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INSIGHT

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ECONOMIC NEWS
KEY ECONOMIC INDICATORS
INDUSTRY ARTICLES

<u>U.S. Job Growth Slows in August—</u>The U.S. labor market pulled back in August, generating 156,000 new positions during what ended up being the third-worst month for job growth so far this year, according to the latest national employment report from the Bureau of Labor Statistics.

Downward revisions to job gains in June and July, meanwhile, knocked off 41,000 previously reported jobs from U.S. payrolls. Average job growth over the course of the past three months is now believed to have clocked in at 185,000. During the same period a year ago, average monthly job growth eclipsed 254,000. "Most sectors continue to show positive rates of growth, but admittedly, momentum in the pace of hiring has slowed," Sam Bullard, a senior economist and managing director at Wells Fargo Securities, wrote in a research note Thursday.

Indeed, many major sectors still drummed up a respectable number of jobs last month, particularly on the goods production side. Mining and logging outfits added 6,000 positions after payrolls fell flat in July, while construction companies contributed 28,000 positions after shedding 3,000 the month prior. And manufacturing payrolls climbed by 36,000 – a 10,000-position improvement from July. Full Story *Source: USAToday, 09.01.2017*

<u>U.S. Economy Grew 3% in 2nd Quarter, Fastest Pace in 2 Years</u>—The current recovery has entered its ninth year—long by economic standards—but it is showing some unexpected vigor.

The Commerce Department said the economy had expanded at an annual rate of 3% in the second quarter of the year, better than initially estimated, and a substantial acceleration over the first quarter's lackluster 1.2% pace. The revised figure is still well below President Trump's goal of 4% growth, but it is the economy's best quarterly showing in two years.

Mr. Trump talked up the latest figures in a speech on Wednesday in Springfield, Mo., laying out his plans for tax overhaul. Despite nearly uniform skepticism from mainstream economists, he insisted that much faster economic growth was within reach.

"I happen to be one who thinks we can go much higher than 3%," the president said. "There is no reason why we should not." Full Story *Source: NYTimes.com, 08.30.17*

<u>U.S. Durable Goods Orders Fell 6.8% in July vs 6.0% Drop Expected</u>—New orders for key U.S.-made capital goods rose slightly more than expected in July and shipments surged, pointing to an acceleration in business spending early in the third quarter.

The Commerce Department stated non-defense capital goods orders excluding aircraft, a closely watched proxy for business spending plans, increased 0.4% last month after being unchanged in June. Economists polled by Reuters had forecast these so-called core capital goods orders rising 0.3% last month. They were up 3.3% from a year ago.

Shipments of core capital goods jumped 1.0% after an upwardly revised 0.6 % increase in June. Core capital goods shipments are used to calculate equipment spending in the government's gross domestic product measurement. They were previously reported to have gained 0.1% in June. Full Story *Source: CNBC.com, 08.25.17*

Rise in U.S. Business Equipment Orders Signals Steady Investment

<u>The pickup in core capital goods shipments and orders, along with an upwardly revised gain in June sales, suggests the equipment numbers that feed into GDP calculations were improving at the start of the second half of the year</u>. An increase in U.S. orders for business equipment last month and the biggest gain since February in such sales indicate improving demand at the start of the third quarter, Commerce Department data showed Friday.

<u>Highlights of Durable Goods Report (July)</u>

- Non-military capital goods orders excluding aircraft rose 0.4% (matching est.) after little change in the prior month.
- Shipments of those goods, which are used to calculate gross domestic product, jumped 1% (est. 0.2% gain) after an upwardly revised 0.6% advance (prev. 0.1% increase).
- Bookings for all durable goods slumped 6.8% (est. 6% decline), the most since August 2014, following 6.4% increase.
- Excluding transportation-equipment demand, which is volatile, orders rose 0.5% after climbing 0.1%.

