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INSIGHT

December 2022

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November Jobs Report-Unemployment Rate Held Steady At 3.7% With 263,000 Jobs Added—Economists surveyed by Bloomberg estimate that 200,000 jobs were added last month. Job growth generally has moderated from a pace of about 450,000 for most of the year to under 300,000 in recent months. High inflation and aggressive interest rate hikes by the Federal Reserve have hobbled rate-sensitive sectors such as housing and technology.

Overall, initial jobless claims, a reliable gauge of job cuts, rose modestly in November but remain historically low, averaging 221,000 a week, Goldman Sachs says. Pandemic-induced labor shortages have made companies reluctant to chop workers on concerns they won't be able to replace them when the economy bounces back. Full Story
Source: USAToday, 12.01.2022

Yet Another Key Economic Report Is Showing Inflation Pressures Are Easing—A key measure of inflation, wholesale prices, rose by 8% in October from a year before, according to the latest report from the Bureau of Labor Statistics. While still historically high, it was the smallest increase since July of last year and significantly better than forecasts. It's the second inflation report this month to show signs of cooling in the rising prices that have plagued the economy.

Economists expected the Producer Price Index, which measures prices paid for goods and services before they reach consumers, to show an annual increase of 8.3%, down from September's revised 8.4%. On a monthly basis, producer prices rose 0.2%, below expectations and even with the revised 0.2% increase seen in September. Year-over-year, core PP I— which excludes food and energy, components whose pricing is more prone to market volatility—measured 6.7%, down from September's revised annual increase of 7.1%. Month-over-month, core PPI prices were flat, the lowest monthly reading since November 2020. In September, core PPI increased by a revised 0.2% from the month before.

Economists had expected annual and monthly core PPI to measure 7.2% and 0.3%, respectively, according to estimates on Refinitiv. President Joe Biden heralded October's PPI report calling it "more good news for our economy this morning, and more indications that we are starting to see inflation moderate." Full Story
Source: CNN, 10.15.2022

Powell Says That Rates Will Rise More And Remain High 'For Some Time'

Jerome H. Powell, the Federal Reserve chair, said the central bank could slow its interest rate increases at its meeting next month—even as he emphasized that policymakers have more work to do to ensure that rapid price inflation will return to normal. "The time for moderating the pace of rate increases may come as soon as the December meeting," Mr. Powell said, referencing the December 13-14 gathering. Still, Mr. Powell said in remarks at the Brookings Institution that "ongoing increases will be appropriate" and that what matters most is the level rates ultimately rise to and how long they remain elevated, rather than the rate of change.

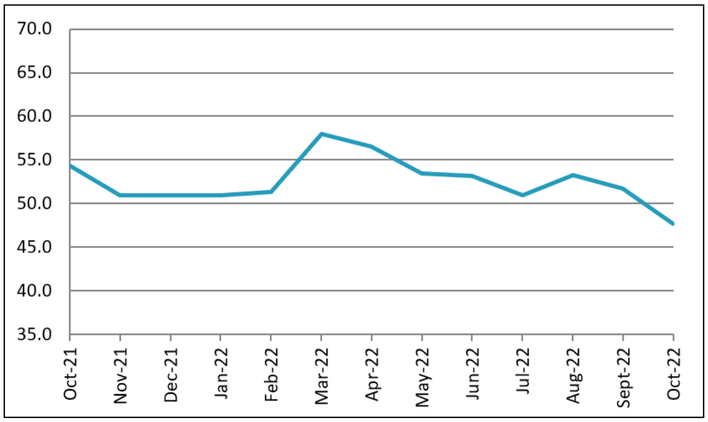
The Fed chair acknowledged that inflation has shown hopeful signs of slowing, but he also warned against reading too much into one month of data. He emphasized that wage growth remains too rapid to allow price increases to ease back to the Fed's 2% annual goal. Given that, he underlined repeatedly that central bankers will need to keep lifting interest rates—probably by more than they had predicted as recently as September—to ensure that they get the job done. "Despite some promising developments, we have a long way to go in restoring price stability," Mr. Powell said.

