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May 2023

The Job Market Grew Strongly In April Despite High Interest Rates

Hiring unexpectedly accelerated last month despite the weight of rising interest rates and recent stress in the banking system.

U.S. employers added 253,000 jobs in April, according to a report from the Labor Department Friday, a significant uptick from the month before, when revised figures show 165,000 jobs added.

The unemployment rate fell to 3.4% from 3.5% in March. The unemployment rate for African Americans fell to 4.7% — a record low.

Construction companies added 15,000 jobs in April while factories added 11,000. Industries such as construction and manufacturing are particularly sensitive to interest rates, which have jumped sharply over the last 14 months as the Federal Reserve tries to crack down on inflation.

Many service industries continue to add workers, to keep pace with growing demand for travel, entertainment and dining out. Full Story ***Source: NPR, 05.05.23***

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.” Full Story
Source: Reuters, 05.01.2023

Fed’s Crisis Dollar Sales Pared Back As Global Tensions Subside

The Federal Reserve and global counterparts will revert to fewer auctions for dollar funding after financial-market tensions in the wake of U.S. bank failures subsided. The joint announcement on April 25 shifts the frequency of such emergency liquidity provision to a weekly basis rather than the daily offerings announced on March 19. The lower frequency of auctions will begin on May 1. The decision effectively amounts to an official downgrade in the threat level to world financial stability to a status closer to relative normality. That draws a line on a tense moment that had briefly inspired nervous parallels to the global financial crisis of 2008.

Central banks unveiled the daily dollar operations just days after a catastrophic run on Silicon Valley Bank and two other associated failures in the U.S. The stress had also spread to Switzerland, where Credit Suisse Group AG was forced into a takeover by rival UBS Group AG — marking in effect the first downfall of a globally systemic financial institution since the 2008 turmoil.

“In view of the improvements in U.S. dollar funding conditions and the low demand at recent U.S. dollar liquidity-providing operations, the Bank of England, the Bank of Japan, the European Central Bank and the Swiss National Bank, in consultation with the Federal Reserve, have jointly decided to revert the frequency of their 7-day operations from daily to once per week,” they said in a statement.

The reactivation of such joint measures first used during the global financial crisis and deployed during the pandemic too demonstrated how the central-banking community’s financial-stability infrastructure and cooperation remains robust. The Fed and its counterparts will revert to greater frequency if needed.

“These central banks stand ready to re-adjust the provision of U.S. dollar liquidity as warranted by market conditions,” they said in their statement. “The swap lines among these central banks are available standing facilities and serve as an important liquidity backstop to ease strains in global funding markets, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad.” ***Source: Bloomberg, 04.25.2023***

Economic News

Economy Grew 1.1% In First Quarter But A Recession Could Begin Soon As High Rates Bite

The economy grew modestly early this year and that may be as good as it gets. Warm winter weather juiced consumer spending, partly offsetting declines in business stockpiling and housing. The dynamic provided the economy a reprieve but most forecasters expect a mild recession to begin as soon as the current quarter. The nation's gross domestic product, the value of all goods and services produced in the U.S., expanded at a seasonally adjusted annual rate of 1.1% in the first quarter, the Commerce Department said on April 27, 2023. Economists surveyed by Bloomberg had forecast a 2% rise in output. The performance marked a slowdown from healthy GDP gains of 3.2% in the third quarter and 2.6% the final three months of the year.

"The U.S. economy is unwell, and it's starting to show," says Gregory Daco, chief economist of EY-Parthenon.

Households did most of the heavy lifting. Consumer spending increased 3.7% following a 1% gain late last year. Mild weather boosted shopping, dining out and other activities in January. And Americans continued to rely on the extra savings they socked away during the pandemic to cushion the blows of high inflation, sharply rising interest rates and the stricter lending standards sparked by the Silicon Valley Bank crisis. But those cash reserves are quickly running dry, especially for low- and middle-income consumers, say Ian Shepherdson, chief economist of Pantheon Macroeconomics. Consumption makes up about 70% of economic activity. In March, retail sales slowed dramatically, manufacturing output fell and employers added 236,000 jobs, a sturdy total but the smallest since the economy shed jobs in December 2020. Wells Fargo expects growth to downshift in the current quarter before the economy contracts the second half of the year and in early 2024. Shepherdson is more dour. He reckons GDP will shrink in the current quarter, marking the start of a downturn.

How other parts of the economy fared:

Business investment increased a modest 0.7% after growing 4% the prior quarter.

