O'NEAL MANUFACTURING SERVICES
AN ONI COMPANY
Let's Build Things®
www.onealmfgservices.com

Economic News
Key Economic Indicators
Industry Articles
Trade

Market Insight
April 2023

Job News: Job growth slowed in March as a winter hiring spree lost steam while high interest rate hikes and inflation finally appeared to take a bigger toll on the labor market.

U.S. employers added 236,000 jobs while the unemployment rate fell from 3.6% to 3.5%, close to a 50-year low, the Labor Department said on April 7.

Economists had forecast 230,000 job gains, according to Bloomberg survey.

What is the labor force participation rate?
In an encouraging sign that could ease wage growth and inflation, the share of adults working or looking for a job edged up to 62.6%. That's the highest since the pandemic started in early 2020 but still leaves it well below the pre-COVID level of 63.4%. ***Source:USA Today, 04.07.2023***

Powell Stresses Commitment To Cooling Prices As Fed Hikes Rates

The Federal Reserve raised interest rates at a ninth straight meeting and indicated there may be more hikes to come in a clear sign it's confident that its bid to quell inflation won't deepen a nascent banking crisis. The Federal Open Market Committee voted unanimously to increase its target for the federal funds rate by a quarter % age point to a range of 4.75% to 5%, the highest since September 2007, when rates were at their peak on the eve of the financial crisis. It's the second straight rise of 25 basis points following a string of aggressive moves starting in March 2022, when rates were near zero.

"We are committed to restoring price stability, and all of the evidence says that the public has confidence that we will do so," Chair Jerome Powell said at a press conference following the Fed's two-day meeting. "It is important that we sustain that confidence with our actions as well as our words." Officials are prepared to raise rates higher if needed, he said.

"The Fed appears quietly confident the economy won't be heavily disrupted by recent banking sector woes," said James Knightley, chief international economist at ING. "We are more pessimistic. Our concern was that this has been the most aggressive monetary policy tightening cycle for 40 years and by going harder and faster into restrictive territory you naturally have less control over the outcome." In a reflection of the intense scrutiny that the Fed is currently under, White House Press Secretary Karine Jean-Pierre was asked by reporters if President Joe Biden still had confidence in his Fed chair. She said that he did.

Powell, in his press conference, emphasized the U.S. banking system is sound and resilient, reiterating a line in the FOMC's post-meeting statement, and said the agency is prepared to use all of its tools to maintain stability. He also acknowledged recent banking turmoil is "likely to result in tighter credit conditions for households and businesses, which would in turn affect economic outcomes," but added, "It's too soon to tell how monetary policy should respond."

Fed policymakers projected rates would end 2023 at about 5.1%, unchanged from their median estimate from the last round of forecasts in December. The median 2024 projection rose to 4.3% from 4.1%.

The hike and forecasts suggest policymakers remain firmly focused on bringing down inflation to their 2% goal, indicating they see rising prices as a bigger growth threat than the bank turmoil. It also projects confidence that the economy and financial system remain healthy enough to withstand the string of bank collapses. At the same time, rising borrowing costs risk worsening the bank crisis, especially since it was higher interest rates on holdings of Treasuries that precipitated Silicon Valley Bank's collapse and threatened other lenders. If the Fed is underestimating the extent of financial fissures, the latest move risks adding to pressures that could tip the economy into recession.

Powell said the Fed would welcome an outside investigation into the apparent lapses in oversight of SVB, and that he plans to support stronger

bank supervision and regulation if recommended by the Fed's Vice Chair for Supervision Michael Barr. "The question we were all asking ourselves over that first weekend was, 'How did this happen?'" he said. The Fed "anticipates that some additional policy firming may be appropriate in order to attain a stance of monetary policy that is sufficiently restrictive to return inflation to 2% over time," officials said in their post-meeting statement.

Asked about the change in language, Powell said, "Really, I would focus on the words 'may' and 'some'." He stressed that Fed officials don't expect rate cuts this year. He also said policy makers considered a pause in their interest-rate hiking campaign in light of the banking turmoil, but the consensus for an increase was strong, citing recent data showing "inflation pressures continue to run high." The change in the statement language - policymakers had previously said that "ongoing increases" in the benchmark rate would be appropriate - signals they want to add flexibility to pause if necessary. ***Source: Bloomberg, 02.22.2023***

Long-awaited Fed Digital Payment System To launch In July

The Federal Reserve's digital payments system, which it promises will help speed up the way money moves, will debut in July. FedNow, as it will be known, will create "a leading-edge payments system that is resilient, adaptive, and accessible," said Richmond Fed President Tom Barkin, who is the program's executive sponsor.