The Fed has lifted interest rates from near-zero as recently as March to a range of 3.75% to 4% at its meeting earlier this month. Its past four rate moves have come in three-quarter-point increments — huge adjustments, the likes of which the Fed had not previously made since 1994. Central bankers have been clear that they think it would be wise to slow the pace, dialing back to a half-point rate move as soon as their next meeting. Mr. Powell's comments are likely to cement that expectation, which was already heavily factored into market pricing.

Moving less quickly will allow the Fed to keep up its battle against inflation while giving policymakers more time to see how the substantial rate moves they have already made are playing out. While interest rate changes work promptly to slow the housing market, their full effects take months or years to play through the economy. But Mr. Powell and his colleagues have been walking a careful line as they prepare investors for a slowdown: They do not want to signal that they are giving up in their battle against rapid price increases. If investors believe that the Fed is dialing back its plans and asset prices rise in a sign of investor relief, money could become cheaper and easier to borrow, undoing some of the monetary restraint that the central bank has ushered in. Full Story
Source: New York Times, 11.30.2022

Key Economic Indicators

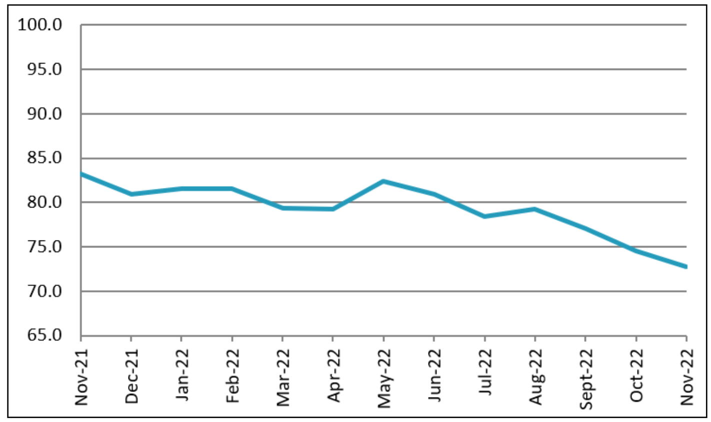
Architecture Billings Index (ABI)



Demand for design services from architecture firms softened considerably in October, according to a new report from The American Institute of Architects (AIA). AIA's Architecture Billings Index (ABI) score for October was 47.7, the first decline in billings since January 2021 (any score below 50 indicates a decline in firm billings). Inquiries into new projects continued to grow in October with a score of 52.3, while the value of new design contracts declined, with a score of 48.6.

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, 11.16.2022

Steel Capability Utilization

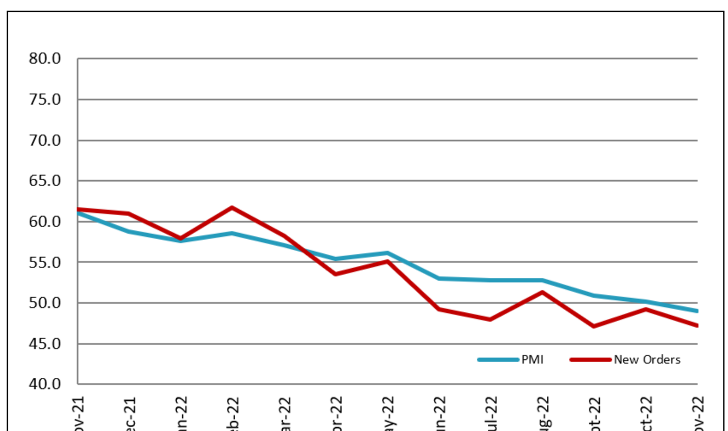


In the week ending on November 26, 2022, domestic raw steel production was 1,625,000 net tons while the capability utilization rate was 72.8%. Production was 1,828,000 net tons in the week ending November 26, 2021 while the capability utilization then was 82.8%. The current week production represents a 11.1% decrease from the same period in the previous year. Production for the week ending November 26, 2022 is down 0.2% from the previous week ending November 19, 2022 when production was 1,628,000 net tons and the rate of capability utilization was 73.0%.

