ONI O'NEAL INDUSTRIES

The Insight

August 2024

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Economic News

Employers Added 114,000 Jobs in July; Unemployment is 4.3%

U.S. hiring slowed substantially in July as employers added a disappointing 114,000 jobs amid historically high interest rates, persistent inflation and growing household financial stress.

The unemployment rate rose from 4.1% to 4.3%, the highest since October 2021, the Labor Department said Friday. The rise, along with the pullback in payroll gains and slowing wage growth is stoking recession fears and bolstering the Federal Reserve's case for cutting interest rates, possibly sharply, in September.

Economists had estimated that 175,000 jobs were added last month, according to a Bloomberg survey.

Compounding the picture of a flagging job market: Employment gains for May and June were revised down by total 29,000. And, while a feeble jobs report could always be a one-month blip, gains over the past three months averaged 169,000, down from 218,000 the previous three months. Full Story ***Source: USATODAY, 08.02.2024***

U.S. Economy Grew at a 2.8% Pace in the Second Quarter

Economic activity in the U.S. was considerably stronger than expected during the second quarter, boosted by a strong consumer, government spending and a sizeable inventory build, according to an initial estimate July 27 from the Commerce Department. Real gross domestic product, a measure of all the goods and services produced during the April-through-June period, increased at a 2.8% annualized pace adjusted for seasonality and inflation. Economists surveyed by Dow Jones had been looking for growth of 2.1% following a 1.4% rise in the first quarter. Consumer spending helped propel the growth number higher, as did contributions from private inventory investment and nonresidential fixed investment, according to the first of three estimates the department will provide.

Personal consumption expenditures, the main proxy in the Bureau of Economic Analysis report for consumer activity, increased 2.3% for the quarter, up from the 1.5% acceleration in Q1. Both services and goods spending saw solid increases for the quarter. Inventories also were a significant contributor, adding 0.82 percentage point to the total gain. Full Story ***Source:CNBC, 07.25.2024***

Fed Holds Rates Steady and Notes Progress on Inflation

Federal Reserve officials on July 31 held short-term interest rates steady but indicated that inflation is getting closer to its target, which could open the door for future interest rate cuts. Central bankers made no obvious indications, though, that a reduction is imminent, choosing to maintain language that indicates ongoing concerns about economic conditions, albeit with progress. They also preserved a declaration that more progress is needed before rate reductions can happen.

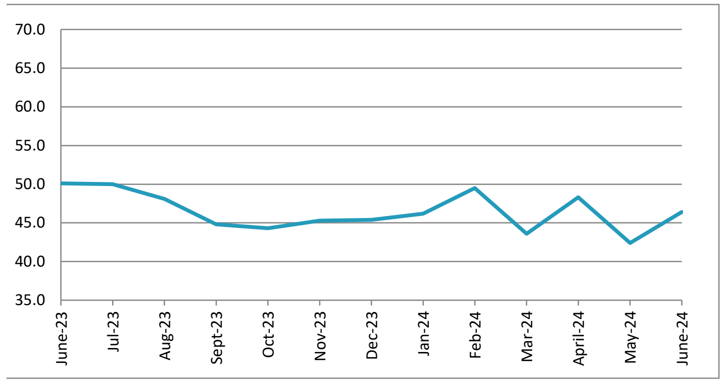
"The Committee judges that the risks to achieving its employment and inflation goals continue to move into better balance," the Federal Open Market Committee's post-meeting statement said, a slight upgrade from previous language. "Inflation has eased over the past year but remains somewhat elevated," the statement continued. "In recent months, there has been some further progress toward the Committee's 2% inflation objective."

However, speaking with the media, Chair Jerome Powell indicated that while no decision has been made about actions at future meetings a cut could come as soon as September if the economic data showed inflation easing. "If that test is met, a reduction in our policy rate could be on the table as soon as the next meeting in September," Powell said.

