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INSIGHT

December 2021

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November Jobs Report: Payrolls Grew By 210,000, Unemployment Rate Falls To 4.2%—The U.S. economy added back fewer jobs than expected in November, while the unemployment rate fell further than anticipated to the lowest since February 2020.

Though the payroll gain in the November jobs report disappointed sharply compared to expectations, job growth for October and September were each upwardly revised. Payrolls grew by 546,000 in October, versus the 531,000 previously reported, while jobs grew by 379,000 in September compared to the 312,000 posted in the first estimate. Full Story
Source: YahooFinance, 12.03.2021

U.S. Capital Goods Orders Increased By More Than Forecast—Orders placed with U.S. factories for business equipment rose in October by more than forecast, highlighting solid momentum for capital investment at the start of the fourth quarter. The value of core capital goods orders, a proxy for business investment in equipment that excludes aircraft and military hardware, rose 0.6% after a upwardly revised 1.3% increase a month earlier, Commerce Department figures showed November 24 Bookings for all durable goods—or items meant to last at least three years—decreased 0.5% from the prior month, reflecting a drop in commercial aircraft.

The median estimate in a Bloomberg survey of economists called for a 0.5% increase in core capital goods orders and a 0.2% advance in total durables bookings. The pickup extends a trend of healthy growth in equipment expenditures that began in May of last year, with orders increasing in all but one month. Such demand against a backdrop of lean inventories is seen fueling factory output well into 2022.

Still, production efforts are being stymied by shipping bottlenecks as well as shortages of both labor and materials that show few signs of being alleviated. A report November 23 showed growth in U.S. business activity softened this month as both service providers and manufacturers remained constrained by higher inflation, supply shortages and hiring difficulties.
Source: Bloomberg, 11.24.2021

Jerome Powell Pivots, Suggesting Quicker Reduction In Economic Help As High Inflation Persists

Jerome Powell, the Federal Reserve chair, signaled on November 30 that the central bank is growing more concerned about high—and stubborn—inflation, and could speed up its plan to withdraw economic support as it tries to ensure that rapid price gains do not become long-lasting. His comments, delivered during a Senate Banking Committee hearing, came at a challenging economic moment for the Fed. Prices for food, shelter and other items are rising quickly, millions of workers have yet to return to the labor market and the virus continues to pose risks to the economic outlook, most recently with the new Omicron variant.

The Fed had been buying $120 billion in government-backed securities each month throughout much of the pandemic to bolster the economy by keeping money flowing in financial markets. In November, officials announced plans to slow those purchases by $15 billion per month, which would have the program ending midway through 2022. But Mr. Powell signaled November 30 that the central bank could wrap up its bond-buying more quickly, cutting down the amount of economic juice the Fed will add in upcoming months. “At this point, the economy is very strong, and inflationary pressures are high,” Mr. Powell said during a hearing before the Senate Banking Committee. “It is therefore appropriate in my view to consider wrapping up the taper of our asset purchases, which we actually announced at our November meeting, perhaps a few months sooner.”

Mr. Powell said he expected Fed officials to discuss slowing bond purchase faster “at our upcoming meeting,” which is scheduled for December 14-15.

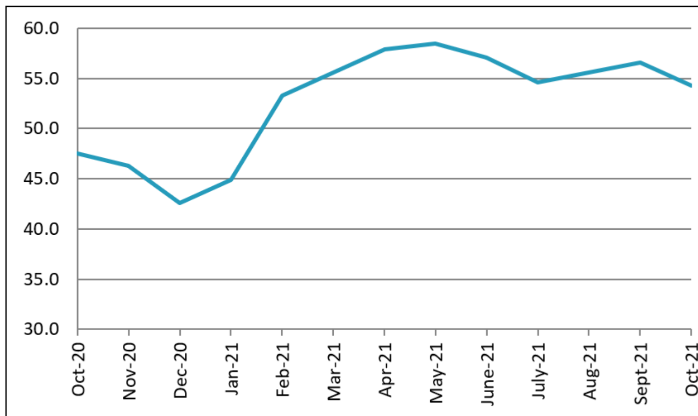
He stressed that between now and then, policymakers will get a better sense of the new Omicron variant of the coronavirus, a fresh labor market report and updated inflation numbers. Mr. Powell made it clear that it was too soon for Fed policymakers—or anyone—to tell how much the new variant will affect the economy, since that will hinge on how easily it transmits and whether it causes more severe disease.

