NIM
NORFOLK IRON & METAL

MARKET INSIGHT

June 2020

ECONOMIC NEWS

For U.S. Economy, The Bottom May Be Here, But The Rebound Is Slow So Far

The U.S. economy may have hit its low point in the coronavirus crash but the rebound so far remains tepid, according to both broad indexes of activity and higher frequency counts of cellphone data and employee time information.

Indicators of retail foot traffic continued climbing last week. Cellphone location data from Unacast showed the nation overall now within around 20% of its 2019 level, and an expanding group of states where traffic is now higher than it was last year.

Last week that group branched from western states that had tended to impose less stringent business limits in response to the pandemic to include midwestern industrial states like Indiana and Wisconsin.

That increase comes with a footnote: Traffic last weekend dropped sharply, and particularly so in states like Minnesota and Georgia where protests against police violence toward African Americans broke out in major cities in response to the death of George Floyd while in Minneapolis police custody.

Cellphone data compiled by Safegraph also showed an increase, but at a slowed pace from the week before.

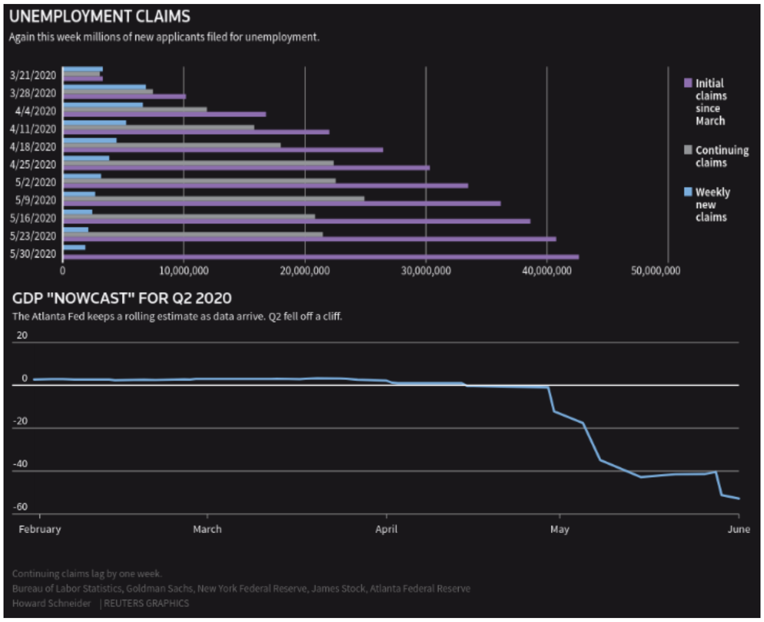
The U.S. reopening

The coronavirus pandemic has sickened more than 1.8 million in the United States and led to broad restrictions on activity through March and April that pushed the economy into recession and threw millions out of work.

Those restrictions are now being gradually lifted state by state, and as that happens officials are looking for signs of an economic rebound. So far the picture is mixed.

Broad indexes of activity compiled by Goldman Sachs and the New York Federal Reserve showed the economy continuing near its bottom, with no clear sign of further decay but no clear upward trend yet either.

Despite the reopening, another 1.9 million filed for unemployment claims in the week ended May 30, while the number of continuing claims, reported with a one-week lag, increased slightly to 21.5 million. **Source: Reuters, June 4.**



May Surprise: U.S. Adds 2.5 Million Jobs As Unemployment Dips To 13.3%

The U.S economy rebounded with surprising strength last month as businesses began to reopen from the coronavirus lockdown. U.S. employers added 2.5 million jobs in May, as the unemployment rate fell to 13.3%.

It was a stunning turnaround from April when the U.S. lost nearly 20.7 million jobs, slamming on the brakes of the economy in a desperate effort to slow the spread of the pandemic.

"Now we're opening and we're opening with a bang," President Trump said, during a celebratory appearance in the White House Rose Garden. "This is a rocket ship."

May's unemployment rate is still extremely high by historical standards, but much better than forecasters were expecting. It reflects an improvement over April's jobless rate of 14.7%.

Stock indexes opened sharply higher after Friday's jobs report was released. The Dow Jones Industrial Average jumped 715 points or 2.7% and the S&P 500 was up 2%.