As for the Fed's statement, its language also represented an upgrade from the June meeting, when the policy statement indicated only "modest" progress in bringing down price pressures that two years ago had been running at their highest level since the early 1980s. The previous statement also characterized inflation as simply "elevated," rather than "somewhat elevated." There were a few other tweaks as well, as the FOMC voted unanimously to keep its benchmark overnight borrowing rate targeted between 5.25%-5.5%. That rate, the highest in 23 years, has been in place for the past year, the result of 11 increases aimed at bringing down inflation. One change noted that committee members are "attentive" to the risks on both sides of its mandate for full employment and low inflation, dropping the word "highly" from the June statement. Full Story ***Source: CNBC, 07.31.2024***

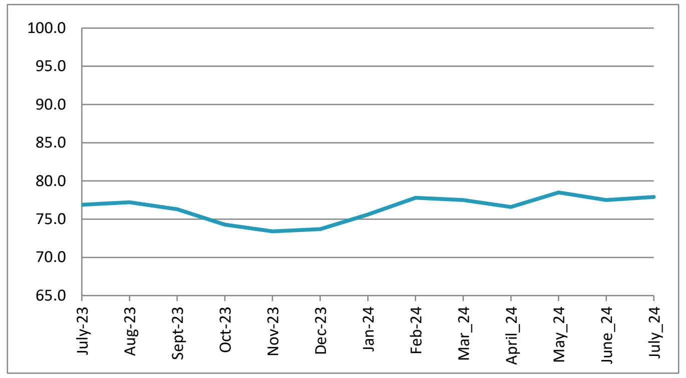
Key Economic Indicators

Architecture Billings Index (ABI)



Billings at firms decreased for the seventeenth consecutive month, with an AIA/Deltek Architecture Billings Index (ABI) score of 46.4 (any score below 50 means that billings declined). Although somewhat fewer firms reported a decline in billings in June than in May, the majority continued to experience a decrease from the previous month. Indicators of future work remained generally soft as well, with only slightly more than half of responding firms reporting an increase in inquiries into new work. Firms also reported a decline in the value of newly signed design contracts for the third consecutive month. While many firms still have a healthy backlog of projects in the pipeline, 6.4 months on average, this is the smallest that backlogs have been in more than three years. This month we asked architecture firm leaders about current staffing needs at their firms in terms of architecture staff. On average, most firm leaders (61%) responded that their firm is currently appropriately staffed. However, more than one quarter (28%) indicated that they are currently understaffed, while just 11% believe that they are currently overstaffed. ***Source: ABI, 07.23.2024***

Steel Capability Utilization

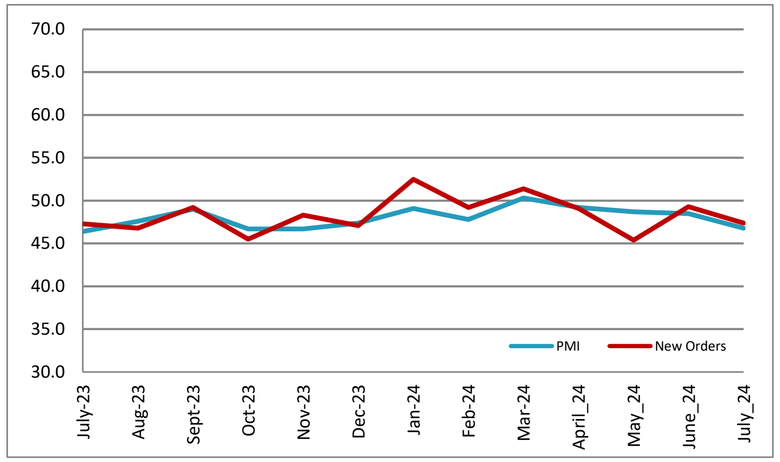


In the week ending on July 27, 2024, domestic raw steel production was 1,729,000 net tons while the capability utilization rate was 77.9%. Production was 1,689,000 net tons in the week ending July 27, 2023 while the capability utilization then was 74.3%. The current week production represents a 2.4% increase from the same period in the previous year. Production for the week ending July 27, 2024 is down 0.6% from the previous week ending July 20, 2024 when production was 1,739,000 net tons and the rate of capability utilization was 78.3%.

Adjusted year-to-date production through July 27, 2024 was 50,772,000 net tons, at a capability utilization rate of 76.6%. That is down 2.1% from the 51,880,000 net tons during the same period last year, when the capability utilization rate was 77.3%.

