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Market Insight

March 2024

Economy Added 275,000 Jobs in February

U.S. employers added a robust 275,000 jobs in February as hiring stayed strong despite high interest rates, persistent inflation and uncertainty about the economic outlook in a presidential election year.

But payroll gains for December and January were revised down sharply and the unemployment rose from 3.7% to 3.9%, highest since January 2022, the Labor Department said Friday.

Economists had estimated that 200,000 jobs were added last month, according to a Bloomberg survey.

What is current job growth?
Job gains have been remarkably healthy in recent months, buoyed by companies' reluctance to lay off workers after two years of pandemic-related labor shortages. Full Story

U.S.Economy Grew Solid 3.2% in Fourth Quarter

The U.S. economy grew at a robust 3.2% annual pace from October through December, propelled by healthy consumer spending, the Commerce Department reported February 28 in a slight downgrade from its initial estimate. The expansion in the nation's gross domestic product — the economy's total output of goods and services — slipped from a red-hot 4.9% from July through September. The fourth-quarter GDP numbers were revised down from the 3.3% pace Commerce initially reported last month.

U.S. growth has now topped 2% for six straight quarters, defying fears that high interest rates would tip the world's largest economy into a recession.

Far from stumbling, the economy grew 2.5% for all of 2023, topping the 1.9% growth in 2022. Full Story ***Source: AP, 02.28.2024***

Consumer Sentiment Edges Higher as Economic Growth Accelerates

A measure of consumer sentiment ticked higher in February, after soaring in December and January, underscoring that Americans are starting to feel better about the economy after several years of gloom. The University of Michigan's consumer sentiment index, released February 16, ticked up to 79.6 in February, from 79 in January. The small gain followed two months of sharp increases that were the largest in more than 30 years. How Americans feel could impact the presidential race this year, which will likely focus heavily on President Joe Biden's economic record. Still, consumer sentiment remains 6% below its long-run average after the worst spike in inflation in four decades pushed up the cost of groceries, rent, gas, and other necessities, frustrating many consumers.

"The fact that sentiment lost no ground this month suggests that consumers continue to feel more assured about the economy, confirming the considerable improvements in December and January," said Joanne Hsu, director of the consumer survey. "Consumers continued to express confidence that the slowdown in inflation and strength in labor markets would continue." Improving consumer confidence can often lead to greater spending, which can support economic growth. Since the pandemic, however, consumer spending has been mostly healthy even when measures of sentiment were quite low.

Lael Brainard, a top White House economic adviser, in a statement credited the brightening outlook to "the increase in real wages, wealth, business creation, and job opportunities" that have occurred during Biden's term. "Consumer expectations for business conditions over the next five years rose to the highest level since December 2020," she added.

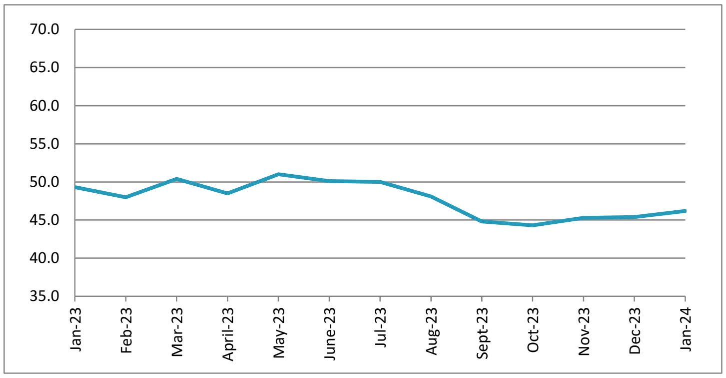
In recent weeks, most economic data has been positive, and has indicated that the economy is still growing, employers are hiring, and inflation is coming down. Growth reached 3.3% in the final three months of last year, much better than economists had forecast. Consumer prices rose just 2.6% in December compared with a year ago, according to the Federal Reserve's preferred inflation measure, though the better-known consumer price index picked up a bit in January.