<u>Key Takeaways</u>

- The pickup in core capital goods shipments and orders, along with an upwardly revised gain in June sales, suggests the equipment numbers that feed into GDP calculations were improving at the start of the second half of the year.
- That also indicates that economic growth has the potential to broaden out beyond household spending.
- Steady consumer demand is helping to underpin business optimism, and growth in overseas markets along with a weaker dollar may provide a boost to exports, further strengthening the outlook for manufacturing.
- A plunge in aircraft orders probably played a big role in pushing down total bookings for durable goods: Boeing Co., the Chicago-based aerospace company, said it received 22 orders for aircraft in July, down from 184 the prior month.

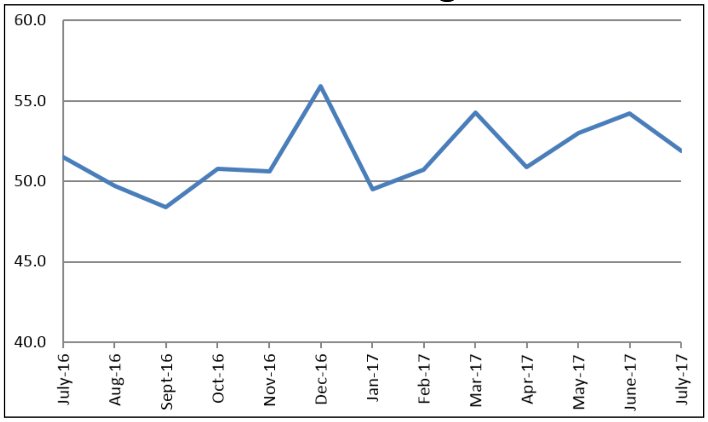
<u>Other Details</u>

- Orders for motor vehicles and parts dropped 1.2%, the largest drop since May 2016 and reflecting weak sales.
- Orders for fabricated metals rose 1%, while those for computers and electronic products climbed 1.6%.
- Electrical equipment and appliances orders rose 2.6%.
- Bookings for civilian aircraft and parts slumped 70.7% after a 129.3% surge; defense capital-goods orders advanced 14.7%.
- Durable goods inventories rose 0.3%.

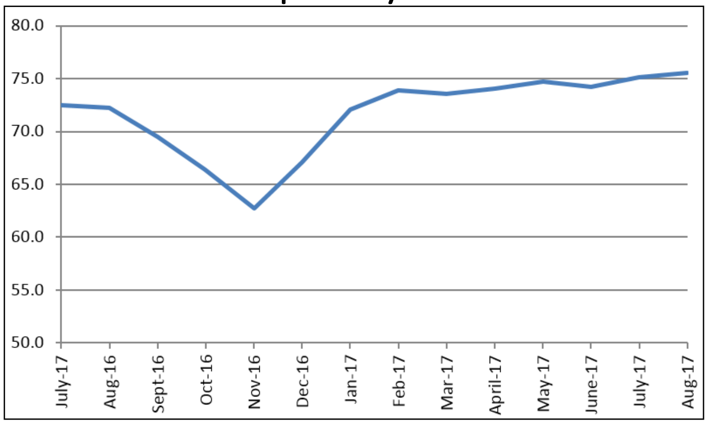
Source: Bloomberg, 08.25.17

Key Economic Indicators

Architecture Billings Index



Steel Capability Utilization



For the sixth consecutive month, architecture firms reported increasing demand for design services as reflected in the July Architecture Billings Index (ABI). As a leading economic indicator of construction activity, the ABI reflects the approximate nine to twelve month lead time between architecture billings and construction spending. The American Institute of Architects (AIA) reported the July ABI score was 51.9, down from a score of 54.2 in the previous month. This score still reflects an increase in design services (any score above 50 indicates an increase in billings). The new projects inquiry index was 59.5, up from a reading of 58.6 the previous month, while the new design contracts index increased from 53.7 to 56.4.