“What I’m told by experts is that we’ll know quite a bit about those answers in about a month,” he said. “We’ll know something, though, within a week or 10 days.” For now, he said, “it’s a risk, it’s a risk to the baseline—it’s not really baked into our forecasts.”

While Omicron’s danger remains uncertain, another virus surge would pose a double-barreled threat to the economy: It could prevent workers from returning to the job market just as it prevents roiled supply chains from returning to normal, keeping a full labor market recovery at bay while making inflation last longer. And the potential threat hits at a fraught moment for policymakers. The economy has boomed back this year, and hot demand has collided with constrained supply to push inflation sharply higher. Full Story ***Source: NYTimes, 11.30.2021***

Key Economic Indicators

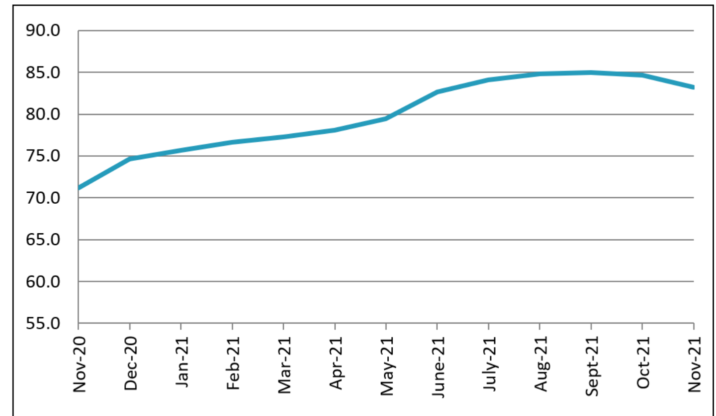
Architecture Billings Index (ABI)



The ABI score for October was 54.3. While this score is down slightly from September's score of 56.6, it still indicates very strong business conditions overall (any score above 50 indicates an increase in billings from the prior month). During October, scoring for both the new project inquiries and design contracts expanded, posting scores of 62.9 and 58.0 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, 11.17.2021

Steel Capability Utilization

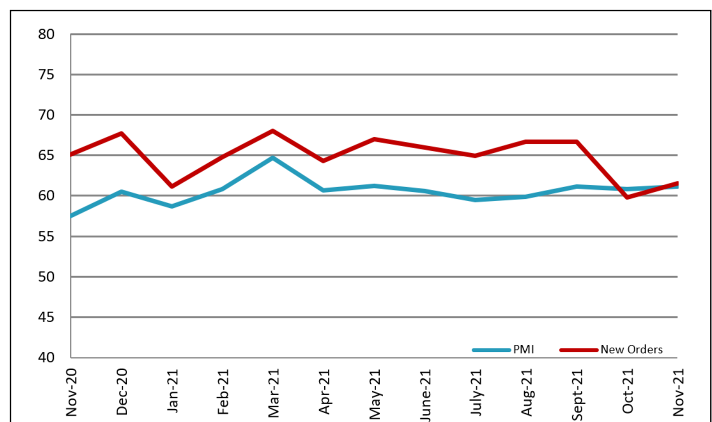


In the week ending on November 27, 2021, domestic raw steel production was 1,837,000 net tons while the capability utilization rate was 83.2%. Production was 1,621,000 net tons in the week ending November 27, 2020 while the capability utilization then was 73.3%. The current week production represents a 13.3% increase from the same period in the previous year. Production for the week ending November 27, 2021 is down 1.3% from the previous week ending November 20, 2021 when production was 1,861,000 net tons and the rate of capability utilization was 84.3%.

Adjusted year-to-date production through November 27, 2021 was 86,274,000 net tons, at a capability utilization rate of 81.6%. That is up 19.7% from the 72,053,000 net tons during the same period last year, when the capability utilization rate was 67.7%.

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, 11.27.2021

Purchasing Managers Index (PMI)®



The November Manufacturing PMI® registered 61.1%, an increase of 0.3 percentage point from the October reading of 60.8%. This figure indicates expansion in the overall economy for the 18th month in a row after a contraction in April 2020. The New Orders Index registered 61.5%, up 1.7 percentage points compared to the October reading of 59.8%. The Production Index registered 61.5%, an increase of 2.2 percentage points compared to the October reading of 59.3%. The Prices Index registered 82.4%, down 3.3 percentage points compared to the October figure of 85.7%. The Backlog of Orders Index registered 61.9%, 1.7 percentage points lower than the October reading of 63.6%. The Employment Index registered 53.3%, 1.3 percentage points higher compared to the October reading of 52%. The Supplier Deliveries Index registered 72.2%, down 3.4 percentage points from the October figure of 75.6%. The Inventories Index registered 56.8%, 0.2 percentage point lower than the October reading of 57%. The New Export Orders Index registered 54%, a decrease of 0.6 percentage point compared to the October reading of 54.6%. The Imports Index registered 52.6%, a 3.5 percentage point increase from the October reading of 49.1%.

