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MARKET INSIGHT
May 2019

ECONOMIC NEWS

U.S. ECONOMY POWERS AHEAD IN FIRST QUARTER: 3.2% GROWTH

The Commerce Department says the U.S. economy picked up steam in the first three months of the year, after a rocky finish to 2018.

Gross domestic product grew at an annual rate of 3.2% in the first quarter, up from 2.2% at the end of last year. That's a significant turnaround from six weeks ago, when many analysts expected a slump in GDP growth to just 2% or less.

A pickup in consumer spending contributed to the improved outlook. Retailers enjoyed strong sales gains in March after a lackluster February.

"I think there's a sign of relief," said Jack Kleinhenz, chief economist for the National Retail Federation. "Not only retailers but the overall view of the economy."

Earlier in the year, shoppers seemed worried about the stock market slump, the government shutdown and trade tensions with China. But by the end of the first quarter, they seemed ready to put those fears aside and resume spending.

"The American consumer is key to the U.S. economy," said Mark Zandi, chief economist for Moody's Analytics. "We consume everything we produce and a lot of what everyone else produces across the globe. So if the American consumer is hanging tough, that's good for our economy but also good for the global economy."

There are still some yellow caution flags. The first-quarter GDP figure was boosted by temporary factors such as a boost in inventories and a slowdown in imports. Once those wear off, many forecasters expect GDP growth to cool to around 2%.

Many independent forecasters share that view. But the Trump administration continues to project confidence that last year's 3% growth rate can be sustained.

"I know I may be at loggerheads with some of the forecasters and maybe even the consensus," White House economic adviser Larry Kudlow told reporters at the National Press Club on Tuesday. "But I really think this is going to turn out to be a pretty strong first half and a pretty strong year."

The administration argues that last year's tax cuts sparked a surge in business investment that will continue to pay off with stronger output in the years to come.

"Business investment, which is a key part of our tax and regulatory reforms, will outperform most expectations in 2019 and beyond," Kudlow said.

Others are skeptical. Non-residential fixed investment slowed in the first quarter. A report from the Commerce Department on Thursday showed a decline in shipments of core capital goods last month. That's an indication of slowing business investment, although there were also signs of a possible rebound later this year.

Full Story ***Source: NPR, 4/26//19***

UNEMPLOYMENT DROPS TO 3.6%, 263,000 JOBS ADDED, SHOWING ECONOMY REMAINS STRONG

U.S. employers added a better-than-expected 263,000 jobs in April, as the nearly decade-old economic expansion shows no signs of slowing. And the unemployment rate dropped to 3.6 % — the lowest in nearly 50 years.

A monthly snapshot from the Labor Department showed solid hiring in services, construction and health care.

"Our outlook and my outlook is a positive one — is a healthy one — for the U.S. economy for growth for the rest of this year," Federal Reserve Chairman Jerome Powell said Wednesday.

The economy picked up steam in the first quarter, growing at an annual 3.2% rate — well above its pace at the end of 2018. Retailers saw strong sales in March after a ho-hum February.

The pace of hiring in April was stronger than the monthly average of 186,000 jobs in the first three months of the year. Analysts had expected the April number to grow by about 185,000.

Average wages rose at an annual rate of 3.2% — strong, but not enough to spark fears of inflation. Workers' productivity surged in the first quarter, and the additional output helped employers keep their costs in check.

"We don't see any evidence at all of overheating," Powell said Wednesday. "For a long time now, there have been anecdotal reports of labor shortages and difficulty in finding skilled labor and that kind of thing. Nonetheless, you have very strong job creation."

Inflation has been running below the Fed's target of 2%. But Fed policymakers opted not to lower interest rates at their meeting this week, despite pressure from President Trump.

Trump tweeted on Tuesday that the U.S. economy would go "up like a rocket" if the Fed slashed rates by a full percentage point. Powell said the Fed would not be swayed by pressure from the White House.

"We are a nonpolitical institution," he said. "And that means we don't think about short-term political considerations. We don't discuss them, and we don't consider them in making our decisions, one way or the other."

