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The Insight

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July 2023

Economic News

209,000 Jobs Added As Unemployment Falls To 3.6%

Hiring slowed but remained sturdy in June as U.S. employers added 209,000 jobs despite inflation, high interest rates and nagging recession fears.

The unemployment rate fell from 3.7% to 3.6%, the Labor Department said Friday. That's the highest since October.

Economists had estimated that 225,000 jobs were added last month.

Payroll gains for April and May were revised down by a total of 110,000, depicting somewhat weaker hiring in spring than believed. The May rise in jobs was downgraded to 306,000 from 339,000

The report will likely be well received by a Federal Reserve seeking to cool job and wage growth to tamp down inflation. Full Story ***Source: USAToday, 07.07.2023***

Americans Are Feeling Far More Confident About Economy

Americans are feeling fairly bullish about the U.S. economy: A key measurement of consumer confidence just jumped to its highest level since January 2022. The Conference Board's Consumer Confidence Index was 109.7 in June, rising from 102.5 the month before, according to a report released June 27.

The latest survey from the business research and membership organization continued to show that consumers retained a far sunnier outlook about the present than what could come in the months ahead. Both the present situations index and the expectations index rose from May; however, the latter remains at a level that flashes a recession warning signal, the Conference Board noted. Full Story ***Source: CNN, 06.27.2023***

Powell Expects More Fed Rate Hikes Ahead As Inflation Fight 'Has A Long Way To Go'

Federal Reserve Chairman Jerome Powell on June 21 affirmed that more interest rate increases are likely ahead until additional progress is made on bringing down inflation.

Speaking a week after Federal Open Market Committee officials decided for the first time in more than a year not to push rates higher, the central bank leader indicated that the move likely was just a brief respite rather than an indication that the Fed is done hiking.

"Nearly all FOMC participants expect that it will be appropriate to raise interest rates somewhat further by the end of the year," Powell said in prepared remarks for testimony he will deliver to the House Financial Services Committee. The speech is part of his semiannual appearance on Capitol Hill to update lawmakers on monetary policy.

Following the prior week's two-day FOMC meeting, officials indicated they see rate increases totaling 0.5 percentage point through the end of 2023. That would indicate two additional hikes, assuming quarter-point moves. The Fed's benchmark borrowing rate is currently pegged in a range between 5%-5.25%.

Noting that inflation has cooled but "remains well above" the Fed's 2% target, Powell said the central bank still has more work to do.

"Inflation has moderated somewhat since the middle of last year," he said. "Nonetheless, inflation pressures continue to run high, and the process of getting inflation back down to 2% has a long way to go."

Fed officials generally prefer to look at "core" inflation, which excludes food and energy prices. That is showing inflation running at a 4.7% year-over-year rate through April, according to the central bank's preferred measure of personal consumption expenditures prices. The core consumer price index for May was at 5.3%.

Monetary policy moves, such as rate hikes and the Fed's efforts to shed bond holdings on its balance sheet, tend to work with lags. As such, officials decided to skip hiking at this month's meeting as they observed the impact that policy tightening has had on the economy.

Powell said the labor market is still tight though there are signs that conditions are loosening, such as an increase in labor force participation in the prime 25-to-54 age group and some moderating in wages. However, he noted that the number of open jobs still far exceeds the available labor pool.

"We have been seeing the effects of our policy tightening on demand in the most interest rate-sensitive sectors of the economy," he said. "It will take time, however, for the full effects of monetary restraint to be realized, especially on inflation." Full Story ***Source: CNBC, 06.21.2023***

U.S. Treasury Secretary Yellen Sees Lower U.S. Recession Risk, Says Consumer Slowdown Needed

Treasury Secretary Janet Yellen sees diminishing risk for the U. S. to fall into recession and suggested that a slowdown in consumer spending may be the price to pay for finishing the campaign to contain inflation. On the chance of a recession, Yellen said "my odds of it, if anything, have gone down — because look at the resilience of the labor market, and inflation is coming down." She spoke in an interview with Bloomberg News on June 22.

"I'm not going to say it's not a risk, because the Fed is tightening policy," she said, alluding to the Federal Reserve's 10 interest-rate hikes since March 2022, with potentially more to come.

> "We probably need to see some slowdown in spending in order to get inflation under control," Yellen said.