The pace of pandemic layoffs has slowed in recent weeks. And some people who were idle in April were called back to work last month as business started to reopen.

Hairdresser Megan Hanneken has not been recalled yet, but she expects to go back to work in a few weeks as Michigan relaxes its stay-at-home orders. Her customers have been getting impatient.

"I've never felt so valued as a hairstylist, which is wonderful," Hanneken says. "But I also want to laugh when people are so upset about their hair. I'm like, 'You guys, it's hair.' "

Hanneken says she's prepared to take precautions to avoid spreading the virus, but she's not looking forward to wearing a mask all day or trying to cut hair with gloves on.

"I've seen pictures — during the 1918 flu pandemic — of open-air beauty salons. People were cutting hair outside," she says. "How I wish that were the case now. That would be so preferable to me than being in a hot salon with a mask on."

Michigan's unemployment rate in April was eight points above the national average and second only to Nevada.

Black and brown workers continue to see elevated rates of unemployment, underscoring the persistent racial inequalities that have fueled protests in cities throughout the country. The jobless rate for African Americans in May was 16.8% — slightly higher than the April figure. Unemployment for Latinos dropped from 18.9% in April to 17.6% last month.

Revised figures from the Labor Department show job losses in March and April were even larger than initially reported. Weekly unemployment claims show more than 37 million Americans are either receiving jobless benefits or applied recently and are awaiting approval. ***To read the full article: NPR, June 5***

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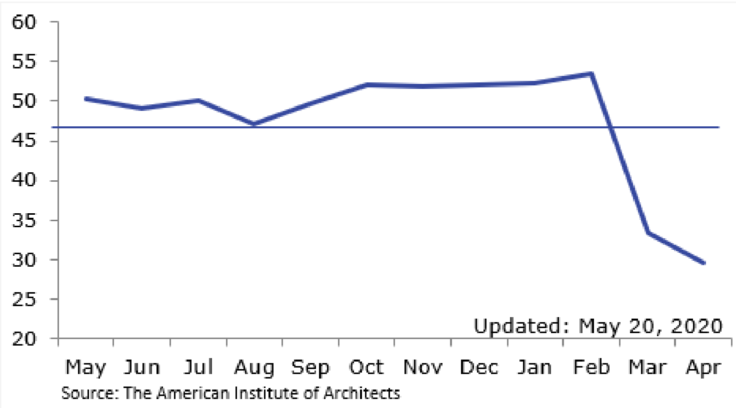
KEY ECONOMIC INDICATORS

ARCHITECTURE BILLINGS INDEX (ABI)



Following last month's precipitous decline, billings at architecture firms sank even lower in April, as the COVID-19 pandemic continued to have a severe impact on firm business. The ABI score declined to 29.3, a new all-time low for the index with more than half of responding firms reporting a further decline in their firm billings from March to April. Inquiries into new work also remained extremely low in April, although modestly fewer firms reported a decline in inquiries than in March. However, immediate prospects for new work remain bleak, as the value of new design contracts also remained extremely low.

Regionally, business conditions weakened even further at architecture firms in the Northeast in April, where many areas remained under construction stop orders for the entire month. Those restrictions are slowly being lifted, so firms in that region may see conditions that are not quite as weak in May. Firms located in the West continued to report somewhat less dramatic losses than firms in other regions in April, but overall, billings declined significantly across the country. Billings also weakened substantially at firms of all specializations in March, with firms with a commercial/industrial specialization reporting the largest decline, followed by firms with a multifamily specialization.

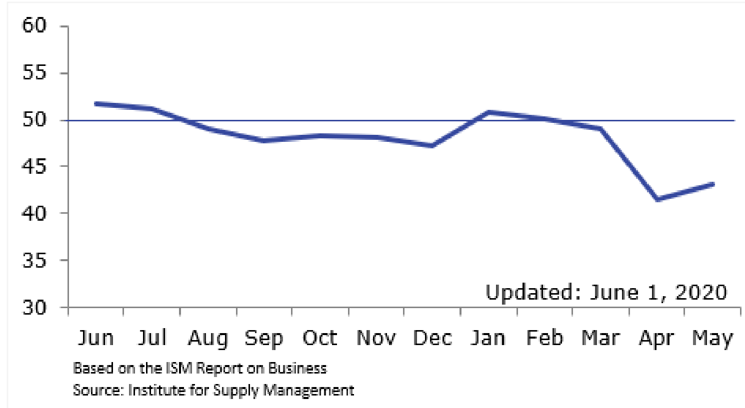
The **ARCHITECTURE BILLINGS INDEX (ABI)** is an economic indicator for nonresidential construction activity. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings, and a score below 50 indicates a decline in firm billings. *Source:* ***American Institute for AIA, 5/20/2020***

