NIM
NORFOLK IRON & METAL
MARKET INSIGHT
January 2021

ECONOMIC NEWS

U.S. Economy Seen Getting Boost With Democrats' Georgia Sweep

Chances of another federal stimulus package got a boost as Democrats swept this week's Senate runoff elections in Georgia, offering the prospect of more support for people and businesses hammered by the pandemic.

With Raphael Warnock defeating Kelly Loeffler, and Jon Ossoff prevailing over David Perdue, the result creates a 50-50 split between Republicans and Democrats in the Senate for two years. But since Vice President-elect Kamala Harris votes in the case of a tie, the victories mean Democrats will effectively control both the presidency and Congress.

And that has important implications for the nation's economic recovery.

In the near term, that could result in a $750 billion to $1 trillion pandemic relief package this year on top of the $900 billion in aid signed into law last month, Matthew Luzzetti, chief U.S. economist at Deutsche Bank AG, said earlier this week. The precise impact of a package on economic growth would depend on the details, but it presents "a sizable upside risk to our growth forecast" in 2021, currently 4.3%.

Economists predict additional aid could include support for state and local governments, another extension of enhanced jobless benefits and more stimulus payments like the $2,000 direct payments supported by both President-elect Joe Biden and President Donald Trump.

Jefferies LLC economists said in a note that they see Democratic victories in both seats spurring an additional $1 trillion of stimulus in the next few months, adding about 2 percentage points to economic growth over the next two years.

U.S. stocks and long-term Treasury yields jumped Wednesday with the vote count nearly complete, though the S&P 500 Index gave up more than half its gain after Trump supporters stormed the Capitol building and disrupted the process for finalizing Biden's victory in the Electoral College. Traders also boosted expectations for inflation in coming years, as five-year breakeven rates steadied around a two-year high.

The unemployment rate, which many economists are already expecting to come down substantially this year amid widespread vaccinations and a snapback in activity, could be slightly lower at the end of the year -- maybe 0.2 or 0.3 percentage points -- as a result of a Democratic sweep compared with Republican control of the Senate, said Lewis Alexander, chief U.S. economist at Nomura Securities International Inc.

Additional stimulus would also accelerate the nation's return to pre-pandemic gross domestic product and unemployment levels, Luzzetti said.

But in the longer term, a razor-thin majority in both the House of Representatives and the Senate will make it tough to get agreement among Democrats on bigger policy shifts, Luzzetti said.

The need to get consensus among senators ranging from Bernie Sanders on the left to moderate Joe Manchin will likely constrain Biden's policy goals. Biden, for example, pledged to raise taxes on corporations and people earning more than $400,000 a year during his campaign.

With a 50-50 split, Goldman Sachs Group Inc. analyst Alec Phillips expects tax increases to be around a quarter of what the campaign proposed.

One potential area for bipartisan compromise is infrastructure, which could have a positive impact on the economy in several ways including job creation. If passed later this year, it could support the economy in 2022. **Source: Bloomberg, January 6, 2021**

ECONOMIC NEWS

Economy sees job loss in December for the first time in eight months as surging virus takes toll

Job creation came to a halt in December as restrictions brought on by surging Covid-19 cases hammered virus-sensitive industries, particularly bars and restaurants, which lost nearly half a million positions.

The Labor Department reported Friday that nonfarm payrolls fell by 140,000. That was below expectations for 50,000 from economists surveyed by Dow Jones. It was the first monthly drop since April.

The unemployment rate was unchanged at 6.7%, compared to a 6.8% estimate. An alternative unemployment measures that includes discouraged workers and those holding part-time jobs for economic reasons declined to 11.7% from 12%.

Markets shrugged off the disappointing report, likely on the anticipation that it strengthened the case for more stimulus from Congress and reflected a likely temporary reduction in jobs that would be reversed as Covid vaccine distribution accelerated. Stocks opened Friday's trading with modest gains.

"In some ways, bad news is good news, because it increases the probability for more stimulus," said Michael Arone, chief investment strategist for US SPDR Business. "Investors have convinced themselves this week that given what's happened in Georgia, given the weakness in the economic data, that more help is on the way. We're going to get more fiscal help, and it's likely to happen pretty soon."

Since a recovery that began in May, the economy had recovered 12.3 million of the jobs lost. The biggest hit has come in the hospitality industry, where hotels, restaurants and bars suffered under the yoke of restrictions that limited travel, dining and drinking. December's job tally showed the impact has intensified.

