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December 2023

Economic News

November Jobs Report Shows Economy Added 199,000 Jobs

Hiring picked up in November as striking auto workers and actors returned to the fold, and businesses continued to largely shrug off high inflation and interest rates.

Employers added 199,000 jobs and the unemployment rate fell from 3.9% to 3.7%, the Labor Department said December 8, 2023. Economists had estimated that 186,000 jobs were added last month, according to a Bloomberg survey.

Average hourly earnings rose 12 cents to $34.10, keeping the yearly at 4%, down from a high of 5.9% last year. That's good news for a Federal Reserve seeking to slow increases that are feeding into inflation. Fed officials would like to see wage growth ease to 3.5% to align with their 2% overall inflation goal. Wage growth topped 5% last year amid severe COVID-related labor shortages. Full Story ***Source: USAToday, 12.08.2023***

Fed's Williams Says Interest Rates are 'at, or Near' Peak

The Federal Reserve's benchmark interest rate may have already hit its peak level, as it is now putting more downward pressure on the economy than at any time in the last 25 years, New York Fed President John Williams said November 30. Earlier this month, the Fed kept its benchmark rate unchanged at a level of 5.25%-5.5%. "My assessment is that we are at, or near, the peak level of the target range of the federal funds rate," Williams said in a speech to the Bretton Woods Committee conference in New York. Williams said his research suggested that the stance of Fed interest-rate policy "is quite restrictive," meaning it is slowing down the economy. "Indeed, it is estimated to be the most restrictive in 25 years," Williams added. Williams is a key adviser to Fed Chair Jerome Powell.

Looking ahead, Williams said, "I expect it will be appropriate to maintain a restrictive stance for quite some time to fully restore balance and to bring inflation back to our 2% longer-run goal." Full Story ***Source: MarketWatch, 11.30.2023***

U.S. Business Activity Steady in November - S&P Global Survey

U.S. business activity held steady in November, but employment in the private sector declined for the first time in almost three-and-a-half years, consistent with expectations for an economic slowdown in the fourth quarter.

S&P Global said on November 24, that its flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, was unchanged at 50.7 this month as a modest rise in services sector activity offset a contraction in manufacturing. A reading above 50 indicates expansion in the private sector. The survey's flash manufacturing PMI dropped to 49.4 this month from 50.0 in October. Its flash services sector PMI edged up to 50.8 from 50.6 in the prior month.

Economists expect overall economic activity to moderate considerably this quarter as the lagged effects of higher interest rates from the Federal Reserve start to have a greater impact. Since March 2022, the U.S. central bank has raised its policy rate by 525 basis points to the current 5.25%-5.50% band. The economy grew at a 4.9% annualized rate in the third quarter. Growth estimates for the October-December quarter are mostly below a 2% pace.

The flash composite new orders index increased to 50.4 in November, ending three straight monthly declines. The modest rise from a reading of 49.0 in October was mostly driven by the services sector, with factory orders stagnant. The lack of strong order growth resulted in businesses shedding workers, with the survey's employment index dropping to 49.7. That was the first contraction since June 2020 and followed a reading of 51.3 in October.

S&P Global said businesses commonly cited relatively muted demand conditions and elevated cost pressures as the reasons for layoffs, which were across both manufacturing and services sectors. Companies were also implementing hiring freezes.

"Job shedding has spread beyond the manufacturing sector, as services firms signaled a renewed drop in staff in November as cost savings were sought," Sian Jones, principal economist at S&P Global Market Intelligence, said in a statement. The decline in the employment gauge could be flagging a sharp slowdown in the labor market in the months ahead. The labor market has been gradually cooling, with the unemployment rate rising to 3.9% in October, the highest in nearly two years.

An easing labor market will aid the Fed's fight against inflation. That battle is likely to get another boost from subsiding prices for energy and other raw materials.

The S&P Global survey's measure of prices paid by businesses for inputs fell to 55.7, the lowest level since October 2020, from 57.3 in October.

