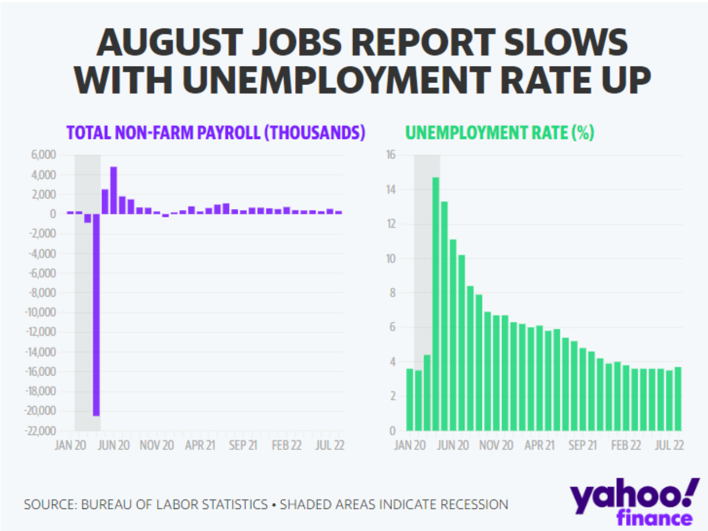
NIM GROUP

MARKET INSIGHT

September 2022

ECONOMIC NEWS

U.S. PAYROLLS GREW BY 315,000 LAST MONTH



The U.S. labor market grew as expected in August as more people entering the workforce pushed the unemployment rate higher last month.

The labor force participation rate in August also registered a notable uptick, to 62.4% from 62.1% the prior month, matching the highest level since March 2020.

Friday's report showed a modest revision to July's payroll growth, with the BLS now estimating 526,000 jobs were created last month, down from the 528,000 previously reported. Between revisions to June and July's figures, there were 107,000 fewer jobs created over those months than initially estimated.

Still, job gains over the last three months have averaged 378,000. In 2019, average monthly job gains stood at 164,000.

Continued growth in the labor market comes amid this summer's series of larger-than-anticipated rate hikes by the Federal Reserve to cool economic growth in its fight against inflation.

In a speech last week in Jackson Hole, Federal Reserve Chair Jerome Powell said, "The labor market is particularly strong, but it is clearly out of balance, with demand for workers substantially exceeding the supply of available workers."

Powell suggested "some softening" of labor market conditions would likely be required to bring down inflation towards the Fed's goal of 2%. As of July, consumer prices were up 8.5% on a year-over-year basis.

"A 75 basis point rate hike is nearly certain at this point," Ron Temple, head of U.S. equity at Lazard Asset Management, said in a note Friday, adding that monthly job gains must be less than a third of current levels to get inflation back down to the Fed's 2% target.

"Combined with the return of more workers to the labor force as shown in the participation rate and the job opening figures earlier this week, all signs point to a very strong labor market that has yet to respond to tighter monetary policy," he said.

Still, stocks reacted positively to the report. At the start of Friday's session, the S&P 500 rose 0.7%, the Dow jumped 140 points, or about 0.5%, and the tech-heavy Nasdaq climbed 0.6%.

"The labor market has been in the eye of an economic hurricane, the calm center amid recession and inflation's fears swirling around it," ManpowerGroup Chief Commercial Officer Becky Frankiewicz said. "Today, the reported number of new jobs reinforced the labor market is holding strong."

At the industry level, the retail sector was a standout in August, with 44,000 new jobs added or created during the month — an increase from a gain of 22,000 in this area across the prior month.

Continued hiring across the retail sector came even as consumer giants such as Walmart announced plans to lay off workers amid the prospect of an economic downturn and rising inflation.

Employers across leisure and hospitality notably hired fewer workers during the month, with 31,000 jobs added, down sharply from a gain of 96,000 in July. Previously this sector was averaging gains of about 90,000 per month as lifting of COVID restrictions continued to drive consumer demand for dining, lodging, and other in-person activities.

Although the labor market has completed its pandemic recovery, employment in leisure and hospitality remains at 1.2 million, or 7.2% below pre-pandemic figures.

The professional and business services sector was among sectors that led gains in August, with 68,000 jobs added last month. This area of employment continued to trend well above its February 2020, level with most jobs added across computer systems design and related services, management and technical consulting services, architectural and engineering services, and scientific research and development services. ***Source: Yahoo! Finance, 9/2/2022***

U.S. ECONOMY CONTRACTS MILDLY IN SECOND QUARTER; NO SIGN OF RECESSION IN UNDERLYING DATA

The U.S. economy contracted at a more moderate pace than initially thought in the second quarter as consumer spending blunted some of the drag from a sharp slowdown in inventory accumulation, dispelling fears that a recession was underway.

