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MARKET INSIGHT

June 2021

ECONOMIC NEWS

FED'S BEIGE BOOK SAYS U.S. ECONOMY EXPANDED AT SOMEWHAT FASTER RATE

Partly reflecting the positive effects of increased Covid-19 vaccination rates and relaxed social distancing measures, the Federal Reserve's Beige Book said Wednesday the U.S. economy increased at a somewhat faster rate from early April to late May.

The Beige Book, a compilation of anecdotal evidence on economic conditions in each of the twelve Fed districts, still described the pace of economic growth as moderate.

The Fed said the effects of expanded vaccination rates were most notable in consumer spending, as increased leisure travel and restaurant spending augmented ongoing strength in other spending categories.

However, several districts also noted the adverse impacts of supply chain disruptions, with manufacturers reporting that widespread shortages of materials and labor along with delivery delays made it difficult to get products to customers.

Similar challenges also affected the housing sector, where strong demand, buoyed by low mortgage interest rates, outpaced homebuilders' capacity to build, leading some to limit sales.

The Fed acknowledged the continuing supply chain disruptions also contributed to an increase in overall price pressures since the last Beige Book in April.

"Input costs have continued to increase across the board, with many contacts noting sharp increases in construction and manufacturing raw materials prices," the Fed said.

With strengthening demand allowing some businesses to pass through higher costs to their customers, contacts anticipate facing further cost increases and charging higher prices in coming months.

Ahead of Friday's closely watched monthly jobs report, the Beige Book said staffing levels increased at a relatively steady pace, with two-thirds of the districts reporting modest employment growth over the reporting period.

While job growth was strongest in food services, hospitality, and retail, the Fed noted it remained difficult for many firms to hire new workers, especially low-wage hourly workers, truck drivers, and skilled tradespeople.

"The lack of job candidates prevented some firms from increasing output and led some businesses to reduce their hours of operation," the Fed said.

The release of the Beige Book comes two weeks ahead of the Federal Reserve's next monetary policy meeting, which is scheduled for June 15-16. ***Source: Nasdaq, 6/2/2021***

U.S. ECONOMY ADDED 559,000 JOBS IN MAY, VS. ESTIMATES FOR 675,000

The economy added 559,000 jobs last month, double April's disappointing total, and the unemployment rate ticked down to 5.8 percent from 6.1 percent, according to data released Friday by the Bureau of Labor Statistics.

While the headline jobs number falls short of economists' expectations that predicted a total as high as 1 million, it is further indication that the economy is grinding into high gear, as widespread vaccinations allow for the reopening of businesses across all sectors. Half of Americans are now fully vaccinated, and confirmed coronavirus cases in the United States have fallen to levels not seen since March 2020, according to an NBC News analysis.

A slew of positive employment data this week pumped optimism into labor market observers after ADP reported Thursday that private payrolls rose by 978,000 last month, and the Department of Labor said initial unemployment claims fell to 385,000, their lowest level since the pandemic hit — though still double the pre-pandemic average.

"After the disappointing jobs report in April, it isn't really a surprise that [Friday's] numbers missed expectations," said Steve Rick, chief economist at CUNA Mutual Group. "People are gunning for a very fulsome recovery, which isn't quite in the works yet. That said, the path ahead really does continue to look encouraging as we slowly make progress to return to the 3.5 percent unemployment rate we were seeing before the beginning of the pandemic."

Yet businesses are still facing worker shortages, as people contend with a lack of child care and fear of contracting the virus, and others take early retirement or reconsider their career trajectory. Some Republican governors have said the emergency federal unemployment benefits have contributed to a lack of incentive to return to work. Already, 25 states have said they will withdraw the $300 weekly benefits before their official expiration in September.

The economy is also being squeezed by bottlenecks in the supply chain, as manufacturers and suppliers try to ramp up production capacity to meet the new demand. Shortages have led to soaring prices for products ranging from computer chips to lumber, wheat, and chicken wings.

