NIM
NORFOLK IRON & METAL

MARKET INSIGHT
July 2020

ECONOMIC NEWS

Goldman Sachs cuts US GDP estimate, now sees economy shrinking 4.6% in 2020

Revived state restrictions and continued stay-at-home activity will drag on the US economy more than previously expected, Goldman Sachs economists said Saturday.

The bank sees gross domestic product growing 25% in the third quarter, down from its previous expectation of a 33% increase. The year's total economic contraction will worsen to 4.6% from 4.2%, the team wrote in a note to clients.

The downward revision is largely fueled by a slower-than-expected recovery in consumer spending. The recent resurgence in coronavirus cases has kept Americans from returning to restaurants, travel, and retailers. Stunted spending on key services will likely push a consumer comeback into September, the team said.

"The healthy rebound in consumer services spending seen since mid-April now appears likely to stall in July and August as authorities impose further restrictions to contain virus spread," they wrote.

The manufacturing and construction industries have largely avoided such a halt and will continue their recovery, Goldman added. The firm maintained its projection for 8% growth in the fourth quarter.

Goldman's latest economic forecast arrives just as the US plunges into its second wave of coronavirus infections. Daily new cases passed 50,000 over the holiday weekend and outbreaks in California, Texas, Florida, and other states are driving the reimplementation of strict shutdown measures. Texas' mask mandate shows some states are reacting swiftly to the uptick in cases, but it's still "admittedly hard to know" how the rest of the nation will adapt in the coming weeks, Goldman said.

"A combination of tighter state restrictions and voluntary social distancing is already having a noticeable impact on economic activity," the economists said.

Though the pandemic will put off an economic recovery into next year, late reopenings will accelerate growth in 2021, the bank added. Recent positive updates from coronavirus vaccine trials also suggest a treatment could reach the market next year.

Several economists have pointed to an effective virus treatment as a key fuel for boosting consumer confidence, as the lasting risk of contracting coronavirus could keep Americans at home even as economies reopen. In all, vaccine hopes and delayed reopening benefits drove Goldman to boost its first-quarter forecast to 8% from 6.5%. **Source: Business Insider, July 6.**

US economy smashes forecasts, adds 4.8 million jobs in June as unemployment declines to 11.1%

The US economy notched its second straight month of job additions in June amid nationwide efforts to claw back from a coronavirus-induced recession.

American businesses added 4.8 million nonfarm payrolls during the month, according to the Bureau of Labor Statistics. That exceeded the 3 million payroll additions expected by economists surveyed by Bloomberg.

The US unemployment rate came in at 11.1%, the BLS said, lower than the 12.5% expected by economists. It was also down from 13.3% in May. April's 14.7% reading was the highest since the Great Depression of the 1930s.

"Today's positive jobs report does provide a powerful signal of how swiftly US job growth can bounce back and how rapidly businesses can reopen once the nation finally brings the coronavirus under control — a reason for optimism in coming months," said Andrew Chamberlain, the chief economist at Glassdoor.

The data, which came from mid-June, reflected US efforts to move forward with reopening plans in the first half of the month. Still, in the past two weeks since then, rising new coronavirus cases have cast doubt on the path of the recovery.

As many as 19 states and cities have paused or rolled back reopening efforts as they grapple with surges in COVID-19 cases. Economists and industry watchers will have to wait for the July report, due in August, to see the employment impact of these new coronavirus cases.

"There's continued risk that a second-wave could reverse some of these job gains in July, but that should not take away from the strength of the June data," Thomas Simons of Jefferies said.

The BLS said it fixed an issue that affected the data from prior months by misclassifying people as employed when they should've been designated as unemployed. The error was seen undercounting the unemployment rate by roughly 1 percentage point.

Nearly all sectors of the economy added jobs in June, with the 2.1 million payrolls added in leisure and hospitality representing the biggest gain. Within the industry, employment in food services and drinking places accounted for 1.5 million jobs added. Still, overall employment in the sector is down by 3.1 million since February.