One weak spot in Friday's jobs report was manufacturing employment. Factories added just 4,000 jobs in April and revised figures showed no growth in March. Manufacturing had been adding an average of 22,000 jobs a month in the 12 months before February.

An index of manufacturing activity this week showed a significant slowdown, although the factory sector continues to grow.

"Manufacturing has been weak all around the world," Powell said. "Services have been growing faster. But we do expect a positive contribution to growth from the manufacturing sector."

Labor force participation also dipped as nearly half a million people left the workforce, pushing the unemployment rate down. The strong job market has been drawing people off the sidelines in previous months.

Source: NPR, 5/3/2019

MARKET INSIGHT

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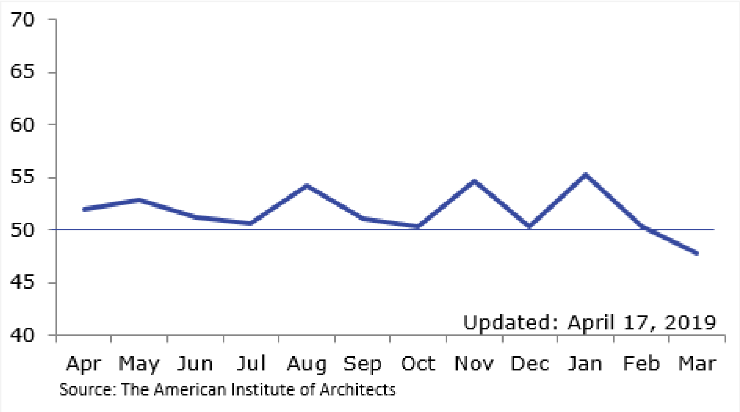
KEY ECONOMIC INDICATORS

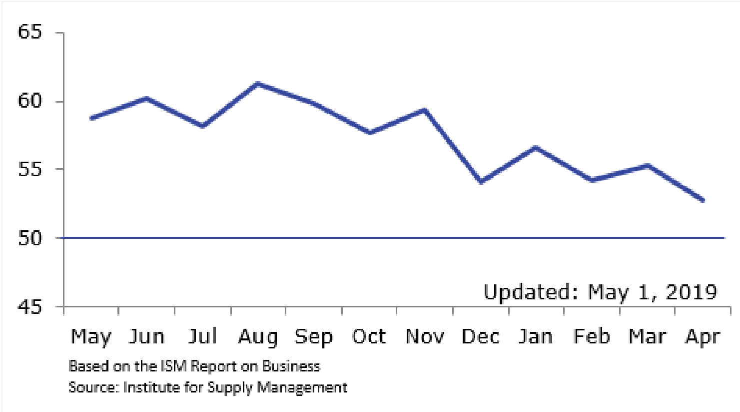
Architecture Billings Index (ABI)



The AIA's monthly Architecture Billings Index (ABI) for March came in at a score of 47.8, a 2.5-point decrease from the previous month's score of 50.3. It was the first time in which the metric entered negative territory in 25 months.

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. The index is derived from AIA's Work-on-the-Boards survey, which has gathered data on shifts in billings from architectural firm leaders for over 20 years. 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 AIA, 4/17/2019***

