ONI INSIGHT

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<u>U.S. Economy Adds 227K Jobs in November as Labor Market Bounces Back After Storms, Strikes</u>—U.S. hiring bounced back in November with employers adding 227,000 jobs as the adverse toll on payrolls from two Southeast hurricanes and worker strikes reversed. The unemployment rate rose from 4.1% to 4.2%. Economists surveyed by Bloomberg had forecast 215,000 job gains.

Job gains for September and October were revised up by a total 56,000. September's tally was upgraded from 223,000 to 255,000 and October's, from 12,000 to 36,000. The changes paint a modestly brighter picture of the job market in late summer and early fall than previously believed. Full Story
Source: USAToday, 12.05.2024

<u>It's Reasonable to Consider Rate Cut Next Month, Fed's Kashkari Says</u>—Federal Reserve Bank of Minneapolis President Neel Kashkari said it is still appropriate to consider another interest-rate cut at the central bank's December meeting. "It's still a reasonable consideration," Kashkari said November 25 on Bloomberg Television in response to a question about whether policymakers should reduce borrowing costs by a quarter point at their last meeting of the year. "Right now, knowing what I know today, still considering a 25-basis-point cut in December — it's a reasonable debate for us to have."

Kashkari said the economy's resilience in the face of higher interest rates suggests that the neutral rate, where policy neither weighs on nor stimulates growth, may be higher now. That raises questions about how much monetary policy is helping to cool demand in the economy, he said. The longer that resiliency continues, the more he thinks that shift might be structural and not merely temporary.

"This is what I'm trying to understand right now, is how much downward pressure are we putting on the economy, and what is the path for inflation," Kashkari said.

Policymakers have lowered interest rates by three quarters of a percentage point in recent months, including a larger-than-usual half-point cut in September. They meet again Dec. 17-18. Some officials have signaled support for a more gradual pace of rate reductions going forward. Fed officials will receive more data, both on inflation and the labor market, before their December meeting. The latest update on the Fed's preferred price gauges will be released Wednesday. Progress on inflation, which has been inching closer to the central bank's 2% target, has slowed in recent months.

"I have some confidence that it's gently trending down, and right now the labor market remains strong," Kashkari said. Kashkari said that while one-off tariffs would likely lead to a one-time price hike, a situation where there is retaliation by foreign countries could drive up prices.
Source: Bloomberg, 11.25.2024

Wall Street is Betting on a Strong U.S. Economy in 2025

<u>Over the past few years, a stronger-than-expected US economy has continuously surprised Wall Street and its projections</u>. While we've become somewhat used to them now, the recent underestimations are a reversal of what was seen prior to the pandemic when US economic forecasts were often too lofty, RBC Capital Markets head of US equity strategy Lori Calvasina told Yahoo Finance. And now, heading into 2025, strategists like Calvasina are leaning into the post-pandemic trend and betting consensus economic forecasts will once again be surprised to the upside by the U.S. economy.

"Given that history recently of underestimating [US economic growth] and the fact that GDP forecasts for next year are creeping up very, very, very slowly, I'm making a bet on the 2% to 3% [growth] instead of the 1% to 2%," said Calvasina, who sees the S&P 500 ending next year at 6,600. On December 3, Wells Fargo's Christopher Harvey issued the most bullish target on Wall Street at 7,007 while highlighting a "cyclical opportunity catalyzed by upward GDP revisions."

