ONI
O'NEAL INDUSTRIES
www.onealind.com

INSIGHT

NOVEMBER 2018

ECONOMIC NEWS

KEY ECONOMIC INDICATORS

INDUSTRY ARTICLES

Economy Adds Robust 250,000 Jobs in October in Last Employment Report Before Election—The unemployment rate was unchanged at a near 50-year low of 3.7%. Annual wage growth topped 3% for the first time in nine years.

Economists had estimated 200,000 jobs were added last month, according to a Bloomberg survey.

Wage growth tops 3%. Average hourly earnings rose 5 cents to $27.30, pushing the annual gain to 3.1%, strongest since April 2009, from 2.8% in September. Full Story ***Source USAToday, 11/2/18***

Wages and Salaries Jump by 3.1%, Highest Level in a Decade—Employment costs rose more than expected in the third quarter in a sign that more inflation could be brewing in the U.S. economy. The Labor Department's employment cost index rose 0.8% for the period, ahead of the estimate of 0.7% from economists surveyed by Refinitiv. Wages and salaries rose 0.9%, well ahead of expectations for 0.5% . Benefit costs were up 0.4%. On a yearly basis, wages and salaries jumped 3.1%, the biggest increase in 10 years.

Wage increases have been the missing link in the economy since the recovery began in mid-2008. Average hourly earnings have been rising steadily but have stayed below the 3% level as slack has remained in the labor market. However the unemployment rate is now at 3.7%, the lowest since 1969, and wage pressures have begun to build. The Federal Reserve has been raising interest rates in an effort to stave off future inflationary pressures, though the central bank's preferred gauge of inflation rose just 2.5% in the third quarter, including a 1.9% increase for health benefits. Full Story *Source: CNBC, 10.31.18*

U.S. Economy Grew at Strong 3.5% Rate in Q3—The U.S. economy grew at a robust annual rate of 3.5% in the July-September quarter as the strongest burst of consumer spending in nearly four years helped offset a sharp drag from trade. The Commerce Department said that the third quarter's gross domestic product, the country's total output of goods and services, followed an even stronger 4.2% rate of growth in the second quarter. The two quarters marked the strongest consecutive quarters of growth since 2014.The result was slightly higher than many economists had been projecting. It was certain to be cited by President Donald Trump as evidence his economic policies are working. But some private economists worry that the recent stock market declines could be a warning signal of a coming slowdown. Full Story
Source: AP, 10.26.2018

The Federal Reserve's Favorite Inflation Indicators Says it is Under Control

When it comes to monitoring inflation, the Federal Reserve watches a different number than the rest of us. Headlines detail the latest Consumer Price Index changes, but the central bank monitors something a lot more esoteric-sounding, the Personal Consumption Expenditure deflator, or PCE price index.

Both measure inflation based on changes in the prices consumers pay for goods and services, but the two numbers are calculated by different agencies using different factors. As the Cleveland Fed once put it, the CPI measures what households are buying and the PCE looks at what businesses are selling. On October 26, the Commerce Department said third quarter gross domestic product, which is the value of goods and services produced, rose by a 3.5% annual rate, slightly above expectations. The PCE rose 1.6% in the quarter, below the 2.2% economists had forecast. The "core" PCE, which excludes food and energy prices, rose 1.6%, according to the Commerce Department's Bureau of Economic Analysis, which does the calculation. The PCE for September won't get released until next week. It was up 2.2% annualized in August.

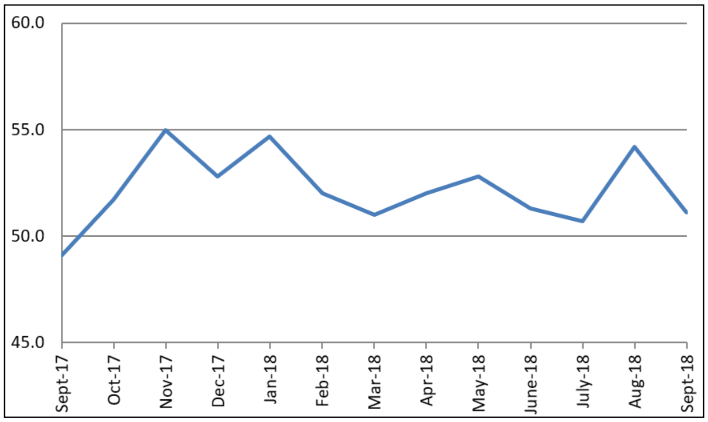
Earlier this month, the Bureau of Labor Statistics, which is part of the Labor Department, said CPI for September rose an annualized 2.3%. or 2.2% without food and energy.

