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The Insight

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January 2024

Economic News

Employers added 216,000 Jobs, Unemployment Steady at 3.7%

The U.S. economy added 216,00 jobs in December and the unemployment rate held steady at 3.7% as the labor market unexpectedly picked up despite high interest rates. That's above the 175,000 new jobs that economists surveyed by Bloomberg had projected.

Offsetting the strong gains were revisions that lowered job gains for October and November by 71,000 as the labor market generally has continued to cool followed a post-COVID surge.

For all of 2023, employers added 2.7 million jobs, or 225,000 a month, down from 4.8 million, or 399,000 a month in 2022.

Normally, booming payroll gains are roundly welcomed but not these days. The Federal Reserve has sharply raised interest rates in an effort to pare back job and wage growth enough to tame inflation without sparking a recession – a feat known as a "soft landing." Full Story ***Source: USAToday, 01.05.2023***

Chief Economic Adviser Says Pace of U.S. Inflation Is on Target

The United States has just hit a "significant milestone" in the battle to bring down inflation, President Joe Biden's chief economic adviser said on December 22. Earlier that day, the Commerce Department released data showing that a closely watched inflation gauge had cooled beyond what economists were expecting and that prices fell on a month-to-month basis for the first time since April 2020.

"We're closing out the year with inflation on a six-month basis at 2% — the pre-pandemic benchmark," said Lael Brainard, the former Federal Reserve vice chair who now heads the National Economic Council, during a call with reporters on Friday. "This is a significant milestone. If you think about where we were just a year ago, it is worth reflecting on just how much progress has been made." She added: "Inflation has come down faster than even the more optimistic forecasts, and that has happened in the context of ongoing solid growth and strong employment."
Full Story ***Source: CNN, 12.22.2023***

U.S.Consumer Inflation Slows in November but Pressures Remain

Consumer inflation in the U.S. edged down for a second straight month in November, government data showed on December 12, in encouraging news for policymakers seeking to get prices under control. The consumer price index (CPI), a closely eyed gauge of inflation, rose 3.1% from a year ago, said the Department of Labor, down from a 3.2% rate in October.

The slowdown comes on the back of falling gas prices, with the gasoline index dropping 6.0%. But the inflation figure was slightly hotter than expected, and CPI rose 0.1% between October and November. Excluding the volatile food and energy components, the CPI increase was steady at 4.0% from a year ago. December 12's numbers were released on the same day the Federal Reserve opened its final policy meeting of the year. Central bank officials have rapidly lifted the benchmark lending rate since last year to tame stubborn inflation, and the overall CPI figure has come down sharply from its 9.1% peak in June 2022. Analysts largely expect the Fed to keep interest rates at the current level as the effects of existing rate hikes ripple through the world's biggest economy.

"The inflation numbers have little implication for the Fed's December meeting," said Michael Pearce, lead U.S. economist at Oxford Economics. He added that officials have "widely signaled an extended pause and won't react based on one month's data."

"To see earlier rate cuts, we would need to see inflation slowing more sharply, perhaps helped by a slowdown in the labor market which helps bring wage growth lower and therefore services price inflation," Pearce told AFP ahead of the latest report.

Risks Ahead

Price pressures remain in other areas as well.

According to the Labor Department, "the index for shelter continued to rise in November, offsetting a decline in the gasoline index," said the Labor Department.

While inflation is coming down, EY Chief Economist Gregory Daco cautioned that there could be a risk of "over-tightening" in monetary policy. He noted the Fed is extremely data dependent in making its rate decisions, which worked out when inflation was rising or stabilizing at high levels.

But, he said, "we're in a world where disinflation has been faster than what the Fed had anticipated."

"That alludes to the possibility that essentially, they will have monetary policy that is too restrictive given where inflation is at," he added. ***Source: Agence France-Presse, 12.12.2023***

Fed Holds Rates Steady, Indicates Three Cuts Coming in 2024

The Federal Reserve on December 13 held its key interest rate steady for the third straight time and set the table for multiple cuts to come in 2024 and beyond.

With the inflation rate easing and the economy holding in, policymakers on the Federal Open Market Committee voted unanimously to keep the benchmark overnight borrowing rate in a targeted range between 5.25%-5.5%.

