Metalwest
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MARKET INSIGHT
September 2019

ECONOMIC NEWS

U.S. Economy Growing Modestly as Trade War Dents Activity: Fed

The U.S. economy grew at a modest pace in recent weeks, with manufacturing buffeted by a global slowdown while consumer purchases gave mixed signals on the strength of household spending, the Federal Reserve reported on Wednesday.

The ongoing U.S.-China trade war loomed prominently in the U.S. central bank's latest Beige Book compendium of anecdotes from companies around the country, with several of its districts reporting the conflict was weighing on business.

The report, released ahead of the Fed's Sept. 17-18 policy meeting when central bankers are widely expected to cut interest rates to counter the economic slowdown, suggested that U.S. businesses do not expect a recession soon.

"Although concerns regarding tariffs and trade policy uncertainty continued, the majority of businesses remained optimistic about the near-term outlook," according to the Fed's report.

The central bank said growth in employment appeared to be "modest" in recent weeks, a pace that was "on par with the previous reporting period."

But manufacturing activity was slightly weaker than during the previous period, the Fed said.

The report detailed a host of concerns by businesses about tariffs, including the prospect that uncertainty over the direction of trade policy could dampen investment.

In the Fed's Boston district, which includes much of New England, "tariffs continued to be a minor but persistent pricing issue for manufacturers."

America's trade conflicts are also compounding problems faced by farmers, the report said.

"Agricultural conditions remained weak as a result of unfavorable weather conditions, low commodity prices, and trade-related uncertainties," according to the report.

The central bank's business contacts mostly reported ongoing growth in consumer spending, the main engine for U.S. economic growth, which has appeared strong in recent months despite the global slowdown.

But some parts of the country appeared to be less robust.

In the St. Louis district, which covers a swath of the Midwest and South, "reports from general retailers and auto dealers indicate consumer activity has been mixed since our previous report." The Minneapolis district reported that consumer spending was flat, while the Atlanta district noted that consumer loan growth declined.

Source: Reuters, 9/4/2019

U.S. Job Growth Misses Estimates in August With 130,000 Increase

U.S. companies' hiring stumbled in August, likely cementing expectations for a second straight Federal Reserve interest-rate cut as trade uncertainty and softer global growth weigh on the outlook.

Private payrolls rose 96,000, a three-month low, after a downwardly revised 131,000 advance the prior month, according to a Labor Department report Friday that trailed the median estimate of economists for a 150,000 gain. Total nonfarm payrolls climbed a below-forecast 130,000, which was boosted by 25,000 temporary government workers to prepare for the 2020 Census count.

The jobless rate held at 3.7%, near a half-century low, while average hourly earnings topped forecasts with a 3.2% gain from a year earlier and 0.4% from the prior month.

The data suggest bigger cracks are forming in the labor market, which could threaten the chief U.S. economic engine of consumer spending and the record-long expansion itself -- along with President Donald Trump's re-election chances in 2020.

With the U.S.-China trade war and weakness abroad already causing concern and Treasury yields down sharply this year, calls may grow for the Fed to cut interest rates this month by a half point instead of a quarter point.

The amount of Fed easing priced in for 2019 was little changed after the jobs report was released. Treasuries rallied slightly on the figures, with the yield on the 10-year note at about 1.58% versus 1.6% before the data was released.

"The bottom line is that payroll growth is slowing and that is a worrying trend," Torsten Slok, chief economist at Deutsche Bank said on Bloomberg Television. "The general picture here is certainly of a slowing economy."

The U.S. expansion is becoming increasingly dependent on steady job gains that have been powering strong consumer spending. Concerns about a recession have intensified because of weakness in manufacturing that's resulting partly from the trade war and slowing global demand.

Fed Chairman Jerome Powell will have a chance to clarify the central bank's view of the economy on Friday. He is due to speak at 12:30 p.m. New York time, answering questions from a moderator at the University of Zurich.

