O'NEAL INDUSTRIES

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# INSIGHT

MARCH 2022



Jobs February—Job growth accelerated in February, posting the biggest monthly gain since July as the employment picture got closer to its pre-pandemic self.

Nonfarm payrolls for the month grew by 678,000 and the unemployment rate was 3.8%, the Labor Department's Bureau of Labor Statistics reported Friday.

That compared with estimates of 440,000 for payrolls and 3.9% for the jobless rate.

In a sign that inflation could be cooling, wages barely rose for the month, up just 1 cent an hour, or 0.03%, compared with estimates for a 0.5% gain. The year-over-year increase was 5.13%, well below the 5.8% Dow Jones estimate as more lower-wage workers were hired and 12-month comparisons helped mute more recent gains.
Full Story
*Source: **CNBC, 03.04.2022***

U.S. Import Prices Rebound Sharply In January—U.S. import prices increased by the most in nearly 11 years in January amid a jump in the cost of energy products and strained supply chains, the latest indication that high inflation could persist for a while. Import prices increased 2.0% in January, the largest rise since April 2011, after declining 0.4% in December, the Labor Department said on February 16. In the 12 months through January, prices accelerated 10.8% after rising 10.2% in December.

Economists polled by Reuters had forecast import prices, which exclude tariffs, advancing 1.3%. The report followed news on February 16 that producer prices increased by the most in eight months in January. Consumer prices also rose solidly last month, with the annual inflation rate posting its largest increase in 40 years.

Supply bottlenecks had shown signs of easing towards the end of 2021, but that progress stalled as Covid-19 cases, driven by the omicron variant, raged around the globe. Imported fuel prices shot up 9.3% last month after decreasing 8.3% in December. Petroleum prices surged 9.5%, while the cost of imported food accelerated 3.6%. Excluding fuel and food, import prices rose 1.1%. These so-called core import prices gained 0.6% in December. They increased 6.2% on a year-on-year basis in January. The report also showed export prices advanced 2.9% in January after dropping 1.6% in December. Prices for agricultural exports rose 3.0%. Nonagricultural export prices increased 2.9%. Export prices increased 15.1% year-on-year in January. That followed a 14.8% advance in December.
*Source: CNBC, 02.16.2022*

## U.S. Fed Governor Opens Door To Half-Point Rate Hike In March

Federal Reserve Governor Michelle Bowman said February 21 that she was open to lifting interest rates by more than the traditional quarter-point at the central bank's next meeting in March. Bowman's comments came after several officials on Friday pushed back against the idea of a half-point increase in the Fed's benchmark short-term interest rate. The Fed is looking to raise rates as inflation surged to 7.5% in January compared with a year earlier, the biggest increase in four decades. The debate over how quickly to raise interest rates is being closely watched by financial markets and also could have an impact on the broader economy. Many economists have said the Fed has moved too slowly in response to an unexpectedly persistent surge in prices, raising the risk that inflation could remain high. But if it raises rates too quickly, the Fed risks choking off growth and hiring.

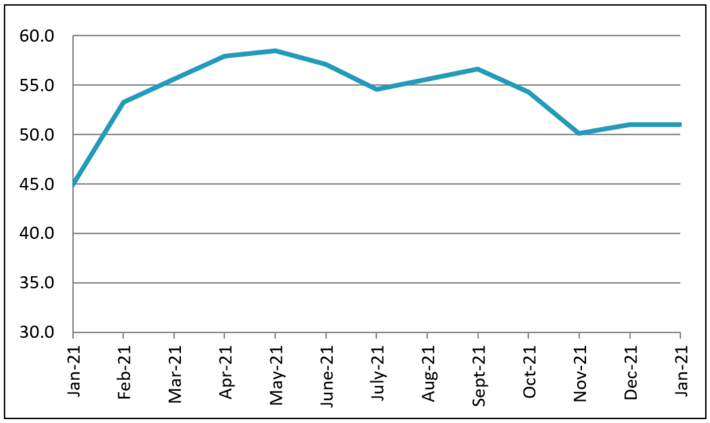

*Source: The Associated Press*

The bank is almost certain to start lifting interest rates at its March 15-16 meeting, with most officials who have expressed views backing a quarter-point increase. However, James Bullard, president of the Federal Reserve Bank of St. Louis, has expressed support for a half-point hike sometime at the Fed's next three meetings. Any increase next month would be the first since 2018.

