orders was defense spending, with new orders of defense aircraft and parts increasing by almost a third from a month earlier. Orders for transportation equipment also increased, while those for nondefense aircraft and computers posted monthly declines.

While the April data for durable goods orders was better than expected, downside risks remain going forward "given the hurdles companies are facing not only from higher borrowing costs, but also a further tightening in credit conditions going forward," High Frequency Economics chief U.S. economist Rubeela Farooqi wrote in a note to clients.

Source: IndustryWeek, 05.30.2023

EPA: New Pollution Limits Proposed For U.S. Coal, Gas Power Plants Reflect 'Urgency' Of Climate Crisis

The Biden administration proposed new limits May 11 on greenhouse gas emissions from coal- and gas-fired power plants, its most ambitious effort yet to roll backplanet-warming pollution from the nation's second-largest contributor to climate change. A rule announced by the Environmental Protection Agency could force power plants to capture smokestack emissions using a technology that has long been promised but is not used widely in the U.S. "This administration is committed to meeting the urgency of the climate crisis and taking the necessary actions required," said EPA Administrator Michael Regan.

The plan would not only "improve air quality nationwide, but it will bring substantial health benefits to communities all across the country, especially our front-line communities ... that have unjustly borne the burden of pollution for decades," Regan said in a speech at the University of Maryland. President Joe Biden called the plan "a major step forward in the climate crisis and protecting public health." If finalized, the proposed regulation would mark the first time the federal government has restricted carbon dioxide emissions from existing power plants, which generate about 25% of U.S. greenhouse gas pollution, second only to the transportation sector. The rule also would apply to future electric plants and would avoid up to 617 million metric tons of carbon dioxide through 2042, equivalent to annual emissions of 137 million passenger vehicles, the EPA said.

Almost all coal plants — along with large, frequently used gas-fired plants — would have to cut or capture nearly all their carbon dioxide emissions by 2038, the EPA said. Plants that cannot meet the new standards would be forced to retire. The plan is likely to be challenged by industry groups and Republican-leaning states. They have accused the Democratic administration of overreach on environmental regulations and warn of a pending reliability crisis for the electric grid. The power plant rule is one of at least a half-dozen EPA rules limiting power plant emissions and wastewater treatment.

"It's truly an onslaught" of government regulation "designed to shut down the coal fleet prematurely," said Rich Nolan, president and CEO of the National Mining Association. Regan denied that the power plant rule was aimed at shutting down the coal sector, but acknowledged, "We will see some coal retirements." The proposal "relies on proven, readily available technologies to limit carbon pollution" and builds on industry practices already underway to move toward clean energy, he said. Coal provides about 20% of U.S. electricity, down from about 45% in 2010. Natural gas provides about 40% of U.S. electricity. The remainder comes from nuclear energy and renewables such as wind, solar and hydropower.

Environmental groups hailed EPA's action as urgently needed to protect against devastating harms of climate change, from increasingly severe flooding, hurricanes and drought to worsening wildfires. The proposal "will bring us closer to a clean energy future with healthier air, a safer climate, good jobs and affordable, reliable electricity," said Fred Krupp, president of the Environmental Defense Fund.

But Jim Matheson, CEO of the National Rural Electric Cooperative Association, said the plan would further strain America's electric grid and "undermine decades of work to reliably keep the lights on across the nation." Matheson, whose association represents 900 local electric cooperatives across the country, said EPA's plan could "force critical, always-available power plants into early retirement, and make new natural gas plants exceedingly difficult to permit, site and build."

The EPA rule would not mandate use of equipment to capture and store carbon emissions — a technology that is expensive and still being developed. Instead, the agency would set caps on carbon dioxide pollution that plant operators would have to meet. Some natural gas plants could start blending gas with another fuel source such as hydrogen, which does not emit carbon, although specific actions would be left to the industry. Still, the regulation is expected to lead to greater use of carbon capture equipment, a technology that EPA said has been "adequately demonstrated" to control pollution. Only a handful of projects are operating in the country despite years of research. Full Story ***Source: AP, 05.12.2023***

U.S. Commerce Chief Says Green Steel Pact Would Combat Excess Chinese Output

U.S. Commerce Secretary Gina Raimondo said on May 16 the Biden administration was "extremely focused" on reaching a "green steel" arrangement with the European Union and other partners that disadvantages carbon-intensive steel from China and elsewhere. Raimondo told an American Iron and Steel Institute conference in Washington that she was fully committed to ensuring that "Section 232" tariffs on global steel and aluminum imports, first imposed by the Trump administration, protect U.S. steelmakers and U.S. national security interests.