Along with the decision to stay on hold, committee members penciled in at least three rate cuts in 2024, assuming quarter percentage point increments. That's less than market pricing of four, but more aggressive than what officials had previously indicated.

Markets had widely anticipated the decision to stay put, which could end a cycle that has seen 11 hikes, pushing the fed funds rate to its highest level in more than 22 years. There was uncertainty, though, about how ambitious the FOMC might be regarding policy easing. Following the release of the decision, the Dow Jones Industrial Average jumped more than 400 points, surpassing 37,000 for the first time.

The committee's "dot plot" of individual members' expectations indicates another four cuts in 2025, or a full percentage point. Three more reductions in 2026 would take the fed funds rate down to between 2%-2.25%, close to the long-run outlook, though there was considerable dispersion in the estimates for the final two years.

In a possible nod that hikes are over, the statement said that the committee would take multiple factors into account for "any" more policy tightening, a word that had not appeared previously.

Along with the interest rate hikes, the Fed has been allowing up to $95 billion a month in proceeds from maturing bonds to roll off its balance sheet. That process has continued, and there has been no indication the Fed is willing to curtail that portion of policy tightening.

The developments come amid a brightening picture for inflation that had spiked to a 40-year high in mid-2022. "Inflation has eased from its highs, and this has come without a significant increase in unemployment.

"That's very good news," Chair Jerome Powell said during a news conference. That echoed new language in the post-meeting statement. The committee added the qualifier that inflation has "eased over the past year" while maintaining its description of prices as "elevated." Fed officials see core inflation falling to 3.2% in 2023 and 2.4% in 2024, then to 2.2% in 2025. Finally, it gets back to the 2% target in 2026.

Economic data released this week showed both consumer and wholesale prices were little changed in November. By some measures, though, the Fed is nearing its 2% inflation target. Bank of America's calculations indicate that the Fed's preferred inflation gauge will be around 3.1% year over year in November, and actually could hit a 2% six-month annualized rate, meeting the central bank's goal.

The statement also noted that the economy "has slowed," after saying in November that activity had "expanded at a strong pace."

In the news conference, Powell said: "Recent indicators suggest that growth in economic activity has slowed substantially from the outsized pace seen in the third quarter. Even so, GDP is on track to expand around 2.5% for the year as a whole."

Committee members upgraded gross domestic product to grow at a 2.6% annualized pace in 2023, a half percentage point increase from the last update in September. Officials see GDP at 1.4% in 2024, roughly unchanged from the previous outlook. Projections for the unemployment rate were largely unchanged, at 3.8% in 2023 and rising to 4.1% in subsequent years.

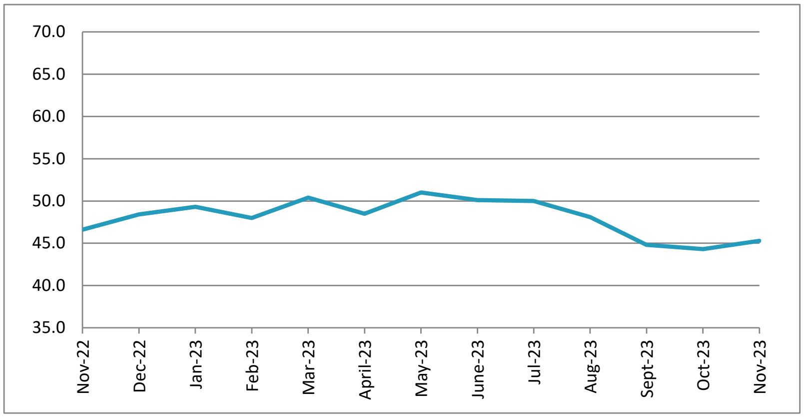
Officials have stressed their willingness to hike rates again if inflation flares up. However, most have said they can be patient now as they watch the impact the previous policy tightening moves are having on the U.S. economy.

Stubbornly high prices have exacted a political toll on President Joe Biden, whose approval rating has suffered in large part because of negative sentiment on how he has handled the economy. There had been some speculation that the Fed could be reluctant to make any dramatic policy actions during a presidential election year, which looms large in 2024.