Economists surveyed by Bloomberg had projected 160,000 new nonfarm jobs with unemployment at 3.7% and annual wage gains at 3%.

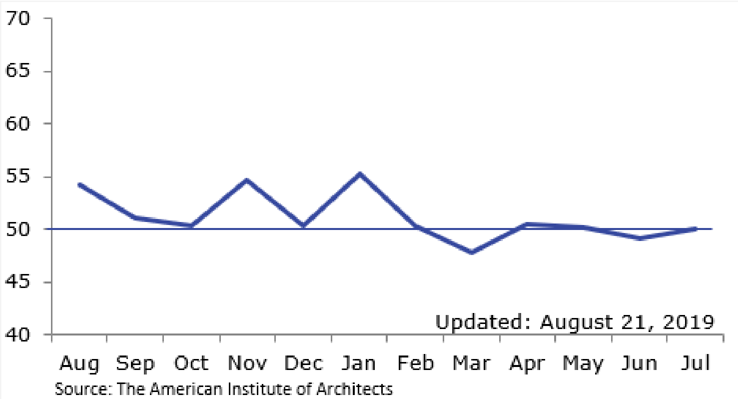
Revisions subtracted 20,000 jobs from the prior two months, bringing the three-month nonfarm average to 156,000.

Private employers added an average 129,000 jobs over the last three months. The latest figures contrast with ADP Research Institute data this week showing U.S. companies added 195,000 jobs in August.

Still, there were several signs the labor market remains solid. The participation rate, or share of working-age people in the labor force, increased to 63.2%, while the employment-population ratio rose to 60.9%, both up 0.2 percentage point from the prior month. ***View the rest of the article here: Bloomberg, 9/6/2019***

KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

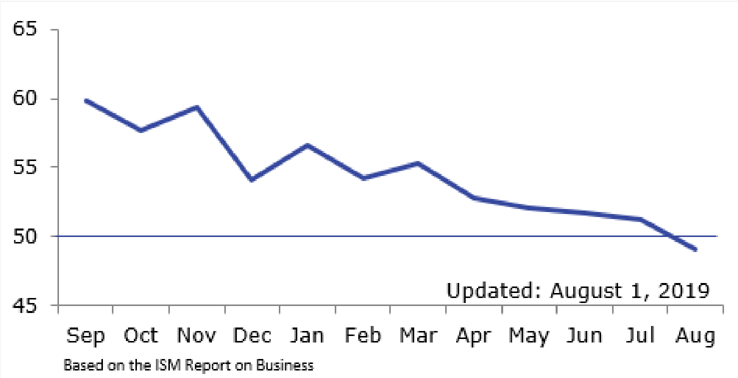


Source: The American Institute of Architects

The Architecture Billings Index score for July came in at a score of 50.1. This is a 1-point increase from last month's score of 49.1, marking a small increase in demand for design services. Billings scores fell in two of the four individual industry sectors. The commercial/industrial sector fell by 3.1 points to a score of 49.2, while the mixed practice sector decreased by 5.4 points to a score of 48.9. The multifamily residential score increased by 4.3 points to 50.6 and the institutional sector increased by 2.8 points to a score of 49.8.

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, 8/21/2019***

Purchasing Managers Index®



Based on the ISM Report on Business
Source: Institute for Supply Management

The August PMI® registered 49.1 percent, a decrease of 2.1 percentage points from the July reading of 51.2 percent. The New Orders Index registered 47.2 percent, a decrease of 3.6 percentage points from the July reading of 50.8 percent. The Production Index registered 49.5 percent, a 1.3-percentage point decrease compared to the July reading of 50.8 percent. The Employment Index registered 47.4 percent, a decrease of 4.3 percentage points from the July reading of 51.7 percent. The Supplier Deliveries Index registered 51.4 percent, a 1.9-percentage point decrease from the July reading of 53.3 percent. The Inventories Index registered 49.9 percent, an increase of 0.4 percentage point from the July reading of 49.5 percent. The Prices Index registered 46 percent, a 0.9-percentage point increase from the July reading of 45.1 percent.

