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INSIGHT

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ECONOMIC NEWS

KEY ECONOMIC INDICATORS

INDUSTRY ARTICLES

Economy Added Disappointing 155,000 Jobs in November—hiring slowed amid worker shortages, the country's trade fight with China and wild stock market swings.

The unemployment rate was unchanged at a near half-century low of 3.7%, the Labor Department said Friday.

Economists surveyed by Bloomberg had estimated that 199,000 jobs were added last month. Also, employment additions for September and October were revised down by a modest 12,000. Full Story
Source: USAToday, 12.07.2018

Mnuchin Says Trump "Liked" Fed Chief Powell's Market-Boosting Speech—Treasury Secretary Steven Mnuchin told CNBC on December 3 that President Donald Trump was pleased with Federal Reserve Chairman Jerome Powell's speech that eased fears of a more aggressive policy on interest rate hikes. The central bank has already raised rates three times this year, and another hike is expected in December. The target range for the central bank's benchmark federal funds rate, which banks charge each other for overnight lending, stands at 2% to 2.25%. After its most recent hike, in September, the Fed projected three rate increases for next year.

In a speech December 5, Powell appeared to walk back comments on October 3 that rates were a long way from so-called neutral. He said rates are "just below" neutral, perhaps indicating that concerns about a more aggressive path higher for rates may no longer be warranted. That sparked a strong rally on Wall Street, with the S&P 500 having its best week in seven years. "I do think the president was pleased with the speech last week," Mnuchin said in a "Squawk Box" interview. "I will continue to give the president my best advice."

Trump had been critical of the Fed's policies under Powell, blaming the Fed chief for the stock market's recent declines and even General Motors' plan to cut production at several U.S. plants. The *Wall Street Journal* reported last month that Trump had expressed dissatisfaction with Mnuchin for recommending the appointment of Powell. Mnuchin on December 3 responded by saying there are issues the president and he don't agree on but "I tell him what I think." Trump is "the president. He was elected. These are his decisions," he added.

The Treasury secretary joined CNBC after Trump and Chinese President Xi Jinping reached a truce over the weekend in their bilateral trade war, agreeing to a 90-day period of no new tariffs as talks continue. Stocks rose more than 1% December 3 on the news. Mnuchin told CNBC he's hopeful for a "real agreement" with China over trade. He said trade policy remains an important pillar of the Trump administration's goal of delivering economic growth of 3% or better. *Source: CNBC, 12.05.18*

Economy Grew 3.5% in Third Quarter, Pushing Corporate Profits to 6-Year High, GDP Shows

A torrid U.S. economy blazed a 3.5% pace of growth during the summer and boosted corporate profits to the highest rate in six years, fresh government figures show. The increase in gross domestic product—the official measuring stick of the economy—was unchanged from the original finding. Economists polled by MarketWatch had forecast third-quarter GDP to be revised up to 3.6% annual rate.

Business profits, meanwhile, surged to new heights. Adjusted corporate earnings before taxes rose 3.4% in the third quarter. More notably, profits in the past 12 months have climbed at a heady 10.3% clip, the fastest increase since 2012.

Although the increase in GDP was unchanged, the revised report shows marked changes in how well some segments of the economy performed. Households and state and local governments spent less than originally reported, for one thing. And business investment was not as weak as initially believed. Consumer spending, the main engine of the economy, rose at a 3.6% pace instead of 4%. It turns out that Americans actually reduced spending on new cars and trucks instead of spending more.

