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O'NEAL INDUSTRIES

The Insight

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# Economic News

## Economy Added 353K Jobs in January, Unemployment 3.7%

Hiring picked up sharply in January as employers added a booming 353,000 jobs, highlighting a labor market that continues to defy high interest rates and household financial strains. The unemployment rate held steady at 3.7%, the Labor Department said.

The January totals were expected to be skewed by some unusual crosscurrents. Cold, snowy weather in the Northeast and Midwest likely dampened employment in industries such as construction and restaurants, Goldman Sachs wrote in a research note.

A further decline was likely because unseasonably warm weather boosted employment in December, setting the stage for a pullback as temperatures returned closer to normal last month, Goldman said. Full Story ***Source: USA Today, 02.02.2024***

## Improved Inflation Views Lift U.S. Sentiment to Highest Since 2021

U.S. consumers rang in the new year with a good dose of optimism about the economy, their incomes and the inflation outlook, driving a gauge of confidence to a more than two-year high. The University of Michigan's consumer sentiment index rose 9.1 points, the biggest monthly advance since 2005, to 78.8.

The preliminary January reading stands at the highest level since July 2021, far surpassing the most optimistic estimate in a *Bloomberg* survey of economists. Combined with a drop in year-ahead inflation expectations to the lowest level since the end of 2020, the spike in confidence has the potential to sustain demand and keep the economy on its expansion path.

More sanguine views about inflation may also reassure Federal Reserve officials as they consider when to begin lowering interest rates. Full Story
***Source: Bloomberg, 01.19.2024***

## U.S. Economy Grew at a Shocking Pace in the Fourth Quarter

The U.S. economy remained shockingly robust in the fourth quarter to close out a remarkably strong 2023 as consumers and businesses continued to spend, crushing expectations of a recession. Gross domestic product, the broadest measure of economic output, rose at a seasonally and inflation-adjusted annualized rate of 3.3% from October through December, the Commerce Department reported January 25. That was slower than the blistering 4.9% rate from July through September, when American consumers splashed out on services and goods. Growth in 2023 overall, from January through December of last year, registered at a robust 2.5% rate. But the fourth quarter's rate trounced the 1.5% that economists were expecting, according to FactSet estimates. The economy's strength in the final months of 2023 was broad based, driven by consumer spending, business investment, government outlays, exports and improvements in housing conditions.

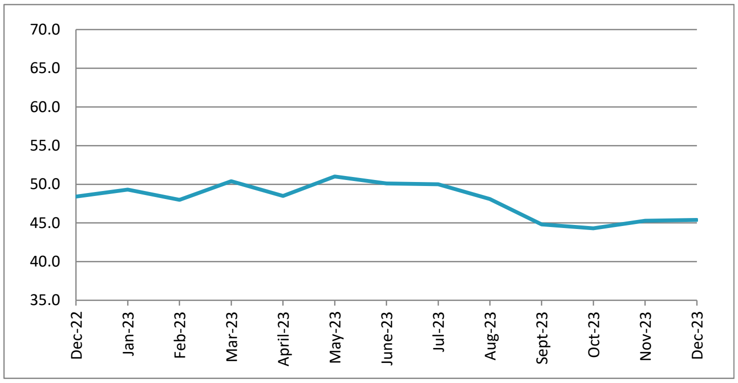
Consumer spending, which accounts for about two-thirds of the U.S. economy, grew at a healthy 2.8% rate in the fourth quarter, a slightly softer pace than the 3.1% rate in the prior three-month period. Meanwhile, business spending accelerated to a 1.9% rate, up from 1.4%. "Prospects are good that the economy will continue to perform well this year," Scott Hoyt, senior director at Moody's Analytics, said in a release. "Consumers are doing their part and spending just enough to support broader economic growth." January 25's GDP report shows that the U.S. economy has cooled some in recent months, but it's not clear if that was enough of a slowdown to keep the Federal Reserve on track to cut interest rates any time soon.

