ECONOMIC NEWS

U.S. Economy's Strong Start Signals a Stellar Year

Consumers shook off the pandemic blues as 2021 began, putting stimulus checks to work buying cars and other goods and helping set the stage for what could be the fastest economic growth in decades.

The initial reading on the country's first-quarter economic performance, delivered Thursday by the Commerce Department, showed that much remained far from normal. Even with a big jump in personal income, there was only a modest increase in spending on services like travel, dining and even health care.

But economists say that is already changing as more vaccinations are delivered and coronavirus-related business restrictions are eased. With better weather, savings accumulated during a long year of lockdowns, and an itch to make up for forced inactivity, Americans will have plenty of reasons to go out and spend.

"Consumers are now back in the driver's seat when it comes to economic activity, and that's the way we like it," said Gregory Daco, chief U.S. economist at Oxford Economics. "A consumer that is feeling confident about the outlook will generally spend more freely."

Over all, the broadest measure of the economy — gross domestic product — grew by 1.6 percent in the first three months of 2021, compared with 1.1 percent in the final quarter of last year. On an annualized basis, the first-quarter growth rate was 6.4 percent.

Total economic output should return to prepandemic levels by summer — in fact, Mr. Daco believes it has already done so. His firm estimates that the economy will expand by 3.1 percent in the second quarter, or about 13 percent on an annual basis. For the year, it expects growth of 7.5 percent, the best performance since 1951.

"This may be the tip of the iceberg," Mr. Daco said. "I think we will see much stronger momentum into summer as health conditions continue to improve, policy support remains in place and employment strengthens."

Helped by several rounds of government relief payments, households were sitting on a collective $4.1 trillion in savings in the first quarter, up from $1.2 trillion before the pandemic began.

That should find its way into the economy as services that were mostly off-limits come to life and customers flock to reopened establishments. Mr. Daco expects consumer spending to grow by more than 9 percent this year, a record.

The expansion last quarter was spurred by two batches of government payments to most Americans — $600 a person from a relief package enacted just before the end of 2020, and $1,400 more from legislation approved in March. That quickly translated into purchases of cars, furniture and household appliances, as well as clothes and food.

There was a similar jump in income last year after the first round of relief checks, which also caused a bounce in spending on goods.

"To some extent, when people have money, they're going to spend it," said Ben Herzon, executive director of IHS Markit, a forecasting firm. "If they're not spending on services because they're not going to movies or amusement parks, they're going to derive utility from goods."

He said he expected spending on goods to ease in the second quarter as services spending begins to rebound more strongly.

Spending on services is rebounding, but it is not growing as rapidly as spending on goods.

Consumer spending rose 2.6 percent in the first three months of the year, with a 5.4 percent increase in purchases of goods accounting for most of the growth. Spending on services, which has slumped throughout the pandemic, rose by 1.1 percent.

"This demonstrates the value of government intervention when the economy is on its knees from Covid," said Ian Shepherdson, chief economist at Pantheon Macroeconomics. "But in the coming quarters, the economy will be much less dependent on stimulus as individuals use the savings they've accumulated during the pandemic."

The economy's underlying strength has been evident in the robust corporate earnings that many companies have been reporting in recent days. After the stock market closed Thursday, Amazon announced that its profit more than tripled last quarter to over $8 billion, while sales jumped 44 percent to $108.5 billion.

One striking aspect of the quarter's economic activity was spending on motor vehicles and parts, which increased by almost 13 percent from the previous three months. Strong consumer demand and tight inventories drove prices higher.

Low interest rates, readily available credit, rising home values and stock prices, and strong trade-in values for used models are also easing the path for consumers.

At AutoNation, the country's largest dealership chain, many vehicles are being sold near or at sticker price even before

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they arrive from the factory. “These vehicles are coming in and going right out,” said Mike Jackson, the chief executive.

Even if economic output is back to where it was before last year, as Mr. Daco estimates, it is short of where it would be without the pandemic. What’s more, economists say it is likely to take until sometime next year for employment to regain the ground it lost as a result of the pandemic.

The labor market underscores the uneven distribution of economic pain. White-collar employees have been able to make a smooth transition to working from home and relying on services like Netflix and DoorDash for their needs, but blue-collar workers and less-educated Americans have been hit hard. And while household savings over all have swelled, many families have seen their finances wiped out.

The unemployment rate for high school graduates was 6.7 percent in March, while it stands at 3.7 percent for Americans who hold a college degree. Members of minority groups have also suffered heavily, with the jobless rate for Black Americans at 9.6 percent, compared with 5.4 percent for whites.

