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Market Insight

October 2022

Unemployment Rate Falls To 3.5% In September, Payrolls Rise By 263,000 As Job Market Stays Strong—Job growth fell just short of expectations in September and the unemployment rate declined despite efforts by the Federal Reserve to slow the economy, the Labor Department reported October 7.

Nonfarm payrolls increased 263,000 for the month, compared with the Dow Jones estimate of 275,000.

The unemployment rate was 3.5% versus the forecast of 3.7% as the labor force participation rate edged lower to 62.3% and the size of the labor force decreased by 57,000. A more encompassing measure that includes discouraged workers and those holding part-time jobs for economic reasons saw an even sharper decline, to 6.7% from 7%.

September's payroll figure marked a deceleration from the 315,000 gain in August and tied for the lowest monthly increase since April 2021. Full Story
Source: CNBC, 10.07.2022

Why The Federal Reserve Won't Be So Quick To Ease Up On Its Fight Against Inflation—Think of Federal Reserve Chairman Jerome Powell as a gymnast sprinting across the mat, spiraling, turning, churning, then twisting through the air and trying to make sure he still lands perfectly on his feet. That's monetary policy in this era of rapid inflation, swooning economic growth and heightened fears over what could go wrong. Powell is that gymnast, standing on the economic version of an Olympic mat, and having to make sure everything goes right. Because if things go wrong, they could go very wrong.

"They have to stick the landing," said Joseph Brusuelas, chief economist at RSM.. "It's the lower end of the economic ladder that is going to bear the burden if the Fed doesn't stick the landing correctly. They lose jobs and their spending goes down and they have to draw on savings and 401(k)s to make ends meet." Consumers pressured by consistently rising prices already are dipping into savings to cover costs. The personal saving rate was just 3.5% in August, according to the Bureau of Economic Analysis. That was just above a 3% rate in June that was the lowest in 14 years, dating back to the early days of the financial crisis.Full Story
Source: CNBC, 10.04.2022

The Roaring Job Market Is In The Fed's Crosshairs In The Fight Against Inflation

The Federal Reserve's interest rate hikes to tame high inflation are increasingly looking to change one particular sector of the economy — the roaring job market. In a September 21 speech, Federal Reserve Chairman Jerome Powell stated that while the economy has slowed from its 2021 pandemic highs and higher interest rates have weakened the housing market and slowed business investment, the labor market has continued to stay strong.

"Despite the slowdown in growth, the labor market has remained extremely tight, with the unemployment rate near a 50-year low, job vacancies near historical highs and wage growth elevated," Powell said. "The labor market continues to be out of balance, with demand for workers substantially exceeding the supply of available workers." Powell noted employment has risen by an average of 378,000 jobs per month over the past three months. While the labor force participation rate (the percentage of working age adults in the labor market) showed what Powell called a "welcome uptick" in August, it has remained largely unchanged since the beginning of 2022.

"So how do we get rid of inflation? And as I mentioned, it would be nice if there were a way to just wish it away but there isn't. We have to get supply and demand back into alignment and the way we do that is by slowing the economy," he said. "Hopefully we do that by slowing the economy and we see some softening of labor market conditions, and we see a big contribution from supply side improvements and things like that."

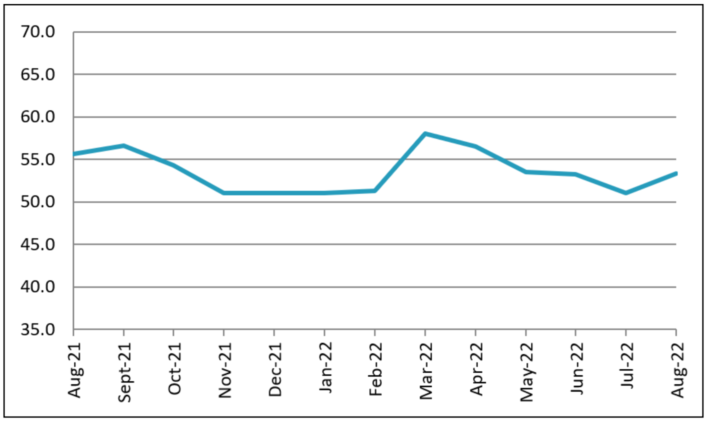
Powell said the Fed's projections show supply and demand in the labor market to "come into better balance" over time, easing the pressure on wages and prices. That translates into unemployment rising from 3.7% to 4.4% by the end of 2023. That means 1.5 million more Americans out of work.