Fed Governor Christopher Waller, an influential official at the central bank, said in a speech earlier this month that if "economic activity that seems to have moderated in the fourth quarter of 2023 does not play out" then that could delay rate cuts. Market expectations of that first rate cut coming in March have been crumbling in recent weeks.

As the U.S. gears up for a presidential election, the latest GDP reading provides further evidence that the economy is nowhere near recession territory. Americans are still opening their wallets and U.S. consumer sentiment is soaring, mostly thanks to slowing inflation. That's on top of a rallying U.S. stock market beefing up Americans' retirement accounts. That all paints a vivid picture of a robust economic landscape, which should improve President Joe Biden's lackluster ratings on the economy in the polls, according to economists. In separate speeches, Biden and Treasury Secretary Janet Yellen are expected to tout the strong economy while noting that there is still inequality to be addressed. "President Biden and I believe that GDP growth is not meaningful if it is not shared; if it doesn't impact the lives of these Americans," Yellen said in prepared remarks. Full Story ***Source: CNN, 01.25.2024***

# Key Economic Indicators

## Architecture Billings Index (ABI)



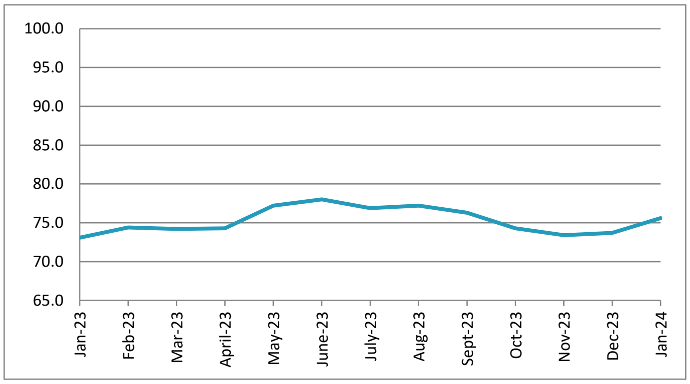

The AIA/Deltek Architecture Billings Index (ABI) remained below 50 for December, indicating soft business conditions to close out 2023. The score of 45.4 remained essentially flat from November. Any score below 50.0 indicates decreasing business conditions but there are encouraging signs of the pipeline.

Firm billings declined at firms in all regions of the country except the Midwest in December, where billings were essentially flat. Business conditions were also weak for most of the year at firms of all specializations, with firms with a multifamily residential specialization experiencing a particularly challenging year.

In addition, most firms report that over the past six months at least some of their projects have been significantly delayed, put on hold, or even cancelled. On average, almost 30% of projects on a dollar basis have fallen into one of these categories.

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, 01.24.2024***

## Steel Capability Utilization

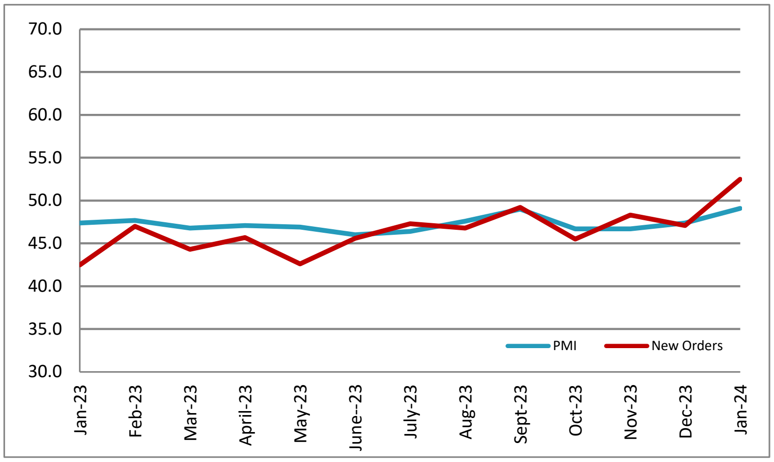



In the week ending on January 27, 2024, domestic raw steel production was 1,680,000 net tons while the capability utilization rate was 75.6%. Production was 1,697,000 net tons in the week ending January 27, 2023 while the capability utilization then was 75.9%. The current week production represents a 1.0% decrease from the same period in the previous year. Production for the week ending January 27, 2024 is down 0.1% from the previous week ending January 20, 2024 when production was 1,682,000 net tons and the rate of capability utilization was 75.7%.