"The supply constraints are problematic, but it doesn't mean it's going to prevent the economy from continuing to recover," said Ryan Sweet, senior economist at Moody's Analytics.

Friday's monthly labor market report also included revisions for April, which rose from 266,000 to 278,000; and for March, which fell from 916,000 to 785,000 jobs gained.

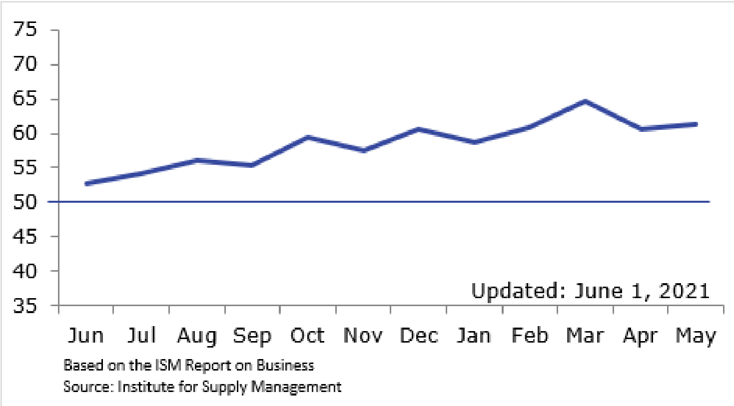
"Upward revisions adding a total of 27,000 jobs to the previous two months move in the right direction but are hardly seismic in impact," said Mark Hamrick, senior economic analyst at Bankrate. Nonetheless, "the mood has changed," he said. "The economy has healed as a rising share of the U.S. population has been vaccinated, fostering the lifting of Covid-19 restrictions, which leads to more spending on both goods and services."

While the latest positive metrics point to a robust economic recovery, the rebound also raises concern for investors and market observers who fear the Federal Reserve could begin pulling back on its "easy money" policies.

The sluggishness in hiring, along with higher commodities prices, has even led to discussion of "stagflation," where economic output stagnates at the same time as inflation spikes, creating a spiral of decreased purchasing power for consumers and generating even slower economic growth. ***Source: NBC News, 6/4/2021***

KEY ECONOMIC INDICATORS

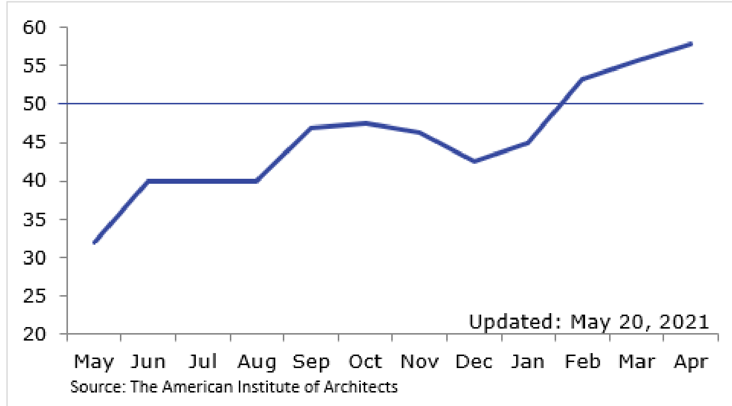
PURCHASING MANAGERS INDEX®



The May Manufacturing PMI® registered 61.2 percent, an increase of 0.5 percentage point from the April reading of 60.7 percent. This figure indicates expansion in the overall economy for the 12th month in a row after contraction in April 2020. The New Orders Index registered 67 percent, increasing 2.7 percentage points from the April reading of 64.3 percent. The Production Index registered 58.5 percent, a decrease of 4 percentage points compared to the April reading of 62.5 percent. The Backlog of Orders Index registered 70.6 percent, 2.4 percentage points higher compared to the April reading of 68.2 percent. The Employment Index registered 50.9 percent; 4.2 percentage points lower than the April reading of 55.1 percent. The Supplier Deliveries Index registered 78.8 percent, up 3.8 percentage points from the April figure of 75 percent. The Inventories Index registered 50.8 percent, 4.3 percentage points higher than the April reading of 46.5 percent. The Prices Index registered 88 percent, down 1.6 percentage points compared to the April reading of 89.6 percent. The New Export Orders Index registered 55.4 percent, an increase of 0.5 percentage point compared to the April reading of 54.9 percent. The Imports Index registered 54 percent, a 1.8-percentage point increase from the April reading of 52.2 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, 6/1/2021***