Richard Gardner, CEO of fintech firm Modulus, said the goal of the rate hikes was to tamp down a tight labor market and bring it back in line with historical numbers. "While he mentioned that unemployment may not go as high as in previous inflation-reduction cycles, the goal is still to bring down the number of job openings," Garner said. "With a weaker labor market, demand will be pushed downward across the board, so the rate hike makes sense in the fight against stubbornly high inflation."

for longer than it needs to be. But Treasury Secretary Janet Yellen has tried to thread the needle, saying at a recent event that the U.S. can have both low inflation and a strong job market. "I believe there is a path through this that can succeed in bringing down inflation while also maintaining a strong labor market," Yellen said at the Atlantic Festival in Washington according to Yahoo News. "And I very much hope that the Fed will be able to succeed in doing that." Economists have told The Playbook it would take significant time and a deep downturn to disrupt the dynamics of the labor market — given the wide gulf between openings and the unemployed, as well as demographic shifts.
Source: The Business Journal Playbook, 09.27.2027

Key Economic Indicators

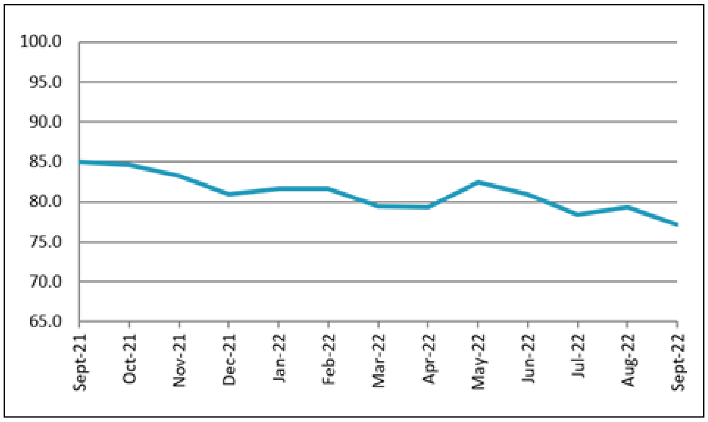
Architecture Billings Index (ABI)



AIA's Architecture Billings Index (ABI) score for August rose to 53.3 compared to 51.0 in July (any score above 50 indicates an increase in billings). During August, the score for new project inquiries rose to 57.9 from 56.1 the previous month, while the design contracts score softened slightly with a score of 52.3, down from 52.9 in July.

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.
Source: American Institute for Architects, 09.21.2022

Steel Capability Utilization

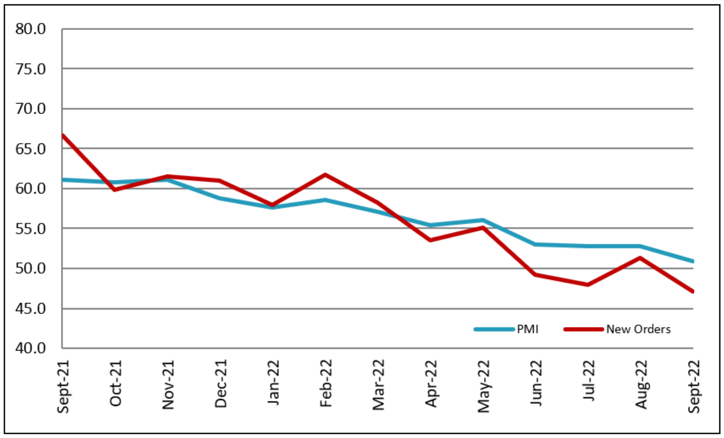


In the week ending on October 1, 2022, domestic raw steel production was 1,700,000 net tons while the capability utilization rate was 77.1%. Production was 1,839,000 net tons in the week ending October 1, 2021 while the capability utilization then was 83.3%. The current week production represents a 7.6% decrease from the same period in the previous year. Production for the week ending October 1, 2022 is up 1.0% from the previous week ending September 24, 2022 when production was 1,683,000 net tons and the rate of capability utilization was 76.4%.