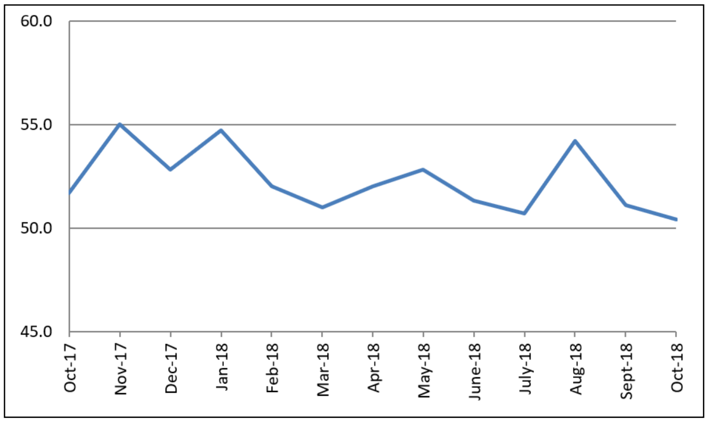
The increase in state and local government spending was trimmed to 2% from 3.2%. Businesses investment, meanwhile, was somewhat stronger than initially reported. Investment in equipment climbed 3.5% vs. virtually no increase in the preliminary estimate. And spending on structures such as office buildings and drilling rigs fell just 1.7% instead of 8%. The production of unsold goods, or inventories, was also stronger. They rose at a revised $86.6 billion annual rate vs. an initial $76.3 billion. Inventories add to GDP. Exports fell at a slightly bigger 4.4% annual clip. The increase in imports was little changed at 9.2%. A bigger trade deficit subtracts from GDP. The rate of inflation was marked down a notch to a 1.5%.

Updates to GDP reports are mostly a look in the rear mirror instead of the road ahead. The economy exploded in the spring and summer, propelled by tax cuts, strong consumer spending and rapid business investment. The unemployment rate also fell to a 48-year low of 3.7%. Growth is unlikely to be as strong in the final three months of 2018. Economists predict the U.S. will expand at a 2.7% pace in the fourth quarter. Some see even slower growth.

Although the economy is still quite sound, rising U.S. interest rates and ongoing trade tensions with China have dampened the outlook. The big boost earlier this year from tax cuts and higher government spending is also starting to fade and business investment has softened. Full Story
Source: MarketWatch, 11.28.18

Key Economic Indicators

Architecture Billings Index (ABI)

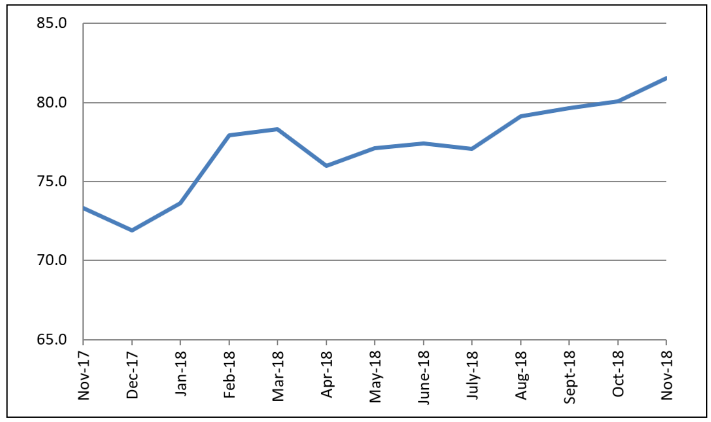


AIA's Architecture Billings Index (ABI) score for October was 50.4 compared to 51.1 in September. With continued strength in new project inquiries, billings are expected to remain steady into the coming months. Southern region reports decline in billings for the first time since June 2012.

"The effects of the 2018 hurricane season are the probable cause of the temporary contraction in billings in the Southern region," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "This decrease in demand for design services is limited, and the region should rebound over the next several months."