ARCHITECTURE BILLINGS INDEX (ABI)

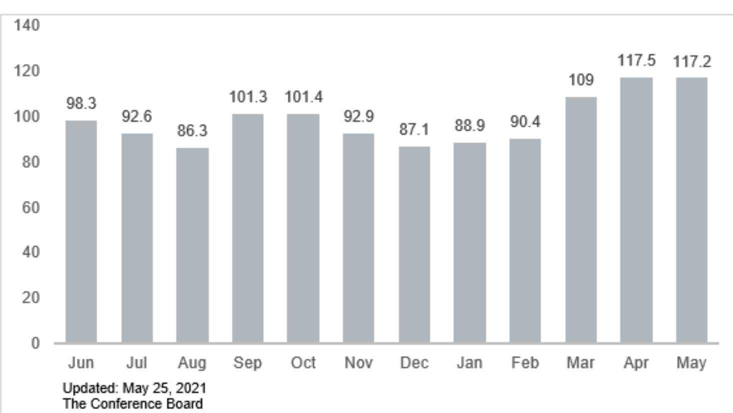


Business conditions at architecture firms continued to rebound at a strong clip in April, with the AIA's Architecture Billings Index (ABI) score rising to 57.9 for the month. This is the highest ABI score since prior to the Great Recession, and indicates that a majority of architecture firms saw their billings increase this month. Interest in new projects remained extremely strong as well, with the Inquiries score rising to 70.8, and the value of new signed design contracts reaching 61.7, the highest score in that index since data collection started in late 2010. This means that not only are clients talking to architecture firms about starting new projects, but that they are also signing contracts to begin that work at a high rate.

Architecture firms in all regions of the country also reported increasing billings for the second consecutive month in April, with firms located in the Midwest and South reporting the strongest growth. While growth remains somewhat more modest at firms located in the West, they are still seeing their strongest conditions in nearly three years. In addition, firms of all specializations reported growth again this month, with firms with a commercial/industrial specialization seeing the largest increase in billings for the second month in a row. Business conditions also continued to rebound at firms with a multifamily residential specialization, after they saw a modest decline over the winter.

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, 5/20/2021***

CONSUMER CONFIDENCE

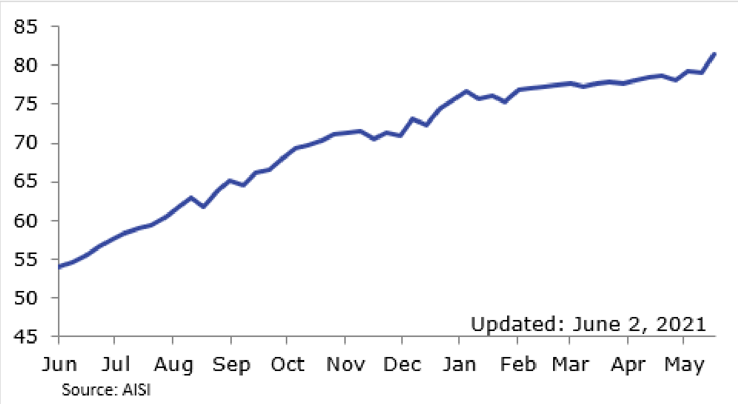


The Conference Board Consumer Confidence Index® held steady in May, following a gain in April. The Index now stands at 117.2 (1985=100), down marginally from 117.5 in April. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—increased from 131.9 to 144.3. However, the Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—fell to 99.1 in May, down from 107.9 last 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, 5/25/2021***