The system will allow bill payments, money transfers such as paychecks and disbursements from the government, as well as a host of other consumer activities to move more rapidly and at lower cost, according to the program's goals. Participants will complete a training and certification process in early April, according to a Fed announcement.

"With the launch drawing near, we urge financial institutions and their industry partners to move full steam ahead with preparations to join the FedNow Service," said Ken Montgomery, the program executive and first vice president at the Boston Fed, which helped spearhead the project under former Boston Fed President Eric Rosengren.

Institutions that participate in the program will have seven-day, 24-hour access, as opposed to a system currently in place that closes on weekends.

Program advocates say it will get money out to people much more quickly. For instance, they said, government payments like those issued in the early days of the COVID pandemic would have been credited to accounts immediately rather than the days it took to reach most people. Some Fed officials say the program even could supplant the need for a central bank digital currency. ***Source: CNBC,03.16.2023***

U.S. Consumer Confidence Improved In March

Confidence in the U.S. economy ticked up in March, despite the sudden turmoil in the banking industry, according to the latest report from the Conference Board. The business group's Consumer Confidence Index increased to 104.2 in March from an upwardly revised reading of 103.4 the month before. Economists were expecting a reading of 101, according to Refinitiv. The March headline index saw a boost from consumers' improved levels of confidence for the six-month-ahead time frame. The Expectations Index increased to 73 from 70.4 in February, while the Present Situation Index dipped to 151.1 from 153. The survey had a cutoff date of March 20, about 10 days after state and federal regulators closed Silicon Valley Bank.

"Despite having been buffeted by the news headwinds on the evolving bank crisis in recent days, consumers have not lost confidence and expect better days lie ahead," Chris Rupkey, chief economist for FwdBonds, said in a statement March 28. "Additional banks have not failed and consumers generally feel their money in the bank is safe for now," he said. "Fed officials backed away from more aggressive action on rates at last week's meeting expecting that tighter credit conditions following the banking panic could slow economic growth in the future." A reading below 80 on the Conference Board's Expectations Index often signals that a recession will occur within the next year.

"The share of consumers saying jobs are 'plentiful' fell, while the share of those saying jobs are 'not so plentiful' rose," said Ataman Ozyildirim, the Conference Board's senior director of economics, in a statement. "The latest results also reveal that their expectations of inflation over the next 12 months remain elevated — at 6.3%. Overall purchasing plans for appliances continued to soften while automobile purchases saw a slight increase."

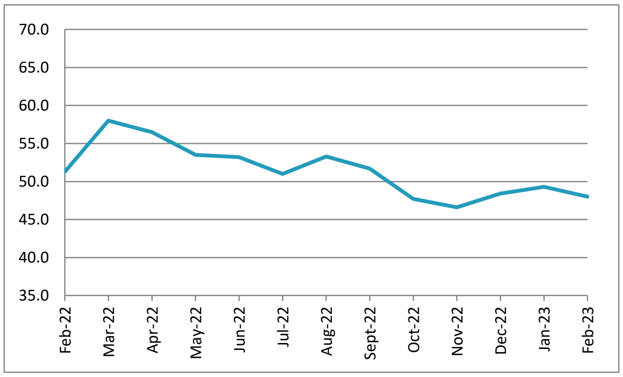
In the survey, the business and research group also asked a new question about service industry spending during the coming six months. Respondents said they planned to spend less on activities such as gambling, amusement park and museum visits, travel and the movies. The largest categories for spending increases include health care, household maintenance and car repair. The services sector has become an area of focus for the Federal Reserve as it seeks to tamp down inflation.

As the economy recovered from the pandemic last year, consumers shifted spending from goods to services and out-of-home experiences. At the same time, the leisure and hospitality and other related industries struggled to fully recapture the massive job losses during the pandemic. An increase in some wages, combined with continued labor shortages, has triggered concern among Fed officials, who worry that could put upward pressure on inflation. At the same time, consumer spending helps to drive the U. S. economy, so central bankers and economists alike are closely watching how much those expenditures fall.

