Supply Dynamics

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January 2019

U.S. Adds Whopping 312,000 jobs in December—The Bureau of Labor Statistics reported that non-farm payrolls grew by 312,000 in December, surging past expectations of 184,000. The BLS also upwardly revised its figure for non-farm payroll additions in November to 176,000, from 155,000 previously reported.

The unemployment rate rose to 3.9% in December. The unemployment rate was 3.7% in November, the lowest overall unemployment level since 1969. The uptick was due to the labor force participation rate increasing to 63.1% in December from 62.9% in November.

Average hourly earnings—a closely watched metric of inflation pressures in the economy—increased 0.4% over last month and 3.2% over the previous year. This exceeded expectations of wage growth of 0.3% over last month and 3% over last year. Wages rose 3.1% over the prior year in both November and October.

The results of Friday's job report do not capture any impact from the ongoing partial government shutdown, which began after the Labor Department conducted the survey. An extended shutdown, however, could go on to affect January's figures.

The report comes as other key indicators of economic strength in the U.S. have begun to deteriorate. The past month's manufacturing surveys from the New York, Philadelphia, Richmond and Dallas Federal Reserve banks each disappointed, and The Conference Board's latest reading on consumer confidence sagged to a six-month low. Growth in the housing has been crimped by heightened mortgage rates, with the average rate on a 30-year fixed rate mortgage climbing to the highest level since February 2011 at the beginning of November before retreating slightly over the past several weeks.

Both the Institute of Supply Management and IHS Markit reported a slower pace of expansion in U.S. manufacturing sector activity. ISM's manufacturing index experienced the worst monthly drop since October 2008. However, job gains occurred in the manufacturing sector in December, with 32,000 new positions added for the month, according to the Bureau of Labor Statistics. Full Story
Source: YahooFinance, 01.04.19

U.S. Holiday Shopping Season Best in Six Years**—**Sales during the U.S. holiday shopping season rose 5.1% to over $850 billion in 2018, the strongest in the past six years, according to a Mastercard report, as shoppers were encouraged by a robust economy and early discounts.

The data includes in-store and online sales between Nov. 1—Dec. 24. The National Retail Federation had forecast U.S. holiday retail sales to rise between 4.3% and 4.8% in November and December.

"From shopping aisles to online carts, consumer confidence translated into holiday cheer for retail," said Steve Sadove, senior adviser for Mastercard.

Near full employment and rising wages have boosted consumer spending, which in October hit its highest in nearly two decades.

The data also indicated that consumer confidence was not dented by recent volatility in the U.S. stock markets and worries over slowing global growth.
Full Story ***Source: Reuters, 12.26.18***

Powell Says Fed 'Will be Patient' With Monetary Policy as it Watches How Economy Performs

Federal Reserve Chairman Jerome Powell pledged that the central bank will be watching how the economy performs this year and will adjust policy should growth slow unexpectedly. Powell along with his immediate predecessors, Janet Yellen and Ben Bernanke, spoke Friday at the American Economic Association's annual meeting in Atlanta.

Financial markets have been in turmoil over the past several months, in part over concern whether the Fed was on an aggressive rate-hiking path. Powell himself has helped to fuel some of that speculation, and on Friday offered remarks to show that Fed policy will take into account economic conditions and be adjusted accordingly.

"As always, there is no preset path for policy," Powell said. "And particularly with muted inflation readings that we've seen coming in, we will be waiting as we watch to see how the economy evolves."