Bowman said in prepared remarks to an American Bankers Association Conference in Palm Desert, California, that she supported lifting rates next month and that "if the economy evolves as I expect, additional rate increases will be appropriate in the coming months." "I will be watching the data closely to judge the appropriate size of an increase at the March meeting," she added, suggesting she is open to a half-point hike. Full Story
*Source: ABC, 02.22.2022*

# Key Economic Indicators

## Architecture Billings Index (ABI)

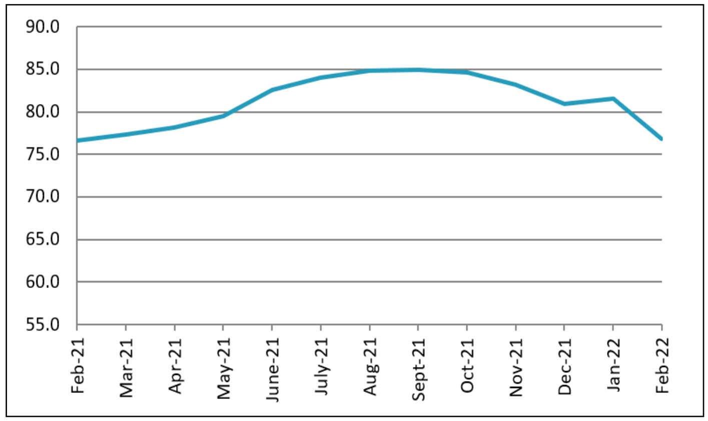



Architecture firms began 2022 with a slight improvement in business conditions, according to a new report today from The American Institute of Architects (AIA).

AIA's Architecture Billings Index (ABI) score for January was 51.0 compared to 51.0* in December (*Every January the AIA research department updates the seasonal factors used to calculate the ABI, resulting in a revision of recent ABI values.). Inquiries into new work and the value of new design contracts both remained strong with scores of 61.9 and 56.1 respectively.

The **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, 02.23.2022*

## Steel Capability Utilization

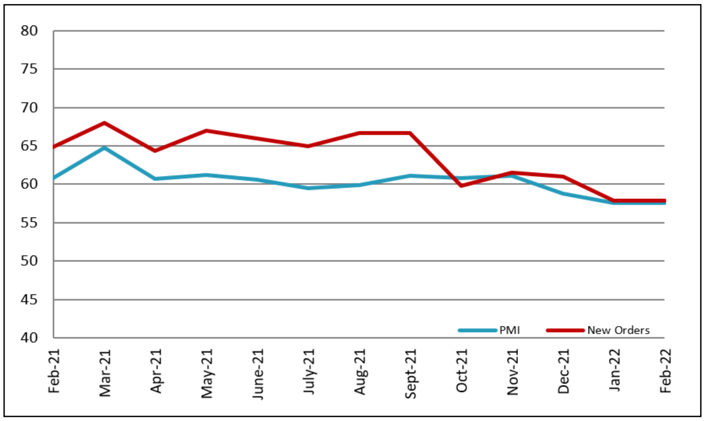



In the week ending on February 26, 2022, domestic raw steel production was 1,755,000 net tons while the capability utilization rate was 79.7%. Production was 1,740,000 net tons in the week ending February 26, 2021 while the capability utilization then was 76.8%. The current week production represents a 0.9% increase from the same period in the previous year. Production for the week ending February 26, 2022 is down 0.5% from the previous week ending February 19, 2022 when production was 1,764,000 net tons and the rate of capability utilization was 80.1.

Adjusted year-to-date production through February 26, 2022 was 14,562,000 net tons, at a capability utilization rate of 81.2%. That is up 2.9% from the 14,152,000 net tons during the same period last year, when the capability utilization rate was 76.7%.

