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SEPTEMBER 2018
ECONOMIC NEWS
KEY ECONOMIC INDICATORS
INDUSTRY ARTICLES

The U.S. Economy Added 201,000 Jobs in August, Slightly Topping Analysts' Expectations. The Unemployment Rate Remained at 3.9% - Political intrigue, partisan bickering and growing anxiety about a possible trade war have done little to dent the impressive streak of job creation as employers once again fattened their payrolls in August.

"What's worth noting is that even though there still remains a lot of headline noise around politics and protectionism, underneath that, the U.S. economy— and that includes labor markets—is doing quite fine." Full Story
Source: New York Times 09.07.18

Federal Reserve Chief Defends Raising Interest Rates, Signaling Trump Can't Pressure Him—Federal Reserve Chairman Jerome H. Powell on August 24 defended the central bank's policy of gradually increasing a key interest rate and signaled that the hikes will continue, brushing off President Trump's recent public criticisms. Powell did not mention Trump in a speech at a central bankers conference in Jackson Hole, WY. But speaking publicly for the first time since Trump said last month that he was "not thrilled" with recent rate hikes, Powell indicated the Fed plans to continue its efforts to normalize interest rates that had been kept historically low to fight the Great Recession.

"I will explain today why the committee's consensus view is that this gradual process of normalization remains appropriate," Powell said of the rate-setting Federal Open Market Committee.

Among the questions he addressed in the speech was: "With no clear sign of an inflation problem, why is the FOMC tightening [monetary] policy at all, at the risk off choking off job growth and continued expansion?"

Powell did not directly reassert the Fed's legal independence from the White House. But, as he did with rate hikes, he signaled that Fed officials would do what they think is right for the economy regardless of political pressure. "The economy is strong. Inflation is near our 2% objective, and most people who want a job are finding one," Powell said. Full Story
Source: Los Angeles Times, 08.24.18

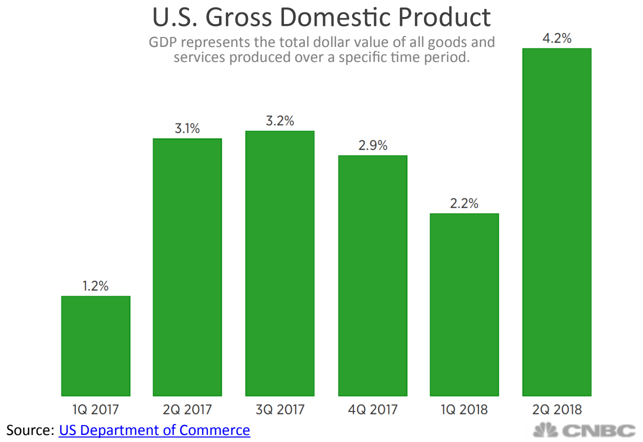
U.S. Factory Gauge Jumps to 14-Year High as Orders, Jobs Climb—A gauge of U.S. manufacturing unexpectedly jumped to the highest since May 2004 as orders, production and employment all picked up, offering a positive sign for the economy even as trade tensions weigh on the outlook. The report shows factories remained solid in the third quarter and adds to signals that the nearly decade-old expansion will hold up well in the second half of 2018. The gauges of exports and imports also may indicate that months of intensifying tensions are taking a toll on trade. Full Story
Source: Bloomberg, 09.04.18

New Estimate Raises Second Quarter Economic Growth to 4.2%

Real U.S. gross domestic product grew at an annualized rate of 4.2% last quarter, the Bureau of Economic Analysis reported August 29. That's up from 4.1% in its first estimate. The new number is based on more complete data, which for the second quarter included higher business investment and lower imports. It doesn't change the overall picture of how the economy is doing, and it remains the highest rate since the third quarter of 2014. The robust number can be explained in part by businesses rushing to export their products in advance of expected tariffs on foreign goods imposed by the White House, which have drawn retaliatory duties from China.

Economists broadly expect growth to slow in the coming months, to round out the year at about 3%. Estimates for the current quarter range widely, from a forecast of 2% growth in the third quarter by the Federal Reserve Bank of New York, to 4.6% from the Federal Reserve Bank of Atlanta. The purchasing manager's index, another indicator of where the economy is headed, declined this month for both manufacturing and non-manufacturing businesses. Morgan Stanley's estimate of business' capital expenditure planning for the next six months rose slightly in July, after falling from an all-time high in March.