The Conference Board's confidence index and the University of Michigan's twice-a-month consumer sentiment index are two leading gauges of consumers' attitudes toward the current and future strength of the economy. Although the two indexes typically track similarly over time, the consumer confidence index is more influenced by employment and labor market conditions, while the Michigan sentiment index has a greater emphasis on household finances and the impact of inflation. ***Source: CNN, 03.28.2023***

KEY ECONOMIC INDICATORS

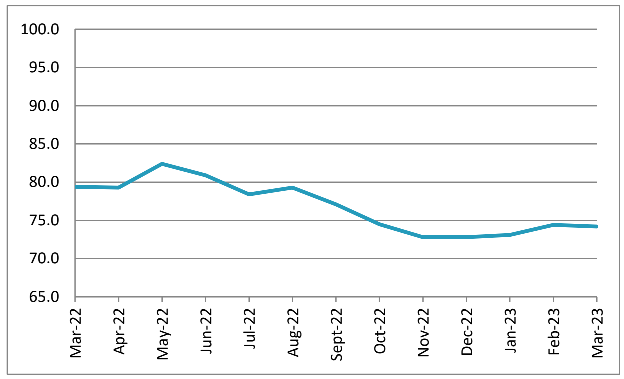
Architecture Billings Index (ABI)



More architecture firms reported a decline in billings in February, indicating an extension of a recent downturn in design activity according to a new report released today from The American Institute of Architects (AIA). The score for February fell slightly to 48.0 (any score below 50 indicates a decline in firm billings). However, inquiries into new projects continued to improve, as did the value of new design contracts. Both indicators suggest that design work is expected to improve in the coming months.'

The Architecture Billings Index (ABI) is a diffusion index derived from the monthly Work-on-the-Boards survey, conducted by the AIA Economics & Market Research Group. The ABI serves as a leading economic indicator that leads nonresidential construction activity by approximately 9-12 months. An index score of 50 represents no change in firm billings from the previous month, a score above 50 indicates an increase in firm billings from the previous month, and a score below 50 indicates a decline in firm billings from the previous month. ***Source: American Institute for Architects, 03.22.2023***

Steel Capability Utilization

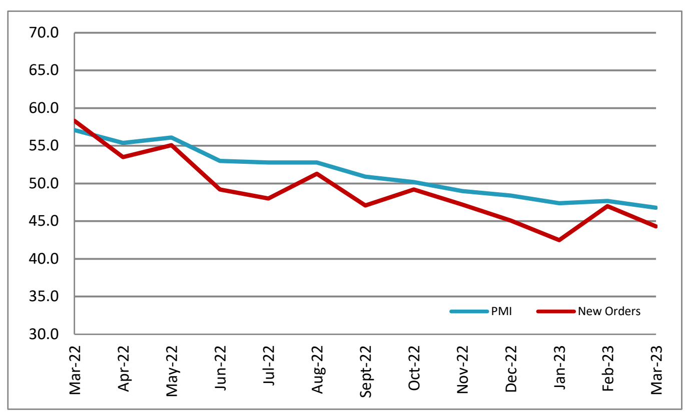


In the week ending on April 1, 2023, domestic raw steel production was 1,658,000 net tons while the capability utilization rate was 74.2 % . Production was 1,721,000 net tons in the week ending April 1, 2022 while the capability utilization then was 79.1 % . The current week production represents a 3.7 % decrease from the same period in the previous year. Production for the week ending April 1, 2023 is down 1.3 % from the previous week ending March 25, 2023 when production was 1,679,000 net tons and the rate of capability utilization was 75.1 % .

Adjusted year-to-date production through April 1, 2023 was 21,608,000 net tons, at a capability utilization rate of 74.3 % . That is down 4.1 % from the 22,535,000 net tons during the same period last year, when the capability utilization rate was 79.7 % .