Adjusted year-to-date production through November 26, 2022 was 81,245,000 net tons, at a capability utilization rate of 78.5%. That is down 5.2% from the 85,705,000 net tons during the same period last year, when the capability utilization rate was 81.3%.

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, 11.26.2022

Purchasing Managers Index (PMI)®



The November Manufacturing PMI® registered 49%, 1.2 percentage points lower than the 50.2% recorded in October. Regarding the overall economy, this figure indicates expansion for the 30th 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 remained in contraction territory at 47.2%, 2 percentage points lower than the 49.2% recorded in October. The Production Index reading of 51.5% is a 0.8 percentage point decrease compared to October's figure of 52.3%. The Prices Index registered 43%, down 3.6 percentage points compared to the October figure of 46.6%; this is the index's lowest reading since May 2020 (40.8%). The Backlog of Orders Index registered 40%, 5.3 percentage points lower than the October reading of 45.3%. The Employment Index returned to contraction territory (48.4%, down 1.6 percentage points) after being unchanged in October at 50%. The Supplier Deliveries Index reading of 47.2% is 0.4 percentage point higher than the October figure of 46.8%. Except for last month, the Supplier Deliveries Index hasn't been at this level since February 2012 (47%). The Inventories Index registered 50.9%, 1.6 percentage points lower than the October reading of 52.5%. The New Export Orders Index reading of 48.4% is up 1.9 percentage points compared to October's figure of 46.5%. The Imports Index dropped into contraction territory at 46.6%, 4.2 percentage points below the October reading of 50.8%.

Six manufacturing industries reported growth in November, in the following order: Apparel, Leather & Allied Products; Nonmetallic Mineral Products; Primary Metals; Miscellaneous Manufacturing; Petroleum & Coal Products; and Transportation Equipment. The 12 industries reporting contraction in November, in the following order: Printing & Related Support Activities; Wood Products; Paper Products; Textile Mills; Fabricated Metal Products; Furniture & Related Products; Chemical Products; Plastics & Rubber Products; Computer & Electronic Products; Food, Beverage & Tobacco Products; Machinery; and Electrical Equipment, Appliances & Components. *Source: Institute for Supply Management, 12.01.2022*

Industry News

Stainless Steel: Supplier Inventories High And Nickel Starts Rally

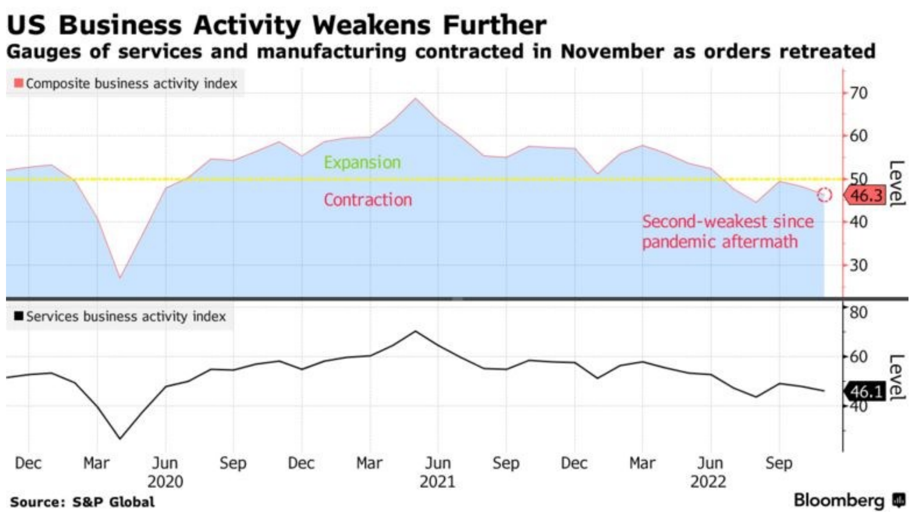
The Stainless Monthly Metals Index (MMI) moved sideways with a modest 1.41% decline from October to November. All in all, the stainless steel price movement primarily reacted to volatility in nickel trading. Nickel held historically low volume levels over recent months, while nickel prices remained within their short-term range. By November, however, prices began to see upside price action with a sharp rally. The question is whether this is a true reversal or mere volatility. To qualify as the former, prices would need to sustain bullish market sentiment long enough to create a pattern of higher highs.