**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, 02.28.2022*

## Purchasing Managers Index (PMI)®




The February Manufacturing PMI® registered 58.6%, an increase of 1% point from the January reading of 57.6%. This figure indicates expansion in the overall economy for the 21st month in a row after a contraction in April and May 2020. The New Orders Index registered 61.7%, up 3.8% points compared to the January reading of 57.9%. The Production Index registered 58.5%, an increase of 0.7% point compared to the January reading of 57.8%. The Prices Index registered 75.6%, down 0.5% point compared to the January figure of 76.1%. The Backlog of Orders Index registered 65%, 8.6% points higher than the January reading of 56.4%. The Employment Index registered 52.9%, 1.6% points lower than the January reading of 54.5%. The Supplier Deliveries Index registered 66.1%, an increase of 1.5% points compared to the January figure of 64.6%. The Inventories Index registered 53.6%, 0.4% point higher than the January reading of 53.2%. The New Export Orders Index registered 57.1%, up 3.4% points compared to the January reading of 53.7%. The Imports Index registered 55.4%, a 0.3% point increase from the January reading of 55.1%.

The 16 manufacturing industries reporting growth in February — in the following order — are: Apparel, Leather & Allied Products; Textile Mills; Paper Products; Transportation Equipment; Machinery; Miscellaneous Manufacturing; Primary Metals; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Furniture & Related Products; Plastics & Rubber Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; Nonmetallic Mineral Products; Chemical Products; and Petroleum & Coal Products. The only industry reporting a decrease in February compared to January is Wood Products. *Source: Institute for Supply Management, 03.01.2022*

# Industry News

## Metal Inventory Levels Dwindle And That Could Hit Metal Prices

While inventory levels serve as an interesting measure for fundamental analysis, that measure remains irrelevant for the short term. But when inventory levels change dramatically and over a longer time frame, they can have both an impact on price and also reflect more profound changes within the market. Ultimately, if not immediately, those factors could impact prices.

Both exchange traded and shadow, off-warrant, stocks have declined for a year now. After increasing sharply during lockdowns in 2020, global logistics delays hampered replenishment. The rapid global economic bounce back has seen those inventories drawn down again. In that respect, exchange stocks have done their job. The market's indifference to first the rise then fall in inventory levels makes sense. However, Overall, LME inventory for example, rose by 1.25 million tons in 2020. A 908k ton jump in so-called shadow stocks, a recent Reuters post reports, dwarfs the 337,000-ton increase in registered inventory. But since then, total LME stocks fell by 2.2m tons last year. Shadow stocks fell the fastest. By the end of December 2021, they totaled under 340k tons.

Shadow stocks and LME inventory drop—Aluminum drove much of the change.

China's energy constraints drove a surge in aluminum imports such that LME aluminum inventory fell by 406k tons last year. Moreover, they have continued to fall some 79k tons this year. Shadow stocks (the most easily accessible for quick delivery) stood at just 297k tons at the end of December down from 1.58m tons a year earlier. Meanwhile, copper shadow stocks shrank by 90% to just 13k tons at the end of December. Shadow stocks of nickel fell by 92% to 2.7k tons, those of zinc by 81% to 23.5k tons and shadow lead stocks saw a paltry 876 tons at the close of 2021, *Reuters* reports. ***Source: Metal Miner, 02.22.2022***

## Biden Administration Takes Steps To Reduce Emissions From Industrial Sector

On February 15, the White House Council on Environmental Quality and Office of Domestic Climate Policy revealed an initiative that will promote government procurement of industrial materials made with lower greenhouse gas emissions. Specifically, the new Buy Clean Task Force will ensure steel, aluminum, and other construction materials bought by the federal government are manufactured in a way that produces fewer emissions. The Task Force also pledged to help manufacturers better report emissions data and to create pilot projects that will increase federal procurement of clean construction materials.

The Task Force is part of a broader initiative to reduce industrial sector emissions. The White House also said last week that:

- The Biden administration will support carbon-based trade policies to reward U.S. manufacturers of clean steel and aluminum. Specifically, the White House will work with the European Union to align global trade with climate goals, which will "keep out dirty products and result in more jobs and lower prices for Americans."
- The Council on Environmental Quality will issue new guidance on responsible deployment of Carbon Capture, Utilization, and Sequestration (CCUS) technologies that can reduce emissions from heavy industry. The White House said the guidance "will support CCUS projects that create union jobs and protect communities from cumulative pollution impacts."

