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The Insight

July 2024

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Economic News

Economy Added 206,000 jobs in June, Unemployment at 4.1%

U.S. employers added 206,000 jobs in June as hiring held steady despite persistent inflation and high interest rates. But the employment picture was mixed at best as job gains for April and May were revised down by a hefty 111,000 and the private sector added a disappointing 136,000 jobs.

Also, the unemployment rate, which is calculated from a separate survey of households, rose from 4% to 4.1%, the highest since November 2021, the Labor Department said Friday. The increase was triggered by an encouraging rise in the labor force – the pool of people working and hunting for jobs – that outstripped the number that landed positions.

Economists surveyed by Bloomberg had estimated that 195,000 jobs were added last month, so job creation modestly beat estimates.

But the job market in the spring was decidedly less buoyant than believed. Payroll gains were revised down from 165,000 to 108,000 in April and from 272,000 to 218,000 in May. Full Story ***Source: USA TODAY, 07.06.2024***

Fed's Goolsbee's Dovish Case for Rate Cuts, Flags Economy

Federal Reserve Bank of Chicago President Austan Goolsbee on June 24 laid out a dovish case for considering potential cuts in interest rates in coming months. In an interview on CNBC, Goolsbee said there are new signs of stress on the economy that should make the U.S. central bank at least wonder if its policy rate needs to be as high as it currently is.

"There are a couple of warning signs," Goolsbee said, pointing to "what seems to be a cooling of consumer spending," coupled with a recent rise in jobless claims and a spike in consumer delinquencies on credit-card debt.

At the same time, the Fed's policy rate, adjusted for inflation, is the highest it has been in decades and is putting downward pressure on the economy, he noted. If there are more positive inflation reports like the most recent May consumer-price-index report and more evidence of slowing economic conditions, he said, "then you would have to start questioning, should we remain as restrictive as we've been? It is worth wondering about where we are on our restrictiveness scale," Goolsbee added. Full Story ***Source: MarketWatch,***

Key Fed Measure Shows Inflation Rose 2.6% in May From a Year Ago

An important economic measure for the Federal Reserve showed on June 28 that inflation during May slowed to its lowest annual rate in more than three years. The core personal consumption expenditures price index increased just a seasonally adjusted 0.1% for the month and was up 2.6% from a year ago, the latter number down 0.2 percentage point from the April level, according to a Commerce Department report. Both numbers were in line with the Dow Jones estimates.

May marked the lowest annual rate since March 2021, which was the first time in this economic cycle that inflation topped the Fed's 2% target. Including food and energy, headline inflation was flat on the month and also up 2.6% on an annual basis. Those readings also were in line with expectations.

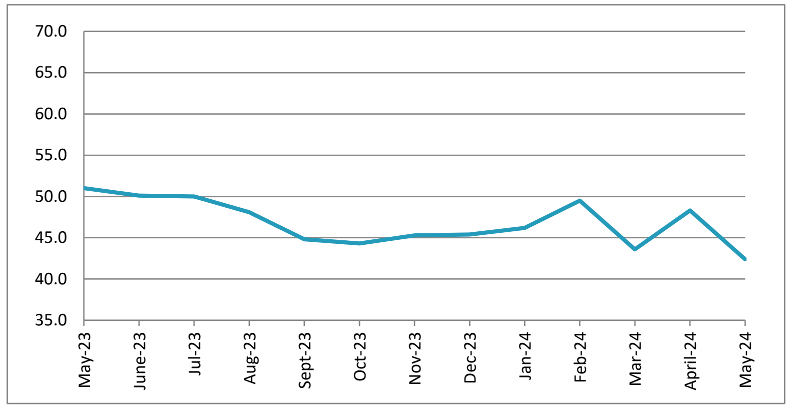
"It is just additional news that monetary policy is working, inflation is gradually cooling," San Francisco Fed President Mary Daly told CNBC's Andrew Ross Sorkin during a "Squawk Box" interview. "That's a relief for businesses and households who've been struggling with persistently high inflation. It's good news for how policy is working."

The Fed focuses on the PCE inflation reading as opposed to the more widely followed consumer price index from the Labor Department's Bureau of Labor Statistics. PCE is a broader inflation measure and accounts for changes in consumer behavior, such as substituting their purchases when prices rise. While the central bank officially follows headline PCE, officials generally stress the core reading as a better gauge of longer-term inflation trends.