Still, hiring does seem to be catching up. On Thursday, the Labor Department reported that initial claims for state unemployment benefits had fallen to the lowest level of the pandemic for the third consecutive week.

Tom Gimbel, chief executive of LaSalle Network, a recruiting and staffing firm in Chicago, said: “It’s the best job market I’ve seen in 25 years. We have 50 percent more openings now than we did pre-Covid.”

Hiring is stronger for junior to midlevel positions, he said, with strong demand for professionals in accounting, financing, marketing and sales, among other areas. “Companies are building up their back-office support and supply chains,” he said. “I think we’re good for at least 18 months to two years.”

Ample savings and rising consumer optimism are giving businesses the confidence to bet on the future as well. Business investment rose 2.4 percent in the first quarter and surpassed its prepandemic level. Residential construction spending rose 2.6 percent.

Economic growth would have been even stronger had it not been for a fall in inventories, said Michael Gapen, chief U.S. economist at Barclays. Supply chain constraints and shortages of parts like semiconductors are causing halts in production, he said, most notably in the automobile sector.

That should ease in the months ahead, he added, especially as businesses take their cue from more bullish consumers.

“We’re at the opening stages of what could be a very strong six to nine months for the U.S. economy as it emerges from the pandemic,” he said. “The best is still yet to come.” ***Source: New York Times, 4/29/2021***

U.S. ECONOMY ADDED JUST 266,000 JOBS LAST MONTH, VS. ESTIMATES FOR 1 MILLION OR HIGHER

The U.S. economy gained a disappointing 266,000 jobs last month, despite widespread forecasts that the number would top 1 million, according to the latest monthly employment report released Friday by the Bureau of Labor Statistics.

The unemployment rate rose from 6 percent to 6.1 percent, contrary to expectations but still down from a historic peak of 14.8 percent last April, the highest level since the Great Depression.

The highly anticipated report was expected to show strong payroll growth, with some analysts even predicting job gains beyond the 2 million mark, after widespread vaccinations have spurred Americans to dine out, take vacations and venture out to stores after months of restrictive measures.

"This might be one of the most disappointing jobs reports of all time," said Nick Bunker, economic research director at Indeed Hiring Lab. "The labor market needs to gain 8.2 million jobs to put us back where we were pre-pandemic, not accounting for the jobs that would have been created if the pandemic never happened. Every month job gains don’t accelerate puts us further behind."

Widespread vaccination has been powering a return to normalcy, with more than 107 million people in the U.S. now fully vaccinated, according to data tracking by NBC News. That has led to consumer confidence that is propelling the spending surge, as businesses increase capacity.

The Centers for Disease Control and Prevention said Wednesday that the U.S. could be through the worst of the Covid-19 pandemic by July, if vaccinations continue at high rates and people wear masks and physically distance when necessary.

Despite a disappointing headline number, the labor participation rate and wage growth all came in better than expected, said Sameer Samana, senior global market strategist at Wells Fargo Investment Institute.

Some economists and employers say President Joe Biden's relief package, which included stimulus checks as well as extended pandemic benefits for the unemployed, is deterring some workers from returning to their old jobs or seeking out new positions, resulting in worker shortages.

Combined unemployment benefits can equal $600 a week, or about $16 per hour, more than many entry-level jobs pay. Some businesses have even resorted to offering cash signing bonuses to attract workers.

Other economists say the special pandemic payments have been necessary to keep food on the table for workers who have to stay home to help their children with remote schooling, or assuage lingering concerns about contracting the virus.

Overall, around 16 million people are still claiming unemployment benefits — and 12 million of those unemployed workers are on federal pandemic emergency programs, which expire in September.

“The healing of the job market, including reduction of unemployed and those seeking and receiving jobless aid, is as important an economic thread as any being monitored amid the reopening story," said Mark Hamrick, senior economic analyst at Bankrate. "Yes, there’s a great deal of uncertainty associated with all of this, but that must be viewed within the context of improvement overall.” ***Source: NBC News, 5/7/2021***