The 13 manufacturing industries reporting growth in November—in the following order: Apparel, Leather & Allied Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Computer & Electronic Products; Machinery; Plastics & Rubber Products; Paper Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Chemical Products; Petroleum & Coal Products; Fabricated Metal Products; and Transportation Equipment. The two industries reporting a decrease in November compared to October are: Printing & Related Support Activities; and Primary Metals. *Source: Institute for Supply Management, 12.01.2021*

Industry News

U.S. Drillers Add Oil And Gas Rigs For Record 16th Month—Baker Hughes

U.S. energy firms added oil and natural gas rigs for a record 16 months in a row as crude prices in recent weeks rose to a seven-year high, prompting some drillers to return to the well pad. The oil and gas rig count, an early indicator of future output, rose six to 569 in the shortened week to November 24, its highest since April 2020, energy services firm Baker Hughes Co said in its closely followed report on November 24. Baker Hughes released the rig count data a couple of days earlier than usual due to the U.S. Thanksgiving holiday. That puts the total rig count up 249 rigs, or 78%, over this time last year.

In November, the count gained 25, the biggest monthly increase since January, according to Baker Hughes data. U.S. oil rigs rose six to 467 this week, their highest since April 2020, while gas rigs were unchanged at 102 for a third week in a row. After closing at their highest levels since October 2014 earlier in the month, U.S. crude futures were trading around $78 per barrel on November 24.

With oil prices (still) up about 61% this year, some energy firms said they plan to raise spending in 2021 and 2022 after cutting expenditures in 2019 and 2020. However, shale producers are tapping the brakes on reinvestment. The rate at which they put cash from operations into drilling for oil and gas fell to a record low last quarter, data from consultancy Rystad Energy showed, as those firms returned cash to shareholders through dividends and stock buybacks. read more

The third-quarter reinvestment rate was 46%, below the historical average of 130%, Rystad said in a report this week. Reinvestment could fall further, its analysts said. Oddly, an even bigger price increase in natural gas - futures were up 102% so far this year - has not yet encouraged drillers to seek more gas.

The oil rig count was up about 75% since the start of the year, while the number of active gas rigs was only up about 23%.
Source: Reuters, 11.29.2021

'Greenflation' A Risk For Renewable Energy, But Long-Term Viability Intact

The rising prices of commodities needed for renewable energy will increase the costs of setting up new green power projects, but this will be balanced by better access to funds and economies of scale, policy advisers and an investor said. The rising costs, as well as supply chain problems for some of the commodities and goods needed for green projects, won't be a long-term threat to the economic viability of clean energy, they told the Reuters Global Markets Forum on November 22.

Overhead costs that will fall with economies of scale include items such as permit fees, labor costs for installations and customer acquisition costs. Overall costs for the industry will trend downwards as there are few barriers to scaling up, said Harry Boyd Carpenter, managing director for green economy and climate change at the European Bank for Reconstruction and Development (EBRD).

Vaibhav Chaturvedi, fellow at the Council on Energy, Environment and Water (CEEW), saw "greenflation", or the costs associated with going green, as a concern, especially in the short-term. "Underlying commodity prices are rising everywhere in the world," he said.

Prices of metals such as tin, aluminum, copper, nickel cobalt, that are essential to energy transition technologies, have risen between 20% and 91% this year. But Chaturvedi saw the lowering cost of finance as a "big leverage" to counter the increase in underlying costs.

Allied Market Research projects the global renewable energy market, valued at over $881 billion in 2020, to more than double to nearly $2 trillion by 2030.

Gauri Singh, deputy director-general at the International Renewable Energy Agency (IRENA), argued that despite inflation and supply chain disruptions, decreasing financing costs helped in record generation of 260 gigawatts of energy from renewable sources last year. "You will not actually get cheap money for anything that's a climate risk. Whereas for renewables, the market is softening," Singh said. ***Source: Reuters, 11.22.2021***

Source: Adobe Stock

Industry News

White House Will Use Infrastructure Money To Address Port Challenges

President Joe Biden signed the $1.2 trillion Infrastructure Investment and Jobs Act (IIJA) on November 15. As readers are aware, MSCI and the business community supported this important piece of legislation. Now it appears that bill could have an immediate effect on some of the supply chain challenges currently facing the industrial metals sector and other industries.