Spending on buildings, oil rigs and other structures jumped 11.2%.

But outlays for computers, delivery trucks, factory machines, and other equipment fell 7.3% amid rising interest rates, which increase borrowing costs, and flagging consumer demand.

Government spending increases

Government outlays rose for the third straight quarter, climbing 4.7% following a 3.8% advance the previous quarter. Federal spending increased by 7.8% and state and local purchases rose by 2.9%.

Trade supports growth, a bit

Trade was a slight positive for the economy for the second straight quarter.

Exports rose 4.8% as overseas demand for U.S. industrial goods improved, at least for now.

Imports increased by a smaller 2.9% as Americans continued to spend. That narrowed the trade deficit modestly and boosted overall growth.

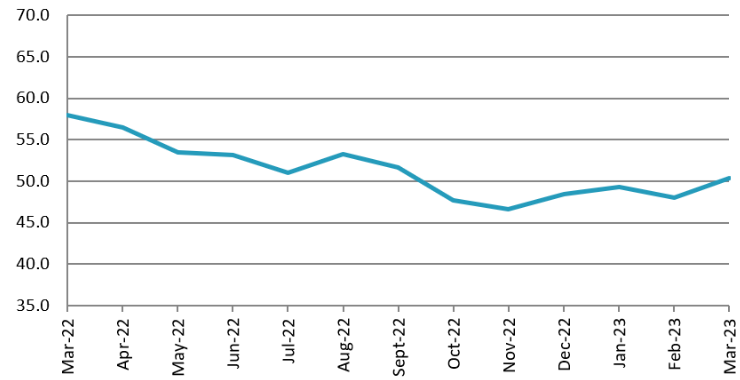
Business stockpiling slows

Businesses drew down their inventories after replenishing them the previous quarter, reducing growth by more than 2 percentage points. That was the biggest drag on the economy.

Such stockpiling has been volatile and doesn't typically reflect the economy's underlying health. Companies heavily stocked up in 2021 in response to supply chain snarls and product shortages, leading to big swings in recent months. ***Source: USAToday, 04.27.2023***

Key Economic Indicators

Architecture Billings Index (ABI)

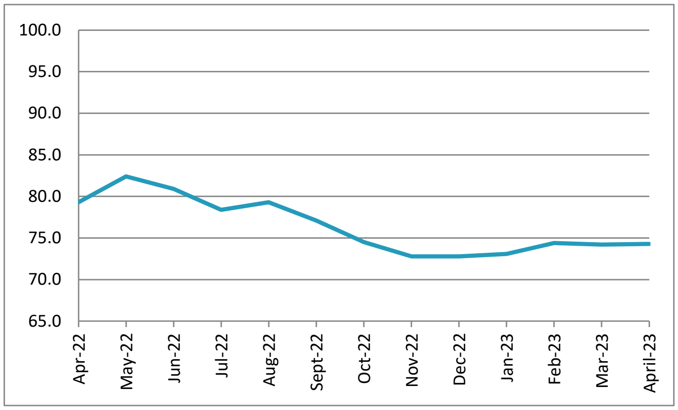


Architecture firms reported a modest increase in March billings. This positive news was tempered by a slight decrease in new design contracts according to a new report released today from The American Institute of Architects (AIA). March was the first time since last September in which billings improved.

The billings score for March increased from 48.0 in February to 50.4 in March (any score above 50 indicates an increase in firm billings). However, firms reported that inquiries into new projects grew at a slower pace, while the value of new design contracts declined from 51.3 in February to 48.9 in March.

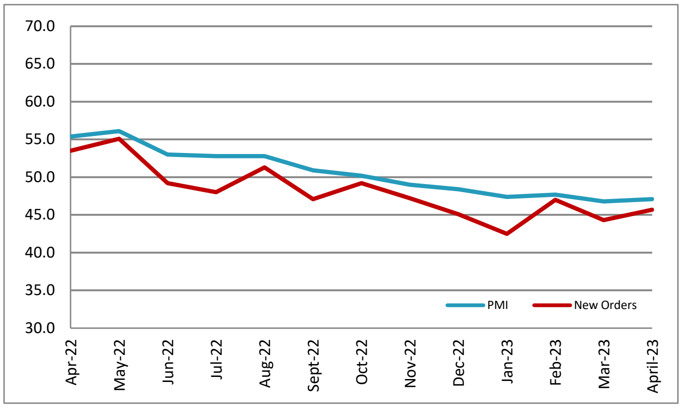
The AIA/Deltek Architecture Billings Index is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. Investment groups like Wells Fargo, media outlets, firms of all sizes, and business leaders rely on this leading monthly economic indicator to assess business conditions and predict and track the market.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, 04.19.2023***