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MARKET INSIGHT
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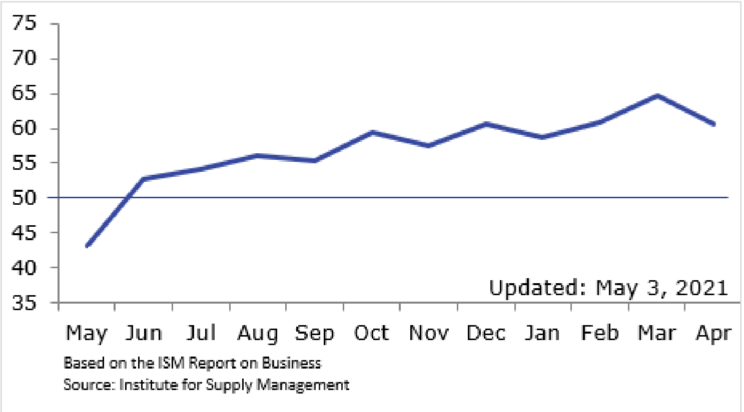
KEY ECONOMIC INDICATORS

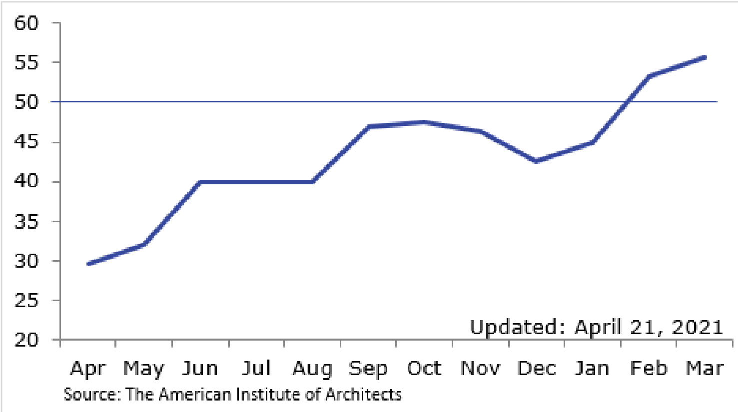
Purchasing Managers Index®



The April Manufacturing PMI® registered 60.7 percent, a decrease of 4 percentage points from the March reading of 64.7 percent. This figure indicates expansion in the overall economy for the 11th month in a row after contraction in April 2020. The New Orders Index registered 64.3 percent, declining 3.7 percentage points from the March reading of 68 percent. The Production Index registered 62.5 percent, a decrease of 5.6 percentage points compared to the March reading of 68.1 percent. The Backlog of Orders Index registered 68.2 percent, 0.7 percentage point higher compared to the March reading of 67.5 percent. The Employment Index registered 55.1 percent, 4.5 percentage points lower than the March reading of 59.6 percent. The Supplier Deliveries Index registered 75 percent, down 1.6 percentage points from the March figure of 76.6 percent. The Inventories Index registered 46.5 percent, 4.3 percentage points lower than the March reading of 50.8 percent. The Prices Index registered 89.6 percent, up 4 percentage points compared to the March reading of 85.6 percent. The New Export Orders Index registered 54.9 percent, an increase of 0.4 percentage point compared to the March reading of 54.5 percent. The Imports Index registered 52.2 percent, a 4.5-percentage point decrease from the March reading of 56.7 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, 5/3/2021***

Architecture Billings Index (ABI)

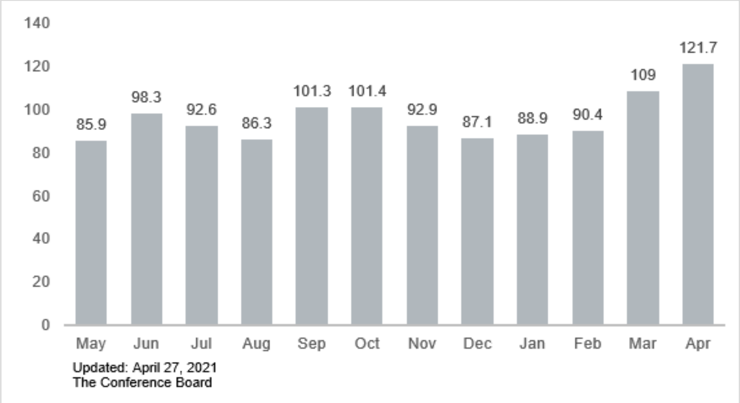


Business conditions at architecture firms continued their turnaround in March, with a strong ABI score of 55.6 for the month, as an even larger share of firms reported an increase in their billings than in February. In addition, inquiries into new work and the value of new design contracts both continued to rise, as an increasing number of clients are not only shopping projects around, but also signing contracts to begin new work. Backlogs at firms also rose dramatically from the fourth quarter of 2020 to the first quarter of 2021, growing by nearly an entire month from 5.3 to 6.1 months. This is nearly back to the pre-pandemic peak of 6.5 months and means that firms have a solid supply of work in the pipeline if the economy falters in the coming months.