Retail trade also added 740,000 jobs in the month, nearly double its gains in May. Education and health services, manufacturing, and professional and businesses services also added jobs in June. Still, employment in all sectors remains below February levels.

Both the labor-force participation rate and the employment-to-population ratio increased in June, suggesting that people indeed returned to work as states reopened from pandemic-related lockdowns.

Still, while the unemployment rate declined, permanent job losers continued to rise in June, adding 588,000 to 2.9 million after increasing in May. At the same time, reentrants to the labor force rose by 711,00 to 2.4 million.

The June numbers come after May's report shocked economists, showing 2.5 million job additions at a time when they were expecting a contraction of 7.5 million jobs. The unemployment rate also declined from the prior month, bucking forecasts for a historically high figure. **Source: Business Insider, July 2, 2020.**

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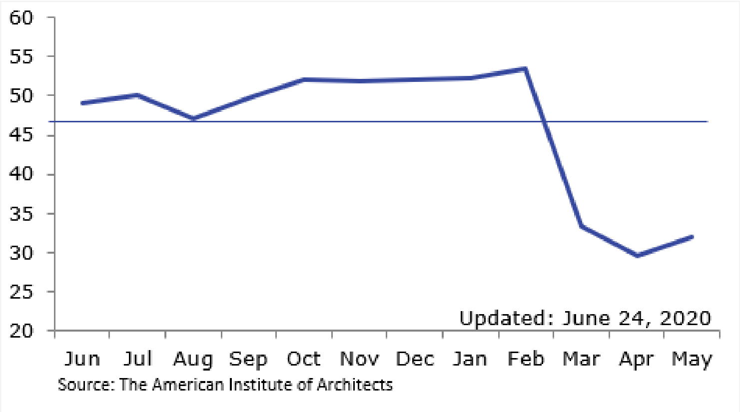
KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

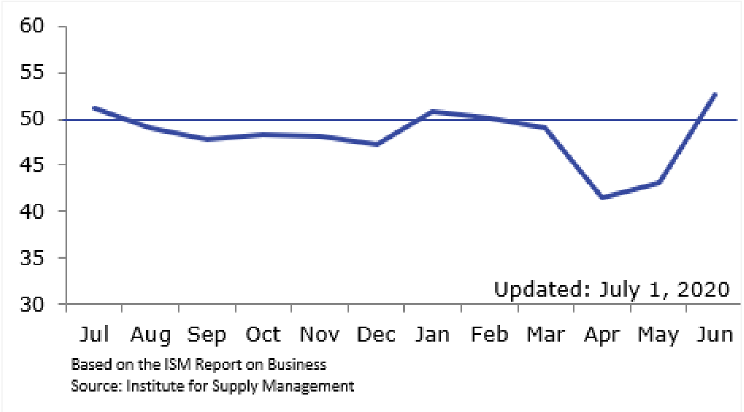


Business conditions at architecture firms remained extremely poor for the third consecutive month in May. While the ABI score of 32.0 for the month was somewhat higher than the April score, it still indicates that the majority of firms saw their billings decrease yet again. Indicators of future work remained grim as well, and while a larger share of firms reported an increase in inquiries into new projects in May than in April, most firms still saw a decline. In addition, the value of new signed design contracts remained at a near record-low level, as firms indicated that clients are still extremely hesitant to sign on the dotted line for new work at this time.

Business conditions remained also very soft across all regions of the country in May, with firms located in the Northeast continuing to report the steepest decline in billings. However, since construction projects have now been permitted to restart in most areas where they had been temporarily shuttered, the firms hardest hit by that shutdown, which are predominantly located in the Northeast, may see somewhat less dismal conditions in June. Firms of all specializations also continued to report very weak firm billings this month, with conditions deteriorating even further at firms with a commercial/industrial specialization, which have been hardest hit so far during this downturn.