Steel Capability Utilization



American Iron and Steel Institute (AISI) reported today that the U.S. imported a total of 2,614,000 net tons (NT) of steel in March 2023, including 1,906,000 net tons of finished steel (up 14.2% and 9.0%, respectively, vs. February 2023). Total and finished steel imports are down 11.5% and 14.5%, year-to-date vs. 2022. Over the 12-month period April 2022 to March 2023, total and finished steel imports are down 10.3% and 2.5%, respectively, vs. the prior 12-month period. Finished steel import market share was an estimated 22 % in March and is estimated at 23% over the first three months of 2023.Key steel products with a significant import increase in March compared to February are cut lengths plates (up 53%), tin plate (up 44%), hot rolled sheets (up 41%), ingots and billets and slabs (up 31%) and oil country goods (up 29%). Products with a significant increase in imports over the 12-month period April 2022 to March 2023 compared to the previous 12-month period include line pipe (up 46%), oil country goods (up 42%), standard pipe (up 29%), heavy structural shapes (up 20 %) and tin plate (up 11 %). In March, the largest suppliers were Canada (660,000 NT, up 23% vs. February), Brazil (457,000 NT, up 30%), Mexico (437,000 NT, up 14 %), South Korea (187,000 NT, down 17%) and Japan (117,000 NT, up 117%). Adjusted year-to-date production through April 1, 2023 was 21,608,000 net tons, at a capability utilization rate of 74.3% . That is down 4.1% from the 22,535,000 net tons during the same period last year, when the capability utilization rate was 79.7% . ***Source: ASI, 04.25.2023***

Purchasing Managers Index (PMI)®



The April Manufacturing PMI® registered 47.1%, 0.8% age point higher than the 46.3% recorded in March. Regarding the overall economy, this figure indicates a fifth month of contraction after a 30-month period of expansion. The New Orders Index remained in contraction territory at 45.7%, 1.4percentage points higher than the figure of 44.3% recorded in March. The Production Index reading of 48.9% is a 1.1-percentage point increase compared to March's figure of 47.8%. The Prices Index registered 53.2%, up 4percentage points compared to the March figure of 49.2%. The Backlog of Orders Index registered 43.1%, 0.8 percentage point lower than the March reading of 43.9%. The Employment Index elevated into expansion territory, registering 50.2%, up 3.3 percentage points from March's reading of 46.9%. The Supplier Deliveries Index figure of 44.6 % is 0.2 percentage point lower than the 44.8% recorded in March; this is the index's lowest reading since March 2009 (43.2%). The Inventories Index dropped 1.2% age points to 46.3%, lower than the March reading of 47.5%. The New Export Orders Index reading of 49.8% is 2.2% age points higher than March's figure of 47.6%. The Imports Index remained in contraction territory, though just barely, at 49.9%, 2 percentage points above the 47.9% reported in March.

The five manufacturing industries that reported growth in April are: Printing & Related Support Activities; Apparel, Leather & Allied Products; Petroleum & Coal Products; Fabricated Metal Products; and Transportation Equipment. The 11 industries reporting contraction in April, in the following order, are: Furniture & Related Products; Wood Products; Nonmetallic Mineral Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Chemical Products; Machinery; Primary Metals; Computer & Electronic Products; Food, Beverage & Tobacco Products; and Miscellaneous Manufacturing. ***Source: Institute for Supply Management, 05.01.2023***

Industry News

U.S. Manufactured Goods Orders Jump In March

The rise of manufactured durable goods was fueled by a 9.1% rise in transportation equipment and a 3.5% increase in non-defense goods.

Orders of big-ticket manufactured items in the U.S. jumped in March following a two-month slump, buoyed by a sharp rise in transportation goods, according to U.S. government data released April 26, 2023.

Manufactured durable goods rose by 3.2% in March to $276.4 billion, the Commerce Department announced in a statement. This was well above the median forecast of 0.5% in a MarketWatch survey of economists.

The rise was fueled by a 9.1% rise in transportation equipment and a 3.5% increase in non-defense goods.