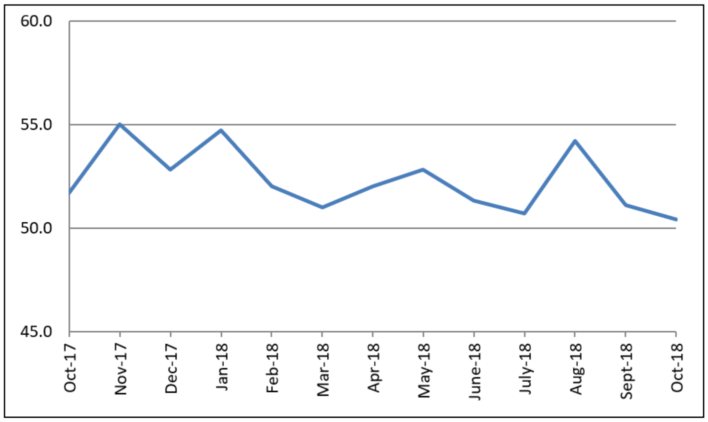
The policymaking Federal Open Market Committee raised its benchmark interest rate four time in 2018 and has indicated that two more increases this year are likely. However, markets believe differently, and in fact are pricing in about a 28% chance of a rate cut by the end of 2019.

Powell said the Fed has a history of adjusting policy according to condition, citing 2016 as a recent example. In that year, the FOMC had indicated four rate hikes were likely but ended up only approving one as financial conditions tightened particularly amid geopolitical concerns.

"No one knows whether this year will be like 2016. But what I do know is that we will be prepared to adjust policy quickly and flexibly and to use all of our tools to support the economy should that be appropriate to keep the expansion on track, to keep the labor market strong and to keep inflation near 2%."
Source: CNBC, 01.04.19

Key Economic Indicators

Architecture Billings Index (ABI)

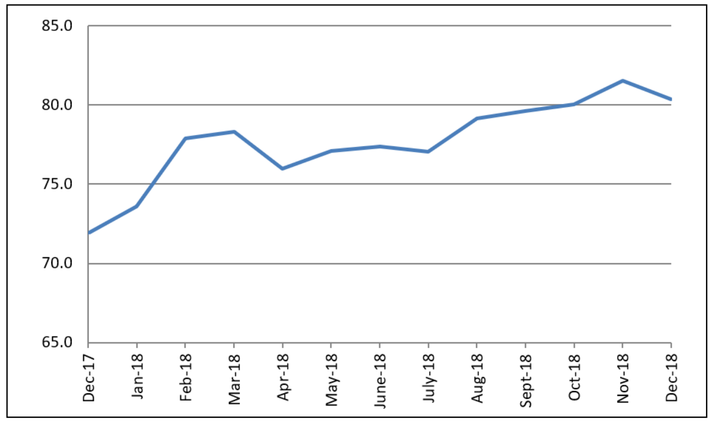


AIA's Architecture Billings Index (ABI) score for October was 50.4 compared to 51.1 in September. With continued strength in new project inquiries, billings are expected to remain steady into the coming months. Southern region reports decline in billings for the first time since June 2012.

"The effects of the 2018 hurricane season are the probable cause of the temporary contraction in billings in the Southern region," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "This decrease in demand for design services is limited, and the region should rebound over the next several months."

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, 11.14.18

Steel Capability Utilization

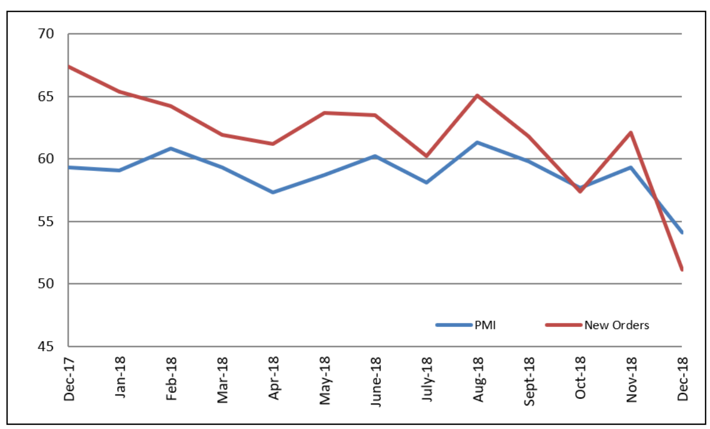


Domestic raw steel production was 1,899,000 net tons while the capability utilization rate was 81.0%. Production was 1,676,000 net tons in the week ending December 29, 2017 while the capability utilization then was 71.9%. The current week production represents a 13.3% increase from the same period in the previous year. Production for the week ending December 29, 2018 is up 1.6% from the previous week ending December 22, 2018 when production was 1,870,000 net tons and the rate of capability utilization was 79.8%.

