SupplyDynamics

Economic News

Key Economic Indicators

Industry Articles

Trade News

June 2019

Economy Added Just 75,000 Jobs in May, Strengthening Case for Fed Interest Rate Cut—Hiring was weak in May as employers added 75,000 jobs, bolstering the Federal Reserve's case for cutting interest rates as soon as this month, a possibility that has juiced markets in recent days.

The unemployment rate was unchanged at a 50-year low of 3.6%, the Labor Department said Friday.

Economists surveyed by Bloomberg expected 178,000 job gains.

The May employment report was highly anticipated because of recent speculation that the Fed could cut its benchmark rate for the first time in a decade as soon as this month, especially if the economy softens. The jobs report typically provides the best real-time gauge of the labor market and economy. Full Story
Source: USAToday, 06.07.19

U.S. Consumer Sentiment Jumps to 15-Year High—U.S. consumer sentiment jumped to the strongest level since 2004 on a surge in economic expectations amid unexpectedly strong growth, highlighting what's at risk amid a growing trade war with China. The University of Michigan's preliminary sentiment index rose to 102.4 in May, topping all estimates in a Bloomberg survey of economists who had projected the gauge would hold at 97.2. All of the gain was in the expectations index, which also climbed to a 15-year high, and the gauge of current conditions ticked up, the report on May 17 showed.

- The more upbeat sentiment comes amid first-quarter economic growth that topped expectations at 3.2% and the lowest unemployment rate in 49 years. Still, a recent flare-up in trade tensions between China and the U.S. may weigh on future readings as price pressures hit consumers and weigh on the economic outlook.
- Negative references to tariffs rose in the past week and are likely to rise further this month and into June, survey findings show. They peaked in July last year, with about one-third of respondents spontaneously mentioning the tariffs. Underscoring the potential impact of levies: those who had negative views of the levies saw inflation 0.6 percentage point higher and lower economic growth expectations.
- Consumers anticipate faster price gains, which may be welcomed by Federal Reserve policymakers who have been concerned that inflation is persistently below their target. Expectations for the year ahead rose to 2.8%, while the inflation rate seen over the next five to 10 years increased to 2.6%.
- A report this week showed the Bloomberg Consumer Comfort Index edged up, while the Conference Board confidence measure is forecast to ease slightly this month.

"Consumers viewed prospects for the overall economy much more favorably," Richard Curtin, director of the University of Michigan consumer survey, said in a statement. "Nonetheless, the data indicates the corrosive impact of an escalating trade war."

He added that "apart from the direct impact of tariffs on prices, rising tariffs could cause a more general loss of confidence which could further diminish the pace of consumer spending." ***Source: IndustryWeek, 05.20.19***

An Under-the-Radar Way to Measure Economic Growth in China is Painting a Bleak Picture

China's true pace of economic growth is always hard to decipher, but the country's lagging diesel demand could be a sign that the world's second-largest economy is in a much more dire state than official numbers indicate. Diesel demand in China fell 14% and 19% in March and April, respectively, reaching levels not seen in a decade, according to data compiled by Wells Fargo. Monthly demand has also been falling every month since December 2017, the data shows.

"We believe the accelerating decline is most likely tied to economic factors and the effects of the tariff 'war' with the U.S. (lifted demand earlier in 2019 to 'beat' the tariffs, but now falling)," Wells Fargo energy analyst Roger Read said in a note May 27. "If one wants to worry, that is where to focus most closely in our view."