Adjusted year-to-date production through October 1, 2022 was 68,118,000 net tons, at a capability utilization rate of 79.6%. That is down 4.1% from the 71,047,000 net tons during the same period last year, when the capability utilization rate was 81.0%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute.
Source: AISI, 10.01.2022

Purchasing Managers Index (PMI)®



The September Manufacturing PMI® registered 50.9%, 1.9 percentage points lower than the 52.8% recorded in August. This figure indicates expansion in the overall economy for the 28th month in a row after contraction in April and May 2020. The Manufacturing PMI® figure is the lowest since May 2020, when it registered 43.5%. The New Orders Index returned to contraction territory at 47.1%, 4.2 percentage points lower than the 51.3% recorded in August. The Production Index reading of 50.6% is a 0.2 percentage point increase compared to August's figure of 50.4%. The Prices Index registered 51.7%, down 0.8 percentage points compared to the August figure of 52.5%. This is the index's lowest reading since June 2020 (51.3%). The Backlog of Orders Index registered 50.9%, 2.1 percentage points lower than the August reading of 53%. After a single month of expansion, the Employment Index contracted at 48.7%, 5.5 percentage points lower than the 54.2% recorded in August. The Supplier Deliveries Index reading of 52.4% is 2.7 percentage points lower than the August figure of 55.1%. This is the index's lowest reading since before the coronavirus pandemic (52.2% in December 2019). The Inventories Index registered 55.5%, 2.4 percentage points higher than the August reading of 53.1%. The New Export Orders Index contracted at 47.8%, down 1.6 percentage points compared to August's figure of 49.4%. This is the index's lowest reading since June 2020, when it registered 47.6%. The Imports Index remained in expansion territory at 52.6%, 0.1 percentage point above the August reading of 52.5%.

Nine manufacturing industries reported growth in September, in the following order: Nonmetallic Mineral Products; Machinery; Plastics & Rubber Products; Miscellaneous Manufacturing; Apparel, Leather & Allied Products; Transportation Equipment; Food, Beverage & Tobacco Products; Computer & Electronic Products; and Electrical Equipment, Appliances & Components. The seven industries reporting contraction in September compared to August, in the following order are: Furniture & Related Products; Textile Mills; Wood Products; Printing & Related Support Activities; Paper Products; Chemical Products; and Fabricated Metal Products. *Source: Institute for Supply Management, 10.01.2022*

Industry News

Business Briefs: Rig Count Rises, Supply Chain Woes Continue

Cooperative, Collaborative Computer Initiative—Military researchers want proposals from technology companies to create computer systems that analyze images, videos and other multimedia documents quickly to discern information patterns. More importantly, they want the AI-driven systems to then related that data, intelligibly, to people who could act on the information, reports Military + Aerospace Electronics Editor-in-Chief John Keller. While the Defense Advanced Research Projects Agency (DARPA) initiative is targeted at military data, applications could abound in manufacturing where companies generate vast quantities of image data during production.

Supply Chain Struggles to Continue—Material Handling & Logistics reports that business confidence is slipping because of the continued difficulties in getting materials to plants to make things. According to National Association of Manufacturers' surveys, more than 78% of companies think supply chain challenges will continue with fewer than 11% expecting challenges to ease by year's end. The other big challenge: People. Attractive and retaining a workforce is a top concern for 76% of manufacturers.

Rig Count Rises—More companies are drilling for oil and gas in the U.S., despite recent declines in oil and gasoline prices. Oil & Gas Journal Managing Editor Mikaila Adams notes that 763 rigs were active in the U.S. in August, about a 1% uptick from July. Compared to August 2021, however, the rig count is up 51%. *Source: IndustryWeek, 09.20.2022*

Aluminum MMI: Aluminum Prices, Physical Delivery Premiums Decline

After substantial declines throughout September, this month's aluminum prices appear strong compared to other metals. Aluminum prices hit a bottom in late September, but rebounded during the first week of October. Should prices continue to break out of range upward, it would indicate a halt of the downtrend amid building bullish sentiment. Despite the recent bounces, however, the momentum of the long-term macro downtrend will continue to add pressure to the index.

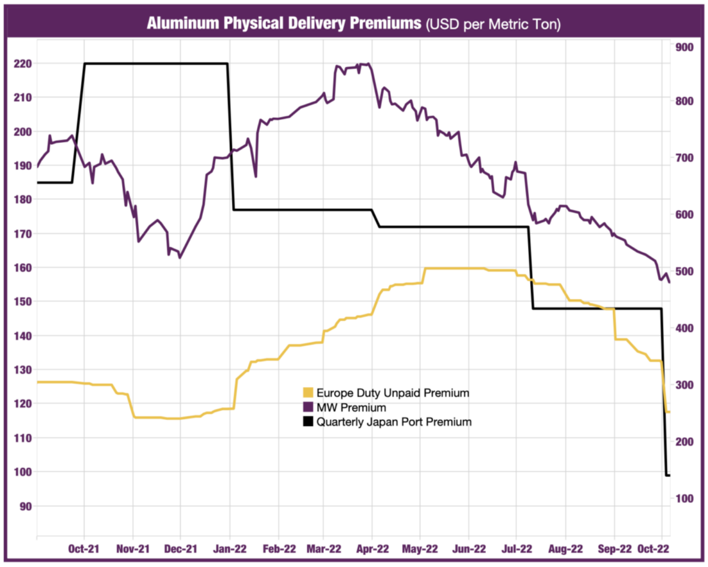
The Aluminum Monthly Metals Index (MMI) dropped 8.04% from September to October, with all components declining.