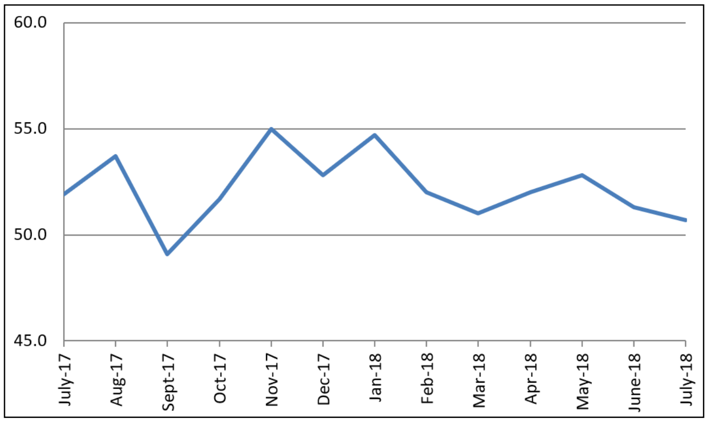
The labor market remains strong, with initial jobless claims hovering near their all-time low, although real median earnings are down slightly from the third quarter of last year. Profits for non-financial corporations also increased in the second quarter, the Bureau reported August 29, to $1.3 trillion. That's the highest of the Trump presidency, but still below a record set in the fourth quarter of 2014. *Source: CNNMoney, 08.29.18*



Source: US Department of Commerce

Key Economic Indicators

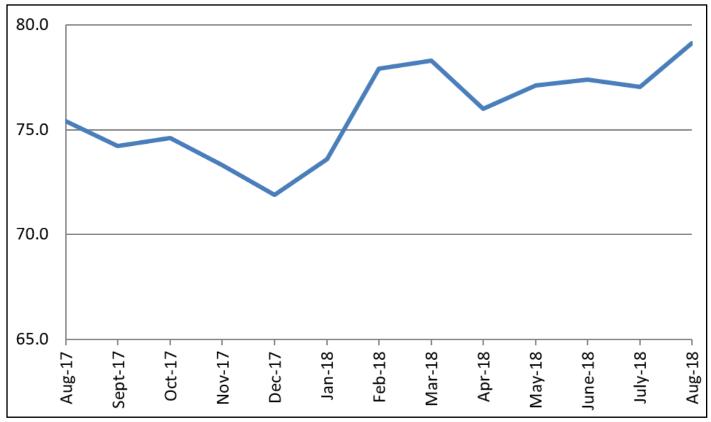
Architecture Billings Index (ABI)



Architecture firms reported that firm billings continued to grow in July, but the pace of growth slowed for the second month in a row. While any ABI score over 50 indicates that firm billings are increasing, the July score of 50.7 indicates that growth is nearly flat. However, this is not yet cause for concern because indicators of new work in the pipeline—measured by inquiries into new work and the value of new signed design contracts at firms—both remained strong in July.

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, 08.22.18

Steel Capability Utilization

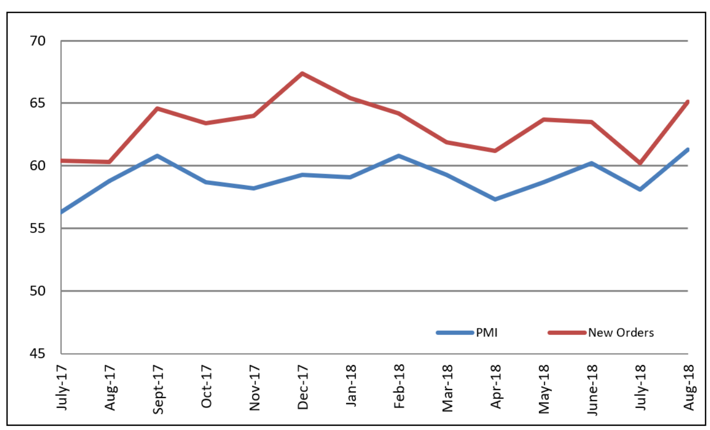


In the week ending on September 1, 2018, domestic raw steel production was 1,870,000 net tons while the capability utilization rate was 79.8%. Production was 1,759,000 net tons in the week ending September 1, 2017 while the capability utilization then was 75.4%. The current week production represents a 6.3% increase from the same period in the previous year. Production for the week ending September 1, 2018 is up 0.6% from the previous week ending August 25, 2018 when production was 1,858,000 net tons and the rate of capability utilization was 79.3%.