Outside of the inflation numbers, the Bureau of Economic Analysis report showed that personal income rose 0.5% on the month, stronger than the 0.4% estimate. Consumer spending, however, increased 0.2%, weaker than the 0.3% forecast. Prices were held in check during the month by a 0.4% decline for goods and a 2.1% slide in energy, which offset a 0.2% increase in services and a 0.1% gain for food. Full Story ***Source: CNBC, 06.28.2024***

Key Economic Indicators

Architecture Billings Index (ABI)



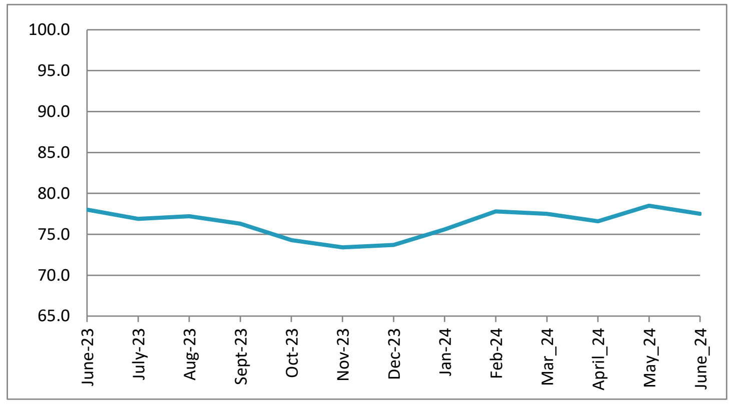
The decline in the May ABI score continues a year and a half of weakness in design billings at U.S. architecture firms. However, firms only reported modest declines over the first half of this period," said Kermit Baker, PhD, AIA Chief Economist. "Over the past nine months, volatility has increased, and scores have softened more significantly, with the May score the weakest reported since the end of the pandemic recession."

The pipeline of new work coming into firms is showing increasing softness. While inquiries into new projects continue to increase, they did so at a slower pace than in recent months. Additionally, architecture firm billings remained soft across all regions and sectors in May. Billings declined at firms in all regions of the country for the fourth consecutive month, as conditions remained weakest at firms located in the Midwest. Key ABI highlights for May include:

- Regional averages: Northeast (47.7); Midwest (41.7); South (46.0); West (46.3)
- Project inquiries index: 52.1
- Design contracts index: 45.6

Source: AIA, 06.26.2024

Steel Capability Utilization

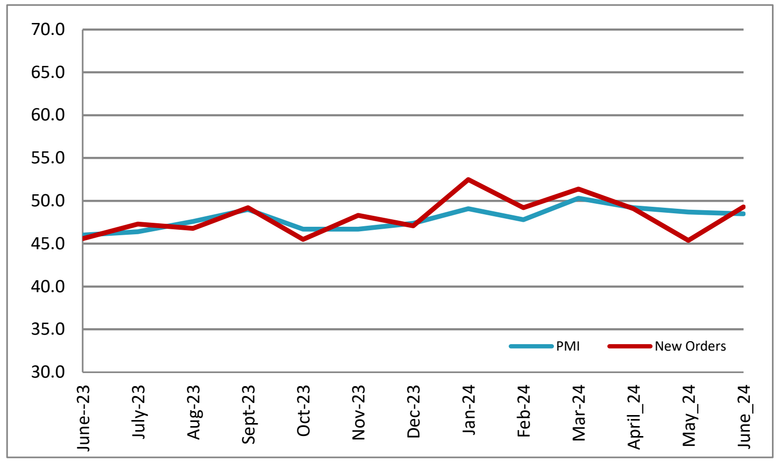


In the week ending on June 29, 2024, domestic raw steel production was 1,721,000 net tons while the capability utilization rate was 77.5 percent. Production was 1,738,000 net tons in the week ending June 29, 2023 while the capability utilization then was 77.3 percent. The current week production represents a 1.0 percent decrease from the same period in the previous year. Production for the week ending June 29, 2024 is up 0.6 percent from the previous week ending June 22, 2024 when production was 1,710,000 net tons and the rate of capability utilization was 77.0 percent.

Adjusted year-to-date production through June 29, 2024 was 43,925,000 net tons, at a capability utilization rate of 76.5 percent. That is down 2.6 percent from the 45,117,000 net tons during the same period last year, when the capability utilization rate was 77.8 percent.