Broken down by districts, here's production for the week ending July 27, 2024 in thousands of net tons: North East: 131 Great Lakes: 571; Midwest: 217; Southern: 741 and Western: 69 for a total of 1729. ***Source: AISI, 07. 27.2024***

Purchasing Managers Index (PMI)®



The Manufacturing PMI® registered 46.8% in July, down 1.7 %age points from the 48.5% recorded in June. The overall economy continued in expansion for the 51st month after one month of contraction in April 2020. (A Manufacturing PMI® above 42.5%, over a period of time, generally indicates an expansion of the overall economy.) The New Orders Index remained in contraction territory, registering 47.4%, 1.9 %age points lower than the 49.3% recorded in June. The July reading of the Production Index (45.9%) is 2.6 %age points lower than June's figure of 48.5%. The Prices Index registered 52.9%, up 0.8 %age point compared to the reading of 52.1% in June. The Backlog of Orders Index registered 41.7%, equaling its June reading. The Employment Index registered 43.4%, down 5.9 percentage points from June's figure of 49.3%.

The Supplier Deliveries Index indicated slowing deliveries, registering 52.6%, 2.8 percentage points higher than the 49.8% recorded in June. (Supplier Deliveries is the only ISM® Report On Business® index that is inversed; a reading of above 50% indicates slower deliveries, which is typical as the economy improves and customer demand increases.) The Inventories Index registered 44.5%, down 0.9 percentage point compared to June's reading of 45.4%.

The New Export Orders Index reading of 49% is 0.2 percentage point higher than the 48.8% registered in June. The Imports Index remained in contraction territory in July, registering 48.6%, 0.1 percentage point higher than the 48.5 % reported in June. ***Source: ISMWorld, 08.01.2024***

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Industry News

U.S. Worker Productivity Accelerates in Second Quarter; Labor Costs Tame

U.S. worker productivity growth accelerated in the second quarter, keeping the increase in labor costs in check, and further brightening the inflation outlook.

Nonfarm productivity, which measures hourly output per worker, increased at a 2.3% annualized rate last quarter after rising at an upwardly revised 0.4% pace in the January-March period, the Labor Department's Bureau of Labor Statistics said on July 31. Economists polled by Reuters had forecast productivity increasing at a 1.7% rate after rising at a previously reported 0.2% pace in the first quarter. Productivity advanced at a 2.7% pace from a year ago.

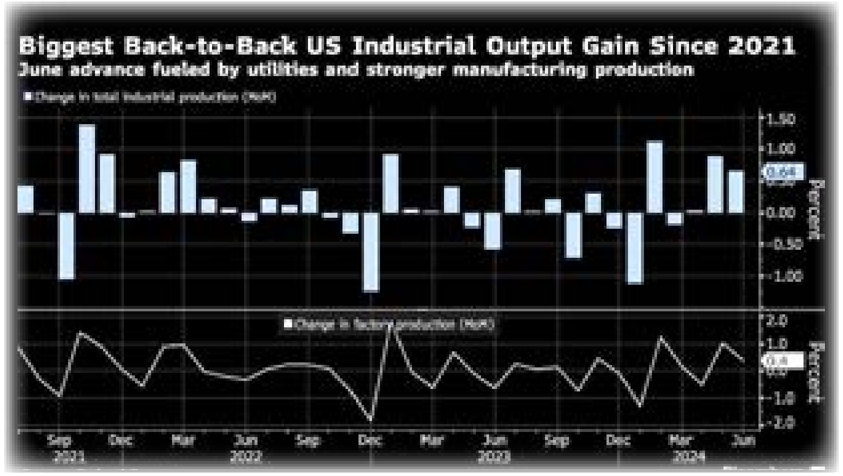
Unit labor costs - the price of labor per single unit of output - rose at a 0.9% rate in the April-June quarter.

Data for the first quarter was revised lower to show unit labor costs rising at a 3.8% rate instead of the previously reported 4.0% pace. Labor costs increased at a 0.5% pace from a year ago.