The Commerce chief said a green steel arrangement being negotiated by U.S. Trade Representative Katherine Tai will be a "game changer" for the industry's efforts to deal with Chinese excess steel manufacturing capacity. The negotiations are aimed at erecting trade barriers to steel produced with higher carbon emissions. U.S. steelmakers are among the world's lowest carbon emitters, because of their heavy reliance on electric-arc furnaces that make steel largely from scrap, as opposed to smelting iron ore in coal-fired blast furnaces.

"We need every bit of enforcement capacity that we have and then some," Raimondo said. "So part of it is on us to be aggressive, vigilant and disciplined in our enforcement."

"China doesn't have the clean steel. We're pushing our industry to have higher environmental standards and cleaner steel, as is Europe," Raimondo said. "We need a global steel arrangement that preferences higher quality, green steel and aluminum. That's the right way to disadvantage China in a way that lifts everything."

Raimondo declined to say whether she thought it was realistic to meet an October deadline for reaching a deal, referring such questions to Tai's office.

AISI President Kevin Dempsey told reporters that a key hurdle to overcome is the EU's demand that 25% tariffs imposed by former President Donald Trump under Section 232 of a 1962 trade law, including a quota agreement for EU producers, be ended, and effectively replaced by the green steel deal. The U.S. side, with backing from the trade group, wants to keep some trade restrictions on steel as part of that deal. Dempsey said the Section 232 tariffs were still needed because of growing global excess steelmaking capacity, largely centered in China but expanding to other countries in Southeast Asia, including Indonesia, where Chinese steelmakers are building mills with government subsidies.

The Commerce Department this month proposed a new rule that would allow it to consider such transnational subsidies in its anti-dumping and countervailing duty cases.

Raimondo said such changes were needed to keep up with the changing nature of circumvention threats, and that it was important for the Commerce Department to maintain a strong trade anti-dumping and anti-subsidy enforcement capacity. She criticized Republicans' proposed debt ceiling cutbacks in discretionary spending to 2022 levels, which she said would result in "hundreds" fewer enforcement staff.

"We need every bit of enforcement capacity that we have and then some," Raimondo said. "So part of it is on us to be aggressive, vigilant and disciplined in our enforcement."
Source: Reuters, 05.16.2023

U.S., Chinese Officials Discuss Trade Policies

On May 25, U.S. Secretary of Commerce Gina Raimondo met with Chinese Commerce Minister Wang Wentao to discuss trade, investment, and export policies. Minister Wang also met with U.S. Trade Representative Katherine Tai the same day, but separately.

According to a readout of the meeting from the U.S. Department of Commerce, Secretary Raimondo and Minister Wang "had candid and substantive discussions on issues relating to the U.S.-China commercial relationship, including the overall environment in both countries for trade and investment and areas for potential cooperation."

While Secretary Raimondo raised concerns about Chinese government actions taken against U.S. companies operating in China, Minister Wang voiced worries about some of the Biden administration's China policies, including it rules regarding semiconductors, export controls, and reviews of foreign investments.

According to ***Reuters***, Secretary Raimondo and Minister Wang said they would maintain open communication on specific trade, export, and cooperation matters.

Last week's discussion came after President Joe Biden and other G7 leaders pledged the week before to address the challenges posed by China's non-market policies and practices, which distort the global economy. Read more about that pledge here.

In related news: in response to Russian aggression against Ukraine, G7 announced enhanced export controls against Russia and Belarus, some of which concern the metals industry.

Full Story ***Source: MSCI, 05.30.2023***