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November 2023

The Economy Added 150,000 Jobs in October as Hiring Slowed

Hiring slowed sharply in October as employers added 150,000 jobs, signaling that high interest rates and inflation may be taking a widening toll on payroll growth.

The auto workers strike also dampened job gains last month as manufacturing lost 35,000 jobs.

The unemployment rate rose from 3.8% to 3.9%, the Labor Department said November 3, the highest level since January 2022.

Economists surveyed by Bloomberg had estimated that 180,000 jobs were added last month.

Also, job gains for August and September were revised down by a combined 101,000, depicting a less robust picture of hiring in late summer than previously thought. Full Story
Source: USAToday, 11.03.2023

U.S. Durable-Goods Orders Climb on Higher Military Spending

Durable-goods orders minus defense actually fell 0.7% last month, the government said. In a more positive sign, so-called core orders jumped 0.9%. That figure omits defense and transportation and is a proxy for broader business investment. Yet overall business investment remains weak, and conditions aren't expected to improve much any time soon. Companies have curtailed investment since last year in response to rising interest rates and higher odds of recession.

Orders for commercial planes sank 16% in August. Auto dealers reported a 0.3% increase. Omitting those two dominant industries, orders minus transportation rose a modest 0.4%. Bookings increased for metal parts, machinery, computers, and electrical equipment.

The big uptick in core orders was somewhat of a surprise, but it remains to see if the increase is sustained. These orders give a better idea of the true condition of U.S. manufacturing since demand for planes and autos can zig-zag month to month.
Full Story ***Source: MarketWatch, 09.27.2023***

Fed Holds Rate Steady, Upgrades Assessment of Economic Growth

The Federal Reserve on November 1 again held benchmark interest rates steady amid a backdrop of a growing economy and labor market and inflation that is still well above the central bank's target. In a widely expected move, the Fed's rate-setting group unanimously agreed to hold the key federal funds rate in a target range between 5.25%-5.5%, where it has been since July. This was the second consecutive meeting that the Federal Open Market Committee chose to hold, following a string of 11 rate hikes, including four in 2023. The decision included an upgrade to the committee's general assessment of the economy.

"The process of getting inflation sustainably down to 2% has a long way to go," Fed Chair Jerome Powell said in remarks at a news conference. He stressed that the central bank hasn't made any decisions yet for its December meeting, saying that "The committee will always do what it thinks is appropriate at the time." Powell added that the FOMC is not considering or even discussing rate reductions at this time. He also said the risks around the Fed doing too much or too little to fight inflation have become more balanced.

"This signals that while there is a potential risk for the Fed to do more, the bar has become higher for rate hikes, and we are clearly seeing this play out with two consecutive meetings of no policy action from the Fed," said Charlie Ripley, senior investment strategist at Allianz Investment Management. The post-meeting statement had indicated that "economic activity expanded at a strong pace in the third quarter," compared with the September statement that said the economy had expanded at a "solid pace." The statement also noted that employment gains "have moderated since earlier in the year but remain strong." Gross domestic product expanded at a 4.9% annualized rate in the third quarter, stronger than even elevated expectations. Nonfarm payrolls growth totaled 336,000 in September, well ahead of the Wall Street outlook.

There were few other changes to the statement, other than a notation that both financial and credit conditions had tightened. The addition of "financial" to the phrase followed a surge in Treasury yields that has caused concern on Wall Street. The statement continued to note that the committee is still "determining the extent of additional policy firming" that it may need to achieve its goals. "The Committee will continue to assess additional information and its implications for monetary policy," the statement said.

The decision to stay put comes with inflation slowing from its rapid pace of 2022 and a labor market that has been surprisingly resilient despite all the interest rate hikes. The increases have been targeted at easing economic growth and bringing a supply and demand mismatch in the labor market back into balance. There were 1.5 available jobs for every available worker in September, according to Labor Department data released earlier November 1. Core inflation is currently running at 3.7% on an annual basis, according to the latest personal consumption expenditures price index reading, which the Fed favors as an indicator for prices. While that has decreased steadily this year, it is well above the Fed's 2% annual target.
Full Story ***Source: CNBC, 11.01.2023***

Economic News

U.S. Economy Grew at a 4.9% Pace Last Quarter, Fastest Since 2021

The U.S. economy grew at the fastest pace in nearly two years last quarter on a burst of consumer spending, which will be tested in coming months. Gross domestic product accelerated to a 4.9% annualized rate, more than double the second-quarter pace, according to the government's preliminary estimate October 26. The economy's main growth engine — personal spending — jumped 4%, also the most since 2021.