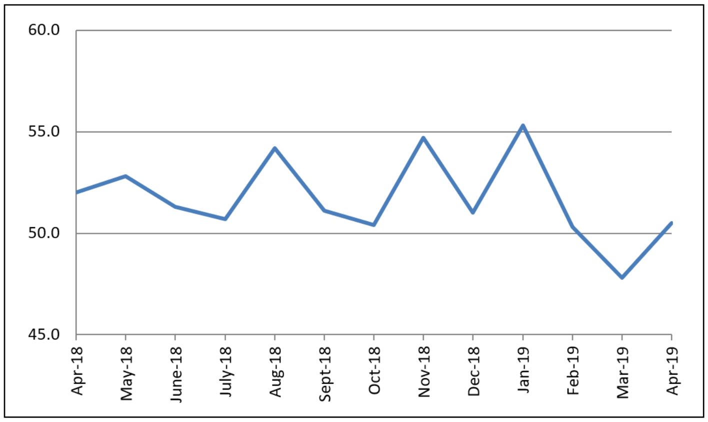
China said in April its economy grew by 6.4% in the first quarter of 2019. However, global investors and economists have been skeptical of China's official economic figures for years as they believe they are overstated. This skepticism has led analysts to use other ways to measure economic growth in China, including demand for diesel fuel and electricity. Diesel is largely used to fuel trucks that transport goods. Declining diesel demand is seen as signal of slowing economic growth as it could indicate fewer trucks are being used, hence fewer goods are being bought and sold. China's massive drop in diesel demand comes as it wages a trade war against the U.S.

Both countries have slapped tariffs on billions of dollars worth of their goods. Earlier this month, both countries hiked tariffs across their goods, leading to a ripple effect throughout financial markets.

Crude prices, for example, posted their worst weekly performance of 2019 last week and are down more than 7% this month. The S&P 500 is down more than 4% in May while the Shanghai Composite has lost 5.5%. Full Story
Source: CNBC, 05.28.19

Key Economic Indicators

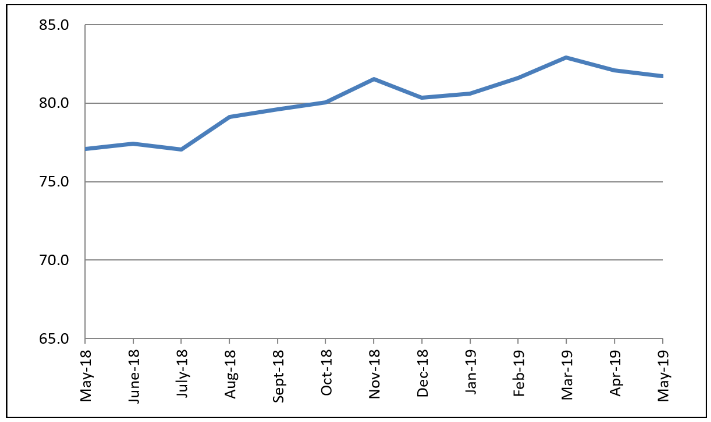
Architecture Billings Index (ABI)



ABI score for April showed a small increase in design services at 50.5 in April, which is up from 47.8 in March. Any score above 50 indicates an increase in billings. Additionally, business conditions remained strong at firms located in the South. Despite this and the positive overall billings score, most regional and sector indictors continue to display decreasing demand for design services. “In contrast to 2018, conditions throughout the construction sector recently have become more unsettled,” said AIA Chief Economist Kermit Baker, PhD, Hon. AIA. “Though we may not be at a critical inflection point, the next several months of billing data will be indicative of the health of the industry going into 2020.”

The **Architecture Billings Index (ABI)** is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month.
Source: American Institute for Architects, 05.22.19