There has been a clear partisan gap in how Democrats and Republicans perceive the economy, and it has intensified in the past decade. In February, sentiment among Democrats was 34 points higher than for Republicans. Yet the small gain in sentiment this month came from Republicans, whose confidence measure rose to 65 from 56.3. There was a tiny gain among independents, from 74.6 to 76.6, and a drop among Democrats, to 98.4 from 101.7. Other measures of confidence have also shown clear improvement this winter. A daily survey by Morning Consult has increased 7% since the end of November.

And a quarterly measure of CEO confidence by the Conference Board reached 53 in the first three months of this year, the first time it has topped 50 — when more CEOs are optimistic than pessimistic — in two years. ***Source: AP, 02.16.2024***

Key Economic Indicators

Architecture Billings Index (ABI)

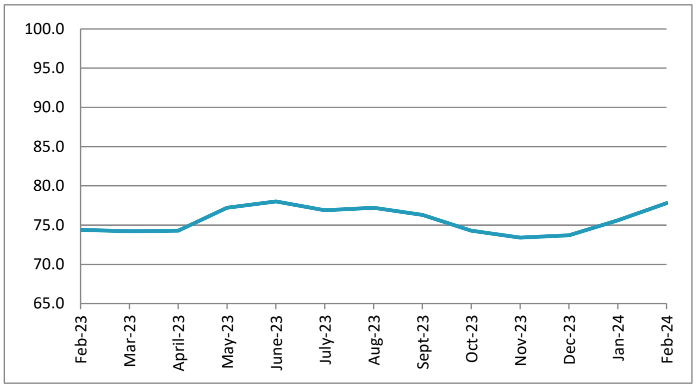


February Architecture firm billings remained soft entering into 2024, with an AIA/Deltek Architecture Billings Index (ABI) score of 46.2 in January. Any score below 50.0 indicates decreasing business conditions.

"This now marks the lengthiest period of declining billings since 2010, although it is reassuring that the pace of this decline is less rapid and the broader economy showed improvement in January," said Kermit Baker, PhD, AIA chief economist. "Firms are seeing growth with inquiries into new projects and value of newly signed design contracts is holding steady, showing potential signs of interest from clients in new projects." Business conditions remained weak at firms in all regions of the country except the Midwest, where modest growth was seen in three of the last four months. Firms with a multifamily residential specialization continue to report the softest business conditions of all specializations.

The ABI score is a leading economic indicator of construction activity, providing an approximately nine-to-twelve-month glimpse into the future of nonresidential construction spending activity. The score is derived from a monthly survey of architecture firms that measures the change in the number of services provided to clients.***Source: AIA, 02.28.2024***

Steel Capability Utilization

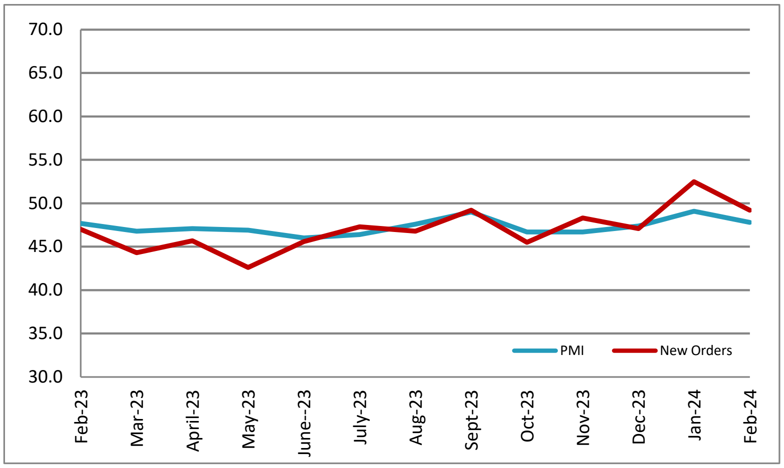


In the week ending on February 24, 2024, domestic raw steel production was 1,727,000 net tons while the capability utilization rate was 77.8%. Production was 1,800,000 net tons in the week ending February 24, 2023 while the capability utilization then was 80.5%. The current week production represents a 4.1% decrease from the same period in the previous year. Production for the week ending February 24, 2024 is up 0.3% from the previous week ending February 17, 2024 when production was 1,721,000 net tons and the rate of capability utilization was 77.5%.