Looking ahead, the durability of economic momentum in the fourth quarter will help Federal Reserve officials determine whether to raise interest rates again. Many economists expect growth to slow in the final months of the year as borrowing costs limit purchases of big-ticket items and student-loan payments resume. But should demand stay robust, it risks keeping inflation above the central bank's 2% goal and may warrant tighter monetary policy.

"Growth this strong does not force a rate hike next week, but it means the Fed will indicate it is still contemplating higher rates," Chris Low, chief economist at FHN Financial, said in a note. "The Fed cannot declare tightening over with growth this strong and inflation still above target."

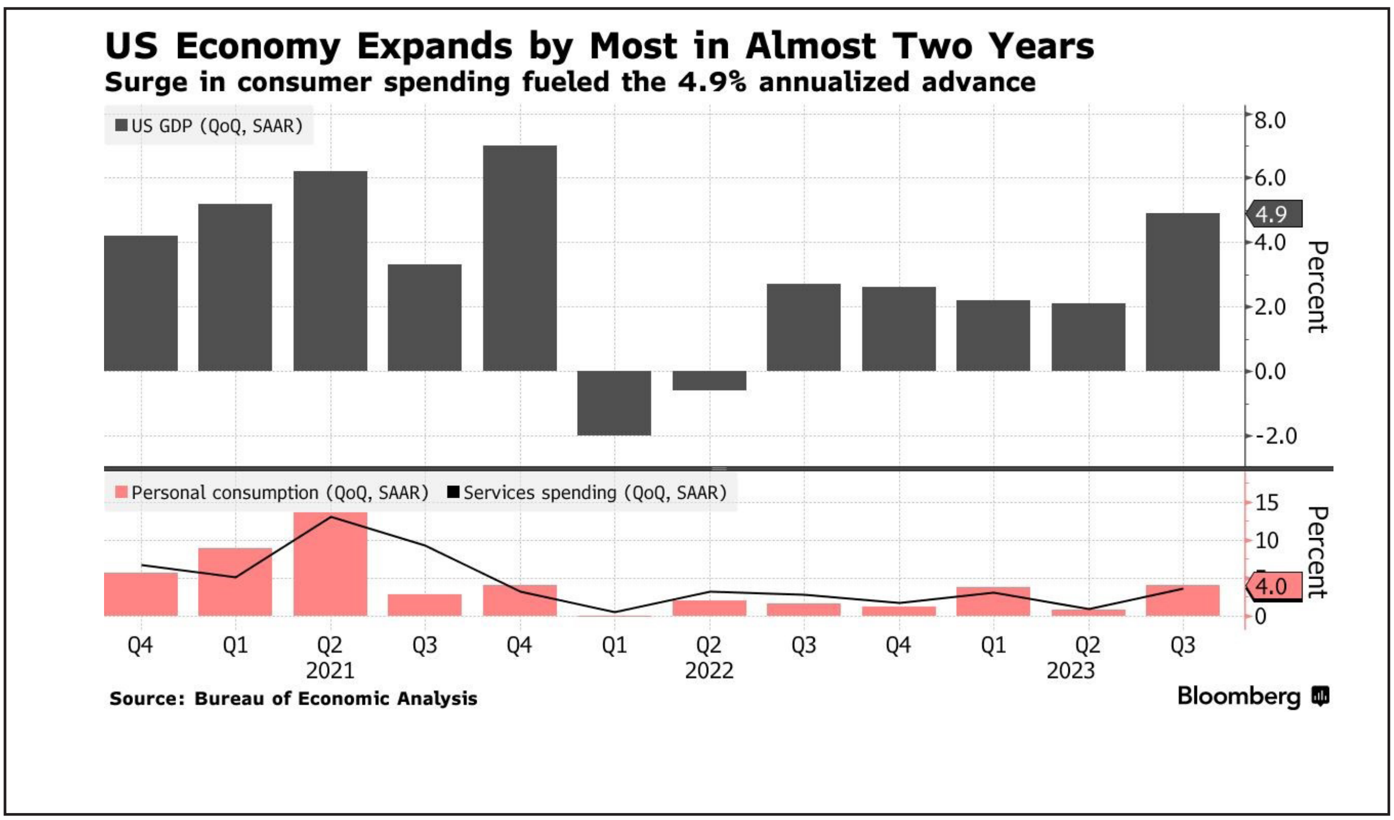
"So far, the data suggest inflation continues to dissipate. The closely watched core personal consumption expenditures price index, which strips out food and energy costs, stepped down to a 2.4% pace in the third quarter. Including those more volatile categories, the overall PCE price index increased 2.9%.