Adjusted year-to-date production through January 27, 2024 was 6,524,000 net tons, at a capability utilization rate of 76.2%. That is down 0.1% from the 6,533,000 net tons during the same period last year, when the capability utilization rate was 75.9%.

Broken down by districts, here's production for the week ending January 27, 2024 in thousands of net tons: North East: 129; Great Lakes: 559; Midwest: 185; Southern: 736 and Western: 71 for a total of 1680. ***Source: AISI, 01.27.2024***

## Purchasing Managers Index (PMI)®




The Manufacturing PMI® registered 49.1% in January, up 2 percentage points from the seasonally adjusted 47.1% recorded in December. The overall economy continued in expansion for the 45th 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 into expansion territory at 52.5%, 5.5 percentage points higher than the seasonally adjusted figure of 47% recorded in December. The January reading of the Production Index (50.4%) is 0.5 percentage point higher than December's seasonally adjusted figure of 49.9%. The Prices Index registered 52.9%, up 7.7 percentage points compared to the reading of 45.2% in December. The Backlog of Orders Index registered 44.7%, 0.6 percentage point lower than the 45.3% recorded in December. The Employment Index registered 47.1%, down 0.4 percentage point from December's seasonally adjusted figure of 47.5%. The Supplier Deliveries Index figure of 49.1 % is 2.1 %age points higher than the 47 % recorded in December. (Supplier Deliveries is the only ISM® Report On Business® index that is inversed; a reading of above 50 % indicates slower deliveries, which is typical as the economy improves and customer demand increases.)

The Inventories Index increased 2.3 percentage points to 46.2% from December's seasonally adjusted reading of 43.9 percent. The New Export Orders Index reading of 45.2% is 4.7 percentage points lower than December's figure of 49.%. The Imports Index moved into expansion territory, registering 50.1%, 3.7 percentage points higher than the 46. % reported in December. ***Source: IMSWorld, 02.01.2024***

## Steel Imports Decline in 2023

The U.S. imported 2.1 million net tons and 1.6 million finished tons of steel in December, up 2.6 and 7.7%, respectively, compared to November, the American Iron and Steel Institute reported. For the full year, the net imports of 28.2 million net tons were down 8.7% and finished steel imports of 21.7 million tons were off 14.1% compared with the prior year.

Finished steel market share for December totaled 20%, just below the full-year figure of 21%.

Key steel products with a significant import increase in December compared with November are OCTG products, up 52%; hot-rolled sheets, up 38%; plates in coils, up 28%; and line pipe, up 27%.

In December, the largest suppliers were Canada at 539,000 tons, up 1% vs. November; Brazil at 335,000 tons, down 12%; Mexico at 291,000 tons, up 18%; and South Korea at 269,000 tons, up 91%. For the full year, Canada was the largest foreign supplier at 6.9 million tons, flat with 2022. Mexico was next at 4.2 million tons, down 21%, while Brazil shipped 3.9 million tons, an increase of 54%. ***Source: MetalCenterNews, 01.28.2024***

## Alcoa Execs Tiptoeing into '24

Despite some enduring headwinds and a weighty decision looming about his team's Spanish plant, Alcoa Corp. President and CEO Bill Oplinger said Jan. 17 that 2024 is "starting to look like a positive turning point." All the same, the global aluminum producer's leaders are more focused for now on cost savings while tweaking their portfolio, curtailing some operations while restarting others. Speaking to analysts after reporting Alcoa's fourth quarter results, Oplinger said Pittsburgh-based Alcoa is in line to save $310 million on raw material purchases this year versus 2023 through various actions and has launched a program to trim another $100 million in operating costs beyond materials, energy and transportation. The latter push, Oplinger said, will take until early 2025 to hit full stride.