Broken down by districts, here's production for the week ending June 29, 2024 in thousands of net tons: North East: 132; Great Lakes: 586; Midwest: 199; Southern: 740 and Western: 64 for a total of 1721. ***Source: AISI, 06.29.2024***

Purchasing Managers Index (PMI)®



The Manufacturing PMI® registered 48.5% in June, down 0.2 percentage point from the 48.7% recorded in May. The overall economy continued in expansion for the 50th month after one month of contraction in April 2020. The New Orders Index remained in contraction territory, registering 49.3%, 3.9 percentage points higher than the 45.4% recorded in May. The June reading of the Production Index (48.5%) is 1.7 percentage points lower than May's figure of 50.2%. The Prices Index registered 52.1%, down 4.9 percentage points compared to the reading of 57% in May. The Backlog of Orders Index registered 41.7%, down 0.7 percentage point compared to the 42.4% recorded in May. The Employment Index registered 49.3%, down 1.8 percentage points from May's figure of 51.1%. The Supplier Deliveries Index remained in 'faster' territory, registering 49.8%, 0.9 percentage point higher than the 48.9% recorded in May. The Inventories Index registered 45.4%, down 2.5 percentage points compared to May's reading of 47.9%. The New Export Orders Index reading of 48.8% is 1.8 percentage points lower than the 50.6% registered in May. The Imports Index dropped into contraction territory, registering 48.5%, 2.6 percentage point lower than the 51.1% reported in May." U.S. manufacturing activity continued in contraction at the close of the second quarter. Demand was weak again, output declined, and inputs stayed accommodative. The eight manufacturing industries reporting growth in June — in order — are: Printing & Related Support Activities; Petroleum & Coal Products; Primary Metals; Furniture & Related Products; Paper Products; Chemical Products; Miscellaneous Manufacturing; and Nonmetallic Mineral Products. The nine industries reporting contraction in June — in the following order — are: Textile Mills; Machinery; Fabricated Metal Products; Wood Products; Transportation Equipment; Plastics & Rubber Products; Food, Beverage & Tobacco Products; Electrical Equipment, Appliances & Components; and Computer & Electronic Products.
Source: IMSWorld, 07.01.2024

Industry News

Domestic Aluminum Demand Up 4.3% in First Quarter in Signs of Industry Rebound

The Aluminum Association released preliminary estimates as part of its monthly Aluminum Situation statistical report showing demand for the aluminum industry in North America (U.S. and Canada) increased 4.3% year-over-year through the first quarter of 2024. This follows an estimated drop in demand of 3.9% last year after strong results in 2022.

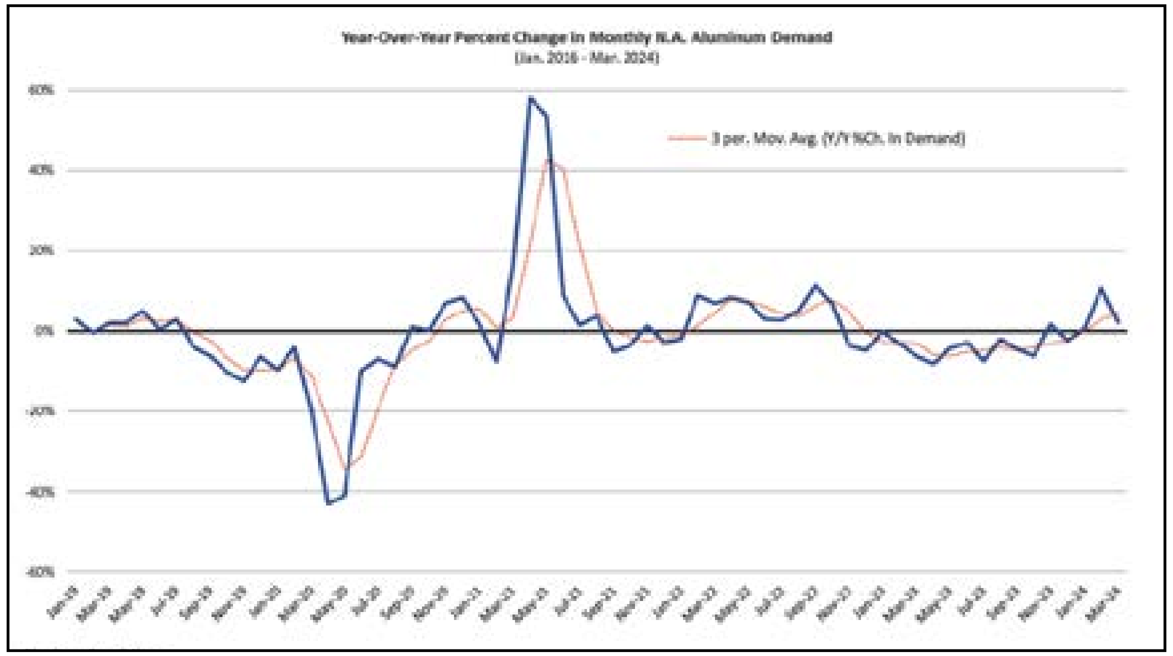
"Domestic aluminum demand is rebounding so far this year amidst continued interest from our customers and end consumers in more sustainable, recyclable material options," said Charles Johnson, president & CEO of the Aluminum Association. "We continue to believe that the North American region – and the United States in particular – is one of the best places in the world to make and use aluminum. The ongoing investment and demand we are seeing appear to agree."