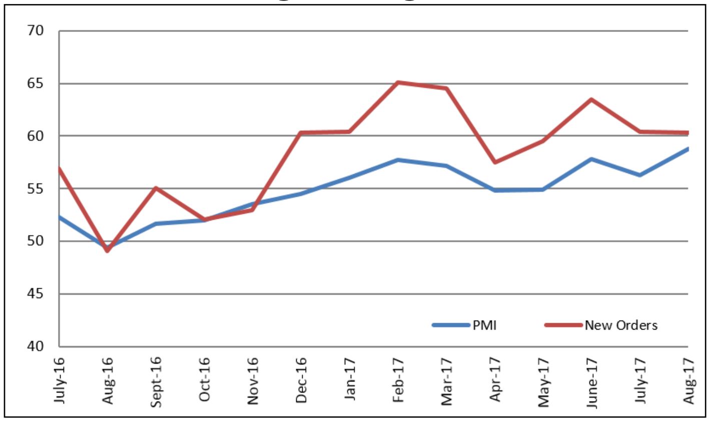
The index is derived from a monthly "Work-on-the-Boards" survey and produced by the AIA Economics & Market Research Group. Based on a comparison of data compiled since the survey's inception in 1995 with figures from the Department of Commerce on Construction put in place, the findings amount to a leading economic indicator that provides an approximately 9 to 12 month glimpse into the future of nonresidential construction activity. *Source: American Institute for Architects, 08.23.17*

Domestic raw steel production was 1,740,000 net tons while the capability utilization rate was 74.6%. Production was 1,655,000 net tons in the week ending August 26, 2016 while the capability utilization then was 70.8%. The current week production represents a 5.1% increase from the same period in the previous year. Production for the week ending August 26, 2017 is down 1.3% from the previous week ending August 19, 2017 when production was 1,763,000 net tons and the rate of capability utilization was 75.6%.

Adjusted year-to-date production through August 26, 2017 was 59,153,000 net tons, at a capability utilization rate of 74.6%. That is up 3.0% from the 57,416,000 net tons during the same period last year, when the capability utilization rate was 72.2%.

Steel Capability Utilization is a domestic report based on estimates from companies representing approximately 90% of the Industry's Raw Steel Capability as compiled by the American Iron and Steel Institute. *Source: AISI, 08.26.17*

Purchasing Managers Index®



"The August PMI® registered 58.8%, an increase of 2.5 percentage points from the July reading of 56.3%. The New Orders Index registered 60.3%, a decrease of 0.1 percentage point from the July reading of 60.4%. The Production Index registered 61%, a 0.4 percentage point increase compared to the July reading of 60.6%. The Employment Index registered 59.9%, an increase of 4.7 percentage points from the July reading of 55.2%. The Supplier Deliveries Index registered 57.1%, a 1.7 percentage point increase from the July reading of 55.4%. The Inventories Index registered 55.5%, an increase of 5.5 percentage points from the July reading of 50%. The Prices Index registered 62% in August, the same reading as July, indicating higher raw materials' prices for the 18th consecutive month. Comments from the ISM panel reflect expanding business conditions, with new orders, production, employment, backlog and exports all growing in August, as well as supplier deliveries slowing (improving) and inventories increasing during the period. The Customers' Inventories Index experienced a sharp decline in August compared to July."

Of the 18 manufacturing industries, 15 reported growth in July in the following order: Plastics & Rubber; Electrical Equipment, Appliances & Components; Wood; Fabricated Metal; Machinery; Chemical; Paper; Food, Beverage & Tobacco; Printing & Related Support Activities; Computer & Electronic; Nonmetallic Mineral; Furniture & Related; Miscellaneous Manufacturing; Primary Metals; and Transportation Equipment. Three industries reported contraction in July compared to June: Apparel, Leather & Allied; Textile Mills; and Petroleum & Coal.

The PMI index of manufacturing activity is a seasonally adjusted weighted composite of diffusion indexes tracking new orders, order backlogs, export orders, imports, production, supplier deliveries, employment and mill costs. This index is widely regarded as a major leading indicator of both manufacturing growth and economic growth overall. A value of >50 indicates manufacturing expansion and vice versa. An index value of <42.7 indicates that the economy as a whole is in recession. *Source: Institute for Supply Management, 09.01.17*

Industry News

U.S. Steel Executives Appeal Directly to Trump for Import Restrictions

American steel industry executives have appealed directly to President Donald Trump for immediate import restrictions in a letter seen by Reuters, as a U.S. Commerce Department national security probe languishes and steel imports surge back to 2015 levels.

