NIM
NORFOLK IRON & METAL

MARKET INSIGHT
April 2020

ECONOMIC NEWS

THE U.S. ECONOMY IS ENTERING THE 'DEEPEST RECESSION ON RECORD'

On Thursday, we learned that initial filings for unemployment insurance totaled a record 6.648 million for the week ending March 28, more than doubling the prior week's reported total of 3.238 million that had also marked a record high. Distressingly, last week's data was also revised higher on Thursday to 3.307 million.

And while the labor market fallout from the coronavirus-related economic hard-stop we're experiencing has been the most abrupt and severe so far, economists at Bank of America Global Research believe the broader economic downturn we're entering will result in the worst recession in modern U.S. history.

"The recession appears to be deeper and more prolonged than we were led to believe just 14 days ago when we last updated our forecasts, not just in the US but globally as well," said BofA economists led by Michelle Meyer.

"We now believe that there will be three consecutive quarters of GDP contraction with the US economy shrinking 7% in 1Q, 30% in 2Q and 1% in 3Q. We expect this to be followed by a pop in growth in 4Q. We forecast the cumulative decline in GDP to be 10.4% and this will be the deepest recession on record, nearly five times more severe than the post-war average." (Emphasis added.)

In 2008, the economy experienced a cumulative recessionary decline in GDP of 4%, the most since World War II. BofA is expecting the 2020 recession will be more than twice as severe in terms of the total GDP decline.

he labor market impacts are also expected to be eye-popping as the recession crests in the summer.

Bank of America expects that up to 20 million people will lose their jobs through the third quarter with the unemployment rate potentially peaking north of 15%.

"The shock is unlike anything we have experienced before with part of the economy effectively put into an induced coma," BofA adds.

"The pain is sudden and acute. But we think there is a recovery on the other side. The first step is to solve the public health crisis and stop the spread of COVID-19. The next step is to slowly open the economy with businesses returning and people going back to work."

Bank of America expects that GDP will pop 30% in the fourth quarter. But the firm still believes "this will be a slow recovery overall as many workers will be displaced and businesses adapt to a period of lost revenue."

Over the last few years, with questions about the Federal Reserve's actions and the health of the global economy came into question, investors became accustomed to citing the strength and health of the U.S. consumer as the backbone of the bull market and economic expansion.

To continue reading: Yahoo Finance ***4/2/2020***

U.S. LOST 701,000 JOBS IN MARCH; MUCH WORSE TO COME

For the first time in nearly a decade, the U.S. suffered a net loss of jobs as the coronavirus began to take hold in the country. But a monthly snapshot from the Labor Department shows only the first pinpricks of what will soon be a gaping wound.

U.S. employers shed 701,000 jobs in March — the most since 2009, during the depths of the Great Recession, according to the monthly survey. But that was conducted three weeks ago — before the pandemic forced the widespread closing of restaurants, retail shops and other businesses.

That unprecedented shutdown has already pushed some 10 million people out of work, according to initial claims for unemployment filed in the last two weeks. Most of those job losses won't show up until the April employment report is published a month from now.

Still, Friday's report is a milestone. It snaps a record-long streak of employment gains that stretches back to the fall of 2010. The job losses, while understated, are the worst since March, 2009.

The unemployment rate rose from 3.5% in February to 4.4%. That's the highest the jobless rate in nearly three years, and marks the sharpest increase since 1975.

"That will only be the tip of the iceberg," said Lydia Boussour, senior U.S. economist at Oxford Economics. "We think April will be really the month where you will see the full magnitude of that labor market collapse."

Boussour likens the abrupt halt in economic activity to what the Gulf Coast experienced during Hurricane Katrina. But in this case, the shutdown stretches across the country.

She projects that the U.S. will lose as many as 20 million jobs before the pandemic is under control and that unemployment will soar higher than at any time since World War II.

"We wouldn't have thought a few weeks ago that something like this would be possible," Boussour said. "You're basically asking people to stay home and not go to work."

More than 6.6 million Americans applied for unemployment benefits last week alone, 10 times the number who did so during the worst week of the Great Recession.

Losses are concentrated in restaurants, retail, recreation and manufacturing — all jobs that cannot easily be done at home or while practicing social distancing.