Adjusted year-to-date production through September 1, 2018 was 62,997,000 net tons, at a capability utilization rate of 77.3%. That is up 4.0% from the 60,582,000 net tons during the same period last year, when the capability utilization rate was 74.6%.

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, 09.01.18*

Purchasing Managers Index®



The August PMI® registered 61.3%, an increase of 3.2 percentage points from the July reading of 58.1%. The New Orders Index registered 65.1%, an increase of 4.9 percentage points from the July reading of 60.2%. The Production Index registered 63.3%, a 4.8-percentage point increase compared to the July reading of 58.5%. The Employment Index registered 58.5%, an increase of 2 percentage points from the July reading of 56.5%. The Supplier Deliveries Index registered 64.5%, a 2.4 percentage point increase from the July reading of 62.1%. The Inventories Index registered 55.4%, an increase of 2.1 percentage points from the July reading of 53.3%. The Prices Index registered 72.1% in August, a 1.1 percentage point decrease from the July reading of 73.2%, indicating higher raw materials prices for the 30th consecutive month.

Of the 18 manufacturing industries, 16 reported growth in August, in the following order: Computer & Electronic Products; Apparel, Leather & Allied Products; Textile Mills; Paper Products; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Furniture & Related Products; Machinery; Nonmetallic Mineral Products; Transportation Equipment; Food, Beverage & Tobacco Products; Petroleum & Coal Products; Plastics & Rubber Products; Fabricated Metal Products; Chemical Products; and Printing & Related Support Activities. The two industries reporting contraction in August are: Wood Products; and Primary Metals. *Source: Institute for Supply Management, 09.04.18*

Industry News

U.S. Business-Equipment Orders Increased More Than Forecast in July

Orders placed with U.S. factories for business equipment accelerated by more than forecast in July, a sign solid demand extended into the second half despite corporate concerns over tariffs.

Highlights of Durable Goods (July)

- Non-military capital-goods orders excluding aircraft rose 1.4% (est. 0.5% rise) after upwardly revised 0.6% increase in prior month; figure is proxy for business investment.
- Shipments of those goods, used to calculate gross domestic product, rose 0.9% (est. 0.3% increase) after upwardly revised 0.9% gain.
- Broader measure of bookings for all durable goods, or items meant to last at least three years, fell 1.7% (est. 1% decline) following 0.7% increase; reflects plunge in aircraft orders.

Key Takeaways

Orders rose for machinery, computers and electronic products and motor vehicles and parts last month, according to the report. The data, representing the first results since the U.S. and China imposed tariffs on each other's goods in early July, signal that business investment remains intact even as President Donald Trump widens a trade war to a growing range of products from China. Growth in business spending, which is getting a boost from lower corporate taxes, is one of the factors supporting economic growth that could reach 3% in the second half. Even so, the uncertainty over trade may spur companies to slow investment. The next round of proposed actions by the Trump administration against Chinese imports would place tariffs of as much as 25% on $200 billion in goods. The drop in overall durable-goods orders reflects bookings for aircraft and parts, typically a volatile category. Civilian airplane orders fell 35.4% in July, while the military side dropped 34.6%. Boeing Co. previously reported that the planemaker received 30 orders in July, down from 233 in June.

Other Details

- Excluding transportation equipment, durable-goods orders rose 0.2% (forecast 0.5% rise) after a downwardly revised 0.1% gain.
- Durable-goods inventories rose 1.3%, biggest increase since May 2011.
- Orders for machinery rose 0.6% following no change; demand for computers and electronic products jumped 1.1% after a 0.8% gain.
- Motor vehicle and parts orders rose 3.5% following 4.7% increase.
- Orders for primary metals rose 0.3%; fabricated-metal product orders unchanged.
- Defense capital-goods orders fell 8% following 12.9% drop.

Source: IndustryWeek, 04.24.18

Steel Shipments Rise by 3.2% Year-Over-Year in June

U.S. steel mills shipped 7.9 million tons of steel in June, the most recent month for which data is available, according to the American Iron and Steel Institute. That was a 0.8% decrease from the 8 million tons of steel shipped in May and a 3.2% increase from the 7.7 million tons shipped the previous June.

