SupplyDynamics

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April 2019

U.S. Adds 196,000 Jobs in March; Unemployment at 3.8%—A rebound from the February report. Economic analysts surveyed by FactSet had expected a gain of about 170,000 jobs in March. It was the 102nd straight month of job gains.

The Labor Department also revised the jobs numbers for January and February. February's weak report of 20,000 jobs was revised upward to 33,000. January's number was raised 1,000 jobs, to 312,000.

Average hourly earnings in March were 3.2% higher than a year earlier. That compares with a 3.4% year-over-year gain in February. Full Story ***Source: NYTimes, 04.05.19***

Fed Holds Line on Rates, Says No More Hikes Ahead This Year—The Federal Reserve decided on March 20 to hold interest rates steady and indicated that no more hikes will be coming this year. In a unanimous move that coincides with market expectations and demands, the central bank's policymaking Federal Open Market Committee took a sharp dovish turn from policy projections just three months earlier. After the announcement, 10-year Treasury yields fell to their lowest level in a year.

Committee members had estimated in December that two rate hikes would be appropriate in 2019 after four increases in 2018. They also pointed to at least another one before ending a round of policy tightening that began in December 2015. However, there now appears to be no likelihood of a hike unless conditions change significantly. In its post-meeting statement, the FOMC indicated it would remain "patient" before adopting any further increases.

The Fed currently holds its benchmark funds rate in a range of 2.25% to 2.5%. The rate is used as a key for determining interest on most adjustable-rate consumer debt, like credit cards and home equity loans.

The move came along with reduced expectations in GDP growth and inflation and a bump higher in the unemployment rate outlook.

For a central bank not so long ago intent on normalizing policy from its financial crisis-era accommodation levels, the developments at this week's meeting represent a striking change in direction. Full Story ***Source: CNBC, 03.20.19***

U.S. Factory Gauge Rises From Two-Year Low

A gauge of U.S. factories topped estimates in March, rising from a two-year low on strength in employment and orders and signaling stabilization after a rocky few months. The Institute for Supply Management index rose to 55.3 from 54.2 as three of five main components increased. The result topped estimates in a Bloomberg survey calling for a rise to 54.5 and remained above the 50 level that indicates expansion. Sixteen of 18 industries reported growth. Measures of deliveries and inventories decreased.

Key Insights

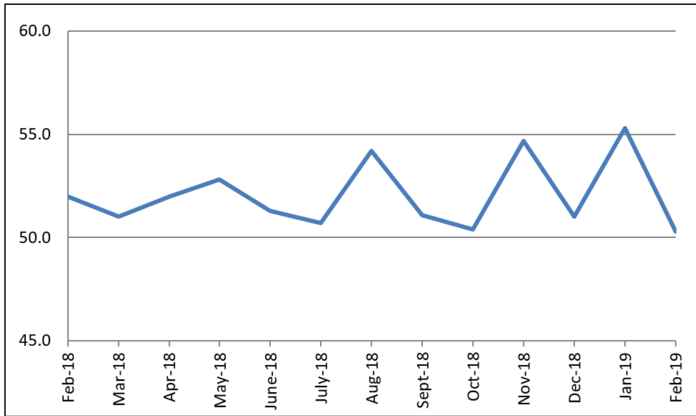
- The reassuring reading may signal the worst is over after months of mounting pressure in manufacturing sent the gauge tumbling from a 14-year high in August. The bounce brought the factory gauge back up toward its 12-month average.
- The biggest contributor to the better March reading came from employment, which snapped a three-month slide with the biggest gain in three years. That's a sign of labor-market resilience before Friday's March jobs report, which is forecast to show hiring rebounded from a weak February.
- While the Federal Reserve has pledged patience on interest rates, factories still face hurdles as the economy cools and the global outlook dims. Figures released last week showed fourth quarter growth cooled more than initially reported, and economists project the first quarter expansion pace slowed to 1.5%, the weakest in three years.
- Readings for export orders and imports both fell to fresh two-year lows, the latest evidence that the extended trade war with China is taking more of a toll on economic growth.
- A separate report showed U.S. retail sales unexpectedly eased in February on declines in grocery stores and building materials, which may signal further headwinds for the economy in the first quarter.
- Sentiment at Asia's factories stabilized in March, with China's official gauge rebounding back above 50 with the biggest jump since 2012.