Retail and manufacturing were struggling even before the coronavirus pandemic, but restaurants and hotels had been adding jobs at a rapid pace.

About two-thirds of the job losses in Friday's report were in leisure and hospitality, especially bars and restaurants. But few industries were unscathed. Retailers shed 46,000 jobs. Construction companies lost 29,000. Even health care employment declined by 43,000 as doctors and dentists closed their offices for all non-emergency services. ***Source: NPR, 4/3/2020***

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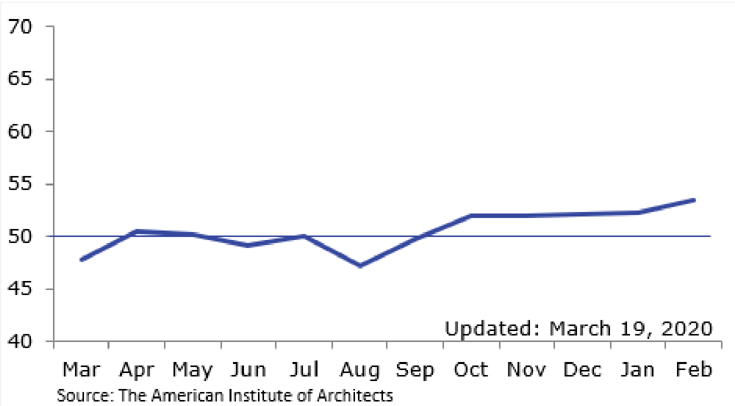
KEY ECONOMIC INDICATORS

ARCHITECTURE BILLINGS INDEX (ABI)

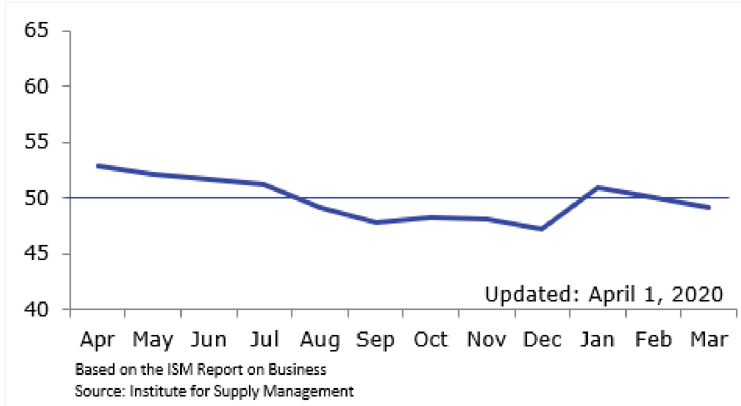


The American Institute of Architects (AIA) has published its latest Architecture Billings Index (ABI) report, highlighting the healthy demand for design services on the eve of the COVID-19 pandemic. Generally speaking, February's ABI numbers paint a rosy picture for the industry. This, of course, is likely to change as the impacts of the pandemic are felt more broadly across the American economy.

"Demand for design services in February increased at a solid pace for the sixth month in a row," an announcement highlighting the figures states, adding that February's ABI score of 53.4 "reflects an increase in design services provided by U.S. architecture firms" over the figures presented in January of 2020.

The **ARCHITECTURE BILLINGS INDEX (ABI)** is an economic indicator for nonresidential construction activity, with a lead time of approximately 9–12 months. The index is derived from AIA's Work-on-the-Boards survey, which has gathered data on shifts in billings from architectural firm leaders for over 20 years. 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 AIA, 3/18/2020***