In addition to the lower energy and raw material prices, some firms also reported that a reduction in headcount had eased cost pressures. Though businesses are still raising prices for their products and services, the pace has slowed considerably from last year. ***Source: Reuters, 11.24.2023***

LME Wins Nickel Crisis Case as UK Rules Against Elliott

The London Metal Exchange won a UK court challenge by Elliott Investment Management over its controversial decision to halt a runaway short squeeze in the nickel market last year, removing one of the biggest threats facing the LME as it seeks to move past the crisis. Challenges by both Elliott and trading firm Jane Street were dismissed, according to a ruling on November 29. The judges said the exchange's executives should be granted wide discretion to make the urgent decisions that they did.

The LME was catapulted into the global spotlight last March and drew widespread criticism after it suspended the nickel market and retroactively canceled $12 billion of trades. Elliott sought to have the cancellation declared unlawful, claiming the decisions cost it more than $450 million. The hedge fund said it intends to appeal the court loss, while Jane Street said it will evaluate its next steps.

The ruling represents an important milestone in the LME's efforts to rebuild confidence after the nickel crisis, while also confirming the power of the exchange's executives to make decisions with far-reaching implications for wider markets. The LME holds a crucial position in the global industry as the home of benchmark prices for the world's key industrial metals.

"We are pleased that the court has ruled in our favor on all grounds," LME Chief Executive Matthew Chamberlain said in an emailed statement. "We remain committed to continue enhancing market resiliency and liquidity for the benefit of our business and the global metals community."

Nickel prices initially started rising last year as the invasion of Ukraine sparked fears about the impact on supplies from Russia, but the spike accelerated as holders of short positions rushed to close out the trades. Tsingshan Holding Group Co. faced billions of dollars in trading losses as prices jumped more than 250% in little over 24 hours, and the LME's decision to cancel trades on March 8 effectively served as a bailout for the world's top nickel producer and other holders of short positions. "The LME is to be allowed a margin of discretion in respect of its approach to the matters to be considered when assessing orderliness," Judge Jonathan Swift said in the ruling.

Still, the court case shone a harsh light on the exchange's decision-making during the crisis, with filings and witness statements revealing how the LME was in the dark about what was really driving nickel prices during the unprecedented surge in early March, and that its top executives were asleep as the market spiraled out of control.

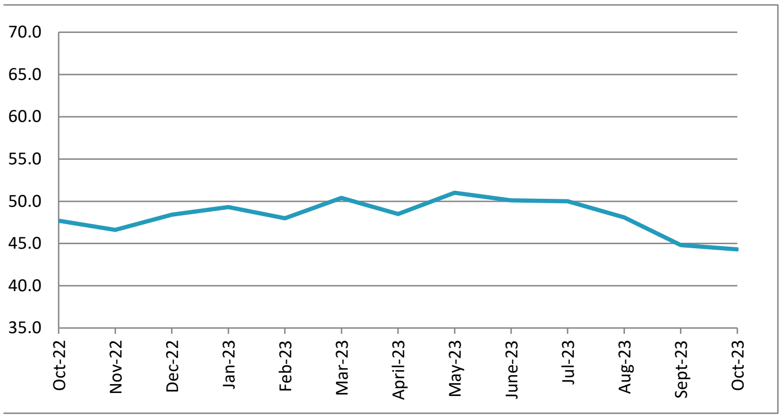
Elliott argued the exchange exceeded its legal powers in canceling the trades or had used its powers irrationally, while the LME defended its actions as necessary to prevent a "death spiral" that could have led to nearly $20 billion in margin calls and the collapse of several brokers. The LME has spent the past year seeking to move past the nickel squeeze, and has rolled out a series of reforms and rule changes to restore confidence and prevent a repeat of the crisis. Liquidity has been improving in the battered nickel contract, although it has yet to return to pre-crisis levels, and trading volumes have also picked up in the exchange's other metals.