Her remarks contrasted with rising recession concerns across the Atlantic. Economic activity almost stalled in the euro area, based on data compiled by S&P Global published June 16. The reports sent global stocks down, while bonds surged as investors fled to safety amid heightened anxiety that aggressive central bank policy will tip economies there into a downturn.

In the U.S., business activity expanded in early June at the slowest pace in three months, held back by a deeper contraction at factories.

So far the U.S. economy has proven resilient. A May employment report showed job gains beating all economists' forecasts. Home construction and retail sales for last month have also shown surprising resilience in the face of the Fed's aggressive monetary tightening. "We probably need to see some slowdown in spending in order to get inflation under control," Yellen said in reference to consumption. The core measure of price increases, which strips out food and energy, "is quite high," she said.

June 13 consumer price index release showed that the core inflation rate for May rose 5.3% from 12 months earlier. Last year's surge in housing costs, which is only incorporated into the CPI with a delay, was to blame for some of that increase. The headline CPI rate was 4% for May, well down from the peak of 9.1% reached in June last year. "Inflation has really come down a lot — and there's more in the pipeline," Yellen predicted, partly due to an expected adjustment in the housing market.

As for a debate among some economists about whether the Fed ought to raise its inflation target from the 2% rate that was adopted during a time of weak growth and investment, Yellen indicated that such a discussion isn't appropriate at a time when policymakers are battling to contain a price surge. "We could have lovely debate for what the inflation target would be," Yellen said. "But this is not the time for that debate." Fed Chair Jerome Powell has rejected the idea of entertaining a change to the 2% target — sentiment he reiterated before Congress this week.

Yellen was speaking in Paris on the sidelines of a summit organized by French President Emmanuel Macron on reforming global development-lending architecture — an issue that's been a priority for the U.S. administration. The venue will provide the opportunity of Yellen interacting with Chinese Premier Li Qiang, who is also attending the event, amid fresh strains between Washington and Beijing over President Joe Biden's characterization of President Xi Jinping as a "dictator."

Yellen said China was being "more constructive" with regard to a long-standing push for debt relief for Zambia, to which Beijing is the top official creditor. During the Paris summit, Zambia reached an agreement in principle to restructure its debt with bilateral lenders, setting a precedent for countries struggling to service their liabilities.

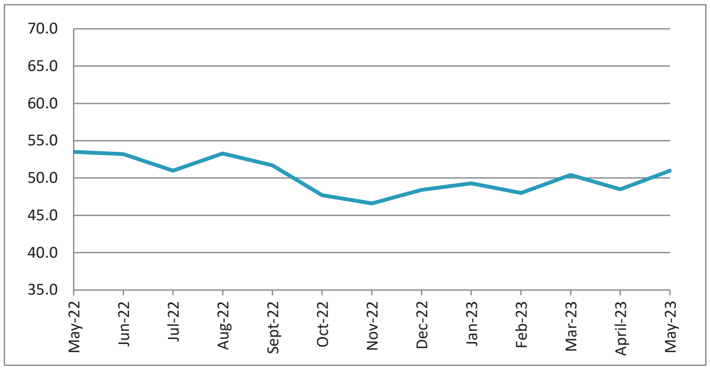
The accord, which Yellen had pushed for over the past six months, marks the first major relief won by a developing country under the Group of 20's Common Framework that brings the traditional creditor nations of the Paris Club around the same negotiating table with China and India. ***Source: Bloomberg, 06.22.2023***

O'NEAL INDUSTRIES

The Insight

Key Economic Indicators

Architecture Billings Index (ABI)

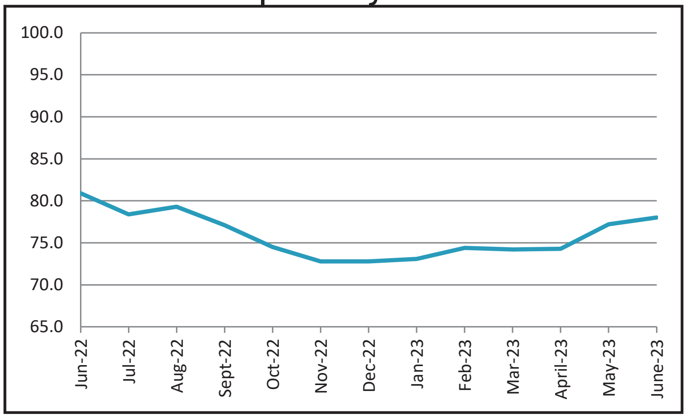


Architecture firms experienced a rebound in billings in May after a downturn in April, according to the latest Architecture Billings Index (ABI) from the American Institute of Architects (AIA) and Deltek. The index score for May was the highest it has been since September 2022. Inquiries into new projects and design contracts also increased this month, reaching their highest levels since February.

