

## ECONOMIC NEWS

### U.S. ECONOMY GOT OFF TO MODEST START IN 2021, FED SAYS

The U.S. economic recovery continued at a modest pace over the first weeks of this year, with businesses optimistic about the months to come and demand for housing “robust,” but the job market showing only slow improvement, the Federal Reserve reported on Wednesday.

“Economic activity expanded modestly from January to mid-February for most” of the Fed’s 12 regional districts, the U.S. central bank said in its latest “Beige Book” compendium of anecdotes about the economy. “Most businesses remain optimistic regarding the next 6-12 months as COVID-19 vaccines become more widely distributed.”

The Fed, however, reported that the labor market, which remains about 10 million jobs short of where it was before the start of the coronavirus pandemic in 2020, was not gaining as much traction as had been hoped.

“Most Districts reported that employment levels rose over the reporting period, albeit slowly,” the Fed said, an outcome disappointing to officials who have hoped their efforts to support the recovery would pay off in faster job creation.

There were reports of labor shortages among some businesses due to the pandemic and related issues like child care, rising prices in some sectors as commodity and other input costs increased, and some wage pressures to fill open jobs.

In the Philadelphia Fed’s district, some contacts noted the debate in Washington over whether to impose a \$15 minimum wage, and while several “worry about a potential minimum wage increase, one contact said that wages were rising because of demand for labor – ‘the \$15.00 minimum is already here.’ Another pointed to job ads offering \$23 an hour for warehouse jobs.”

But for the parts of the economy hardest hit by the pandemic, including the leisure and hospitality sectors, there was little sign of improvement so far. Hotel buildings and other commercial real estate investments tied to those industries “deteriorated somewhat,” the Fed said in its report.

The report represented “a slight upgrade” to the one issued in January, with a few more Fed districts reporting at least modest economic growth, said Krishna Guha, vice-chairman at ISI Evercore. Moreover, “there are few signs of imminent price acceleration” that might challenge the Fed’s commitment to maintaining low interest rates.

### BREAKOUT POTENTIAL

The Fed is due to hold its next policy meeting in two weeks, amid an increasing sense that the risks from the pandemic will subside, and the economy start to register strong growth.

The boost in the economic outlook, driven by the

expanding U.S. COVID-19 vaccination program and the potential for a \$1.9 trillion federal spending package, has led to market speculation the Fed may be forced to scale back its support for the economy sooner than expected.

Fed officials in recent days have rebutted that idea by noting the long list of problems still on the table, from high joblessness to weak inflation, that would need to ease before it considers any change in monetary policy.

The latest Beige Book report gave voice to what recent economic data has shown: an economy whose breakout potential is so far just that, an aspiration that has not yet proved itself as the virus and recovery continue a tug of war.

In the Boston Fed district, those in the restaurant industry, “were optimistic for the first time since the pandemic began,” but at the same time faced the fact that with the virus still not controlled, “conventions that were supposed to take place in the Boston area during the summer of 2021 were postponed.”

About 15% of the U.S. population has been vaccinated with at least one dose of a coronavirus vaccine. Yet COVID-19 cases are being added at rate of around 50,000 daily, a decline from the winter surge but proof the virus is still in circulation.

At a time when forecasters anticipate economic growth perhaps rivaling the record rates seen immediately after World War Two, officials across the Fed’s districts stuck to words like “modest” and “slight” to describe the pace of the current rebound.

The brightest spot perhaps was residential real estate, where a number of districts reported continued strength, with factors such as the rise of remote work prompting people to relocate.

“Contacts from Massachusetts, Rhode Island, and Maine saw high numbers of out-of-state buyers, especially for homes in vacation communities,” the Boston Fed reported. A Massachusetts contact said low interest rates and flexible work arrangements had “likely provided a boost” to demand for vacation homes.