New orders of nondefense aircraft and computers also rose last month. "Overall durable goods orders and ex-transportation orders were stronger than expected in March but core capex orders and shipments remained weak overall," Rubeela Farooqi, chief U.S. economist at High Frequency Economics said in a statement.

Farooqi warned that there were "mounting downside risks around the outlook given the hurdles companies are facing from higher borrowing costs and an unclear growth trajectory going forward."

April 26th figures mark a sharp contrast with the declines seen in the last two months. Durable goods recorded a large drop in January on the back of slowing demand for aircraft. The bad news continued in February with a further slump recorded due to a decline in defense aircraft and parts.
Source: Industry Week, 04.27.23

Infrastructure Report: Gearing Up For Growth

The combination of the need for investment and the promise of federal, state and local funds has resulted in a good deal of infrastructure optimism about the next several years. Signs are positive for public investment and the steel and other metals used for the various projects that are either under way or are on the drawing board. But at this point the actual push from such landmark legislation as the Infrastructure Investment and Jobs Act and the Inflation Reduction Act is still in early stages.

The dynamics of the infrastructure construction sector tend to be somewhat different than those for construction in general, observes Paolo Frediani, a senior steel analyst for Fastmarkets. He notes that while overall U.S. construction activity, which is still currently fairly healthy, is likely to slow down going forward, that isn't necessarily the case for infrastructure builds, which don't tend to correlate as strongly with macroeconomic factors. As such, helped by the additional monies from the IIJA and IRA and other sources, Frediani believes that U.S. infrastructure construction activity will be up somewhat this year and will see even stronger growth over the next five years or so.

Ken Simonson, chief economist for the Associated General Contractors, says that over the past year public works construction spending has been quite strong, increasing 11% year on year in January. That, he observes, included a 16.4% increase for highway and street, a 3.1% increase for transportation, a 16% increase for sewage and waste disposal, a 17% increase for water supply and a 21.5% increase for conservation and development. Moreover, that spending was largely unrelated to recent federal legislation, including the IIJA, but rather because many states and local governments have record, or near-record surpluses and "rainy day" funds. Therefore, they can invest more money into their infrastructure.

This, he says, is not only the case for roads and bridges, but other transportation infrastructure, including airport, port and harbor and rail. This is taking place despite all of the macroeconomic and recessionary fears in the marketplace, worries somewhat mitigated by the lift they have gotten from COVID pandemic relief funds and recent job recovery, says Philip Gibbs, a metals equity analyst for KeyBanc Capital Markets.

"Highway and bridge construction has been steady over the past 10 years," Alison Premo Black, senior vice president and chief economist for the American Road & Transportation Builders Association, points out. Supported by the previous federal highway bill – the Fixing America's Surface Transportation Act – as well as other federal, state and local government funding mechanisms, investment in already under way for highway and bridge construction projects. With little help from the IIJA, that spending reached a record level by the end of 2022 with a full-year increase of about nine%. Black says the states and local governments were motivated to increase their own revenue sources through gasoline and other sales taxes, public-private partnerships and/or bond issues because of such factors as growing population, higher economic activity and deteriorating infrastructure conditions.

"The additional funding (particularly federal) for the U.S. infrastructure market is long overdue," says Veronika Akhmadieva, an American economist for CRU, noting that while state and local government spending was up 2.3% in 2022, total federal public works spending was down 21.3% year on year. Full Story
Source: Metal Center News, 04.24.2023

Incredibly Resilient’ Construction Market Buoys Nucor Outlook, Alcoa, And Steel Dynamics Also Upbeat

There wasn’t much ambiguity or hedging in Leon Topalian’s commentary.” While there’s an awful lot of talk about looming recessions and headwinds we’re facing and whatnot, I will just tell you that the objective measures as we look into Q2, we think Q2 is going to be a stronger quarter,” the chairman, president and CEO of steel titan Nucor Corp. told analysts on an April 20 conference call to discuss his team’s first-quarter results. “Non-residential construction continues to be incredibly resilient and we think strong going forward.”

Charlotte-based Nucor reported first-quarter profits of $1.1 billion on net sales of $7.1 billion. Total sales to outside customers rose slightly from a year ago but substantially lower prices meant operating profits fell by more than 40%.