Architecture firms in all regions of the country also reported improving business conditions in March, even those in the Northeast, which had seen weaker conditions even prior to the pandemic. Billings were strongest at firms located in the Midwest and South, with those in the Midwest reporting particularly strong growth following a soft winter, partially due to harsh weather conditions.

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, 4/21/2021***

Consumer Confidence



The Conference Board Consumer Confidence Index® rose sharply again in April, following a substantial gain in March. The Index now stands at 121.7 (1985=100), up from 109.0 in March. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—soared from 110.1 to 139.6. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—rose moderately, from 108.3 last month to 109.8 in April.

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, 4/27/2021***

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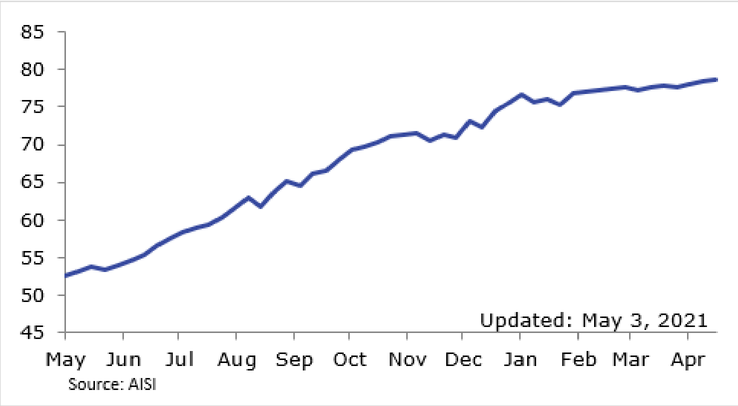
KEY ECONOMIC INDICATORS

Raw Steel Production



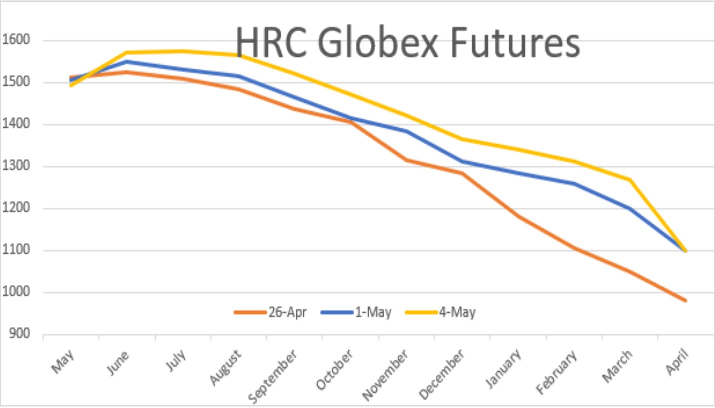
In the week ending on May 1, 2021, domestic raw steel production was 1,788,000 net tons while the capability utilization rate was 78.7 percent. Production was 1,238,000 net tons in the week ending May 1, 2020 while the capability utilization then was 55.2 percent. The current week production represents a 44.4 percent increase from the same period in the previous year. Production for the week ending May 1, 2021 is up 0.4 percent from the previous week ending April 24, 2021 when production was 1,781,000 net tons and the rate of capability utilization was 78.4 percent.

Adjusted year-to-date production through May 1, 2021 was 30,315,000 net tons, at a capability utilization rate of 77.4 percent. That is up 4.0 percent from the 29,143,000 net tons during the same period last year, when the capability utilization rate was 73.6 percent.

Broken down by districts, here's production for the week ending May 1, 2021 in thousands of net tons: North East: 160; Great Lakes: 616; Midwest: 185; Southern: 756 and Western: 71 for a total of 1788.

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, 5/3/2021***

HRC Futures



After a very brief lull in early April, Hot Rolled coil prices found some wind and sailed past $1,400. Some of the daily indices in early May as well as Hot-Rolled futures are already hitting $1,500. So, it appears that May will follow the previous several months in pushing record Hot-Rolled prices even higher. And right now, lead times continue to extend, with the mills indicating lead times of eight to ten weeks.

Imports are now relief with pricing Delivered and Duties Paid to Houston or NOLA in the low $1,300's in late September. June spot availability is non-existent and neither OEM's nor Service Centers are currently rebuilding inventory. At present, it appears this rally will continue into Q3. ***Source: John Davis, Executive VP Supply Chain NIM Group, 5/4/2021***

INDUSTRY NEWS

Construction spending rises, ABI reflects second consecutive month of billings growth

US construction spending in March reached a seasonally adjusted annual rate of $1,513.1 billion, the Census Bureau reported. The March rate marked a 0.2% increase from February and a 5.2% increase from February 2020.