Adjusted year-to-date production through December 29, 2018 was 95,063,000 net tons, at a capability utilization rate of 78.3%. That is up 6.2% from the 89,483,000 net tons during the same period last year, when the capability utilization rate was 74.0%.

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, 01.04.19*

Purchasing Managers Index®



The December PMI® registered 54.1%, a decrease of 5.2 percentage points from the November reading of 59.3%. The New Orders Index registered 51.1%, a decrease of 11 percentage points from the November reading of 62.1%. The Production Index registered 54.3%, 6.3 percentage point decrease compared to the November reading of 60.6%. The Employment Index registered 56.2%, a decrease of 2.2 percentage points from the November reading of 58.4%. The Supplier Deliveries Index registered 57.5%, a 5 percentage point decrease from the November reading of 62.5%. The Inventories Index registered 51.2%, a decrease of 1.7 percentage points from the November reading of 52.9%. The Prices Index registered 54.9%, a 5.8 percentage point decrease from the November reading of 60.7%, indicating higher raw materials prices for the 34th consecutive month.

Of the 18 manufacturing industries, eleven reported growth in December, in the following order: Textile Mills; Apparel, Leather & Allied Products; Machinery; Transportation Equipment; Computer & Electronic Products; Wood Products; Chemical Products; Food, Beverage & Tobacco Products; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; and Primary Metals. The six industries reporting contraction in December—in the following order—are: Printing & Related Support Activities; Fabricated Metal Products; Nonmetallic Mineral Products; Petroleum & Coal Products; Paper Products; and Plastics & Rubber Products. *Source: Institute for Supply Management, 01.04.19*

Industry News

2018 Was Record Year for Manufacturers’ Optimism

“Empowered by tax reform and regulatory certainty, manufacturers are keeping our promise to expand our operations, hire new workers and raise wages and benefits,” said NAM CEO Jay Timmons. In the 20 years that The National Association of Manufacturers (NAM) has been measuring the sentiments of the manufacturing sector, 2018 stood out. On average this year, 92.4% of manufacturers surveyed reported a positive outlook for their companies, according to the group’s. Manufacturers' Outlook Survey for the fourth quarter of 2018, released on Dec. 20.

Putting a damper on the positive outlook, however, was the inability to attract and retain a quality workforce remained manufacturers’ top concern (68.2%) in the fourth quarter, followed by increased raw material costs and trade uncertainties.

The workforce shortage has forced more than one in four manufacturers surveyed to turn down new business opportunities. According to the latest government data, there are now 522,000 open manufacturing jobs in the U.S. (an all-time high). A new report from The Manufacturing Institute and Deloitte projects that 2.4 million manufacturing jobs will go unfilled over the next decade.

Highlights from the fourth quarter survey include the following:

- Optimism among small manufacturers remained high at 87.9%.
- Manufacturers predict strong growth rates in employee wages (2.3%), capital investments (2.6%) and sales (4.3%) over the next 12 months.
- Attracting and retaining a quality workforce remained manufacturers’ top concern (68.2%).
- The inability to attract a quality workforce has forced more than one in four manufacturers to turn down new business opportunities. Increased raw material costs and trade uncertainties marked the second- and third-largest challenges for manufacturers, at 65.1% and 60.4%, respectively.
- “Empowered by tax reform and regulatory certainty, manufacturers are keeping our promise to expand our operations, hire new workers and raise wages and benefits,” said NAM CEO Jay Timmons.