A big difference is what goes into the baskets of goods and services each index tries to measure. The CPI focuses on what consumers pay directly. The PCE is broader. For example, the PCE would factor in the cost of medical care paid by employee-sponsored health plans, Medicare and Medicaid, while the CPI would only take into account out-of-pocket spending by consumers themselves.

The two emphasize different factors, says Ryan Sweet, director of real time economics at Moody's Analytics. The PCE weights medical care spending while the CPI puts more weight on shelter costs. The PCE measures rural and urban spending, he added, while the CPI just looks at urban. And the PCE includes spending by non-profits not just consumers. The PCE also factors in shifts in consumer behavior, for example, when people substitute cheaper items for more expensive ones. So, if the price of steak skyrockets and people start buying more chicken and less steak, the PCE's basket of goods would shift to reflect that, while the CPI's basket would remain the same as before.
Full Story *Source: CNBC, 10.26.18*

KEY ECONOMIC INDICATORS

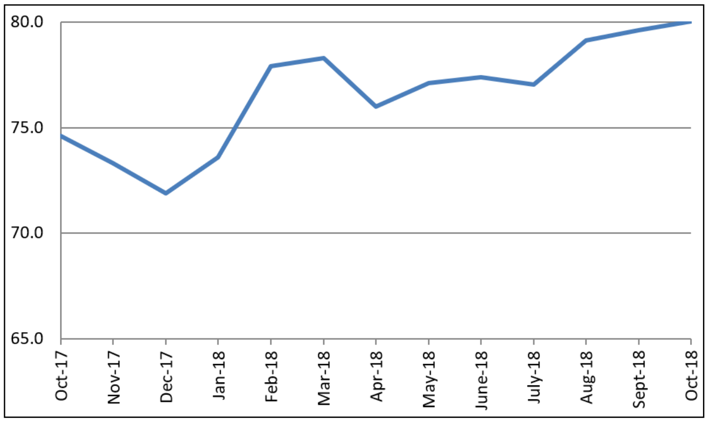
Architecture Billings Index (ABI)



AIA's Architecture Billings Index (ABI) score for September was 51.1. Business conditions remained generally positive at architecture firms in September, with the Architecture Billings Index (ABI) showing another month of growth in firm billings. Although the pace of billings growth slowed somewhat from August, billings have remained positive for the entire year so far, indicative of generally strong conditions at firms. The value of new signed design contracts increased in September as well, after a modest decline in August, and inquiries into new projects remained strong. Firms also continued to report very strong project backlogs, currently averaging just over six 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, 09.24.18

Steel Capability Utilization

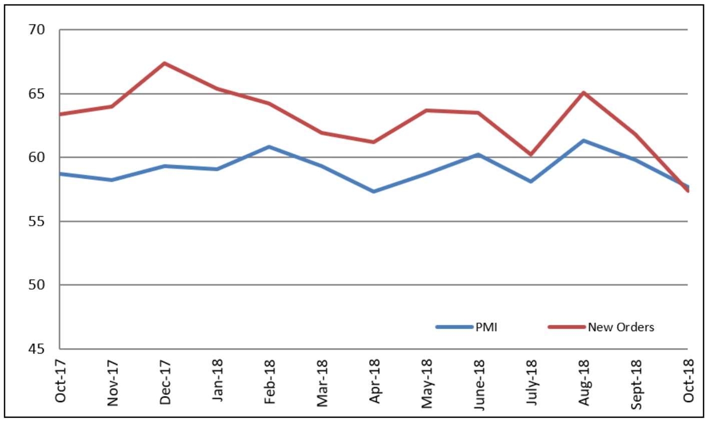


In the week ending on October 27, 2018, domestic raw steel production was 1,898,000 net tons while the capability utilization rate was 81.0%. Production was 1,705,000 net tons in the week ending October 27, 2017 while the capability utilization then was 73.2%. The current week production represents an 11.3% increase from the same period in the previous year. Production for the week ending October 27, 2018 is up 1.2% from the previous week ending October 20, 2018 when production was 1,875,000 net tons and the rate of capability utilization was 80.0%.