Adjusted year-to-date production through February 24, 2024 was 13,384,000 net tons, at a capability utilization rate of 76.7%. That is down 2.1% from the 13,673,000 net tons during the same period last year, when the capability utilization rate was 78.1%.

Broken down by districts, here's production for the week ending February 24, 2024 in thousands of net tons: North East: 132; Great Lakes: 556; Midwest: 192; Southern: 775 and Western: 72 for a total of 1727. ***Source: AISI, 02.27.2024***

Purchasing Managers Index (PMI)®



The Manufacturing PMI® registered 47.8% in February, down 1.3 percentage points from the 49.1% recorded in January. The overall economy continued in expansion for the 46th month after one month of contraction in April 2020. (A Manufacturing PMI® above 42.5%, over a period of time, generally indicates an expansion of the overall economy.)

The New Orders Index moved back into contraction territory at 49.2%, 3.3 percentage points lower than the 52.5% recorded in January. The February reading of the Production Index (48.4%) is 2 percentage points lower than January's figure of 50.4%. The Prices Index registered 52.5%, down 0.4 percentage point compared to the reading of 52.9% in January. The Backlog of Orders Index registered 46.3%, 1.6 percentage points higher than the 44.7% recorded in January. The Employment Index registered 45.9%, down 1.2 percentage points from January's figure of 47.1%. The Supplier Deliveries Index figure of 50.1% is 1 percentage point higher than the 49.1% recorded in January. The Inventories Index decreased 0.9 percentage point to 45.3% from January's reading of 46.2%. The New Export Orders Index reading of 51.6% is 6.4 percentage points higher than January's figure of 45.2%. The Imports Index continued in expansion territory, registering 53%, 2.9 percentage points higher than the 50.1% reported in January. Both indexes reported their highest readings since July 2022, when the New Export Orders Index registered 52% and the Imports Index 54.4%. ***Source: ISM Report, 03.01.2024***

U.S. Business Activity Moderates in February - S&P Global Survey

U.S. business activity cooled in February and there was encouraging news on inflation, with a measure of prices paid for inputs falling to the lowest level in nearly 3-1/2 years, which could allay fears that price pressures were picking up. S&P Global said on February 22 that its flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, slipped to 51.4 this month from 52.0 in January. A reading above 50 indicates expansion in the private sector.

The services sector accounted for the moderation in business activity. Manufacturing activity increased to a 17-month high. The survey suggested the economy continued to expand in the first quarter despite a raft of weak January data, including retail sales, housing starts and manufacturing output, which was blamed on frigid temperatures across the nation.

The S&P Global survey's measure of new orders received by private businesses fell to 51.3 this month from 52.6 in January. Its measure of prices paid for inputs dropped to 55.0, the lowest level since October 2020, from 56.9 in January. Government data last week showed bigger-than-expected rises in consumer, producer and import prices in January, which most economists attributed to start of year price increases. But others worried inflation could be picking up. Financial markets have pushed back their expectations for the first interest rate cut from the Federal Reserve to June from May. Since March 2022, the U.S. central bank has raised its policy rate by 525 basis points to the current 5.25%-5.50% range. The survey's measure of selling prices ticked up in February. Businesses maintained their employment levels.

"Although up slightly in February, the survey's gauge of selling prices for goods and services continues to run at a level consistent with the Fed hitting its 2% inflation target, and a further fall in cost growth to the lowest since October 2020 hints at price pressures remaining subdued in the coming months," said Chris Williamson, chief business economist at S&P Global Market Intelligence. Manufacturing activity perked up, with the survey's flash manufacturing PMI rising to 51.5, the highest reading since September 2022, from 50.7 in the prior month. New orders rose as did employment, but the pace of increase in input prices continued to moderate.

"Better weather conditions compared to January trumped shipping concerns, helping drive an overall improvement in supplier delivery times, which in turn facilitated higher factory production," said Williamson. "Signs of inventory reduction policies becoming less widespread also helped boost production and sustain high levels of business confidence in the outlook for the year ahead among manufacturers." The survey's flash services sector PMI fell to 51.3 from 52.5 in the prior month. The new orders, employment and input prices sub-components all declined. ***Reuters, 02.22.2024***

Forthcoming Rule Would Expand Who Can Take Part in OSHA Inspections

The U.S. Department of Labor (DOL) has proposed a new regulation that, if implemented, would expand the list of people who can be authorized by employees to act as their representative during Occupational Safety and Health Administration (OSHA) physical workplace inspections.

