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INSIGHT

AUGUST 2021

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The U.S. Economy Added 943,000 Jobs in July—Employers added 943,000 jobs in July, the Labor Department reported, but the data was collected in the first half of the month, before variant-related cases exploded in many parts of the country.

The jobs gain for June, initially reported at 850,000, was revised to 938,000.

While the economy and job growth overall have been strong in recent months, experts fear that the variant's spread could undermine those gains if new restrictions become necessary. Already, some events have been canceled, and many companies have pulled back from plans for employees to return to the office in September. Full Story ***Source: NYTimes, 08.06.2021***

Fed Notes Improving Economy, A Step Toward Easing Support—The Federal Reserve said July 28 that the U.S. economy is strengthening and making progress on the Fed's employment and inflation goals, a small step toward dialing back its ultra-low-interest rate policies, perhaps later this year. The statement the Fed issued after its latest policy meeting said that ongoing vaccinations were helping to support the economy. But it dropped a sentence it had included after its previous meeting that said those vaccinations have reduced the spread of COVID-19. That was the only reference in the latest statement to the delta variant, which has triggered a spike in COVID cases in several hotspots in the U.S. and many other countries.

But at a news conference July 28, Chair Jerome Powell injected a note of caution: "As long as COVID is running loose out there, as long as there's time and space for the development of new strains," Powell said, "no one is really finally safe. These strains, there's no reason they just can't keep coming and one more powerful than the next." At the same time, he suggested that an increase in vaccinations would allow the nation to "get back to our economic activity."

The central bank is keeping its benchmark short-term rate pegged near zero, where it has remained since the pandemic tore through the economy in March 2020. The Fed will also continue to buy $120 billion in Treasury and mortgage bonds each month—purchases that are intended to lower rates on longer-term consumer and business loans to spur more borrowing and spending.

The Fed's latest policy statement comes as the economy is sustaining a strong recovery from the pandemic recession, with solid hiring and spending. The central bank took note of that improvement by observing, for the first time since the pandemic began to ease, that the economy is moving toward making the "substantial further progress" it wants to see before reducing, or tapering, its $120 billion a month in bond purchases." This could be an early hint that the policymakers will start art reducing—or "tapering," in Fed parlance—their monthly bond purchases later this year.

The economy's widespread improvement, and a pickup in inflation, are key reasons why Powell and other Fed policymakers are believed to be moving closer toward pulling back their economic support. Consumer prices jumped 5.4% in June from a year ago, the biggest increase in 13 years. Full Story ***Source: AP, 07.28.2021***

U.S. Economy Reaches Pre-Pandemic Size, But Not As Quickly As Expected

The U.S. economy returned to its pre-pandemic level in the second quarter, data released July 29 showed, giving President Joe Biden a political win as Congress moves closer to passing a long-debated plan to improve the country's infrastructure. However the 6.5 % annualized rate of expansion in the April-to-June period was slower than expected, and the Commerce Department report confirmed that inflation spiked as customers vaccinated against Covid-19 returned to businesses that suffered throughout the pandemic last year.

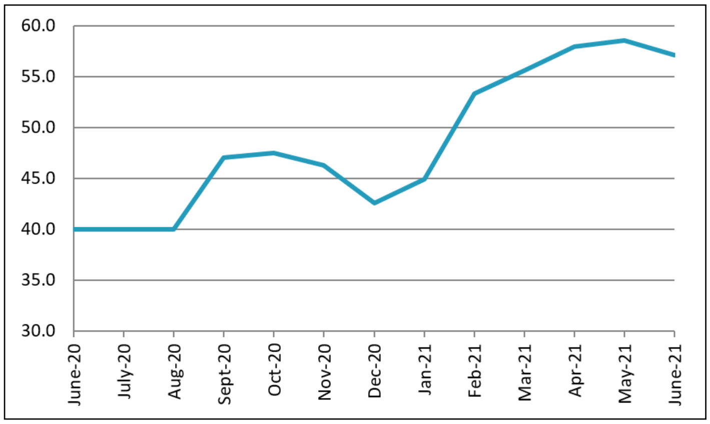
"Make no mistake: this growth is no accident, it's a direct result of our efforts to deliver economic relief to families, small businesses, and communities across the country," the Democratic president tweeted following the release of the data.