Housing prices in many districts rose sharply as buyers competed for a limited supply of homes. In the Richmond district, some realtors reported that houses “frequently sell within an hour, often sight-unseen.” **Source:**

**Reuters, March 3, 2021**

## ECONOMIC NEWS

### U.S. JOB GROWTH SURGES PAST ESTIMATES; UNEMPLOYMENT DIPS TO 6.2%

U.S. employers added more jobs than forecast in February and the unemployment rate declined, suggesting the labor market is clawing its way forward again following several disappointing months.

Payrolls increased 379,000 after an upwardly revised 166,000 January increase, according to a Labor Department report Friday. Economists in a Bloomberg survey projected a 200,000 February gain. The unemployment rate dropped to 6.2%.

A decline in Covid-19 cases, along with an easing of business restrictions in some states, is starting to result in more hiring even as millions of Americans remain unemployed. February job growth was propelled by a 355,000 surge in leisure and hospitality employment, an industry hardest-hit by the pandemic and key to a broader recovery in the labor market.

"The core story here is that the re-opening of services will be the dominant factor in the payroll numbers over the next few months," Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note. In March, job growth "could

easily see a 1 million" gain in employment, unless there's a renewed surge in infections, he said.

The report adds to recent evidence, including data on manufacturing and retail sales, that the economy is gaining momentum. High-frequency data have also shown additional improvement, including an uptick in restaurant bookings.

The yield on the 10-year Treasury note advanced to the highest in more than a year following the report, while U.S. stocks advanced in early trading and the dollar rose.

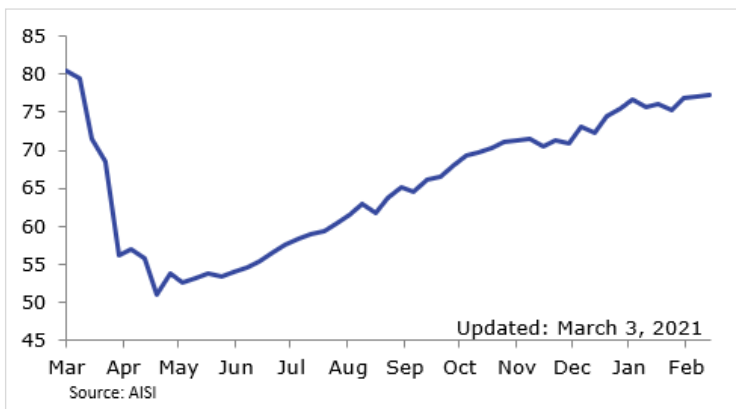
Many economists expect to see job prospects, and economic growth, improve in the coming months as vaccinations pick up and virus concerns ease further.

Policy makers are closely monitoring the labor market as they consider another economic stimulus bill. President Joe Biden's \$1.9 trillion relief package -- which includes an extension of federal unemployment benefits -- passed the House of Representatives on Saturday and the Senate's final vote is expected as soon as this weekend.

Continue reading at: [Bloomberg, March 5, 2021](#)

## KEY ECONOMIC INDICATORS

### RAW STEEL PRODUCTION

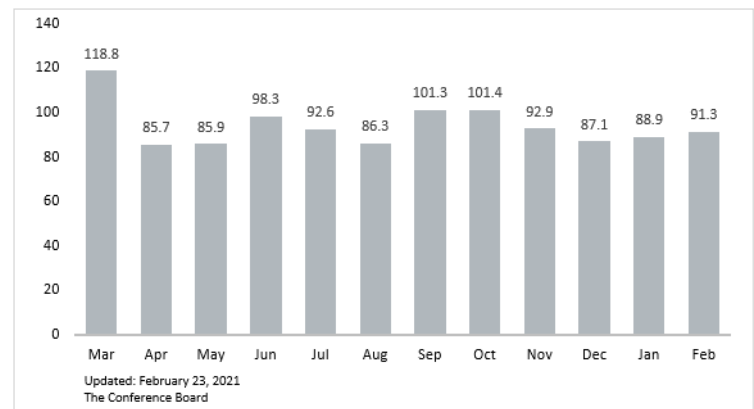


In the week ending on February 27, 2021, domestic raw steel production was 1,749,000 net tons while the capability utilization rate was 77.2 percent. Production was 1,880,000 net tons in the week ending February 27, 2020 while the capability utilization then was 81.3 percent. The current week production represents a 7.0 percent decrease from the same period in the previous year. Production for the week ending February 27, 2021 is up 0.2 percent from the previous week ending February 20, 2021 when production was 1,745,000 net tons and the rate of capability utilization was 77.0 percent.