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, 11.14.18

Steel Capability Utilization



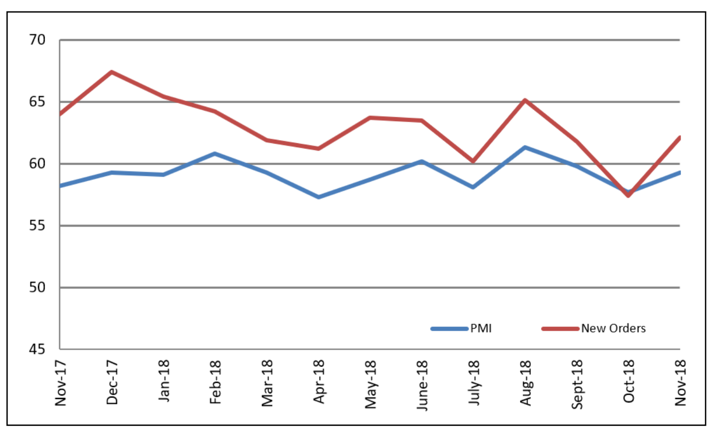
In the week ending on December 1, 2018, domestic raw steel production was 1,892,000 net tons while the capability utilization rate was 80.7%. Production was 1,703,000 net tons in the week ending December 1, 2017 while the capability utilization then was 73.0%. The current week production represents an 11.1% increase from the same period in the previous year. Production for the week ending December 1, 2018 is down 0.7% from the previous week ending November 24, 2018 when production was 1,906,000 net tons and the rate of capability utilization was 81.3%.

Adjusted year-to-date production through December 1, 2018 was 87,528,000 net tons, at a capability utilization rate of 78.1%. That is up 5.7% from the 82,780,000 net tons during the same period last year, when the capability utilization rate was 74.2%.

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, 12.01.18*

Purchasing Managers Index®

The November PMI® registered 59.3%, an increase of 1.6 percentage points from the October reading of 57.7%. The New Orders Index registered 62.1%, an increase of 4.7 percentage points from the October reading of 57.4%. The Production Index registered 60.6%, a 0.7 percentage point increase compared to the October reading of 59.9%. The Employment Index registered 58.4%, an increase of 1.6 percentage points from the October reading of 56.8%. The Supplier Deliveries Index registered 62.5%, a 1.3 percentage point decrease from the October reading of 63.8%. The Inventories Index registered 52.9%, an increase of 2.2 percentage points from the October reading of 50.7%. The Prices Index registered 60.7%, a 10.9 percentage point decrease from the October reading of 71.6%, indicating higher raw materials prices for the 33rd consecutive month.



Of the 18 manufacturing industries, 13 reported growth in November, in the following order: Computer & Electronic Products; Plastics & Rubber Products; Paper Products; Textile Mills; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Machinery; Transportation Equipment; Chemical Products; Food, Beverage & Tobacco Products; Apparel, Leather & Allied Products; Furniture & Related Products; and Petroleum & Coal Products. The three industries reporting contraction in November are: Printing & Related Support Activities; Nonmetallic Mineral Products; and Primary Metals. *Source: Institute for Supply Management, 12.03.18*

Industry News

Steel Hails USMCA Signing; Ratification Iffy

Steel and manufacturing industry groups hailed the signing of the U.S.-Mexico-Canada Agreement (USMCA) on November 30, although U.S. Congress members and United Automobile Workers (UAW) expressed skepticism on the deal's substance and ratification. The proposed replacement to the North American Free Trade Agreement (NAFTA), which was said to have governed $1 trillion dollars in trade, needs approval from all three countries' legislatures. It would enter into force 60 days after ratification by all parties.

"We appreciate the administration's hard work to reach this trade agreement between the U.S., Canada and Mexico. The new agreement… provides valuable improvements to the text of the original NAFTA that will help keep our manufacturing supply chains strong throughout North America," Thomas J. Gibson, president and chief executive officer of the American Iron and Steel Institute, said in a statement on November 30. Said Steel Manufacturers Association (SMA) president Philip K. Bell: "New USMCA provisions such as the regional value content requirements for North American autos will support jobs and investment in the U.S., Canada and Mexico, both for steel manufacturers and for our suppliers and customers up and down the steel value chain." The two steel groups voiced support for the USMCA overall and for its provisions on automotive rules of origin in particular when their representatives spoke before the U.S. International Trade Commission.