The **Architecture Billings Index (ABI)** is an economic indicator for nonresidential construction activity. An index 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, 6/24/2020***

Purchasing Managers Index®



The June PMI® registered 52.6 percent, up 9.5 percentage points from the May reading of 43.1 percent. This figure indicates expansion in the overall economy for the second straight month after April's contraction, which ended a period of 131 consecutive months of growth. The New Orders Index registered 56.4 percent, an increase of 24.6 percentage points from the May reading of 31.8 percent. The Production Index registered 57.3 percent, up 24.1 percentage points compared to the May reading of 33.2 percent. The Backlog of Orders Index registered 45.3 percent, an increase of 7.1 percentage points compared to the May reading of 38.2 percent. The Employment Index registered 42.1 percent, an increase of 10 percentage points from the May reading of 32.1 percent. The Supplier Deliveries Index registered 56.9 percent, down 11.1 percentage points from the May figure of 68 percent. The Inventories Index registered 50.5 percent, 0.1 percentage point higher than the May reading of 50.4 percent. The Prices Index registered 51.3 percent, up 10.5 percentage points compared to the May reading of 40.8 percent. The New Export Orders Index registered 47.6 percent, an increase of 8.1 percentage points compared to the May reading of 39.5 percent. The Imports Index registered 48.8 percent, a 7.5-percentage point increase from the May reading of 41.3 percent.

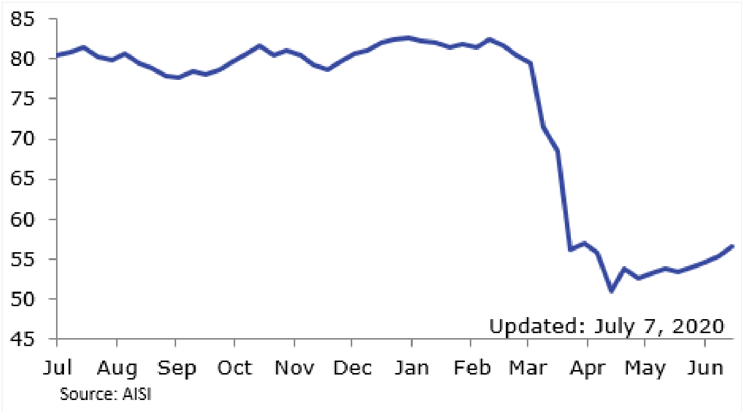
The Purchasing Managers Index® is based on a monthly survey sent to senior executives at more than 400 companies. A PMI above 50 represents an expansion when compared to the previous month. The further from 50, the greater the change. ***Source: Institute for Supply Management, 7/1/2020***

Raw Steel Production

In the week ending on June 27, 2020, domestic raw steel production was 1,240,000 net tons while the capability utilization rate was 55.4 percent. Production was 1,863,000 net tons in the week ending June 27, 2019 while the capability utilization then was 80.1 percent. The current week production represents a 33.4 percent decrease from the same period in the previous year. Production for the week ending June 27, 2020 is up 1.3 percent from the previous week ending June 20, 2020 when production was 1,224,000 net tons and the rate of capability utilization was 54.6 percent.

Adjusted year-to-date production through June 27, 2020 was 39,165,000 net tons, at a capability utilization rate of 67.0 percent. That is down 18.9 percent from the 48,313,000 net tons during the same period last year, when the capability utilization rate was 81.2 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, 7/7/2020***