At the same time, service-sector inflation excluding housing and energy, a narrower measure watched closely by Fed officials, rose at a 3.6% rate, a slight pickup from the prior quarter.

Treasury Secretary Janet Yellen said the data shows the economy is doing very well and that there is evidence of a soft landing, where inflation has eased without higher rates causing a recession. Speaking at an event in Bloomberg's Washington office Thursday, she said that she is, "not expecting growth at that pace to continue, but we do have good, solid growth."

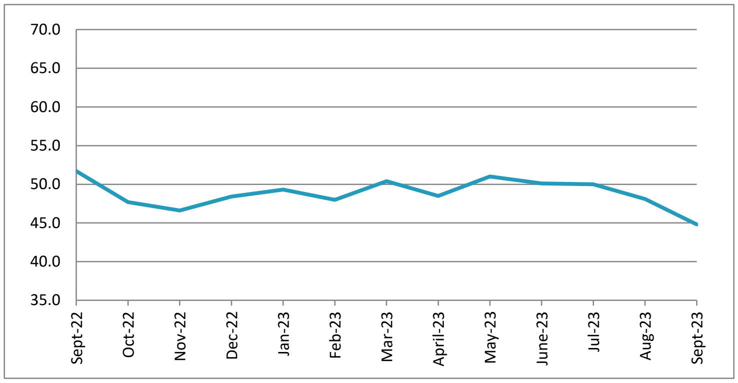
While a flurry of consumer spending was the main driver of growth, inventories added 1.3 percentage points to third-quarter GDP. Government spending also contributed to the advance.

Business investment, meanwhile, declined for the first time in two years on a drop in outlays for equipment, and net exports subtracted from GDP. Residential investment rose for the first time in more than two years. Stripping out inventories, government spending and trade, inflation-adjusted final sales to private domestic purchasers — a key gauge of underlying demand — increased 3.3%. The strength of household demand is due to a mixture of factors, including robust hiring, solid wage gains and a record surge in household wealth coming into this year. Spending on services rose by the most in two years, while outlays for goods also accelerated. ***Source: Bloomberg, 10.26.2023***



Key Economic Indicators

Architecture Billings Index (ABI)

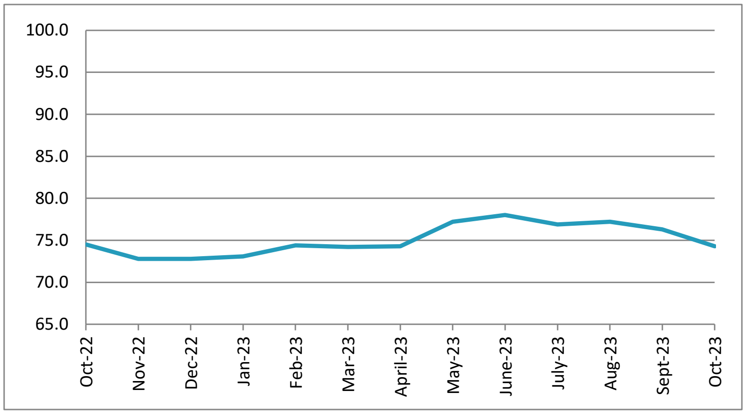


Business conditions at architecture firms declined again in September, the AIA/Deltek Architecture Billings Index (ABI) reports. The score of 44.8 for September is the lowest score reported since December 2020 during the height of the pandemic. Any score below 50.0 indicates decreasing business conditions and this score indicates a significant increase in firms reporting declining billings.