Senior executives from 25 U.S. steel and steel-related companies sent the letter to Trump late on August 23, saying the industry was suffering the consequences of government inaction that could change with his "bold leadership" and "America First" vision. "The need for action is urgent. Since the 232 investigation was announced in April, imports have continued to surge," the executives said in the letter. "Immediate action must meaningfully adjust imports to restore healthy levels of capacity utilization and profitability to the domestic industry over a sustained period," they wrote.

A White House spokeswoman said she could not immediately comment on the letter.

The Commerce Department has delayed the release of its recommendations from a "Section 232" investigation into whether steel imports pose a threat to national security, a finding that could lead to Trump imposing broad quotas or tariffs on steel imports. The American Iron and Steel Institute (AISI), an industry trade group, reported on August 23 that total steel imports through July this year were up 22% from the same period a year ago, with imports taking 28% of the U.S. market.

Imports captured 30% of the U.S. market in June, according to Commerce Department data compiled by the institute. Steel imports dipped briefly last year because of Commerce Department anti-dumping and anti-subsidy duties imposed on steel products from China and some other countries. The letter followed last week's departure of White House chief strategist Steve Bannon, who had been a vocal advocate for steel tariffs and other trade protections in the administration's internal debates over trade.

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Sooner than later—The executives from companies including Nucor Corp, US Steel, ArcelorMittal, and Commercial Metals Company said the sustained surge of steel imports into the United States had "hollowed out" much of the domestic steel industry and was threatening its ability to meet national security needs. Full Story ***Source: Reuters, 08.24.2017***

U.S. Energy Dept. Grid Study Calls for Boost to Coal, Nuclear Power

A U.S. Energy Department report calls for incentives to boost coal-fired and nuclear power plants following a slew of closures that it said undermined reliable sources of electricity. The findings of the study, released late on August 23, drew scorn from renewable energy advocates but praise from the coal and nuclear industries. The report dovetails with President Donald Trump's promise to revive the ailing mining sector. But it differs from conclusions presented in an earlier draft, which had said big increases in renewable power generation remained possible without undermining grid reliability. The administration had not yet reviewed the early draft, which was written by department staff.

Energy Secretary Rick Perry commissioned the study in April to evaluate whether "regulatory burdens" imposed by past administrations, including that of former President Barack Obama, had hurt the grid by forcing shutdowns of baseload plants, which provide nonstop power, like those fired by coal and nuclear fuel. Obama had introduced a raft of regulations intended to slash emissions of carbon dioxide, which are blamed for climate change. This accelerated the retirement of coal-fired power plants and bolstered the nascent solar and wind sectors, which depend heavily on weather conditions for their power output.

"It is apparent that in today's competitive markets certain regulations and subsidies are having a large impact on the functioning of markets, and thereby challenging our power generation mix," Perry said in a letter introducing the study. "It is important for policy makers to consider their intended and unintended effects."

The study, conducted by the department's staff, said cheap natural gas was the main driver of the closure of baseload coal and nuclear plants, a trend that was putting areas of the country at greater risk of power outages. The department recommended giving baseload plants pricing advantages for their power, as well as making it easier and cheaper to get permits to build more such projects.

Howard Crystal, a spokesman for the Center for Biological Diversity which advocates for clean energy, called the recommendations "dangerously misguided. "The reality is that we can protect our planet and our energy supplies by embracing wind and solar," he said. ***Source: Reuters, 08.24.17***

Industry News

NAFTA Negotiations Begin as Section 232 Investigation Continues to Move Forward

In Washington, D.C. week of August 14, top trade officials from the United States, Canada, and Mexico held their first official meetings regarding NAFTA renegotiation. U.S. Trade Representative Robert Lighthizer, Canadian Foreign Affairs Minister Chrystia Freeland, and Mexican Economy Minister Ildefonso Guajardo began the four-day talks with a press conference on August 16. At the event, Ambassador Lighthizer said, "The views of the president about NAFTA, which I completely share, are well known. I want to be clear that he is not interested in a mere tweaking of a few provisions and a couple of updated chapters. We feel that NAFTA has fundamentally failed many, many Americans and needs major improvement." (In their opening statements, Canadian and Mexican officials focused on NAFTA's positive track record.)