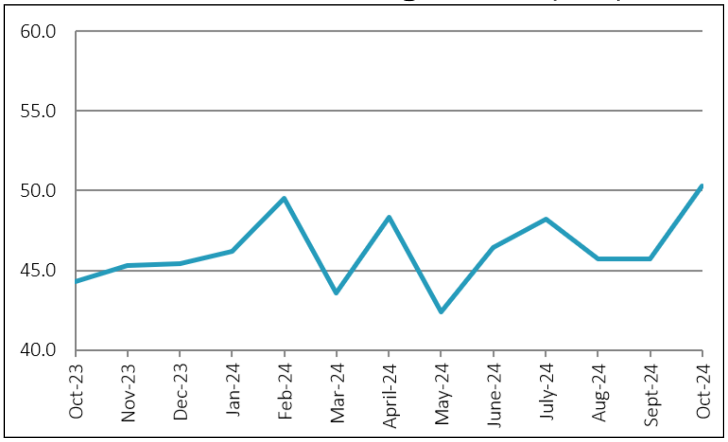
If 2024's market driving abbreviation was AI, 2025's is set to be GDP. Bank of America's equity and quantitative strategy team offered a similar pitch in its 2025 outlook note, which forecast the S&P 500 ending the year at 6,666. The firm's economics team projects the US economy will grow at an annualized rate of 2.4% in 2025, higher than Bloomberg consensus forecasts for 2.1% growth. "We see more opportunities in stocks than the index," Bofa's Savita Subramanian wrote. "In particular, we like companies with healthy cash return prospects and a tether to the U.S. economy: large cap Value stocks."

Calvasina agrees. "For Value to outperform, in recent years we've needed to see GDP run a bit hotter," Calvasina said. "We've given an edge to the broadening of market leadership or the shift into Value, but think it's a close call."

So while some Wall Street strategists are often quick to tell you the stock market is not the economy, it seems like, at least for 2025, history is showing us that when the economy starts to decline toward 0%, it's not usually a positive sign for stocks. Perhaps a reason why the economy falling short of the more than 2.1% growth expectations and potentially flashing signs of a slowdown isn't a part of the bullish calls headed into next year.
Full Story *Source: YahooFinance, 12.04.2024*

Key Economic Indicators

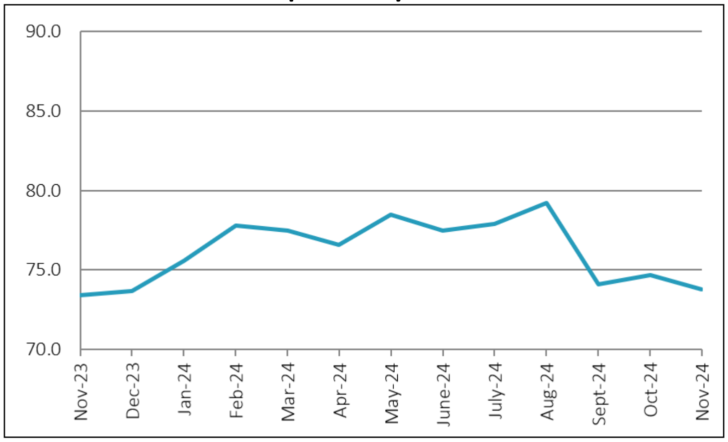
Architecture Billings Index (ABI)



The AIA/Deltek Architecture Billings Index (ABI) score for the month was 50.3, meaning that the share of firms that reported declining billings was essentially equal to the share of firms that reported increasing billings. In addition, inquiries into new projects ticked up in October to the highest level in six months. However, despite declining interest rates and softening inflation, clients remain hesitant to start new projects. The value of newly signed design contracts softened further in October, as they declined for the seventh consecutive month. Responding firms this month indicated that many clients were still awaiting the outcomes of the November elections, at both a national and more local level, before determining how to proceed on new projects.

The AIA/Deltek Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. 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 Architects, 11.20.2024

