NIM
NORFOLK IRON & METAL

MARKET INSIGHT

September 2020

ECONOMIC NEWS

U.S. ECONOMY PLUNGED AN ANNUALIZED 31.7% IN SECOND QUARTE

The U.S. economy shrank at an alarming annual rate of 31.7% during the April-June quarter as it struggled under the weight of the viral pandemic, the government estimated Thursday. It was the sharpest quarterly drop on record.

The Commerce Department downgraded its earlier estimate of the U.S. gross domestic product last quarter, finding that the devastation was slightly less than the 32.9% annualized contraction it had estimated at the end of July. The previous worst quarterly drop since record-keeping began in 1947 was a 10% annualized loss in 1958.

Last quarter, businesses shuttered and millions of workers lost jobs as the world's largest economy went into lockdown mode in what succeeded only fitfully in limiting the spread of reported viral infections. The U.S. economy fell an annualized 5% in the first three months of the year as the coronavirus began to make its presence felt in February and March.

A bounce-back in hiring as many businesses reopened suggested that the economy began to recover in June with third quarter growth estimated to be around 20% annualized. But economists say a full recovery remains far off given that the virus has yet to be contained and the government's financial support has faded.

"As we approach the fall, we see four important risks for the economy: a failure to provide further fiscal stimulus, a second wave of COVID-19 infection during the flu season, major election uncertainty and rising trade tensions with China," said Lydia Boussour, senior U.S. economist at Oxford Economics.

Unemployment is still high at 10.2%, and roughly 1 million people are applying for jobless aid each week even as the amount of aid they receive has shrunk. Consumer confidence has tumbled. Though the stock market and home sales are surging, the broader economy shows signs of stalling, and millions face potential evictions from their homes.

The challenges reflect the unusual nature of the downturn. Many U.S. households have increased their savings and paid off debt—which could either signal a hesitancy to spend as they have in the past or pent-up demand that could be unleashed once the pandemic ends. **Source: Associated Press, August 27, 2020.**

ECONOMY ADDED 1.4M JOBS IN AUGUST AS UNEMPLOYMENT FELL TO 8.4% AMID PERSISTENT COVID-19 OUTBREAKS

The U.S. economy added 1.4 million jobs in August as businesses shuttered by the COVID-19 pandemic continued to reopen and bring back workers, more than offsetting a fresh wave of layoffs by firms that have exhausted their federal loans.

The unemployment rate fell sharply to 8.4% from 10.2% in July, the Labor Department said Friday.

Economists surveyed by Bloomberg had estimated that 1.35 million jobs were added last month.

August's payroll gains were healthy but mark the second straight monthly slowdown in hiring after employers added a record 4.8 million positions in June and 1.8 million in July. That's a troubling sign considering the nation has recouped slightly less than half the unprecedented 22 million jobs wiped out in early spring as states closed down nonessential businesses such as restaurants, malls and movie theaters.

"The fact that employment is settling into a trend of slow, grinding improvement is a worrisome sign for the broader recovery," economist Lydia Boussour of Oxford Economics wrote in a note to clients.

The latest figures were inflated by the hiring of 238,000 temporary workers for the 2020 Census who likely will be laid off in coming months. The private sector added 1 million jobs, down substantially from 1.5 million in July.

Many states have allowed businesses to reopen in phases but others, especially in the South and West, paused or reversed their relaunch plans in July and August amid coronavirus surges. Recently, cases in those hot-spot states generally have trended down but the results have been mixed. Positive test rates have stayed high in Texas and Florida and edged down just slowly in California, Goldman Sachs says.

As a result, many businesses are running at just partial capacity because of lingering state restrictions and consumer fears of contagion. Many struggling firms recently have exhausted the cash they received through federal loans that were forgivable as long as they retained or rehired workers. After meeting those terms, many are letting workers go again.

Last month, the number of Americans on temporary layoff fell by 3 million to 6.1 million as more laid-off workers were called back. At the same time, the number of workers permanently laid off jumped from 2.9 million to 3.4 million, indicating that some temporary layoffs have become permanent.

About 45% of unemployed workers said they were on temporary layoff, down from 56% the previous month.

"The number of permanent job losses is mounting which is concerning and could result in scarring of the labor market," says economist Rubeela Farouqi of High Frequency Economics.

Meanwhile, Congress remains deadlocked over a new stimulus package that would provide more funds for teetering businesses and renew at least part of the $600 federal supplement to state unemployment benefits that expired in late July.

"The need for a further stimulus package remains acute," says economist Ian Shepherdson of Pantheon Macroeconomics.

