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MARKET INSIGHT
October 2020

ECONOMIC NEWS

U.S. LABOR MARKET, INCOME DATA POINT TO DRAWN-OUT ECONOMIC RECOVERY

The number of Americans filing new claims for jobless benefits fell last week but remained at recession levels, while personal income dropped in August, underscoring the need for another government rescue package for businesses and the unemployed.

The decline in initial claims reported by the Labor Department on Thursday likely reflected a decision by California, the most populous state in the nation, to suspend the processing of new applications for two weeks to combat fraud. Factory activity slowed in September, other data showed.

Economists are warning that the economy and labor market recovery from the COVID-19 slump could sputter without an infusion of new money from the government. House of Representatives Speaker Nancy Pelosi, a Democrat, and Treasury Secretary Steven Mnuchin are working toward a bipartisan agreement for another fiscal package.

“The recovery’s wheels are spinning in the sand,” said Chris Rupkey, chief economist at MUFG in New York. “It’s going to be a slow return to normal for the economy.”

Initial claims for state unemployment benefits decreased 36,000 to a seasonally adjusted 837,000 for the week ended Sept. 26. Economists polled by Reuters had forecast 850,000 applications in the latest week.

California is using the two-week pause to reduce its claims processing backlog and implement fraud prevention measures. The Labor Department acknowledged the suspension could result in “significant” week-to-week swings in initial claims “unrelated to any changes in economic conditions.”

Including a government-funded program for the self-employed, gig workers and others who do not qualify for the regular state unemployment programs, 1.4 million claims were filed last week.

Though filings have dropped from a record 6.867 million at the end of March, they remain well above their 665,000 peak during the 2007-2009 Great Recession.

Labor market gains from the reopening of businesses are fading and economists are predicting a slowdown in hiring through the rest of this year and into 2021. **To continue reading visit: Reuters, October 1, 2020.**

US ECONOMY GAINS 661,000 PAYROLLS, UNEMPLOYMENT RATE TICKS DOWN TO 7.9%

The US economy saw another 661,000 jobs added back in September and a modest improvement in the unemployment rate, as the recovery in the labor market continues at a stagnating rate.

The addition in non-farm payrolls marked the fifth straight month of net job gains. July’s payroll gains were upwardly revised by 27,000 to 1.761 million, and August’s were revised up by 118,000 to 1.489 million.

Still, the economy remains far from recuperating the jobs lost during the nadir of the pandemic period in March and April. Between those two months, employment fell by more than 22 million. Through September, just 11.4 million jobs were brought back.

By industry, leisure and hospitality employers brought back by far the most payrolls in September at 318,00, with nearly two-thirds of these gains coming in bars and restaurants as these businesses reopened further. Still, employment at food services and drinking places remains lower by 2.3 million compared to February – even with job growth totaling 3.8 million over the past 5 months.

Retail trade added back more than 142,000 jobs during the month, comprising a major portion of the overall job gains in September, but representing step down from the 261,000 payrolls added in these industries in August.

Government jobs were the only category to post net job losses during the month, driven by a decline in the number of temporary Census 2020 workers.

Meanwhile, the unemployment rate ticked down more than expected in September, improving further from the pandemic-era high of 14.7% in April, but still coming in at more than double the unemployment rate from February this year before the outbreak. And September’s drop in the jobless rate also coincided with an unexpected decline in the labor force participation rate, reflecting a decline in the number of Americans either employed or actively seeking employment.

Even as the US economy brings back some workers, an increasing number of Americans have found their layoffs to be permanent. The number of permanent job losers jumped by 345,000 to 3.8 million in September, with this number having increased by 2.5 million since February.

The number of individuals reported as being on temporary layoff fell by another 1.5 million in September to 4.6 million, reflecting a shift to longer-term unemployment for some, and a return to employment by others. This metric has dropped considerably from the 18.1 million in this category in April, but has still held well above pre-pandemic levels.

Other labor market indicators ahead of Friday’s report offered a similar take on the state of the labor market in September – that jobs are still coming back on net but at a slowing rate, and with an undercurrent of layoffs and job cuts still taking place.

ADP’s monthly report on private payrolls, while an imprecise indicator of the Labor Department’s report, showed 749,000 jobs added back in September, for a print better-than-expected but still a step down from the multi-millions of job gains reported in May and June. New weekly jobless claims in mid-September —around the time that the Labor Department’s monthly non-farm payrolls survey takes place — fell below 1 million in a sharp improvement from the millions of claims added per week in the spring.