The industry saw a plunge of 498,000 positions for the month, with most coming in restaurants and bars, which saw a drop of 372,000. Overall, hospitality is down 3.9 million jobs since January, a 23.2% drop, the Bureau of Labor Statistics report showed.

The summer saw many of the restrictions on the establishments limits lifted, but they were reimposed over the past few months as coronavirus cases rose and states and communities again eliminated or restricted indoor dining and drinking.

Investors, though, have been looking through the current spate of bad news and remaining focused on what's ahead.

One bright spot was that while temporary layoffs increased by 277,000 to 3 million, the level of permanent job losses actually declined by 348,000 to 3.4 million.

"If we can get the virus under control, the economy has shown there's a lot of pent-up consumer demand. People want to go out and engage in a variety of activities," said Patrick Leary, chief market strategist and senior trader at Incapital. "Even though the vaccine rollout has been slow to start, it will eventually come into play. The market is rationally looking at that desired outcome."

As an extraordinary year came to a close — some 22 million workers were furloughed in March and April — the jobs market had been staging a sharp recovery that nonetheless left about half those displaced on the sidelines. That recovery came a halt in December, though the news was not all bad.

Outside of hospitality, the other job losses were more muted, and several industries posted solid gains.

Private education also a saw a drop, 63,000, while government jobs contracted again with the loss of 45,000 positions. The other services category was down 22,000.

Professional and business services saw growth of 161,000 while retail added 121,000 during the holiday shopping season and construction contributed 51,000.

Transportation and warehousing added 47,000 and health care grew by 39,000. Wholesale trade also saw a 25,000 gain.

Along with those gains, prior months also saw upward revisions.

The October count rose to 645,000 from the previous 610,000 estimate, while November saw a boost of 91,000 up to 336,000.

The hit to the jobs market comes even though economic growth otherwise looks solid in the fourth quarter. The Atlanta Fed's GDPNow tracker sees the U.S. economy accelerating 8.5% for the final three months of the year, though economists expect the first quarter in 2021 to show either little or no growth. **Source: CNBC, January 8, 2021**

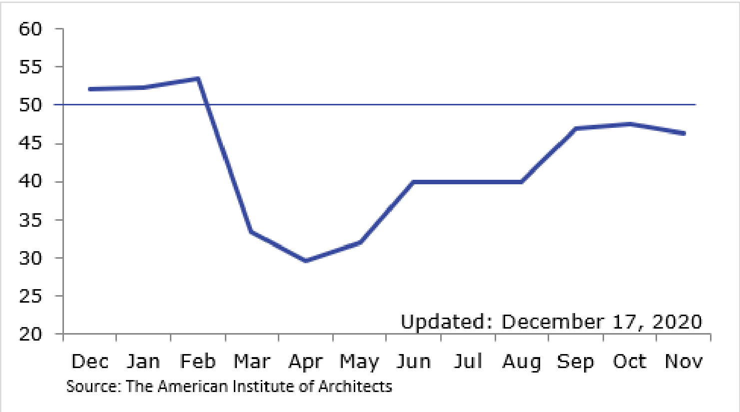
NORFOLK IRON & METAL

MARKET INSIGHT

January 2021

KEY ECONOMIC INDICATORS

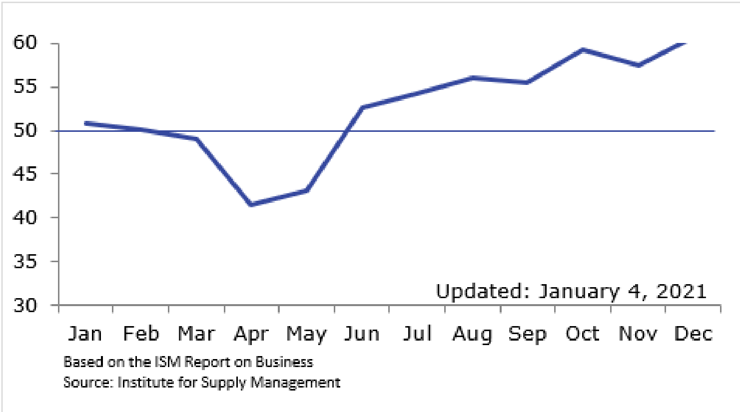
ARCHITECTURE BILLINGS INDEX (ABI)



Architecture firm billings declined for the ninth consecutive month in November. The ABI score of 46.3 for the month indicates that the pace of the billings decline accelerated from October, after moderating in September and October. The recent increase in COVID-19 cases over the last several weeks seems to have put a damper on the nascent recovery, and also appears to be reflected in a decline in the value of new design contracts in November, following their first increase since February last month. In addition, while inquiries into new work continued to rise, the pace of that growth slowed substantially from the previous two months. Together, these signs indicate that client interest in new projects has started to wane after more encouraging signs last month.