Specifically, on November 9, the Biden administration announced a plan to address port congestion by quickly utilizing new funds from the IIJA to increase port throughput and modernize operational capacities. The plan, which is outlined here, will provide flexibility in how some ports can use existing federal dollars to respond to current supply chain challenges. It also will create new short-term deadlines for some port-specific federal grant programs, including nearly $240 million in grant funding to be authorized over the next 45 days.

Additional investment with shorter-than-average timetables for deployment will be set in motion over the coming weeks. This plan also includes provisions related to digital infrastructure, data standardization, and logistics systems data management.

According to the most recent CFO Survey from Duke University's Fuqua School of Business and the Federal Reserve Banks of Richmond and Atlanta, more than three-quarters of company chief financial officers report supply chain disruptions, including production delays, shipping delays, reduced availability of materials, and increased materials prices. Read more here.
Source: MSCI, 11.16.2021

Source: Adobe Stock

Global Steel Production Slides

The October steel total marked a decline of 10.6% on a year-over-year basis. Meanwhile, output increased by 0.4% compared with the previous month. In China, the world's top steel producer, output peaked this year at 99.5 million tons in May. Since then, China's output has declined each month, according to the World Steel Association. The country's October steel production totaled 71.6 million tons, down from 73.8 million tons in September.

The pace of GDP growth in China slowed to 4.9% in Q3, according to National Bureau of Statistics data. GDP had increased by 7.9% year over year in Q2 2021. For the year to date, China's output of 877.1 million tons marks a year-over-year decline of 0.7%. In turn, iron ore prices have continued to slide since May. After peaking at $260 per metric ton in May, Dalian iron ore prices dipped below $100 per metric ton this week. Amid slowing growth and turmoil in the real estate market, China's steel demand is under pressure. Furthermore, on the doorstep of the winter heating season—typically running from November through March—production curbs will further limit supply from the country's massive steel sector.

Earlier this month, ArcelorMittal forecast world ex-China apparent steel consumption to rise 12-13% this year. Meanwhile, it projected a contraction of Chinese steel demand.

"Due to weakening real demand in China, primarily due to real estate, our China ASC estimate is weaker than previously forecast," the steelmaker said in its quarterly report. "ArcelorMittal now expects a slight contraction in Chinese apparent steel demand in 2021. However, the impact on ex-China steel markets is expected to be limited given that strict production constraints are expected to lead to lower Chinese net exports in the second half of 2021 overall as compared to the first half of 2021."

Among other top producers, Indian steel production totaled 9.8 million tons, up 2.4% year over year, the World Steel Association reported. India's 96.9 million tons in the year to date marks a year-over-year jump of 20.6%.

No. 3 producer Japan produced 8.2 million tons in October, up 14.3% year over year.

Meanwhile, U.S. production increased 20.5% to 7.5 million tons.
Source: MetalMiner, 11.24.2021

Special Section: Trade

U.S.—Japan Agree To Address Section 232 Tariffs, China Trade Policies

After the U.S. modified its Section 232 metals tariffs for steel and aluminum products from the European Union, the Japanese government requested similar consideration. While the Biden administration has not made a final decision regarding tariffs on Japanese products, on November 17, the U.S. and Japan announced the launch of a new forum aimed at strengthening trade ties and resolving trade friction between the two countries.

Both nations also pledged to examine ways that they could better address Chinese circumvention and unfair trade practices. Specifically, the U.S. and Japan said they will debate "potential approaches to address China's non-market actions and other policies that threaten the stability and prosperity of the global trading system and for our workers."

Other than that, the statement did not specify areas for discussions. Previous talks between the two nations focused on issues related to industrial subsidies, excess industrial capacity, forced technology transfer, and World Trade Organization reform. The U.S.-Japan Partnership on Trade will begin regular meetings early in 2022.

The same day of the U.S.-Japan announcement, U.S. Trade Representative Katherine Tai, Japanese Minister of Economy, Trade, and Industry Hagiuda Koichi, and Valdis Dombrovskis, executive vice president of the European Commission, announced that they had agreed to renew their trilateral partnership to address the global challenges posed by the non-market policies and practices of third countries. The partners will recommence their work in the coming weeks with the intention of meeting in person during the upcoming WTO Ministerial Conference in Switzerland.