After taking office in January, Biden won passage of a massive $1.9 trillion spending bill to help the economy's recovery from the historic downturn the pandemic caused last year. However, the disruptions of the preceding months have made getting production and employment back to normal challenging, while prices have surged as businesses face renewed demand, shortages of components and supply chain delays.

Biden has called for even more spending to reshape the world's largest economy, and on July 28, the Senate voted to advance a trillion-dollar infrastructure package that would pump historic levels of federal funding into fixing U.S. roads, bridges and waterways as well as expand broadband internet and expand clean energy programs. But Republicans who form a sizeable minority in the Senate could end up turning against the plan, while some progressive Democrats in the House of Representatives have warned they won't approve it unless Biden's ambitious $3.5 billion budget package including once-in-a-generation spending on health care, education, social welfare and climate action is also passed. Full Story
Source: IndustryWeek, 07.29.2021

Key Economic Indicators

Architecture Billings Index (ABI)

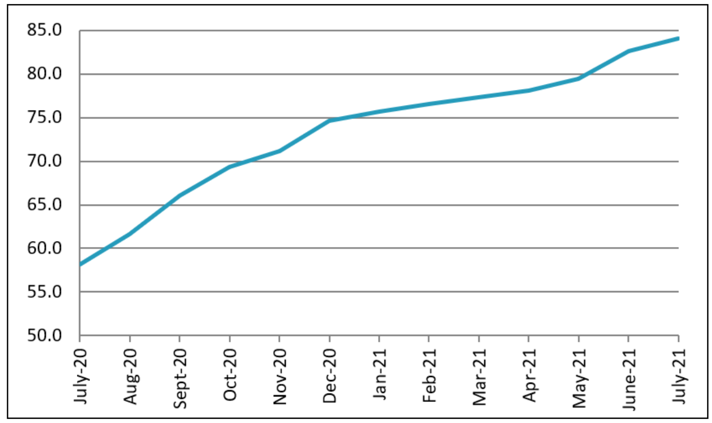


Architecture firms reported increasing demand for design services in June according to a new report today from The American Institute of Architects (AIA).

AIA's Architecture Billings Index (ABI) score for June remained at an elevated level of 57.1 in June (any score above 50 indicates an increase in billings). During June, the new design contracts score also remained positive at 58.9 but was not quite as strong as the 63.2 reading in May. New project inquiries logged another near-record high score at 71.8, compared to 69.2 in May.

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, 07.21.2021

Steel Capability Utilization



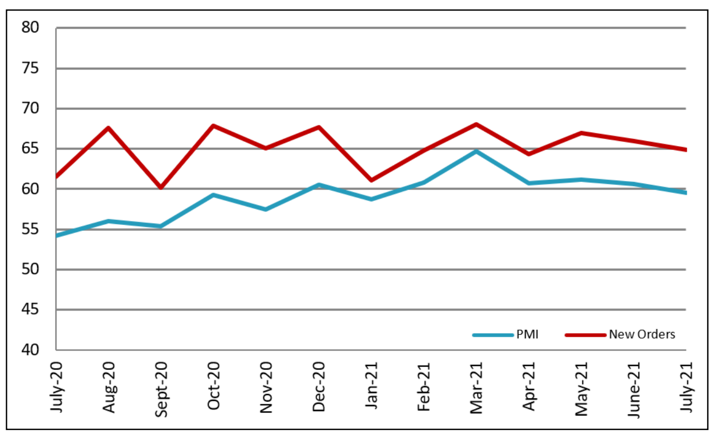
In the week ending on July 31, 2021, domestic raw steel production was 1,876,000 net tons while the capability utilization rate was 85.0%. Production was 1,350,000 net tons in the week ending July 31, 2020 while the capability utilization then was 60.3%. The current week production represents a 39.0% increase from the same period in the previous year. Production for the week ending July 31, 2021 is up 0.4% from the previous week ending July 24, 2021 when production was 1,868,000 net tons and the rate of capability utilization was 84.6%.

Adjusted year-to-date production through July 31, 2021 was 54,555,000 net tons, at a capability utilization rate of 80.0%. That is up 19.1% from the 45,814,000 net tons during the same period last year, when the capability utilization rate was 66.7%.