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 ASI, 03.29.23***

Purchasing Managers Index (PMI)®



The March Manufacturing PMI® registered 46.3 % , 1.4 % age points lower than the 47.7 % recorded in February. Regarding the overall economy, this figure indicates a fourth month of contraction after a 30-month period of expansion. The Manufacturing PMI® is at its lowest level since May 2020, when it registered 43.5 % . The New Orders Index remained in contraction territory at 44.3 % , 2.7 % points lower than the figure of 47 % recorded in February. The Production Index reading of 47.8 % is a 0.5% point increase compared to February's figure of 47.3 % . The Prices Index registered 49.2 % , down 2.1 % points compared to the February figure of 51.3 % . The Backlog of Orders Index registered 43.9 % , 1.2 % age points lower than the February reading of 45.1 % . The Employment Index continued in contraction territory, registering 46.9 % , down 2.2 % age points from February's reading of 49.1 % . The Supplier Deliveries Index figure of 44.8 % is 0.4 % point lower than the 45.2 % recorded in February; this is the index's lowest reading since March 2009 (43.2 %). The Inventories Index dropped into contraction at 47.5 % , 2.6 % age points lower than the February reading of 50.1 % . The New Export Orders Index reading of 47.6 % is 2.3 % age points lower than February's figure of 49.9 % . The Imports Index continued in contraction territory at 47.9 % , 2 % age points below the 49.9 % reported in February.

The six manufacturing industries that reported growth in March — in the following order — are: Printing & Related Support Activities; Miscellaneous Manufacturing; Fabricated Metal Products; Petroleum & Coal Products; Primary Metals; and Machinery. The 12 industries reporting contraction in March, in the following order, are: Furniture & Related Products; Nonmetallic Mineral Products; Textile Mills; Plastics & Rubber Products; Paper Products; Wood Products; Food, Beverage & Tobacco Products; Apparel, Leather & Allied Products; Chemical Products; Computer & Electronic Products; Electrical Equipment, Appliances & Components; and Transportation Equipment.
Source: Institute for Supply Management, 04.01.2023

U.S. Manufactured Goods Orders Edge Down In February: Govt

Orders of big-ticket manufactured items ticked down in February on a slump in defense aircraft and parts, according to U.S. government data released March 24. Durable goods orders dipped 1% last month to $268.4 billion, said the Commerce Department, less than January's fall but defying analyst expectations of a monthly increase instead.

"Excluding transportation, new orders were virtually unchanged," said the department in a statement, adding that orders of transportation equipment have been down for three of the last four months. Orders of defense aircraft and parts fell 11.1%, while those of computers and related products edged down 2.7%.

Meanwhile, orders of non-defense aircraft and parts dropped 6.6%. Civilian aircraft figures often dominate swings in orders and "have trended higher over the past couple of years as air travel has recovered post-COVID," Ian Shepherdson, chief economist of Pantheon Macroeconomics, wrote in a recent report.

"That rebound now looks to have run its course, however," Shepherdson said, adding that airline passenger volumes returned to 2019 levels at the end of last year and have leveled off over the past couple months. He expects a similar trend for vehicles and parts. Looking ahead, turmoil in the banking sector following the swift collapse of Silicon Valley Bank and Signature Bank in recent weeks would likely lead to tighter credit conditions.

"That will deal an additional blow to capital spending, making it much more likely that the economy slips into recession later this year," Shepherdson said. ***Source: IndustryWeek, 03.24.2023***

Reshoring, Foreign Direct Investment Job Announcements Set New Record In 2022

Reshoring and foreign direct investment (FDI) job announcements for 2022 reached a new record of 364,000, a 53% increase from the previous year, according to the Reshoring Initiative's 2022 Data Report. "We publish this data quarterly to show companies that their peers are successfully reshoring and that they should reevaluate their sourcing and siting decisions," said Harry Moser, founder and president of the Reshoring Initiative. The report credits the Inflation Reduction Act and the Chips and Science Act for the drastic increase in U.S. manufacturing by both foreign and domestic companies.

Securing electrical equipment as the top industry, "U.S. investments in chips and EV batteries accounted for 53% of 2022 job announcements," according to the report. "Electric vehicle batteries were the most active product to be reshored/FDI'd in 2022."

The top driving factors for the trend were reported as government incentives, skilled workforce, and supply chain interruption risk. Together, the South and the Midwest account for 76% of jobs, with Ohio, Georgia, Tennessee and North Carolina appearing in the top five. However, New York boasts the highest number of job announcements for 2022 at 12%, a large jump from last year's report where the state ranked 10. From 2010 through 2022, Asia has accounted for 72% of reshoring; Asia has also surpassed Europe for FDI over the same time period, coming in at 48%. "We expect 2023 and 2024 to remain strong, continuing at approximately 350,000 job announcements per year," projects the report.