The USMCA requires that 75% of auto content be made in North America, up from the 62.5% for duty-free treatment under NAFTA. Vehicles also will only be considered as originating from North America if at least 70% of automakers' steel and aluminum purchases in the previous year are sourced from North America, according to a fact sheet from the Office of the U.S. Trade Representative. The new agreement also stipulates that 40-45% of a vehicle be produced by workers who are paid at least $16 per hour, a mechanism to stop the flow of work from the U.S. to Mexico, where labor is cheaper. Nonetheless, the USMCA "as it stands now, is not strong enough to protect American workers," the UAW said in a statement on November 30.

The union cited General Motors Co's move to realign production at five of its North American plants as a reason why a "stronger, tighter and enforceable" new agreement is needed, as well as to make "GM and other auto companies rethink mass layoffs while they invest in exploited labor in other countries like Mexico."

While hailing the signing of the USMCA as "a landmark milestone for American manufacturing workers," National Association of Manufacturers (NAM) president and CEO Jay Timmons called on Congress to "move expeditiously to review the USMCA before the end of this year… [as] manufacturers need certainty now, not later."

American Trucking Associations president and CEO Chris Spear also urged "Congress and [its] counterparts in Mexico and Canada to quickly ratify this agreement so we can begin reaping its benefits." However, several members of Congress have expressed doubt regarding the substance of the USMCA, which also tackles trade issues for farmers and ranchers.

"With today's signing by the United States, Mexico and Canada, we are carefully analyzing this text in the open and transparent process that Congress created under our new trade rules… For USMCA to gain widespread support, it must increase certainty as to the durability of the agreement, be fully enforceable to hold our trading partners accountable across all sectors and increase - not diminish - our ability to sell into these markets," House Ways and Means Committee Chairman Kevin Brady (Republican, Texas) said in a statement on November 30.

In a speech on November 29 at American University in Washington, Senator Elizabeth Warren (Democrat, Massachusetts) said the USMCA does not go far enough to raise wages, create new jobs and prevent outsourcing. And in a tweet a day earlier, Senator Marco Rubio (Republican, Florida) said the trade deal would be bad for seasonal vegetable growers in his state. "It will allow Mexico to continue unfair practices that will literally put many Florida farmers out of business," Rubio said in the tweet. *Source: AMM, 11.30.18*

Skills Gap Could Cost U.S. Economy $2.5 Trillion Over Next Decade

Deloitte and the Manufacturing Institute have issued a report, 2018 Skills Gap Study, showing that 2.4 million jobs will likely go unfilled over the next decade. To put that in terms of the monetary effect on the U.S. economy, the study showed that it could jeopardize $454 billion of economic output in 2028 or more than $2.5 trillion over the next decade.

Already, manufacturing executives are feeling the impact of the talent shortage and anticipate this skills gap will get up to three times worse over the next three years, largely due to the time required to fill skilled positions:

- Manufacturers say it takes upwards of three months to fill openings for engineers, researchers, and scientists, and;
- More than two months to fill positions for skilled production workers;
- In turn, these vacant positions impact several business areas, notably productivity (51%), growth (47%), customer service (42%) and innovation (43%).

IndustryWeek talked with Paul Wellener vice chairman, Deloitte LLP, and U.S. Industrial Products and Construction leader to gain further insights about some aspects of the study. Full Story
Source: IndustryWeek, 11.20.2018

Industry News

U.S. Still Wants to Negotiate Global Climate Change Issues

Climate negotiators from nearly 200 countries are meeting in Poland to adopt a so-called rulebook for the Paris climate agreement that will set emissions reduction targets for countries, specify how those targets will be met and what information countries will have to share about their progress. It's considered the most important climate meeting since the landmark agreement was reached three years ago. U.S. negotiators are at the current meeting, despite President Donald Trump's promise to pull the country out of the climate deal.