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, 07.31.2021

Purchasing Managers Index (PMI)®

The July Manufacturing PMI® registered 59.5%, a decrease of 1.1 percentage points from the June reading of 60.6%. This figure indicates expansion in the overall economy for the 14th month in a row after contraction in April 2020. The New Orders Index registered 64.9%, decreasing 1.1 percentage points from the June reading of 66%. The Production Index registered 58.4%, a decrease of 2.4 percentage points compared to the June reading of 60.8%. The Prices Index registered 85.7%, down 6.4 percentage points compared to the June figure of 92.1%, which was the index's highest reading since July 1979 (93.1%). The Backlog of Orders Index registered 65%, 0.5 percentage point higher than the June reading of 64.5%. The Employment Index registered 52.9%, 3 percentage points higher compared to the June reading of 49.9%. The Supplier Deliveries Index registered 72.5%, down 2.6 percentage points from the June figure of 75.1%. The Inventories Index registered 48.9%, 2.2 percentage points lower than the June reading of 51.1%. The New Export Orders Index registered 55.7%, a decrease of 0.5 percentage point compared to the June reading of 56.2%. The Imports Index registered 53.7%, a 7.3 percentage point decrease from the June reading of 61%.



Seventeen of 18 manufacturing industries reported growth in July, in the following order: Furniture & Related Products; Printing & Related Support Activities; Apparel, Leather & Allied Products; Miscellaneous Manufacturing; Computer & Electronic Products; Nonmetallic Mineral Products; Machinery; Fabricated Metal Products; Paper Products; Chemical Products; Food, Beverage & Tobacco Products; Primary Metals; Plastics & Rubber Products; Transportation Equipment; Electrical Equipment, Appliances & Components; Wood Products; and Petroleum & Coal Products. The only industry reporting a decrease in July compared to June was Textile Mills. *Source: Institute for Supply Management, 08.01.2021*

Industry News

U.S. Senate Could Vote On Physical Infrastructure Bill This Week

Source: Adobe Stock

Even though Senate Democrats and Republicans made strides early last week on a bipartisan infrastructure package, negotiations continued through the weekend since lawmakers had not yet determined how to pay for the new spending. After hours of behind-the-scenes debate, on the evening of August 1, senators formally introduced an eight-year, $1.2 trillion piece of legislation. According to *The Hill*, "The bill is expected to face a days-long debate on the Senate floor, with Republicans, and some Democrats, eager to try to make changes after largely being on the sidelines of the bipartisan group's negotiations." While the bill's supporters are hoping senators will approve the bill by the end of this week, *The Hill* noted the legislation will face opposition from conservative lawmakers.

While MSCI is still digesting the full contents of the 2,702-page long legislative text, which is available here, it has been reported that the bill will be paid for by the repurposing of more than $250 billion in COVID-19 economic aid. Another $50 billion would come from the delay of a Trump-era Medicare rebate rule targeting pharmacy benefit managers; $6 billion would be generated by selling off of oil from the Strategic Petroleum Reserve; and $12 billion would come from reinstating certain Superfund fees.

The legislation currently does not include tax increases though lawmakers could try to add amendments to the bill that raise levies on individuals or businesses.

What is in the bill in terms of spending? According to a summary of the agreement that was released prior to the bill being introduced Sunday, over five years the physical infrastructure package would invest:

- $110 billion in roads, bridges, and other major highway projects;
- $73 billion to improve the nation's electricity grid and $46 billion in cybersecurity initiatives to protect the U.S.'s critical infrastructure and improve climate resiliency;
- $66 billion in passenger and freight rail;
- $65 billion to expand broadband across the U.S.;
- $55 billion for water infrastructure and $17.3 billion for ports and waterways;
- $39.2 billion in public transit;
- $25 billion in airport projects;
- $11 billion in highway and pedestrian safety initiatives; and
- $7.5 billion in developing low-carbon vehicle and ferries that run on natural gas.