Steel Capability Utilization

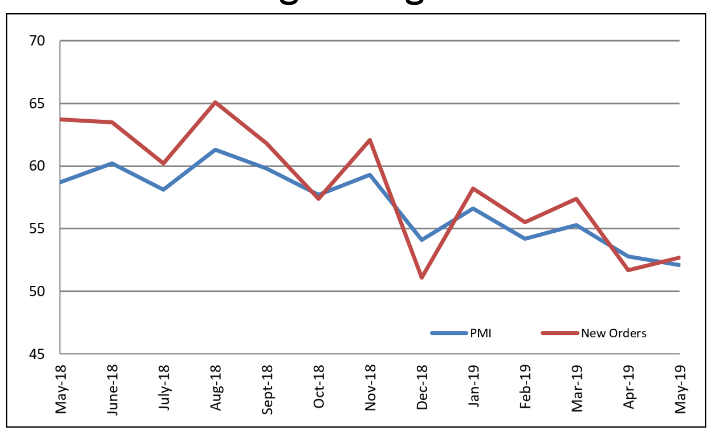


In the week ending on June 1, 2019, domestic raw steel production was 1,890,000 net tons while the capability utilization rate was 81.2%. Production was 1,809,000 net tons in the week ending June 1, 2018 while the capability utilization then was 77.2%. The current week production represents a 4.5% increase from the same period in the previous year. Production for the week ending June 1, 2019 is down 0.1% from the previous week ending May 25, 2019 when production was 1,892,000 net tons and the rate of capability utilization was 81.3%.

Adjusted year-to-date production through June 1, 2019 was 41,235,000 net tons, at a capability utilization rate of 81.6%. That is up 6.2% from the 38,842,000 net tons during the same period last year, when the capability utilization rate was 76.6%.

Steel Capability Utilization 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, 06.01.19

Purchasing Managers Index®



The May PMI® registered 52.1%, a decrease of 0.7 percentage point from the April reading of 52.8%. The New Orders Index registered 52.7%, an increase of 1 percentage point from the April reading of 51.7%. The Production Index registered 51.3%, a 1 percentage point decrease compared to the April reading of 52.3%. The Employment Index registered 53.7%, an increase of 1.3 percentage points from the April reading of 52.4%. The Supplier Deliveries Index registered 52%, a 2.6 percentage point decrease from the April reading of 54.6%. The Inventories Index registered 50.9%, a decrease of 2 percentage points from the April reading of 52.9%. The Prices Index registered 53.2%, a 3.2 percentage point increase from the April reading of 50%.

Of the 18 manufacturing industries, 12 reported growth in new orders in May, in the following order: Furniture & Related Products; Printing & Related Support Activities; Plastics & Rubber Products; Computer & Electronic Products; Textile Mills; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Nonmetallic Mineral Products; Machinery; Chemical Products; Transportation Equipment; and Fabricated Metal Products. The four industries reporting a decline in new orders in May are: Apparel, Leather & Allied Products; Petroleum & Coal Products; Primary Metals; and Paper Products.
Source: Institute for Supply Management, 06.03.19

Industry News

U.S. Construction Spending was Flat in April as Housing Fell

Spending on U.S. construction projects was unchanged in April as another decline in home construction was offset by a big gain in government spending on projects like highways and hospitals. The Commerce Department said that the flat reading followed a small increase of 0.1% in March, which was revised higher from an initial estimate that showed a sharp decline. Construction spending rose 1% in February.

The data suggests that Americans cut back on home renovations in April. And spending on new home construction was flat. Higher mortgage rates have weighed on home sales this year, though in recent weeks rates have dropped below 4%, potentially reviving sales. Commercial construction fell sharply in April, driven by a steep decline in construction of factories.

Construction spending in the private sector plunged 1.7%, the steepest in six years. Residential construction spending has fallen for four straight months.

Those declines were offset by a 4.8% surge in government construction spending to a record high of $299.4 billion, led by big gains in state and local government spending, which also rose to a record high.

Spending on highways and streets jumped 6.8%, while school construction rose 2.1%. Federal spending rose to $24.5 billion, the highest since July 2013. ***Source: APNews, 06.03.19***

U.S. Business-Equipment Orders Decline by More Than Expected

Adobe Images

Orders with U.S. factories for business equipment declined in April by more than expected in the first drop this year, signaling deepening fallout from the trade war with China even before the latest increase in tariffs. A proxy for business investment—non-military capital goods orders excluding aircraft—dropped 0.9% from the prior month after a downwardly revised 0.3% gain, according to Commerce Department figures May 24. The broader measure of bookings for all durable goods, or items meant to last at least three years, fell 2.1%, slightly below economist estimates, and March was revised lower.
The decline in companies' demand for equipment indicates continued hesitation amid the trade war with China that's delayed or curbed investment. U.S. firms may also still be putting orders on hold as they work through an overhang of inventory, while President Donald Trump's ratcheting-up of trade tensions is likely to weigh further on business demand. The data precedes Trump's decision this month to increase tariffs to 25% on some imports from China and his threats of additional levies. The impact may start to be reflected in May figures due next month. The report showed the biggest drop in orders for motor vehicles and parts in almost a year, while demand for primary metals and computers and electronic products also declined.