Adjusted year-to-date production through February 27, 2021 was 14,357,000 net tons, at a capability utilization rate of 76.5 percent. That is down 8.4 percent from the 15,674,000 net tons during the same period last year, when the capability utilization rate was 81.9 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, 3/3/2021**

### CONSUMER CONFIDENCE

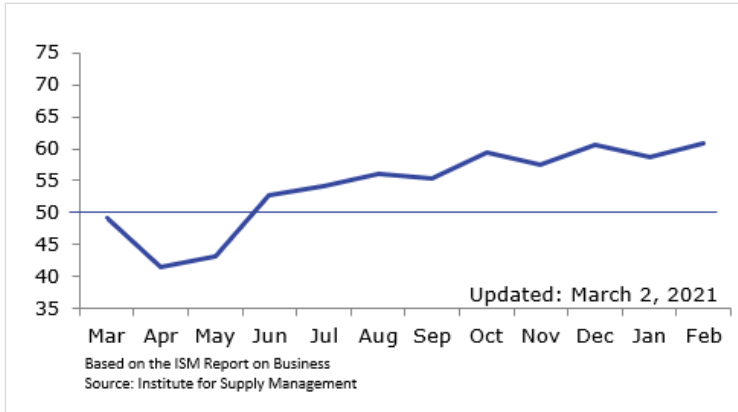


The Conference Board Consumer Confidence Index® improved again in February, after increasing in January. The Index now stands at 91.3 (1985=100), up from 88.9 in January. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—climbed from 85.5 to 92.0. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell marginally, from 91.2 last month to 90.8 in February.

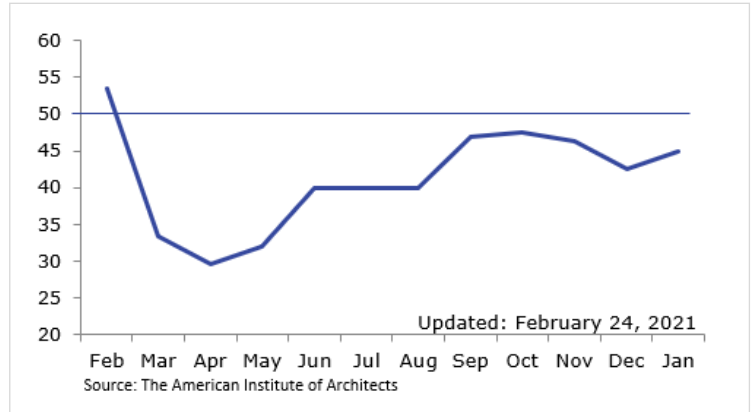
The monthly **CONSUMER CONFIDENCE SURVEY®**, based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. **Source: The Conference Board, 2/23/2021**

### KEY ECONOMIC INDICATORS

#### PURCHASING MANAGERS INDEX®



#### ARCHITECTURE BILLINGS INDEX (ABI)



The February Manufacturing PMI® registered 60.8 percent, an increase of 2.1 percentage points from the January reading of 58.7 percent. This figure indicates expansion in the overall economy for the ninth month in a row after contraction in March, April, and May. The New Orders Index registered 64.8 percent, up 3.7 percentage points from the January reading of 61.1 percent. The Production Index registered 63.2 percent, an increase of 2.5 percentage points compared to the January reading of 60.7 percent. The Backlog of Orders Index registered 64 percent, 4.3 percentage points above the January reading of 59.7 percent. The Employment Index registered 54.4 percent, 1.8 percentage points higher from the January reading of 52.6 percent. The Supplier Deliveries Index registered 72 percent, up 3.8 percentage points from the January figure of 68.2 percent. The Inventories Index registered 49.7 percent, 1.1 percentage points lower than the January reading of 50.8 percent. The Prices Index registered 86 percent, up 3.9 percentage points compared to the January reading of 82.1 percent. The New Export Orders Index registered 57.2 percent, an increase of 2.3 percentage points compared to the January reading of 54.9 percent.