"The September ABI score reflects a marked downturn in business conditions at architecture firms, with the sharpest decline observed since the peak of the pandemic," said Kermit Baker, PhD, AIA chief economist. "While more firms are reporting a decrease in billings, the report also shows the hesitance among clients to commit to new projects with a slump in newly signed design contracts. As a result, backlogs at architecture firms fell to 6.5 months on average in the third quarter, their lowest level since the fourth quarter of 2021.

Only one sector, firms with an institutional specialization, remained flat while all other sectors reported declining billings. Firms with a multifamily residential specialization saw more decline, a continuation of month over month declines since August 2022. ***Source: AIA, 10.18.2023.***

Steel Capability Utilization

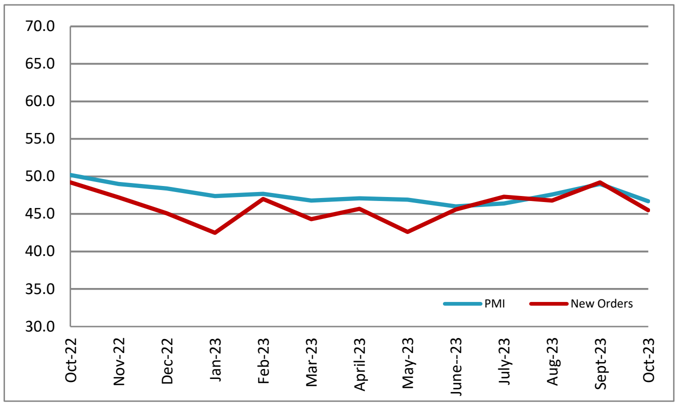


In the week ending on October 28, 2023, domestic raw steel production was 1,707,000 net tons while the capability utilization rate was 74.3%. Production was 1,644,000 net tons in the week ending October 28, 2022 while the capability utilization then was 73.7%. The current week production represents a 3.8% increase from the same period in the previous year. Production for the week ending October 28, 2023 is up 0.2% from the previous week ending October 21, 2023 when production was 1,703,000 net tons and the rate of capability utilization was 74.1%.

Adjusted year-to-date production through October 28, 2023 was 73,623,000 net tons, at a capability utilization rate of 75.9%. That is down 0.9% from the 74,261,000 net tons during the same period last year, when the capability utilization rate was 78.8%. Broken down by districts, here's production for the week ending October 28, 2023 in thousands of net tons: North East: 136; Great Lakes: 561; Midwest: 177; Southern: 766 and Western: 67 for a total of 1707.

The raw steel production tonnage provided in this report is estimated. The figures are compiled from weekly production tonnage provided by approximately 50% of the domestic production capacity combined with the most recent monthly production data for the remainder, representing 75% of U.S. production capacity. ***Source: AISI, 10.28.2023***

Purchasing Managers Index (PMI)®



The Manufacturing PMI® registered 46.7% in October, 2.3 percentage points lower than the 49% recorded in September. The overall economy dropped back into contraction after one month of weak expansion preceded by nine months of contraction and a 30-month period of expansion before that. (A Manufacturing PMI® above 48.7%, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index remained in contraction territory at 45.5%, 3.7 percentage points lower than the figure of 49.2% recorded in September. The Production Index reading of 50.4% is a 2.1 percentage point decrease compared to September's figure of 52.5%. The Prices Index registered 45.1%, up 1.3 percentage points compared to the reading of 43.8% in September. The Backlog of Orders Index registered 42.2%, 0.2 percentage point lower than the September reading of 42.4%. The Employment Index registered 46.8%, down 4.4 percentage points from the 51.2% reported in September. The Supplier Deliveries Index figure of 47.7% is 1.3 percentage points higher than the 46.4% recorded in September. The Inventories Index decreased by 2.5 percentage points to 43.3%; the September reading was 45.8%. The New Export Orders Index reading of 49.4% is 2 percentage points higher than September's figure of 47.4%. The Imports Index remained in contraction territory, registering 47.9 percentage point lower than the 48.2% reported in September. The U.S. manufacturing sector continued to contract and at a faster rate in October, dropping 2.3 percentage points to 46.7%, compared to September's reading of 49%. ***Source: ISM, 11.01.2023***

Industry News

U.S. Manufacturing Output Rises Solidly in September

Manufacturing output rose 0.4% last month, the Federal Reserve said on October 17. Data for August was revised lower to show production at factories dipping 0.1% instead of nudging up 0.1% as previously reported. Economists polled by Reuters had forecast factory output would tick up 0.1%. Production dropped 0.8% on a year-on-year basis in September. It was unchanged in the third quarter. Durable goods manufacturing output rose at a 2.3% annualized rate, which was offset by a 2.4% pace of decline in nondurable manufacturing. Motor vehicle and parts output rose 0.3% last month after declining 4.1% in August.