Adjusted year-to-date production through October 27, 2018 was 77,974,000 net tons, at a capability utilization rate of 77.7%. That is up 5.0% from the 74,247,000 net tons during the same period last year, when the capability utilization rate was 74.3%.

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, 10.27.18*

Purchasing Managers Index®



The October PMI® registered 57.7%, a decrease of 2.1 percentage points from the September reading of 59.8%. The New Orders Index registered 57.4%, a decrease of 4.4 percentage points from the September reading of 61.8%. The Production Index registered 59.9%, a 4.0 percentage point decrease compared to the September reading of 63.9%. The Employment Index registered 56.8%, a decrease of 2 percentage points from the September reading of 58.8%. The Supplier Deliveries Index registered 63.8%, a 2.7 percentage point increase from the September reading of 61.1%. The Inventories Index registered 50.7%, a decrease of 2.6 percentage points from the September reading of 53.3%. The Prices Index registered 71.6%, a 4.7-percentage point increase from the September reading of 66.9%, indicating higher raw materials prices for the 32nd consecutive month.

Of the 18 manufacturing industries, 13 reported growth in October, in the following order: Textile Mills; Electrical Equipment, Appliances & Components; Apparel, Leather & Allied Products; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Computer & Electronic Products; Furniture & Related Products; Miscellaneous Manufacturing; Machinery; Transportation Equipment; Printing & Related Support Activities; Chemical Products; and Paper Products. The four industries reporting contraction in October are: Wood Products; Primary Metals; Nonmetallic Mineral Products; and Fabricated Metal Products. *Source: Institute for Supply Management, 11.01.18*

Industry News

U.S. Plate Prices Creep up as Increases Take Hold

Prices for steel plate have inched up in the United States, due to a round of price increases from domestic mills gaining at least partial traction in the market. AMM's price assessment for cut-to-length plate stands at $48.50 per hundredweight ($970 per short ton), up 1% from $48 per cwt ($960 per ton) previously, where the price had remained since October 5. Lead times were in a wide range between four and eight weeks—stretching solidly into December at most mills, market participants said. "I believe that the strength of the market demand will allow the increase to be fully implemented," one distributor source said.

Nucor and SSAB Americas earlier this month announced $2-per-cwt ($40-per-ton) price increases on steel plate. Prices are expected to go up further because mills are increasingly filling out their December order books and lead times are moving into 2019, some market participants said. "[Mills] are not using that evil word: 'allocation.' It's 'controlled order entry.' You've got to be attuned to what's going on to get on their rolling schedules," a second distributor source said. But other sources said uncertainty over the status of Section 232 tariffs versus Canada and Mexico had resulted in customers withholding orders. "People think that if quotas come in [and tariffs are removed], the price will fall, and that made some of the lead times slip," one mill source said.

Canada was the second-largest supplier of cut-to-length plate to the U.S. market in 2017, shipping some 164,515 tons during the year, according to Census data from the U.S. Commerce Department's Enforcement and Compliance division. Mexico ranked third, sending 93,781 tons of plate to U.S. shores in 2017. U.S. steel imports from both countries have been subject to 25% tariffs under Section 232 since June 1. Those duties could be eased or lifted by the end of November; and some U.S. steel industry executives would like to see the duties replaced by quotas.

The market upside also was tempered by concerns, voiced in some corners of the market, that lower resale prices could weigh on mill prices. ***Source: AMM, 10.29.18***

Baker Hughes: U.S. Rig Count up 1 Unit to 1,068

The U.S. drilling rig count was up 1 unit to 1,068 rigs working for the week ended October 26, according to Baker Hughes data. The count is up 159 units from the 909 rigs working this time a year ago.

Land-based rigs rose 2 units to 1,046 for the week. Offshore units fell by 1 to 19 rigs working, while those drilling in inland waters remained unchanged at 3 rigs working. Oil-directed rigs were up 2 units from last week to 875 units working, and up 138 units from the 737 rigs drilling for oil this week a year ago. Gas-directed rigs were down 1 unit to 193, yet up 21 units from the 172 rigs drilling for gas a year ago.

Among the major oil and gas-producing states, North Dakota and Alaska were the biggest gainers this week, up 2 rigs each to respective counts of 54 and 5. New Mexico, with 101 rigs working, and West Virginia, with 14 units drilling, were up 1 unit each this week vs. last. Seven states remained unchanged this week, namely, Oklahoma, 141; Pennsylvania, 44; Wyoming, 30; Ohio, 17; California, 15; Utah, 6; and Kansas, 1. Colorado, down 1 rig from last week, reached 32 units working. Texas, at 537 units working, and Louisiana, with 61 rigs drilling, were each down 3 rigs vs. last week.