Steel Capability Utilization



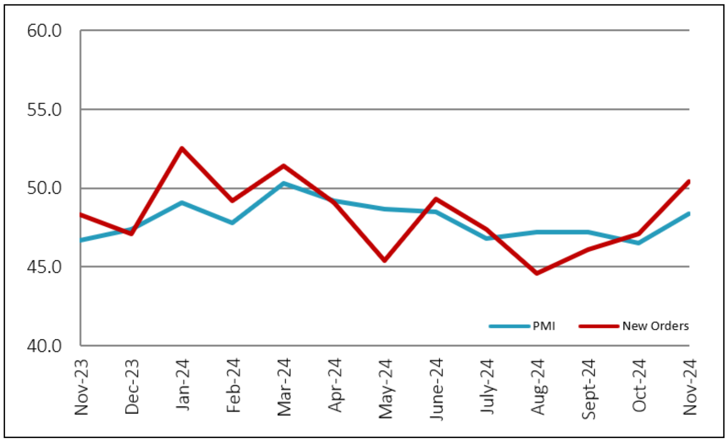
In the week ending on November 30, 2024, domestic raw steel production was 1,638,000 net tons while the capability utilization rate was 73.8%. Production was 1,687,000 net tons in the week ending November 30, 2023, while the capability utilization then was 73.4%. The current week production represents a 2.9% decrease from the same period in the previous year. Production for the week ending November 30, 2024, is down 1.0% from the previous week ending November 23, 2024 when production was 1,655,000 net tons and the rate of capability utilization was 74.5%.

Adjusted year-to-date production through November 30, 2024 was 80,517,000 net tons, at a capability utilization rate of 75.8%. That is down 2.3% from the 82,422,000 net tons during the same period last year, when the capability utilization rate was 76.1%.

Steel Capability Utilization 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, 11.30.2024

Purchasing Managers Index (PMI)®

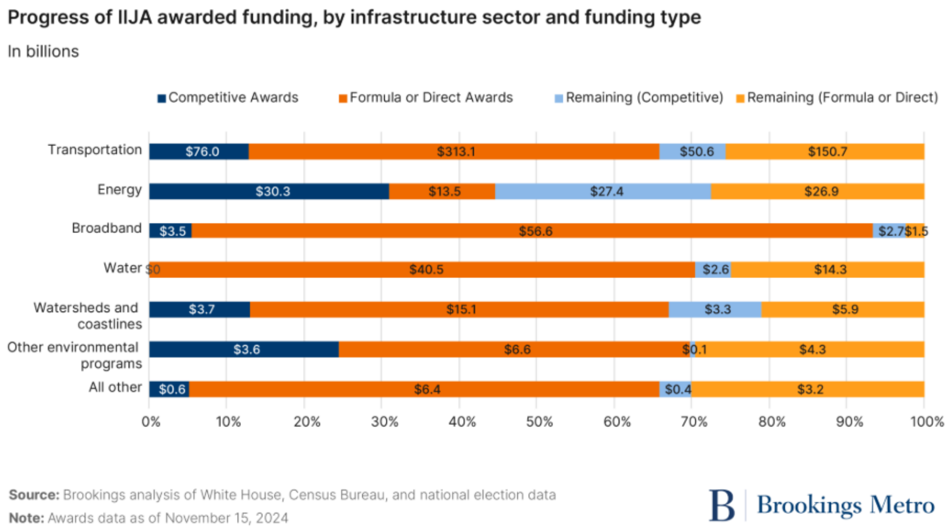
The Manufacturing PMI® registered 48.4% in November, 1.9 percentage points higher compared to the 46.5% recorded in October. The overall economy continued in expansion for the 55th month after one month of contraction in April 2020. (A Manufacturing PMI® above 42.5%, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index returned to expansion, albeit weakly, after seven months of contraction, registering 50.4%, 3.3 percentage points higher than the 47.1% recorded in October. The Backlog of Orders Index registered 41.8%, down 0.5 percentage point compared to the 42.3% recorded in October. The Employment Index registered 48.1%, up 3.7 percentage points from October's figure of 44.4%.



