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MARKET INSIGHT
August 2021

ECONOMIC NEWS

Fiscal stimulus, vaccines likely fueled U.S. economic growth in the second quarter

The U.S. economy likely gained steam in the second quarter, with the pace of growth probably the second fastest in 38 years, as massive government aid and vaccinations against COVID-19 fueled spending on travel-related services.

The anticipated acceleration in gross domestic product last quarter would lift the level of GDP above its peak in the fourth quarter of 2019. Even with the second quarter likely marking the peak in growth this cycle, the economic expansion was expected to remain solid for the remainder of this year.

A resurgence in COVID-19 infections, driven by the Delta variant of the coronavirus, however, poses a risk to the outlook. Higher inflation, if sustained, as well as ongoing supply chain disruptions could also slow the economy. The Commerce Department will publish its snapshot of second-quarter GDP growth on Thursday at 8:30 a.m EDT (1230 GMT).

"Consumers have plenty of income and wealth ammunition to support consumer spending, while business inventories remain lean and restocking efforts are poised to support business investment and overall GDP growth substantially in the second half of the year," said Sam Bullard, a senior economist at Wells Fargo in Charlotte, North Carolina.

The Federal Reserve on Wednesday kept its overnight benchmark interest rate near zero and left its bond-buying program unchanged. Fed Chair Jerome Powell told reporters that the pandemic's economic effects continued to diminish, but risks to the outlook remain.

The economy likely grew at an 8.5% annualized rate last quarter, according to a Reuters survey of economists. That would be the second-fastest GDP growth pace since the second quarter of 1983. The economy grew at a 6.4% rate in the first quarter, but that is subject to revision.

With the second-quarter estimate, the government will publish revisions to GDP data. Given that this is not a comprehensive benchmark revision, economists expect only modest changes to previously published estimates.

The National Bureau of Economic Research, the arbiter of U.S. recessions, declared last week that the pandemic downturn, which started in February 2020, ended in April 2020.

Economists expect growth of around 7% this year, which would be the strongest performance since 1984. The International Monetary Fund on Tuesday boosted its growth forecasts for the United States to 7.0% in 2021 and 4.9% in 2022, up 0.6 and 1.4 percentage points respectively, from its forecasts in April. ***Continue reading at:*** ***[Reuters 07/29/2021]***

U.S. economy added 943,000 jobs in July, showing biggest monthly gain since August 2020

The economy added 943,000 jobs in July, the Bureau of Labor Statistics said Friday, compared to analysts' expectations of 850,000 positions added. It's the biggest monthly gain since August 2020.

The unemployment rate fell sharply to 5.4 percent from 5.9 percent, though 8.7 million Americans remain out of work.

While likely to provide a shot of confidence for Wall Street, economists say Friday's data underscores the volatility that remains in the labor market and makes it harder for employers to forecast or invest — and could crimp consumer spending. The monthly data was gathered before the delta variant of the coronavirus started to surge across the U.S.

The official government data came after payroll processor ADP's monthly tally of private-sector job growth fell far short of expectations when it was released Wednesday. The number of jobs added plunged from 680,000 in June to just 330,000 in July, sharply below the 653,000 anticipated.

ADP Chief Economist Nela Richardson characterized it as a "marked slowdown" in a news release and blamed more virulent Covid-19 variants and bottlenecks in labor supply making it harder for employers to add workers.

"It could be telling us people are still not returning to the labor force in the sort of numbers we're expecting, particularly in cases where the delta variant is surging," said James McCann, deputy chief economist at Aberdeen Standard Investments.

Muted labor force participation is hindering robust jobs growth, said Dan North, senior economist at Euler Hermes North America, pointing to an advanced wave of retirement as a big contributor. "We had this temporary shutdown that turned out to be a permanent shutdown for a lot of businesses," he said.