"We have a relatively stable, healthy, balanced output environment" Timothy Fiore, chairman of ISM's manufacturing survey committee, said in a phone call with reporters April 1, adding that it supports economic growth this year in the range of 2.1% to 2.5%. "There's a lot of confusion in the markets, but the PMI is saying that we're still expanding. We're not expanding at the same levels as we were in 2018, but we're expanding at reasonable levels." Full Story
Source: Bloomberg, 04.02.19

SupplyDynamics

Key Economic Indicators

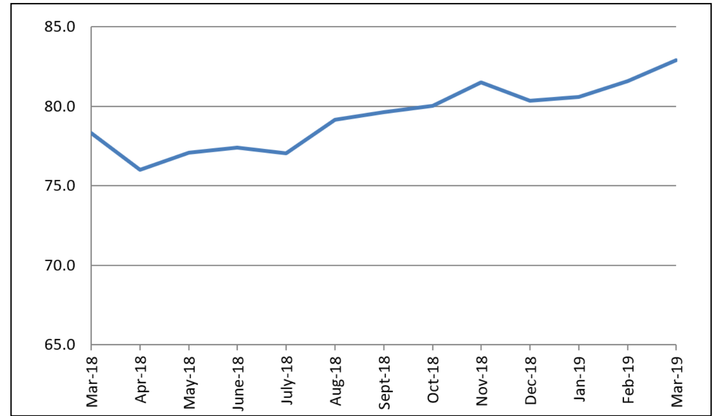
Architecture Billings Index (ABI)



Architecture firm billings growth softened in February but remained positive, according to The American Institute of Architects (AIA). AIA's Architecture Billings Index (ABI) score for February was 50.3, down from 55.3 in January. Indicators of work in the pipeline, including inquiries into new projects and the value of new design contracts remained positive. "Overall business conditions at architecture firms across the country have remained generally healthy," said AIA Chief Economist Kermit Baker, Hon. AIA, PhD. "Firms in the south recorded continued strong design activity, likely reflecting a healthy regional economy and ongoing rebuilding from the catastrophic 2018 hurricane season."

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, 03.20.19

Steel Capability Utilization

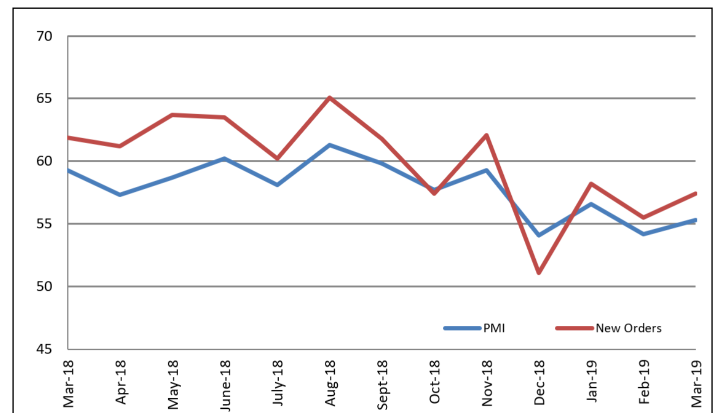


In the week ending on March 30, 2019, domestic raw steel production was 1,913,000 net tons while the capability utilization rate was 82.2%. Production was 1,826,000 net tons in the week ending March 30, 2018 while the capability utilization then was 78.3%. The current week production represents a 4.8% increase from the same period in the previous year. Production for the week ending March 30, 2019 is down 1.1% from the previous week ending March 23, 2019 when production was 1,934,000 net tons and the rate of capability utilization was 83.1%.