But as this survey also shows, we face challenges, most seriously the workforce crisis. We have more than half a million jobs to fill right now—and by 2028, as many as 2.4 million could go unfilled if we don’t equip more Americans to take on these high-tech, high-paying careers.” *Source: IndustryWeek, 12.20.18*

Steel Imports Fall 15.4% in November

Steel import permit applications fell 15.4% in November, according to the U.S. Commerce Department’s latest Steel Import Monitoring and Analysis data. The U.S. received steel import permit applications of 2.54 million tons in November, which was down 15.4% from the 3 million permit tons in October and down 22.1% down from the October preliminary imports total of 3.2 million tons, according to the American Iron and Steel Institute.

That included 1.9 million tons of finished steel products that would require no further processing at service centers in the U.S., a 3.6% decline compared to October, according to the Washington, D.C.-based AISI. So far this year, steel import permits total 31.9 million tons, a 10.4% decline as compared to the first 11 months of 2017. That included 24 million tons of finished steel products, a 13.3% decline as compared to the same 11-month period in 2017.

Steel coils are shown stored at the Thyssenkrupp steel factory in Duisburg, Germany. *Martin Meissner, Associated Press*

Imports have grabbed 23% of the U.S. market share so far this year, including 20% in November, according to the American Iron and Steel Institute. In November, imports of electrolytic galvanized sheets and strip skyrocketed by 224%, wire rods by 86%, heavy structural shapes by 62%, tin free steel by 34%, mechanical tubing by 14%, and sheets and strip all other metallic coatings by 14%.

So far this year, imports of hot-rolled sheets have shot up by 21% as compared to the first 11 months in 2017, while imports of plates in coils are up 15% year-over-year, according to the American Iron and Steel Institute. In November, the largest offshore suppliers were South Korea, Japan, Germany, Vietnam, and Taiwan. So far this year, imports have fallen 25% from South Korea, 8% from Japan and 6% from Germany. *Source: NWI.com, 12.14.18*

Industry News

Aerospace Outlook—Market is Cruising at High Altitude

The aerospace market seems to be in a never-ending cycle of stocking and destocking, creating a bumpy ride for the intricate supply chain below. In 2018, the destocking that began in 2017 began to moderate, creating an improved environment for those companies serving it . "We expect strong demand in 2019 as destocking further moderates and airframe manufacturers continue to ramp up build-rates to address both increased demand and the nine-year order backlog," said Jack Hockema, chairman, president and CEO of Calif.-based Kaiser Aluminum at his company's third-quarter conference call. "There will be some destocking impact next year, but it will be less than this year and certainly less than last year." The inventory builds and run-offs by the two major air builders, Boeing and Airbus, will stagger year-to-year growth rates in the industry, but it doesn't do much to the overall trajectory. Aerospace is in the middle of a historic growth cycle, with no dark clouds on the horizon.

Even in 2017, when destocking began in earnest, it merely meant that growth levels were in the low single-digit range. This year, industry growth was forecast to reach 4.1% by Deloitte in its annual Global Aerospace and Defense Industry Outlook. "Recovery in global gross domestic product, stable commodity prices – including crude oil – and growth in global passenger demand, especially Asia-Pacific, the Middle East and the Latin America region, is likely to drive the commercial aircraft sector growth in 2018," Deloitte wrote in its outlook.

Jerry Bashir saw that prediction unfold. "We have been seeing a steady increase in demand over the last nine to 10 months and do not see any slowdown," says Bashir, the president and CEO of Falcon Aerospace, Weston, Fla., a distributor which specializes in the aero and defense markets.