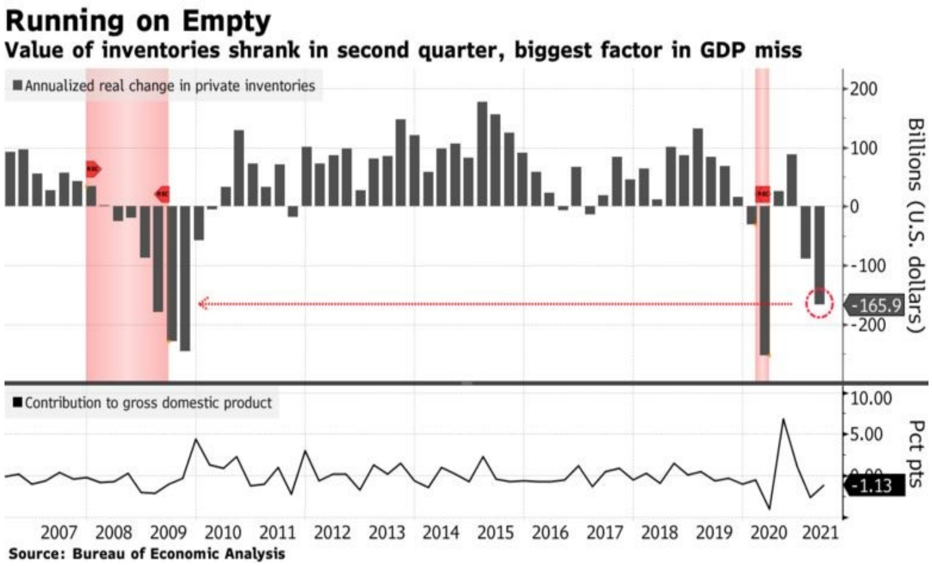
While the Senate has made progress, on the other side of the U.S. Capitol, the path forward is much less certain. Currently, Democrats have only a four-vote majority and the chair of the House Transportation and Infrastructure Committee, Rep. Peter DeFazio (D-Ore.), has demanded that the House amend the outline to include additional funding to address climate change.

Additionally, House progressives have threatened to vote against the legislation unless House Speaker Nancy Pelosi (D-Calif.) links the physical infrastructure bill to the larger $3.5 trillion "human infrastructure" spending package. Regarding that bill, U.S. Senate Majority Leader Chuck Schumer (D-N.Y.) has said all 50 Democrats plan to vote to advance debate on the party's $3.5 trillion proposal. Some moderate senators, including Sen. Kyrsten Sinema (D-Ariz.), have said that while they will vote to allow debate to proceed, they may not vote for final passage.

Meanwhile, new research by the Association of Equipment Manufacturers (AEM) indicates the current infrastructure package will create nearly 100,000 new jobs for that industry.
Source: MSCI, 08.03.2021

Industry News

Producers Caught Flat-Footed As U.S. Consumer Demand Runs Hot



Producers couldn't keep up with supercharged consumer demand in the U.S. last quarter, and it's unclear when supply constraints will ease. Materials shortages and shipping delays led to outsized drawdowns in inventories as companies scrambled to meet one of the strongest paces of consumer spending since the 1950s and robust growth in business purchases of equipment. As a result, the government's initial tally of second-quarter economic growth missed by a long shot.

The value of inventories shrank an annualized $166 billion last quarter, the second-worst decline in nearly 12 years. Looking ahead, it's hard to tell when supply chains may return to some normalcy, as firms race to restock and try to get ahead of any further materials price hike and shortages.

"Given they are global in nature, many of the supply chain and logistics bottlenecks could be more persistent than many have been assuming, and we anticipate them weighing on current quarter growth in consumer spending," Richard Moody, chief economist at Regions Financial Corp., said in a note. Recent data back up his outlook. The latest IHS Markit manufacturing survey, published July 30, showed the sharpest input-purchase growth on record.

A deeper dive into the inventories data from the second-quarter GDP report shows sizable drawdowns at manufacturers and retailers. Inventories shrank by $51.5 billion at factories, the largest decline in records to 1997.

The value of durable goods in stock also decreased sharply and likely reflected the auto industry's production cutbacks that stem from a shortage of semiconductors.

CHANGE IN INVENTORIES BY INDUSTRY	2Q (U.S. DOLLARS, INFLATION-ADJUSTED ANNUAL RATE)
Manufacturing	-51.5 billion
--Durable goods	-42.1 billion
--Nondurable goods	-7.4 billion
Wholesale Trade	-27.2 billion
Retail Trade	-83.1 billion
--Motor vehicle dealers	-92.1 billion

Supply is well short of demand, allowing Ford Motor Co. to keep pricing strong, Chief Executive Officer Jim Farley said on the carmaker's earnings call July 28. "Given the strength of our product lineup and the demand we see, we expect to have a relatively strong pricing power for the new foreseeable future," he said.