Read more about the Biden administration's plans here.
***Source: MSCI, 02.21.2022***

## Justice Department To Take On Exploitation Of Supply Chain Issues

The Justice Department is launching a new initiative aimed at identifying companies that exploit supply chain disruptions in the U.S. to make increased profits in violation of federal antitrust laws. The program, being unveiled Thursday by the Justice Department's antitrust division and the FBI, comes amid ongoing supply chain struggles and labor shortages in the U.S. that have plagued retailers since the coronavirus pandemic began.

Justice Department lawyers worry that companies may "seek to exploit supply chain disruptions for their own illicit gain," the department said. And, if that's the case, the Justice Department and the FBI will prosecute antitrust violations they uncover, the department says. Those violations could include agreements between individuals and businesses to fix prices or wages or to rig bids, prosecutors say.

The U.S. government also has formed a working group focused on supply chain collusion — meant to share intelligence and detect global schemes — with officials in several other countries, including the United Kingdom, Australia, New Zealand and Canada.

"Temporary supply chain disruptions should not be allowed to conceal illegal conduct," said Assistant Attorney General Jonathan Kanter, who runs the Justice Department's antitrust division. "The Antitrust Division will not allow companies to collude in order to overcharge consumers under the guise of supply chain disruptions." ***Source: ABC News, 02.17.2022***

# Industry News

## Mystifying Manufacturing Numbers: What Should We Make Of Them?

Business management guru Tom Peters once wrote, "If you're not confused, you're not paying attention." Well, American manufacturing leaders are paying attention to the increasingly complex circumstances they face—and they are quite confused. The latest data on manufacturing are mystifying in their extremes. Where is the light at the end of the tunnel? Following are a selection of numbers that help highlight the current state of U.S. manufacturing.

44.2. The median age of manufacturer worker in the U.S. today. While that's comfortably within the range of other sectors—the median age of workers in retail is 37.7 years while the median age of truckers is 46.4--the number continues to increase. According to SHRM, the median age of manufacturing workers in 2000 was 40.5. This is part of the challenge we face: with 2.5 million Boomers preparing to drop out of the manufacturing workforce in the coming years, the need for new talent becomes more pressing.

100.9. The current level of manufacturing production on the St. Louis Federal Reserve's industrial production index (2017 = 100). Interestingly, the collapse of manufacturing during the Great Recession was so dramatic that output in this country has yet to reach the pre-recession index level of 106.5, reached in December 2007. The index climbed to 99 in February 2020, only to watch that Sisyphean boulder tumble back down the hill when the pandemic struck. Despite extraordinary demand, current supply chain disruptions and talent shortages will likely keep manufacturing output under its pre-recession level through the rest of 2022.

308,000. The number of manufacturing workers who left their companies in December 2021 alone (whether due to retirement or as part of the Great Reshuffling). While that number was offset by 433,000 hires in December, the so-called monthly "quit rate" was above-average throughout 2021—including 294,000 departures in November, 298,000 in October, and 324,000 in September. This compares to a number hovering between 200,000 and 225,000 in the three years prior to the pandemic. In combination with other data (see below), it shows how talent retention has become as much of a problem as talent recruitment.

856,000. The number of manufacturing job openings in December 2021. This has been the biggest fundamental challenge facing manufacturers over the past 15 years. Yet, relatively speaking, the 6.4% rate in openings is middle-of-the-pack for a pandemic-stricken economy. The job open rate is 6.8% for the entire private sector—and 9.9% for leisure and hospitality.

3,020,000. The number of industrial robots worldwide in 2020, which is double the number from 2014. This is obviously related to the previous data points, as businesses start turning to robotic automation for some roles historically relegated to humans. This is most rapidly occurring in nations with aging workforces: South Korea has the most "robot-dense" nation in the world, with 932 per 10,000 workers in 2020. That is followed by Singapore (605 per 10,000 workers), Japan (390), Germany (371), Sweden (289), Hong Kong (275) and the United States (255). Even though China has the greatest overall number of industrial robots, it has only 246 robots per 10,000 employees.

12,559,000. The number of manufacturing employees in the U.S. as of January 2022, according to the Bureau of Labor Statistics. That's 8.4% of total U.S. employment. Here's the problem: the government's definition of manufacturing is pretty narrow because data is collected not at the firm level, but at the establishment level—which in manufacturing means at the plant. This means manufacturing employees not employed at a plant are counted elsewhere. For example, employees at corporate offices are classified as "management of a business enterprise" (a service industry). R&D centers are also counted as a service. Warehouses for wholesale trade and centralized logistics for transportation are also counted separately. Clearly, manufacturing's workforce footprint is much larger than that suggested by the data.