That was underscored by details of the report from the Commerce Department on Thursday, showing the economy growing steadily last quarter when measured from the income side. The underlying economic strength fits in with recent upbeat readings on the labor market, retail sales and industrial production.

"We have had a tremendous recovery, this is a mid-cycle

ECONOMIC NEWS

slowdown and not a recession," said Brian Bethune, an economics professor at Boston College. "Employment is still growing, which means basically, production is still growing, but there are these supply chain problems."

Gross domestic product shrank at a 0.6% annualized rate last quarter, the government said in its second estimate of GDP. That was an upward revision from the previously estimated 0.9% pace of decline. The economy contracted at a 1.6% rate in the first quarter. Economists polled by Reuters had expected GDP would be revised slightly up to show output falling at a 0.8% rate.

The two straight quarterly decreases in GDP meet the standard definition of a technical recession. But in the case of the U.S. economy, the contraction in GDP is misleading, given the large role played by inventories.

Supply chain disruptions have left unfinished products on factory floors or at shipping docks. These products cannot be included in GDP until they go into inventories.

Inventories rose at a $83.9 billion rate last quarter after increasing at a $188.5 billion pace in the first quarter. They subtracted 1.83 percentage points from GDP. Consumer spending grew at a 1.5% pace, revised up from the previously reported 1.0% rate. Shortages and the resulting higher prices have crimped spending.

An alternative measure of growth, gross domestic income, or GDI, increased at a 1.4% rate in the second quarter. GDI, which measures the economy's performance from the income side, grew at a 1.8% pace in the first quarter. It is calculated using corporate profits, compensation and proprietors income data.

While GDI and GDP can diverge from one quarter to the other, there has been no convergence since the end of 2020, leaving a huge gap of 3.9 percentage points. Over the long run GDP tends to converge toward GDI, though that is not a golden rule.

"Hopefully at some point we will have fewer supply chain disruptions and production will catch up," said Bethune. "Production will be higher than income, but we are a long way from that."

The average of GDP and GDI, also referred to as gross domestic output and considered a better measure of economic activity, increased at a 0.4% rate in the April-June period, up from a 0.1% growth pace in the first quarter.

Stocks on Wall Street were trading higher. The dollar fell against a basket of currencies. U.S. Treasury prices rose.

RESILIENT LABOR MARKET

The income side of the growth ledger was boosted by strong profits as well as wage gains amid a tight labor market.

National after-tax profits without inventory valuation and capital consumption adjustments, conceptually most similar to S&P 500 profits, increased $284.9 billion, or at a 10.4% pace, accelerating from the 1.0% growth pace in the January-March period. They were boosted by gains in the energy sector as oil prices soared because of the Russia-Ukraine war.

Profits were 11.9% higher from a year ago.

The National Bureau of Economic Research, the official arbiter of recessions in the United States, defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in production, employment, real income, and other indicators."

The underlying economic strength is a double-edged sword. While it shows no recession, it gives the Federal Reserve ammunition to maintain its aggressive monetary policy tightening campaign, increasing the risk of a downturn.

The U.S. central bank has hiked its policy rate 225 basis points since March. Fed Chair Jerome Powell's address on Friday at the annual Jackson Hole global central banking conference in Wyoming could shed more light on whether the Fed can engineer an economic slowdown without triggering a recession.

The labor market is a key piece of that puzzle. Though interest rate-sensitive industries like housing and technology are laying off workers, broad-based job cuts have yet to materialize, leaving the overall labor market tight.

A separate report from the Labor Department on Thursday showed initial claims for state unemployment benefits fell 2,000 to a seasonally adjusted 243,000 for the week ended Aug. 20. Claims have been bouncing around the 250,000 level since hitting an eight-month high of 261,000 in mid-July.