Canada's rig count gained 9 units for the week. With 200 rigs running, the count is 9 units higher than the 191 rigs working this time last year. Canada gained 1 oil-directed rig to reach 124 units for the week. Its gas-directed rig count was up 8 units to 76 rigs working.
Oil&Gas Journal, 10.29.18

Adobe Stock Images

Industry News

September Steel Imports Down 26%

The American Iron and Steel Institute, Washington, reported that the U.S. imported 2.2 million tons of steel, including 1.9 million tons of finished steel, in September, according to Census Bureau data. Overall, steel imports for the month were down 25.9% and finished steel imports decreased 8.6% from August.

Steel imports through September totaled 26.2 million tons and finished steel imports totaled 20.1 million tons, down 12% and 12.%, respectively, from the same period in 2017. Finished steel import market share was an estimated 20% in September and is estimated at 24% year to date. Key finished steel products with significant import increases in September were standard pipe, up 26%; hot-rolled sheets, up 25%; and sheets and strip all other metallic coatings, up 23%. Major products with significant year-to-date increases include hot-rolled sheets and plates in coils, both up 21%.

The largest volumes of finished steel imports from offshore in September were from South Korea at 189,000 tons, up 9% from August; Turkey at 133,000 tons, up 12% ; Germany at 117,000 tons, up 4%; Taiwan at 105,000 tons, up 29%; and Japan at 90,000 tons, down 11%.

Through the first nine months of 2018, the largest offshore suppliers were South Korea at 2.3 million tons, down 22% year over year; Japan at 1.1 million tons, down 14%; Germany at 987,000 tons, down 2%; Turkey at 973,000 tons, down 50%; and Taiwan at 845,000 tons, down 18%.
Source: MetalCenterNews, 10.29.18

Adobe Stock Images

Asia's Factories Slip as Trade Tensions Rise

Manufacturing gauges for some of Asia's most export-driven economies slipped into negative territory in October, highlighting the spillover effect from the U.S.-China trade war. The contractions follow evidence of a broad-based slowdown in China that has prompted the government to promise new measures to stoke growth.

In the latest sign that trade war pain is spreading, purchasing managers' indexes for Taiwan, Thailand and Malaysia all fell into contractionary territory during October. Taiwan's PMI fell to 48.7 from 50.8 in September, the lowest reading and first contraction since May 2016. Malaysia's index declined to 49.2 from 51.5 while Thailand dropped to 48.9 from 50, its lowest reading since Nov. 2016. Readings above 50 signal expansion while those below 50 signal a contraction.

"The slowdown in China as a result of the trade war is affecting smaller open economies in Asia," Ben Emons, chief economist and head of credit portfolio management at Intellectus Partners, wrote in an email. South Korea's dipped to 51 from 51.3 and Indonesia declined to 50.5 from 50.7. There were modest gains elsewhere: China's Caixin Manufacturing PMI reading nudged higher to 50.1 from 50, moving in the opposite direction from the official manufacturing report released October 31. Vietnam climbed to 53.9 from 51.5 and Japan rose to 52.9 from 52.5 a month earlier.

Asia is especially vulnerable to trade tensions given its key role in China's manufacturing supply chain. The region accounts for around 60% of global growth. "Downside risks to the global economic outlook for 2019 are increasing," said Rajiv Biswas, Asia Pacific chief economist at IHS Markit in Singapore. ***Source: IndustryWeek, 11.01.18***

Manufacturers, Small Businesses Optimistic About Future Growth

According to the National Association of Manufacturers' (NAM) Outlook Survey, manufacturers' optimism is at its highest level, increasing this past year to 93.9%. More manufacturers now believe sales, production, and employment will improve over the coming months. NAM explained, "The underlying data continue to show strength in the sector, especially in terms of job growth—more than 58% of manufacturers anticipate more hiring over the next year and about a quarter (23.1%) are planning employment growth of 5% or more. Wage growth is once again expected to rise at its fastest pace since 2001." ***Source: NAM, 10.15.18***

Special Section: Trade News

An Update on U.S. Trade Discussions

The U.S. continues to engage in trade discussions on many fronts, including with Canada, Mexico, and the European Union. Talks with China, however, are still off the table. *The Wall Street Journal* reported last week that "The U.S. is refusing to resume trade negotiations with China until Beijing comes up with a concrete proposal to address Washington's complaints about forced technology transfers and other economic issues." The two parties haven't met since September.