Adjusted year-to-date production through March 30, 2019 was 24,208,000 net tons, at a capability utilization rate of 81.8%. That is up 6.7% from the 22,686,000 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, 03.30.19

Purchasing Managers Index®



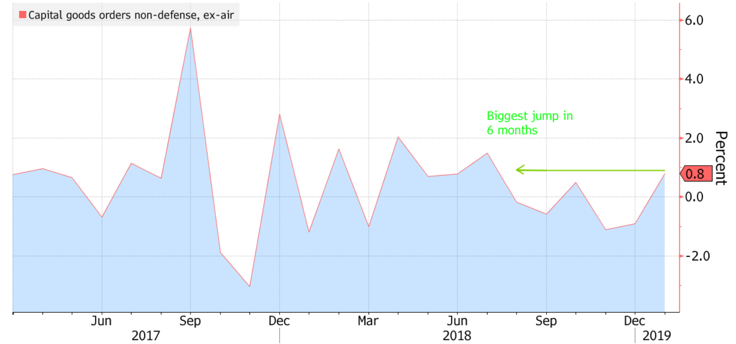
The March PMI® registered 55.3%, an increase of 1.1 percentage points from the February reading of 54.2%. The New Orders Index registered 57.4%, an increase of 1.9 percentage points from the February reading of 55.5%. The Production Index registered 55.8%, a 1 percentage point increase compared to the February reading of 54.8%. The Employment Index registered 57.5%, an increase of 5.2 percentage points from the February reading of 52.3%. The Supplier Deliveries Index registered 54.2%, a 0.7 percentage point decrease from the February reading of 54.9%. The Inventories Index registered 51.8%, a decrease of 1.6 percentage points from the February reading of 53.4%. The Prices Index registered 54.3%, a 4.9 percentage point increase from the February reading of 49.4%, indicating a return of increasing raw materials prices after a two-month respite.

Of the 18 manufacturing industries, 16 reported growth in March, in the following order: Printing and Related Support Activities; Textile Mills; Food, Beverage and Tobacco Products; Petroleum and Coal Products; Computer and Electronic Products; Electrical Equipment, Appliances and Components; Furniture and Related Products; Chemical Products; Plastics and Rubber Products; Wood Products; Nonmetallic Mineral Products; Transportation Equipment; Miscellaneous Manufacturing; Fabricated Metal Products; Primary Metals; and Machinery. The two industries reporting contraction in March are: Apparel, Leather and Allied Products; and Paper Products. *Source: Institute for Supply Management, 04.01.19*

Industry News

U.S. Business-Equipment Orders Advance by Most in Six Months

Orders placed with U.S. factories for business equipment rebounded in January by the most in six months, a sign demand is withstanding concerns about slower global growth and the trade war with China. Non-military capital goods orders excluding aircraft—a proxy for business investment—gained 0.8%, after a 0.9% decline the prior month, according to Commerce Department figures released March 13. The median forecast in a Bloomberg survey called for a 0.2% increase. The broader measure of bookings for all durable goods, or items meant to last at least three years, unexpectedly rose.