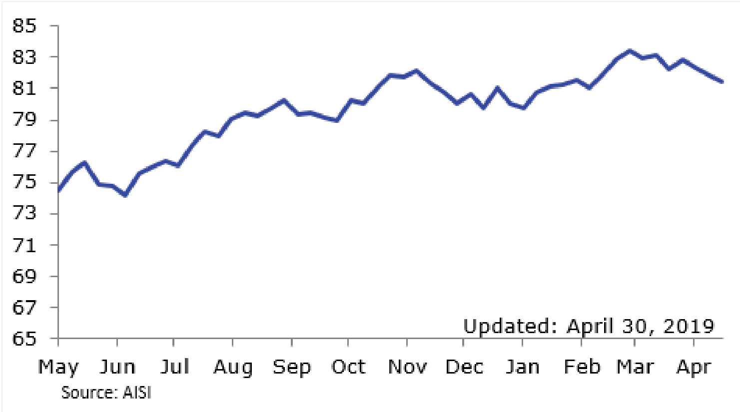
Purchasing Managers Index®



The April PMI® registered 52.8 percent, a decrease of 2.5 percentage points from the March reading of 55.3 percent. The New Orders Index registered 51.7 percent, a decrease of 5.7 percentage points from the March reading of 57.4 percent. The Production Index registered 52.3 percent, a 3.5-percentage point decrease compared to the March reading of 55.8 percent. The Employment Index registered 52.4 percent, a decrease of 5.1 percentage points from the March reading of 57.5 percent. The Supplier Deliveries Index registered 54.6 percent, a 0.4-percentage point increase from the March reading of 54.2 percent. The Inventories Index registered 52.9 percent, an increase of 1.1 percentage points from the March reading of 51.8 percent. The Prices Index registered 50 percent, a 4.3-percentage point decrease from the March reading of 54.3 percent.

The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above4 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 5/1/2019***

Raw Steel Production



In the week ending on April 27, 2019, domestic raw steel production was 1,895,000 net tons while the capability utilization rate was 81.4 percent. Production was 1,780,000 net tons in the week ending April 27, 2018 while the capability utilization then was 76.0 percent. The current week production represents a 6.5 percent increase from the same period in the previous year. Production for the week ending April 27, 2019 is down 0.4 percent from the previous week ending April 20, 2019 when production was 1,903,000 net tons and the rate of capability utilization was 81.8 percent.

Adjusted year-to-date production through April 27, 2019 was 31,849,000 net tons, at a capability utilization rate of 81.9 percent. That is up 6.8 percent from the 29,814,000 net tons during the same period last year, when the capability utilization rate was 76.4 percent.

Raw Steel Production 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, 4/30/2019***

INDUSTRY NEWS

US Steel Import Licenses Inch Up in April

The volume of foreign steel licensed for delivery to the United States rose slightly month on month in April, with a surge in wire rod volumes offsetting minor losses in flat product shipments, although overall volumes still fell year on year.

In total, the US was licensed to import nearly 2.55 million tonnes of steel in April, up by 0.6% from 2.53 million tonnes in March but down by 25.1% from 3.41 million tonnes in April 2018, according to license data from the US Department of Commerce's Enforcement and Compliance division.

While the overall volumes were little-changed compared with March, wire rod imports jumped by 58.9% - or 42,447 tonnes - month on month and by 58.2% - or 42,130 tonnes - year on year.

The top three suppliers of wire rod to the US last month were Germany, Canada and Egypt, shipping 25,257 tonnes, 24,231 tonnes and 18,443 tonnes, respectively.

Egypt and Australia exported no wire rod to the US in March but resumed shipments in April, sending relatively large volumes last month. Egypt exported 18,443 tonnes of wire rod to the US in April, while Australia sent 13,492 tonnes.

Fastmarkets' price assessments for domestic and imported wire rod both declined month on month in April, and one source argued that domestic mills' attempts to block imports via anti-dumping and countervailing duties - in addition to the Section 232 tariffs - could be driving recent price declines.

Notably, Commerce last month decided to revoke anti-dumping duties duties against certain carbon and alloy steel wire rod from South Korea and the United Kingdom, following requests from US steelmakers including Nucor Corp and Optimus Steel LLC.

On a percentage basis, shipments of line pipe logged the second-largest month-on-month increase, gaining 13.5%, or 19,219 tonnes; followed by blooms, billets and slabs, up by 6.8% (48,767 tonnes); and oil country goods, up by 2.1% (4,600 tonnes).

Shipments of line pipe from South Korea soared month on month, with volumes spiking more than five-fold to 42,372 tonnes in April from 7,864 tonnes in March.

Hot-rolled bar shipments inched down by 0.8% - or 544 tonnes - month on month, while flat-rolled steel products posted steeper volume decreases in the same comparison.