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, 12/17/2020***

PURCHASING MANAGERS INDEX®



The December Manufacturing PMI® registered 60.7 percent, up 3.2 percentage points from the November reading of 57.5 percent. This figure indicates expansion in the overall economy for the eighth month in a row after contracting in March, April, and May, which ended a period of 131 consecutive months of growth. The New Orders Index registered 67.9 percent, up 2.8 percentage points from the November reading of 65.1 percent. The Production Index registered 64.8 percent, an increase of 4 percentage points compared to the November reading of 60.8 percent. The Backlog of Orders Index registered 59.1 percent, 2.2 percentage points higher compared to the November reading of 56.9 percent. The Employment Index returned to expansion territory at 51.5 percent, 3.1 percentage points higher from the November reading of 48.4 percent. The Supplier Deliveries Index registered 67.6 percent, up 5.9 percentage points from the November figure of 61.7 percent. The Inventories Index registered 51.6 percent, 0.4 percentage point higher than the November reading of 51.2 percent. The Prices Index registered 77.6 percent, up 12.2 percentage points compared to the November reading of 65.4 percent. The New Export Orders Index registered 57.5 percent, a decrease of 0.3 percentage point compared to the November reading of 57.8 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, 1/4/2021***

RAW STEEL PRODUCTION

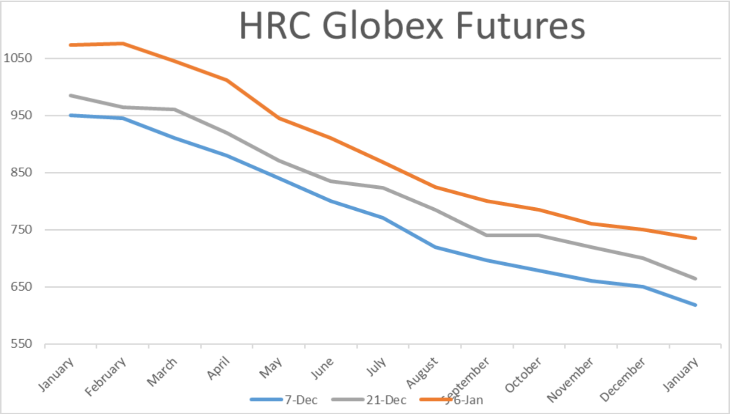
In the week ending on January 2, 2021, domestic raw steel production was 1,650,000 net tons while the capability utilization rate was 74.6 percent. Production was 1,841,000 net tons in the week ending January 2, 2020 while the capability utilization then was 80.1 percent. The current week production represents a 10.4 percent decrease from the same period in the previous year. Production for the week ending January 2, 2021 is up 3.1 percent from the previous week ending December 26, 2020 when production was 1,600,000 net tons and the rate of capability utilization was 72.3 percent.

Adjusted year-to-date production through January 2, 2021 was 1,650,000 net tons, at a capability utilization rate of 74.6 percent. That is down 10.4 percent from the 1,841,000 net tons during the same period last year, when the capability utilization rate was 80.1 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, 1/5/2021***

KEY ECONOMIC INDICATORS

Futures



The CRU topped $1000/ton on January 6 for the second time in history, and current futures indicate that it will remain above $1000 through March, peaking at $1076 in February.

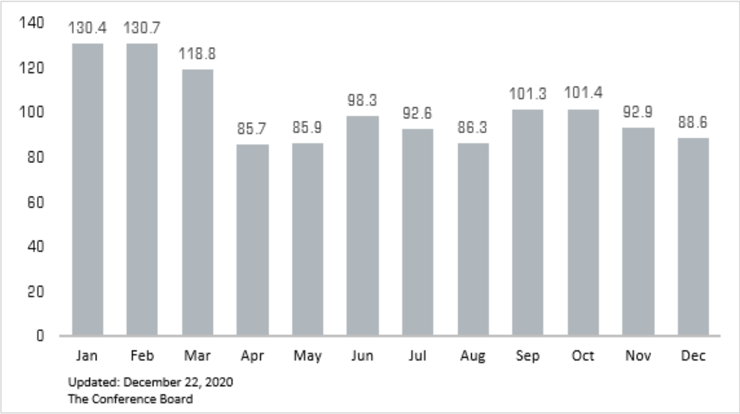
With the anticipated large increase in January scrap prices, $60+ on obsolete and $90+ on prime, it seems that simply passing along the scrap increase will drive coil prices to near $1100. In addition, the mills have basically closed their February books, and many have not yet opened March, and some have already indicated a lack of spot availability for March.