KEY ECONOMIC INDICATORS

Raw Steel Production



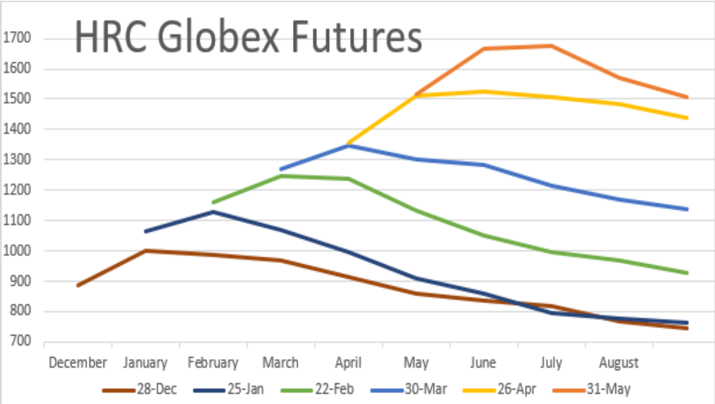
In the week ending on May 29, 2021, domestic raw steel production was 1,836,000 net tons while the capability utilization rate was 81.5 percent. Production was 1,223,000 net tons in the week ending May 29, 2020 while the capability utilization then was 54.6 percent. The current week production represents a 50.1 percent increase from the same period in the previous year. Production for the week ending May 29, 2021 is up 2.4 percent from the previous week ending May 22, 2021 when production was 1,793,000 net tons and the rate of capability utilization was 79.0 percent.

Adjusted year-to-date production through May 29, 2021 was 35,913,000 net tons, at a capability utilization rate of 78.1 percent. That is up 9.5 percent from the 32,811,000 net tons during the same period last year, when the capability utilization rate was 69.9 percent.

Broken down by districts, here's production for the week ending May 29, 2021 in thousands of net tons: North East: 147; Great Lakes: 635; Midwest: 187; Southern: 793 and Western: 74 for a total of 1836.

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, 6/2/2021***

HRC Futures



Our May update referenced the Hot Rolled prices had gained a tailwind and sailed past $1,400. Well, they never slowed down and hit $1,600 by month end. One analyst noted that the recent price of hot rolled is now five standard deviations beyond the historic average. That statistically tells us what we already know: it is out of control.

June, historically, is a slower month for steel shipments, but with the COVID-caused supply chain disruptions, it will not happen. For example, auto companies are fighting to improve inventory, as Auto Inventory/Sales ratios have reached unheard of lows at almost 1 to 1. Manufacturing PMI's and new orders are growing almost as fast as steel prices which shows the demand strength of the U S manufacturing economy. In addition, scrap prices are poised to significantly jump this month, which will incentivize additional price increases.

The graph above shows how futures each month built upon each other, as the market reached tsunami strength. ***Source: John Davis, Executive VP Supply Chain NIM Group, 6/3/2021***

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INDUSTRY NEWS

Norfolk Iron & Metal to Name New Parent Organization

Norfolk Iron & Metal, Co. ("Norfolk Iron"), a full-line steel service center, has announced the creation of NIM Group, a new parent identity for each of its brands: Norfolk Iron and Metal, Metalwest, and Cd'A Metals.

In December 2018, Norfolk Iron acquired Metalwest, a leading processor and distributor of carbon and non-ferrous flat-rolled metal products with eight locations across the U.S.

Norfolk Iron expanded again in December 2020, with the acquisition of Cd'A Metals, a full-line service center and supplier with three locations serving the inland Northwest.

The creation of the new parent identity provides a structure that will support continued growth of existing geographies as well as future acquisitions. "We are excited to have an identity that encompasses our family of companies, current and future," said Arnie Robinson, NIM Group president and COO. "With NIM Group providing many of the corporate functions for our operating brands, our commercial teams can focus on expanding our product and geographic reach in support of future growth." **Source: NIM Group, 6/2/2021**

Despite easing US-EU trade tensions, Section 232 likely here to stay

It is no secret that, on the whole, Europe was backing a Joe Biden win in the 2020 US presidential election.