A separate survey released by Cornell University earlier this month showed that 31% of temporarily laid off or furloughed workers who have been rehired said they were cut a second time and another 26% have been told by their employer that they may be laid off again.

Jessica Oyanagi, 40, of Maui, Hawaii, points up the bind ensnaring many workers as they try to stay afloat and recover from the crisis. In March, business came to a standstill for the freelance photographer who relied heavily on tourists requesting portrait shots, a service so popular that she had employed six contractors. **Continue reading: USA Today, Sept. 4, 2020.**

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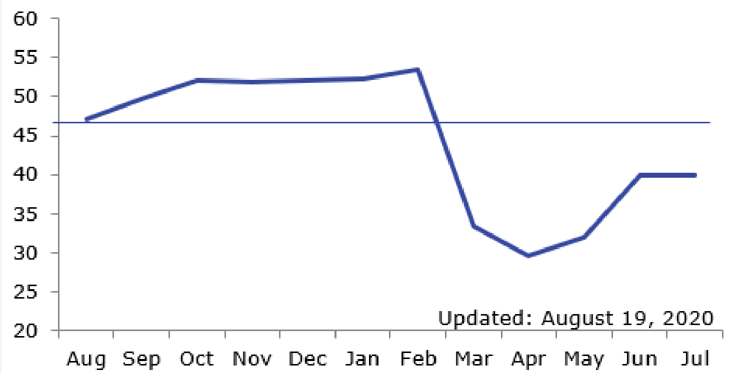
KEY ECONOMIC INDICATORS

ARCHITECTURE BILLINGS INDEX (ABI)



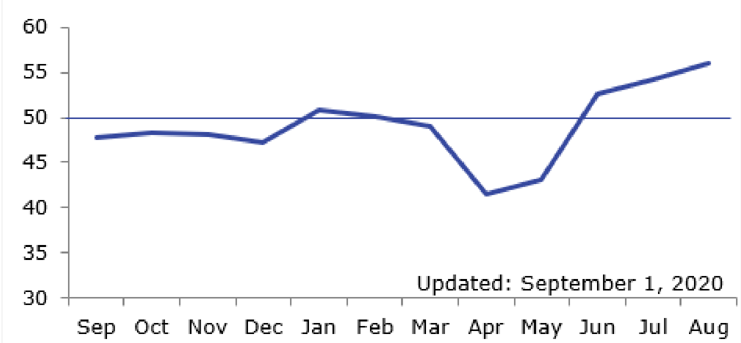
Source: The American Institute of Architects

The majority of architecture firms continued to report a decline in their firm's billings in July, as the pace of that decline remained at about the same level as in June, with an ABI score of 40.0. Inquiries into new projects continued to show just a modest decline, but more seriously, the value of new signed design contracts slipped from its June level. Unfortunately, with the continued resurgence in COVID-19 cases in many areas of the country, clients may be interested in starting new projects, but remain reluctant to sign on the dotted line.

Firm billings remained soft at firms in all regions of the country in July as well, with firms located in the Northeast continuing to report the weakest conditions, although the pace of the decline did continue to stabilize again this month from the low point in April. By firm specialization, firms with a multifamily residential specialization came close to seeing billings growth in July, for the first time since January, but still fell short and continued to experience a slight decline instead. Conditions remain softest at firms with a commercial/industrial specialization, while firms with an institutional specialization saw their decline in billings stabilize somewhat.