However, with real rates, or the difference between the fed funds rate and inflation, running high, the Fed would be more likely to act if the inflation data continues to cooperate. ***Source: CNBC, 12.13.2023***

Key Economic Indicators

Architecture Billings Index (ABI)



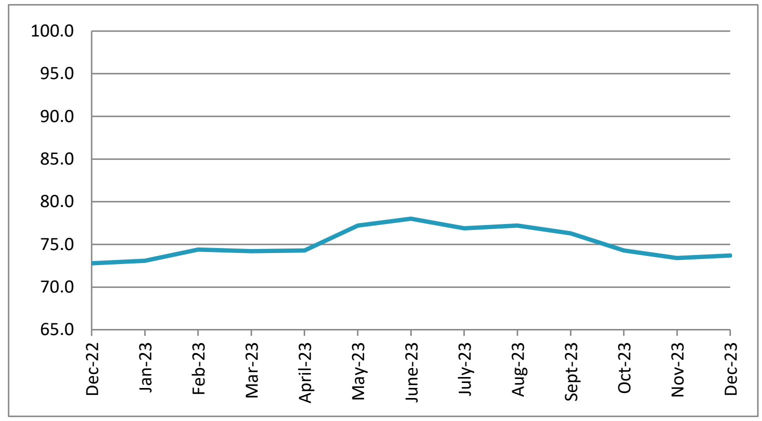
The AIA/Deltek Architecture Billings Index (ABI) remained below 50 for the fourth consecutive month. The score of 45.3 increased by one point from October, indicating slightly fewer firms reporting a decline in billings. Any score below 50.0 indicates decreasing business conditions but there are encouraging signs of the pipeline.

"This marks the seventh month in 2023 with a decline in billings. Over the past three months this pace of decline has accelerated, with firms in all specializations and in all regions of the country reporting weakening business conditions," said Kermit Baker, PhD, AIA chief economist. "However, with signs that credit conditions are beginning to ease, firms are reporting an uptick in inquiries for future projects."

Firms in all regions reported a decline in billings, with business conditions remaining softest at firms located in the West as the region's billings hit a low for the year. Firms specializing in multi-family residential continue to remain the weakest and business conditions declined further at firms with institutional specialization, despite being the strongest to start 2023.

The ABI score is derived from a monthly survey of architecture firms that measures the change in the number of services provided to clients. ***Source: AIA, 12.20.2023***

Steel Capability Utilization



In the week ending on December 23, 2023, domestic raw steel production was 1,693,000 net tons while the capability utilization rate was 73.7%. Production was 1,576,000 net tons in the week ending December 23, 2022 while the capability utilization then was 70.6%. The current week production represents a 7.4% increase from the same period in the previous year. Production for the week ending December 23, 2023 is down 1.2% from the previous week ending December 16, 2023 when production was 1,714,000 net tons and the rate of capability utilization was 74.6%.

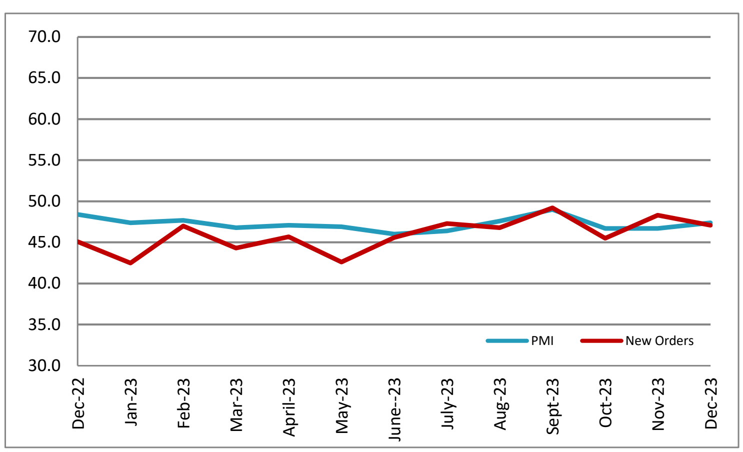
Adjusted year-to-date production through December 23, 2023 was 87,047,000 net tons, at a capability utilization rate of 75.4%. That is up 0.1% from the 86,953,000 net tons during the same period last year, when the capability utilization rate was 77.5%.