"It's encouraging to see market vibrancy build," Chamberlain said. "The support and guidance of our market stakeholders have also been invaluable in ensuring our nickel contract remains the key global reference, with volumes continuing to rebuild through the year." Elliott said the judgment raised questions about trading certainty "and about a lack of effective checks and balances on UK exchanges canceling or varying trades in ways which may protect just one cohort of traders, or even the exchanges themselves."

The LME is still facing a rare misconduct probe by the Financial Conduct Authority, which is the first public action of its kind targeting a UK exchange, and is focused on the LME's actions, systems and controls in the run-up to the suspension of the nickel market. ***Source: Bloomberg, 11.29.2023***

Key Economic Indicators

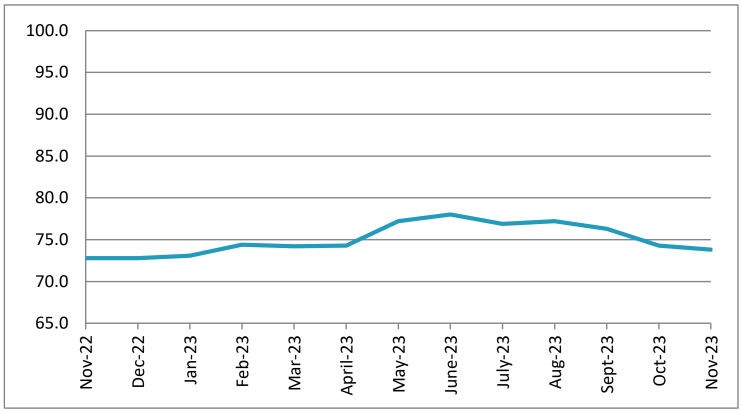
Architecture Billings Index (ABI)



The AIA/Deltek Architecture Billings Index (ABI) reports that business conditions at architecture firms continued to soften in October. For the third consecutive month, the ABI score was under 50, indicating that a significant share of firms is seeing a decline in billings.

"This report indicates not only a decrease in billings at firms, but also a reduction in the number of clients exploring and committing to new projects, which could potentially impact future billings. The soft conditions were evident across the entire country as well as across all major nonresidential building sectors," said Kermit Baker, PhD, AIA Chief Economist. The score of 44.3 for October dipped slightly below the score of 44.8 in September. Key ABI highlights for October include: Regional averages: Northeast (42.1); South (48.5); Midwest (48.9); West (40.0) Sector index breakdown: commercial/industrial (43.7); institutional (49.1); mixed practice (firms that do not have at least half of their billings in any one other category) (44.0); multifamily residential (40.1) Project inquiries index: 48.8 Design contracts index: 46.5. 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 billings from the previous month. ***Source: AIA, 11.15.2023***

Steel Capability Utilization

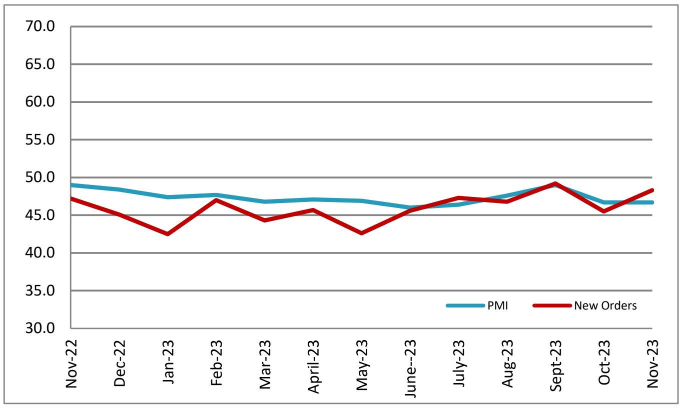


In the week ending on November 25, 2023, domestic raw steel production was 1,687,000 net tons while the capability utilization rate was 73.4%. Production was 1,594,000 net tons in the week ending November 25, 2022 while the capability utilization then was 71.5%. The current week production represents a 5.8% increase from the same period in the previous year. Production for the week ending November 25, 2023 is down 0.5% from the previous week ending November 18, 2023 when production was 1,696,000 net tons and the rate of capability utilization was 73.8%.