The GDP figures "embody the predicament facing the U.S. economy, which is that the supply side of the economy has simply been unable to keep pace with demand, thus begetting significantly faster inflation," Moody wrote. ***Source: Bloomberg, 07.31.2021***

Industry News

U.S. Labor Shortages, Price Pressures To Continue, Survey Shows

Don't expect those labor constraints to go away any time soon. At least that's according to a survey of business economists out July 19, in which only 6% of respondents expect U.S. labor shortages to abate by the end of 2021. Nearly a third of panelists said they didn't know, indicating elevated uncertainty.

When paired with lingering supply chain challenges, the National Association for Business Economics report suggests inflationary pressures persisting for the foreseeable future. Nearly four in 10 panelists said their firms are experiencing a worker shortage, noting challenges ranging from not enough applicants to plenty of applicants but not enough matches. As a result, more than half of the respondents expect wage costs to increase over the next three months.

Half of the panelists also expect materials costs to rise over the next three months. In many cases, consumers will feel the direct impact of those increases. Forty-three percent said they expect their firms to raise prices in the next three months.

Despite these shortages though, 61% of panelists said their firms' sales volumes have already returned to pre-pandemic levels. Another 14% expect a full recovery in sales volumes sometime this year.

The survey of 93 NABE members was conducted July 6-15.
Source: Bloomberg, 07.25.2021

U.S. Manufacturing Expands Again In July, But Pace Slows

Growth in U.S. manufacturing slowed for a second straight month in July amid ongoing supply-chain problems. The Institute for Supply Management, a trade group of purchasing managers, said August 2 that its index of manufacturing activity declined by 1.1 percentage points to a reading of 59.5. The index had also slowed in June, dropping to 60.6 from a reading of 61.0 in May.

Any reading above 50 indicates growth in the manufacturing sector. July was the 14th consecutive month manufacturing has grown after contracting in April 2020 when the coronavirus triggered nationwide business shutdowns.

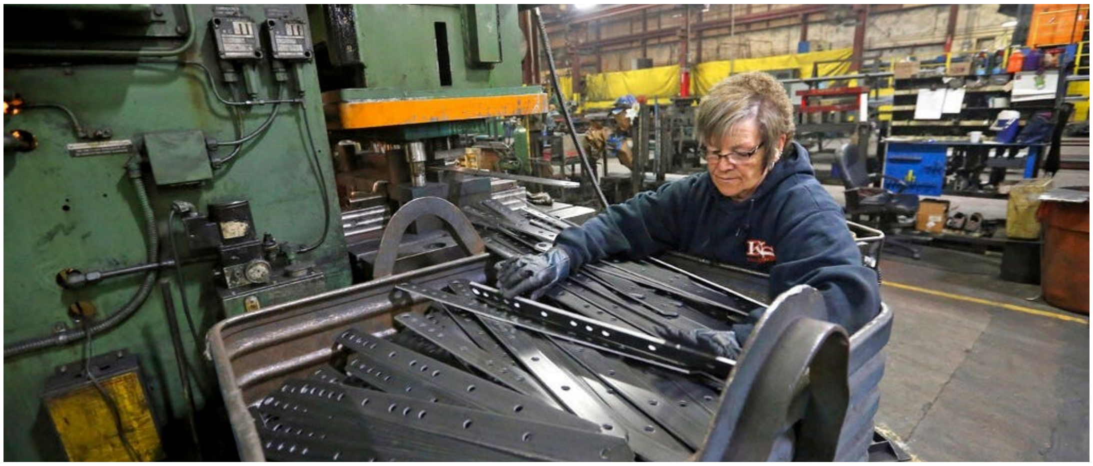
But the July reading showed slower growth in new orders and production. Manufacturers have struggled in recent months with supply-chain bottlenecks that have made it difficult for them to get computer chips and other necessary components for their products.

"As we enter the third quarter, all segments of the manufacturing economy are impacted by near record-long raw-material lead times, continued shortages of critical basic materials, rising commodity prices and difficulties in transporting products" said Timothy Fiore, chair of the ISM manufacturing survey committee. But there are some encouraging signs in the July report that suggest the various supply-chain and labor problems are beginning to recede, Fiore said. For one, the index for employment improved sharply in the July report and is now back in growth territory. Fiore expects current labor shortages to ease and that more people will join the labor force in coming months as expanded unemployment benefits tail off and students go back to school.

Others see the potential for sustained issues in the supply chain.