The three manufacturing industries reporting growth in November are: Food, Beverage & Tobacco Products; Computer & Electronic Products; and Electrical Equipment, Appliances & Components. The 11 industries reporting contraction in November — in the following order: Printing & Related Support Activities; Plastics & Rubber Products; Chemical Products; Paper Products; Transportation Equipment; Fabricated Metal Products; Furniture & Related Products; Machinery; Nonmetallic Mineral Products; Miscellaneous Manufacturing; and Primary Metals.
Source: Institute for Supply Management, 12.01.2024

Industry News

Possible Future of the Bipartisan Infrastructure Law



With the 2024 election in the books, the country is rapidly preparing for what a second Donald Trump presidency means for a lengthy list of high-profile policy issues. Headlines have focused on areas with clear differences between President Joe Biden and President-elect Trump, including tariffs, immigration, and Ukraine—but all the prognostication about areas of disagreement can obscure just how many issues demand continuity across administrations.

That's shaping up to be the case with the Infrastructure Investment and Jobs Act (IIJA), or the so-called "bipartisan infrastructure law." President Biden regularly boasted that it was his administration and lawmakers in the 117th Congress who initiated America's "infrastructure decade," often needling former President Trump for failing to deliver on his many "infrastructure week" promises. Somewhat ironically, it's now President-elect Trump who must execute the law's programming over its final two years.

Still, the Trump administration and the new Congress will have opportunities to put their stamp on the historic law. Agency officials will award tens of billions of dollars in remaining competitive grants—including under congressional priorities where the Trump administration may outright oppose action, such as climate mitigation and resilience. Meanwhile, agency officials and Republicans on Capitol Hill could investigate the use of funds and even try to claw back funding to pursue other legislative priorities. Both developments could have huge implications for state and local officials.

It may not have been an issue on the stump, but the IIJA will be a major governing item for the next two years. To help prepare stakeholders inside the Beltway and across the country, this piece summarizes the state of play: how much money is left to be spent, political takeaways from the Biden administration's awards, and what the future of the IIJA is inside and outside Washington, D.C.

Note: Award data and the law's structure can be researched in more detail via our Federal Infrastructure Hub.

The IIJA included multiple provisions that separated it from Congress' typical infrastructure bill. First, the bill's authors were willing to bundle multiple infrastructure sectors under one piece of authorizing legislation. Second, lawmakers made sure almost all of the bill's funding would get spent by using a mix of advance appropriations and contract authority. Combined, these two features meant stakeholders knew exactly how much spending the IIJA should deliver over the law's five years, with a relatively simple process to track spending across all sectors at once.

The Biden White House has made tracking that process easier than ever by steadily releasing project-specific downloads of all IIJA awards. That data confirm what we expected a year ago: As the Biden administration passes the baton to the Trump administration, the federal government is on pace to award all funds within the law's five authorized years. Through the law's first three years, the Biden administration awarded $570 billion in federal funding—equal to 66% of the original total.

Now, awards aren't the same as actual spending (or what's known as "outlays"), which helps explain why people may still not see all this spending in action. For example, the $42.5 billion program to build-out broadband infrastructure (known as BEAD) has been fully awarded, but yet to initiate construction. It's a similar story for many competitive transportation programs that require recipients to secure permitting and funding before construction can commence. It will take years following the IIJA's expiration for all of its projects to be completed.

Yet even after all these awards, the Biden administration still leaves the Trump administration with $294 billion to award, including $87.2 billion in competitive grantmaking, where Trump's agency staff will personally determine the winners. That's a significant number of mega-transportation projects, energy grid enhancements, and other investments worthy of White House press releases. While the first Trump administration never had major infrastructure legislation to tout, it'll be fascinating to see how the new Marketer-in-Chief sells all these projects—even those initially awarded under his predecessor and rival.

Full Story *Source: Brookings, 11.27.2024*

Industry News

Global Markets Brace for Aluminum Bull Run Amid Supply Crunch

Global bauxite and aluminum prices have surged to a five-month high this month, driven by economic growth, growing supply concerns, a dip in the value of the U.S. dollar and the "China factor." Currently, analysts predict that prices could rise further from current levels.