Broken down by districts, here's production for the week ending December 23, 2023 in thousands of net tons: North East: 130; Great Lakes: 551; Midwest: 185; Southern: 760 and Western: 67 for a total of 1693. ***Source: AISI, 12.23.2023***

Purchasing Managers Index (PMI)®

The Manufacturing PMI® registered 47.4% in December, up 0.7 percentage point from the 46.7% recorded in November. The overall economy continued in contraction for a third month after one month of weak expansion preceded by nine months of contraction and a 30-month period of expansion before that. (A Manufacturing PMI® above 48.7%, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index remained in contraction territory at 47.1%, 1.2 percentage points lower than the figure of 48.3 % recorded in November.

The Production Index reading of 50.3% is a 1.8 percentage point increase compared to November's figure of 48.5%. The Prices Index registered 45.2%, down 4.7 percentage points compared to the reading of 49.9% in November. The Backlog of Orders Index registered 45.3%, 6 percentage points higher than the November reading of 39.3%. The Employment Index registered 48.1%, up 2.3 percentage points from the 45.8% reported in November.



The Supplier Deliveries Index figure of 47% is 0.8 percentage point higher than the 46.2% recorded in November. (Supplier Deliveries is the only ISM® Report On Business® index that is inversed; a reading of above 50% indicates slower deliveries, which is typical as the economy improves and customer demand increases.) The Inventories Index decreased by 0.5 percentage point to 44.3%; the November reading was 44.8%. The New Export Orders Index reading of 49.9% is 3.9 percentage points higher than November's figure of 46%. The Imports Index remained in contraction territory, registering 46.4%, 0.2 percentage point higher than the 46.2% reported in November. The only manufacturing industry to report growth in December is Primary Metals. ***Source: ISM, 01.02.2023***

NAM Wants to Ease Path for Vets into Manufacturing

Transitioning former military personnel into a career in manufacturing is a natural and frequent fit, but perhaps not as often as the industry would like. The National Association of Manufacturers would like to change that.

The Manufacturing Readiness Project has been developed through the Manufacturing Institute, the workforce development and education arm of NAM. The project attempts to make it easier for veterans to find careers after their stints and for manufacturers to build a more robust workforce.

During their deployment, service members are awarded digital badges – kept in digital wallets – based on their responsibilities and training. This provides valuable information to both them and potential employers about their preparedness for a career in manufacturing.

The badges include a range of certifications in areas such as general safety, general quality and general maintenance. Below that, each badge includes a number of additional micro-badges signifying levels and types of achievement. General safety, for example, includes micro-badges in fields such as workplace safety, environmental inspections, and emergency response.

The badges are also aligned with more than 300 military occupation codes across all five branches of the service. This effectively conveys the relevant experience to their future employers.

For more information, on the project, visit here. ***Source: MetalCenterNews, 12.13.2023***

NATIONAL ASSOCIATION OF
Manufacturers

U.S. International Trade Commission Holds Hearing on Greenhouse Gas Emissions from Metals Industry

As *Recycling Today* reported, on December 7, the U.S. International Trade Commission (ITC) held a hearing on the greenhouse gas emissions intensity of the U.S. steel and aluminum industries at the product level. Several representatives of the industry testified that the steel and aluminum industries are reducing their carbon footprint every year and are committed to doing more in coming years. The hearing was part of an investigation requested by the Office of the U.S. Trade Representative (USTR). The ITC already has published its draft call for information in The Federal Register. The public has until mid-January to comment on that document.

When the ITC finalizes that survey, all domestic steel and aluminum manufacturers will have to respond to it. (The ITC is expected to release the final version in spring 2024. The ITC already has sent a draft questionnaire to some companies). Find the draft here.

The ITC has said, to the extent possible, the final report will provide GHG emissions intensity estimates of steel and aluminum produced in the U.S. by product category and production stage in 2022, with data defined as:

Scope 1: Direct emissions from the facility's owned or controlled sources.

Scope 2: Indirect emissions from the generation of the facility's purchased energy, including electricity, steam, heat, or cooling.

Certain scope 3: Emissions associated with material and resource inputs for the production of steel and aluminum.