But job cuts have still remained elevated. The Challenger Job Report out Thursday showed that job cuts announced by US employers were 186% higher in September this year than last year, and also accelerated slightly from August. **Source: Yahoo Finance, October 2, 2020.**

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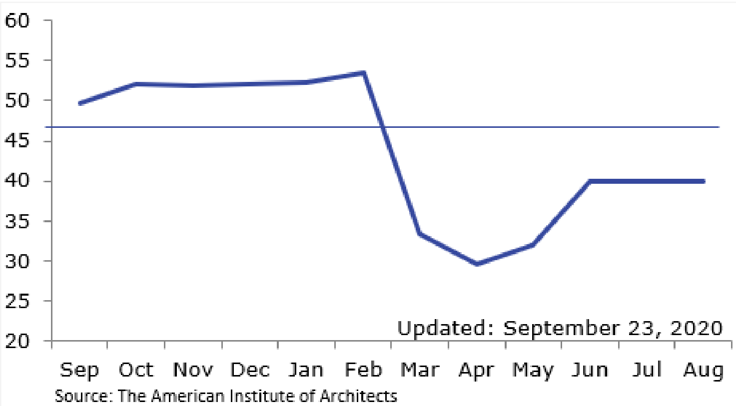
KEY ECONOMIC INDICATORS

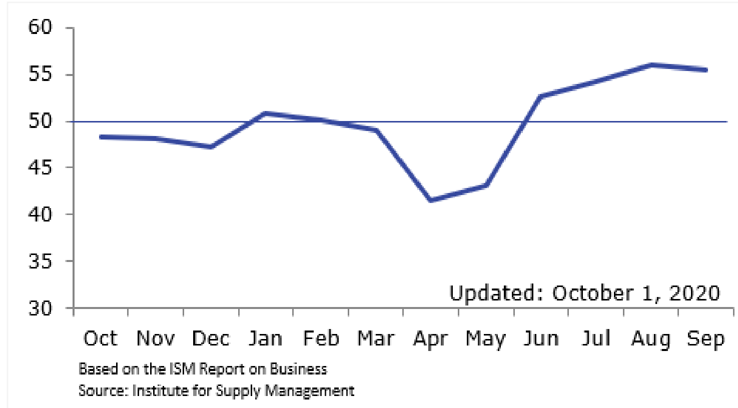
ARCHITECTURE BILLINGS INDEX (ABI)



Business conditions remained stalled at architecture firms in August, with the Architecture Billings Index (ABI) recording a score of 40 for the third consecutive month. While fewer firms reported declining billings in August than during the early months of the COVID-19 pandemic, the fact that the score has been unchanged for the last three months means that the share of firms reporting increasing billings has not risen during that time. However, there is some reason to be optimistic when it comes to work in the pipeline: inquiries into new projects grew in August for the first time since February, and the value of new design contracts increased to a score of 46.0, indicating that fewer firms reported a decline this month, despite the fact that they remained negative overall.

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity. An index score above 50 indicates an increase in firm billings, and a score below 50 indicates a decline in firm billings. *Source:* ***American Institute for AIA, 9/23/2020***

PURCHASING MANAGERS INDEX®



The September PMI® registered 55.4 percent, down 0.6 percentage point from the August reading of 56 percent. This figure indicates expansion in the overall economy for the fifth month in a row after a contraction in April, which ended a period of 131 consecutive months of growth. The New Orders Index registered 60.2 percent, a decrease of 7.4 percentage points from the August reading of 67.6 percent. The Production Index registered 61 percent, down 2.3 percentage points compared to the August reading of 63.3 percent. The Backlog of Orders Index registered 55.2 percent, 0.6 percentage point higher compared to the August reading of 54.6 percent. The Employment Index registered 49.6 percent, an increase of 3.2 percentage points from the August reading of 46.4 percent. The Supplier Deliveries Index registered 59 percent, up 0.8 percentage point from the August figure of 58.2 percent. The Inventories Index registered 47.1 percent, 2.7 percentage points higher than the August reading of 44.4 percent. The Prices Index registered 62.8 percent, up 3.3 percentage points compared to the August reading of 59.5 percent. The New Export Orders Index registered 54.3 percent, an increase of 1 percentage point compared to the August reading of 53.3 percent.

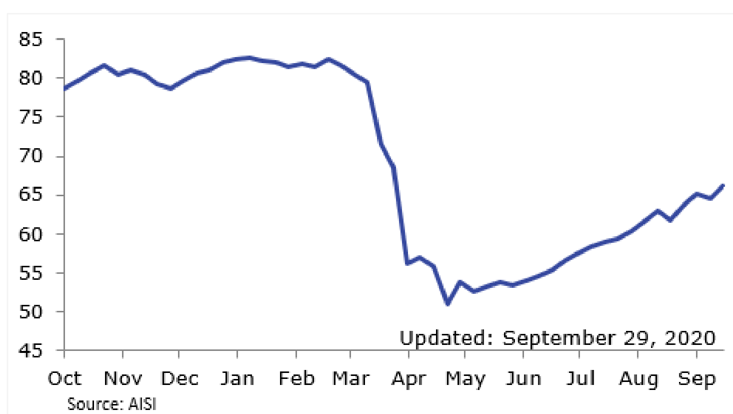
The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 10/1/2020***