Aluminum prices are currently about 18% higher year-on-year. Even aluminum futures are up on most major markets, including the London Metal Exchange. For example, on November 7, aluminum three-month futures on the LME scored a high of US $2,710 a ton. Analysts noted that new trader positions, driven by demand from consuming industries, helped support aluminum prices in the futures market.

According to some media reports, a bull run in the aluminum/bauxite market is pushing renewed buying. One Hindu BusinessLine report quoted analysts as predicting prices could only rise from current levels. In fact, the article quoted an analyst from research agency BMI as saying they had revised their earlier 2024 forecast from US $2400 a ton to $2450 a ton.

Of the many factors propelling the growth in aluminum prices, two stand out: increasing worry over the supply of raw material on the market and broader global developments.

Some metal stocks, including aluminum, have been in the news a lot more lately. This is mainly the result of a Chinese Government announcement stating that it would remove the 13% export tax rebates for specific aluminum and copper products as of December 1, 2024. Many sector specialists warn that this move could bring down the extra supply of Chinese aluminum to other countries. This is potentially problematic as China is one of the largest producers of aluminum in the world.

A CNBC/TV18 report quoted Kunal Shah, Head of Commodities Research at Nirmal Bang, as predicting more price hikes fueled by supply hurdles and geopolitical tensions. It's no secret that U.S. President-elect Donald Trump is likely to impose tariffs on incoming goods from countries like Canada, India, and China. Analysts, including Shah, suggest that China's removal of tax rebates signals a shift toward a policy designed to safeguard its domestic producers.

While this strategy would restrain exports, it would simultaneously lead to excess supply in the local market. Some estimates predict the Chinese move could remove five million tons of aluminum from the global market, leading to even more short-term inflation for metal prices. According to ING Think, pressure from trade concerns may have pushed China to eliminate subsidies deemed unfair by its trade partners. This decision coincided with bauxite prices nearing a record high after Guinea halted exports by Emirates Global Aluminum.

The stoppage by the world's largest bauxite miner, combined with reduced output from Australia and Jamaica, has severely strained supply. As a result, Chinese smelters are facing a supply crunch, with ore inventories dropping to their lowest levels since 2015.

According to another report by the World Bank, China continues to expand smelter operations in South-East Asia, even as it is now looking to cap domestic aluminum production at about 45 million tons.

Only a few days ago, Beijing announced significant changes to its export rebate policy, eliminating the tax rebate on aluminum and copper exports and reducing relief for batteries and solar panels. China's aluminum industry has long been a major exporter of semi-fabricated products like rods, plates, and foil, which are used in manufacturing or remelted into new shapes.

These exports are critical to industries ranging from beverage cans to automobiles but have also fueled previous trade disputes with the U.S. and Europe. Meanwhile, global smelters have faced shutdowns due to oversupply, low prices and soaring energy costs, factors often exacerbated by Chinese exports. Also contributing to the rise in these metal prices was a softer U.S. dollar. With the dollar easing after a strong rally, metals have become more affordable for global buyers, boosting market optimism. Meanwhile, China's cutback on export subsidies has raised supply concerns, likely driving prices higher and affecting industries dependent on multiple metals. The decision is critical for global markets, what with tightening global supply and higher future price trends. Those countries dependent on aluminum supply from China may now have to scout for an alternate source to meet their demand.

Amidst all this, Russian metals giant Rusal recently announced plans to cut aluminum production by at least 6% in response to rising raw material costs and weakening domestic demand. In the initial phase, the company will reduce output by 250,000 metric tons. However, representatives did not disclose details about further reductions or the timeline.

Source: MetalMiner, 11.27.2024

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Industry News

U.S. Port, Union Talks Break Down Again Over Automation

Automation continues to be the sticking point in the negotiations between the U.S. Maritime Alliance and the International Longshoremen's Association to prevent the potential for a new strike that could shut down port operations from New England to Texas starting in mid-January. Recent negotiations, the first since the end of the three-day ILA strike that shuttered ports along the East Coast and Gulf Coasts in early October, have bogged down over use of automation at ports, according to the USMX. The group, which represents port owners in the talks with the union, released a statement on November 13 saying while some progress had been made, there was no headway in the area of automation over the last two days of negotiations and no new date has been set to resume talks.