Adjusted year-to-date production through November 25, 2023 was 80,388,000 net tons, at a capability utilization rate of 75.7%. That is down 0.3% from the 80,637,000 net tons during the same period last year, when the capability utilization rate was 78.1%.

Broken down by districts, here's production for the week ending November 25, 2023 in thousands of net tons: North East: 123; Great Lakes: 553; Midwest: 177; Southern: 776 and Western: 58 for a total of 1687. 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. Therefore, this report should be used primarily to assess production trends. ***Source: AISI, 11.25.2023***

Purchasing Managers Index (PMI)®



The Manufacturing PMI® registered 46.7% in November, unchanged from the 46.7% recorded in October. The overall economy continued in contraction for a second month 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 48.3%, 2.8 percentage points higher than the figure of 45.5% recorded in October. The Production Index reading of 48.5% is a 1.9 percentage point decrease compared to October's figure of 50.4%. The Prices Index registered 49.9%, up 4.8 percentage points compared to the reading of 45.1% in October. The Backlog of Orders Index registered 39.3%, 2.9 percentage points lower than the October reading of 42.2%. The Employment Index registered 45.8%, down 1 percentage point from the 46.8% reported in October. The Supplier Deliveries Index figure of 46.2% is 1.5 percentage points lower than the 47.7% recorded in October. The Inventories Index increased by 1.5 percentage points to 44.8%; the October reading was 43.3%. The New Export Orders Index reading of 46% is 3.4 percentage points lower than October's figure of 49.4%. The Imports Index remained in contraction territory, registering 46.2%, 1.7 percentage points lower than the 47.9% reported in October. Panelists' companies slightly reduced month-over-month production and took more actions to reduce head counts, primarily using layoffs and attrition. Inputs — defined as supplier deliveries, inventories, prices and imports — continued to accommodate future demand growth. Of the six biggest manufacturing industries, two — Food, Beverage & Tobacco Products; and Transportation Equipment — registered growth in November. ***Source: ISMWorld, 12.01.2023***

Indonesia to Trace Nickel in Bid for U.S. Critical Minerals Deal

Indonesia plans to introduce nickel tracing and push local producers to reach global mining standards to help the country move closer to securing a critical minerals deal with the U.S. "Each ton of nickel ore sales will be tracked using the SIMBARA portal starting next quarter," Septian Hario Seto, a deputy at the Coordinating Ministry for Maritime Affairs and Investment, said in an interview. "Top producers will also be encouraged to get certifications from global entities like The Initiative for Responsible Mining Assurance," he added.

International certification will ensure the companies' environmental, social and governance practices are recognized," said Seto, who oversees investment coordination and mining at the ministry. "It is for our own interest, regardless of the deal with the U.S.," he added.

Indonesia is seeking a critical minerals agreement with the U.S. to help realize President Joko Widodo's goal of building an entire electric-vehicle supply chain onshore by taking advantage of the country's nickel riches. Jokowi, as the leader is known, met with U.S. President Joe Biden earlier this week and agreed to continue efforts to potentially reach such a deal.