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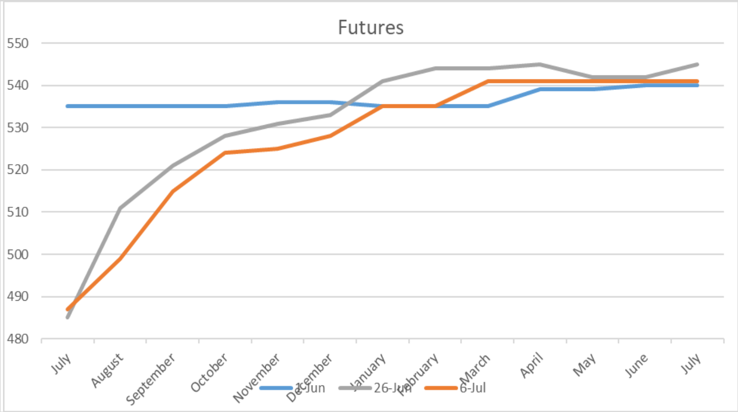
KEY ECONOMIC INDICATORS

STEEL MARKET AND PRICING



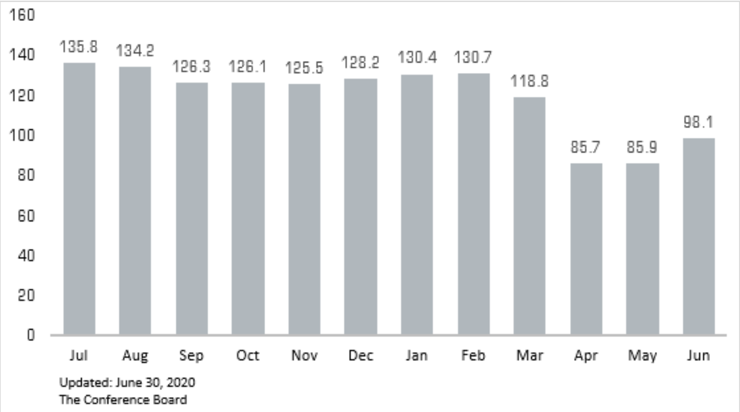
The U S Hot Rolled Coil market lost much of its gains throughout June as a combination of increased capacity utilization led by BF restarts and a lack of demand in the auto and energy sectors resulted in short lead times and discounting.

The market indexes for HRC dropped from a high of around $510 at the beginning of the month to the $480's. Demand uncertainty will prevail in July also as Covid cases increase in parts of the country. The integrated mills are trying to continue to put Blast furnaces back online in the face of chaotic supply chain disruptions, but they will struggle to make money with the capacity utilization in the mid-50's.

Auto inventory is low, but automakers are facing parts shortages and Q2 sales were off 34% versus Q2 of 2019. Energy sector spending, the second largest steel consumer, is flatlined with crude domestic production plummeting and the rig count reaching decade old levels. However, the price of WTI crude oil topped $40/barrel so at least the market seems to be stabilizing.

The one market with some legs is construction, where spending is up 7% year over year. There is also a possibility of scrap dropping in July so the previous floor of $460 could be breached if demand does not pick up. Look for a ceiling in July in the very low $500's and a floor in the mid-$400's.

CONSUMER CONFIDENCE



The Conference Board Consumer Confidence Index® increased in June, after virtually no change in May. The Index now stands at 98.1 (1985=100), up from 85.9 in May. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – improved from 68.4 to 86.2. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 97.6 in May to 106.0 this month.

"Consumer Confidence partially rebounded in June but remains well below pre-pandemic levels," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The re-opening of the economy and relative improvement in unemployment claims helped improve consumers' assessment of current conditions, but the Present Situation Index suggests that economic conditions remain weak. Looking ahead, consumers are less pessimistic about the short-term outlook, but do not foresee a significant pickup in economic activity. Faced with an uncertain and uneven path to recovery, and a potential COVID-19 resurgence, it's too soon to say that consumers have turned the corner and are ready to begin spending at pre-pandemic levels."

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, 6/30/2020***

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INDUSTRY NEWS

US Steel Imports Drop Sharply in May Amid Coronavirus, Down YTD

U.S. steel imports tumbled in May on a monthly comparison basis, and were also down year over year for the first five months of 2020 — according to the latest American Iron and Steel Institute ("AISI") report.