The government reported on Wednesday that annual labor costs recorded their smallest rise in 2-1/2 years in the second quarter. The Federal Reserve on Wednesday kept its benchmark overnight interest rate in the 5.25%-5.50% range, where it has been since last July, but opened the door to reducing borrowing costs as soon as its next meeting in September. Compensation rose at a 3.3% rate last quarter after increasing at a 4.2% pace in the first quarter. It advanced at a 3.2% rate from a year ago. London's FTSE index lost around 2% from the open. ***Source: Reuters, 08.01.2024***

U.S. Industrial Output Posts Largest Back-to-Back Gains Since 2021

U.S. industrial production posted a solid advance for a second month in June, helped by a pickup in factory output that indicates manufacturing could be regaining some footing. The 0.6% increase in production at factories, mines and utilities followed a revised 0.9% gain a month earlier, marking the biggest two-month advance since late 2021, Federal Reserve data showed July 17. The median estimate in a Bloomberg survey called for a 0.3% increase.



Factory output rose 0.4% — in a broad advance that included gains in autos, electrical equipment, appliances and nondurable goods — following May's upwardly revised 1% increase. Mining and energy extraction rose 0.3%, while output growth at utilities accelerated.

Manufacturing, which accounts for three-fourths of total industrial production, has had difficulty building momentum amid rising input prices and higher borrowing costs that have restrained investment. The Institute for Supply Management's widely-followed measure of factory activity has been stuck in contraction territory for all but one month since October 2022.

The Fed's report showed capacity utilization at factories, a measure of potential output being used, rose to 77.9%, the highest level since September 2023. The overall industrial utilization rate rose to 78.8%.

Output of consumer goods rose 1%, the most in nearly a year. A separate report on July 17 showed that U.S. retail sales, excluding the impact of a cyberattack on auto dealerships, rose in June by the most in three months, a sign consumers regained their footing at the end of the second quarter.

Motor vehicle assemblies surged to 13.4 million on an annualized basis, the highest in nearly nine years. ***Source: Bloomberg, 07.17.2024***

OSHA Releases First-Ever Regulation To Protect Workers From Heat

In July, the Occupational Safety and Health Administration (OSHA) issued a proposed regulation that, if finalized, would require employers to:

- Develop and implement a work site heat injury and illness prevention plan (HIIPP) with site-specific information to evaluate and control heat hazards in their workplace;
- Identify heat hazards in both outdoor and indoor work sites;
- For outdoor work sites, monitor heat conditions by tracking local heat index forecasts or measuring heat index or wet bulb globe temperature;
- For indoor work sites, identify work areas with the potential for hazardous heat exposure, develop and implement a monitoring plan, and seek employee input;
- Implement control measures at or above the Initial Heat Trigger (i.e., a heat index of 80°F or a wet bulb globe temperature equal to the NIOSH Recommended Action Limit) that include providing employees with cool drinking water, break areas with cooling measures, indoor work area controls, acclimatization protocols for new and returning unacclimatized employees, paid rest breaks if needed to prevent overheating, and regular and effective two-way communication;
- Implement additional control measures at or above the High Heat Trigger that include providing employees with mandatory rest breaks of 15 minutes at least every two hours, observation for signs and symptoms of heat-related illness, a hazard alert to remind employees of key parts of the HIIPP, and warning signs at indoor work areas with ambient temperatures that regularly exceed 120°F;
- Take steps if an employee is experiencing signs and symptoms of a heat-related illness or a heat emergency, and develop a heat emergency response plan;
- Provide initial and annual refresher training for supervisors, heat safety coordinators, and employees, as well as supplemental training after changes in exposure to heat hazards, policies and procedures, or the occurrence of a heat injury or illness; and
- Have and maintain, for a minimum of six months, written or electronic records of indoor monitoring data.

All requirements would have to come at no cost to employees. While the regulation goes through the public comment process and revisions, OSHA said it would continue to use its enforcement powers to protect workers.

"The agency continues to conduct heat-related inspections under its National Emphasis Program-Outdoor and Indoor Heat-Related Hazards, launched in 2022," the press release said. "The program inspects workplaces with the highest exposures to heat-related hazards proactively to prevent workers from suffering injury, illness or death needlessly."

Click here to read the White House fact sheet announcing this proposed regulation and here to read OSHA's fact sheet. ***Source: MSCI, 07.14.2024***

High Interest Rates, Tight Credit Conditions Stall Projects

Nonresidential construction spending ticked down 0.2% in June to a seasonally adjusted annual rate of $1.21 trillion, according to Associated Builders and Contractors' (ABC) analysis of U.S. Census Bureau data released August 1. Spending dropped in almost half of nonresidential subcategories in June. Both public and private spending fell 0.4% and 0.1%, respectively. That decrease stems from higher interest rates, tighter credit conditions and a softening economy, said Anirban Basu, ABC chief economist, in the release.