The number of people receiving benefits after an initial week of aid dropped 19,000 to 1.415 million during the week ending Aug. 13. The so-called continuing claims, a proxy for hiring, covered the week during which the government surveyed households for August's unemployment rate. ***Source: Reuters, 8/25/2022***

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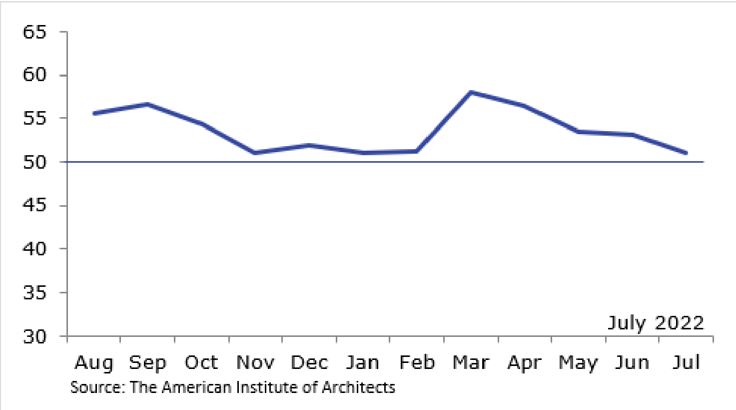
KEY ECONOMIC INDICATORS

Architecture Billings Index (ABI)

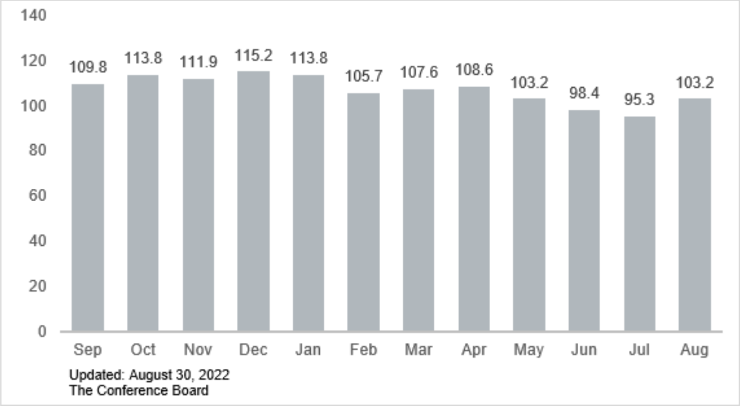


While architecture firm billings grew for the 18th consecutive month in July, the pace of growth continued to slow. The Architecture Billings Index (ABI) score of 51.0 for the month is the lowest since January, and marks the fourth straight month with a lower score than the previous month. With a variety of economic storm clouds continuing to gather, we are likely looking at a period of slower growth going forward. In addition, inquiries into new projects also continued to slow this month, although the value of new design contracts rose slightly from June to July. While both of these indicators remain below their mid-2021 peaks, they show that there remains interest in new projects going forward.

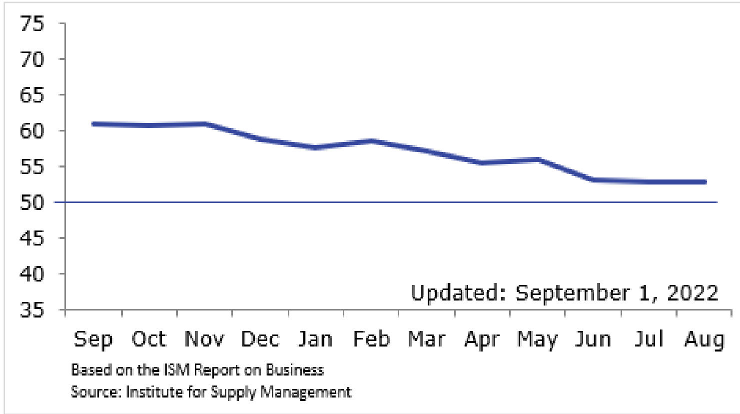
However, business conditions softened for the second consecutive month at firms located in the Northeast in July, and billings have now declined at firms in that region for a total of nine out of the last 12 months. Billings continued to grow at a modest pace at firms in other regions, and growth actually picked up at firms located in the South. By firm specialization, business conditions remained positive at firms with multifamily residential and commercial/industrial specializations, while firms with an institutional specialization saw a very small decline in billings.