As always, there's the backlog. Entering 2018, the backlog stood at nine and a half years, with 14,000 units on order. That number represented an all-time high for the industry. A solid year of growth in the aerospace sector has only knocked down that number marginally. Bob Mraz, vice president of sales and marketing for TW Metals, Exton, Pa., says all of the trends are heading in the right direction. "All elements of aerospace appear to be pointed up. And when you look at passenger miles and the revenue per passenger miles and new entrants, there's no end in sight." According to Deloitte, global passenger miles are expected to grow at an annual rate of 4.7% over the course of the next 20 years. One trend in the market is the shift away from wide-body aircraft, which are in a bit of an oversupply condition, Deloitte noted. Hockema agreed. "Boeing and Airbus continue to talk about doing everything they can to ramp up their single-aisle build rates."

Boeing was expected to boost production of its 737 from 47 units per month to 52 in 2018, followed by another five-unit-per month gain in 2019. Airbus is doing the same with its A320 neo model. "The days of large aircrafts such as B747 and A380 are numbered. The cost of operating these large airliners versus the efficiencies of today's contemporary aircrafts like the B777, B787 and A350 outweigh the benefits of flying 774s and 380s," says Bashir. "The public's demand for low travel cost is changing the dynamics. However, to meet the global demand for products to be delivered on short notice by the likes of Amazon and others there is going to be a shift in the role of 747s and A380s to the cargo sector."

While the outlook is quite clear, the ways of getting there are a little more challenging for the supply chain. "There are two areas of concern, but the market isn't one of them," says Richard Aboulafia, vice president of Teal Group, who specializes in the analysis of the aerospace and defense market. "There are a lot of cost pressures coming from the primes. When your materials and energy costs are going up and your prices are coming down, that's pressure. It seems a little dysfunctional."

That's just a fact of life for companies in the supply chain. "Designs and forecasts quickly change and are out of our control," says Jeff Adams, marketing manager for O'Neal Industries' United Performance Metals, Hamilton, Ohio. "What we can control is how quickly and efficiently we respond, and UPM has the processes in place to handle market change." "Service providers are playing a more crucial role in driving efficiency in the supply chain and optimizing the use and management of raw materials," Mancini says. "This includes the supply of Near Net Parts delivered at the point of use in the manufacturing facility as well as managing and recycling the scrap generated by those materials."

The supply chain is responding to the pressures placed on it in many ways, most notably through the use of additive manufacturing. "Adaptive manufacturing is growing at a rapid rate, creating a new platform of opportunities to reduce the cost and time and that will impact the traditional manufacturing methods. The cost-benefit of adaptive manufacturing will change the future role of mills and distributors as to how they supply products to the OEMs and the subs," Bashir says. Mancini sees it similarly. "Improving buy-to-fly ratios (the percentage of raw material that is used in making a part) for aluminum and titanium components is a high priority," says Mancini. "Additive manufacturing and composite structure solutions, as well as the use of extrusion and forging in place of machined-plate parts, are design trends that are gaining traction at the major OEMs."

Trade talk dominated that gathering of steel executives, but it's been a much smaller part of the conversation for nonferrous suppliers. The aluminum industry has generally demonstrated less enthusiasm for the 10% fees assigned to foreign product through Section 232 than their carbon counterparts have for the 25% tariff on imported steel. Full Story

Source: MetalCenterNews, 12.14.18

Special Section: Trade News

U.S. Team to Visit China for Trade Talks in Early January, Sources Say

A U.S. government delegation will travel to Beijing in the week of Jan. 7 to hold trade talks with Chinese officials, two people familiar with the matter said. Deputy U.S. Trade Representative Jeffrey Gerrish will lead the Trump administration's team, which will also include Treasury Under Secretary for International Affairs David Malpass, according to the people, who spoke on the condition of anonymity. Neither the USTR nor Treasury responded to requests for comment.

Chinese Ministry of Commerce spokesman Gao Feng confirmed that the two sides planned to sit down for talks next month, although he didn't provide a date for the meeting during his regular briefing in Beijing on Dec. 27.