So far this year, the Washington D.C. based industry association estimates steel production is up by 3.6% across the nation, as compared to the same period in 2017. More revealing than just output numbers, steel shipments are a key metric of the financial health of the industry, since they reflect the amount of steel steelmakers have actually sold to customers. through the first half of the year, domestic steel mills have shipped 47.3 million tons of steel, up 4.1% from the 45.4 million tons shipping during the first six months of 2017.In June, shipments of hot rolled sheets were down 1%, cold rolled sheets by 2%, and hot dipped galvanized sheets and strip by 2%.

Prices remain robust, as the highly cyclical industry experiences a boom. The steel pricing website Steel Benchmarker estimates a ton of hot rolled steel currently sells for an average of $903 in the U.S., up dramatically from a recent low of $374 per ton on December 14, 2015. Cold-rolled coil is selling for $994 a ton, standard plate for $974 a ton and rebar for $762 a ton in the U.S. east of the Mississippi River, according to Steel Benchmarker. ***Source: NWI Times, 08.22.18***

Big Changes on the Way: What You Need to Know about the Joint Employer Rule

The expansive joint employment standard implemented by the National Labor Relations Board in 2015 appears likely to change soon. On June 5, 2018, the Chairman of the Board, John Ring, announced that the Board will develop rules setting forth the standards for determining whether an organization is a "joint employer" for the purposes of the National Labor Relations Act. With new standards under the Republican-majority board, employers will likely have far more flexibility to engage with the employees of other organizations and not be found a joint employer.

The National Labor Relations Board (NLRB) is the federal agency tasked with enforcing the National Labor Relations Act (NLRA), the U.S. foundational statute guaranteeing the basic rights of private sector employees to organize into trade unions, engage in collective bargaining and take collective action, such as striking, if necessary. Full Story ***Source: IndustryWeek, 08.16.18***

Industry News

President Proposes Unwinding Coal-Plant Pollution Curbs

President Donald Trump's administration on August 21 unveiled its plan to dramatically weaken carbon dioxide limits on coal-fired power plants by shifting most of the regulatory burden to states in a further assault on the Obama climate legacy. The Environmental Protection Agency's "Affordable Clean Energy" proposal would replace the Obama-era Clean Power Plan's sweeping changes in the U.S. electricity mix with more modest emissions curbs at individual power plants. It would set pollution guidelines based on assumptions about what improvements could be eked out through efficiency upgrades at the facilities, then give states the latitude to design their own plans for paring carbon dioxide emissions at the sites. EPA Acting Administrator Andrew Wheeler said the proposal "would restore the rule of law and empower states to reduce greenhouse gas emissions" while providing "modern, reliable, and affordable energy for all Americans." "Today's proposal provides the states and regulated community the certainty they need to continue environmental progress while fulfilling President Trump's goal of energy dominance," Wheeler said in a news release.

The EPA estimates its proposal could pare carbon dioxide emissions as much as 1.5% from projected levels without the Obama plan in place. The move represents the latest bid by Trump to fulfill campaign promises to revive the coal industry and restore mining jobs. Although it is unlikely to dramatically alter the U.S. power mix—or give a big boost to domestic coal demand, which has flagged amid competition from cheap natural gas and renewables—industry advocates hailed the effort as curbing federal government overreach and leveling the playing field. "The policy put forward by the previous administration was an illegal attempt to impose a political agenda on the country's power system," Hal Quinn, president of the National Mining Association said in an emailed statement. "The replacement rule respects the infrastructure and economic realities that are unique to each state, allowing for state-driven solutions, as intended by the Clean Air Act, rather than top-down mandates."

Environmental advocates and the architects of former President Barack Obama's ambitious plan derided the Trump administration's proposed replacement as political pandering and said it represented a U.S. retreat from the global fight against climate change. The move dovetails with a separate administration proposal to relax Obama-era greenhouse gas emission limits on vehicles and coming efforts to ease restrictions on the amount of methane that can escape from oil wells. "The world's on fire and the Trump administration wants to make it worse," said Rhea Suh, president of the Natural Resources Defense Council. "This dirty power plan is riddled with gimmicks and giveaways. It would mean more climate-changing pollution from power plants." The Trump proposal may open a small window for a revival of coal even as it prolongs uncertainty over the U.S. electricity mix and casts doubt on investments by utilities making decades-long choices about new plants and upgrades.