The ITC said the report also will provide a description of the methodologies used to collect relevant information and to analyze product-specific GHG emissions intensities for the range of steel and aluminum products made in the United States.

In June, the Office of the USTR noted the ITC should:

- Conduct a survey of firms with facilities producing steel and aluminum in the U.S., whether the firms are U.S.- or foreign-owned, and that survey should seek to gather data that is not already reported pursuant to the U.S. Environmental Protection Agency GHG Reporting Program or other publicly available information.
- Use the information obtained through the survey and external data sources to estimate the highest and the average GHG emissions intensity of steel and aluminum produced in the U.S. by product category in 2022. These percentile and average estimates should, to the extent possible, be weighted by metric ton of steel or aluminum production associated with each emissions-intensity data point.
- Produce GHG emissions intensity estimates for the broad categories of steel and aluminum products.
- Consider producing GHG emissions intensity estimates for additional product categories, including at subcategory levels.

Read the original full guidance from Office of the U.S. Trade Representative here. ***Source: MSCI, 12.11.2023***

Nippon Steel Wins U.S. Steel Auction with Bid of Nearly $15 Billion

The four-month auction of U.S. Steel Corp. has yielded a surprise winner in Nippon Steel Corp., which has agreed to pay $14.1 billion in cash for the shares of Pittsburgh-based U.S. Steel.

The directors of Tokyo-based Nippon Steel have approved a plan to pay $55 per share for U.S. Steel, which is about 40% higher than where the stock closed December 15. It also is nearly 60% more than the $35-per-share offer made in late July by Cleveland-Cliffs Inc., a move that U.S. Steel's leaders rejected and responded to by putting the historic manufacturer on the market.

When completed as planned by the middle of the next year, the deal will grow Nippon Steel's production capacity by 20 million tons annually to about 86 million tons. Speaking on a conference call with analysts, Executive Vice President Takahiro Mori said his team's goal is to grow that number to 100 million tons.

"U.S. Steel and NSC create a truly global steel company with combined capabilities and innovation capable of meeting our customers' evolving needs," U.S. Steel President and CEO David Burritt said in a statement. "Today's announcement also benefits the United States—ensuring a competitive, domestic steel industry, while strengthening our presence globally."

As part of the acquisition, which has a total value of $14.9 billion and is expected to close in the middle of 2024, Nippon Steel executives have committed to keeping U.S. Steel's brand as well as the company's corporate office in Pittsburgh. They also say they will honor U.S. Steel's labor contract with the United Steelworkers Union, which was renewed in September of last year.

USW leaders don't see the Nippon news in the same light as Burritt, however. In a statement, President David McCall—who had vocally backed Cleveland-Cliffs' bid this summer—said it would be an understatement to say his team is disappointed in the outcome of U.S. Steel's auction. "We remained open throughout this process to working with U.S. Steel to keep this iconic American company domestically owned and operated, but instead it chose to push aside the concerns of its dedicated workforce and sell to a foreign-owned company," McCall said. "Our union intends to exercise the full measure of our agreements to ensure that whatever happens next with U.S. Steel, we protect the good, family-sustaining jobs we bargained. We also will strongly urge government regulators to carefully scrutinize this acquisition and determine if the proposed transaction serves the national security interests of the U. S. and benefits workers."

McCall also said U.S. Steel and Nippon Steel executives didn't consult with the USW about the planned transaction, something he said violates the union' partnership agreement with U.S. Steel. And while Nippon Steel leaders have committed to honoring the USW agreement, McCall said he doesn't know if the company "has the capacity to live up to our existing contract," which includes pension and retiree insurance pledges.

On the conference call, Mori said Nippon Steel already has more than 600 workers in the United States that are covered by USW contracts. The company first started doing business in the United States in 1986 via a joint venture in West Virginia and now also has operations in Alabama (via a JV with ArcelorMittal), Indiana, Kentucky, Pennsylvania and Washington state.

Nippon Steel didn't figure prominently among possible bidders named in several reports this fall. In addition to Cleveland-Cliffs, rumored to be seriously in the hunt were ArcelorMittal—which a few years ago sold its U.S. operations to Cliffs—as well as fellow U.S. players Nucor and Steel Dynamics and international players Stelco out of Canada and Techint from Argentina.