The billings score for April increased from 48.5 in April to 51.0 in May (any score above 50 indicates an increase in firm billings). Firms also reported that inquiries into new projects accelerated to 57.2 from 53.9 the previous month. Further, the value of new design contracts also moved up to 52.3 in May from 49.8 in April.

The AIA/Deltek 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. The survey panel asks participants whether their billings increased, decreased, or stayed the same in the month that just ended. According to the proportion of respondents choosing each option, a score is generated, which represents an index value for each month. 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: AIA, 06.21.2023***

Steel Capability Utilization

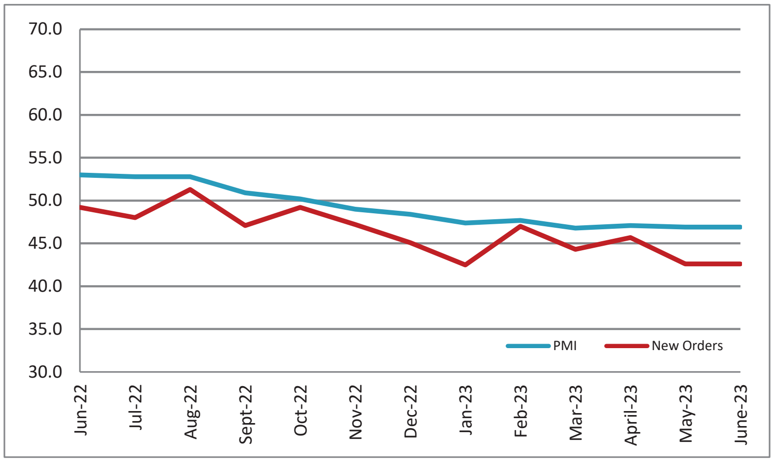


In the week ending on June 24, 2023, domestic raw steel production was 1,758,000 net tons while the capability utilization rate was 78.1 %. Production was 1,738,000 net tons in the week ending June 24, 2022 while the capability utilization then was 79.6 %. The current week production represents a 1.2 % increase from the same period in the previous year. Production for the week ending June 24, 2023 is up 0.9 % from the previous week ending June 17, 2023 when production was 1,743,000 net tons and the rate of capability utilization was 77.5 %.

Adjusted year-to-date production through June 24, 2023 was 42,486,000 net tons, at a capability utilization rate of 75.8 %. That is down 2.9 % from the 43,743,000 net tons during the same period last year, when the capability utilization rate was 80.3 %. Broken down by districts, here's production for the week ending June 24, 2023 in thousands of net tons: North East: 140; Great Lakes: 571; Midwest: 216; Southern: 766 and Western: 65 for a total of 1758.

Steel Capability Utilization is a domestic report based on the estimates from companies representing approximately 90% of the industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. ***Source: AISI, 06.24.2023***

Purchasing Managers Index (PMI)®



The U.S. manufacturing sector contracted in June, as the Manufacturing PMI® registered 46 percent, 0.9 percentage point lower than the reading of 46.9 percent recorded in May. This is the eighth month of contraction and continuation of a downward trend that began in June 2022. That trend is reflected in the Manufacturing PMI®'s 12-month average falling to 48.8 percent. Of the five subindexes that directly factor into the Manufacturing PMI®, none are in growth territory. Of the six biggest manufacturing industries, only one (Transportation Equipment) registered growth in June.

New Orders Index contracted for the 10th consecutive month in June, registering 45.6 percent, an increase of 3 percentage points compared to May's reading of 42.6 percent. Of the six largest manufacturing sectors, only one (Transportation Equipment) reported increased new orders. New order levels remained stalled as panelists' companies continue to experience uncertainty regarding future customer demand. A New Orders Index above 52.7 percent, over time, is generally consistent with an increase in the Census Bureau's series on manufacturing orders (in constant 2000 dollars). A Manufacturing PMI® above 48.7 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the June Manufacturing PMI® indicates the overall economy contracted in June for a seventh consecutive month after 30 straight months of expansion.