Key Insights

- The improvement in demand, underscored by orders for machinery and communications equipment, suggests a solid start to the year for manufacturers that should support economic growth in the first quarter. At the same time, other data for February gives a more muted picture, with the Institute for Supply Management's factory index falling to a two-year low in February and manufacturers adding the fewest workers since 2017.
- Some figures that are used to calculate gross domestic product also were more encouraging: Shipments of non-military capital goods excluding aircraft rose 0.8% after a revised 0.1% increase and exceeding the Bloomberg survey median of a 0.2% decline.
- Total durable-goods orders, which gained 0.4% from December, got a boost from the volatile transportation category, reflecting a 15.9% rise in bookings for civilian aircraft and parts. Separate data showed Boeing Co.'s aircraft orders fell in January to less than a quarter of the prior month's total.
- A separate Labor Department report on March 13 showed the producer price index rose less than forecast in February. The PPI increased 0.1% after a 0.1% decline in January. That followed data March 12 showing consumer-price inflation cooled last month, reinforcing the Federal Reserve's stance of patience on raising interest rates.
- The Commerce Department figures showed January's three-month annualized trend for shipments of business-equipment increased 1.9% after a 1.6% gain the previous month, while the trend in orders slipped to a 5.3% drop after a 4% decline in the previous month.
- Excluding transportation-equipment demand, which is volatile and can move wildly on large orders in any given period, orders dropped 0.1% after a 0.3% increase. Defense capital-goods orders declined 2.3% in January.
- The Commerce report's release, originally scheduled for February 27, was delayed by the longest government shutdown in U.S. history. ***Source: Bloomberg, 03.13.19***

U.S. Finished Steel Import Market Share Rises to 25% in January

The U.S. imported a total of 3.48 million tons of finished steel in January, the American Iron and Steel Institute (AISI) reported this week (based on U.S. Census Bureau data). The January import total marked a 20.7% increase from the January 2018 total. Imports were also up 83.3% compared with December 2018.

Finished steel import market share was an estimated 25% in January, according to the report. The 25% steel import market share for January marked a steep increase from December, when it stood at 19% (after four consecutive months at 21%). In 2018, import market share peaked at 29% in April.

By steel product, several posted significant import increases during the first month of 2019 (compared with December 2018):

- oil country goods (up 148%)
- cut lengths plates (up 127%)
- structural shapes heavy (up 70%)
- line pipe (up 61%)
- standard pipe (up 58%)
- sheets and strip all other metallic coatings (up 52%)
- mechanical tubing (up 45%)
- sheets and strip galvanized hot dipped (up 39%)
- wire rods (up 27%)
- plates in coils (up 23%)
- hot rolled bars (up 21%)
- cold rolled sheets (up 13%)
- hot rolled sheets (up 12%)

By country, South Korea was the biggest offshore exporter of steel to the U.S. in January, sending 361,000 net tons (up 298% from the December total). Trailing South Korea were:

- Germany (134,000 NT, up 17%)
- Brazil (129,000 NT, up 737%)
- Japan (106,000 NT, up 10%)
- Vietnam (104,000 NT, up 3%)

Source: MetalMiner, 03.28.19

Industry News

Breach of Rust: How Hackers Break in through Old Tech

Modern hackers can infiltrate manufacturers using outdated technologies. Here are five possible weak spots in your defense.

In 2010, the infosecurity community identified an extremely sophisticated computer worm capable of propagating at an unprecedented rate and exploiting several previously unknown Windows zero-day vulnerabilities. Stuxnet, as the worm was infamously dubbed, proved that a malicious actor could directly infect the programmable logic controllers (PLCs) of actual equipment used in manufacturing (in this case, a centrifuge used to manufacture weaponizable grade uranium). Without some precautions, this same type of attack could be adapted to target any PLC and software-controlled device on a manufacturers' factory floor.

Today, the number of cyberthreats specifically targeting manufacturers continues to climb. Just last year, nearly half of manufacturing companies in the UK reported that their organizations had fallen victim to cybercrime, making manufacturing one of the top three most targeted sectors for cybercriminals. Furthermore, modern manufacturers operate with a complex combination of systems and platforms of varying ages and degrees of specialization.

Compounded by both active and residual complications brought on by the shift to Industry 4.0, provisioning reliable security across entire hyperconnected and increasingly complex company networks has become a daunting task for IT teams industrywide.

According to Verizon's 2018 Data Breach Investigation Report, 47% of all attacks in manufacturing involved the theft of intellectual property, with 66% of attacks happening from hacking and 34% from malware. In fact, the same report found that external hackers accounted for 89% of all attacks in manufacturing.