Specifically, the proposal would empower OSHA inspectors to allow union organizers, community activists, or other third parties who do not officially represent the employees or the government to accompany OSHA on an inspection of a workplace. Under current OSHA rules, outside labor union officials and other third parties who do not work at the site are not automatically entitled to accompany an OSHA inspector during an inspection, including the walkaround. According to news reports, this proposed rule now has been sent to the White House for review, which means it could be finalized and implemented soon.

Organizations that have been critical of the draft rule have argued the proposed changes would contradict the plain language of OSHA's governing regulations, longstanding agency guidance, and past interpretations of federal workplace safety laws.

Under OSHA's proposed revision, employees may authorize a non-employee third party if a compliance officer determines the third party is "reasonably necessary to conduct an effective and thorough inspection."

These third parties, which, as noted above, could include advocacy groups, labor unions (whether or not they presently represent employees at the worksite), and other organizations, would not need to have technical safety expertise to participate in the process.
Full Story ***Source: MSCI, 02.19.2024***

Transportation Costs at 15-Month High

At its highest level since last April, The GEP Global Supply Chain Volatility Index — an indicator tracking demand conditions, shortages, transportation costs, inventories and backlogs based on a monthly survey of 27,000 businesses — rose to -0.12 in January, from -0.44 in December indicating that spare capacity across global supply chains has shrunk notably.

The most noteworthy impact from the Red Sea disruption was transportation costs, which rose to a 15-month high in January, as commercial ships took the lengthier route around the Cape of Good Hope. There was also a slight pick-up in safety stockpiling, with reports from businesses of inventory building due to supply or price fears at the highest since last June. That said, they were well below the levels seen in 2021-2022 during the post-pandemic supply crunch.

Although this is the ninth successive month of excess capacity at global suppliers, the downturn eased to its weakest since last April. The index suggests that underlying trading conditions may be starting to improve as recession and inflation fears fade, and businesses prepare for a stronger 2024. Regionally, Asia's supply chains were at their busiest in nearly a year as factory purchasing activity in China, South Korea and India rebounded, suggesting manufacturers there are gearing up for growth.

In a similar vein, suppliers to North America and Europe saw their spare capacity shrink during January. Less slack was also seen for the U.K.'s suppliers, who have experienced subdued demand for 19 consecutive months.

"With input demand trending higher, led by Asia, signaling a return to positive growth in the coming months, it is imperative business keeps tamping down suppliers' price increases, so inflation continues to trend down," explained Daryl Watkins, senior director, consulting, GEP, in a statement.

Key Findings in the Report:

- **Demand:** Purchases of raw materials, commodities and components remained subdued, although the decline eased to its weakest since last April, hinting at improving demand.
- **Inventories:** Reports of safety stockpiling due to supply or price concerns ticked up to a seven-month high in January as disruption through the Suez Canal led some companies to build up inventory buffers.
- **Material Shortages:** Global supply conditions remain healthy — reports of item shortages remain among the lowest seen in four years.
- **Labor Shortages:** Labor availability remains unproblematic for global suppliers, with reports of backlogs rising due to a lack of staff holding close to historically typical levels.
- **Transportation:** Global transportation costs rose to a 15-month high in January, signaling some contagion from the disruption to shipping through the Suez Canal.

Regional Supply Chain Volatility:

- **North America:** Index rose to -0.33, from -0.39, indicating the 10th consecutive month of underutilized supplier capacity.
- **Europe:** Index rose to -0.63, from -0.92, the lowest level of excess vendor capacity in five months.
- **U.K.:** Index rose to -0.62, from -1.05, showing spare capacity at U.K. suppliers almost halving, which is a positive sign after 19 consecutive months of subdued input demand.
- **Asia:** Index rose to 0.14, from -0.42, indicating the strongest pressure on the region's supply chains in almost a year amid improving demand in key exporting nations. ***Source: MH&L, 02.20.2024***

Biden Administration Warns that it Could Bring Back Section 232 Penalties for Mexican Metals

The Biden administration is growing increasingly concerned about a "surge" of steel and aluminum imports coming into the U.S. from Mexico. Indeed, according to SteelOrbis, U.S. officials have reminded Mexican government officials that the U.S. reserves the right to reimpose its Section 232 tariffs on steel and aluminum imports if Mexico does not get its export levels in check.