"While we had positive progress on a number of issues, we were unable to make significant progress on our discussions that focused on a range of technology issues Unfortunately, the ILA is insisting on an agreement that would move our industry backward by restricting future use of technology that has existed in some of our ports for nearly two decades -– making it impossible to evolve to meet the nation's future supply chain demands." Since the October strike ended after a tentative settlement on wage hikes, the parties agreed to work towards a lasting agreement by a January 15 deadline, or face the prospect of another ILA strike.

The use of cranes with semi-automated capabilities is the stumbling block, according to sources close to the negotiations who were granted anonymity to discuss sensitive talks. Semi-automatic cranes use real-time data and positioning systems to move and identify priority containers for pickup. These cranes are operated by union workers, using a remote control in an indoor operator's station. The union workers are not physically on the crane. The ILA declined to comment beyond saying in a statement that it is communicating directly with union members regarding the negotiations. It should come as no surprise that automation is a major roadblock.

ILA President Harold Daggett has never wavered in his stance on automation. After the agreement on wages was made, Daggett said, "The ILA negotiated restrictions on automation and semi-automation in the last contract. The ILA just wants to tighten the language that no automation means no automation." In another comment, he vowed, "We want absolute airtight language that there will be no automation or semi-automation, and we are demanding all Container Royalty monies go to the ILA." He also called semi-automation a "back-avenue into automation."

Dennis Daggett, executive vice president of the ILA and Harold Daggett's son, called automation a "cancer" in a video message to union members shared during a September meeting ahead of the strike. "We do not believe that robotics should take over a human being's job especially a human being that's historically performed that job, so we're going to continue to fight that from now to the rest of our existence. It doesn't matter if they pay us $100 an hour, we will not have jobs in the future," he told union members. In November 13's statement, the USMX said it is not seeking technology that would eliminate jobs.

"What we need is continued modernization that is essential to improve worker safety, increase efficiency in a way that protects and grows jobs, keeps supply chains strong, and increases capacity that will financially benefit American businesses and workers alike. We look forward to resuming negotiations with the ILA."

Stephen Lamar, CEO of the American Apparel and Footwear Association, said in a statement to CNBC, "We are disappointed that the International Longshoremen's Association has walked away from negotiations for the East and Gulf Coast port contract, again. When negotiations broke down earlier this year, the ILA initiated a three-day strike in October that caused significant delays and backlogs that lasted weeks and negatively impacted American jobs and transportation networks globally." "It is imperative the ILA return to the negotiating table immediately so that the parties can jointly resolve outstanding issues regarding modernization so that a long term, sustainable, and fair agreement can be finalized this year," Lamar added.

Adobe Stock

Research on the impact of automation on union jobs is mixed. A study conducted by Dr. Michael Nacht, Professor of Public Policy at the University of California, Berkeley, and a former Assistant Secretary of Defense, and Larry Henry, Founder of ContainerTrac, concluded that higher output of automation at the two semi-automated terminals at the ports of Long Beach and Los Angeles, California, actually increased jobs for the International Longshore and Warehouse Union. The report was commissioned by the Pacific Maritime Association, which manages West Coast ports and reached a deal on a new contract with the ILWU in 2023, averting a strike. But a study commissioned by the ILWU found that automation eliminated job hours and wages.

Source: CNBC, 11.13.2024

Trade

International Trade Commission Rescinds Tariffs on Aluminum Restrictions

In a rare move, on Oct. 30, the U.S. International Trade Commission (ITC) issued a negative determination regarding countervailing and anti-dumping duties on imports of aluminum extrusions from China, Colombia, Ecuador, India, Indonesia, Italy, Malaysia, Mexico, South Korea, Taiwan, Thailand, Turkey, United Arab Emirates, and Vietnam.