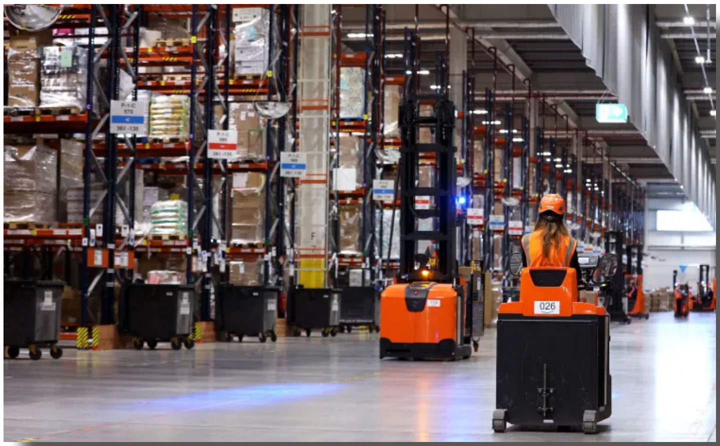
Efforts to trace metals to ensure compliance with environmental and labor standards are also being attempted for tin and cobalt. However, traceability is likely to be very difficult to implement and monitor and would also require buy-in from miners and refiners who would have to bear the extra costs. Indonesia's mining and metals processing industry is also responsible for much of the country's emissions.

Billions of dollars in investments have poured into the country to refine its nickel into batteries. But the industry is dominated by Chinese companies, placing Indonesian products at risk of being left out of U.S. and European markets.

There are signs that U.S. and European companies are catching up, however. Ford Motor Co. took a stake in an Indonesia battery-nickel plant being built by Vale SA and Zhejiang Huayou Cobalt Co., while BASF SE and Eramet SA are planning to spend $2.6 billion building a nickel-cobalt refinery in the country.

The Southeast Asian nation has taken steps to improve its labor and environmental standards. Earlier this year, the government sent teams to survey smelters across the archipelago to ensure they comply with existing rules, after deadly clashes and accidents plagued several facilities.
Source: Bloomberg, 11.16.2023

Warehouse Demand Slows While Green Energy Firms Look for More Space



Big e-commerce and distribution tenants are looking for less warehouse space across the country than they were a year ago, even as demand has grown for space to make batteries, electric vehicles, wind and solar components, and medical devices, according to a new JLL report.

Tenants were searching for about 807 million square feet of industrial space this year, down by about 8% from 2022's total of 873 million, the report found.

While logistics and distribution companies still need more space than any other kind of industrial user, demand for warehouse space declined 12% year-over-year to 694 million square feet. Meanwhile, manufacturers of clean energy equipment, electric vehicles and batteries are in the market for 100 million square feet this year, up from the 65 million square feet they wanted in 2022.

Manufacturers and shippers looking for space in the Southeast account for about a third of the overall demand for industrial space nationwide, JLL found. The swath of states running from Kentucky and North Carolina to Louisiana and Florida account for 230 million square feet of tenant demand, partially thanks to car and battery manufacturers.

In terms of specific cities, Atlanta is seeing a 17% spike in industrial demand on a per-square-footage basis, largely driven by electric vehicle manufacturers and energy companies. Corporations such as Rivian and Hyundai Motor Group have already chosen to locate their electric vehicle factories in and around Atlanta, accounting for 2.5 million square feet of manufacturing space in the coming year, according to the report.

Columbus and Houston saw similar trends, with demand from solar energy outfits, electric car makers, data centers and microchip factories driving the need for more manufacturing space. ***Source: Commercial Observer, 11.17.2023***

Manufacturers 'Want to See the Dust Settle' in '24

Many manufacturing leaders are experiencing "an outbreak of caution" when it comes to 2024 growth plans, an economist told an IndustryWeek webinar audience on November 20. But, he added, they are not giving up on growth "by any stretch."

Chris Kuehl, managing director and co-founder of consulting firm Armada CI in Kansas City, said his regular survey work with the Fabricators and Manufacturers Association reflects a broader manufacturing trend. Companies are generally maintaining their production and working down inventories but not taking big shots when it comes to growth. "None of them have given up their plans, but they've pushed them off," Kuehl said. "What was going to be done this quarter is now two quarters down. What was going to be done early next year is now late next year. There's this notion that 'We want to see the dust settle. We want to see what things look like. Then we'll pull the trigger or not.'"