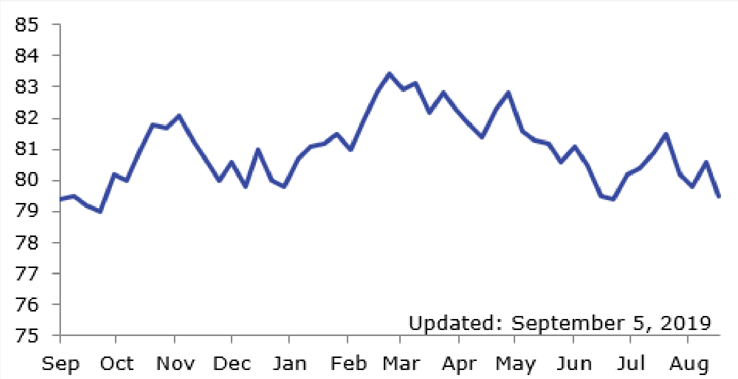
The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above4 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 8/1/2019***

In the week ending on August 31, 2019, domestic raw steel production was 1,850,000 net tons while the capability utilization rate was 79.5 percent. Production was 1,861,000 net tons in the week ending August 31, 2018 while the capability utilization then was 79.4 percent. The current week production represents a 0.6 percent decrease from the same period in the previous year. Production for the week ending August 31, 2019 is down 1.4 percent from the previous week ending August 24, 2019 when production was 1,877,000 net tons and the rate of capability utilization was 80.6 percent.

Adjusted year-to-date production through August 31, 2019 was 65,313,000 net tons, at a capability utilization rate of 80.8 percent. That is up 4.1 percent from the 62,723,000 net tons during the same period last year, when the capability utilization rate was 77.3 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, 9/4/2019***

Raw Steel Production



Source: AISI

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U.S. Steel Imports Shoot Up in July, Down YTD on Tariffs

U.S. steel imports have surged roughly 48% in July – according to the latest report from the American Iron and Steel Institute ("AISI"), an association of North American steel makers.

Per the AISI, total domestic steel imports shot up 48.3% from June to around 3.03 million net tons in July. Finished steel imports also went up 6.6% to 1.84 million net tons. These figures are based on final U.S. Census Bureau data, the AISI noted.

The biggest offshore suppliers for July were South Korea with 180,000 net tons (up 10% from June), Japan with 87,000 net tons (down 23%), Taiwan with 83,000 net tons (down 3%), Brazil with 80,000 net tons (up 423%) and Germany with 75,000 net tons (down 24%).

Despite the significant spike in July, total steel imports are down 10.6% year to date (through the first seven months of 2019) on a year over year comparison basis to roughly 18.67 million net tons. Finished steel imports are also down 16.4% year over year to 13.54 million net tons. The decline reflects the impact of the 25% tariff on steel imports which the Trump administration had levied last year.

Finished steel import market share was estimated at 19% in July. That is down from 20% clocked in June. Finished steel import market share was estimated at 21% for the first seven months of 2019.

For 2019, annualized total and finished steel imports are expected to decline 5.1% and 9.7% year over year, respectively, per the AISI.

Falling Steel Prices, Waning Demand Hurt U.S. Players

U.S. steel imports dropped roughly 12% last year under the weight of steep tariffs which the Trump administration imposed on imported steel under Section 232 of the Trade Expansion Act of 1962.

The tariffs instilled optimism in the long-struggling U.S. steel industry and helped domestic steel industry capacity break above 80% (the minimum rate required for sustained profitability of the industry) last year after remaining below that level for years. The tariffs drove up production capacity of U.S. steel producers amid lower imports. Improved capacity also provided a boost to U.S. steel production.