On its list of factors likely to slow reshoring and FDI, the No. 1 cause is the continuation of workforce shortages, echoing the concerns of many companies anxious to find skilled labor. Other forces are named as a high inflation rate, lack of automation investments and increased industrial capabilities in other countries. Overall, the rate of job announcements last year was up almost 6,000% from 2010. "If the current trajectory continues, the U.S. will reduce the trade deficit, add jobs and become safer, more self-reliant and resilient." Although there is uncertainty, the report concludes that we can be cautiously optimistic about meeting the challenges that are to come.

"While the upward trend is sustaining momentum now, at some point companies will become more focused on fulfilling the giant commitments already made before announcing more.

We may see a bump in smaller firm contract manufacturing jobs as they help fulfill the objectives of the recent large investments. It is also a hope that current supply chain improvements will foster ease and expand opportunities for more industries that previously couldn't justify local production." ***Source: IndustryWeek, 03.27.2023***

War In Ukraine Threatens Global Steel Sector

The ongoing Russian invasion of Ukraine threatens to stifle steel trade, disrupt raw material markets and increase market uncertainty, the OECD Steel Committee revealed during its 93rd session.

Delegates agreed that the committee stands ready to support Ukraine – a long-standing member of the committee – in the reconstruction and decarbonization of its steel industry. The consequences of the war are reverberating internationally through the steel supply chain and have led to an increasing number of export restrictions on steelmaking raw materials such as scrap.

These developments are compounding the already poor steel market conditions being caused by a plethora of concurrent factors including increased cost pressures on steel producers and ever-growing excess steelmaking capacity. Responding to these challenges, the committee launched a Global Steel Supply Chain Observatory, aimed at assisting members and industries with real-time monitoring of raw material markets and related policy measures, providing a platform for finding solutions and reducing risks and vulnerabilities.

The committee also discussed its role and ambitious work program on steel decarbonization, and how its mandate of ensuring a level playing field and open markets can support this fundamental industry transformation that is occurring via different instruments and at various speeds worldwide.

Also, at the meeting, participants:

• Discussed the difficult 2022 for global steel market participants, driven by the world economic slowdown, persistent high inflation, supply chain disruptions and the downturn in China.

• Expressed concerns about the further increase in global steel excess capacity. Global crude steelmaking capacity rose to 2 463.4 million metric tons in 2022, with significant capacity expansions particularly in Southeast Asia and the Middle East contributing to the growing gap between global crude steelmaking capacity and production that reached 632.0 million tons in 2022, up from 516.9 million tons in 2021. The modest longer-term outlook for steel demand growth risks exacerbating these challenges.

•Highlighted continued concerns regarding Chinese steelmaking capacity, accounting for 47 % of the world's total in 2022, particularly given the current market slowdown from an ailing real estate sector and possible steel demand declines in the coming years.

• Reviewed recent trade measures on steel and steelmaking raw materials, including sanctions, and agreed that addressing the root causes of excess capacity remains a priority to avoid trade tensions involving steel products in the future.

• Agreed to strengthen their work on the impacts of market-distorting subsidies and other government support on excess capacity, trade and the viability of the steel industry, while encouraging decarbonization of the steel sector under conditions of fair competition.

• Discussed some of the pathways to the decarbonization of the steel sector under conditions of fair competition across regions using different technologies, and the role of the Steel Committee on this important issue, including the monitoring of different emission measurement approaches. ***Source: Metal Center News, 03.20.2023***

EPA Finalized Air Regulations Affecting Metals Industry

The U.S. Environmental Protection Agency (EPA) has finalized new regulations aimed at limiting smog pollution from power plants and other industrial facilities in 23 states. The rule will impact:

• Boilers in iron and steel mills and ferroalloy manufacturing, metal ore mining, basic chemical manufacturing, petroleum and coal products manufacturing, and pulp, paper, and paperboard mills;

• Reheat furnaces in iron and steel mills and ferroalloy manufacturing;

• Reciprocating internal combustion engines in pipeline transportation of natural gas;

• Kilns in cement and cement product manufacturing; Furnaces in glass and glass product manufacturing; and combustors and incinerators in solid waste combustors or incinerators.