"Consumer demand will continue to provide a platform for manufacturing's recovery from the pandemic-induced recession, but scarcity of intermediate goods, components and labor resources will act as a brake on the pace of growth, "Kurt Frankin, an economist at PNC, said in a research note.

The July report showed that 17 of 18 manufacturing industries reported growth, led by furniture makers. The only industry reporting a decrease in July from the previous month was textile mills. ***Source: AP, 08.02.2021***



Source: Associated Press

COVID-19

As Employers Embrace Vaccine Mandate, What Do Federal Rules Allow?

Last week Axios looked into the growing movement for employers to require workers to receive the COVID-19 vaccine. Major corporations that have announced vaccine mandates include:

- Google, Facebook, and Uber, which will require vaccination for all U.S. employees who return to in-person work;
- Netflix, which will require casts and crew for U.S. productions to be vaccinated;
- Morgan Stanley, which will require clients to be vaccinated before coming into the office for meetings; and
- *The Washington Post*, which will require vaccination as "a condition of employment" starting Sept. 13, 2021.

The federal government itself has decided to enact a vaccine mandate. The Biden administration announced last week that all federal employees and contractors will be required to either get a COVID-19 shot or to submit to regular testing and other precautionary measures. Local and state governments also have announced similar mandates for government and health care employees.

So what, exactly, can employers require of their workers?

As a reminder, on May 28, the U.S. Equal Employment Opportunity Commission (EEOC) issued guidance outlining the types of incentives businesses can offer employees to encourage them to get a COVID-19 vaccine. The guidance, which is available here and which the law firm Kelley Drye summarizes here, said:

- Federal law does not prevent an employer from requiring all employees physically entering the workplace to get a vaccine so long as employers comply with the reasonable accommodation provisions of the Americans with Disabilities Act (ADA), Title VII of the Civil Rights Act of 1964, and other equal employment opportunity (EEO) considerations. Other laws not in EEOC's jurisdiction may place additional restrictions on employers, however.
- Employers must keep in mind that, because some individuals or groups may face barriers to receiving a vaccination, some employees may be more likely to be negatively impacted by a vaccination requirement.
- Federal EEO laws do not prevent or limit employers from offering incentives to employees to voluntarily provide documentation or other confirmation of vaccination obtained from a third party (not the employer) in the community, such as a pharmacy, personal health care provider, or public clinic.
- If employers choose to obtain vaccination information from their employees, they must keep vaccination information confidential pursuant to the ADA.
- Employers that are administering vaccines to their employees may offer incentives for employees to be vaccinated as long as those incentives are not coercive. Additionally, because vaccinations require employees to answer pre-vaccination disability-related screening questions, a very large incentive could make employees feel pressured to disclose protected medical information.
- Employers may provide employees and their family members with information educating them about COVID-19 vaccines and the benefits of vaccination.

Additionally, on July 26, the U.S. Department of Justice's Office of Legal Counsel (OLC), which is the legal adviser to the president and all executive branch agencies, published a memorandum opinion concluding that federal law permits public agencies and private businesses to require COVID vaccines, even while the vaccines have only emergency use authorization (EUA). Although the OLC opinion is not considered binding legal authority, it delivers a strong opinion favoring mandatory vaccines by employers.

Want more information? Find more analysis of the EEOC's guidance at *IndustryWeek*. Korn Ferry has more here. ***Source: MSCI, 08.02.2021***

Source: Adobe Stock

CELEBRATING OUR PAST

1921 100 O'NEAL 2021

FORGING OUR FUTURE

The O'Neal Family of Companies is celebrating an important milestone in 2021 - 100 years in the metals industry, guided by four generations of O'Neal leadership.

With roots tracing back to 1921 with the founding of O'Neal Steel, we have become the nation's largest family-owned network of metals service centers and component manufacturers. Today, we are composed of a parent company, O'Neal Industries, and eight affiliate companies: G&L Tube, Leeco Steel, Locate Supplies, O'Neal Manufacturing Services, O'Neal Steel, Stainless Tubular Products, TW Metals, and United Performance Metals.

To honor and commemorate this achievement, we would like to recognize and thank those whose contributions have made O'Neal's success possible. We thank our employees who have dedicated years of service and carried out our founding principles of integrity and commitment to excellence. We also thank our customers who we are fortunate to serve each and every day.

Our centennial is not only a celebration of the past, but a celebration of what the future holds, as our family of companies, employees, and customers continues to grow for years to come.

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