As Japan and the EU work with the Biden administration to address the Section 232 metals tariffs, South Korean Trade Minister Yeo Han-koo also has asked U.S. to launch negotiations to revise the tariff rules on their exports.
Source: MSCI, 11.22.2021

Source: Adobe Stock

Special Section: Covid-19

OSHA Is Suspending Enforcement Of The Government's New Employer Vaccine Rule

The Labor Department's Occupational Safety and Health Administration said it is suspending its enforcement of the Biden administration's new rules ordering larger employers to either require that their workers get vaccinated against "emergency temporary standard" or undergo weekly testing. OSHA, which posted the announcement on its website, added that it "remains confident in its authority to protect workers in emergencies."

The agency's decision to stop implementing and enforcing the new rule comes after a federal appeals court on November 12 reaffirmed an earlier temporary halt to the Biden administration's vaccine rule and ordered OSHA to stop enforcing or implementing the regulation. The future of the government directive remains uncertain, with the case headed to the Sixth Circuit Court in Ohio, which the National Law Review says comprises a majority of Republican-appointed judges.
Meanwhile, businesses across the nation have mounting questions over what this means for the new vaccine rule, a 490-page order with complex requirements that experts say will require time and effort to ensure compliance. Under the original plan, by December 5, employers with more than 100 employees must choose whether their workers must get fully vaccinated or undergo weekly testing.

By January 4, those businesses must implement the rule—a timeline that doesn't provide employers much leeway if the Sixth Circuit upholds the rule. Because of the tight deadline, employment attorneys have said they are encouraging businesses to move forward with compliance to avoid being caught unprepared if the regulation, also called an "emergency temporary standard" (or ETS), withstands legal challenge.

"A stay is not a determination of the merits of the ETS itself—a stay is a technical, procedural tool to prevent something from happening," said Chuck Kable, chief legal and HR officer at Axiom Medical, a company that provides occupational health services, on a conference call to discuss the status of the regulation. "The government will say, 'We want to push the play button, not the pause button'" and ask for the stay to be lifted, he said.

It's possible that the temporary halt to the regulation could be lifted, reaffirmed or partially lifted, said Holland & Knight partner and OSHA expert Gina Fonte. "Generally, the legal profession has been advising clients, 'You need to be ready,'" Fonte said. "Would you be prepared to be live if the court turns around and says everything is back in place tomorrow?"

Kable thinks the Ohio court will rule on the stay within weeks, although maybe not before the December 5 deadline. But the issues involving the temporary stay will likely be resolved before the January 4 deadline for employers to institute the new COVID-19 rules. "Obviously people are confused, concerned — they don't know what to do," he added. "But a prudent employer will take steps to prepare" in case the stay is lifted and the ETS moves forward, Kable said. Full Story
Source: CBSNews, 11.18.2021

Economists Game Out How Omicron Will Hurt The Global Recovery

The omicron variant is dealing a blow to optimistic hopes that the world economy would enter 2022 on a firmer footing, potentially undermining plans by policy makers to focus on inflation rather than weak demand. The imposition of travel restrictions will shake consumer and corporate confidence, likely limiting activity in some places just as the holiday season gets underway in many economies. Japan will effectively ban the entry of all foreign visitors as part of its plan to curb the virus spread, broadcaster NTV reported.

Markets moved swiftly to price in an economic blow. Expectations for interest-rate increases over the coming year dropped by at least 10 basis points on Friday for the central banks of the U.S., U.K. and Australia.

What comes next will be dictated by what scientists discover about the new covid-19 variant, including how resistant it is to vaccines and how more transmissible it is than the delta variant which raged in recent months without sending economies back toward recessions. The worst case scenario would be if the mutation necessitates a return to growth-crippling lockdowns, which would threaten already strained supply chains and damage recovering demand. That would reignite fears of a stagflationary mix of faster inflation and slower growth.

Goldman Sachs Group Inc. economists spelled out four possibilities, one of which includes a downside scenario where a large infection wave in the first quarter of next year sees global growth slow to a 2% quarter-on-quarter annual rate -- 2.5 percentage points below their current forecast. Growth in 2022 as a whole would be 4.2%, or 0.4 percentage point below forecast.

A benign outcome is that the mutation doesn't prove as threatening as initially feared. But its emergence serves as a reminder that the pandemic will remain a threat for the global economy, potentially for years to come. "We are not yet in stagflation," said Alicia Garcia Herrero, chief Asia Pacific economist with Natixis SA. "But one more year without cross-border mobility and related supply chain disruptions might push us there." Full Story ***Source: Bloomberg, 11.28.2021***

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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