At this point, breakdowns in price remain a distinct possibility. This could lead to a bearish continuation or a return to sideways movement. Either way, it will continue to pose a high risk to buyers until the market decides on a clear direction.

High Supply Inventories Pressuring Spot Stainless Steel Price—Service centers, brokers, and master distributors remain flush with inventory. Many continue to take aggressive measures to move material. Service centers also indicated that October shipments were relatively flat compared to September. As a result, many have over four months of stainless inventory. This means that transactional spot prices – especially in 304 – will continue to be under pressure as we close 2022. Most suppliers hope to make their inventories as lean as possible by December 31. Doing so would aid with year-end financial reporting and, in some states, avoid potential inventory tax liabilities.

Stainless flat-rolled buyers have immediate opportunities for favorable spot pricing. Indeed, transactional prices are lower than in October due to the decline in the alloy surcharge. For instance, the November 304 alloy surcharge declined $0.1133 / lb to $1.1117 / lb. This was due mainly to dips in ferrochrome, energy, and ferrosilicon prices. Meanwhile, the inventory overhang continues to put more downward pressure on the 304 spot price. *Source: MetalMiner, 11.16.2023*

U.S. Business Activity Contracts For A Fifth-Straight Month



The S&P Global flash November composite purchasing managers' index slid about 2 points to 46.3, the second-lowest level since the immediate aftermath of the pandemic, the group reported November 23. Readings below 50 indicate shrinking activity and the latest print was among the worst in data back to 2009.

The group's composite measure of new orders shrank the most since May 2020 as manufacturers and service providers pointed to a pullback in demand related to rising interest rates, economic uncertainty, and the lingering effects of still-elevated inflation.

"Companies are reporting increasing headwinds from the rising cost of living, tightening financial conditions—notably higher borrowing costs—and weakened demand across both home and export markets," Chris Williamson, chief business economist at S&P Global Market Intelligence, said in a statement.

Activity at service providers contracted at the second-fastest pace in more than two years, the report showed, as a gauge of new business shrank for the third time in four months.

The manufacturing PMI sank nearly 3 points to 47.6 this month. And when excluding the early months of the pandemic, the production and orders measures both retreated at the steepest rates since 2009.

On a more comforting note, the composite measure of input prices eased for a sixth-straight month, though it remains historically elevated. The prices-received gauge fell for a seventh month. Output expectations over the next year picked up, the report showed, in part reflecting more stability in supply chains. The index, however, remains softer than it was a year ago.

"November even saw increasing numbers of suppliers, factories and service providers offering discounts to help boost flagging sales," Williamson said.

"In this environment, inflationary pressures should continue to cool in the months ahead, potentially markedly, but the economy meanwhile continues to head deeper into a likely recession," he said. *Source: Bloomberg, 11.23.2022*

Industry News

Senate Reaches Deal To Vote On Legislation To Avert Rail Shutdown

Democrats and Republicans have locked in a deal to vote on rail legislation to avert a damaging shutdown with votes starting "very soon," Senate Majority Leader Chuck Schumer announced on the Senate floor December 1. Pressure has been mounting on Senate leaders to clear legislation for President Joe Biden's signature to avert a rail shutdown amid concerns over the economic danger posed by a strike.

The House passed the tentative rail agreement on November 30. Leaders have been racing to see if they can reach a deal to pass the legislation December 1 – a tough task since they would need all 100 senators to agree to schedule that vote and any one senator can object and drag out the process. Senate GOP Whip John Thune was hopeful a deal would be reached, and explained some further details about the current hang-ups, which include at what threshold to set the amendment votes: a simple majority or 60. Full Story ***Source: CNNPolitics, 12.01.2022***

Ferrous Market Might Finally Rebound

After seven months of continuously declining prices, ferrous scrap shippers might finally see prices move in their favor in December. That is the tentative conclusion of late November surveying and reporting being conducted by Davis Index.