The association of North American steel makers recently noted that total domestic steel imports dropped 35.5% from the previous month in May to roughly 1.79 million net tons. Finished steel imports, however, rose 13.2% to around 1.49 million net tons for the reported month.

Total and finished domestic steel imports fell 19.2% and 26.7% year over year, respectively, year to date through the end of May 2020. The AISI noted that these figures are based on preliminary Census Bureau data.

The decline in imports appears to reflect the impacts of the coronavirus pandemic and 25% tariff on steel imports, which the Trump administration had levied in 2018 under Section 232 of the Trade Expansion Act of 1962.

Meanwhile, finished steel import market share was estimated at 23% in May, per AISI. For the first five months of 2020, finished steel import market share was estimated at 18%.

For 2020, annualized total and finished steel imports are expected to be 26.4 million net tons (down 5.7% year over year) and 17.5 million net tons (down 16.7%), respectively, AISI noted.

According to AISI, biggest volumes of finished steel imports from offshore for May were South Korea with 229,000 net tons (up 42% from April), Japan with 103,000 net tons (up 50%), Turkey with 85,000 net tons (up 61%), Taiwan with 81,000 net tons (up 70%) and Germany with 65,000 net tons (up 1%).

Finished steel products that showed a significant rise in imports on a monthly comparison basis in May are oil country goods (up 71%), standard pipe (up 44%), heavy structural shapes (up 37%), tin plate (up 31%), hot rolled bars (up 28%), sheets and strip all other metallic coatings (up 18%), mechanical tubing (up 17%) and line pipe (up 15%).

Coronavirus Overhang Remains

Coronavirus has taken a big bite out of the U.S. steel industry. The pandemic, which has so far infected more than 10 million people globally, has squeezed demand for steel across major end-use markets such as construction and automotive.

The World Steel Association ("WSA"), the international trade body for the iron and steel industry, said earlier this month that it sees steel demand to drop 22.9% in the United States in 2020. The pandemic has led to a sharp manufacturing recession in the United States that is expected to hit the bottom in the second quarter. A decline in oil prices has put pressure on investment in the energy sector while lower income and confidence due to rising unemployment has impaired residential construction. Non-residential construction is also expected to decline in 2020, the WSA noted.

Ebbing demand has also forced U.S. steel mills to scale down production with capacity utilization plummeting to multi-year lows. Capacity utilization rate — a major indicator of the health of the U.S. steel industry — slumped to 54.6% for the week ending June 20 from 80.1% a year ago, per AISI.

U.S. steel prices have also come under pressure this year amid pandemic-induced demand destruction. The benchmark hot-rolled coil ("HRC") fell below the $500 per short ton level in April on demand slowdown due to production shutdowns by automakers. However, steel mills' price hike actions have helped HRC prices to gain some ground and break above that level of late. However, the current feeble demand environment coupled with the deepening Sino-U.S. rift do not look supportive for a significant uptick in steel prices over the near term.

Meanwhile, the impacts of demand slowdown are expected to get reflected in U.S. steel companies' second-quarter results. United States Steel Corp. X expects results in its Flat-rolled segment to be hurt by the impact of the pandemic on customer activity, mainly in automotive and energy end-markets. Moreover, weakness in underlying demand is expected to affect its Europe segment's performance. Lower energy prices are also expected to weigh on performance in its Tubular unit in the June quarter.

A slump in crude oil prices has hurt demand for steel in the energy space. Some of the major energy companies have slashed their capital spending in the wake of the oil price rout.

In response to the oil collapse, United States Steel has decided to idle all or most of Lone Star Tubular Operations and Lorain Tubular Operations. A few other steel makers have also idled operations in the wake of falling demand across major end-markets.

Moreover, Nucor Corporation NUE recently said that the coronavirus pandemic has affected its sheet and plate mills business due to weak oil and gas market activity as well as customer production disruptions. While demand in non-residential construction market has been resilient, the overall market conditions remain challenging by the impacts of the virus outbreak.