US import licenses for cold-rolled coil fell by 6.2% (8,223 tonnes) from March; hot-rolled coil by 5.2% (7,084 tonnes); hot-dipped galvanized sheet and strip by 3.9% (7,493 tonnes); and coiled plate by 3.2% (3,329 tonnes).

Fastmarkets AMM's price assessments for most flat-rolled steel imported into the United States trended lower in April, due to offshore material becoming less attractive amid falling domestic prices.

Fastmarkets AMM's daily US Midwest hot-rolled coil index was calculated at $32.51 per hundredweight ($650.20 per short ton) on Tuesday April 30, down by 5.6% fro $45.45 per cwt one month earlier.

Indeed, the US HRC index hit a 16-month low in the past week, analysts with BMO Capital Markets noted in an April 29 report. "Looking ahead, recent data suggests more downside risk in the near term, with scrap prices and lead times declining while US capacity utilization rates and imports remain elevated."

Domestic ferrous scrap prices are expected to fall during the May trade, sources have told Fastmarkets. And US crude steel mills have been operating at an average capacity utilization rate of 81.9% in the year through April 27, compared with an average rate of 76.4% in the same year-earlier period, according to the American Iron and Steel Institute. ***Source: AMM, 5/1/2019***

232 Helps US Crude Steel Grow at Faster Clip

Crude steel production in the United States rose by 6.8% in the first quarter, surpassed only by China's growth of 9.9% and well above the 4.5% global rate.

The relatively higher growth in US production was largely helped by the Trump administration's Section 232 trade remedy. The restraints on steel imports and quotas for certain nations have led to higher domestic steel prices and increasing market share by US domestic steel mills, which consequently have triggered capacity restarts and expansions.

"Chinese and U.S. steel production growth continue to be outliers in an otherwise muted global production backdrop (i.e., India, Europe, Turkey, Brazil)… We believe the muted global production and slowing global demand trends will continue to support a challenged global steel spread environment in 2019 [versus] a very robust 2018," KeyBanc Capital Markets analyst Phil Gibbs wrote in a report on April 29.

Fastmarkets AMM's daily US Midwest HRC index reached a nearly 10-year peak of $45.84 per hundredweight ($916.80 per ton) in July last year, up 14.5% from $40.30 per cwt in early March 2018 when the Section 232 tariffs and quotas on steel imports were announced, and up 40.5% from $32.63 per cwt at the start of last year.

The run-up in HRC and other steel product prices - including for flat-rolled, long products and pipe and tube - helped US-based steel mills reap enormous profits in the second and third quarters of 2018, also prompting a series of restarts and expansion plans by mills.

Late last year, U.S. Steel restarted two blast furnaces at its integrated steelmaking complex in Granite City, Illinois, while JSW Steel (USA) restarted an electric-arc furnace at its flat-rolled steel mill in Mingo Junction, Ohio - totaling more than 4.5 million tons of sheet capacity.

Altogether, the US steel industry has announced plans to build or restart up to 16.5 million tons of sheet capacity between 2018 and 2021, with annual apparent consumption (hot-rolled coil plus cold-rolled coil and coated) of approximately 50 million tons.

The strong growth in the US crude steel production during the January-March period extended a robust increase in 2018, the first time since 2014 that US crude steel output grew at a faster pace than globally. There were only three years between 2011 and 2018 that US steel production growth outpaced the global growth rate: in 2012, 2014 and 2018, Fastmarkets AMM calculated based on World Steel Association data.

The price of HRC has retreated following its run-up last year, partly due to investor fears of a supply glut in the coming years. Fastmarkets AMM's HRC index stood at $32.69 per cwt on Friday April 26, down 9.7% from $36.21 at year-end 2018, but still up slightly by 0.2% from $32.63 per cwt at the end of 2017. ***Source: AMM, 4/29/2019***

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INDUSTRY NEWS

U.S. FACTORY ACTIVITY AT TWO-AND-HALF-YEAR LOW, POINTS TO SLOWING ECONOMY

U.S. manufacturing activity slowed to a 2-1/2-year low in April amid a sharp drop in new orders while construction spending unexpectedly fell in March, suggesting economic growth was moderating after surging in the first quarter.