The Trump administration's trade actions also largely helped U.S. steel companies to rack up solid earnings in 2018. The tariffs provided a boost to U.S. steel prices last year, driving profits and cash flows of American steel makers including United States Steel Corp. X, Nucor Corp. NUE and Steel Dynamics, Inc. STLD.

The trade actions also incentivized a number of U.S. steel makers to invest heavily on ramping up production capabilities and upgrade facilities. However, higher production, partly driven by restarted mills, has contributed to the sharp decline in U.S. steel prices this year.

Notably, after rallying to multi-year highs on the back of Trump administration's imposition of tariffs, U.S. steel prices have now fallen back to the levels seen prior to the tariff announcement.

U.S. steel prices tracked downward in the back half of 2018 and continued to retreat this year. The benchmark hot-rolled coil steel prices went downhill through the second quarter. Prices are now well below their peak level of roughly $920 per short ton (st) reached in July 2018. They are down nearly 40% from the high levels reached last year.

Uncertainties surrounding global economic growth and concerns over a slowdown in steel demand in China (the world's top consumer) amid a cooling Chinese economy are other factors for the decline in steel prices.

Waning steel demand poses problems for steel producers. Slowdown across major end-use markets such as automotive, construction and energy are hurting steel demand. Demand has softened across the United States and Europe.

Moreover, a slowing Chinese economy amid escalating trade tensions with the United States has triggered a slowdown in steel demand in China. Signs of weakness across the country's major steel end-use markets — construction and automotive — as reflected by a slowdown in real-estate investment growth and falling car sales have clouded steel demand outlook.

While some of the U.S. steelmakers have recently taken steps to reduce capacity in the wake of declining domestic steel prices, the move is not expected to result in a significant recovery in prices anytime soon given the oversupply in the market and weak domestic steel demand.

Exemptions from tariffs is another concern. The United States, in May 2019, reached a deal to lift steel and aluminum tariffs from Canada and Mexico. These major trade partners have long been pushing the Trump administration to repeal the tariffs. The deal paved the road for the ratification the new United States-Mexico-Canada Agreement (USMCA) to replace the North American Free Trade Agreement (NAFTA).

Canada and Mexico are two major sources of steel imports to the United States, together representing roughly a quarter of U.S. steel imports. Following the imposition of tariffs in March 2018, President Trump softened his stance by excluding Canada and Mexico from the tariff orders, noting that they represent "a special case". However, the United States moved ahead with tariffs on steel and aluminium imports from Canada and Mexico after the expiration of temporary exemptions on these countries on Jun 1, 2018. Complete exemption of these two top steel exporters does not augur well for U.S. steel companies.

The Trump administration earlier had excluded Australia from the tariffs. Moreover, the United States reached quota agreements on steel imports with Argentina, Brazil and South Korea. There is still a possibility that other countries could be exempted from the tariff orders on the basis of quotas. ***Source: Yahoo Finance, August 29, 2019***

Downstream Closures, Layoffs Haunt Metals

Steel and other metals suppliers are returning from their Labor Day holiday to a murky pricing outlook that may be further undermined by their customers' plant closures and other cutbacks.

Economic news in August was dominated by the intensifying trade war between the United States and China and the inverted yield curve in the US bond market. The macro jitters are one reason that a rebound in steel prices stalled, as evidenced by Fastmarkets' steel hot-rolled coil index, fob mill US, which was

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stuck in a range of $29-30 per hundredweight ($580-600 per ton) in the second half of the month.

While the broader US economy is still growing, the manufacturing sector is probably already in a recession, according to Chad Moutray, chief economist for the National Association of Manufacturers.

"Businesses in the US have become more hesitant in their spending," Moutray said in a Q&A on the association's website. "Within the manufacturing industry, production is contracting both in the US and abroad, and hiring has slowed in the sector," Moutray said.