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, 8/24/2022***

Consumer Confidence



Purchasing Managers Index®



The August Manufacturing PMI® registered 52.8 percent, the same reading as recorded in July. This figure indicates expansion in the overall economy for the 27th month in a row after contraction in April and May 2020. For a second straight month, the Manufacturing PMI® figure is the lowest since June 2020, when it registered 52.4 percent. The New Orders Index registered 51.3 percent, 3.3 percentage points higher than the 48 percent recorded in July. The Production Index reading of 50.4 percent is a 3.1-percentage point decrease compared to July's figure of 53.5 percent. The Prices Index registered 52.5 percent, down 7.5 percentage points compared to the July figure of 60 percent; this is the index's lowest reading since June 2020 (51.3 percent). The Backlog of Orders Index registered 53 percent, 1.7 percentage points above the July reading of 51.3 percent. After three straight months of contraction, the Employment Index expanded at 54.2 percent, 4.3 percentage points higher than the 49.9 percent recorded in July. The Supplier Deliveries Index reading of 55.1 percent is 0.1 percentage point lower than the July figure of 55.2 percent. The Inventories Index registered 53.1 percent, 4.2 percentage points lower than the July reading of 57.3 percent. The New Export Orders Index contracted at 49.4 percent, down 3.2 percentage points compared to July's figure of 52.6 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, 9/1/2022.***

The Conference Board Consumer Confidence Index® increased in August, following three consecutive monthly declines. The Index now stands at 103.2 (1985=100), up from 95.3 in July. The Present Situation Index—based on consumers' assessment of current business and labor market conditions—improved to 145.4 from 139.7 last month. The Expectations Index—based on consumers' short-term outlook for income, business, and labor market conditions—increased to 75.1 from 65.6.

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, 8/30/2022***

INDUSTRY NEWS

Stainless Steel in a "Commodity Standoff"

Stainless steel prices continue to struggle as we approach the final quarter of the year. Meanwhile, nickel prices float just above their 2021 average, closing August at $21,320 / mt. Both indices seem to indicate an overly-cautious marketplace, with buyers and sellers seemingly waiting to see what the other will do.

This sort of "commodity" standoff is less than ideal. MetalMiner has recommended that buyers of flat-rolled stainless expect lower transaction prices as we move into autumn. After all, alloy surcharges are low, and competition between service centers is higher. In fact, many U.S. flat-rolled mills have no customers on allocation, thanks to imports affecting overall supply.

Still, the battle between supply and demand is a never-ending one. And in a tight market full of people looking to maximize their dollar, anything can happen.

Stainless Steel Mills Shut Down Across Europe

What would happen if the stainless steel market suddenly lost millions of tons of production? We won't have to wait long to find out the answer because it's already happening. As August ended, more and more reports came in detailing European stainless steel producers having to scale back or shut down production altogether.

Of course, Europe faces a catastrophic energy crisis. While many economists remain focused on the coming winter, Putin's retaliatory gas cutoff has done plenty of damage already. So far, around three million tons of Europe's stainless steel capacity is at risk. With energy costs surging, many plants simply can't afford to "keep the lights on," so to speak.

Earlier in August, the Belgian Aperam Mill shut down its mill in Genk. Soon after, they reduced production at their Chatelet Mill. More recently, Spanish company Acrinox announced it would cut production and place around 85% of its employees on short-time work. Obviously, all eyes are now on other major European producers, many of whom have just as much incentive to cut and run.

Building up Stock Piles

While no specifics exist, there are reports of European buyers stocking up on stainless steel in anticipation of an upcoming price hike. It makes sense. If supply falls, prices will indeed go back up. However, reactionary buying is also a surefire way to hasten this process.

Moreover, it may be a myopic way of approaching things. After all, China ramped up its stainless output and has been all month long. Though its construction sector remains strained, the central government nonetheless continues pumping billions into the economy to stave off recession.

That makes exportation a likely option. China holds its place as the world's largest stainless steel producer. And while China also the largest consumer, that part of the equation is temporarily unavailable. A high likelihood exists that the government sees opportunity in these European shutdowns.

After recent announcements regarding Ningde City, which the country hopes to develop into a sort of "stainless steel mecca," clearly China has big plans. According to reports, China wants the area to produce 7 million metric tons by the middle of this decade.

If push comes to shove, China has Putin's energy supplies on its side, Europe does not. **Source: MetalMiner, 8/2/2022.**

Steel Supply in China Faces Massive Obstacles

Everyone thought a COVID-19 ravaged steel supply market in China took a turn towards recovery. However, many other hurdles now stand in the way, both long & short term.

Power cuts and muted demand driven by the construction crisis in China stand in the path of growth. Even worse, the cascading effect has affected the supply of critical commodities like coking coal and iron ore.

Like India, infrastructure growth plays a major role in China's consumption of steel. However, because of the post-COVID-19 slowdown and the worsening property crisis the steel sector has not bounced back the way it was anticipated.