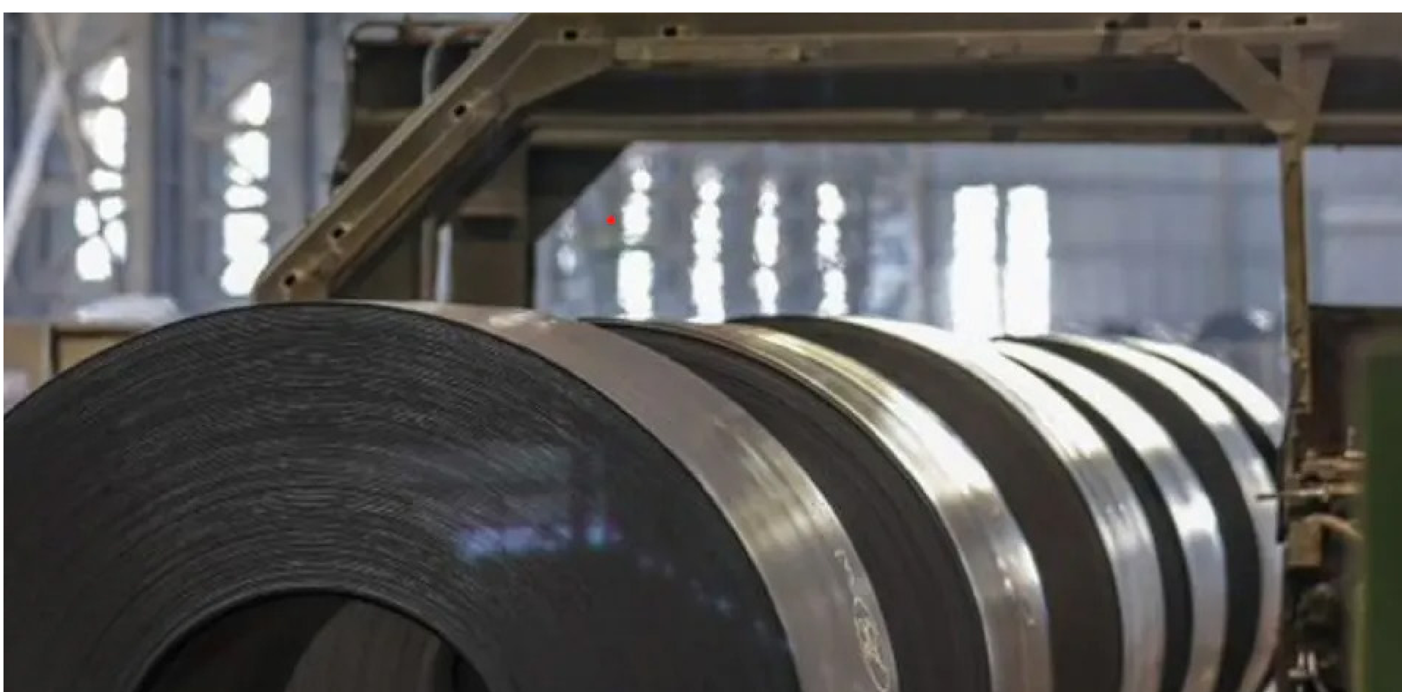
Key to the upbeat outlook from Topalian and his team are the beginnings of a wave of orders for steel and related products to help build factories making semiconductors and electric-vehicle batteries as well as transportation and energy infrastructure projects. Topalian said passage of the Inflation Reduction Act, CHIPS and Science Act and Infrastructure Investment and Jobs Act will require about 8 million tons of steel-making capacity annually for the next decade, “not an inconsequential number.”

There are short-term catalysts aiding Nucor, too, however: Executive Vice President Rex Query said on Nucor’s call that the market softness of late 2022—which followed inventory building in the face of great uncertainty after Russia invaded Ukraine in February—has been digested. “As we’ve entered 2023, we see a much more stable market,” Query said about the sheet products market. “We see more confidence in the marketplace and underlying demand [...] You’ve now seen stabilizing in some pricing at a higher level and we see demand stabilizing. Our backlogs at this point are on par with where we were at the end of [the] first quarter in 2022 […] As we move forward in Q2 and even into Q3, we see that continuing.”

The Nucor team’s peers at Steel Dynamics Inc. and Alcoa Corp. voiced similarly confident assessments. Alcoa President and CEO Roy Harvey said, “the demand is still there” for his firm’s products and that there are relatively limited options available to quickly ramp up supply, which is putting a solid floor under prices after the steep decline of last spring and summer.

“Based on our backlog, customer sentiment and manufacturing momentum, we expect steel fabrication earnings to remain strong throughout the year, including the second half,” Steel Dynamics CFO Theresa Wagler said April 20.