While baby boomers aging out of the workforce is a secular trend that has existed for years, Covid-19 kicked it into high gear. One study from The New School's Schwartz Center for Economic Policy Analysis found that the pandemic forced 1.7 million Americans into early retirement — many of them in populations the Schwartz Center characterized as "vulnerable:" Black workers and those without college degrees were most likely to drop out of the workforce.

There remains a debate about the role of pandemic-era programs to supplement unemployment insurance benefits. Economists are looking carefully at employment data to see if there are early indications about whether or not expanded benefits — which are being phased out early by roughly half of the states — have been throttling job creation, as some Republican governors have asserted.

Leading-edge data from Homebase, a scheduling software platform for small businesses, indicates that this is not the case among its clients, or at least not yet:

In July, Homebase found that states terminating enhanced benefits saw employment decline by roughly 1 percent, while states retaining those extra benefits saw employment grow by 2.3 percent.

The report also noted a red-blue state divide: Businesses in GOP-led states had maintained a higher overall level of employment throughout the pandemic, but within the past month, blue states had reached on-par levels. Given the close correlation between which party holds gubernatorial control and the decision to end expanded unemployment benefits early, the steadier employment activity in red states could help explain why it is not currently seeing the same bounce as blue states. ***Continue reading at:*** [NBC News 08/06/2021]

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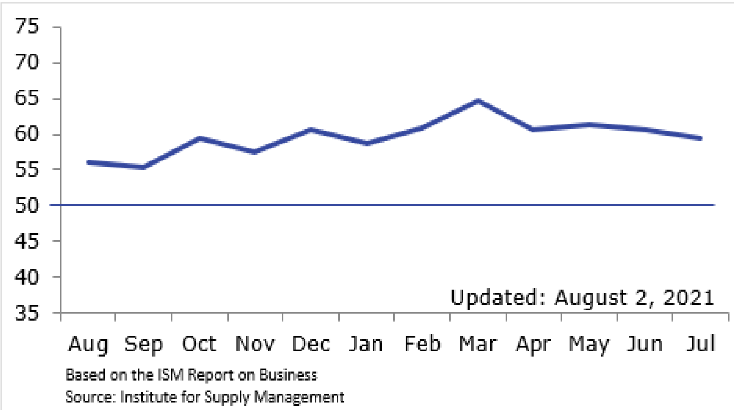
KEY ECONOMIC INDICATORS