The ITC decision means that countervailing and anti-dumping cases against these nations will be terminated and all duties that had been collected by the U.S. Customs and Border Protection will be refunded to importers.

The ITC's ruling came after opposition from a coalition that included the National Association of Home Builders urged the commission to reconsider the sweeping scope of tariffs. The coalition argued the penalties could raise costs for U.S. businesses, home buyers, and other consumers.

The ITC is generally represented by six members, but only four seats are currently filled. The majority was achieved with just two votes from commissioners — David Johanson and Jason Kearns who voted to overrule the aluminum extrusion import duties. ITC Chair Amy Karpel voted to maintain the penalties while Commissioner Rhonda Schmidtlein abstained from the vote.

The ITC's report on this matter will be available to the public at this link at some point in December, most likely by December 10.
Source: MSCI, 11.09.2024

Trump's latest tariff plan aims at multiple countries. What does that mean for the U.S.?

President-elect Donald Trump has identified what he sees as an all-purpose fix for what ails America: Slap huge new tariffs on foreign goods entering the United States. On November 25, Trump sent shockwaves across the nation's northern and southern borders, vowing sweeping new tariffs on Mexico, Canada, as well as China, as soon as he takes office as part of his effort to crack down on illegal immigration and drugs. In a pair of posts on his Truth Social site Trump railed against an influx of immigrants lacking permanent legal status, even though southern border apprehensions have been hovering near four-year lows. He said he would impose a 25% tax on all products entering the country from Canada and Mexico, and an additional 10% tariff on goods from China, as one of his first executive orders. He said the new tariffs would remain in place "until such time as Drugs, in particular Fentanyl, and all Illegal Aliens stop this Invasion of our Country!" The president-elect asserts that tariffs — basically import taxes — will create more factory jobs, shrink the federal deficit, lower food prices and allow the government to subsidize childcare.

Carl B. Weinberg and Rubeela Farooqi, economists with High Frequency Economics said Tuesday that energy, automobiles, and food supplies will be particularly hit hard. "Imposing tariffs on trade flows into the United States without first preparing alternative sources for the goods and services affected will raise the price of imported items at once," Weinberg and Farooqi wrote. "Since many of these goods are consumer goods, households will be made poorer." High Frequency Economics believes the threats are not meant to support new trade policy and are instead a tool to elicit some changes along the borders and for imports from Canada, Mexico and China.

Though Vice President Kamala Harris criticized Trump's tariff threats as unserious during her failed bid for the presidency, the Biden-Harris administration retained the taxes the Trump administration imposed on $360 billion in Chinese goods. And it imposed a 100% tariff on Chinese electric vehicles. Indeed, the United States in recent years has gradually retreated from its post-World War II role of promoting global free trade and lower tariffs. That shift has been a response to the loss of U.S. manufacturing jobs, widely attributed to unfettered trade and an increasingly aggressive China.

They are typically charged as a percentage of the price a buyer pays a foreign seller. In the United States, tariffs are collected by Customs and Border Protection agents at 328 ports of entry across the country. The tariff rates range from passenger cars (2.5%) to golf shoes (6%). Tariffs can be lower for countries with which the United States has trade agreements. For example, most goods can move among the United States, Mexico and Canada tariff-free because of Trump's US-Mexico-Canada trade agreement.

There's much misinformation about who actually pays tariffs—Trump insists that tariffs are paid for by foreign countries. In fact, it is importers—American companies—that pay tariffs, and the money goes to U.S. Treasury. Those companies, in turn, typically pass their higher costs on to their customers in the form of higher prices. That's why economists say consumers usually end up footing the bill for tariffs. Still, tariffs can hurt foreign countries by making their products pricier and harder to sell abroad. Yang Zhou, an economist at Shanghai's Fudan University, concluded in a study that Trump's tariffs on Chinese goods inflicted more than three times as much damage to the Chinese economy as they did to the U.S. economy. Full Story
Source: AP, 11.27.2024