Administration officials are on track to finalize the new regulation next year, following a 60-day public comment period on the proposal, but critics have already vowed to battle the effort in federal court and the legal disputes could take years to resolve. As it stands, Obama's Clean Power Plan never went into effect; amid legal challenges from opponents who said it overstepped the EPA's authority under federal law, the U.S. Supreme Court put the initiative on hold in February 2016.

Critics are already vowing to fight Trump's replacement. "If the Trump administration's proposal to dismantle the Clean Power Plan is adopted, we will work with our state and local partners to file suit to block it, in order to protect New Yorkers, and all Americans, from the increasingly devastating impacts of climate change," said New York Attorney General Barbara Underwood. Full Story *Source: Bloomberg, 08.21.18*

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Special Section: Trade News

From the Desk of Bob Weidner, President & CEO of MSCI

As you certainly have heard, early last week the U.S. and Mexican governments settled on the outlines of a bilateral trade agreement. On August 31, President Donald Trump formally notified Congress that he intends to sign a deal with Mexico in 90 days. Canadian negotiators weren't part of the talks leading up to that pact, but are now in Washington, D.C. President Trump's letter said Canada could be included in the agreement he'll sign in 90 days if this week's discussions bear fruit.

Negotiations continue, and we're hopeful that the two countries can come together. To that end, MSCI Chair Holman Head (President and COO of O'Neal Industries), Vice Chair Bill Chisholm, and I have sent a letter to President Trump and Prime Minister Justin Trudeau asking them to keep the lines of communication open until an agreement is reached. We also asked for additional measures to address circumvention and reiterated our previous calls that the Section 232 steel and aluminum tariffs and resulting retaliatory penalties be immediately removed for North American trading partners.

The North American Free Trade Agreement has positively impacted the metals sectors in Canada, Mexico, and the U.S. and we hope leaders in Washington and Ottawa can preserve this $1 trillion annual trading relationship. ***S ource: MSCI.org, 09.05.18***

> *"We write today to encourage your efforts to reach a free trade agreement similar to the recent U.S.-Mexico deal. We hope your teams will keep talking until an agreement is made."*
>
> Bob Weidner,
> **Metals Service Center Institute**

Fuzzy Details of U.S. – Mexico Trade Deal Issue for American Businesses

As the White House rushes to finalize a tentative trade deal between the U.S. and Mexico, several of the agreement's provisions remain unclear, leaving open the possibility of significant opposition from American businesses and, ultimately, Congress. The automotive industry, farmers, manufacturing firms, technology companies and retailers are all eagerly awaiting further details on the pact announced in late August that President Trump says is intended to replace the North American Free Trade Agreement. The administration is not expected to release its text until late September, forcing companies in the meantime to interpret the vague details in fact sheets from the U.S. Trade Representative as best they can. "It's hard for companies to sort out what happens and how this affects them," Simon Lester, associate director of the Cato Institute's trade policy center, said in an interview. "There are rules that could affect specific companies really badly," which means executives have to focus on the details.

Time is precious for both Trump and Mexico: The White House wants to complete a deal before mid-term elections in November, and Mexico is racing to finish before a successor to President Enrique Peña Nieto is sworn in. The accelerated schedule still gives the two countries and Canada an opportunity to make revisions, but no changes are allowed once a final deal is submitted to the House and Senate. American companies worry that may not be enough time to identify trouble spots. Carmakers, manufacturers and retailers, for example, are eagerly awaiting more information about new so-called "rules of origin" requirements. The preliminary deal would require automobile manufacturers to produce enough of a car to account for 75 percent of its net price in the participating countries, up from 62.5 percent in the original NAFTA agreement. While some carmakers might adjust their operations relatively easily to meet the new standard, others could have to revamp critical parts of their supply chain or risk a 2.5 percent penalty tariff for noncompliance.

Along with the new production quotas, the deal would require that 40 to 45 percent of cars be built by workers who earn at least $16 an hour. Many U.S. firms initially moved production to Mexico to take advantage of low-cost labor after NAFTA was signed, and the change could force some of them to give up that edge. "If you make the rules of origin very restrictive, you're going to see less usage of the free trade agreement," Jonathan Gold, vice president at the National Retail Federation, told the Washington Examiner.

While the deal would weaken NAFTA provisions that allow companies to bring legal challenges against member countries over potentially discriminatory trade practices, U.S. trade chief Robert Lighthizer's claim that the existing protections would remain for oil and gas producers and some other industries is causing confusion. Of particular concern to all businesses was ensuring the inclusion of Canada — which Trump threatened to move ahead without — since corporations have spent decades building supply chains that take advantage of open borders between the three countries. "To us, NAFTA still needs to remain a trilateral agreement," Gold said. "Companies have built these North American value chains over the years, and Canada has to be part of the deal at the end of the day."