Regarding North American counterparts, *Bloomberg* reported last week that the Trump administration remains committed to continued talks with the Canadian and Mexican governments regarding its Section 232 tariffs on steel and aluminum. U.S. Ambassador to Canada Kelly Craft confirmed the ongoing negotiations and, in remarks with Canadian Ambassador to the U.S. David MacNaughton said the tariffs are "not something that is against Canada … "It's just protecting North America from other countries that will be passing raw materials through, and also to protect our steel industry at home."

Mexican officials, meanwhile, said last week that they want the matter settled before the country signs the new trade pact between the three countries. According to Canada's *Financial Post*, echoing what Canadian officials have said recently, Juan Carlos Baker, Mexico's deputy commerce minister, also said his country won't accept any United States proposal to agree to a quota system on metals as a way for the U.S. to remove the duties.

Also regarding the Section 232 steel and aluminum tariffs: American Metal Market reported last week that Sen. Marco Rubio (R-FL) has asked that the Trump administration exempt Colombia from the tariffs. Sen. Rubio said, "Negotiations with Colombia should be a priority … Under outgoing President [Juan Manuel] Santos, Colombia pledged to cooperate on addressing a variety of deficiencies in the treatment of certain U.S. industries to strengthen the U.S.-Colombia relationship. It is essential that our government continue to work with President Iván Duque and his administration to ensure Colombian commitments are upheld."

Meanwhile, U.S. and European Union officials met in Washington, D.C. last week to discuss regulatory issues that eventually could be part of a transatlantic trade deal. According to *Politico*, an EU official cautioned "These discussions are a preliminary and indispensable step for the Commission to request a negotiating mandate from EU Member States before engaging in formal negotiations." As *Connecting the Dots* reported last summer, European Commission President Jean-Claude Juncker agreed in July to begin negotiations on a new trade pact with the U.S. in exchange for U.S. President Donald Trump agreeing not to impose tariffs on European automobiles. ***Source: MSCI, 10.29.18***

White House Notifies Congress of Trade Talks with EU, Japan, U.K.

The Trump administration officially notified Congress that it will start trade negotiations with Japan, the European Union and the U.K. as soon as three months from October 16. "We will continue to expand U.S. trade and investment by negotiating trade agreements with Japan, the EU and the United Kingdom," U.S. Trade Representative Robert Lighthizer said in a statement on October 16.

The notification is a procedural step under U.S. trade law that is required 90 days before the U.S. enters into negotiations with other countries. The White House cannot engage in official talks before the three-month window is over and needs to closely consult with Congress during that period to ensure it's fulfilling the objectives laid out in the law. Lighthizer said he wants to start trade talks with Japan and the EU "as soon as practicable" but no earlier than 90 days from October 13. He said the administration intends to start negotiations with the U.K. "as soon as it is ready after it exits from the European Union on March 29, 2019."

Japan and the EU were initially reluctant to enter into trade talks with the U.S. But both are now willing to negotiate in what may be an effort to avoid tariffs on their automobile and auto-parts exports that the U.S. president has threatened to impose. Lighthizer has informally met with his European and Japanese counterparts to determine the scope of any future trade deals. ***Source: Bloomberg, 10.16.18***

U.S. Asks for WTO Panel Over Metals Tariff Retaliation

The U.S. is requesting that a World Trade Organization dispute resolution panel get involved in a clash over international retaliation over U.S. tariffs on steel and aluminum, according to a U.S. official familiar with the matter. The requests, filed on October 18, cover tariffs by China, the European Union, Canada and Mexico, which followed the U.S. imposing a 25% duty on steel imports and a 10% tariff on aluminum imports, which it justified on national security grounds. Canada, Mexico and China had also planned to ask for a WTO panel examining those tariffs, according to another government official familiar with the matter.