The four industries reporting an increase in import volumes in June are: Petroleum & Coal Products; Nonmetallic Mineral Products; Primary Metals; and Food, Beverage & Tobacco Products. The 10 industries that reported lower volumes of imports in June — listed in the following order — are: Paper Products; Wood Products; Furniture & Related Products; Plastics & Rubber Products; Miscellaneous Manufacturing; Transportation Equipment; Machinery; Chemical Products; Electrical Equipment, Appliances & Components; and Computer & Electronic Products. ***Source: Institute for Supply Management, 07.01.2023***

DOE Funds 40 Carbon Pollution Projects For Industrials

The U.S. Department of Energy (DOE) announced it allocated $135 million for 40 projects that will reduce carbon pollution in the industrial sector.

"America's industrial sector serves as the engine of the U.S. economy, producing many of the products we rely on every day, but also produces a significant amount of the nation's carbon emissions," said U.S. Secretary of Energy Jennifer M. Granholm in a statement.

"These projects funded by President Biden's Investing in American agenda will slash industrial emissions and accelerate next-generation technologies for a clean energy future that's made in America."

The U.S. industrial sector accounts for one-third of all energy-related domestic GHG emissions and is among the most difficult to decarbonize.

The 40 projects that were selected will be led by 36 different universities, National Laboratories, and companies spread across 21 states. The projects will support research, development, and pilot-scale demonstrations to reduce energy usage and emissions from these subsectors, which account for over 50% of the energy-related carbon dioxide (CO2) emissions in the industrial sector, as well as paper and forest products. Among the projects selected:

- Nine projects received $38.3 million to decarbonize chemicals
- 10 projects received $31.9 million to decarbonize iron and steel
- Three projects received $11.4 million to decarbonize food and beverage products
- Five projects received $16.4 million to decarbonize cement and concrete
- Six projects received $16.2 million to decarbonize paper and forest products
- Seven projects received $20.4 million for cross-sector decarbonization technologies

Source: Smart Engergy Decisions, 06.16.2023

U.S. Business Activity Growth Slows In June But Services Keep Humming Along

U.S. business activity fell to a three-month low in June as services growth eased for the first time this year and the contraction in the manufacturing sector deepened, closely watched survey data out June 23 showed. The overall picture, though, indicated U.S. economic growth ticked up a notch in the second quarter even as worries persist that the Federal Reserve's aggressive interest rate increases over the past year will trigger a recession.

S&P Global said its flash U.S. Composite PMI Output Index, which tracks the manufacturing and services sectors, fell to a reading of 53.0 this month, the lowest since March. Nonetheless, it was the fifth straight month that the PMI remained above 50, indicating growth in the private sector. The survey data, which was collected between June 12-22, added to evidence the U.S. economy has continued expanding in the April-through-June period, although it is increasingly reliant on the vast services sector for overall growth in gross domestic product.

"The overall rate of expansion of business activity in the U. S. remained robust in June, consistent with GDP rising at a rate of 1.7% to put second quarter growth in the region of 2%," said Chris Williamson, chief business economist at S&P Global Market Intelligence. The Atlanta Fed's GDP Now model currently pegs second-quarter growth at an annualized rate of 1.9%. The economy grew at a 1.3% rate in the first quarter, a figure some economists see getting revised a touch upward next week when the Commerce Department reports its final growth estimate for the first three months of the year.

Williamson said the Fed's decision last week to forego lifting rates at its first meeting since it began increases in March 2022 was bolstering services business optimism, but any further hikes could weigh on a sector that has become the sole driver of growth. Fed officials themselves projected rates could rise by perhaps half a percentage point more by year-end from the current policy-rate range of 5.00% to 5.25% as inflation remains stubbornly above their 2% target range and is increasingly seen as a product of activity in the services sector. Investors expect the Fed to return to lifting rates - by a quarter point - at its meeting next month, but are far from convinced the central bank will go beyond that.

The S&P Global survey's measure of new orders received by private businesses slipped to 53.5 this month in June from 54.3 in April, with the services sector keeping that key metric above the 50 mark. New orders on the manufacturing side dropped to a six-month low.

Input prices showed the inflation handoff underway from manufacturing to services, which could keep the Fed on a hawkish footing. Overall input prices were up this month, with the services sector's gauge climbing to the highest since January even as input costs at factories slid to the lowest in about three years. Businesses also increased headcount, though job growth was the softest in five months. Full Story ***Source: Reuters, 06.23.2023***

A Manufacturing Investment Supercycle Is Starting

It's easy to get so caught up in month-to-month economic data that you miss a longer-term trend emerging before your eyes.