Steel Dynamics, Inc. STLD also expects its steel operations' earnings to be impacted, in the second quarter, by lower shipments stemming from the temporary closures due to the pandemic.

However, it's not all gloom and doom for the U.S. steel industry. With China (the top consumer of steel) seeing a rebound and states across the United States gradually opening up, things are looking better for the industry for the second half of the year.

The resumption of operations across major steel-consuming sectors such as automotive and construction augurs well for the domestic steel industry. Notably, U.S. automakers began resuming production last month after a nearly two-month shutdown due to the virus crisis. The restart of production is likely to help revive demand for steel. ***Source: Yahoo! Finance, June 29, 2020***

Supreme Court Won't Hear American Steel Importer's Tariff Challenge

The Supreme Court said June 22 they would not hear the appeal for a case brought by a steel trade group that challenged President Trump's authority to jack up steel tariffs.

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It's another disappointing result for the American Institute for International Steel, a trade group representing steel importers. The Supreme Court declined to hear their case in 2019 after the AIIS went straight from the U.S. Court of International Trade to the highest court, skipping the U.S. Court of Appeals. In March 2020, the U.S. Court of Appeals ruled against the trade group.

The tariffs, issued by President Trump in March 2018, run on the Trade Expansion Act of 1962's Section 232, which allows the President to adjust the manner or amount of how a certain product is imported if he or she determines a threat to national security. According to the AIIS, this delegates powers to the President that the Constitution reserves for the legislative branch. In a 1976 case, the Supreme Court upheld Section 232's constitutionality.

On the opposite side of the issue from the AIIS are U.S. steel manufacturers, who hailed the tariffs and say foreign steel manufacturers—especially China—threaten domestic steel production. The American Iron and Steel Institute released a statement June 22 praising the Supreme Court's recent decision to allow the tariffs stand unchallenged.

"We are pleased that the U.S. Supreme Court today rightly affirmed our strong belief, and the previous decisions of the Court of International Trade and Court of Appeals, that the challenge to the Section 232 statute is without merit," said Thomas J. Gibson, CEO of the American Iron and Steel Institute. "This lawsuit by steel importers was a weak attempt to mask the fact that surging foreign imports have severely impacted the domestic steel industry and threaten our national and economic security." The Court's decision, Gibson said, acknowledged that Section 232 is Constitutionally sound.

"We have consistently maintained this fact and are pleased that the highest Court agreed," said Gibson.

According to domestic steel manufacturers, the tariffs have somewhat evened the field between American and Chinese steel manufacturing. Chinese steel manufacturers receive enough funding from their government that they can afford to overproduce steel, driving prices down and materially harming American manufacturing operations. As such, proponents of the tariffs say, the "national security" rationale for establishing the tariffs is no joke.

As such, proponents of the tariffs say, the "national security" rationale for establishing the tariffs is no joke. After the U.S. Court of Appeals ruled against the AIIS in March 2020, Richard Fruehauf, VP of strategic planning at U.S. Steel, testified to Congress on the importance of the tariffs. The Section 232 tariffs, he said, "must be kept strong." Otherwise, a "tidal wave of foreign steel" would quickly overwhelm domestic production. ***Source: Industry Week, June 22, 2020***

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

U.S. and Canadian energy firms cut the number of oil and natural gas rigs operating to a record low again this week even as higher oil prices prompt some producers to start drilling again.

The U.S. oil and gas rig count, an early indicator of future output, fell by one to an all-time low of 265 in the week to June 26, according to data from energy services firm Baker Hughes Co going back to 1940.

That was 702 rigs, or 73%, below this time last year, and was the eighth week in a row the U.S. count set a fresh record low.

In June, the total U.S. rig count fell by 36, putting it down for a fourth month in a row. ***Source: Reuters, June 26, 2020***