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, 8/19/2020***

PURCHASING MANAGERS INDEX®

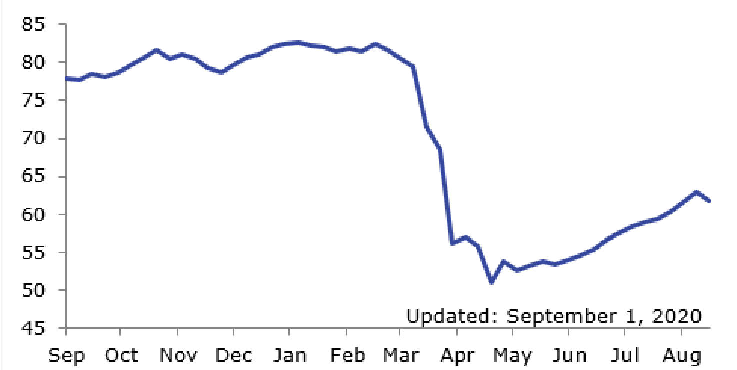


Based on the ISM Report on Business
Source: Institute for Supply Management

The August PMI® registered 56 percent, up 1.8 percentage points from the July reading of 54.2 percent. This figure indicates expansion in the overall economy for the fourth month in a row after a contraction in April, which ended a period of 131 consecutive months of growth. The New Orders Index registered 67.6 percent, an increase of 6.1 percentage points from the July reading of 61.5 percent. The Production Index registered 63.3 percent, up 1.2 percentage points compared to the July reading of 62.1 percent. The Backlog of Orders Index registered 54.6 percent, an increase of 2.8 percentage points compared to the July reading of 51.8 percent. The Employment Index registered 46.4 percent, an increase of 2.1 percentage points from the July reading of 44.3 percent. The Supplier Deliveries Index registered 58.2 percent, up 2.4 percentage points from the July figure of 55.8 percent. The Inventories Index registered 44.4 percent, 2.6 percentage points lower than the July reading of 47 percent. The Prices Index registered 59.5 percent, up 6.3 percentage points compared to the July reading of 53.2 percent. The New Export Orders Index registered 53.3 percent, an increase of 2.9 percentage points compared to the July reading of 50.4 percent. The Imports Index registered 55.6 percent, a 2.5-percentage point increase from the July reading of 53.1 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, 9/1/2020***

RAW STEEL PRODUCTION



Source: AISI

In the week ending on August 29, 2020, domestic raw steel production was 1,383,000 net tons while the capability utilization rate was 61.7 percent. Production was 1,841,000 net tons in the week ending August 29, 2019 while the capability utilization then was 79.1 percent. The current week production represents a 24.9 percent decrease from the same period in the previous year. Production for the week ending August 29, 2020 is down 2.1 percent from the previous week ending August 22, 2020 when production was 1,412,000 net tons and the rate of capability utilization was 63.0 percent.

Adjusted year-to-date production through August 29, 2020 was 51,841,000 net tons, at a capability utilization rate of 66.0 percent. That is down 20.1 percent from the 64,917,000 net tons during the same period last year, when the capability utilization rate was 80.7 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, 9/1/2020***

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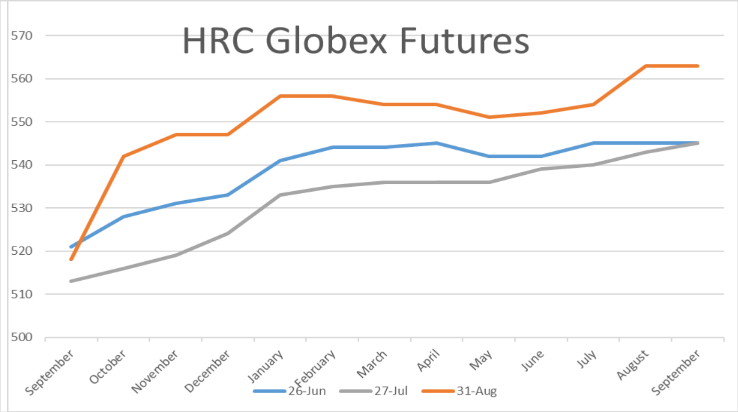
KEY ECONOMIC INDICATORS

FUTURES



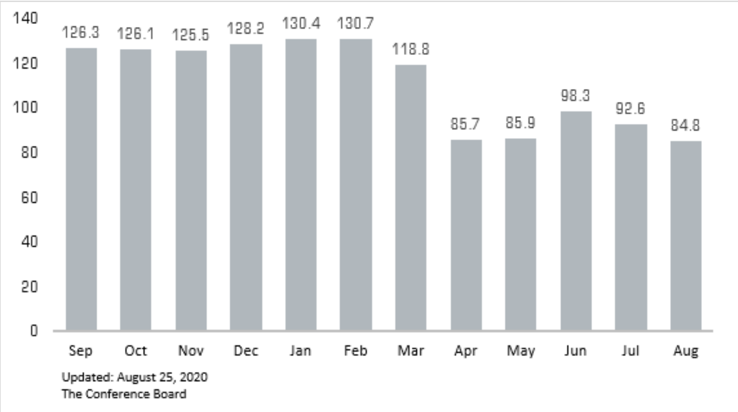
July efforts to increase capacity utilization on the mills by restarting blast furnaces and shortening tap times on EAF's resulted in supply jumping out ahead of demand and collapsing prices through mid-August.

By mid-August HRC pricing was down about $150 from their early July levels. Then demand, led by auto companies finally sorting out supply chains, durable goods month over month increasing by double digits and strong construction market performance caught up to supply and sent steel prices over $500/ton by the end of August.