Among key takeaways from the report:

- Aluminum demand in the United States and Canada (shipments by domestic producers plus imports) totaled an estimated 6,955 million pounds through March 2024, compared to the Q1 2023 total of 6,666 million pounds.
- Primary aluminum ingot shipments increased 16% year-over-year compared to Q1 of 2023 while sheet & plate shipments grew 6.1% during the same time period.
- At the same time, foil shipments dropped 19.2% and extruded product shipments dropped 5.4% in the first quarter compared to last year.
- Total semi-fabricated – or "mill" – product demand was up five-tenths of 1% year-over-year.
- Exports of aluminum ingot and mill products from the U.S. and Canada (excluding cross border trade) totaled 769 million pounds to date, up 36.6 over like-2023.
- On average, orders recorded by domestic producers year- to-date in 2024 (through April) increased 4.8% over year-to-date 2023, according to the Association's Index of Net New Orders of Aluminum Mill Products (baseline index of 100).
- Total imports of unwrought aluminum and semi-fabricated aluminum products into the North America (U.S. and Canada) have fallen 13.5% year-to-date in 2024 (through April).

Over the last decade, Aluminum Association member companies have announced more than $10 billion in investments for domestic manufacturing operations including nearly $200 million in U.S. manufacturing in 2024 alone.

This historic investment is largely thanks to demand for sustainable packaging, safe and efficient vehicles, greener buildings and vital infrastructure. ***Source: Aluminum Association, 06.25.2024***



U.S. Industrial Production Comes in Hot in May

U.S. factory output beat expectations and rose sharply in May, according to Federal Reserve data released June 18, as utilities production posted a big increase. The data suggest the manufacturing sector staged something of a rebound last month, despite the Fed's decision to hold interest rates at a 23-year high to tackle inflation, which has taken a toll on the manufacturing sector. The U.S. central bank recently dialed back the number of rate cuts it has penciled in this year from three to one, as progress against inflation stalled in the first quarter.

Industrial production rose by 0.9% in May from a month earlier, the Fed said in its latest report, significantly higher than the monthly gains seen in both March and April. The gain was also well above market expectations of a 0.4% monthly rise, according to Briefing.com. "Industrial and manufacturing production was much stronger than expected in May," High Frequency Economics Chief U.S. Economist Rubeela Farooqi wrote in a note to clients, adding that a Fed interest rate cut -- when it comes -- should help to support factory activity. Among the major industry groups, manufacturing and utilities production increased by 0.9% and 1.6% respectively from April, while mining production rose by a more modest 0.3%.

"Manufacturing led May's sharp uptick in industrial production, while warmer than usual weather boosted utilities output," Oxford Economics Lead U.S. Economist Bernard Yaros wrote in a note to clients.

The sharp monthly rise in production pushed industrial production into positive territory year-on-year, with factory output increasing by 0.4% since May 2023, the Fed said. ***Source: IndustryWeek, 06.18.2024***

Supreme Court Issues Decision That Puts Important Limits on the NRLB

On June 13, the U.S. Supreme Court issued a decision that will require the National Labor Relations Board (NLRB) to prove that it would be likely to succeed on the merits of a case before its leadership seeks to obtain a preliminary injunction against employers.

Why was this ruling an important one? As one law firm explained, the NLRB may bring administrative enforcement proceedings against employers and labor unions for engaging in unfair labor practices, and that process begins when an individual files a charge that alleges an employer or union has engaged in an unfair labor practice.

After an investigation, a regional NLRB director can file an administrative complaint with the agency. Because the administrative complaint process can take years, the National Labor Relations Act (NLRA) allows the NLRB to request that a federal district court issue a preliminary injunction against the employer or labor union while the enforcement proceedings are pending.