Considering these figures, it's safe to assume that cyber criminals will leave no hardware unturned when it comes to finding entry points into their targeted networks. These actors are acutely aware that many manufacturing companies are running outdated systems with readily exploitable vulnerabilities, or transitioning to new, more connected technologies (such as IoT) that often present additional security concerns.

Back offices of factory and manufacturing facilities are often host to several legitimate—and likely, neglected—attack vectors that attackers can infiltrate to make lateral movements through an organization's network, and even onto the manufacturing floor. This is particularly problematic considering older appliances and technologies usually aren't a top security priority and can easily be forgotten, unpatched and left vulnerable.

While a lack of investment in cybersecurity is one of the biggest risk factors for manufacturers, there are also several older technologies that can be found throughout most manufacturing facilities—everywhere from the back office, to the factory floor—and should be phased out or patched to help shore up holes in the network. Here's a list of five back office technologies you may be overlooking:

1. Fax Machines
2. Printers
3. Video Conference Systems
4. Security Cameras and Door Access Systems
5. Ventilation, Heating and Cooling Systems

Simply securing network and computing devices is no longer sufficient when it comes to bolstering your organization's overall security posture. Old appliances and technologies may contribute to the insecurity of your manufacturing network, but it's also important to be aware that modern cybercriminals are often wielding a multi-prong approach when attacking organizations. These malicious actors also target employees with social media scams and fraudulent emails, and will even resort to dumpster diving if that's what it takes to get their hands on sensitive company documents that have been discarded (especially if they haven't been shredded). As you move forward with your security strategy, remember to always have visibility into your connected devices, scan often, and keep devices (old and new) updated.
Full Story ***Source: IndustryWeek, 03.20.19***

Corey Nachreiner is the CTO of WatchGuard Technologies and operated at the frontline of cyber security for 16 years, and for nearly a decade has been evaluating and making accurate predictions about information security trends.

Special Section: Trade News

While Court Upholds U.S. 232 Tariffs, Lawmakers Threaten to Hold up USCMA Until President Trump Eliminates Them

While on March 25, the Court of International Trade (CIT) issued a ruling that upheld the constitutionality of the U.S. president's authority to issue Section 232 trade penalties, policymakers in Washington, D.C., Ottawa, and Mexico City continue to insist that President Donald Trump must lift the tariffs on steel and aluminum products that he has placed on imports from Canada and Mexico under the provision. (To be sure, the court challenge to the tariffs also is not over. The steel importers who brought the challenge have said they will launch an appeal.) Lawmakers in the U.S. have said they might not consider the U.S., Mexico, Canada Agreement (USMCA) until the Trump administration lifts or eases its Section 232 penalties on imports of Canadian and Mexican steel and aluminum.

Senate Finance Committee Chair Charles Grassley (R-Iowa), whose committee oversees trade policy in the U.S. Senate, has led the effort to get President Donald Trump to reconsider the penalties. According to The Washington Post, Chair Grassley raised the issue again last week in a meeting with the president and the president, reportedly, "refused to budge." The senator remained firm, however, telling The Post, "The tariffs are going to come off because the president has a good agreement … It's just a matter of his realizing that nothing's going to happen until the tariffs go off. And so the tariffs come off if he wants to get a win."

Top Canadian officials also doubted their parliament would approve the USMCA without action on the Section 232 tariffs by the White House. Canadian Foreign Minister Chrystia Freeland said, "The existence of these tariffs for many Canadians raises some serious questions about NAFTA ratification" and that, "in order to move ahead with that deal, Canadians feel the right thing is there should be no 232 tariffs or retaliatory measures between our two countries." David MacNaughton, Canada's ambassador to the U.S., echoed Freeland's statements. He said, "I don't want to sound threatening, because that is not helpful, but practically speaking, we have an election coming up in Canada. It will be extraordinarily tough if steel and aluminum tariffs are in place."