79,400,000. The number of global vehicle sales last year, according to IHS Markit. This was 3% higher than sales in 2020, but due to continuing supply chain disruptions—particularly with semiconductor chips—a solid 13% under 2019 sales and 18% below 2018 sales. This is an example of how the current supply chain crisis has taken a toll on the sector and stymied the sector's re-emergence from the pandemic. The United States had 15.07 million vehicle sales last year, which similarly was about 3% higher year-over-year, but similarly well below pre-pandemic levels. The supply chain challenge and chip shortage are expected to remain a critical issue for manufacturers through 2022.

The issues addressed in these data points can feel overwhelming for manufacturing leaders. In many ways, it feels like the challenges they expected have accelerated and are all pressing in at the same time. Companies continue to showcase resilience and creativity to solve issues from supply chain to talent to continue their large contribution to the U.S. economic value chain. ***Source: Manufacturing Alliance, 02.11.2022***

# Industry News

## White House Releases Resource To Guide State, Local Infrastructure Investment

According to a new report from the American Road and Transportation Builders Association, 36 percent of U.S. bridges, or about 224,000 spans, need repair work. Nearly 79,000 U.S. bridges should be replaced. It is with this backdrop in mind that last week the White House has released a 465-page document that outlines the Biden administration's plan for state and local governments to access the nearly $1 trillion in funding made available by the Infrastructure Investment and Jobs Act (IIJA), which Congress approved last year.

The guidebook covers 375 programs, including 125 brand new ones, and breaks up funding into four categories: transportation, broadband; climate, energy, and the environment; and other programs. Read the full guidebook here.

How can businesses and interested taxpayers track where the infrastructure money is going?

As a reminder, the U.S. Chamber of Commerce has created a new website, www.LetsRebuildAmerica.com, that will provide the latest updates on funding, and how each state will be impacted by the IIJA. Tiber Creek Group, a Washington-based government relations group, also has assembled a tracker to help monitor funding announcements and implementation updates for the IIJA. View the tracker here. ***Source: MSCI, 02.07.2022***

# Special Section: Trade

## U.S. Government Asks For Public Comment On Section 232 Exclusion

The U.S. Department of Commerce's Bureau of Industry and Security (BIS) has issued a request for comment on ways that it can further improve the Section 232 tariff exclusion process for steel and aluminum products. Comments are due by March 28, 2022.

In its request, BIS said that, as of January 30, 2022, it had processed more than 382,000 exclusion requests and made determinations for approximately 369,000 of them. Its average processing times are 43 days for the 70% of requests that do not receive objections, but more than double that (98 days) for requests that have objections.

The bureau would like to hear from stakeholders regarding:

Whether the exclusion process properly responds to market demand;

- The overall transparency of the process;
- How the process can be changed or improved generally;
- How BIS can reduce the volume of submission errors and rejected filings in the exclusions portal;
- How BIS can address the time for processing exclusion requests, including reducing length or type of attachments that are required;
- The process for requiring public summaries of any confidential business information in requests and objections;
- Requiring public disclosure of delivery times on request and objection forms;
- Requiring recent evidence supporting claims made in a request or objection;
- Streamlining online forms or otherwise reducing administrative burden; and
- Assessing the general approved exclusions criteria and identification of products.

Click here to read BIS's full request and to find information on how to comment. *Source: MSCI, 02.21.2022*

## Biden Team Sees Limited Ability To Press China In Trade Talks

The U.S. is continuing conversations with China despite Beijing's failures to abide by a trade agreement reached during the Trump administration, but that process could soon come to an end, according to people familiar with the matter. Biden administration officials, running out of patience after months of talks on shortfalls in the so-called phase-one trade agreement, are trying to assess Beijing's willingness to make any further concessions but consider that unlikely, the people said. The White House plans, however, to let the talks play out before the Biden team considers next steps on how to respond.

Trade data released by the Commerce Department on February 8 underscored that China had failed to live up to its commitments under the deal and American officials pledged to hold the country accountable, though without citing a specific timeline for countermeasures.