So what exactly are U.S. negotiators pushing for at this meeting? And how far will they go? Elliot Diringer with the Center for Climate and Energy Solutions said the United States has typically pushed for a lot of information sharing. "Historically, the U.S. has been the strongest counterweight to China, for instance, which has tended to resist stronger transparency requirements," Diringer said.

That position is unlikely to change under Trump, who said he values fairness in international deals. But negotiating power may have changed, since he's promised to exit the deal. "There's no question that U.S. has less leverage at the table. It has less of a leg to stand on in advocating for its policy approach and agenda," said David Waskow with the World Resources Institute.

But Diringer added that other countries and the European Union may step in to try to fill the leadership void, although they may not go as far as the U.S. would like in pushing for transparency.
Source: Marketplace, 12.04.18

Oil Price Slide Potentially Bearish for Aluminum, Other Energy-Intensive Metals

We should state from the outset that it's not that energy costs are directly dependent on the oil price—very little electricity generation around the world, Saudi Arabia being an exception, is generated from crude oil. But with power making up to a third of the electricity cost structure, energy costs in general are taken as either bearish or bullish for the light metal depending on whether they are falling or rising strongly.

So the oil price slide—prices have lost around a quarter of their value since early October—is one of a couple of early indicators that support for aluminum price rises is waning. Indeed, the corresponding strength in the dollar this year, coupled with recent oil price weakness, goes a long way toward explaining the aluminum price slide since the summer. Back to oil, according to Reuters, front-month Brent crude oil futures were trading at $65.88 per barrel last week (November 20), while U.S. West Texas Intermediate (WTI) crude futures were at $55.96 per barrel, both down about 0.5% from their previous close. Full Story
Source: MetalMiner, 11.20.18

Adobe Stock Images

Over Three Dozen U.S. Trade Groups Sign Letter Appealing for end to Section 232 Tariffs on Aluminum and Steel

Pressure is mounting on the Trump administration to drop Section 233 tariffs on imported aluminum and steel from Canada and Mexico prior to next week's planned execution of the United States-Mexico-Canada Agreement (USMCA), the new three-country trade deal, as evidenced by an open letter sent this week to U.S. Trade Representative and signed by 37 American industry groups. The letter makes several points against the tariffs, which were enacted earlier this year after a year-long investigation by the Commerce Department. Noting that the tariffs run counter to the goals of the upcoming new free trade agreement, it describes the harm already inflicted upon American manufacturers, consumers and workers.

Tariffs are taxes, both those imposed by the Administration and those our trading partners apply. In the end, they will only hurt our long-term economic growth and competitiveness, reduce our overall output of goods and services, negate the benefits of tax reform and raise costs for American businesses and families throughout all 50 states. In addition, the letter argues that continued imposition of the Section 232 tariffs will likely act as a stumbling-block to Congressional approval, as the tariffs have generated substantial ill will among the three governments. The letter points out the billions in retaliatory tariffs imposed upon United States goods in response to the Section 232 measures, and the concerns raised by several members of Congress regarding the two-front trade battle the tariffs have engendered.

"We recognize that there are significant problems with overcapacity in the steel and aluminum sector caused mainly by Chinese subsidies and state-owned activities," the letter concluded. "We strongly support appropriate measures to deal with this problem more effectively, including continued application of our unfair trade laws to Chinese exports and negotiation of global arrangements to deal with overcapacity. However, imposition of national security restrictions on our North American partners should not be part of that solution."
Source: Aluminum Insider, 11.23.18

Special Section: Trade News

What's the Future of the New NAFTA

The U.S., Mexico, and Canada are set to sign an updated trade pact between the three countries later this month, but with the U.S. House of Representatives returning to Democratic control in January, there is increased skepticism that the deal will be approved by the U.S. Congress. As *Business Insider* explained last week, Rep. Bill Pascrell (D-N.J.) who could lead the House Ways and Means Committee, which will oversee the deal's path through Congress, said the pact can't pass as is. The congressman said there needs "to be not only changes in the legislation but more enforcement" in the deal to get enough Democrats on board. Additionally Rep. Nancy Pelosi, who will likely be the next House speaker, "has called for strengthening the pro-labor and environmental aspects of the deal by making them legally enforceable, instead of just guidelines."