Those moves will help Alcoa ride out a mediocre market for its products, although Oplinger said his team is seeing signs of improvement.

"Demand has stabilized in North America and Europe, and we see the potential for a moderate recovery throughout the year," he said on the conference call. Full Story ***Source: IndustryWeek, 01.18.2024***

## U.S. Lawmakers Are Nearing a Tax Deal that Could Extend Important Credits for Metals Companies

According to several news sources, U.S. lawmakers are narrowing in on a deal to revive some expired tax benefits for businesses. Bipartisan negotiations spearheaded by House Ways and Means Committee Chair Jason Smith (R-Mo.) and Senate Finance Committee Chair Ron Wyden (D-Ore.) have been active in recent days, and sources say they are increasingly optimistic the two lawmakers could produce an agreement soon.

If an agreement is reached, lawmakers could try to attach it to a government funding deal that must be negotiated by later this month.

In exchange for expanding the child tax credit, the bill also would address business benefits that recently lapsed for research and development spending, purchases of assets that lose value over time, and interest expenses. The bill could potentially:

- **Ensure the tax code supports innovation by allowing for immediate research and development (R&D) expensing.** The private sector accounts for more than 75% of total R&D spending, with small businesses alone accounting for approximately $90 billion in all private sector R&D investments. With wages and salaries comprising approximately 75% of R&D spending, allowing R&D amortization is, first and foremost, a jobs issue.
- **Enable businesses to finance growth by setting a pro-growth interest deductibility standard.** Before January 1, 2022, businesses' interest expense deductions were limited by section 163(j) to 30% of their earnings before interest, tax, depreciation, and amortization. Interest deductions are now limited to 30% of earnings before interest and tax. By excluding depreciation and amortization, the stricter standard acts as a tax on investment, making it more expensive for capital-intensive companies throughout the supply chain to finance job-creating growth.
- **Make permanent a key incentive for capital equipment purchases.** From 2017 through 2022, the federal tax code allowed for a 100% deduction for the purchase of equipment and machinery in the tax year purchased. That provision began to phase out this year and will completely disappear by 2027. Congress enacted full expensing to spur investments and ensure that the U.S. is well-positioned to attract capital in a competitive global marketplace. It must reverse the phaseout and restore the 100% deduction.

Click here to learn more about the R&D tax credit, here for interest deductibility, and here for full expensing. ***Source: MSCI, 01.09.2024***

# Ferrous Market January Setback Smaller than Expected

Steel mill buyers let it be known as the new year started that they intended to lower their bids for ferrous scrap by as much as $50 per ton in the January 2024 market compared with December 2023 prices.

"We are expecting a soft ferrous market for January," an auto dismantler told *Recycling Today* at the end of the first week of that month. Although domestic mill buyers sought to peel back the $35 to $70 per ton of value ferrous grades had just earned in the prior month, they have not been successful entirely. At the conclusion of the second full week in January, an active export market helped processors nearly hold the line on the asking price of shredded scrap and No. 1 heavy melting steel (HMS).

Export market leverage did not provide the same type of help for prompt grades, however, with metals pricing information service Davis Index reporting that some prime scrap grades were being purchased by domestic mills for $30 per ton less than what they fetched in December. The positive effects of steady orders from Turkey (and Mexico) demonstrated geographic limits in January. According to Davis Index, while East Coast and Gulf Coast export prices were able to hold steady, Pacific Coast shippers were accepting bids down from $5 to $15 per ton in their less active market.