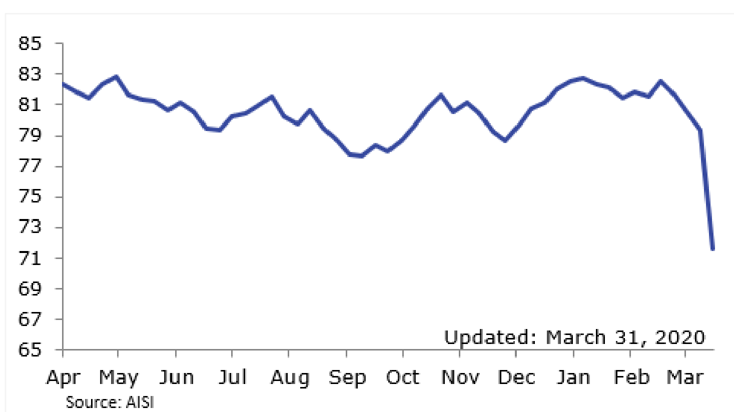
PURCHASING MANAGERS INDEX®



The March PMI® registered 49.1 percent, down 1 percentage point from the February reading of 50.1 percent. The New Orders Index registered 42.2 percent, a decrease of 7.6 percentage points from the February reading of 49.8 percent. The Production Index registered 47.7 percent, down 2.6 percentage points compared to the February reading of 50.3 percent. The Backlog of Orders Index registered 45.9 percent, a decrease of 4.4 percentage points compared to the February reading of 50.3 percent. The Employment Index registered 43.8 percent, a decrease of 3.1 percentage points from the February reading of 46.9 percent. The Supplier Deliveries Index registered 65 percent, up 7.7 percentage points from the February reading of 57.3 percent, and limited the decrease in the composite PMI®. The Inventories Index registered 46.9 percent, 0.4 percentage point higher than the February reading of 46.5 percent. The Prices Index registered 37.4 percent, down 8.5 percentage points compared to the February reading of 45.9 percent. The New Export Orders Index registered 46.6 percent, a decrease of 4.6 percentage points compared to the February reading of 51.2 percent. The Imports Index registered 42.1 percent, a 0.5-percentage point decrease from the February reading of 42.6 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, 4/1/2020***

RAW STEEL PRODUCTION



In the week ending on March 28, 2020, domestic raw steel production was 1,670,000 net tons while the capability utilization rate was 71.6 percent. Production was 1,913,000 net tons in the week ending March 28, 2019 while the capability utilization then was 82.2 percent. The current week production represents a 12.7 percent decrease from the same period in the previous year. Production for the week ending March 28, 2020 is down 9.8 percent from the previous week ending March 21, 2020 when production was 1,852,000 net tons and the rate of capability utilization was 79.4 percent.

Adjusted year-to-date production through March 28, 2020 was 23,653,000 net tons, at a capability utilization rate of 80.7 percent. That is down 1.0 percent from the 23,881,000 net tons during the same period last year, when the capability utilization rate was 81.6 percent.

RAW STEEL PRODUCTION is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. ***Source: AISI, 3/31/2020***

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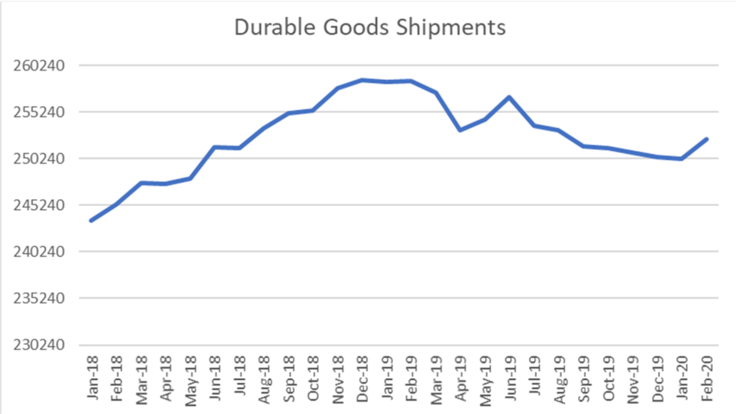
KEY ECONOMIC INDICATORS