Orders increased for fabricated metal products and machinery as well as electrical equipment, appliances and components. The headline durable-goods figures were dragged down by the volatile transportation category.

Bookings for civilian aircraft and parts dropped 25.1%, after separate data showed Boeing Co.'s aircraft orders dwindled in April following the grounding of its 737 Max plane. Yields on 10-year Treasuries remained lower following the report, while U.S. stock futures pared gains slightly. Some figures used to calculate gross domestic product indicated softness: Shipments of non-military capital goods excluding aircraft were unchanged from the prior month—slightly above the Bloomberg survey median for a 0.1% dip—following a downwardly revised 0.6% drop.

Even with April's drop in demand, there was an upswing of momentum based on the three-month annualized gain for business-equipment orders, which picked up to 2.7% from 1.1%. For shipments, the pace slowed to 2.5% from 4%. Excluding transportation, durable goods orders were unchanged from the prior month. Defense capital-goods orders rose 4.8%, while durable orders excluding defense fell 2.5%, the most since January 2018. ***Source: Bloomberg, 05.24.19***

Industry News

Congress Hoping to Bolster U.S. Advanced Manufacturing

On May 10, U.S. Senators Kirsten Gillibrand (D-NY) and Chris Coons (D-DE) announced a new bipartisan bill whose intent is to increase America's global competitiveness in advanced manufacturing. *The Global Leadership in Advanced Manufacturing Act* would expand the national network of Manufacturing USA institutes. The Manufacturing USA program is a national network of 14 public-private partnership institutes with 1,300-member companies and institutions working to keep the U.S. on the cutting edge of advanced manufacturing. The institutes collaborate with member companies, academic institutions, trade associations, and government partners to develop new best practices in manufacturing, help transition innovative technologies from lab to market, and expand the production of goods made in America.

"America has always been a global leader in manufacturing, and we need to do everything we can to make sure our country remains competitive to continue that leadership in the 21st century," said Senator Gillibrand in a statement. "This legislation would improve job training programs and support entrepreneurs, creating more opportunities for our workers to succeed in manufacturing.

One reason that Gillibrand is a co-sponsor of the bill is that three Manufacturing USA institutes are based in New York. The three institutes are the Reducing Embodied-Energy and Decreasing Emissions (REMADE) Institute, which is headquartered in Rochester and led by the Rochester Institute of Technology (RIT); the American Institute for Manufacturing Integrated Photonics (AIM Photonics), which is located in Rochester and Albany and led by the SUNY Polytechnic Institute along with the University of Rochester and RIT; and the Rapid Advancement in Process Intensification Deployment (RAPID) Manufacturing Institute, which is headquartered in New York City and led by the American Institute of Chemical Engineers (AIChE).

The Global Leadership in Advanced Manufacturing Act is supported by Alliance for American Manufacturing (AAM), American Institute of Chemical Engineers (AIChE), American Small Manufacturers Coalition (ASMC), American Society of Mechanical Engineers (ASME), Association for Advancing Automation, Association For Manufacturing Technology (AMT), Association of American Universities (AAU), Association of Public and Land-grant Universities (APLU), Binghamton University, Bipartisan Policy Center, Boston Scientific Corporation, Delaware Manufacturing Association, Delaware Manufacturing Extension Partnership (DEMEP), Delaware State Chamber of Commerce, Information Technology & Innovation Foundation (ITIF), Institute of Electrical and Electronics Engineers (IEEE), Intelligent Manufacturing Systems International (IMS-I), International Society of Automation (ISA), Mac Arthur Corporation, Manufacturing Alliance of Communities (MAC), National Center for Defense Manufacturing and Machining (NCDMM), National Council for Advanced Manufacturing(NACFAM), National Tooling & Machining Association, Rochester Institute of Technology, Rockwell Automation, SEMI, State Science and Technology Institute (SSTI), SUNY Polytechnic Institute, The University of California Los Angeles (UCLA), and University of Delaware. ***Source: IndustryWeek, 05.14.19***