Prices for prompt grades that reached more than $740 per ton this March plunged to less than $370 on average in the United States by late October. While demand for scrap will not necessarily rise dramatically in December, buyers might finally have run into tight supply limitations, with some of them expecting to ask from $10 to $30 more per ton for prompt scrap in early December, the metals information service reports.

Perhaps surprisingly, obsolete grades (shredded and heavy melting steel, or HMS) might not see a price rebound in December, despite winnowing supplies. Davis Index says sellers of these grades are anticipating a flat market in early December.

The loss of value for prompt scrap has been a curious storyline in 2022. The Raw Material Data Aggregation Service (RMDAS) of Pittsburgh-based MSA Inc. had the grade dipping down to a national average price of $357 per ton in the buying period from October 20 to November 19 of this year.

That figure represents a 54% plunge in value for the secondary commodity from its $776 per ton RMDAS peak in early April of this year. The $357 national average for prompt scrap in the most recent trading period also gave it a value $10 per ton below that of shredded scrap, which maintained a $367 per ton price, per RMDAS calculations.

If prices for obsolete grades rise in December, it might be most noticeable in export markets, according to Davis Index. The metals information service says shippers on the East Coast and Gulf Coast are expecting competitive bidding for HMS and shredded grades from overseas buyers.

The domestic steel market has operated at a reduced rate throughout most of 2022 compared with last year, contributing to the frigid market for scrap. The Washington-based American Iron and Steel Institute (AISI) says U.S. steelmakers have made 5.2% less steel year-to-date, representing a decline of about 4.4 million tons of output. In the most recent week ending November 26, AISI says domestic steel production was down 11.1% compared with the same week last year, with mills now operating at just 72.8% of capacity. ***Source: RecyclingToday, 11.27.2023***

U.S. Industrial Output Slows In October Amid Falling Oil Output

U.S. industrial production retreated last month amid a drop in oil output and as manufacturing posted only a modest gain, the Federal Reserve reported November 16. The disappointing result comes as companies have struggled with surging costs and supply chain snarls, as well as weakening demand amid rising interest rates, that also make the cost of U.S.-made goods more expensive abroad.

Total output slipped 0.1%, a weaker-than-expected result that was made worse by downward revisions to the prior month's data showing a modest uptick rather than the big increase initially reported, the data showed.

Petroleum production fell 1.9%, as the Fed said "a drop in oil and gas extraction outweighed improvements in oil and gas well drilling and in coal mining." But output of motor vehicles and parts jumped 2.0%, and electronic equipment and appliances gained almost that much, a sign supplies of key components like computer chips have eased. Those gains outweighed losses in other categories, the data showed.

Economists remain wary about the coming months as the world's largest economy slows and faces a reversal of growth. "We look for the industrial sector more broadly to suffer a downturn as the economy experiences a mild recession in the first half of 2023," said Nancy Vanden Houten of Oxford Economics. "Weakening demand, higher interest rates, and supply chain difficulties will continue to pose challenges for industrial activity in the months ahead," she said in an analysis of the data. Utilities output fell 1.5% last month, the third straight decline, the report said. And industrial capacity slipped to 79.9%.

Source: Agency-France Presse, 11.16.2022

Special Section: Trade

U.S., Canadian Leaders Meet With Chinese President Xi Jinping

U.S. President Joe Biden and Chinese President Xi Jinping convened for their first in-person meeting as heads of state before last week's G-20 conference. The two addressed escalating tensions over Taiwan, Russia's war on the Ukraine, and trade policy.

Throughout his two years in the White House and in his time in the U.S. Senate, President Biden has emphasized the importance of fair competition between the two economic powers, as well as existing trade enforcement tools that could be used to compel China to address market-distorting policies and practices.

While no specific progress was made on that issue, the U.S. president said the three-hour meeting helped address current tensions and will serve to keep the relationship between the United States and China productive. "The world expects, I believe, the U.S. and China to play a key role in global challenges, from climate change to food insecurity, and for us to be able to work together," President Biden said. "The U.S. stands ready to do just that."