Canada's CBC has cited at least two sources who have suggested that Prime Minister Justin Trudeau also is considering adding new retaliatory tariffs on U.S. products, or increasing current ones, if President Trump doesn't revoke the Section 232 tariffs for North American trading partners.

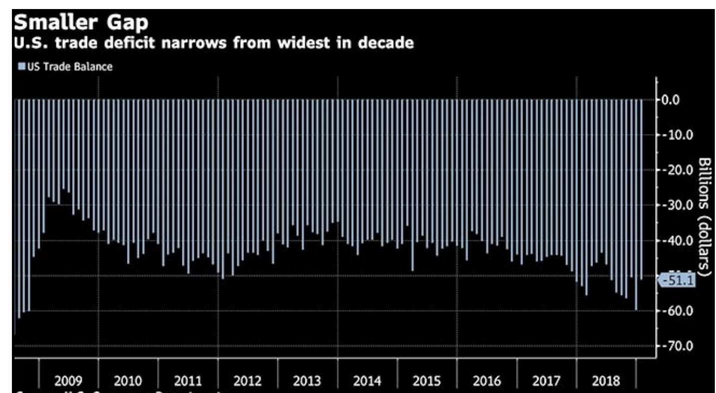
Meanwhile, according to Politico, Mexico's former chief NAFTA negotiator, Kenneth Smith Ramos, said that while his country's preference is to lift the tariffs completely, if that's "not possible," leaders there would accept quotas. Deputy Economy Minister Luz Maria de la Mora had a different take, however. According to a separate Politico story, he said "quotas make no sense" and argued "what industry in North America needs is the elimination of this tariff." *Source: NAM, 04.03.19*

January Trade Gap Narrows as Imports From China Plummet

The U.S. trade deficit pulled back in January from the widest level in a decade as imports from China plunged, suggesting American companies had been rushing shipments the prior month to beat an expected tariff boost. The deficit in goods and services narrowed to $51.1 billion, the Commerce Department said March 27, smaller than the median estimate of economists. Imports fell 2.6% while exports rose 0.9%. The merchandise-trade gap with China—the target of President Donald Trump's trade war—shrank to $33.2 billion as imports from the nation dropped 12.3%. Levies on Chinese goods had been set to increase January 1 before Trump put them on hold while trying to work out an accord with China over the trade war, while the Lunar New Year holiday also tends to cause swings in the figures early in the calendar year.

Trump may yet have difficulty achieving his goal of a sustainably lower deficit as slowing global growth and a strong dollar weigh on exports, while American demand continues to support shipments of imported goods. U.S. and Chinese officials resume talks on a deal that could be a step toward economic peace, with signs that both sides want to avoid any escalation of the eight-month trade war.

The January trade data compared with a $59.9 billion deficit in December that was a 10-year high and a median estimate of economists surveyed by Bloomberg News calling for a deficit of $57 billion. The trade deficit widened last year to $621 billion, also a 10-year high, as tax cuts boosted domestic demand for imports and a strong dollar weighed on exports. March 27 figures showed the deficit in goods narrowed to $73.3 billion, while the surplus in services edged up to $22.1 billion.
Full Story *Source: Transport Topic, 03.27.19*



Special Section: Trade News

Canadian Trade Panel Recommends Reducing Safeguard Tariffs on Steel

A Canadian trade tribunal is recommending that Prime Minister Justin Trudeau's government claw back steel tariffs imposed to contain fallout from Donald Trump's own levies. In a decision published April 3, the Canadian International Trade Tribunal recommended tariff rate quotas on two types of steel—heavy plate and stainless steel wire—among seven that the government had already applied provisional levies to. On the five other products, it either found no spike in imports or found that Canadian producers hadn't been harmed.