Despite last month's strong showing, manufacturing remains constrained by slowing demand for goods because of higher interest rates. Since March 2022, the Federal Reserve has raised its benchmark overnight interest rate by 525 basis points to the current 5.25%-5.50% range.

Manufacturing accounts for 11.1% of the economy. But the worst for the sector is likely over, with the Institute for Supply Management's measure of national factory activity rising to a 10-month high in September. Last month, there were solid increases in the production of wood, primary metals, plastics and rubber products. But output of apparel and leather as well as printing and support goods declines.

Mining output rose 0.4% after gaining 0.2% in August. Utilities production fell 0.3% after increasing 0.7% in the prior month. Overall industrial production rose 0.3% in September after being unchanged in August. Industrial output increased at a 2.5% rate in the third quarter. That followed a 0.7% growth pace in the second quarter.

Capacity utilization for the industrial sector, a measure of how fully firms are using their resources, rose 0.2 percentage point to 79.7% in September. It is now equal to its 1972–2022 average. The operating rate for the manufacturing sector nudged up to 77.8% from 77.7% in the prior month and is 0.4 percentage points below its long-run average. ***Source: Reuters, 10.17.2023***

Global News of Note: OECD Releases Report

The Organization for Economic Cooperation and Development (OECD) has concluded removing government support for aluminum smelting and steelmaking could be a cost-effective strategy for decarbonization. Specifically, removing this aid would reduce global greenhouse gas emissions by 1% while cutting global output by only 0.3%. These results, the OECD said, would be driven by China and India, which account for 96% and 89% of the emissions and output reductions, respectively.

China's primary aluminum output rose 5.3% from September 2022 to September 2023, said the National Bureau of Statistics (NBS). Output totaled 30.81 million tons in the first nine months of 2023, up 3.3% from the same period in 2022. Read more here.

As Reuters reported, NBS also revealed China's crude steel output fell by 5% from August 2023 to September 2023 and was down 5.6% year-over-year. China manufactured 82.11 million metric tons of crude steel in September, a number that was far below the 95 million tons analysts predicted for the NBS reading. Production for the first nine months of 2023 was up 1.7% from the same period in 2022. ***Source: MSCI, 10.23.2023***

U.S. Steel Imports Fall in September

The U.S. imported 2.2 million net tons of steel in August, a decline of 4.1% compared with the prior month, the American Iron and Steel Institute reported. Finished steel imports showed an even bigger decline, falling 15.1% to 1.6 million tons compared with August.

For the year to date, total imports were down 9.8% to 24.2 million tons and finished steel imports of 19.7 million tons were off 15%. Finished steel import market share was an estimated 20% in September and is estimated at 22% over the first nine months of 2023.

Key steel products with a significant import increase in September compared with August are hot-rolled sheets, up 49%, and ingots, billets and slabs, up 45%.

In September, the largest suppliers were Canada at 537,000 tons, down 2% compared with August; Brazil at 452,000 tons, up 116%; Mexico at 358,000 tons, down .2%; and South Korea at 331,000 tons, up 30%. ***Source: MetalCenterNews, 10.27.2023***

U.S. Producers Accelerate Green Steel Technology Investment as Decarbonization Race Heats Up

Be it investing in clean energy power sources to cut emissions or retrofitting legacy plants with carbon capture, utilization and storage technology, both electric-arc furnace (EAF) and blast-furnace (BF) reliant producers are investing aggressively in green technologies. This drive comes while downstream customers, including the automotive industry, exert pressure on steel producers to reduce carbon emissions.