In the week ending on May 30, 2020, domestic raw steel production was 1,206,000 net tons while the capability utilization rate was 53.8 percent. Production was 1,880,000 net tons in the week ending May 30, 2019 while the capability utilization then was 80.8 percent. The current week production represents a 35.9 percent decrease from the same period in the previous year. Production for the week ending May 30, 2020 is up 1.3 percent from the previous week ending May 23, 2020 when production was 1,191,000 net tons and the rate of capability utilization was 53.2 percent.

Adjusted year-to-date production through May 30, 2020 was 34,296,000 net tons, at a capability utilization rate of 69.3 percent. That is down 16.1 percent from the 40,858,000 net tons during the same period last year, when the capability utilization rate was 81.4 percent.

RAW STEEL PRODUCTION 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, 6/2/2020***

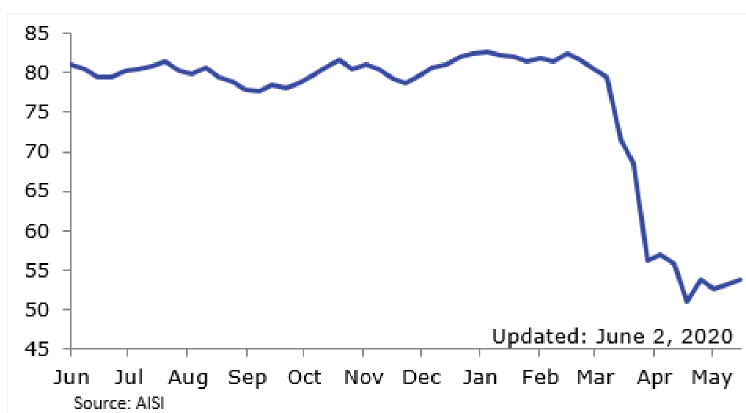
PURCHASING MANAGERS INDEX®



The May PMI® registered 43.1 percent, up 1.6 percentage points from the April reading of 41.5 percent. This figure indicates expansion in the overall economy after April's contraction, which ended a period of 131 consecutive months of growth. The New Orders Index registered 31.8 percent, an increase of 4.7 percentage points from the April reading of 27.1 percent. The Production Index registered 33.2 percent, up 5.7 percentage points compared to the April reading of 27.5 percent. The Backlog of Orders Index registered 38.2 percent, an increase of 0.4 percentage point compared to the April reading of 37.8 percent. The Employment Index registered 32.1 percent, an increase of 4.6 percentage points from the April reading of 27.5 percent. The Supplier Deliveries Index registered 68 percent; though down 8 percentage points from the April figure of 76 percent, this high reading elevated the composite PMI®. The Inventories Index registered 50.4 percent, 0.7 percentage point higher than the April reading of 49.7 percent. The Prices Index registered 40.8 percent, up 5.5 percentage points compared to the April reading of 35.3 percent. The New Export Orders Index registered 39.5 percent, an increase of 4.2 percentage points compared to the April reading of 35.3 percent.

THE PURCHASING MANAGERS INDEX® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 6/1/2020***

RAW STEEL PRODUCTION



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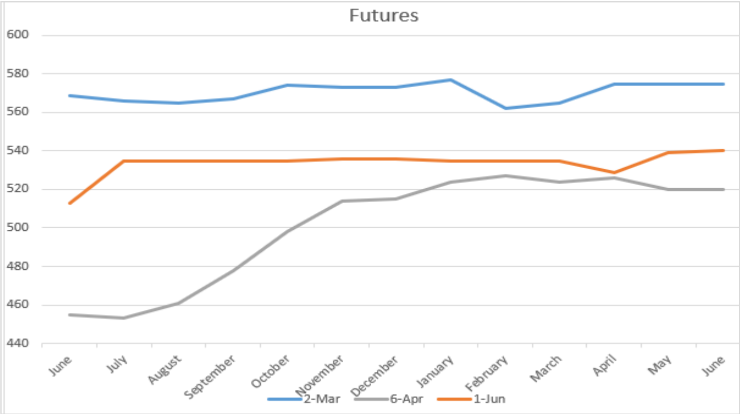
KEY ECONOMIC INDICATORS