The Biden team has also stressed that the trade deal doesn't address longstanding U.S. concerns with China's state-led economic system -- an issue U.S. Trade Representative Katherine Tai said she wants to focus on in her negotiations with Beijing.

"We will continue our necessary efforts to shape the environment around China by building resilience and competitiveness at home, diversifying markets, limiting the impact of Beijing's harmful practices, working with allies and partners, and using the full range of tools we have to defend American economic interests," USTR spokesman Adam Hodge said in a statement last week.

Bloomberg reported last year that the administration was considering a Section 301 investigation to counter China's industrial subsidies. Such an inquiry, which typically takes months to conclude, could result in more tariffs. As other potential measures against Beijing, the U.S. continues to review whether and how it will limit outbound investment as well as potential curbs to apps such as Tiktok and WeChat that U.S. officials say pose a risk to Americans' data security.

The administration last week issued its long-awaited Indo-Pacific strategy with the goal of cementing its leadership and engagement in the region, even as it's preoccupied with tensions around Ukraine. While the document lays out challenges China poses to the region, the White House was also set to issue a separate, China-specific strategy by the end of last year. It's not clear if such a strategy is forthcoming and when.
*Source: Bloomberg, 02.14.2022*

# Special Section: Trade

## U.S.—Japan Reach Deal To Curb Section 232 Steel Tariffs

The U.S. and Japanese governments have reached a deal that will reduce U.S. Section 232 tariffs on imports of Japanese steel products. Aluminum imports from Japan will not be impacted by the agreement and still will be subject to 10% penalties.

Regarding steel products, effective April 1, 2022, the U.S. will replace its existing Section 232 penalty with a tariff-rate quota (TRQ) system that will allow 1.25 million metric tons of Japan's steel products to enter the United States without the application of the 25% tariffs that were put into place under the Trump administration. Imports above that level will be subject to the original 25% penalty.

To be eligible for duty-free treatment under the TRQ, steel imports must be "melted and poured" in Japan according to U.S. requirements and rules for implementing the agreement. Importers must provide relevant documentation substantiating compliance with the U.S. requirements. Failure to comply could result in remedies and/or penalties.

In exchange for reducing the tariffs, Japan agreed to implement domestic policies, such as antidumping, countervailing duty, and safeguard measures, within six months.

Both countries agreed to share import data with respect to steel and aluminum, including from third-country markets, and will consult upon request regarding surges to ensure that each country is taking steps to address non-market excess capacity. Japan and the United States also both agreed to address excess capacity by expanding coordination on trade remedies and customs matters and by sharing public information and best practices on topics ranging from the detection of fraud/evasion to circumvention of duties and self-initiation.

The U.S. imported about 1.7 million metric tons of steel from Japan in 2017, the most recent year not impacted by the Section 232 tariffs. According to data from the U.S. Department of Commerce, imports fell to 1.1 million tons by 2019. Read the agreement and find more information here.

*Source: MSCI, 02.14.2022*


*Source: A worker stands near steel coils and steel rods at a steel collection facility in Tokyo, Japan, October 30, 2015. Japanese steelmakers are facing a supply glut, weak orders for drill pipe due to slumping oil prices, and softer-than-expected domestic demand, battering profits and output. REUTERS/Toru Hanai*


CELEBRATING OUR PAST

1921  2021


FORGING OUR FUTURE

The O'Neal Family of Companies is celebrating an important milestone in 2021 - 100 years in the metals industry, guided by four generations of O'Neal leadership.

With roots tracing back to 1921 with the founding of O'Neal Steel, we have become the nation's largest family-owned network of metals service centers and component manufacturers. Today, we are composed of a parent company, O'Neal Industries, and eight affiliate companies: G&L Tube, Leeco Steel, Locate Supplies, O'Neal Manufacturing Services, O'Neal Steel, Stainless Tubular Products, TW Metals, and United Performance Metals.

To honor and commemorate this achievement, we would like to recognize and thank those whose contributions have made O'Neal's success possible. We thank our employees who have dedicated years of service and carried out our founding principles of integrity and commitment to excellence. We also thank our customers who we are fortunate to serve each and every day.

Our centennial is not only a celebration of the past, but a celebration of what the future holds, as our family of companies, employees, and customers continues to grow for years to come.

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