The idea of leadership teams holding onto expansion plans but pushing out their timelines was one of several threads that emerged during a discussion between Kuehl, Kate Hardin of Deloitte and Ned Hill of The Ohio State University. Among the other major trends, the trio highlighted during their conversation moderated by IndustryWeek's Robert Schoenberger were:

- **Workforce pressures are likely to increase** – In addition to the premature retirements of some older workers during the pandemic, a wave of experienced technicians are starting to retire and the pipeline to replace them isn't as large as it needs to be. Kuehl said this dynamic has moved from being a concern for large companies to firms with as few as 15 to 20 people.

- **Stimulus tailwinds will pick up speed** – Hardin, who is executive director of the Deloitte Research Center for Energy and Industrials, said recent legislation to boost the U.S. energy, infrastructure and semiconductor sectors could end up generating 3 million jobs annually during their lifespans. She noted that fields such as engineering and construction are only just getting back to something resembling normal operations even as they are starting to see dollars from the Inflation Reduction Act and Infrastructure Investment and Jobs Act begin to flow through the system in earnest.

- **Companies are working hard to regionalize their operations** – Hill, professor of economic development at Ohio State's John Glenn College of Public Affairs, said leaders he is talking to "have a European strategy, a North American strategy and an Asian strategy" that will help them lower supply chain risks and better adjust to demand in those regions.

Considering those trends as well as other economic indicators such as slowing labor costs and a retail holiday season he expects "won't be great." Hill said he foresees slow growth in 2024 but no recession. "I put all that together and say 'soft landing,'" he said.

Asked about what might break the relative logjam in investment and capital spending, Kuehl said executives are getting used to today's financial conditions—as well as the likelihood that, if Federal Reserve leaders have their way, those conditions won't soon meaningfully change. "We're kind of going back to what we saw prior to all the turmoil around the pandemic," he said of leaders' attitudes. "They're like, 'Well, if it's going to be this quarter like last quarter, I just need to go ahead and do what I'm going to do […] I'm starting to see companies do that now: 'This is the new normal and I'm going to use it. I'm going to work with it.'"

To watch the full discussion among Hardin, Hill and Kuehl (registration required), follow this link.
Source: IndustryWeek, 11.21.2023

U.S. Gas Prices Have Fallen or Remained Steady for 10 Weeks Straight. Here's Why

It's not just you. Across the U.S., prices at the pump have felt milder in recent months. Gas prices have fallen or remained steady since September 19 — marking about a 70-day trajectory of decline, Andrew Gross, spokesperson for motor club AAA, said on November 29. As of that day, the national average for gas prices stood just below $3.25, according to AAA. That's down 25 cents from a month ago and 30 cents less than this time last year. Experts point to a recent decline in oil prices and a seasonal dip in demand, as well as easing inflation.

Each penny decline in the national average saves motorists close to $3.8 million, according to Patrick De Haan, head of petroleum analysis at GasBuddy. "If you amplify that times 30 cents, we're talking about Americans that are spending hundreds of millions less on gasoline today than they were a year ago."

Despite the drop, the global energy market can be volatile and lower gas prices down the road aren't promised.

Here's what you need to know:

WHY ARE GAS PRICES FALLING?
A few factors contribute to today's gas prices, but a big explanation behind the decline is seasonality. In other words, prices at the pump almost always ease at this time of year. For starters, there's a switch to winter blend gasoline — which is cheaper to produce than the summer blend, Gross notes. And, despite some upticks around the holidays, shorter days make hitting the road less enticing in the colder months. Full Story
Source: AP, 11.29.2023

E.U. Weighs Extending Steel-Trade Truce With U.S. to Avoid Tariffs

The European Union is discussing the possibility of temporarily prolonging a truce with the U.S. related to steel and aluminum trade, a prospect that would bypass stalled negotiations and avoid the return of tariffs on as much as $10 billion of transatlantic exports. Since the tariffs return automatically at the end of the year, an extension would provide more time to reach a permanent settlement before the U.S. presidential election in 2024, according to people familiar with the bloc's thinking.