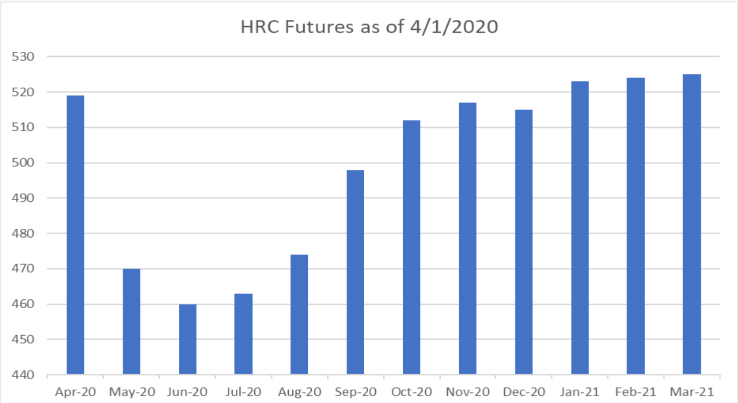
DURABLE GOODS



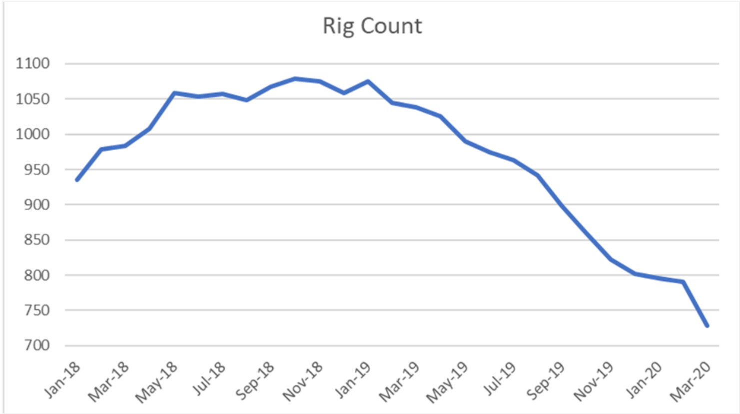
DURABLE GOODS data is published by the Census Department of the Federal Government and the latest data was released on March 25th, 2020 reflecting February shipments, inventories and orders.

At that time the durable goods sector of the market was reflecting increasing demand for the third straight month as new orders increased 1.2% to $249.4 billion. Transportation equipment orders drove the increase, as they were up 4.6%. Shipments of durable goods in February reversed a trend of 7 months of decreases by increasing .8% to $252.3 billion. Despite this encouraging turn around, primary metals and fabricated metal parts dropped a bit in February. These results were also pre-Covid 19 and it is expected that durable goods orders will decrease significantly in April and May as a result of the virus taking its toll on the economy. The consensus of economists is that a turn around in durable goods will not occur until mid to late June, at best.

HOT ROLLED COIL MARKET



ENERGY SECTOR



Economists call an economic shock like the Covid-19 virus a "black swan event," or a totally unforeseen occurrence that dramatically impacts an economy. In reality, this year we experienced two black swan events, with the Oil War that started between Saudi Arabia &Russia the second "black swan.'

At the beginning of March, Brent Crude, a bellwether oil price standard, was trading in the low $50's, where it had drifted to since being in the $70's in April of 2019. On March 8, of 2020, Saudi Arabia initiated an oil war with Russia by unexpectedly deeply discounting oil prices, the result of which triggered a drop of about 25% in Brent Crude pricing.

The Russian Ruble fell immediately, and the world's stock markets reacted violently, with the Dow losing over 1,300 points and suspending trading. Of course, this all occurred concurrent to the world's economic collapse to the Coronavirus, and it drove oil into the low $20's, at times even bouncing in an out of the teens. Recent attempts at stemming the tide by putting oil into storage to shore up the market is only filling the world's storage fast. With about 20% of world's demand having evaporated in the last 2 weeks of March, and Russia and Saudi Arabia continuing to discount, it became apparent that the current target is the U.S. fracking industry, which needs an oil price of around $36 to break even.

Oil production in the U.S. has slowed and exploration has come to a standstill. But this is also a worldwide problem. Small countries that rely on oil exports to fund social programs are suffering, even as small and medium size U.S. companies, and even some larger ones, become victims. At present there is no clear end to the price slide, with some analysts forecasting that prices won't correct upwardly until 2021. It is likely that Russia is all in on this, and they can keep flooding the market with oil for at least the next 2 or 3 quarters. The bottom line is that the energy sector will significantly lag even as the rest of the economy recovers.

Last week one steel company had 40% of the orders on their books cancelled and not a single steelmaker extended their lead time. Some steel mill representatives talked about how this was the first time in their career that they cancelled more tons than they booked. Therefore, steel pricing was erratic all of the current market price indicators were unreliable due to the pricing volatility. Prices quoted in the morning may be much higher than those quoted that afternoon, as EAF producers scrambled to book tons to avoid outages. Several integrated mills idled blast furnaces or in some cases whole plants, as weekly steel production dropped from around 1,900 tons per week at the beginning of the month to around 1,660 at the end, a reduction of about 13%.