Meanwhile, construction spending in Q1 rose 4.5% year over year to $328.3 billion.

Broken down further, spending on private construction reached a rate of $1,169.2 billion, or up 0.7% from February. Within private construction, residential construction came in at a rate of $725.2 billion, or up 1.7%. Nonresidential construction dipped 0.9% to $444.0 billion.

Public construction spending, meanwhile, reached $343.9 billion, or down 1.5%. Educational construction fell 2.0% to $85.3 billion. Highway construction slipped 2.2% to $98.8 billion.

ABI shows growth for second straight month

The Architecture Billings Index (ABI), released monthly by the American Institute of Architects, had fallen for 11 consecutive months until a two-month upturn in February and March.

The March ABI checked in at 55.6, up from 53.3 in February. (Any reading greater than 50 indicates billings growth.)

Meanwhile, the design contracts index registered a reading of 55.7, up from 51.6.

"Business conditions at architecture firms continued their turnaround in March, with a strong ABI score of 55.6 for the month (a score over 50 indicates billings growth), as an even larger share of firms reported an increase in their billings than in February," the ABI report indicated. "In addition, inquiries into new work and the value of new design contracts both continued to rise, as an increasing number of clients are not only shopping projects around, but also signing contracts to begin new work."

Illustrating the ongoing economic recovery, the ABI report notes backlogs at firms jumped from Q4 2020 to Q1 2021, rising from about 5.3 months to 6.1 months.

"This is nearly back to the pre-pandemic peak of 6.5 months and means that firms have a solid supply of work in the pipeline if the economy falters in the coming months," the report added.

By region, the Midwest led the way with an ABI reading of 56.5, followed by the South (55.8), the West (52.8) and the Northeast (50.8).

Pending home sales up by 1.9%

In the housing market, pending home sales picked back up after two straights months of declines. Pending home sales rose by 1.9% in March, the National Association of Realtors (NAR) reported.

"The increase in pending sales transactions for the month of March is indicative of high housing demand," said Lawrence Yun, NAR's chief economist. "With mortgage rates still very close to record lows and a solid job recovery underway, demand will likely remain high."

Construction employment down in 203 metro areas

The Associated General Contractors of America, in an analysis released last month, reported construction employment from March 2020 to March 2021 fell in 203 metro areas.

Despite the broader economic recovery and upticks in construction spending, rising materials prices, supply chain disruptions and project cancellations are hampering the construction sector's recovery.

"Nearly twice as many metros have lost construction jobs as gained them in the past 12 months, even though homebuilding has recovered strongly and the overall economy is in much better shape than it was a year ago," said Ken Simonson, the association's chief economist. "Nonresidential construction is still at risk of further declines in much of the country." **Source: MetalMiner, 5/5/2021**

Nickel prices rise but fail to match the rest of the base metals market

Nickel's bull story took a hit at the beginning of March by announcements from China's Tsingshan Group. The firm said it intended to produce battery-grade material from nickel matte, undermining the market's electric vehicle (EV) narrative.

That is last month's news. Reuters confirmed the move would effectively close the processing gap between the sort of nickel used by the stainless steel industry and that used for lithium-ion battery production. That undermines the perception that battery-grade nickel is a constrained market facing a looming wall of demand.

Yet, EV demand has always been part of the future, rather than the present.

Stainless steel consumption

Stainless steel consumption remains overwhelmingly the largest industry for nickel consumption.

Output among stainless producers is rebounding strongly since H2 last year — particularly in China but increasingly elsewhere.

Supply, though, remains the issue for nickel.

Reuters observes even the International Nickel Study Group (INSG) is reporting the market will remain in significant surplus this year. That is despite strongly recovering demand.

Reuters' own polling suggests expectations are for a surplus this year of 31,000 metric tons, followed by 66,500 tons next year. Refined production grew by 5% last year and is forecast to grow by 9% this year.

Much uncertainty remains, however, about output from top supplier Indonesia.

But Chinese investment in the country's refining capacity has been strong. Exports of ferro alloys and nickel pig iron (NPI) have surged as ore exports collapsed following the government bans at the start of 2020.

Indonesian mine output grew by an incredible 53% in the first two months of this year. All that ore is being processed and is likely feeding into domestic refiners to show up as exports of ferro alloys and refined nickel in the months ahead.

Nickel prices picked up a little late last month on the back of surging base metals prices. However, high LME stocks are a reminder the market remains in surplus.

It would take a significant change of narrative to see prices testing previous highs from late February anytime soon. **Source: MetalMiner, 5/4/2021**