Global Physical Delivery Premiums in Descent—Global physical delivery premiums continue to slide from their respective peaks. Such premiums remain accurate measurements of primary aluminum supply with respect to demand. Therefore, falling premiums suggest waning demand.

According to a report from *Reuters*, aluminum buyers in Japan recently agreed to pay a premium of $99 per ton for October through December shipments. This is lower than the initial offers from producers in relation to aluminum prices, which ranged between $115 and $133 per ton. This will mark the fourth consecutive quarter of decline. Indeed, current figures sit 33% beneath the $148 per ton paid between July and September. They are also 55% lower than the $220 per ton peak hit during the fourth quarter of 2021. As Asia's largest aluminum importer, premiums negotiated by Japan will become the benchmark for the entire region. Lately, Asian demand has appeared more resilient than that of Western Europe. Still, the continued decline of the Japanese Port quarterly premium suggests demand is also falling there.

Meanwhile, the European Duty Unpaid premium peaked later than Japan's, reaching $505 per ton in May. Nonetheless, that premium has since fallen by 50% and currently stands at over $250 per ton. The Midwest Premium has also been in decline since late March. After it peaked at over $865 per metric ton, the premium experienced a mostly-steady descent to where it now sits, down 44%. At just over $480 per metric ton, this represents its lowest level since May 2021.

As demand appears to soften, global primary aluminum production remains in growth. According to the International Aluminum Institute, August production saw the third consecutive month of increase as global production rose to 5,888,000 metric tons. China alone represented almost 60% of that total. Indeed, continued boosts from China have helped buoy supply as production in regions like Western and Central Europe face increasing constraints. ***Source: MetalMiner, 10.07.2022***



Industry News

U.S. Factory Orders Unchanged In August On Drop In Aircraft Bookings

New orders for U.S.-manufactured goods were unchanged in August amid a drop in demand for transportation equipment, but solid gains elsewhere pointed to underlying strength in manufacturing. The Commerce Department said on October 4 the flat reading in factory orders, which matched economists' expectations, followed a 1.0 decline in July. Orders increased 13.2% on a year-on-year basis in August. The report followed on the heels of a survey from the Institute for Supply Management on October 3 showing its manufacturing activity gauge fell to its lowest level in nearly 2-1/2 years in September, with measures of new orders and employment contracting.

Demand for goods is slowing amid higher interest rates and the rotation of spending back to services. Government data last September 30 showed spending on long-lasting manufactured goods barely rose in August, while outlays on services picked up.

The Federal Reserve has hiked its policy rate from the near-zero level at the beginning of this year to the current range of 3.00% to 3.25%, and last month signaled more large increases were on the way this year.

August's factory orders were restrained by a 1.1% drop in orders for transportation equipment, which reflected a 18.5% plunge in bookings for civilian aircraft. Motor vehicle orders slipped 0.2%. But orders for computers and electronic products increased 0.7%. Orders for electrical equipment, appliances and components rebounded 1.6%. Orders for machinery rose as did those for primary metal products.

The Commerce Department also reported that orders for non-defense capital goods, excluding aircraft, which are seen as a measure of business spending plans on equipment, increased 1.4% in August, instead of 1.3% as reported last month.

Shipments of these so-called core capital goods, which are used to calculate business equipment spending in the gross domestic product report, rose 0.4% in August instead of 0.3% as previously reported. ***Source: Reuters, 10.04.2022***

Manufacturers Remain Optimistic About Future Despite Ongoing Supply Chain Issues

In its latest survey, the National Association of Manufacturers, which represents 14,000 member companies, found more than 78% of manufacturing leaders identified supply chain disruptions as a primary business challenge. Less than 11% think conditions will improve buy the end of this year. Attracting and retaining quality workers, increased raw material costs, and transportation and logistics costs were also listed as top challenges.

Though optimism has declined slightly from its last survey, a solid majority of manufacturers remain hopeful about the future.

"The reality is three-quarters of manufacturers are positive about their own company's outlook, so that's a great positive story. Yet, 63% of them also expect to see a recession this year or next, so you have that kind of interesting juxtaposition of viewpoints there," NAM chief economist Chad Moutray said.