That domestic mills, in many cases, were unable to get the steep discounts they sought in January could set the table for a sellers' market in early 2024, at least if steel production figures hold steady in the U.S. and in key export markets including Turkey, Mexico and India. In November 2023, scrap-fed melt shops at Turkey's numerous electric arc furnace (EAF) mills showed an encouraging level of activity. The 3 million metric tons of steel made in Turkey in November represented a 25.4% uptick in output compared with one year earlier, according to Turkish national steel association figures provided to the Brussels-based World Steel Association (Worldsteel).

India's steel sector enjoyed steady growth in 2023, as it has for several consecutive years. The 11.7 million metric tons of steel made in India last November is 11.4% higher in volume than its November 2022 production level. Overall, India is likely to have made about 12% more steel in 2023 than it did in 2022. The active November in Turkey, meanwhile, helped it close its year-on-year output decline to about 6.1%, Worldsteel says. That is a marked improvement from the 16.3% output decline figure Turkey had posted at midyear 2023.

In Mexico, two plans for EAF capacity increases were announced last year. Even before that capacity comes online, Davis Index in mid-January was characterizing the Mexican ferrous market as one driven by "unrelenting demand." Data collected by the U.S. Census Bureau and published by the U.S. Geological Service (USGS) points to Mexico's growing role in the U.S. scrap market. In the first seven months of 2023, Mexican mills and foundries received 1.29 million metric tons of ferrous scrap imported from the U.S., valued at a combined $386 million, according to the USGS. The level of shipments to Mexico has the nation ranked second as a buyer of exported U.S. ferrous scrap, behind only Turkey. Mexico's importance as a destination could grow when the announced steel industry investments come to fruition.

In November, Italy-based Danieli & C. S.p.A. announced steel producer DeAcero had contracted with Danieli to equip a planned 1.5 million tons-per-year EAF melt shop at its Ramos Arizpe campus in northeast Mexico. DeAcero clearly intends to source more of the scrap it needs domestically. Along with its EAF equipment, the company has ordered five metal shredding plants from Danieli Centro Recycling to be placed in different cities in Mexico. In February of last year, the board of directors of Luxembourg-based steelmaker Ternium SA approved the construction of a 2.6-million-ton-per-year electric arc furnace (EAF) steel slab production facility in northern Mexico.

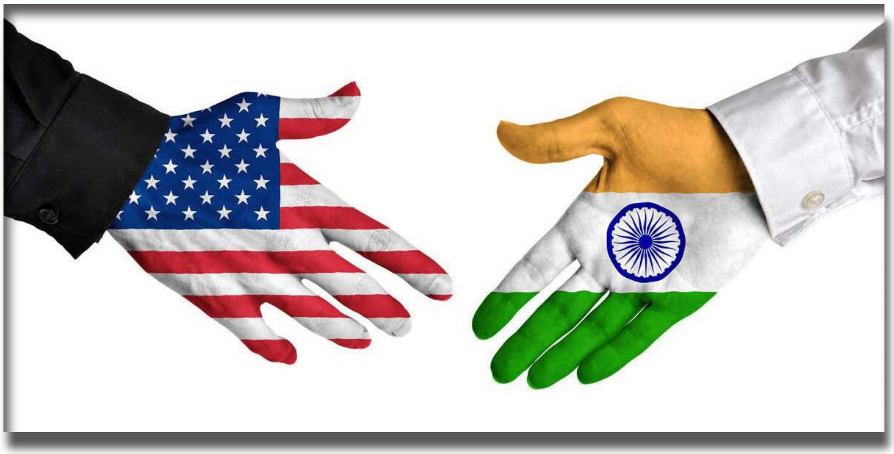
In the U.S., steelmakers largely managed profitable production in 2023, though not nearly at the record levels many enjoyed in 2022. Conditions were favorable enough last year for melt shops in the U.S. to produce just as much steel as they did the highly profitable year before. According to the Washington-based American Iron & Steel Institute (AISI), as of Dec. 30, 2023, steelmakers in the U.S. had made about 88.7 million tons of crude steel, up by 0.2% from the approximately 88.5 million tons one year earlier. Even while acknowledging tighter profit margins throughout 2023, steel company executives largely have portrayed their order books and the demand landscape as being healthy.