A Fastmarkets survey of Worker Adjustment and Retraining Notification (WARN) notices and other company layoff announcements reinforces the worry that mills and distributors may face challenges in maintaining volumes and pricing. Aside from the well-recognized lower volumes among big automakers and belt-tightening in the oil-and-gas sector, metals businesses are being hit hard as WARN notices signal reticence in end-use segments including:

Transportation

- Venchurs, a provider of packaging kits and racks for auto components and power trains, in September is closing a facility in Michigan that employs 152 people.
- Mitchel Group, which machines auto parts from bar stock, will close two plants, in Indiana and Tennessee, and terminate all 143 employees there in October.
- Fisher Auto Parts will close an Ohio plant in October, with the loss of 137 jobs.
- Gearbox provider Merit Gear will shutter a Wisconsin plant and terminate 70 employees by the first quarter of 2020.
- FreightCar America will cut 200 jobs as it closes a plant in Virginia in late September.
- Another railcar maker, ACF Industries, said it will lay off 63 people at its Pennsylvania location in October.

Industrial machinery and tools

- Tube bending equipment provider Addition Manufacturing Technologies was scheduled to close a plant in Ohio, with the loss of 119 jobs, effective August 30.
- Timken Drives confirmed to Fastmarkets on August 29 that it was laying off 63 people in Illinois, effective Tuesday September 3.
- Cleveland Hardware & Forging is closing an Ohio facility in September, with the loss of 25 positions.
- Stanley Black & Decker will close an Ohio plant in October, with a reduction of 91 jobs.
- Kennametal has announced a closure and loss of 60 jobs in Pennsylvania, with the wind-down there beginning in October.
- Electrical enclosures foundry Burndy will lay off 54 people in Connecticut by the end of the year as a result of production being shifted to Alabama.

Food

- Metal can producer Silgan Containers is laying off 87 people in October in California and will close a plant in Wisconsin, with the loss of 70 jobs by November.
- Tramontina USA Cookware, a producer of metal pots, pans and utensils, is closing a Wisconsin plant and letting go 145 workers between now and the end of the year.

Construction

- Goodman Manufacturing, a producer of heating, ventilating and air conditioning systems, is cutting 703 positions at a Tennessee plant, effective Friday September 27.
- United Structures of America is closing a Texas steel-buildings plant in September, at a loss of 73 jobs, and another in Tennessee, subtracting 45 workers, in September.

Serving almost all of those industries - and cutting 232 jobs this year beginning in July - is Sivyer Steel Castings in Iowa. That location includes electric-arc furnaces with annual capacity of 40,000 gross tons, according to the company's website. The company also makes armor for the US and Israeli militaries and security bollards.

Some US downstream business have been hurt by Section 232 tariffs that have been placed on their raw materials but not on competing foreign finished goods.

Even the metals industries' upstream suppliers are trimming costs and reducing production, as evidenced by WARN notices. Refractories maker HarbisonWalker is cutting 87 workers in Missouri in October. Akers National Roll said 47 employees will lose their jobs in a Pennsylvania closure this month. Metal coater Alliance Industries is cutting 22 jobs in Wisconsin beginning this week.

Although mills are idling some capacity and trimming their workforces in the steelmaking, energy-tubular and tinplate businesses, mostly they have been reluctant to let a large number of employees go. As the US labor market tightened in 2017-19, mills learned how challenging it can be to find employees with the necessary skills and willingness.

“The mills do not want to lay off their employees," a southern steel pipe distributor said. "They spent the last three years training them and getting them up to speed, so for now they seem to want to wait, hoping to see things getting better."

Moutray said American industry needs policy certainty, including the ratification of the United States-Mexico-Canada Agreement, re-authorization of the Export-Import Bank of the United States and a trade truce with China.

"Manufacturers remain optimistic about the future, but in order to keep growing, we need to address the workforce crisis and resolve trade uncertainties," Moutray said. ***Source: AMM, September 3, 2019***