The meeting will be the first face-to-face discussion the two sides have held since President Donald Trump and China's Xi Jinping agreed on a 90-day truce in Argentina this month. Treasury Secretary Steven Mnuchin said last week the U.S. team and its counterparts have held discussions over the phone.

The meeting adds to signs that the world's two largest economies are making progress in cooling trade tensions. Beijing has announced a third round of tariff cuts, lowering import taxes on more than 700 goods from Jan. 1 as part of its efforts to open up the economy and lower costs for domestic consumers.

China Heads Into Trade Talks Bracing for More U.S. Demands

Chinese and U.S. officials have been in constant contact since the meeting in Argentina, but China isn't exactly clear on the specifics of what the U.S. wants, according to two people in Beijing with knowledge of the talks. China wants the U.S. to remove the punitive tariffs that have been imposed and not add new ones, but suspects the U.S. will ask for more before it agrees to do that, the people said.

U.S. stocks extended gains on news of the talks. The S&P 500 Index rose 4.96% as of 4 p.m. in New York, after falling within two points of a bear market earlier in the session.

Trump has agreed to put on hold a scheduled increase in tariffs on some $200 billion in annual imports from China while the negotiations take place. He is pushing the Asian nation to reduce trade barriers and stop alleged theft of intellectual property. Beijing so far has pledged to resume buying American soybeans and to at least temporarily lower retaliatory tariffs on U.S. autos.

While it's positive that USTR will be leading the delegation next month, the two sides are not on track to make the kind of large-scale breakthrough that the Trump administration is seeking, according to Derek Scissors, a China expert at the American Enterprise Institute.

"The failure of cabinet-level officials to even meet in the first half of the 90-day period makes it impossible to anticipate fundamental change on the Chinese side," he said.

Hard Deadline—Trump said after returning from his South American meeting with Xi that U.S. Trade Representative Robert Lighthizer would be in charge of the China talks. Lighthizer, who isn't scheduled to join the delegation in China, left no wiggle room for the two countries to extend talks beyond 90 days, saying this month that March 1 was a "hard deadline" that was endorsed by Trump.

"When I talk to the president of the U.S. he is not talking about going beyond March. He is talking about getting a deal if there is a deal to be done in the next 90 days," Lighthizer told CBS on Dec. 9.

But Trump and other members of his trade team, including National Economic Council Director Larry Kudlow, have said they could further delay an escalation in tariffs if the two sides made sufficient progress. ***Source: Bloomberg, 12.27.18***

ITC Issues Strong Rulings On Aluminum, Steel Products

In a statement issued on Dec. 7, the U.S. International Trade Commission (ITC) said it had ruled unanimously that U.S. industry has been materially injured by imports of common alloy aluminum sheet from China.

As a result of the determination, the Commerce Department will issue antidumping and countervailing duty orders on Chinese imports of the product. The duties will range from 49.85 to 59.72% and the countervailing duties will range from 46.48 to 116.49%. Because the ITC also made negative findings concerning critical circumstances with regard to the imports of this product from China, the products will not be subject to retroactive antidumping or countervailing duties.

This investigation was self-initiated by the Department of Commerce in November 2017.

The day before the aluminum ruling, the ITC announced that it had determined that imports of large diameter welded carbon and alloy steel pipe from China and India have harmed U.S. industry. Commissioners want to impose anti-dumping duties on line pipe from China and India and anti-dumping and countervailing duties on structural pipe from China.

Anti-dumping duties will range from 50.55% on Indian imports to 132.63% on Chinese products. Countervailing duties will range from 198.49% on Chinese imports to 541.15% on Indian imports. ***Source: MSCI, 12.11.18***

Special Section: Trade News

China Cuts Tariffs on More Than 700 Goods Amid Open-Trade Drive

China announced another round of tariff cuts, lowering import taxes on more than 700 goods from Jan. 1 as part of its efforts to open up the economy and lower costs for domestic consumers.

There will also be cuts to some export tariffs, and temporary import tariff rates will be as low as zero for some goods, the Ministry of Finance said in a statement on Dec. 24.