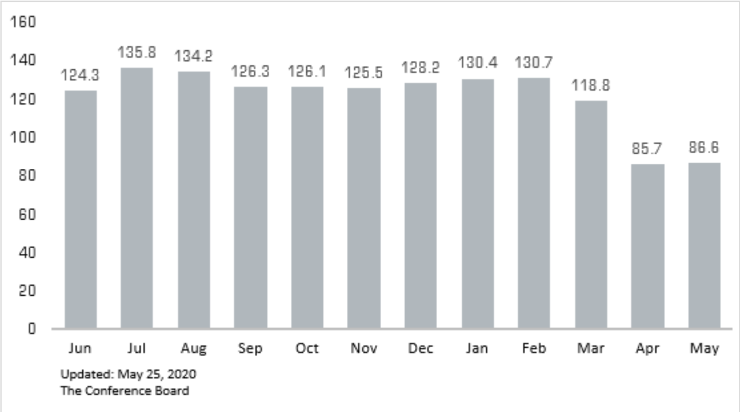
STEEL MARKET AND PRICING



The U.S. Hot Rolled Coil market regained some footing as prices recovered to around $500 per ton from the May lows in the sub $450 region. Increased raw material costs for scrap and iron ore forced the mills to increase prices despite lackluster demand. The break even cost for production is in the $460 range and that should be the floor for pricing moving forward; however, although demand is improving it is doing so very slowly, and with the mills capacity utilization struggling in the low 50% region it will be difficult for the mills to navigate bringing their latent production back on line without price discounting. Additionally, import offerings are beginning to find their way to buyers with sub $500 pricing at the port of entry.

All of the factors combine to keep Hot Rolled Coil pricing trading in a narrow bandwidth. It will be interesting to see if scrap and iron ore continue to increase in June and what affect that will have as the range of potential market acceptable pricing will be squeezed. And preliminary trading is indicating a modest increase in June scrap prices.

CONSUMER CONFIDENCE



The Conference Board Consumer Confidence Index® held steady in May, following a sharp decline in April. The Index now stands at 86.6 (1985=100), up from 85.7 in April. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – declined from 73.0 to 71.1. However, the Expectations Index – based on consumers' short-term outlook for income, business and labor market conditions – improved from 94.3 in April to 96.9 this month.

"Following two months of rapid decline, the free-fall in Confidence stopped in May," says Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The severe and widespread impact of COVID-19 has been mostly reflected in the Present Situation Index, which has plummeted nearly 100 points since the onset of the pandemic. Short-term expectations moderately increased as the gradual re-opening of the economy helped improve consumers' spirits. However, consumers remain concerned about their financial prospects. In addition, inflation expectations continue to climb, which could lead to a sense of diminished purchasing power and curtail spending. While the decline in confidence appears to have stopped for the moment, the uneven path to recovery and potential second wave are likely to keep a cloud of uncertainty hanging over consumers' heads."

The monthly **CONSUMER CONFIDENCE SURVEY®,** based on a probability-design random sample, is conducted for The Conference Board by Nielsen, a leading global provider of information and analytics around what consumers buy and watch. The cutoff date for the preliminary results was May 14. ***Source: The Conference Board, 5/26/2020***

INDUSTRY NEWS

Global steel demand to drop 6% in '20

Global demand for steel will decrease by 6.40% year on year in 2020 due to the effects of Covid-19 pandemic lockdown measures, the World Steel Association (Worldsteel) said on Thursday June 4.

Steel demand this year will drop to 1.65 billion tonnes, Worldsteel said in its Short Range Outlook for June 2020, but will recover in 2021 to 1.72 billion tonnes, which would be up by 3.80% year on year.

This year's reduction in global steel demand will be mitigated by an expected faster recovery in China than in the rest of the world, the group said.