The optimistic tones from metals manufacturers was supported by the April 21 latest reading of the S&P Global Flash PMI Composite Output Index, a measure decently correlated U.S. gross domestic product. The indicator posted its best number in 11 months, with respondents saying they are seeing greater confidence among customers driving a rise in new orders.
Source: IndustryWeek, 04.21.2023



Biden To Maintain U.S. Solar Tariff Pause With Veto

U.S. President Joe Biden plans to veto a move by Congress to end a two-year suspension on tariffs for goods shipped from Vietnam, Cambodia, Thailand and Malaysia, which make up around 80% of the US supply of solar components. "The administration strongly opposes H.J. Res. 39, which would disapprove a rule issued by the Department of Commerce that temporarily suspends the collection of certain duties on imports of solar cells and modules," said the White House in a press release.

"The four Southeast Asian countries were allegedly harboring tariff-dodging products from China, which under antidumping and countervailing duty (AD/CVD) laws could lead to tariffs that range between 50% to 250% of the cost of shipped goods."

This looming threat of tariffs created an untenable level of risk that cascaded into cancelled and delayed projects. The effect was so stark that it led the Solar Energy Industries Association to cut its project deployment forecast in half for the year.

About 20% of utility-scale solar capacity was delayed or cancelled in the first half of 2022 due to supply problems and uncertainty. This uncertainty was temporarily lifted when President Joe Biden placed a 24-month moratorium on solar tariffs from the four nations on June 5, 2022. This April, the House Ways and Means Committee voted 26-13 to end the moratorium and restore tariffs via the Congressional Review Act.

"We cannot allow foreign solar manufacturers to violate trade laws, especially when it comes at the expense of American workers and American businesses," said Representative Dan

Kildee (D-MI). The tariff exemption applies to modules that are imported before June 6, 2024, or modules installed on project sites before December 2024. Biden's two-year moratorium is meant to act as a bridge while US domestic solar manufacturing ramps up, said Reuters.

"The United States currently lacks the capacity to produce solar panels and cells in adequate volumes to meet domestic demand," said Abigail Ross Hopper, president and chief executive officer, Solar Energy Industries Association. "This strategic approach protects existing jobs while new ones are added, but it also helps sustain the robust environmental, national security and job-creating benefits offered by US solar deployment." ***Source: PV – USA, 04.25.2023***

The Economy Is In A 'Freight Recession,' With China

As the big East and West coast ports jockey for supremacy in total trade volume coming into the country, the pie is getting smaller as the economy softens. The latest trade data from the Port of New York and New Jersey, the nation's largest container port on the East Coast, points to a slight uptick in container processing but future ocean freight orders continuing to pull back.

In the month of March, the Port of New York and New Jersey handled 574,452 TEUs (20-foot equivalent units) making it the nation's third-busiest port. But the difference between the Port of Los Angeles, which processed the most containers in March, and the Port of New York/New Jersey, was 48,781 TEUs. In the first three months of 2023, the Port of New York and New Jersey was the nation's second-busiest port moving nearly 1.8 million TEUs, similar to the amount moved in 2019.

A freight slowdown that has been in the data for months continues to be reflected in the activity. A recent CNBC supply chain survey analyzing inventories and warehouse space tracked a decrease in truck movements in and out of warehouses. This along with a 40% decrease in manufacturing orders foretells less freight movement by both truck and rail. On trucking company JB Hunt's first-quarter conference call with analysts, President Shelley Simpson said the industry was in the midst of a "freight recession."

Data from CNBC Supply Chain Heat Map provider FreightWaves SONAR details the weakness in the sector. When comparing current ocean freight orders leaving from all ports in the world and arriving at all ports in the United States, year over year, the levels are half. The decrease is felt both on the rails and roads with less freight coming into the country.

China's manufacturing data has seen recent improvement out of its COVID reopening, but Peter Boockvar, chief investment officer of Bleakley Financial Group, says the overall trade data coincides with indicators of global economic contraction. "We're seeing contractions in global manufacturing PMIs [purchasing managers indexes] and I think it correlates to less spending on goods and the need to work down excess inventories," Boockvar said. "Consumers are still spending on experiences like travel, leisure, and restaurants but with respect to goods, it's more of a spending focus on non-discretionary items and less on discretionary. This for sure filters through to less stuff being produced and thus transported," he said. ***Source: CNBC, 04.24.2023***