That juxtaposition is playing out across industries as the labor market remains strong but the global economy is slowing. Moutray said it's likely some manufacturers begin to scale back hiring or capital investment.

"As people have started building in recession expectations, that I think was a sign that at least you could see some cooling in the economy moving forward," Moutray said.

From businesses to consumers, members of the Federal Reserve have expressed worry about shifting expectations and behavior due to inflation, which Chair Jerome Powell has said would make their objective of price stability harder to achieve. ***Source: National Desk, 09.20.2022***

Rail Strike Averted

A last-minute deal between U.S.-based railroad companies and their unions averted a costly strike that would have threatened the entire industrial supply chain. The agreement was applauded by a number of trade groups, including the American Trucking Associations and the National Association of Manufacturers.

"Our supply chain is entirely interdependent, making the potential for a nationwide rail stoppage a serious threat to our nation's economic and national security," said Chris Spears, president and CEO of ATA. "We applaud both sides for reaching a tentative agreement that averts this outcome and permits our supply chain to continue climbing out of this COVID-induced rut."

"This announcement of a tentative agreement between the railroads and their workers is a welcome relief. Manufacturers had been putting into place contingency plans as they were facing disruptions with moving their supplies and products. Manufacturers thank President Biden, Secretary Walsh, Secretary Buttigieg and others in the administration who understood the stakes and stepped in to help prevent a very serious nightmare for the supply chain," said NAM President and CEO Jay Timmons.
Source: MetalCenterNews, 09.18.2022

Special Section: Trade

U.S. Announces Trade Objectives With Indo-Pacific Partners

As U.S. Trade Representative Katherine Tai, U.S. Commerce Secretary Gina Raimondo, and their counterparts from 13 other countries across the Indo-Pacific region recently announced formal negotiating objectives for the U.S.-led Indo-Pacific Economic Framework.

The negotiating objectives cover four pillars:

- The countries will aim to establish objectives that broadly stress an approach to trade and technology policies that promote "resilient, sustainable, and inclusive growth and development" and allow for "flexibilities where appropriate" as well as technical assistance and capacity building. This pillar outlines several targeted areas, including inclusivity, trade assistance, capacity building, competition policy, trade facilitation, labor, the environment, the digital economy, agriculture, and good regulatory practices.
- Supply chains. The countries will work to identify critical sectors for work to boost resiliency and regional investment; establish a mechanism to share information and respond to supply chain crises; share information and facilitate investment in supply chain logistics and transportation; enhance the role of skilled workers in supply chain resilience; and improve supply chain transparency and boost environmental, social, and corporate governance.
- Clean economy. The countries will advance cooperation on research, development, commercialization, deployment, and access to clean energy and climate technologies, specifically focusing on boosting energy security. They also have pledged to address greenhouse gases through reducing emissions, promote capture technologies, share sustainable solutions for land, water and ocean use, and incentivize a clean economy transition.
- Fair economy. This pillar is heavily focused on two core areas: strengthening anticorruption efforts in line with specific multilateral conventions and standards through legal, regulatory and cooperative initiatives and boosting transparency and information exchange on regional and global tax issues. ***Source: MSCI, 09.19.2022***

U.S. Expands Sanctions Against Russia

As *The Hill* reported, last week the Biden administration announced broad new sanctions against Russia due to that country's ongoing aggressions against the Ukraine. The departments of Treasury, Commerce, and State each announced separate penalties that are "intended to target decisionmakers in Moscow, allies of Russian President Vladimir Putin, and entities that support the military-industrial complex in Russia," The Hill said.

While the Treasury and State Department sanctions largely focus on individuals, the Commerce Department added 57 entities to its sanction list "in a bid to restrict Russian access to key technologies and other materials that fuel the war effort in Ukraine."

The final rule further broadening restrictions against Russia and Belarus under the Export Administration Regulations seeks to clarify and enhance the effectiveness of U.S. export controls as part of a coordinated allied response to Russia's ongoing invasion of Ukraine.

Specifically, the rule expands the scope of the Russian industry sector sanctions to add lower-level items that are potentially useful for Russia's chemical and biological weapons production and development capabilities, including discrete chemicals, biologics, fentanyl and its precursors, and related equipment. The Russian industry sector sanctions also now target quantum computing and advanced manufacturing items that are important for Russia's production and development capabilities to enable advanced manufacturing across a number of industries.

Click here and here to find a longer explanations of these measures. ***Source: MSCI, 10.04.2022***