The aim of the GSA is to tackle global excess capacity and carbon emissions of dirty metals.

Talks on the so-called Global Arrangement on Sustainable Steel and Aluminum (GSA) are aimed at settling a Trump-era dispute, when the U.S. slapped tariffs on metals imports from Europe, citing risks to national security, to which the E.U. responded with retaliatory measures. The two sides reached a temporary truce in 2021, which expires at year-end. E.U. diplomats were briefed on the status of negotiations last week, including on the procedure needed to prolong the truce, said the people, who spoke on condition of anonymity. The U.S. has previously said that the two sides are both committed to avoiding a return of the tariffs, Bloomberg previously reported.

As part of the temporary arrangements agreed two years ago, the U.S. introduced a set of tariff-rate quotas above which duties on the metals are applied, while the E.U. froze all of its restrictive measures. That has created an unbalanced situation that has favored the U.S., the bloc's trade chief has previously said. The tariff-rate quotas are meant to be based on historical trade flows but their rigidity has meant that a significant level of European steel continues to be subject to duties and the continent's exporters are burdened with red tape.

Addressing that imbalance now is part of ongoing discussions with the Biden administration, one of the people said. Failure to fix the asymmetry would see the E.U. faced with the choice of re-introducing tariffs on U.S. goods or sticking to the status quo, and by doing so gift a concession to the Biden administration.

The aim of the GSA is to tackle global excess capacity and carbon emissions of dirty metals. Some progress had been made on the first of those two goals. The agreements would also be open to like-minded countries. Talks haven't progressed much after the E.U. and U.S. failed to conclude a political agreement at a summit in Washington last month and time is short given how far apart the two sides are, the people said.

The E.U. has been pushing the U.S. to provide a clear path to remove the tariffs and tariff-rate quotas, and that remains a key roadblock to a deal. The bloc wants the Biden administration to at least make the TRQs less rigid given the burden they place on European companies, the people said.
Source: Bloomberg, 11.14.2023

N.A. Aluminum Groups Call for Tariff-Free

The Aluminum Association, Instituto Mexicano del Aluminio and the Aluminium Association of Canada called for continued tariff-free trade, increased import monitoring and stronger trade enforcement in a letter to trade officials in Canada, Mexico and the U.S. The letter came ahead of a summit in Mexico City highlighting the past and future of the North American aluminum trading relationship.

"For decades, our industries have relied on cross-border trade within the North American region to help make some of the highest quality and lowest carbon aluminum and aluminum products in the world. Indeed, Canada and Mexico are the U.S.' first- and second-largest aluminum trading partners, respectively. In 2022, our nations traded more than $47 billion worth of aluminum and aluminum products across the region," the letter noted.

The North American aluminum industry called for several actions ahead of a mandated review of the U.S.-Mexico-Canada Agreement in 2026. They include:

- **Continued Tariff-Free Trade in North America:** The continued tariff-free trade of aluminum within North America is critical to the industries in all three of our countries, the groups claimed. The integrated market allows each country to focus on its respective competitive advantages while benefiting from the unique strengths offered by aluminum firms in the other countries. Maintaining Section 232 aluminum tariff exemptions for Canada and Mexico benefit the sector across North America. The filing of a 15-country trade case, which includes Mexico, by a subsection of U.S. aluminum extrusion producers threatens to overshadow the longstanding coordination and partnership between the aluminum industries in the three countries, the groups claimed.

- **Increased Regional Aluminum Import Monitoring:** Under the terms of the agreement removing Section 232 tariffs in favor of the USMCA, each country agreed to "establish an agreed-upon process for monitoring aluminum and steel trade between them." In subsequent years, both the U.S. and Canada have stood up new or enhanced aluminum import monitoring programs, but Mexico has not. "We urge the Mexican government to promptly implement such a program to meet the mutual commitment under the Section 232 exemption joint letter," the letter claimed. Full Story
Source: MetalCenterNews, 11.21.2023