Here's one: There is massive new investment taking place in U.S. heavy industry that's set to shape the economic landscape for years to come.
Why it matters: The 2010s were a period of chronic underinvestment. By contrast, now there are billions flooding into large, expensive megaprojects to manufacture batteries, solar cells, semiconductors and much more.

- It is fueled by hundreds of billions of dollars allocated by the Biden administration's signature legislation — the Inflation Reduction Act, Bipartisan Infrastructure Law, and CHIPS and Science Act — as well as pent-up demand.
- It implies sustained upward pressure on demand for workers and raw materials for years to come, and makes a recession less likely by creating a floor of activity under normally volatile industries.

What they're saying: "We believe the U.S. is in the early stages of a manufacturing super cycle," wrote Joseph P. Quinlan, head of CIO Market Strategy at Merrill and Bank of America Private Bank, in a report this week.

- He emphasizes the role of foreign direct investment in the surge, as global companies rush to build large-scale facilities in the U. S. He sees the trend extending well into the second half of the 2020s.
- "It's really gotten the attention of the world," Quinlan tells Axios. "When you talk to companies in South Korea, Japan, Europe, all they want to talk about is building out a presence in the U.S."

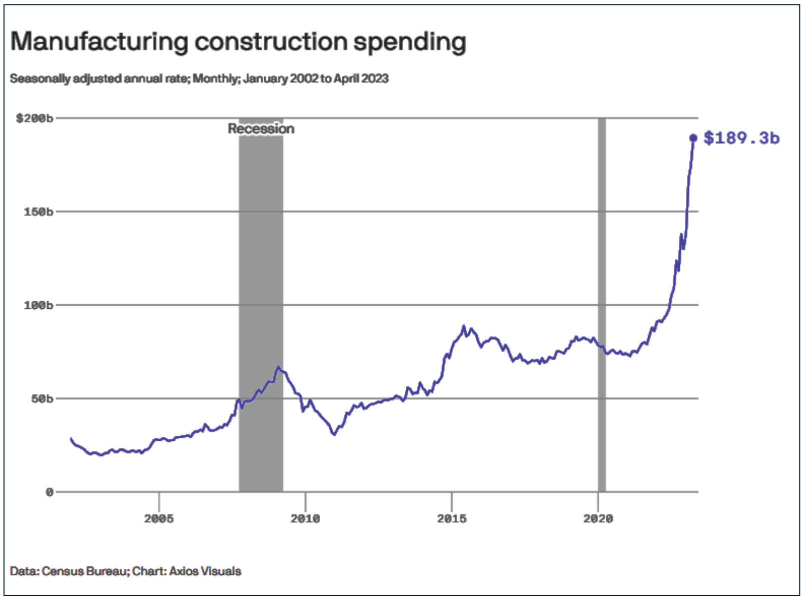
By the numbers: As of April, spending on manufacturing construction — new factories — is tracking at a $189 billion annual rate, triple the average rate in the 2010s ($63 billion).

- That helps explain some of the underlying strength in the U.S. economy even amid elevated recession fears. For example, the construction sector has added 192,000 jobs over the last year, despite higher rates hammering the housing sector.

Between the lines: The types of investment taking place in this boom tend to involve much larger capital outlays than were seen in the 2010s. For example, two European companies announced this month they will invest $2 billion in Texas for a plant to make synthetic natural gas.

- Higher rates of private investment, combined with large U.S. budget deficits, could keep interest rates higher than was the pre-pandemic norm.
- Moreover, these industrial facilities tend to create high-wage jobs, which could put sustained upward pressure on wages across the economy. That's good for workers, less good for the inflation outlook.

The bottom line: Understanding how this manufacturing boom plays out —how big and how long-lasting it turns out to be — will be crucial for understanding the macroeconomy of the remainder of the 2020s. ***Source: Axios, 06.16.2023***



Why The Western Ports Deal Is Important For The U.S. Supply Chain

Following months of negotiations and work disruptions, the International Longshore and Warehouse Union (ILWU) and the Pacific Maritime Association, which represents 29 ports, have reached an agreement that will last six years if ratified by rank-and-file employees, ocean shipping firms, and terminal operators.