The prognosis looks bad, evident from this statement of Li Ganpo, founder & chairman of Hebei Jingye Steel Group. Ganpo reportedly warned at a private company meeting a few weeks ago that almost a third of China's steel mills could go bankrupt. This would result in massive steel supply chain disruptions.

Steel Supply Strain Effecting Banks

Many in China have lost hope in a turnaround in the near future. This pessimism comes the many reports coming out of China.

The real-estate crisis has not only affected property developers and steel makers but even banks. Once one of the largest producers and consumers of steel and related products, Chinese steel mills would regularly manufacture over a billion tons. This accounts for about half of all global output. Now, this seems a distant memory, with the slump affecting iron ore prices and even supply mines in Brazil & Australia.

Although trade relations between China & Australia are low, Australia's biggest export item, iron ore faces supply chain threats because of the Chinese slowdown. Experts forecast that prices will go down by 50% in 2023 with China's deepening property crisis. Consumers are either not buying new houses or have defaulted on housing loans.

China remains the largest buyer of Australian iron ore. Prices did rise within the past work after China's easing of the rules, but this was short-lived.

Chinese Government Looking for Solutions

The People's Bank of China announced a few measures like slashing the five-year prime mortgage rate and the one-year loan prime rate. However, many feel that it was too little too late. This lobby believes that conditions will not improve for the rest of 2022.

Steel mills were once in the forefront of China's economic expansion. But now conditions have deteriorated to the point that many are on the verge of closure for lack of takers.

To complicate matters, a heat wave in many parts of China led to electricity rationing. This lead to the temporary shut-downs of various Chinese steel mills recently. About 20 steel mills in China's southwest regions suspended operations.

The Government there has yet to send out any signals of big bailouts. Unlike the property market crisis in 2015, President XI Jinping now looks reluctant to launch a financial stimulus package that could kickstart infrastructure spending and indirectly revive the steel and ore sectors. This leaves limited room for steel makers to maneuver. **Source: MetalMiner, 8/25/2022.**

UPI Closure to Have Limited Impact on Steel Prices

USS-Posco Industries (UPI) to close, sell plant in 2023 or 2024

The Pittsburg, CA based finished steel producer USS-Posco Industries (UPI) will close its doors in 2023. UPI manufactures hot rolled pickled and oiled, cold rolled coil, hot dipped galvanized and tin plate. Although unconfirmed, the facility was reportedly purchased by Amazon for use as a warehouse. UPI's closure will follow a long line of closures by U.S. Steel, which include its Detroit-based Great Lakes facility and Texas-based Lone Star Steel, as the company instead opts to invest more heavily in its non-union operations. How will this effect steel prices and supply?

Impact on Steel Prices and Supply

With an annual capacity of 1.5 million short tons, the pending closure will narrow overall U.S. capacity. That said, the domestic market continues to grapple with a supply glut. This issue has led to falling prices for HRC, CRC and HDG since late April. Beyond that, new capacity continues to come online. BlueScope, Nucor and Steel Dynamics (SDI) continue to ramp up production on expanded/restarted mills. Estimates suggest that those mills could add nearly 15,000 short tons per day of flat rolled and raw steel capacity.

At full capacity, SDI Sinton will produce 3 million short tons per year, with shipments expected to reach 1.5 million short tons by the end of 2022. The Nucor Gallatin expansion, which added 1.4 million short tons per year of capacity, will expectedly hit its full 3 million short ton per year run rate in Q4 of 2022. Meanwhile, North Star BlueScope added a 937,000 short ton per year expansion that will expectedly become fully operational over the course of the next 18 months. Those combined additions to the market will more than compensate for what is lost upon UPI's closure.

For the industries and companies UPI serves, that will, if it has not already, require a shift in sourcing. According to the company, UPI's primary markets include construction, service centers, containers as well as pipe, tube and conduit.

No Demand Dropoff…Yet

As stated in a recent conference call by Stelco CEO Alan Kestenbaum, while flat rolled steel prices continue downward in the North American market, "there's no disaster in terms of demand itself." This, alongside low mill lead times, would suggest that current capacity more than meets relatively normal demand. Should demand meaningfully decline, especially amid looming concern of a global economic slowdown, that would further exacerbate the current domestic steel supply glut. By the time UPI does close within the next two years, the market could, of course, look radically different. At present, however, its closure appears unlikely to shift price direction. **Source: MetalMiner, 8/22/2022.**