The ‘temporary’ rates can be changed ad hoc and can be lower than the current Most-Favored Nations standard though they are also available to all World Trade Organization members.

Key Insights

- This is the third round of tariff cuts announced this year, as China looks to cut costs for consumers and implement President Xi Jinping’s promises to open up further.
- U.S. exports will get the benefit of the reductions as well, although most products will still be subject to the retaliatory tariffs until there is a breakthrough in the ongoing talks.
- With tariffs on U.S. soybeans stopping a key source of edible meal (often used for animal feed), China will implement zero tariffs on imports of a variety of meals including sunflower and canola.
- Some materials for pharmaceutical manufacturing will also be subject to zero tariffs, and taxes on high-tech imports will be set "relatively low," including at 1% for a type of generator for aircraft, and 5% for a type of welding robots used in car assembly lines.
- The ministry said MFN tariffs will be further cut for a wide-range of information technology imports starting from July 1, 2019, including for medical diagnosis machines, speakers and printers, according to a separate table on its website.
- The nation will also scrap export tariffs on 94 items of products starting from the new year, including fertilizers, iron ore, coal tar, and wood pulp. Export tariffs on these goods are as high as 40% currently.
- Imports from nations that have reached a trade pact with China will be levied at the rates agreed by both sides. China’s bilateral deals with New Zealand, Peru, Costa Rica, Switzerland, Iceland, South Korea, Australia, Georgia already included promises to further lower tariffs in 2019, as does the Asia-Pacific Trade Agreement.
- Imports from Hong Kong, Macau will also enjoy lower taxes.

Source: Bloomberg, 12.24.18

Aluminum Tariffs Will Create Jobs and Economic Investment Says Group

"In the next few years, we should see thousands of jobs created and billions of dollars in aluminum production, due to the Section 232 tariffs," says Robert Scott of the Economic Policy Institute. Robert Scott, who is the director of trade and manufacturing policy research for the Economic Policy Institute, has looked at the numbers and concluded that the aluminum tariffs have helped the aluminum industry.

In his report he notes that between 2010 and 2017, 18 of 23 domestic aluminum smelters shut down, eliminating roughly 13,000 domestic jobs. In 2016, there were three alumina refineries supplying U.S. smelters; by 2017, only one remained in operation.

But in 2017 things started to turn around when the Commerce Department launched Section 232 investigations to determine whether aluminum (and steel) imports were a threat to national security, says Scott.

“The estimates of the jobs lost and the economic harm done by the steel and aluminum tariffs have been wildly overblown,” said Scott. “In fact, the tariffs have shown to be a net-positive to the economy. In the next few years, we should see thousands of jobs created and billions of dollars in aluminum production, due to the Section 232 tariffs. ”The report shows that the domestic producers of both primary aluminum and downstream aluminum products have made commitments to create thousands of jobs, invest billions of dollars in aluminum production, and substantially increase domestic production.

Here are some specific results from the tariffs:

- U.S. primary aluminum production is projected to increase by 67% (500,000 tons per year) between 2017 and the end of 2018.
- Since Section 232 tariffs were imposed, 22 new and expansion projects have been announced in downstream aluminum industries producing extruded (rod and bar, pipe and tube, and extruded shapes) and rolled (sheet and plate) products.
- In the year-to-date period of January through October 2018 (compared with the same period in 2017), shipments of all extruded products are up 6.3% (279.8 million pounds), and total sheet and plate shipments have increased by 4.6% (336.4 million pounds).
- The Federal Reserve’s industrial production data provide estimates of real output, based on measures of physical output, or (where output data are not available), total production-worker hours, by industry.
- To date (February through October 2018), U.S. employment in the aluminum industries (primary and downstream) has increased slightly (by 300 jobs) since the tariffs were imposed. Full Story *Source: IndustryWeek, 12.21.18*