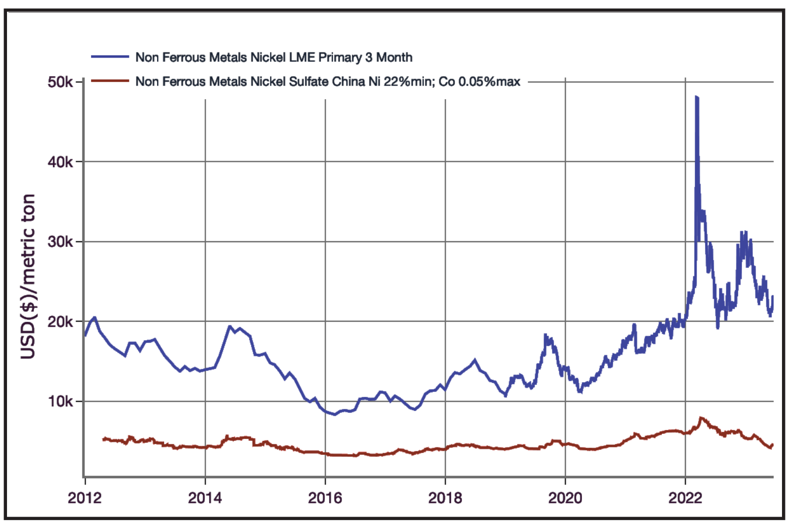
According to a study by Inforum Economics released by the National Association of Manufacturers last summer, the agreement is important because even a 15-day disruption in operations would cost the U.S. economy nearly half a billion dollars a day — for a total of $7.5 billion — and destroy 41,000 jobs, including more than 6,100 manufacturing jobs. Read that report here.
CNBC said, "The tentative agreement was a welcome development after weeks of escalating tensions between workers and port management, resulting in delays in vessel servicing, congestion at ports, in containers and out to trucking, as well as some port shutdowns."

However, the proposed labor deal is a far way from being fully approved, CNBC noted. The next step is for the ILWU to follow ratification procedures that start with a contract caucus that convenes delegates from its 29 locals up and down the west coast. ***Source: MSCI, 06.19.2023***

LME Loses Benchmark Status For Part Of Nickel Market

Just over 15 months after the historic March 2022 nickel squeeze, the London Metal Exchang(LME) lost its status as a benchmark for an important portion of the nickel market. According to a recent Bloomberg report, Christel Bories, CEO of Eramet, an index from the Shanghai Metals Market “has become the benchmark” for ferronickel prices. Eramet is known as the world’s second largest producer of ferronickel, a nickel-iron alloy used to make austenitic stainless steels.

While highly correlated, over 86% since 2012, LME nickel and Chinese nickel sulfate prices sit at a considerable delta between on another. The nickel market has become increasingly bifurcated amid a supply boom of less pure forms of nickel from Indonesia. Meanwhile, the LME price only reflects pure nickel ore, also known as Class I nickel. According to Bories, the nickel pig iron and nickel sulfate markets have also reportedly started to use indexes. NPI and nickel sulfate currently account for at least 60% of global output. Pure nickel accounts for roughly 25%, while ferronickel accounts for 10%. The LME announced intentions to develop a China-based Class II nickel spot market contract. The contact would be for the LME’s sister company, the Qianhai Mercantile Exchange (QME), that contract has yet to launch.



While the loss of ferronickel benchmark status creates yet another problem for the embattled exchange, the declining use of the LME as a benchmark for Class II nickel forms will not impact domestic stainless steel prices. For one, scrap makes up the vast majority of stainless steel. Outokumpu reports using around 90%, the highest on the market.

While stainless steel prices won’t see an impact, the state of the LME’s nickel contract already has and it will continue to do so for the foreseeable future. In February 2022, average daily trading volume and open interest sat at around 7,140 and 236,905, respectively. Trading volumes and open interest help measure liquidity and participation within a contract as they reflect the number of daily trades and active contracts. The historic squeeze caused an over 18% drop in average trades during March, while contracts fell over 13% by the end of the month. The drop was even more pronounced between February 2022 and May 2023, as the average daily trading volume dropped by nearly 58% to 3,032. Meanwhile, open participation by the close of May saw an over 34% decline to 155,602.