Integrated producer Cleveland-Cliffs said on October 13 it had joined the Midwest Alliance for Clean Hydrogen (MachH2), a multistate alliance of public and private entities which has been awarded up to $1 billion in funding from the U.S. Department of Energy (DOE) under the Bipartisan Infrastructure Law to develop a regional clean-hydrogen hub in the Midwest. "MachH2 is expected to generate numerous sources of clean hydrogen production across the U.S. Midwest, including in Northwest Indiana near Cleveland-Cliffs' two largest steel plants, Indiana Harbor and Burns Harbor," the Cleveland, Ohio-based steelmaker said in a press release, noting that the company is currently constructing a pipeline to bring hydrogen from the fence to Indiana Harbor BF No.7, the company's largest BF. Global steel producer ArcelorMittal is also a member of MachH2.

Developing clean hydrogen is regarded as a substantial step in the decarbonization of BF-based steel production, and Cliffs had previously said the high cost of its implementation remains a barrier to widespread adoption. Cliffs had completed a hydrogen injection trial at its Middletown Works BF in May this year; the hydrogen gas working as an iron-reducing agent in the BF. Nucor Corp said on September 27 it is partnering with Helion Energy and investing $35 million to develop a 500-megawatt fusion power plant, which will offer baseload zero carbon electricity directly to a Nucor steelmaking plant. This project has a target date of 2030. In August, Nucor said it had entered into a power purchase agreement for 250 megawatts of renewable energy from Sebree Solar for a solar project in Henderson County, Kentucky.

This news came just a week after rival steelmaker Steel Dynamics Inc. (SDI) said on July 31 it had signed a renewable product purchase agreement with a subsidiary of NextEra to create a new wind farm project in Scurry County, Texas. Once operational, the wind farm project will produce approximately 1.1 million megawatt hours of electricity annually. Nucor also announced in November 2022 it had joined the United Nations 24/7 Carbon-Free Energy Global Compact to enhance its commitment to a zero-carbon electrical grid, working with its electricity suppliers to access "24/7" clean energy at its steel mills.

Carbon capture, utilization, and sequestration works well to decarbonize heavy industries, including the steel industry, according to Chris Davis, senior vice president of Milestone Carbon, a company that offers solutions for the permanent geological sequestration of carbon dioxide (CO2) for significant industrial emitters. Steel companies can either build new, efficient mills and electrify the grid by themselves, or producers can build sequestration sites and retrofit older plants, Davis told Fastmarkets.

Legacy steelmaker U.S. Steel said on September 20 it is collaborating with the National Energy Technology Laboratory – a government research laboratory for the DOE – to test an advanced membrane technology to capture CO2 emissions at its Edgar Thomson Plant located in Braddock, Pennsylvania. It was U.S. Steel's second foray into carbon capture technology this year, after it signed in March a memorandum of understanding with CarbonFree Chemicals Holdings to capture CO2 emissions at the company's Gary Works manufacturing plant in Indiana. Additionally, the Pittsburgh-based steelmaker said in June 2022 the DOE had granted the University of Illinois $3.46 million to support a carbon capture study at U.S. Steel's Gary Works in Indiana.

Premium price for differentiated steel products is a huge economic impetus for domestic producers to differentiate their steel products as cleaner than those produced in other countries; the Inflation Reduction Act (IRA) and the CHIPS and Science Act (CHIPS Act) will support the steel industry's decarbonization drive, as well as generate incremental demand for steel products, sources have said previously. For example, U.S. Steel said in July this year it had achieved environmental product declarations on hot-rolled coil, cold-rolled coil, and corrosion-resistant (galvanized steel) products made at its Big River Steel Works EAF facility, which is seen as a step toward measuring returns on the company's investment in decarbonization efforts.

Cleveland-Cliffs also said in July it is charging a $40 per net ton surcharge – called the "Cliffs H surcharge" – on steel products produced using hot-briquetted iron (HBI), a low-carbon iron feedstock used in BFs, BOFs and EAFs. ***Source: Fastmarkets, 10.31.2023***

U.S. Supreme Court Turns Away Challenge to Steel Import Tariffs

The U.S. Supreme Court on October 30 declined to hear an American steel importer's bid to invalidate tariffs on certain steel products based on the argument that former President Donald Trump exceeded his authority in imposing them in 2020. The justices turned away an appeal by Irving, Texas-based PrimeSource Building Products of a lower court's decision to uphold a 25% tariff on some steel derivatives, such as nails and fasteners, put in place by Trump on national security grounds and now defended by President Joe Biden's administration.