"Performance in our North America Steel Group was supported by sustained healthy construction activity," Peter Matt, the president and CEO of Texas-based CMC, said when reviewing the firm's financial quarter that ended Nov. 30, 2023. In mid-December 2023, EAF producer Steel Dynamics Inc. (SDI), Fort Wayne, Indiana, warned of tighter profit margins while also portraying demand for steel as healthy.

"Steel order activity remains solid, as evidenced by extended order lead times and recent pricing increases heading into the first quarter of 2024," the firm stated at that time. Although the upward price momentum that struck this past December did not sustain itself into January, scrap generators and processors may find that ongoing global demand for both steel and ferrous scrap will bring that momentum back again soon. ***Source: RecyclingToday, 01.15.2024***

# India U.S. Trade Leaders Ease Duties, Forge Steel & Aluminum Export Harmony

U.S. trade is primed to shift. Both countries seem eager to enter a new period of trade harmony, as India's Ministries of Mines and Steel, along with the Department for Promotion of Industry and Internal Trade (DPIIT), recently set up an in-house system to oversee the export of steel and aluminum products to the U.S. at reduced duties. News articles indicate that the Department of Commerce recently completed the terms of reference concerning the Joint Monitoring Mechanism (JMM). The Department intends the mechanism to facilitate the export of specific steel and aluminum products to the U.S. without imposing additional duties. For its part, the US has reportedly expressed its concurrence with the suggested terms.



The Indian Departments of Mines, Steel, and the Department for the Promotion of Industry and Internal Trade (DPIIT) are all parties to this mechanism. The aim here is to ensure that if exporters from India face any export-related problem, the issue will be brought to the notice of the Commerce Ministry. That ministry would then take up the problem with its US counterparts during JMM meetings.

Near the end of 2023, India and the US successfully resolved all disagreements related to India U.S. trade at the World Trade Organization (WTO). After the WTO, the Commerce Ministry said it had decided to delete additional tariffs on aluminum and steel product exports from India to the U.S. up to an annual volume of 3.3 lakh MT. In a reciprocal move, India cut down the retaliatory tariffs on eight imported commodities from the U.S. However, India will continue to apply additional tariffs on 21 American imports, a reduction from the previous count of 29.

The U.S. has since consented to allowing 336,000 tons of steel and aluminum imports in from India without imposing the supplementary tariffs enacted under a 2018 national security statute during the Trump administration era. The aforementioned tariffs, which included a 25% duty on select steel items and a 10% duty on certain aluminum products, were similarly applied to several other nations, such as China, Russia, Norway, Turkey, and Switzerland. Furthermore, the new JMM aims to minimize retaliatory tariffs on imports between the two nations. To facilitate this goal, the teams will meet biannually to assess the effectiveness of the tariff reduction strategy outlined in its terms of reference.

It's well known that the U.S. is India's largest trading partner. In 2022-23, the goods trade between the two amounted to about U.S. $128.8 billion compared to U.S. $119.5 billion in 2021-22. India, meanwhile, is actively contemplating moving away from the earlier policy of looking at tariffs as a revenue source. This means lowering tariffs on many items for the first time under new free trade agreements (FTAs) with other countries. According to this news report, some of the items included on the list are cars and machinery, among others.

As part of the discussion on FTAs, there are ongoing deliberations between the Finance Ministry and the Commerce Ministry to evaluate the consequences of significant tariff reductions that might become apparent. Meanwhile, India is actively engaged in FTA negotiations with the United Kingdom, the European Union (EU), Australia, and Oman. Through these negotiations, India may significantly reduce duties on a range of goods and services. Some experts say this aligns with other South Asian and ASEAN nations who have decided to cut tariffs. ***Source: Admetalminer, 01.16.2024***