Reports said that most members of that group were looking to buy only a portion of U.S. Steel's assets, which would make for a lengthier and more complicated process. That scenario appears to have factored into U.S. Steel directors' decision: On his conference call with Mori, Burritt repeatedly pointed out the higher certainty of closing the Nippon Steel.

"Even though U.S. Steel's Board of Directors and CEO chose to go a different direction with a foreign buyer, their move validates our view that our sector remains undervalued by the broader market, and that a multiple re-rating for Cleveland-Cliffs is long overdue," Chairman, President and CEO Lourenco Goncalves said, "We congratulate U.S. Steel on their announcement and wish them luck in closing the transaction with Nippon Steel." ***Source: IndustryWeek, 12.18.2023***

Biden Extends EU Steel, Aluminum Tariff Exemption

U.S. President Joe Biden on December 28 extended the suspension of tariffs on European Union steel and aluminum for two years to continue negotiations on measures to address overcapacity and low-carbon production.

The U.S. suspended import tariffs of 25% on EU steel and 10% on EU aluminum for two years from January 2022, replacing the tariffs imposed by former President Donald Trump with a tariff rate quota (TRQ) system.

EU tariffs, imposed in retaliation, covered a range of U.S. goods from Harley Davidson motorcycles to bourbon whiskey and power boats. Those have also been shelved until 2025, after elections on both sides of the Atlantic.

The U.S. and the European Union had been seeking agreement measures to address excess metal production capacity in non-market economies, such as China, and to promote greener steel. The discussions were supposed to be resolved by 2023 but had stalled.

In a presidential proclamation, Biden said the two sides had made "substantial progress" and were "continuing their discussions."

The TRQ allows up to 3.3 million metric tons of EU steel and 384,000 tons of aluminum into the U.S tariff-free, reflecting past trade levels, with the tariffs applying for any further amounts. The new exemption applies through December 31, 2025.

Biden kept tariffs fixed at the current level for non-EU countries. ***Source: Reuters, 12.28.2023***

U.S. Senators Ask White House to Address Surge in Metals Imports from Mexico

A bipartisan group of senators recently sent a letter to White House National Security Advisor Jake Sullivan demanding that the Biden administration immediately address what the senators called an unsustainable increase in steel exports from Mexico. Specifically, the senators want President Joe Biden to set a clear deadline for Mexico to enforce its 2019 agreement with the U.S. regarding steel imports and to "take aggressive action to counter the increase in Mexican steel imports if the country refuses to comply."

Under the 2019 pact, the U.S. agreed to lift its Section 232 metals tariffs if the Mexican government pledged to prevent the importation of steel "that is unfairly subsidized and/or sold at dumped prices." Both countries also promised to establish monitoring systems to ensure that steel surges did not occur.

"The administration must do more to protect America's steel industry and prevent the further loss of good-paying American jobs."

The senators, along with some advocates, have argued Mexico is violating that agreement by deliberately exporting underpriced steel and by suppressing its export data. The senators said the increase in steel imports from Mexico "threatens our manufacturing base and American national security, and demands immediate action from the administration."

As evidence of their argument, the senators cited an August 2023 decision by Mexico's Grupo Simek to close Republic Steel plants in Canton, Ohio, and Lackawanna, New York while moving significant quantities of that production to Mexico. These closures will result in a loss of more than 500 jobs.

Sens. Tammy Baldwin (D-Wis.), Katie Britt (R-Ala.), John Boozman (R-Ark.), Sherrod Brown (D-Ohio), Ted Budd (R-N.C.), Bob Casey (D-Penn.), Tom Cotton (R-Ark.), Sen. Amy Klobuchar (D-Minn.), Marco Rubio (R-Fla.), Rick Scott (R-Fla.), Tina Smith (D-Minn.), Thom Tillis (R-N.C.), J.D. Vance (R-Ohio), and Elizabeth Warren (D-Mass.) each signed the letter, which is available here.

"The administration must do more to protect America's steel industry and prevent the further loss of good-paying American jobs," the senators concluded. "Failure to conclude an export monitoring agreement due to the unwillingness or inability of the Mexican government is unacceptable." ***Source: MSCI, 12.18.2023***