This is probably not enough supply reduction to offset the reduced demand as the government takes drastic measure to thwart to spread of the Corona virus. Scrap for April is postured to be down by $60, or maybe more, which will encourage deep discounts by the mills off of today's pricing. CME futures are down, with June futures as of April 1 at $460. Some auto companies are suggesting that they may extend their shutdowns, construction has slowed and even stopped completely by mandates in some states. Coronavirus countermeasures will continue to reduce demand through the first half of Q2.

INDUSTRY NEWS

US Steel Associations Urge Congress to Include Infrastructure Funds in Next Stimulus Bill

Five major US steel industry groups today strongly urged Congress to include significant infrastructure investment in the next phase of COVID-19 stimulus legislation to provide a clear path toward the nation's recovery.

"American businesses will not likely feel the full economic impact of COVID-19 until later this year, as social distancing and shelter-in-place measures undoubtedly save lives but continue to slow economic activity in the manufacturing and construction sectors" the group said in a letter to House Speaker Nancy Pelosi, House Republican Leader Kevin McCarthy, Senate Majority Leader Mitch McConnell and Senate Democratic Leader Charles Schumer. "Making a long-term and robust infrastructure investment now will not only respond to the urgent transportation system needs that are well known, but it also will create high paying jobs allowing businesses and families to recover from this extremely difficult economic shock."

The letter, written by the American Institute of Steel Construction (AISC), American Iron and Steel Institute (AISI), Steel Manufacturers Association (SMA), The Committee on Pipe and Tube Imports (CPTI), and Specialty Steel Industry of North America (SSINA), reiterated that 38v percent of America's 616,000 bridges are in need of replacement or rehabilitation, according to the Federal Highway Administration's National Bridge Inventory.

"With such a staggering backlog of substandard bridges, there is significant opportunity to put Americans back to work and back on the road to economic recovery," they wrote. "We can…improve quality of life in our cities, towns and rural areas and drive commerce and supplies across our nation by making infrastructure investment a critical component of the next stimulus package by including Buy America provisions and using domestically produced and fabricated steel."

The groups concluded that the infrastructure supply chain for steel products used in highway and bridge construction "starts with American steel producers, who have revolutionized the industry by developing clean and efficient steelmaking processes at mills located strategically throughout the country," noting that steel is sold directly or through national distributors to construction companies and to approximately 1,000 American steel fabricators who have built plants, and created jobs, in virtually every congressional district in America. ***Source: SteelOrbis, April 1, 2020***

U.S. Interest in Flat-Rolled Steel Imports Muted

Buyers in the United States remained uninterested in imported flat-rolled steel products, even with prices falling, due to Covid-19 related uncertainties both at home and overseas, according to market participants.

One New Zealand steel producer approached West Coast buyers with hot-rolled product at very competitive costs, but their offers became meaningless after New Zealand enforced a month-long shutdown that began on March 25, in order to protect citizens from the coronavirus, according to a West Coast service center source.

"New Zealand has shut down the entire country, and steel is included in that," the West Coast service center source said. "So even the orders that were booked...there'll be no shipments coming out of New Zealand for the next four to five weeks."

In the meantime, the domestic steel industry demand has continued to suffer from Covid-19, with an increased number of order cancellations, sources said.

Even though the domestic flat-rolled steel mills have responded to the deteriorating demand by cutting their production, many do not believe that it will be enough to prevent the prices from falling sharply, especially in the near term.

"I doubt anyone is buying anything [from overseas] at whatever the price is today, because in two to four months that price today will be lower," a second West Coast service center source said.

According to multiple sources, the only country that has been consistent with offers to the US is South Korea, where the coronavirus outbreak is reported to be under control.

Despite that, the International Trade Administration (ITA) said it is considering making changes to its steel import monitoring system, which would included requiring "import license applicants to identify the country where the steel used in the manufacture of the imported steel products was melted and poured." This would allow a more effective and timely monitoring of any import surges.

ITA is accepting comments through April 29 on the proposed rule. ***Source: AMM, April 2, 2020***