A few eastern European countries, like Hungary and Poland, rather warmed to former President Donald Trump's narratives. However, on the whole, socialist Europe saw more of a kindred spirit in Biden. In that vein, it expected his election would see a thawing of US-EU trade relations.

To some extent, Biden has not disappointed.

A rapid return to the 2016 Paris climate change agreement and last week's removal of sanctions on the company behind the all-but-completed NordStream 2 gas pipeline from Russia were expected and welcomed.

But two linked and particularly thorny issues remain.

The first is as much commercial as political. We've covered it before: the decades-long dispute between Boeing and Airbus over claims and counter-claims of unfair state support and subsidy rumbles on.

In March, the EU and US agreed to suspend all retaliatory tariffs on EU and US exports imposed in the Airbus and Boeing disputes for a four-month period. The pause allows both sides to focus on resolving the dispute.

Arguably, Trump's hard-nosed approach is what ultimately brought both sides to the table. Biden's approach may find a solution. Neither side has gained from the sanctions since 2018.

As such, a solution is to everyone's benefit.

Europe this week postponed the escalation of retaliatory tariffs — said by the Financial Times to be of at least 50% — on US goods, including bourbon and Harley-Davidsons (really, couldn't Brussels have picked something we don't want to slap tariffs on?). The move came as an olive branch to Washington to find a solution to a much thornier issue impacting US-EU trade relations: Section 232 steel tariffs.

US-EU trade and Section 232 tariffs

Ignoring the argument that to call the US's closest ally a threat to national security is something of an insult, the intention of the Section 232 tariffs on steel and aluminum was to stop the long-term decline of the US steel industry by protecting domestic producers from low-cost imports.

Those low-cost imports in some, but not all, cases came from countries with lower environmental regulations and worker costs, in addition to benefiting from state support.

The intention was honorable. However, the strategy shifted a substantial cost to steel consumers, who employ far more workers than the steel industry and represent a far larger proportion of the economy.

However, the argument holds that steel production is a strategic critical resource. Countries that allow their steel industries to dwindle find themselves in the invidious position of relying on others for sometimes critical supplies. For instance, the UK that relies on French steel for the construction of Britain's nuclear submarines. That may be viable while the UK and France are friends. However, France's threat this month to cut off electricity supplies to a British island shows you can't always rely on your friends.

US businesses call for Biden to rescind Section 232 tariffs

According to the Financial Times last week, about 300 smaller US businesses wrote to Biden to demand that he drop the 25% import duties. They argued that for some products, US businesses are paying 40% more for similar steel compared to European counterparts. Furthermore, delivery times are stretching from six weeks to 20 weeks.

The reason for that is not exactly due to the 25% import duties, of course. The steel industry is caught in a global supply chain restocking frenzy. The tariffs make the US market tighter than it would otherwise be. Some are suggesting Biden's infrastructure investment program could make the problem worse or extend the tight market further into the future (or both).

Europe remains hopeful the Biden administration will relax the 25% tariffs on European steel.

But the Financial Times suggests their optimism may be misplaced.

While arguments rage back and forth about the impact of the tariffs in the US, they remain a highly charged political issue. The tariffs have achieved one of the primary objectives the Trump administration had when rolling them out in 2018: lifting US steel mills' capacity utilization rates.

The latest solution seems to be a much closer cooperation with Europe to tackle Chinese steel overcapacity. That is a topic dear to the European steel industry's heart. A solution could involve tightening rules of origin and setting import quotas in both regions.

But an early removal of the tariff?

There, the EU may be disappointed.

In the eyes of its US backers, the tariffs are a bulwark protecting a politically important industry. Consumers have largely learned to cope with them.

They probably aren't going away anytime soon. **Source: MetalMiner, 5/25/2021**