Despite the recent spending tick down, many contractors remain upbeat and expect revenue growth over the next six months, according to ABC. However, with interest rates still elevated, Basu said "many projects are being put on hold, limiting construction starts, suppressing backlog and perhaps eventually eroding current contractor confidence."

While multibillion-dollar megaprojects across the nation continue to grab headlines, overall nonresidential construction spending appears to have entered a period of stagnation, said Basu.

For example, despite a substantial 19.1% increase year over year, spending on manufacturing projects in June posted almost no change in June, ticking up 0.1%, according to ABC. Office construction spending remained flat, while highway and street spending ticked down 0.4% over the month.

Even overall public nonresidential construction, buoyed by government dollars, ticked down 0.4% in June. These limited month-over-month changes across the board, even in sectors with strong annual growth, reflect the impact of a high cost environment, said Basu. ***Source: Construction Dive, 08.01.2024***

U.S., Mexico Move to Thwart China Circumvention of Tariffs

The U.S. and Mexico on July 10 announced new steps to fight the circumvention of U.S. tariffs on steel and aluminum by China and other countries that ship products through Mexico, implementing a North American "melted and poured" standard for steel. The White House said that under a new policy implemented by President Joe Biden, steel product imports from Mexico will be subject to 25% U.S. "Section 232" tariffs unless the steel is documented to have been melted and poured in Mexico, the U.S. or Canada.

Similarly, for aluminum product imports from Mexico to escape the 10% Section 232 tariffs, they must not contain primary aluminum that is smelt or cast in China, Russia, Belarus or Iran.

Importers of the products into the U.S. will need to provide a certificate of analysis to U.S. Customs and Border Protection showing the country of origin for the metals, Biden administration officials said.

Mexico has agreed to require importers of steel products across its borders to provide more information on the country of origin of these products, Biden and Mexican President Andres Manuel Lopez Obrador said in a joint statement.

"Both countries will implement policies to jointly prevent tariff evasion on steel and aluminum, and strengthen North American steel and aluminum supply chains," the presidents said in the statement released by the White House. Biden has courted the votes of union members and particularly the United Steelworkers opposing a takeover by Japan's Nippon Steel of Pittsburgh-based U.S. Steel.

The new import requirements come amid increasing concerns about China's excess industrial capacity flooding global markets with exports amid weak domestic demand. It comes after Biden in May hiked tariffs on a broad array of strategic goods from China, including steel and aluminum, electric vehicles, batteries, semiconductors and critical minerals. But U.S. officials have grown increasingly concerned that Mexico could become a back door for China into the U.S. market, taking advantage of Mexico's duty-free access through the North American trade pact.

Reuters reported in April that the U.S. officials cautioned their Mexican counterparts against offering incentives to Chinese electric vehicle manufacturers that were scouting out potential factory sites in Mexico.

U.S. Trade Representative Katherine Tai described the action as "fixing a loophole" left by the Trump administration, which imposed the Section 232 tariffs in 2018.

Metal found to have Chinese origin would also be subject to 25% Section 301 duties, a rate increased by Biden in May. Volumes of steel imports from Mexico originating elsewhere were small in 2023, making up only about 13% of the 3.8 million tons of steel imported from Mexico, according to U.S. Census Bureau data.

But a Biden administration official said the new requirements were "forward-looking," meant to head off an expected surge of imports as China's steel-consuming sectors such as real estate struggle.

The American Iron and Steel Institute, an industry group, applauded the step to close off an avenue for Chinese steel into the U.S. market, but said its effectiveness depended on Mexico providing accurate information on the metals that it imports.

"We urge the U.S. government to continue to press for additional actions to address the many schemes by steel traders to circumvent and evade U.S. trade laws, and to ensure this new arrangement is vigorously and fully enforced," the group said.

Biden and Lopez Obrador in their statement pledged more U.S.-Mexico cooperation in coming weeks and months "to protect the North American steel and aluminum markets from unfair trade practices."

Lopez Obrador's successor, President-elect Claudia Sheinbaum, takes office on Oct. 1 but has begun to name her cabinet. ***Source: Reuters, 07.10.2024***