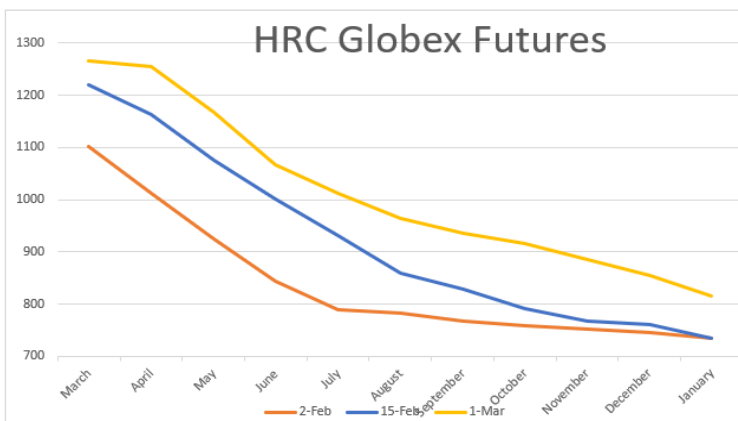
**THE PURCHASING MANAGERS INDEX®** is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. **Source: Institute for Supply Management, 3/2/2021**

The Architecture Billings Index (ABI) for the month of January slightly rose to 44.9 compared to the revised December score of 42.3. The report saw a modest increase in inquiries into new projects during January, with a score of 56.8 compared to 51.7 in December. The value of new design contracts mildly improved to a score of 48.8 (December: 47.0), reflecting an easing in the pace of decline.

"The broader economy entered a soft spot during the fourth quarter of last year, and business conditions at design firms have reflected this general slowdown," said AIA Chief Economist, Kermit Baker, Hon. AIA, PhD. "While federal stimulus and the increasing pace of vaccinations may begin to accelerate progress in the coming months, the year has gotten off to a slow start, with architecture firms in all regions of the country and in all specializations reporting continued declines in project billings."

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, 2/24/2021**

#### HRC FUTURES



Every time one thinks that Hot rolled coil pricing couldn't go much higher, it seems to push the ceiling up even more. With pricing in the mid \$1,200's, it is selling for about 3 times what it sold for just 8 months ago. And with Mill lead times stretching into May, scrap pricing poised for a potential \$50 or more increase in March, and minimal spot tons available, it appears that there is still room for upward movement. Futures show HRC over \$1,000 through July, and imports booked today wouldn't arrive at your location until late June at best.

The factors that will force HRC to begin retracting include a significant increase in imports. February import license data indicated HRC imports will be up by about 50,000 tons; and it will be interesting to see if the trend continues. Demand has been strong, and all indicators, such as the PMI and Industrial Production indices show no slowing down in demand. JSW will be starting up Mingo Junction in the next few weeks, and SDI has its new Texas plant coming online in the summer. Cliffs has about 30% of its Blast Furnaces off-line to "add value over volume," but how long are they willing to sustain that.

In short, there is no short-term relief, but looking out toward the end of Q2 into Q3 there will be some additional imports and capacity that should mitigate the HRC migraine. **Source: John Davis, Executive VP Supply Chain NIM Group, 3/4/2021**



## INDUSTRY NEWS

### U.S. MANUFACTURERS GRAPPLE WITH STEEL SHORTAGES, SOARING PRICES

An aerospace parts maker in California is struggling to procure cold-rolled steel, while an auto and appliance parts manufacturer in Indiana is unable to secure additional supplies of hot-rolled steel from mills.