Lighthizer also outlined four broad objectives for the talks:

- Reduce The Trade Deficit. The United States runs a goods trade deficit with both Canada ($12.1 billion in 2016) and Mexico ($55.6 billion in 2016).
- Address Currency Manipulation. Although Canada and Mexico are unlikely currency manipulators, other U.S. trade partners, namely China, have employed the tactic to benefit their commercial interests. It's likely that the administration added this goal in order to alert other countries that the U.S. will standardize this demand.
- Enhance Services Trade Regulation. The Trump administration wants new rules surrounding the trade of services, such as telecommunications and financial advice, as well as digital goods like e-books, which were not included in the original 1994 agreement.
- Eliminate Chapter 19. Chapter 19 functions as a dispute mechanism, allowing companies to appeal decisions by domestic courts on trade remedies in an alternative panel. Some private U.S. firms have argued this provision inhibits and undermines U.S. enforcement of trade law. (As The Wall Street Journal) noted last week, this issue is one on which the U.S. and Canadian and Mexican governments strongly disagree.)

Ambassador Lighthizer also said the negotiations should result in "provisions to guard against market-distorting practices of other countries, including third-party dumping and state-owned enterprises." (On a related note: Commerce Department officials said last week that its Section 232 steel report is in the "final stages" of development. According to Reuters, most analysts still expect the administration to take strong action to counter China's market-distorting policies, which have led to an overcapacity of steel.)

The next round of NAFTA negotiations is scheduled for Sept. 1-5 in Mexico City. The third round will occur in Canada—likely Ottawa—from Sept. 23-27. According to Politico's "Morning Trade," "The quick turnarounds—just 11 days will pass between the close of the first round and the start of the second—reflect the aggressive pace that all three countries have expressed interest in pursuing." Politico notes that, "while officials have publicly said they are working toward a soft deadline of later this year or early next, in an attempt to finalize the deal before the Mexican presidential election ramps up in early 2018, they have privately been much more firm on the idea of concluding talks by December." ***Source: MSCI.org, 08.21.17***

Cyber-Attacks on Manufacturing Industry Continue to Rise

The frequency and sophistication of cyber-attacks continues to rise globally according to research data in the Q2 Threat Intelligence Report released by NTT Security.

Four findings are of extreme interest and concern:

- Cyber-attacks were up 24% globally during Q2 2017.
- Manufacturers continue to be a key target for cybercriminals.
- 67% of malware attacks were delivered by phishing emails.
- The speed of attacks continues to increase exponentially once proof of concept code is released.

The manufacturing industry was the most heavily targeted industry across NTT Security clients during Q2 '17, accounting for 34% of attack activity. It was also heavily targeted across NTT Security client networks throughout 2016, appearing in the "top three" in five of the six geographic regions. No other industry appeared in the top three more than twice.

- 58% of malware distribution in manufacturing environments was via web-based downloads.
- 86% of malware in the manufacturing industry were variants of Trojans and droppers.
- Reconnaissance accounted for 33% of all activity aimed at manufacturing clients in Q2 '17.

"The motivations for these attacks are often criminal in nature, including extortion via ransomware, industrial espionage, and theft of data such as account numbers. What poses an even greater problem is that when these breaches are successful, yet go undetected, they allow hackers to establish footholds in organizations' networks where they have free reign to wreak havoc over extended periods. This is a problem if we consider that 37% of manufacturers recently surveyed, indicated they do not have an incident response plan in place. This is very concerning as manufacturers' IT security liabilities often impacted not just the manufacturing organizations, but suppliers, as well as related industries and consumers," said Jon Heimerl, Manager, Threat Intelligence Communication Team, NTT Security.
Source: HelpNet Security, 08.09.17