One of the reports from the Institute for Supply Management (ISM) on Wednesday showed businesses increasingly anxious that President Donald Trump's threats to close the U.S.-Mexico boarder would further disrupt the supply chain. Washington's trade war with China has created bottlenecks at factories.

The Federal Reserve kept U.S. interest rates unchanged on Wednesday, noting solid economic growth in the first quarter, and also holding out hope that inflation will rise toward the U.S. central bank's 2 percent target.

"The slowing manufacturing sector needs to be watched carefully as income gains are not strong enough to support solid growth," said Joel Naroff, chief economist at Naroff Economic Advisors in Holland, Pennsylvania.

The ISM said its index of national factory activity fell to 52.8 in April, the lowest reading since October 2016, from 55.3 in March. A reading above 50 indicates expansion in the manufacturing sector, which accounts for about 12 percent of the U.S. economy.

Economists polled by Reuters had forecast the ISM index dipping to 55.0 in April. The slowdown in manufacturing partly reflects sluggish global economies and continued uncertainty over the trade talks between the United States and China. A stockpile of unsold goods is also seen slowing manufacturing.

The ISM said 13 industries, including machinery, computer and electronic products, furniture, and electrical equipment, appliances and components reported growth last month. Apparel, transportation equipment and three other industries reported a contraction.

Manufacturers in the electrical equipment, appliances and components industry said "there is growing concern about supply chain product flow through the southern U.S. border." Those worries were also echoed by their counterparts in the computer and electronic products industry who said "Mexico-U.S. border crossing delays are slowing supplier deliveries."

Machinery and transportation equipment manufacturers said they were also monitoring the situation on the U.S. southern boarder. Trump has repeatedly threatened to shut down the border because of a surge in illegal immigrants seeking to enter the United States.

The dollar fell against a basket of currencies, while U.S. Treasury prices rose. Stocks on Wall Street were trading higher.

WEAK FACTORY ORDERS

The ISM's new orders sub-index dropped 5.7 points to a reading of 51.7 last month. More industries reported paying less for raw materials, which suggest inflation will probably remain muted for a while. A measure of export orders also fell and factories reported a decline in hiring, with a measure of manufacturing employment falling to 52.4 from 57.5 in March.

That suggests manufacturing payrolls remained weak in April after they dropped in March for the first time since July 2017. Weak manufacturing employment in April also suggested a step-down in overall job growth last month. The government is scheduled to publish April's employment report on Friday.

"The U.S. manufacturing sector remains under pressure," said Sarah House, a senior economist at Wells Fargo Securities in Charlotte, North Carolina. "We expect the sector's contribution to payrolls to be noticeably more minimal in the months ahead."

While the ADP National Employment Report on Wednesday showed private payrolls increased by 275,000 jobs in April, Moody's Analytics, who jointly developed the report downplayed the surge in hiring saying it "overstate the economy's strength."

It was the biggest private payrolls increase in nine months and followed a 151,000 gain in March. The economy grew at a 3.2 percent annualized rate in the first quarter, the government reported in its advance estimate last week, after expanding at a 2.2 percent pace in the October-December period.

The ADP report has a poor record of predicting the private payrolls component of the government's employment report.

Economists polled by Reuters are looking for nonfarm employment to have increased by 185,000 jobs after rising by 196,000 in March. Job growth has slowed from last year's 223,000 monthly average pace as workers become scarce.

The pace of job gains, however, remains above the roughly 100,000 per month needed to keep up with growth in the working age population. The unemployment rate is forecast to be unchanged at 3.8 percent in April.

A third report from the Commerce Department on Wednesday showed construction spending decreased 0.9 percent in March.

Data for January and February was revised lower to account for additional projects identified as eligible for inclusion in the series. Economists polled by Reuters had forecast construction spending rising 0.1 percent in March. ***Source: Reuters, 5/1/2019***