Moving into September it seems as if the momentum will continue, but the low capacity utilization rates (63%) will need to get into the mid 70's for the industry to return to healthy production levels (pre-COVID capacity utilization rates were in the low 80's). So, as prices climb into the mid $500's, more production capacity will begin to be introduced which will cap the price increase somewhere in the mid-$500's, depending on scrap pricing.

The energy sector has no heartbeat at all, holding demand back from allowing a true market price runup. Futures are optimistic, with a decent positive slope through the end of the year and level pricing into the first quarter of next year.

CONSUMER CONFIDENCE



The Conference Board Consumer Confidence Index® decreased in August, after declining in July. The Index now stands at 84.8 (1985=100), down from 91.7 in July. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 95.9 to 84.2. The Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – declined from 88.9 in July to 85.2 this month.

"Consumer Confidence declined in August for the second consecutive month," said Lynn Franco, Senior Director of Economic Indicators at The Conference Board. "The Present Situation Index decreased sharply, with consumers stating that both business and employment conditions had deteriorated over the past month. Consumers' optimism about the short-term outlook, and their financial prospects, also declined and continues on a downward path. Consumer spending has rebounded in recent months but increasing concerns amongst consumers about the economic outlook and their financial well-being will likely cause spending to cool in the months ahead."

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, 8/25/2020***

INDUSTRY NEWS

U.S. MOVES TO CURB STEEL IMPORTS FROM MEXICO, BRAZIL

U.S. President Donald Trump's administration took new steps to curb steel imports from Brazil and Mexico on Monday, boosting protections for battered U.S. steelmakers and jobs in the election battleground states of Pennsylvania, Ohio and Michigan.

The U.S. Trade Representative's office said it was reducing Brazil's remaining 2020 quota for semi-finished steel imports into the United States to 60,000 metric tons from 350,000 tons "in light of recent deterioration in market conditions brought on by the COVID-19 pandemic affecting domestic steel producers."

Brazil agreed to the quotas in 2018 in exchange for an exemption from Trump's 25% "Section 232" national security tariffs on steel imports.

USTR said it will maintain existing quotas for other Brazilian-made steel products and will consult with Brazil about the country's 2021 quota for semi-finished steel in December, "by which time we hope market conditions will have improved."

Mexico also agreed in consultations with USTR to establish a strict monitoring regime to address surges in steel pipe, mechanical steel tubing and semi-finished steel exports to the United States.

USTR gave no details on how the monitoring regime would work, but said the arrangement will also maintain Mexico's exemption from Section 232 steel duties.

According to an official Mexican government decree here/08/2020 announcing the deal, the export monitoring regime is aimed at preventing the transshipment of steel pipe, tubing and semi-finished steel from China and other countries through Mexico to the United States. It said Mexican exporters would need to obtain a government permit in advance to export these products.

Mexico's ministry of economy said separately on Monday that export monitoring for these products will continue until June 1, 2021.

STEEL SLUMP

The agreements to boost protection for U.S. steelmakers come as the U.S. presidential election campaign heats up and Trump seeks to tout his use of tariffs to boost traditional manufacturing jobs.

But the steel industry, battered by imports for decades, has faced a new round of layoffs and idled mills this year as the pandemic shuttered auto plants and other steel-consuming industries.

U.S. Midwest hot-rolled steel futures HRCc1 for September delivery were bid at $504 a ton on Monday after hitting a four-year low of $447 last week. Prices had reached as high as $942 in May 2018, a few weeks after Trump first imposed the Section 232 tariffs on steel imports. ***Source: Reuters, August 31, 2020***

THE U.S. OIL RIG COUNT SLIPS ONCE AGAIN

Baker Hughes reported on Friday that the number of oil rigs in the United States fell by 3 to 180, after rising last week for the first time since January.

The total number of active oil and gas rigs held steady for the week, with oil rigs falling by 3 and gas rigs increasing by 3.

Total oil and gas rigs in the United States are now down by 650 compared to this time last year.

The EIA's estimate for oil production in the United States stayed the same for the week ending August 21—the last week for which there is data, at 10.8 million barrels of oil per day. Oil production in the United States is now 2.3 million bpd less than its all-time high reached earlier this year.

Canada's overall rig count fell by two this week, after increasing by 2 last week. Oil and gas rigs in Canada are now at 54 active rigs. Oil and gas rigs in Canada are now down 96 year on year.

The Frac Spread Count in North America, provided by Primary Vision, rose last week, from 70 to 80.

Oil prices were trading down on the day on Friday despite Hurricane Laura, which threatened oil installations in the Gulf of Mexico and therefore supply. The storm came and went, however, leaving oil country relatively unscathed, and refiners were already preparing to restart on Friday. ***Source: Oil Price, August 28, 2020***