Adobe Images

Special Section: Trade News

Trump drops his Mexico tariff threat after reaching immigration enforcement deal

President Donald Trump said tariffs on Mexican goods are "indefinitely suspended" after negotiators from the US and Mexico were able to reach a deal on immigration enforcement.

"I am pleased to inform you that The United States of America has reached a signed agreement with Mexico," Trump tweeted Friday. "The Tariffs scheduled to be implemented by the U.S. on Monday, against Mexico, are hereby indefinitely suspended."

The announcement was a dramatic reversal of a sudden tariff threat that Trump himself announced last week in an attempt to put more pressure on the Mexican government to stem the flow of migrants into the US. Trump spent much of the intervening period out of the country, visiting with European leaders and attending a state dinner in the United Kingdom, while US and Mexican negotiators worked feverishly in Washington to avoid another escalation in his foreign trade wars.

Trump has leaned on tariffs as a favorite bargaining mechanism, including in his ongoing dispute with China, with mixed results, and his Mexico threats drew open opposition from top Republican senators as well as blowback from the business community.

Trump had threatened to impose tariffs on all Mexican goods entering the U.S. if Mexico did not limit the number of Central American migrants moving through the country to the US. He said late Friday, after he returned to the White House from his visit to Europe for D-Day commemorations, that the Mexican officials had agreed to his demands. Full Story ***Source: CNN, 06.08.19***

Adobe Images

A U.S.-China Trade Deal Isn't Likely at the G-20 Summit this Month, JP Morgan and Morgan Stanley say

As the U.S.-China tariff battle increasingly heats up, analysts from J.P. Morgan and Morgan Stanley say it's looking likely that there will not be any trade deal coming out of the G-20 summit in Japan this month. The summit has been cast as a possible opportunity for the opposing sides to ink a deal, with market watchers expecting that both Presidents Donald Trump and Xi Jinping would be in attendance. But Chinese Vice Commerce Minister Wang Shouwen would not confirm at a press conference Sunday whether Trump and Xi would actually meet at the meeting at the end of June. He said only that China will send representatives to those coming events in Japan.

But on June 3, experts from both J.P. Morgan and Morgan Stanley told CNBC that the rhetoric from both sides in recent weeks has worsened to a point where it's appearing improbable that there would be a deal — at least in the short term. "My personal expectation is no deal. If you look at the position on both sides, you see a significant reduction in degrees of freedom — the commentary out of the Chinese side for specific, effectively pre-negotiating points that must be met," said James Sullivan, head of equity research for Asia excluding Japan at J.P. Morgan. He continued: "If you look at the U.S. side — very, very hawkish tone — not just from the president but throughout the entire administration ... I think that makes it very difficult to see a deal on a short-term basis." Jonathan Garner, Morgan Stanley's emerging markets strategist, echoed that sentiment. "It's looking more likely no deal than deal at this point," he said.

Last month, Trump announced that tariffs on $200 billion worth of Chinese goods would go up from 10% to 25%. The U.S. has also begun looking into whether $300 billion of other Chinese goods will be subject to tariffs. Finally, the U.S. put Chinese tech giant Huawei on a list that essentially prevents it from conducting business with American companies.

In turn, China responded with its own levies and Chinese Vice Foreign Minister Zhang Hanhui said last week that provoking trade disputes amounted to "naked economic terrorism. " Chinese media also warned the U.S. that Beijing could cut off industrially significant rare earth minerals as a retaliatory measure in the escalating trade battle.

The cost of the trade war could be felt by both countries soon if trade tensions take a turn for the worse, Garner added, projecting that Beijing and Washington would have to tweak their monetary policies in response. Full Story ***Source: CNBC, 06.03.19***