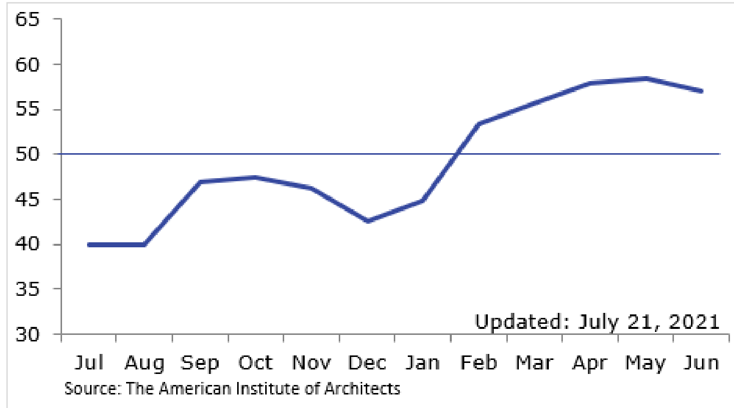
Purchasing Managers Index®



The July Manufacturing PMI® registered 59.5 percent, a decrease of 1.1 percentage points from the June reading of 60.6 percent. This figure indicates expansion in the overall economy for the 14th month in a row after contraction in April 2020. The New Orders Index registered 64.9 percent, decreasing 1.1 percentage points from the June reading of 66 percent. The Production Index registered 58.4 percent, a decrease of 2.4 percentage points compared to the June reading of 60.8 percent. The Prices Index registered 85.7 percent, down 6.4 percentage points compared to the June figure of 92.1 percent, which was the index's highest reading since July 1979 (93.1 percent). The Backlog of Orders Index registered 65 percent, 0.5 percentage point higher than the June reading of 64.5 percent. The Employment Index registered 52.9 percent, 3 percentage points higher compared to the June reading of 49.9 percent. The Supplier Deliveries Index registered 72.5 percent, down 2.6 percentage points from the June figure of 75.1 percent. The Inventories Index registered 48.9 percent, 2.2 percentage points lower than the June reading of 51.1 percent. The New Export Orders Index registered 55.7 percent, a decrease of 0.5 percentage point compared to the June reading of 56.2 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, 8/2/2021***

Architecture Billings Index (ABI)

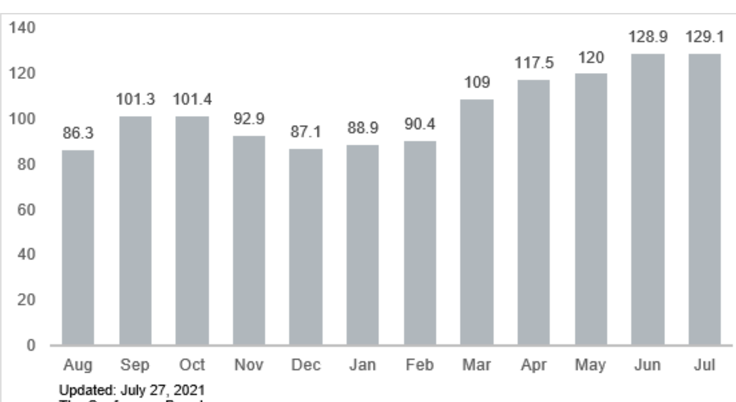


Architecture firms reported another month of extremely strong business conditions in June, with an ABI score of 57.1 (any score over 50 indicates billings growth). While slightly fewer firms reported an increase in firm billings in June than in May, the current pace of billings growth remains near the highest levels ever seen in the history of the index. In addition, inquiries surged to a new all-time high score of 71.8, and the value of new design contracts remained very high as well, with a score of 58.9. In addition, firms reported their highest backlogs in two years, with an average of 6.5 months. This ties the all-time high average since we started collecting backlog data on a quarterly basis in 2010, and follows a plummet down to just 5.0 months at the start of the COVID-19 pandemic.

Business conditions remained robust at firms in all regions of the country in June as well, with firms located in the Midwest reporting the strongest growth for the fourth consecutive month. Billings have also surged at firms located in the West recently as well. By firm specialization, firms with a commercial/industrial specialization saw another particularly strong increase in billings this month, while conditions remained very strong at firms with multifamily residential and institutional specializations as well.

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, 7/21/2021***

Consumer Confidence



The Conference Board Consumer Confidence Index® was relatively unchanged in July, following gains in each of the prior five months. The Index now stands at 129.1 (1985=100), up from 128.9 in June. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—rose from 159.6 to 160.3. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—was virtually unchanged at 108.4, compared to 108.5 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, 7/27/2021***

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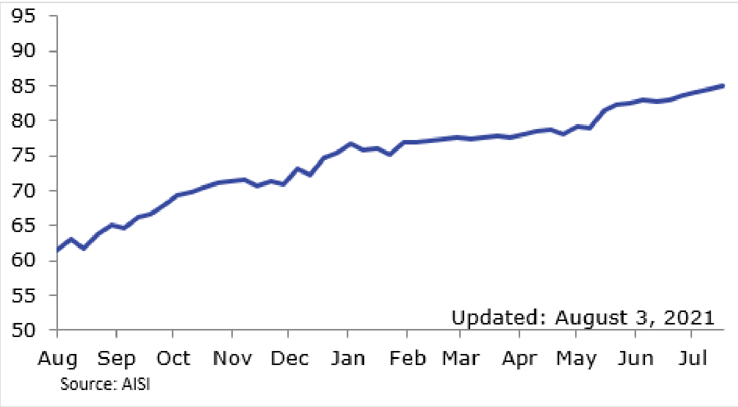
KEY ECONOMIC INDICATORS