Imports generally provide a ceiling to a price run-up but there is a lack of any attempts at present for any real import penetration into the market, although the new administration may decide to make changes to the current tariffs.

From a demand standpoint, automotive, durable goods, industrial machinery, and fabricated metals all are showing strength, while construction and energy lag.

Q1 2021 will also see service centers struggle to regain inventory positions, while the capacity utilization will slowly improve as the mills struggle to overcome manpower issues caused by COVID and maintenance problems induced by COVID shutdowns.

Consumer Confidence



The Conference Board Consumer Confidence Index® declined in December, after decreasing in November. The Index now stands at 88.6 (1985=100), down from 92.9 in November. The Present Situation Index – based on consumers' assessment of current business and labor market conditions – decreased sharply from 105.9 to 90.3. However, the Expectations Index – based on consumers' short-term outlook for income, business, and labor market conditions – increased from 84.3 in November to 87.5 this month.

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. ***Source: The Conference Board, 12/22/2020***

INDUSTRY NEWS

DOC to launch new Aluminum Import Monitoring system

On Dec. 23, 2020, the U.S. Department of Commerce announced the creation of the Aluminum Import Monitoring and Analysis (AIM) system.

The system, similar to the Steel Import Monitoring and Analysis (SIMA) system, will collect and publish data on aluminum imports into the U.S.

The system will allow users to track trade flows more easily to help spot trends earlier and to provide better guidance to the domestic industry and government. Likewise, better data collection and its analysis should allow domestic producers to compete on a level playing field.

The system is expected to be available on Jan. 25, 2021.

Scrap supply tightens in the U.S.

By the end of 2020, the aluminum price had recovered by 36.8% since its low in April. This is due to strong demand in the U.S. and the Chinese market.

This has benefited aluminum producers. For example, Alcoa reported an 11% sequential increase in sales volume of value-add aluminum products over its Q3 2020 results. The climate has also benefited the scrap domestic market.

Last month, Andy McKee, materials trading division president for Schupan, told Recycling Today that aluminum scrap generation is inconsistent across various manufacturing sectors, as some customers have to stockpile material at their homes due to pandemic lockdowns despite growing demand.

However, aluminum scrap did not have to wait for mills to take it, as demand remains strong, particularly in the can sector. McKee mentioned contract metals for 2021 saw a small uptick. Furthermore, mills have lost some leverage compared to the past few years.

Moreover, according to Recycling Today, Davis Index, a metals scrap benchmark provider, reported “that secondary aluminum producers in the U.S. were paying spreads narrowing by the day for most aluminum scrap grades.”

Davis Index also mentioned the pressure the export market is exerting. The scrap benchmark provider noted zorba (a mix of shredded and pre-treated non-ferrous metals) pricing was “breaking 70 cents per pound and moving higher.”

Aluminum MMI

This month the Aluminum Monthly Metals Index (MMI) remained flat. ***Source: MetalMiner, January 6, 2021.***

US steel market sentiment remains bullish: Platts survey

Bullish sentiment was expected to persist in January in the US steel market, according to the monthly survey of the market by S&P Global Platts, with most participants expecting higher steel and raw material prices in coming weeks, as well as increased production, but unchanged inventory levels on average.

With the steel industry finding itself in a strong upswing going into 2021, several respondents questioned expressed concern about a possible similar swing in the other direction. "Volatile market and panic buying lead to chaos," said one end user.

"Raw material demand and pricing has continued upside for 60 days," said another.

"Prices for everything (steel and scrap) seem to be going up too high, too fast," said a mill source. "Expect a big correction at some point, but it won't be until the second quarter at the earliest."

The end-user sector was the most bullish about January prices with a 93.75 price development index level. Distributors came in at 91.7, with traders, brokers, and mill respondents not far behind.