The recommendations aren't binding and apply only to certain countries like China. Those tariffs and quotas addressed by CITT ruling on April 3 are separate from the tariffs the U.S. and Canada have applied on each country's steel—but Canada is trying to convince the U.S. to end that particular fight by arguing that it's a tough enforcer of steel dumping into the continent. That complicates the political fallout of the recommendation. "We are disappointed and concerned with the tribunal's recommendations," Catherine Cobden, president of the Canadian Steel Producers Association, said in an emailed statement. The provisional tariffs in October have stabilized the market, she said. She urged Canadian Finance Minister Bill Morneau to disregard the recommendations and impose final measures on all seven steel products. Otherwise, "the steel industry in Canada is threatened with a loss of jobs, significant community impacts, market share erosion, and growing investment uncertainty," she said.

Pierre-Olivier Herbert, a spokesman for Morneau, said the government would examine the report. "Our Government is carefully reviewing the CITT's findings and recommendations before deciding on next steps and will respond in the coming weeks," he said in an e-mail. "We will continue to work with affected businesses and workers in the steel, aluminum and manufacturing industries, to ensure they have the support they need."

Canada applied its own tariff rate quotas last year—in effect, applying a 25% tariff on imports that exceed average recent volumes. It was meant to deter a spike in imports, but only from certain countries. The order exempted the U.S., Chile, Mexico, Israel and other nations, as does the recommendation by the tribunal on April 3. On only one of the seven products did the tribunal recommend a quota and, above that level, a 25% tariff: stainless steel wire. For heavy-plate, the panel recommended an above-quota tariff of 20%. For both products, the tribunal recommends lowering the tariffs in each of the next two years. However, the tribunal found that, for some products, the spike simply hasn't occurred. For three of the seven types of steel products—hot-rolled sheet, pre-painted steel and wire rod—the panel found that the products are "not being imported in such increased quantities as to cause or threaten to cause serious injury to the domestic industry." For two others—rebar used in construction, and energy tubular products—the tribunal found there had been a spike in imports but that those imports "have not caused serious injury, and are not threatening to cause serious injury, to the domestic industry."

The U.S. applied 25% steel tariffs to several countries, including Canada, last year, and Canada followed with its own retaliatory tariffs. Full Story
Source: Bloomberg, 04.04.19

Kudlow Says U.S. Ready to Extend China Talks by Weeks or Months

The Trump administration is prepared to keep negotiating with China for weeks or even months to reach a trade deal that will ensure the world's second-largest economy improves market access and intellectual-property policies for U.S. companies, a senior American official said.

"This is not time-dependent. This is policy—and enforcement-dependent," White House economic adviser Larry Kudlow said in a speech in Washington on March 27. "If it takes a few more weeks, or if it takes months, so be it. We have to get a great deal, as the president says, that works for the U.S. That's our principal interest."

U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin met with Chinese negotiators in Beijing for a working dinner on March 27 and they'll participate in a full day of talks on March 29. The discussions will continue next week when China's trade czar, Vice Premier Liu He, will travel to Washington to meet with U.S. negotiators as well as President Donald Trump, according to Kudlow.

The key areas where the U.S. is demanding better terms include China improving treatment of U.S. intellectual property, opening up market access for American companies and agreeing on an enforcement mechanism for the trade deal, Kudlow said. The U.S. has proposed regular meetings to assess whether China is living up to promises of reform in the pact, he said. The Trump administration wants to be able to impose tariffs on China—with no threat of counter-retaliation—if China fails to hold up its ends of the bargain, he said. "We are getting close, but we are not there yet," Kudlow said.

The burst of diplomacy suggests both sides remain determined to reach an agreement that would avoid any escalation of the eight-month trade war that has seen them impose duties on $360 billion of each others' imports. China wants the U.S. tariffs imposed on Chinese goods lifted but Trump said last week the duties would remain in place for a "substantial period of time."

Full Story *Source: Bloomberg, 03.28.19*