Specifically, in a meeting with Mexico's Secretary of Economy Raquel Buenrostro, U.S. Trade Representative Katherine Tai highlighted "the urgent need" for Mexico to address the matter and to provide additional transparency into the country's imports from third countries. (As a reminder, under the U.S., Mexico, Canada Agreement (USMCA) implemented during the Trump administration, both countries promised to implement a system to monitor metals' trade flows. The Mexican government still has not implemented that system.)

The Biden administration is under pressure from federal lawmakers to act. On February 19, for example, U.S. Sens. Ted Budd (R-N.C.) and Thom Tillis (R-S.C.) sent a letter to Ambassador Tai and U.S. Secretary of Commerce Gina Raimondo asking that the Biden administration immediately limit the volume of Mexican steel concrete reinforcing bar, or rebar, that is being imported into the U.S. Click here to read the letter.

Ambassador Tai said negotiations between the two countries will continue while Mexican officials said further discussions should include cooperation between anti-dumping agencies, as well as strengthening regional tracking mechanisms.

In related news, in an appearance at the Council on Foreign Relations, Ambassador Tai was asked about a study that determined the U.S.' Section 232 tariffs on metals imports had done little to boost the nation's economy. In her answer, Tai defended the policy. "They are a playing field leveling tool. They are a tool for remedying unfair trade," she said. "I actually kind of like the way the Europeans describe these types of tools … They call them trade defense instruments. So, you know, within the world of the World Trade Organization (WTO) and what is blessed by WTO are trade remedies and trade defense and the use of tariffs to counterbalance unfair trade, like dumping and illegal subsidization." Click here to read Ambassador Tai's full remarks. ***Source: MSCI, 02.26.2024***

The U.S. is Now Buying More from Mexico than China for the First Time in 20 Years

New data released February 9 by the Commerce Department showed that in 2023, Mexico was the leading source of goods imported to the U.S. — ahead of China for the first time in over 20 years. Mexico surpassing China as America's top trade partner signals a significant shift in global commerce dynamics. As tensions between the U.S. and China persist, fueled by trade disputes and tariffs, this transition to Mexico helps reduce costs and speed up the supply chain, ultimately lowering the costs of goods in the U.S.

Between 2022 and 2023, the value of goods imported to the U.S. from Mexico increased by almost 5%, up to over $475 billion, according to the Commerce Department. Chinese imports fell 20% in the same time period, to $427.2 billion, just slightly above Canada. Additionally, the value of Chinese imports remained above the value of Mexican imports from 2002 until this most recent data.

The value of Chinese imports shot up at the start of the pandemic as many Americans purchased everything from furniture to laptops made in China. Trade with China remained strong in 2022 amid supply-chain disruptions, though values tapered off last year. More than a third of U.S.imports — valued over $3 trillion — come from Mexico, China, and Canada. The U.S. trade deficit — exports minus imports — contracted by almost 19% in 2023. U.S. businesses and consumers have been buying more from European countries, South Korea, India, and Vietnam, particularly clothing items and auto parts. Overall, U.S. imports fell in 2023 amid declines in spending on consumer goods such as clothes and cellphones, as well as less crude oil.

Some of the decline in imported Chinese goods could be due to the Trump administration's tariffs in 2018, which made these products more expensive for Americans. The Biden administration has continued pushing companies to "reshore" by returning manufacturing to the U.S. or "friend-shore" to trade with allies. Trade has fallen with China for high tariff items, while it has grown for items without tariffs, *The New York Times* reported. This drop in Chinese imports may not be as severe as it seems, given that companies may import goods from other countries originally made in China to get around U.S. tariffs.

This is all good news for Mexico. Mexico's economy had a strong 2023, and its peso became the fastest-growing currency in the world, gaining 15% last year. Full Story ***Source: Business Insider, 02.09.2024***