RAW STEEL PRODUCTION

In the week ending on September 26, 2020, domestic raw steel production was 1,480,000 net tons while the capability utilization rate was 66.1 percent. Production was 1,801,000 net tons in the week ending September 26, 2019 while the capability utilization then was 77.4 percent. The current week production represents a 17.8 percent decrease from the same period in the previous year. Production for the week ending September 26, 2020 is up 2.4 percent from the previous week ending September 19, 2020 when production was 1,446,000 net tons and the rate of capability utilization was 64.5 percent.

Adjusted year-to-date production through September 26, 2020 was 57,654,000 net tons, at a capability utilization rate of 65.8 percent. That is down 20.1 percent from the 72,134,000 net tons during the same period last year, when the capability utilization rate was 80.3 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, 9/29/2020***



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INDUSTRY NEWS

Cliffs Is Shaking Up the Steel Business in the U.S. It Might Not Be Enough

Cleveland-Cliffs is morphing from an iron-ore supplier into a steel giant. That could bail out the U.S. steel industry from a looming capacity problem, labeled steel-mageddon by one analyst.

If that outcome proves correct, it could help the stocks of steel producers recover from a brutal two-year stretch.

Cliffs (ticker: CLF) announced plans on Monday to buy the U.S. assets of ArcelorMittal (MT). The transaction—following its purchase of AK Steel announced in 2019—could make Cliffs the second-largest U.S. steelmaker, with about 17 million tons of capacity.

The transaction takes the number of significant U.S. suppliers from five to four, KeyBanc analyst Philip Gibbs said in a research report published Monday. "This should be a general positive, all else equal." Fewer producers, in theory, have more control over supply, which can mean more stability in commodity prices and more profitability.

Commodity industries with a large number of small suppliers often produce poor returns for investors. That has been the case in the U.S. steel industry. Shares of large U.S. steelmakers are down about 50% on average over the past two years. The S&P 500 and Dow Jones Industrial Average, for comparison, are up 13% and 4%, respectively over the same span.

Steel pricing has also been a problem. Benchmark steel prices have fallen from a high of roughly $950 a ton to about $550 over the past couple of years.

Weak demand from a pandemic-induced recession has hurt the supply-and-demand balance in the industry. But the U.S. steel industry is adding to its own woes by adding capacity in the face of falling demand. The counterintuitive approach to supply growth is a consequence of technology. Minimill producers such as Nucor (NUE), which for the most part remelt scrap steel, can make money at lower steel prices than traditional, blast-furnace steelmakers that make steel from iron-ore and coal products.

Bank of America analyst Timna Tanners wonders whether consolidation can avert a steel-making apocalypse. "If Cliffs were to permanently shutter this capacity, it could offset a glut of new [minimill capacity] we have warned of, aka Steel-mageddon," she wrote in a Tuesday research report.

Averting that scenario won't be easy. "We estimate 10 [to] 14 [million tons] of sheet/plate supply would need to shut to balance the market," she wrote. "Would [Cliffs] acquire assets only to close most of them?" Tanners doesn't think Cliffs will close capacity quickly, which is ultimately bad for steel prices.

GLJ Research analyst Gordon Johnson also doubts the deal will bring material change to U.S. steel markets. "Why triple down on also-ran blast-furnace steel mill capacity/technology…when [minimills] appear to be the way the industry is headed," he wrote in a Tuesday research note. ***Source: Barron's, September 29, 2020***

Is The Oil Rig Count Collapse Finally Over?

Baker Hughes reported on Friday that the number of oil rigs in the United States rose by 4 to 183.

The total number of active oil and gas rigs increased for the week by 6 to 261, with oil rigs increasing by 4 and gas rigs increasing by 2.

Total oil and gas rigs in the United States are now down by 599 compared to this time last year.

The EIA's estimate for oil production in the United States fell for the week ending September 18—the last week for which there is data, to 10.7 million barrels of oil per day, down from 10.9 million bpd in the week prior and 10.0 million bpd the week before that. U.S. oil production is still down 2.4 million bpd from its all-time high reached earlier this year.

Canada's overall rig count rose by 7 this week. Oil and gas rigs in Canada are now at 71 active rigs, down 56 year on year.

The Frac Spread Count in North America, which is provided by Primary Vision, rose by 4 last week, from 85 to 89. The Frac Spread Count—a metric that shows active well completion crews as opposed to Baker Hughes' active well drilling - has sat below 100 since the last week of April. Before April, the Frac Spread Count has never dipped below 150 since Primary Vision started to collect data in 2014. ***Source: Oil Price, September 25, 2020***