Source: Washington Examiner, 09.04.18

Special Section: Trade News

U.S., Canadian Trade Negotiators Set For Second Day of Talks

Canadian Foreign Minister Chrystia Freeland sounded sanguine on September 5 as she emerged from negotiations with top U.S. trade negotiator Robert Lighthizer, although she cautioned that no trade deal was done until the last issue was nailed down. U.S. President Donald Trump has threatened to push ahead with a bilateral deal with Mexico, effectively killing the almost 25-year-old three-country NAFTA pact, which covers $1.2 trillion in trade. The U.S. and Mexico reached an agreement on overhauling NAFTA at the beginning of last week, turning up the pressure on Canada to agree to new terms. "We sent them (the officials) a number of issues to work on and they will report back to us in the morning, and we will then continue our negotiations," Freeland told reporters on leaving the U.S. Trade Representative's office in Washington on Wednesday. Trump sounded a more upbeat note earlier, and said he expected to know whether a deal could be struck to include Canada in the next few days.

Neither Freeland nor Trump spelled out areas of disagreement and neither detailed the progress that had been made. Lighthizer did not speak to the press or issue a statement. It was not clear when talks would resume on September 6, and there were no immediate indications what progress may have been made in the late session among staff. September 5 was the first day that negotiations between the two countries resumed after four intensive days of talks last week ended without a deal on August 31, after the mood soured.

Canada wants a permanent exemption from Trump's steel and aluminum tariffs, and removal of the threat of auto tariffs. It also wants to continue protections for its dairy industry and defend lumber exports to the U.S., which have been hit with duties. As the two sides met, new economic data showed that the U.S. trade deficit with Canada grew to $3.1 billion in July. This could provide ammunition to Trump, who has accused Canada of "cheating" Americans. Trump nearly tore up the NAFTA pact last year after visiting farmers in Wisconsin, a major U.S. dairy producer that Washington says has been hurt by Canadian protectionism. Trump has claimed that the 1994 pact has caused the loss of hundreds of thousands of U.S. jobs, something that most economists dispute.

Data released on Wednesday showed the U.S. trade deficit hit a five-month high of $50 billion. The shortfall with Canada shot up 57.6 percent. Trump has notified Congress he intends to sign the trade deal reached last week with Mexico by the end of November, and officials said the text would be published by around October 1. Negotiators have blown through several deadlines since the talks started in August 2017. As the process grinds on, some in Washington insist Trump cannot pull out of NAFTA without the approval of Congress.

"Trump is relying on bluster and bullying in a desperate attempt to get Congress to swallow his half-baked deal. You can't fix NAFTA without fixing issues with Canada," said Senator Ron Wyden, the top Democrat on the Senate Finance Committee, which oversees trade. ***Source: Reuters, 09.06.18***

Commercial trucks exit the highway for the Bridge to Canada, in Detroit, Michigan U.S. August 30, 2018 | REUTERS | Rebecca Cook

Trump's Tariffs Could hit $200 Billion of Chinese Goods This Week

The U.S. could impose tariffs on roughly half of all Chinese goods entering the country by the end of the week. President Donald Trump's proposed tariffs on $200 billion of Chinese goods could go into effect as soon as Friday when a public comment period on the taxes concludes. It's unclear whether the new tariffs will be set at 10% or 25%.

It could be the most painful round of tariffs the U.S. has imposed on Chinese products this year. The Trump administration slapped 25% tariffs on $34 billion of Chinese imports in July and another $16 billion last month. China was also on the receiving end of the aluminum and steel tariffs that the U.S. imposed on imports from much of the world.

China is the U.S.'s largest trading partner. Almost $506 billion of Chinese goods were sold in the U.S. last year. But the tariffs are meant to punish China for what the Trump Administration says are unfair trade practices, such as stealing intellectual property. China has accused the U.S. of trade bullying.

Beijing has retaliated at each step of the way. It has imposed 25% tariffs on $50 billion of American goods to date. It's also threatened to respond to the newest round with tariffs on another $60 billion of US goods. It's hard for China to match the U.S. tariff on $200 billion of goods because the U.S. exports far less to China. Full Story ***Source: CNN, 09.05.18***