Over the last week there also were more calls to not sign the deal until the Trump administration's Section 232 steel and aluminum tariffs are removed. Members of the metals and broader manufacturing industry testified before the U.S. International Trade Commission (ITC) last week in favor of the trilateral agreement, but according to S&P Global Platts, some called for a roll back of the Section 232 penalties.

Also last week, while Canadian Prime Minister Justin Trudeau discussed the steel and aluminum tariffs with President Donald Trump last week in France, telling him the penalties remain a concern, Lisa Raitt, the Conservative deputy leader in Canada's parliament, argued the Section 232 tariffs could not be separated from the agreement and that the Canadian government should insist the penalties be removed before moving forward with the United States on the pact. According to *Politico*, Mexican steel industry groups are making the same argument."

Source: Aluminum Insider, 11.23.18

The Next Date to Watch in the U.S.-China Trade War is December 18, Experts Says

The next crucial date to watch for clues on where the trade war is heading may be just around the corner—way before the end of the 90-day period that U.S. President Donald Trump and Chinese President Xi Jinping have agreed on to withhold further tariffs. China marks the 40th anniversary of its economic reforms on December 18, which is an occasion Beijing could use to emphasize its commitment to transform its economy, noted Scott Kennedy, deputy director of the Freeman Chair in China Studies and director of the Project on Chinese Business and Political Economy at the Center for Strategic and International Studies.

"If that day or week goes by with no major new announcements, then we know that for sure there's not a possibility that the Chinese want to use this as an opportunity to change the direction of their economy and industrial policies," Kennedy told CNBC's "Squawk Box" on December 3.

If that happens, the tariff fight between the U.S. and China will certainly re-escalate at the end of the 90-day period, he added. Trump over the weekend agreed to not raise tariffs on $200 billion worth of Chinese imports from 10% to 25% in January as he had previous threatened, according to a White House statement. In exchange, the U.S. and China will work toward a deal within 90 days — a timeline that many experts have said is too short given the complicated issues surrounding the tariff fight.

In addition to what Beijing does on or around December 18, developments in Washington will also shed light on where U.S.-China relations stand, Kennedy said.

First, Kennedy said he'll watch for signs on whether the Trump administration can "get organized." Specifically, he said he'll look to whether moderates such as Treasury Secretary Steven Mnuchin and hawks like U.S. Trade Representative Robert Lighthizer start collaborating. That's important for determining how hard Washington will come down on China, according to Kennedy.

And with the Democrats taking control of the House of Representatives after last month's midterm elections, how Congress works with the Trump administration is also crucial, Kennedy said.

"What is that going to mean for pressure from Congress on the administration to get something from China," he said. "And also in the context of USMCA: Is that going to get through? Is that going to get passed by Congress? If not, that's going to perhaps put even more pressure on the Trump administration to demand more out of China," he added, referring to the new trilateral trade deal between the U.S., Mexico and Canada to replace the North American Free Trade Agreement (NAFTA).

Source: CNBC, 12.03.2018

Adobe Stock Images

Special Section: Trade News

Trump's New NAFTA has Hard Fight in Congress While Steel Tariffs Remain

President Donald Trump just celebrated the signing of a new North American trade pact with Canada and Mexico, but he faces a huge roadblock in Congress over U.S. tariffs that are still in place on steel and aluminum imports from the two U.S. neighbors. The two nations are still working to negotiate a deal with the Trump administration so that they can be exempt from the duties. In the meantime, American industries will continue to be hurt by Mexico and Canada's retaliatory duties on more than $15 billion worth of U.S. goods.