In recent years, the NLRB has sought these injunctions more and more, even pursuing them against employers based on flawed legal theories and unsubstantiated claims. In doing so, the NLRB has argued temporary injunctions should be granted by courts as long as the board could show there was "reasonable cause" to believe a company had violated labor law, and without requiring the NLRB to prove any additional factors.

Business groups, including Coalition for a Democratic Workplace (CDW), which the Metals Service Center Institute is a member of, have countered, arguing the NLRB should be held to a stricter standard — the same standard that is applied to other federal agencies and most other court orders.

In the decision, the Supreme Court sided with the CDW, and the decision will make it harder for the NLRB to issue injunctions based on unsupported claims. The CDW's statement on the decision can be found here. ***Source: Metals Service Center Institute, 06.24.2024***

Summer Davos' Highlights Corporate Anxiety Over Global Tariffs

Global trade tariffs were top of mind for attendees at the event known as Summer Davos in China week of June 24, with companies rethinking their strategies to mitigate the impact of tensions between China and the West. Chinese Premier Li Qiang led the call for trade openness and decried protectionism, saying decoupling would only drag the world into a "destructive spiral." His comments, made at the World Economic Forum event in Dalian, come as Chinese firms start to face more trade barriers, particularly from the U.S., Europe and potentially Canada.

It's a stark reminder of how precarious trade has become after years of supply chains rapidly rearranging due to the pandemic and U.S.-China trade war. The potential for escalation and additional tariffs threaten to exacerbate challenges for business owners globally, who face higher prices, longer wait times for parts and a lot more uncertainty. "Companies are always 'just in time' for how to supply the market, but now a lot of companies are pursuing 'just in case' because you never know," said Maggie Chen, professor of economics and international affairs at George Washington University. "I can sense the anxiety of businesses" at the conference, she added.

A surge of cheap exports and industrial production supported by the government has propelled China's economic growth this year, as policymakers target around 5% growth. That's prompted a pushback from developed nation partners because domestic industries stand to lose market share.

President Joe Biden's administration announced a plan in May to nearly quadruple tariffs on Chinese-made electric vehicles, raising them to 102.5%. This month, the European Union revealed plans to increase tariffs on Chinese EVs to as much as 48%. Canada also announced this week it is considering imposing tariffs on Chinese-made EVs to align with allies against what they view as a heavily subsidized Chinese industry. Chinese officials at the forum were careful not to comment on the impact of recent tariffs on trade, and on international companies with exposure to China. They also largely refrained from naming the U.S. and Europe directly, focusing instead on how tariffs threaten the global fight against climate change and risk higher inflation.

"It's very detrimental not only to Chinese exporters but to 'other nations' economies," said Ren Hongbin, chairman of the China Council for the Promotion of International Trade on the sidelines of the forum, "especially when we make common efforts to address climate change. It's against our common will and it's also in opposition to COP28," he said, referring to the biggest climate summit of 2023.

The WEF event is geared toward emerging markets and technologies, and many representatives of those sectors were in attendance. But even companies eager for funding and partners are growing wary amid the trade barrage. Swiss-based WasteFlow, a startup that uses AI and machine learning to identify and sort waste to streamline recycling, is considering sourcing some parts in Taiwan rather than Shenzhen to avoid higher costs and potential complications.

"If China is increasing the tariffs on goods imported, and Europe is doing the same, then doing business with China gets more and more complicated and more and more expensive to the point where it doesn't make sense anymore," said Theophile Agresti, the company's chief operating officer.

In another example of how companies are navigating global tariffs and trade policies, Chinese executives have been meeting top officials in Malaysia to seek assurances they can avoid U.S. tariffs if they relocate manufacturing to the Southeast Asian country, the Financial Times reported. It's imperative for companies to go global and cope with the new changes, said Xu Niansha, chairman of China Machinery Industry Federation and of state-owned China Poly Group Corp. Ultimately companies will seek the cheapest option, he added.

Chinese-based firms face more than just geopolitical challenges. Since 2020, Beijing has intensified its crackdown on private enterprises, especially in sectors like technology, finance, and education. Efforts to curb debt risks in the property market have also led to a prolonged slump, crimping economic growth.

The "government might not be as encouraging of the private sector as in the past," said Eswar Prasad, a former International Monetary Fund official now at Cornell University. Regulatory changes in the tech and service sectors have "left a mark" on the industry, affecting small and medium enterprises, which provide the majority of employment in the country, he added. ***Source: Bloomberg, 06.27.2024***