"Raw material demand and pricing has continued upside for 60 days," said one trader.

"Q1 looks strong," agreed a distributor.

Participants expected steel production to see an uptick as well, with the index averaging all groups at 71. End users again were the most bullish at 78.1, followed by traders at 71.9.

For the third month in a row, the raw materials index was the most bullish indicator at 91, with all groups hitting above 90; except for the distributors, who were least bullish at 87.5.

"Raw materials [are] very difficult to forecast, especially given the difficulty in understanding developments in China," said one distributor, referring to China's voracious appetite for steel and raw materials as of late, including their first purchase of imported scrap following a two-year ban on the material.

Respondents put the expected finished steel production change index at 71 on average, while most believed inventories will remain unchanged at an average index level of 50. ***Source: S&P Global, January 5, 2021.***

US steel industry objects to Section 232 exclusion process changes

The American steel industry isn't happy with recent changes to the way the United States Commerce Department administers the Section 232 tariff exclusion process.

If the revisions to general approved exclusions (GAEs) remain in place, they will effectively eliminate tariffs on a large number of steel products, according to a joint letter sent to Commerce Secretary Wilbur Ross by the American Iron and Steel Institute, the Steel Manufacturers Association (SMA), the Specialty Steel Industry of North America (SSINA) and the Committee on Pipe and Tube Imports 232 Coalition on Monday January 4.

"I believe the Commerce Department is trying to streamline and make the exclusion process more efficient," SMA president Philip K Bell told Fastmarkets in an interview on January 5. "While some of the proposed changes and clarifications are positive for the domestic industry, we have major concerns regarding Commerce's adoption of general approved exclusions. They could lead to unintended consequences and result in a surge of imported steel being excluded from the [Section] 232 program."

Commerce announced on December 14 that it was streamlining general approved exclusions, changing volume limits from past usage for exclusion requesters and leveling the playing field between domestic producers and importers in terms of the timeframe under which disputed material needs to be produced. The latter two provisions became effective on December 14, but changes to the general approved exclusions took effect on December 29, according to a Federal Register notice.

"Specifically, the interim rule identifies 108 steel products that have been approved for import under a GAE, which means that these products can be imported to the US, regardless of the source country, free from Section 232 tariffs without the need to apply for an exclusion," Bell said. "GAEs are essentially open-ended, blanket exclusions. There's already a significant amount of steel imports that aren't subject to [Section] 232 tariffs due to quotas and existing exclusions. The GAE changes essentially undermine the stated goals of the [Section] 232."

Each one of the 108 codes identified under the harmonized system of tariffs that are approved for import under a general approved exclusion can include a large number of products.

"Basing exclusions solely on harmonized tariff system codes is too broad and not the way to go," Bell said. "Many products on the GAE list can be produced domestically. Overall, the new GAEs will result in significant tonnage being excluded from the [Section] 232 program that is far beyond the actual tonnage at issue in the specific product exclusion requests."

US imports of steel and aluminium have Section 232 tariffs of 25% and 10% respectively. Argentina, Australia, Brazil, Canada, Mexico and South Korea have been granted exclusions on steel items by agreeing to volume quotas or other restrictions.

US steel prices have surged since President Donald Trump implemented the Section 232 tariffs in 2018. ***Source: Fastmarkets, January 5, 2021.***

Norfolk Iron & Metal Closes Acquisition of Cd'A Metals

Norfolk Iron & Metal, Co. ("NIM"), a full-line steel service center, and The Coeur d'Alenes Company (Cd'A Metals), a full-line metal service center in the Inland Northwest, jointly announced today that NIM completed the acquisition of Cd'A Metals on December 31, 2020.

The acquisition complements NIM's market coverage, adding three new locations in the Northwest, and further expanding NIM's product lines and processing capabilities. The NIM family of companies now has sixteen locations stretching from New Jersey to Washington with daily deliveries to customers in thirty states.

"We are pleased to welcome the Cd'A Metals team to the NIM family," Arnie Robinson, President and COO of NIM, said. "We are very excited to follow the 2018 addition of Metalwest with this acquisition. Cd'A Metals is a great fit to continue our growth and investment in the Western United States."

Heritage Capital Group served as financial advisor, and Witherspoon Kelley provided legal services, to Cd'A Metals. Abrahams Kaslow & Cassman LLP is acting as legal counsel to NIM. ***Source: Norfolk Iron & Metal, January 5, 2021.***

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