While the two presidents did not issue a joint statement after the meeting, they publicly pledged to improve the relationship between the U.S. and China and agreed on the need for bilateral cooperation around matters like climate change.

As ABC News reported, Canadian Prime Minister Justin Trudeau also met with the Chinese president last week and spoke about Russia's invasion of Ukraine, North Korea, and climate change. ***Source: MSCI, 11.21.2022***

U.S. Treasury Department Keeps China On Currency Manipulation Watch List

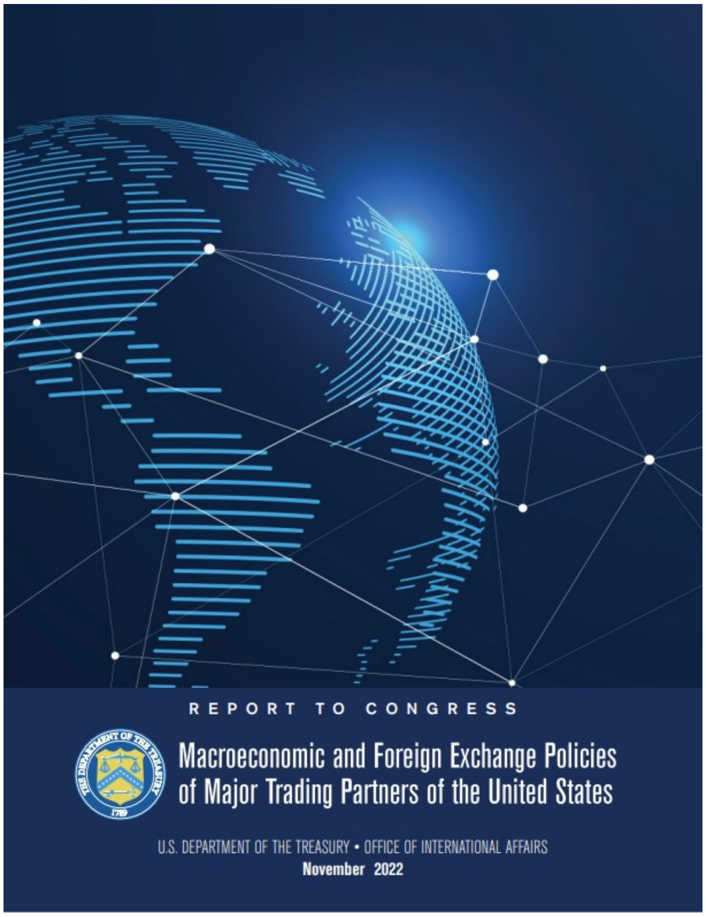
In early November, the U.S. Department of the Treasury released its semiannual report to Congress on developments in international economic and exchange rate policies for major U.S. trading partners.

The department found no partner, including China, has manipulated its exchange rates, but it did list seven countries for monitoring: China, Germany, Japan, Korea, Malaysia, Singapore, and Taiwan. (The department eliminated Vietnam from that list from its previous report.)

While Treasury did not label China as a currency manipulator, it criticized the country for failing to publish foreign exchange intervention information and lack of transparency around key features of its exchange-rate mechanism. According to Reuters, a senior Treasury official said efforts by the department and the International Monetary Fund have failed to make any headway with China on these issues.

Regarding Japan, another major U.S. trading partner, Reuters reported the department noted the country "had intervened in the foreign exchange market to stem the pace of depreciation in the yen, its first such move since 1998, and underscored its belief that such actions should be taken only rarely."

Finally, the Treasury acknowledged Switzerland had once again exceeded U.S. thresholds for possible currency manipulation under a 2015 U.S. trade law. While the department did not brand Switzerland a currency manipulator, it said it would stay in close touch with Switzerland on its currency practices.



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Specifically, as Reuters explained, Treasury officials will continue enhanced analysis of Switzerland's macroeconomic and exchange rate policies and continue an enhanced bilateral engagement that began in early 2021 to discuss Swiss policy options for tackling imbalances. ***Source: MSCI, 11.15.2022***