Both companies and more are getting hit by a fresh round of disruption in the U.S. steel industry. Steel is in short supply in the United States and prices are surging. Unfilled orders for steel in the last quarter were at the highest level in five years, while inventories were near a 3-1/2-year low, according to data from the Census Bureau. The benchmark price for hot-rolled steel hit \$1,176/ton this month, its highest level in at least 13 years.

Soaring prices are driving up costs and squeezing profits at steel-consuming manufacturers, provoking a new round of calls to end former President Donald Trump's steel tariffs.

"Our members have been reporting that they have never seen such chaos in the steel market," said Paul Nathanson, executive director at Coalition of American Metal Manufacturers and Users.

The group, which represents more than 30,000 companies in the manufacturing sector and downstream supply chains, this month asked President Joe Biden to terminate Trump's metal tariffs.

Domestic steel mills that idled furnaces last year amid fears of a prolonged pandemic-induced economic downturn have been slow in ramping up production, despite a recovery in demand for cars and trucks, appliances, and other steel products. Capacity utilization rates at steel mills - a measure of how fully production capacity is being used - has moved up to 75% after falling to 56% in the second quarter of 2020 but is still way below 82% in last February.

Steel shipments are up, but still below last year's levels.

#### A TIGHT STEEL MARKET

Steel producer Steel Dynamics last month said it can't get enough flat-roll sheets even for its own internal operations.

"It is very frustrating," said Hale Foote, president at California-based aerospace parts maker Scandic Springs. "I am looking at great business...but I don't have any material supply."

Scandic Springs faces the risk of losing a \$1 million annual contract as it can't find a domestic supplier ready to supply 240,000 pounds of cold-rolled steel.

Indiana-based Stone City Products, which supplies components to appliance and automotive companies, is also hard-pressed to procure 2 million tons of hot-rolled steel a year for a new project.

The company has seen a dramatic turnaround in business after the pandemic lows in the second quarter of 2020 when orders plunged 50%. Its order book is now 25% above pre-pandemic levels.

To keep up, it is running its factories seven days a week and has increased headcount by 40%. But steel that used to get

delivered in eight weeks last year now takes 12-16 weeks. Mills are not accepting requests for additional purchases.

"We have been hand to mouth with a lot of customer requirement," said Stewart Rariden, the company's president.

#### LUCKY TO BREAK EVEN

Domestic steel prices have risen more than 160% since last August, leaving steel consumers in a quandary - whether to absorb or pass along the increased cost.

"We'll be lucky if we break even at this price," said Stuart Speyer, president at Tennessee-based Tennesco. Steel costs for the manufacturer of lockers, bookcases and cabinets are up 98% in the past six months.

Whirlpool last month said increased steel costs would shave 150 basis points from its profit this year. Farm equipment maker AGCO and crane maker Terex have announced price increases to offset material costs.

In its "flash" purchasing managers survey for February, IHS Markit's prices paid index for factories was the highest since 2011 and its gauge of prices received for finished products was the highest since 2008.

The run-up in steel prices comes at a time when the expectation of additional fiscal stimulus and a faster vaccine rollout is fueling fears of widespread inflationary pressure.

However, policymakers like Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen do not foresee a prolonged and broadbased rise in prices anytime soon with U.S. unemployment still well above pre-pandemic levels and more than 18 million Americans drawing some form of government jobless benefit.

#### AMERICAN VERSUS IMPORTED STEEL

Record-high prices, meanwhile, are turning out to be a bonanza for steel producers. Shares of American steel makers have gained 65% since last August. An analysis by rating agency Fitch shows U.S. steel makers enjoyed a profit margin of 45% in January. Nucor expects to post the highest-ever first-quarter profit.

Steel industry and union groups last month urged Biden to keep the steel tariffs in place, calling them 'essential' to the domestic industry. Steel producers are facing their own higher costs following a rise in scrap and iron ore prices.

U.S. steel prices are 68% higher than the global market price and almost double China's, even with prices in both China and Europe up over 80% from their pandemic-induced lows.

The price gap is so wide that even with a 25% tariff, it would be cheaper to import than buy from domestic mills. The United States imported 18% of its steel needs last year.