The dispute marks a new dimension to the ongoing skirmish between the U.S. and a number of its trading partners as well as the WTO itself, where it has blocked appointments of new judges. The WTO is presiding over a record number of disputes, many of them triggered by Trump's tariffs on steel and aluminum and his trade war with China. Full Story
Source: Reuters, 10.20.18

Special Section: Trade News

Canada Announces New Steel Quotas and Tariffs, Refunds for Firms

Canada is applying quotas and a 25% tariff on steel imports from China and other countries to avoid becoming a dumping ground for steel in the face of metal levies imposed by U.S. President Donald Trump. Canada will erect new barriers to any flood of shipments of seven types of foreign steel, and will issue refunds and exemptions to some Canadian firms on tariffs paid on imports from the U.S.

Prime Minister Justin Trudeau's government faces continuing trade tensions with the U.S., which hit Canada, the European Union and other nations with tariffs of 25% on steel and 10% on aluminum this summer. Canada responded with its own tariffs on steel and aluminum and other products. "We have discussed safeguards with the government for a very long time, and feel like there is significant evidence" in favor of it, Joseph Galimberti, president of the Canadian Steel Producers Association, said before the announcement. "The safeguard is a warranted and badly needed action."

While Canada and the U.S. reached a deal to replace the North American Free Trade Agreement this month, the metals tariffs are slated to be dealt with separately. The sides remain at odds. "We continue to discuss the section 232 tariffs with our U.S. counterparts. Our position remains clear and firm: these tariffs are entirely unjustified," Adam Austen, a spokesman for Canadian Foreign Minister Chrystia Freeland, said in an email October 11. "The best economic outcome for both countries would be for the U.S. to remove these tariffs."

Seven Products

The new safeguard measures announced on October 11 affect seven types of products, up from three initially identified. The seven include heavy plate, concrete reinforcing bar, energy tubular products, hot-rolled sheet, pre-painted steel, stainless steel wire, and wire rod. Tariffs of 25% will apply above an average of recent import volumes—in effect, a quota with tariffs applied above that level. The provisional tariffs take effect on October 25. The Canadian International Trade Tribunal will hold an inquiry on whether to eventually finalize those. The new quotas and tariffs will affect countries such as China and Turkey, but not Canadian steel imports from the U.S., which are already subject to other duties. Mexico is partially exempted, while Chile, Israel and some developing countries are exempt.

Mexico expressed disappointment at its partial inclusion and said it would study if the measures violate Canada's NAFTA's commitments.

Refunds, Relief

The "targeted relief" for Canadian firms includes refunds of import tariffs paid to date on steel and aluminum products that Canada is facing shortages of, for certain firms. Those whose claims are accepted will be refunded tariffs paid so far, and also won't have to pay them going forward—either until the end of this year, or indefinitely, depending on how severe the shortage.

"The Government recognizes that Canadian countermeasures against U.S. imports can create challenges for Canadian manufacturers that rely on steel and aluminum imported from the U.S.," the finance department said in a written statement. "A portion of this relief will be temporary, offered until such time that Canadian producers are able to adequately meet domestic demand." Applications for refunds or exemptions will be handed on a case-by-case basis, and the Canadian counter-tariffs still apply, the government said.

In August, Finance Minister Bill Morneau announced a consultation period to look at potential safeguard measures that would be applied if it found that producers are being harmed. Bloomberg News first reported in June that the Trudeau government was looking at new measures, including a combination of tariffs and quotas, that would target certain countries including China to prevent steel divergence into Canada.
Source: IndustryWeek, 10.11.18

Aluminum Industry Representatives Testify on Final Phase of Common Alloy Sheet Investigation at U.S. International Trade Commission Hearing

Industry leaders joined Aluminum Association president & CEO Heidi Brock in testifying before the U.S. International Trade Commission (USITC) on October 30. The testimony urged the USITC to reach a finding in the Commerce Department's self-initiated case that unfairly-traded imports of common alloy aluminum sheet from China are injuring domestic producers. Senior officials from association member companies: Aleris, Arconic, Constellium, Jupiter, JW Aluminum and Novelis shared details on how Chinese common alloy aluminum sheet imports have injured U.S. producers and threatened a key market in the U.S. economy. According to information gathered by the USITC, in 2017, U.S. producers shipped nearly 2.4 billion pounds of common alloy sheet with a value of $3.45 billion. You can view Brock's full testimony here.

"The relief we seek will help ensure that the U.S. common alloy sheet market industry can compete fairly in the U.S.," said Brock. "Our industry has not frequently used unfair trade laws to seek a level playing field. But the rapid increase in illegally subsidized aluminum overcapacity in China has left us no choice but to support targeted trade enforcement actions like these."
Full Story ***Source: AluminumAssociation, 10.30.18***