Worldsteel forecasts that lockdown measures in most countries will continue to be eased during June and July, albeit with social distancing controls remaining in place, and that the major steelmaking economies will not suffer from substantial secondary waves of infection from the pandemic.

"The Covid-19 crisis, with its disastrous consequences for public health, also represents an enormous crisis for the world economy," the chairman of the Worldsteel economics committee, Saeed Al Remeithi, said.

"Our customers have been hit by a general freeze in consumption, by shutdowns and by disrupted supply chains. We therefore expect steel demand to decline significantly in most countries, especially during the second quarter," he added.

"With the easing of restrictions that started in May, we expect the situation to gradually improve, but the path to recovery will be slow. However, it is possible that the decline in steel demand in most countries will be less severe than during the global financial crisis [of 2008] because the consumption- and service-related sectors, which have been hit hardest, are less steel-intensive," he said.

"In many developed economies, steel demand was already at a low level, having not fully recovered from 2008," he concluded.

All steel-using sectors have been affected by the lockdown measures, while the machinery and automotive sectors were highly exposed to a prolonged demand shock, as well as to disruption in the global supply chains, Worldsteel said.

Because it was coming out of lockdown ahead of other countries, China's economic recovery started in late February. By the end of April, Worldsteel said, all major steel-using sectors in the country were back to nearly full productivity, even though the full operation of the manufacturing sector was hindered by the collapse in export demand.

Following the lifting of the lockdown in the city of Wuhan on April 8, the construction sector has already reached 100% productivity, it added.

Worldsteel forecasts that Chinese steel demand will increase by 1% year on year in 2020. ***Source: AMM, June 4***

U.S./Canadian oil & gas rig count falls to record low

U.S. and Canadian energy firms cut the number of oil and natural gas rigs operating to a record low as they slash spending on new drilling after global coronavirus lockdowns caused energy prices and demand to collapse.

The U.S. oil and gas rig count, an early indicator of future output, fell by 17 to an all-time low of 301 in the week to May 29, according to data from energy services firm Baker Hughes Co going back to 1940. RIG-OL-USA-BHI RIG-GS-USA-BHI

That was 683 rigs, or 69%, below this time last year and was the fourth week in a row the U.S. count fell to a record low.

For the month, the U.S. rigs dropped by 164, its third monthly decline in a row.

The Canadian rig count fell by one to an all-time low of 20 this week, according to Baker Hughes.

That was 65 rigs, or 76%, below this time last year and was the third week in a row it fell to a record low.

Analysts said they expect U.S. energy firms to continue chopping rigs for the rest of the year and keep the count low in 2021 and 2022.

"Rig activity should ... drop below 300 despite the recent modest recovery in oil prices. Obviously, lower drilling activity will lead to production decline," said James Williams of WTRG Economics in Arkansas, noting "Natural gas drilling should start to recover before oil."

U.S. crude futures were trading above $33 a barrel on Friday, up about 78% this month but still down about 45% since the start of the year.

U.S. oil rigs fell 15 to 222 this week, their lowest since June 2009, while gas rigs fell two to 77, their lowest on record according data going back to 1987. ***Source: Reuters, May 29***

Department of Commerce Asks for Public Input on Section 232 Steel and Aluminum Exclusion Process

The U.S. Department of Commerce's Bureau of Industry and Security (BIS) is seeking public comments on how to improve the exclusion process for tariffs and quotas imposed on steel and aluminum imports under Section 232 of the Trade Expansion Act of 1962 ("Section 232"). The notice of inquiry, which went on public display today at the Federal Register, states that BIS will accept comment submissions from May 26, 2020 through July 10, 2020.

"The Department of Commerce is continually looking for ways to improve the exclusion process for Section 232 tariffs and quotas," said Secretary of Commerce Wilbur Ross. "We want these critical national security measures to be applied effectively while avoiding unnecessary impacts on downstream American industries."

Comments may be submitted to the Federal rulemaking portal (www.regulations.gov). The regulations.gov ID is: BIS-2020-0012. Commenters should refer to RIN 0694-XC058 in all comments and in the subject line of e-mail comments. Rebuttal comments will be accepted until August 10, 2020. Rebuttal comments may only address issues raised in comments filed on or before July 10, 2020. ***Source: U.S. Department of Commerce, May 22***