Raw Steel Production



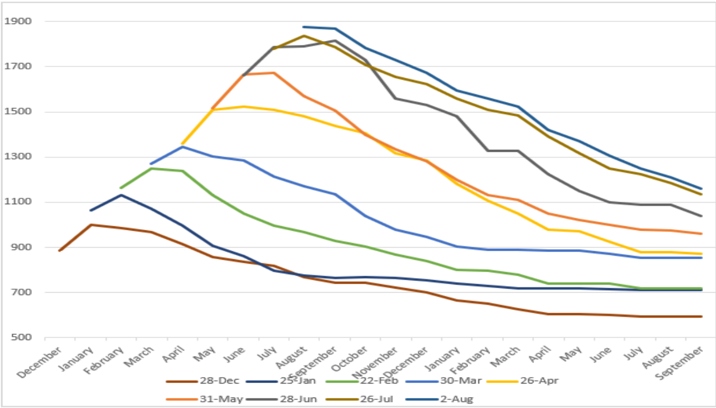
In the week ending on July 31, 2021, domestic raw steel production was 1,876,000 net tons while the capability utilization rate was 85.0 percent. Production was 1,350,000 net tons in the week ending July 31, 2020 while the capability utilization then was 60.3 percent. The current week production represents a 39.0 percent increase from the same period in the previous year. Production for the week ending July 31, 2021 is up 0.4 percent from the previous week ending July 24, 2021 when production was 1,868,000 net tons and the rate of capability utilization was 84.6 percent.

Adjusted year-to-date production through July 31, 2021 was 54,555,000 net tons, at a capability utilization rate of 80.0 percent. That is up 19.1 percent from the 45,814,000 net tons during the same period last year, when the capability utilization rate was 66.7 percent.

Broken down by districts, here's production for the week ending July 31, 2021 in thousands of net tons: North East: 156; Great Lakes: 632; Midwest: 199; Southern: 815 and Western: 74 for a total of 1876.

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, 8/3/2021***

HRC Futures



This month's question is: Did the skyrocketing hot rolled coil prices have enough thrust to reach escape velocity or not?

It appears as if the market is nearing its peak, but will it go into orbit, or begin a steady descent toward a more historical base?

Near term futures have been leveling off since they hit $1,800 in late June, as they have not been able to crack the $1,900 barrier over the past 6 weeks. Also, the gap between imports (duties paid, delivered to U S Port) has dropped almost $100 in the last month. The gap between Imports DDP and domestic is now about $280. The volume of imports has also increased as has domestic availability.

We are now 51 weeks into a continual price run-up that began in August of 2020. It appears to be losing its legs, but will it plateau, settle into a slow decline, or drop off a cliff like lumber pricing did. Futures would indicate it would go into a slow glide downward, perhaps to a new base around $1,000. But the mills believe that they have entered orbit and prices will stay above $1,500 into Q1 of 2022.

However, if the mills are unwilling to adjust capacity utilization downward, the section 232's get eliminated, and domestic demands drops off we could see things get ugly on the way down. ***Source: John Davis, Executive VP Supply Chain NIM Group, 8/9/2021***

INDUSTRY NEWS

Aluminum prices get U.S. Senate attention

The aluminum Midwest Premium price hit a record high of $0.32/lb at the end of July. The Midwest premium increase is driven by a rundown in Western warehouses and off-warrant inventory to locations convenient for onward shipment to China, which remains a net importer of unwrought aluminum since Q2 of 2020. Another driver was the 15% Russian export tax on aluminum, as Russia is the second-largest exporter of primary aluminum to the U.S.

The rapid aluminum price increase has caught the attention of the U.S. Senate and gained the support of trade associations. The Aluminum Pricing Examination (APEX) Act was reintroduced July 22. The bill would give the U.S. Commodity Futures Trading Commission the jurisdiction over the market, including the process, oversight, transparency and manner in which reference prices for aluminum premiums are set or reported.