The EPA's Federal Implementation Plan will require states to comply with more stringent nitrogen oxide levels. Further reductions will be phased in next year. The new rules also contain information about a modified emissions trading program, which are meant to help ensure compliance, but will cost an estimated $1 billion annually. ***Source: MSCI, 03.20.2023***

Reshoring, Foreign Direct Investment Job Announcements Set New Record In 2022

Reshoring and foreign direct investment (FDI) job announcements for 2022 reached a new record of 364,000, a 53% increase from the previous year, according to the Reshoring Initiative's 2022 Data Report. "We publish this data quarterly to show companies that their peers are successfully reshoring and that they should reevaluate their sourcing and siting decisions," said Harry Moser, founder and president of the Reshoring Initiative. The report credits the Inflation Reduction Act and the Chips and Science Act for the drastic increase in U.S. manufacturing by both foreign and domestic companies.

Securing electrical equipment as the top industry, "U.S. investments in chips and EV batteries accounted for 53% of 2022 job announcements," according to the report. "Electric vehicle batteries were the most active product to be reshored/FDI'd in 2022."

The top driving factors for the trend were reported as government incentives, skilled workforce, and supply chain interruption risk. Together, the South and the Midwest account for 76% of jobs, with Ohio, Georgia, Tennessee and North Carolina appearing in the top five. However, New York boasts the highest number of job announcements for 2022 at 12%, a large jump from last year's report where the state ranked 10. From 2010 through 2022, Asia has accounted for 72% of reshoring; Asia has also surpassed Europe for FDI over the same time period, coming in at 48%. "We expect 2023 and 2024 to remain strong, continuing at approximately 350,000 job announcements per year," projects the report.

On its list of factors likely to slow reshoring and FDI, the No. 1 cause is the continuation of workforce shortages, echoing the concerns of many companies anxious to find skilled labor. Other forces are named as a high inflation rate, lack of automation investments and increased industrial capabilities in other countries.

Overall, the rate of job announcements last year was up almost 6,000% from 2010. "If the current trajectory continues, the U.S. will reduce the trade deficit, add jobs and become safer, more self-reliant and resilient." Although there is uncertainty, the report concludes that we can be cautiously optimistic about meeting the challenges that are to come.

"While the upward trend is sustaining momentum now, at some point companies will become more focused on fulfilling the giant commitments already made before announcing more. We may see a bump in smaller firm contract manufacturing jobs as they help fulfill the objectives of the recent large investments. It is also a hope that current supply chain improvements will foster ease and expand opportunities for more industries that previously couldn't justify local production.***" Source: IndustryWeek, 03.27.2023***

U.S.,EU Vow To Combat Any Attempts To Disrupt Energy Markets

The U.S. and EU pledged on April 4 to confront any attempts to destabilize global energy markets, after meeting in Brussels to discuss the impact of Russia's invasion of Ukraine. Cooperation on energy between the United States and the European Union has intensified since Russia slashed gas deliveries to Europe after its invasion of Ukraine last year. This plunged the continent into a crisis over energy supplies and record-high prices.

European politicians have accused Russia of "weaponizing" its energy supplies and the U.S. and EU have imposed sanctions on Russian goods including coal and oil, as well as a G7-organized price cap on seaborne Russian oil. "The two sides reiterated their strong commitment to directly confront, with adequate measures, all efforts to further destabilize the global energy situation and to circumvent sanctions," they said in a joint statement.

Europe has so far managed to replace most of the gas it previously got from Moscow, aided by a jump in imports from other suppliers, a rapid build-out of renewable energy, warm winter weather and EU policies that curbed overall gas use. The U.S. delivered 56 billion cubic meters of liquefied natural gas (LNG) to the EU in 2022, more than doubling the previous year's deliveries and making Europe the top destination for U.S. LNG supplies. The U.S.-EU statement said the two sides would also intensify cooperation to cut reliance on Russia for nuclear fuel and services and hold a joint meeting this year to promote advanced technologies such as small modular reactors.

The EU has not sanctioned imports of Russian gas or nuclear fuel, which some of the 27-country bloc's members rely on. Russia supplied 20% of EU nuclear power plants' uranium - the main fuel for them - in 2021, and 31% of their uranium enrichment services, according to the Euratom Supply Agency.

The U. S. imported 35% of its uranium from Kazakhstan the same year, with 15% from Canada, 14% from Australia and 14% from Russia. ***Source: Reuters, 04.04.2023***