During Trump's presidency, the U.S. placed multiple rounds of tariffs on steel products starting in 2018 after then-Commerce Secretary Wilbur Ross found that imports threatened national security by eroding demand for U.S. steel and depressing the use of domestic steel-producing capacity. Trump in March 2018 invoked a Cold War-era trade law in ordering a 25% tariff on various imported steel articles including flat-rolled products, tubes and pipes. In January 2020, Trump ordered that the tariffs apply also to derivatives of the earlier-covered steel articles.

PrimeSource, St. Louis-based Huttig Building Products and Omani company Oman Fasteners, challenged the tariffs on steel derivatives, arguing that the U.S. Congress never granted the president broad power over foreign trade to impose them. The Manhattan-based U.S. Court of International Trade struck down the steel derivatives tariffs in 2021, saying the White House missed statutory deadlines to impose them. But the Washington-based U.S. Court of Appeals for the Federal Circuit in February reversed that decision, citing its own 2022 ruling that presidents are authorized to impose "contingency-dependent" tariff increases to fulfill their original national security objectives, if those objectives remain valid.

Trump imposed the 2020 tariffs to"close a loophole exploited by steel-derivatives importers ... to address a specific form of circumvention," Judge Richard Taranto wrote in the Federal Circuit's decision. Biden's administration had urged the Supreme Court not to take up the appeal. PrimeSource appealed to the Supreme Court in July. Oman Fasteners filed a separate appeal on Oct. 20 that is currently pending.

In imposing steel tariffs in 2018, Trump invoked Section 232 of the Trade Act of 1962, which allows a U.S. president to restrict imports of goods critical to national security. Exemptions were granted to some countries. The tariffs became an irritant in foreign relations including with European allies. Trump at the time said the tariffs were necessary for national security to maintain healthy domestic production, and said the U.S. was committed to building its ships, planes and other military equipment with American steel.

During his presidency, Trump rattled the world trade order by imposing unilateral tariffs to combat what he called unfair trade practices by China, the European Union and other major U.S. trading partners. China and some other countries retaliated by imposing tariffs on U.S. goods. The Supreme Court in March turned away a challenge to the 2018 tariffs by a group of U.S.-based steel importers. The justices in 2022 refused to hear a separate challenge by steel companies to Trump's 2018 decision to double tariffs on steel imports from Turkey, also on national security grounds. ***Source: Reuters, 10.30.2023***

U.S. Will Extend E.U. Metals Tariff Exemption if Needed - Envoy

The U.S. will roll over its suspension of tariffs on European Union steel and aluminum if the two sides need more time to agree on measures to address overcapacity and low-carbon production, the U.S. ambassador to the E.U. said on October 25. The U.S. suspended import tariffs of 25% on E.U. steel and 10% on E.U. aluminum for two years from January 2022, replacing the tariffs imposed by former President Donald Trump with a tariff rate quote (TRQ) system. The TRQ allows up to 3.3 million metric tons of E.U. steel and 384,000 tons of aluminum into the U.S. tariff-free, reflecting past trade levels, with the tariffs applying for any further amounts.

"We have never threatened to let TRQs expire and reinstate the 25% tariff on E.U. steel," Ambassador Mark Gitenstein told a group of reporters. "From the beginning, we have made clear to the E.U. that we intend to roll over our TRQs at the beginning of the year if we needed more time to negotiate," he added.

The U.S. and the E.U. had sought to agree measures to address excess metal production capacity in non-market economies, such as China, and to promote greener steel. They also wanted a deal on critical minerals in time for a joint summit last week. However, they failed on both fronts.

Gitenstein said the U.S. and the E.U. had made substantial progress in talks on steel and aluminum in the past two years and were committed to finding a solution in the coming months.

The transatlantic partners were also seeking an agreement under which electric vehicles using cobalt, graphite, lithium, manganese, or nickel extracted or processed in the E.U. would qualify for U.S. tax breaks. Gitenstein said the U.S. was committed to continuing these discussions too. ***Source: Reuters, 10.25.2023***