The exodus of market participants appears to have flatlined throughout 2023. This has helped soften some of the nickel price volatility experienced amid the turbulent market since the squeeze. However, the increased use of other indexes, challenges from competitors like Global Commodity Holdings, and a growing list of LME scandals will likely prevent any meaningful upside with regard to liquidity. Liquidity could decline even further, which would substantially impact nickel prices.

The LME Heads To Court Over Squeeze

Speaking of the challenges facing the LME, court proceedings began on June 20 to address the lawsuit leveled by hedge fund Elliot Associates and trading firm Jane Street Global Trading. The companies are suing the LME for a combined $472 million over the organization’s handling of the March 2022 nickel squeeze. On March 8 of that year, the LME suspended trading and canceled a number of trades after prices surged to over $100,000 per ton.

The lawsuit alleges that the LME acted unlawfully due to breach of policy, as it disproportionately benefited some market participants in its decision to cancel trades. However, the LME has previously argued its authority to make those decisions for the benefit of the overall market due to the likely default by multiple members on margin calls totaling $19.7 billion.

Separate from the lawsuit, the LME is also under investigation for its handling of the ordeal. The many problems facing the exchange, including rising presence of Russian material in its warehouses, pose a risk to base metal markets. Instability at the LME could push market participants toward other exchanges, which would challenge its use as global benchmark for base metal prices, including nickel. ***Source: MetalMiner, 06.21.2023***

USTR Calls For GHG Investigation Into Steel And Aluminum Production

The office of the U.S. Trade Representative (USTR) has announced that Ambassador Katherine Tai had asked to the U.S. International Trade Commission (ITC) to conduct an investigation into, and issue a public report on, the greenhouse gas (GHG) emissions intensity of steel and aluminum produced in the U. S.

The report is intended to inform discussions with the European Union (EU) regarding the Global Arrangement on Sustainable Steel and Aluminum. Ambassador Tai's office noted the Global Arrangement is meant "to discourage trade in emissions-intensive steel and aluminum products that contribute to global non-market excess capacity from other countries." Ambassador Tai said the agreement with the EU also is meant "to ensure that domestic policies support lowering the GHG emissions intensity of these industries."

Specifically, Ambassador Tai said the ITC should:

- Conduct a survey of firms with facilities producing steel and aluminum in the U. S., whether the firms are U.S.- or foreign-owned, in order to collect data on their steel and aluminum production and the associated GHG emissions. The survey should seek to gather data that is not already reported pursuant to the U.S. Environmental Protection Agency GHG Reporting Program (GHGRP) or other publicly available information.
- Use the information obtained through the survey and external data sources to estimate the highest and the average GHG emissions intensity of steel and aluminum produced in the U. S. by product category in 2022. These percentile and average estimates should, to the extent possible, be weighted by metric ton of steel or aluminum production associated with each emissions-intensity data point.
- Produce GHG emissions intensity estimates for the broad categories of steel and aluminum products.
- Consider producing GHG emissions intensity estimates for additional product categories, including at subcategory levels.

The report must be sent to the office of the USTR by January 28, 2025. Click here to read Ambassador Tai's guidance on what steel and aluminum producers' GHG emissions intensity estimates should include. ***Source: MSCI, 06.12.2023***

Biden Administration Reaches Agreement With India On Trade Penalties

U.S. Trade Representative (USTR) Katherine Tai recently announced the U. S. and Indian governments have agreed to terminate six outstanding disputes that are currently pending before the World Trade Organization (WTO). Three of those disputes were initiated by the United States and three were initiated by India.

Tai said India also agreed to remove retaliatory tariffs on agricultural products that it had imposed in response to the U.S. Section 232 national security tariffs on steel and aluminum. In a press statement, Ambassador Tai's office argued the resolution maintains the integrity of the U.S. Section 232 measures.

"As a result of our work, U.S. agricultural producers and manufacturers will now enjoy renewed access to a critical global market and we will strengthen our trade relationship with one of our closest partners," Ambassador Tai said.

The six WTO disputes that will be terminated are:

- Countervailing measures on certain hot-rolled carbon steel flat products from India (DS436), initiated by the United States;
- Measures relating to solar cells and solar modules (DS456), initiated by India;
- Measures relating to the renewable energy sector (DS510), initiated by the United States;
- Export related measures (DS541), initiated by India;
- Measures on steel and aluminum products (DS547), initiated by the United States; and
- Additional duties on certain products from the United States (DS585), initiated by India. ***Source: MSCI, 06.26.2023***