Trade groups like the American Beverage Association, the Beer Institute, the Consumer Brands Association, the Flexible Packaging Association and the National Marine Manufacturers Association stated that the bill "will provide much-needed transparency to aluminum pricing. Aluminum is the largest commodity cost for brewers."

Global demand

The Aluminum Association reported that demand for aluminum in the U.S. and Canada increased by 18.3% during the first five months of 2021 compared to the previous year. While orders from aluminum mills increased by 26.2% year-on-year over the first half of the year. This demand and orders increase are signs of domestic growth.

Moreover, despite being a net importer, this June, China exported around 454,400 tons of unwrought aluminum and aluminum products, according to the General Administration of Customs of the People's Republic of China, increasing by 3.5% compared to May and a year-on-year increase of 10.7%. This is in line with aluminum demand growth. **Source: MetalMiner, 8/6/2021**

Oil prices fall by nearly 3% Monday

Oil prices fell by nearly 3% with WTI crude dropping to its lowest since May on Monday. This continues the prior week's losses amid renewed coronavirus restrictions in China and a stronger US dollar. China, which is the second-largest oil consumer, recently imposed travel and transportation restrictions in an effort to combat rising infection rates due to the Delta variant, raising concerns about a decline in global oil demand.

Meanwhile, Saudi Aramco reported a 288% jump in Q2 profits. Compared to $6.6 billion for the same period of 2020, this totals a $25.5 billion net income. Such a rebound reflects a continuing global recovery as vaccine access rises and restrictions have been largely eased. **Source: MetalMiner, 8/9/2021**

China aims to further reduce steel output

The world's largest steel producer and exporter, China, is actively contemplating adding more curbs to halt environment pollution which, most likely, will reduce its steel output and dampen exports.

That's good news for some of China's neighbors steel-producing rivals, India and Japan.

Steel cuts

The China Iron and Steel Association (CISA) warned on its Wechat channel last Sunday of impending cuts in crude steel output along with government-led environmental checks.

Daily crude-steel output at major mills fell 5.6% in the first 10 days of July from June, Bloomberg reported. These were at steel plants in Shanxi, Hubei and Hebei provinces, and mills including China Baowu Steel Group and HBIS Group.

This was enough to send Chinese ferrous futures tumbling, Reuters reported. On Monday, for example, steel rebar and hot rolled coil both plunged some 6%. The most-traded construction rebar contract on the Shanghai Futures Exchange for October delivery fell by as much as 6.4% to 5,367 yuan ($829.89) per ton.

CISA has also warned that Chinese steel exports may drop after the country imposed higher tariffs on overseas shipment.

Domestic availability

Some reports coming out of China indicate the country is ensuring adequate availability of steel for domestic users by discouraging exports. It is also considering imposing more tariffs on steel exports of 10-25% on steel products, including hot rolled coil.

Since May, China has already revoked the rebates on export taxes and raised tariffs on some steel products to keep more steel within China.

All this was happening even as a fresh report by the World Steel Association said China remained a global leader in steel production in June. China registering 1.5% year-over-year growth in output at 93.9 MT compared to 91.6 MT in the same month last year. However, China's output fell by 5.6% from May 2021 to June 2021.

China's immediate neighbor, India, registered a 21.4% year-over-year rise in its crude steel production to 9.4 million tons in June. India's crude steel output reached 6.9 million tons in the same month a year ago.

Steel experts in India say the country is poised to see a major uptick in the domestic consumption of steel after demand picks up as the COVID-19 pandemic comes under control, and the economy opens up. With demand slightly picking up and domestic steel prices continuing to stay at huge discounts to global rates, primary steel producers may be prompted to raise product prices for August, according to a report in the Business Standard. **Source: MetalMiner, 8/3/2021**