"If you're trying to whip votes, you'd take advantage of the opportunity to lift that instead of leaving an irritant on the table," a former U.S. Trade Representative official told POLITICO. "It's going to make [administration officials'] lives harder to get Congress on board as constituents are complaining a lot" about the harm of the ongoing tariffs. Trump has stepped up his pressure on getting the new agreement turned into law after he told reporters on December 1 that he would formally notify Congress of his intention to withdraw from NAFTA in six months. Such a move could force lawmakers to act on the new deal, which is already expected to face a fiery debate from lawmakers over concerns about certain provisions related to labor. Lawmakers on both sides of the aisle have publicly criticized the administration's continued tariffs on the two U.S. allies, arguing the detrimental effects both the duties and retaliatory tariffs have on U.S. manufacturers, consumers and workers. "Even though the president was trying to take a victory lap with this negotiated USMCA, as long as steel and aluminum [tariffs] remain, nothing has changed in regards to the trade dynamics," Rep. Ron Kind (D-Wis.) told POLITICO recently. "We need to find a landing zone for that quick."

Canada and Mexico are major sources of both steel and aluminum to the United States. The two countries supplied more than 30% of steel the U.S. bought from foreign sources. Canada was responsible for more than 40% of the U.S.'s aluminum purchases last year. The U.S. duties, which have been in effect on the two countries' imports since June 1, have taken a toll on American companies, especially small businesses. Lifting the tariffs could also be welcome news to stock market investors, who have been frustrated by the lack of certainty over trade negotiations.

The brunt of the countermeasures have been widely felt in Republican-leaning states, cutting deep into the incomes of farmers and ranchers. Mexico and Canada's retaliation has hit U.S. farm goods, such as pork, cheese and whiskey. Sen. Rob Portman (R-Ohio) said last week he was "disappointed" to see the tariffs still in place as the three countries were signing the new agreement. Sen. Pat Toomey (R-Pa.) has also raised concern about the administration's "failure to eliminate" the tariffs when the deal was first reached. U.S. Trade Representative Robert Lighthizer has confirmed that talks with Mexico and Canada were "not going to take a pause" and would continue this week in an effort to "come to a conclusion before long." Three sources close to the U.S.-Mexico talks told POLITICO last month that the two countries were discussing a quota in the range of 130% from steel export levels in recent years, although the figure had yet to be finalized. Lighthizer declined to say whether the U.S. was pursuing quotas, but said that any deal to eliminate the U.S. duties should be "fair to Mexico and that is fair to Canada, but maintains the integrity of the president's steel and aluminum programs."

However, the former USTR official argued that a deal that imposes quotas could create a new set of process issues for businesses on both sides of the border. "Tariffs, you just pay. But with quotas you need to negotiate on administering them, and business people don't like that because they're hard to administer in a way that's fair and equitable," the official said. But Lighthizer may be loath to grant any concessions on steel and aluminum because he has been in lockstep with Trump's push to revitalize the two domestic manufacturing sectors. Mexico and Canada have protested the tariffs for months, but ultimately agreed to go ahead with the signing last week because of the importance of the trading relationship. Both NAFTA partners have said they will not lift the retaliatory measures until the U.S. tariffs are lifted.

U.S. business, agricultural and manufacturing groups have continued to urge the Trump administration to remove the tariffs, arguing that imposing duties on allies like Mexico and Canada on national security grounds is not a real solution to overcapacity of steel and aluminum, which largely stems from China.

"The initial hope was this could be a temporary thing," the former USTR official said, adding that some businesses stockpiled goods ahead of the tariffs going into effect in June, but "not a lot of inventories have dried up." Mexico, in particular, seems eager to strike a deal after the issue was left to the new administration of Mexican President Andrés Manuel López Obrador, who took office on December 1.
Full Story ***Source: Politico, 12.06.18***