Logistical challenges, like container shortages, and thin overseas supply are keeping imports in check. But some distributors expect imports to pick up by June if the domestic market remains tight.

Uncertainty over the tariff outlook is one factor keeping the wraps on domestic steel output.

Angela Reed, an executive at Atlanta-based steel distributor Reibus International, says an expected review of the import

restrictions is delaying a ramp-up in production and a build-up in inventories as easing of the curbs will likely drive down the domestic prices.

“(People) are trying to make sure that they don’t get hung with any of the higher-priced stuff,” Reed said. **Source: Reuters, February 23, 2021.**

### US MIDWEST AL PREMIUM NEARS 16-MONTH HIGH

The United States’ Midwest aluminium premium has risen to a nearly 16-month high amid a dire supply shortage.

Market participants unanimously pointed to supply issues for reasons to be bullish.

“We hit a point where people realized oh [no] it’s getting really tight. That momentum pushed [the premium] up,” one trader source said.

A second trader made similar comments.

“The premium is going up because it has to go up. It doesn’t make sense to bring metal in [at current premium levels]. There [are] no imports coming,” he said.

“I think traders don’t want to sell inventory because they can’t replace it, so they’re not in a hurry to unload. Consumption is good while supply is a problem,” the second trader said.

Sources estimated domestic stocks range from 400,000 tonnes to 1 million tonnes. Some sources expect this supply to run dry in just a few months unless imports return to the US market.

“I think we’ll be out of primary aluminium in the next three to six months. You’ll have to have a stronger premium to induce material to come into the US. And I think that breakeven is probably around 19 cents,” a third trader said.

Most others agreed that replacement cost levels are around 19 cents per lb.

“The mathematics [in terms of premium levels] don’t work to bring stuff [to the U.S.].” a fourth trader said.

At the same time, premiums are strengthening globally, which is helping to drive the US premium upward.

Demand, meanwhile, has remained strong this year, after recovering in the second half of 2020 from Covid-19-related disruptions last summer.

“We’re seeing incremental volume increases from all our regular customers,” the fourth trader said.

The first trader has had the same experience, noting that “most [customers] are taking close to the max in their [volume-flexible] contracts.”

A fifth trader noted that “the economy bounced back faster than anyone anticipated.”

But an ongoing shortage of semiconductor chips that has disrupted automotive supply chains has not been felt in the US aluminium market.

“The chip shortage is impacting [automakers’] product mix. A lot of the cars they’re making are higher margin, which

have a higher aluminium content,” the third trader said.

The bullish sentiment on the premium is reflected by recent trades on the CME Group’s Midwest premium futures contract.

“There was more activity on the [CME Group premium futures contract] particularly nearby. We saw some stuff trade [higher than the spot premium],” the fifth trader said.

Canadian aluminium, meanwhile, remains free of tariffs and quotas. US President Joe Biden and Canadian Prime Minister Justin Trudeau discussed many issues at the virtual US-Canada bilateral meeting last week, but tariffs were not one of them.

That has led sources in the market to believe Canadian primary aluminium will remain free of duties.

Still, Canadian metal has not been heard to be flooding the US market. Sources believe the nation is shipping primary aluminium volumes in line with the expired monthly quotas and instead is focusing on shipping value-added product.

“The premiums suit [Canada]. Don’t forget they make a lot more billet and slab. They’re trying to sell as much product as possible,” the second trader said.

A sixth trader said pent-up demand is behind this.

“We know why the Canadians are not flooding the US market. There’s an element of pent-up demand. It was universally expected that Biden would come in and take a softer approach on trade, but now he seems to indicate this won’t change as far as the tariff-quota situation goes. People expecting the tariffs to change are now coming to the market,” this source said.

The Midwest premium had firmed three weeks ago, after US market participants interpreted Biden’s reversal of a last-minute tariff exemption for the United Arab Emirates as a signal that the broader tariff program would stay in place. **Source: AMM, March 3, 2021.**