

Metal Industry Indicators

Indicators of Domestic Primary Metals, Steel, Aluminum, and Copper Activity

June 2013

The primary metals leading index increased for a second consecutive month in May, and its 6-month smoothed growth rate moved into positive territory. The slow U.S. economic recovery had been supporting domestic primary metals industry activity with weak metals demand from the manufacturing sector from the start of year; however, this sector is increasing its metals consumption. The construction sector, with robust home building activity, continues to generate moderate metals demand. Conversely, slow global economic growth continues to reduce demand for U.S. metals and metal products. Considering the tentative global economic climate, it is too soon to suggest a sustained upturn in U.S. primary metals activity in the near term. The metals price leading index increased in May, which would normally suggest an increase in metals price growth; however, record high metals inventories in the United States and growing metal stocks in warehouses in other countries continue to stifle any significant metal price growth.

The **primary metals leading index** increased 0.3% to 159.8 in May, from a revised 159.3 in April. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend increased to 1.0% from an upwardly revised 0.4% in April. A growth rate above +1.0% is usually a sign of an upward near-term trend for future metals activity, while a growth rate below -1.0% indicates a downward trend. For an explanation of these indexes and a definition of the primary metals industry, see [page 10](#).

Only one of the index's four available components increased in May. The stock price index combining construction and farm machinery companies and industrial machinery companies contributed 0.8 percentage points to the net increase in the leading index. The Institute for Supply Management's PMI slipped under the threshold that denotes a contraction in future U.S. manufacturing activity. It pulled the leading index down 0.4 percentage points. The falling USGS metals price index growth rate made a -0.1-percentage-point contribution. The length of the average workweek in primary metals establishments was the same in May as in April. The primary metals leading index is subject to revision next month when the remaining four components become available.

The modest increases in the primary metals leading index and positive growth rates over the last 2 months suggest that the decline in primary metals activity could slow in the near term. New orders for durable goods have increased 3 of the last 4 months, with most of that increase coming from orders in the transportation equipment industry. New orders for primary metals increased modestly. The metals consumption from the manufacturing sector is likely to rise modestly in the months directly

ahead. In the construction sector, particularly the housing industry, metals consumption will likely accelerate more robustly. Slower global economic growth is limiting demand for U.S. metals.

The **steel leading index** increased 0.6% in April, the latest month for which it is available, to 111.5 from a revised 110.8 in March. Its 6-month smoothed growth rate increased to 1.6% from a revised 0.4%. Sizable gains in the index of new housing permits and the inflation-adjusted M2 money supply growth rate made the largest contributions to the net increase in the steel leading index in April. An uptick in the steel scrap price growth rate also lifted the steel leading index. The tumbling S&P stock price index for iron and steel companies made the only significant negative contribution. Although the steel leading index growth rate has been generally increasing since last August and increased sharply in April, it is not yet suggesting that an upturn in steel industry is likely in the near term. Slow global manufacturing growth is stifling a recovery in the U.S. steel industry.

The **copper leading index** decreased 0.4% in April to 126.6 from a revised 127.1 in March. Its 6-month smoothed growth decreased to 4.5% from a revised 6.1% in March. Four of the index's six indicators decreased, but it was the shorter average workweek in nonferrous metals (except aluminum) establishments that made the largest negative contribution to the copper leading index. The falling copper price also had a heavy negative pull in the leading index. Jumps in the index of new building permits and inflation-adjusted value of new orders for U.S. nonferrous metal products offset some of those declines. The step down in the copper leading index growth rate suggests that activity in the U.S. copper industry could slow further in the

near term. Record high copper inventories are discouraging domestic copper activity growth.

High Inventories Suppress Metals Price Growth

The **metals price leading index** increased 0.4% to 107.9 in April, the latest month for which it is available, from a revised 107.5 in March. Its 6-month smoothed growth rate increased to 1.5% from a revised 1.0% in March. Three of the leading index's four indicators increased. The April increase in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed 0.2 percentage points to the net increase in the leading index. The Organization for Economic Cooperation and Development (OECD) Total Leading Index growth rate continued to climb in April and also contributed 0.2 percentage points. This is the eighth consecutive increase in this OECD index, showing modest growth in some industrialized countries. However, China is not included in this index. An uptick in the

growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar contributed 0.1 percentage point. In contrast, a closer yield spread between the U.S. 10-year Treasury note and the federal funds rate made the only negative contribution, -0.2 percentage points. The metals price leading index signals major changes in the growth rate of nonferrous metal prices an average of 8 months in advance.

The growth rate of the inflation-adjusted value of U.S. nonferrous metal products inventories, which is an indicator of supply and usually moves inversely with the price of metals, increased in April. However, these inventory levels continued to rise and reached a new recent high. Ample metals inventories are available to meet current global metals demand. Barring a supply interruption, metals price growth is likely to remain suppressed.

The business cycle and inventories are only two factors in metal price determination. Some other factors that affect prices include changes in metals production, strategic stockpiling, foreign exchange rates, speculation, and production costs.

Table 1.
Leading Index of Metal Prices and Growth Rates of the Nonferrous Metals Price Index, Inventories of Nonferrous Metal Products, and Selected Metal Prices

	Six-Month Smoothed Growth Rates					
	Leading Index of Metal Prices (1967=100)	MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
2012						
April	107.0r	-1.6	7.6r	-20.3	0.0	-6.4
May	106.3r	-20.3	12.1r	-22.5	-19.6	-3.6
June	105.4r	-17.0	14.4r	-29.1	-15.3	-25.1
July	105.7r	-13.6	16.3r	-23.5	-13.0	-38.6
August	106.2r	9.9	15.6r	-20.5	-9.5	-13.5
September	107.3r	11.0	7.8r	4.2	9.7	-17.9
October	107.0r	-2.8	6.0r	-13.7	-3.2	-34.0
November	107.3r	1.8	8.2r	6.1	0.0	-11.2
December	108.1r	0.7	5.8r	1.7	-1.9	-10.4
2013						
January	108.2r	6.0	7.1r	4.2	3.3	-6.8
February	108.2	-2.1	7.0r	-4.7	-4.0	-9.4
March	107.5r	-7.7	4.9r	-9.3	-8.1	7.0
April	107.9	-16.8	6.3r	-10.9	-17.7	-1.4
May	NA	-9.7	NA	-6.8	-11.6	-11.0

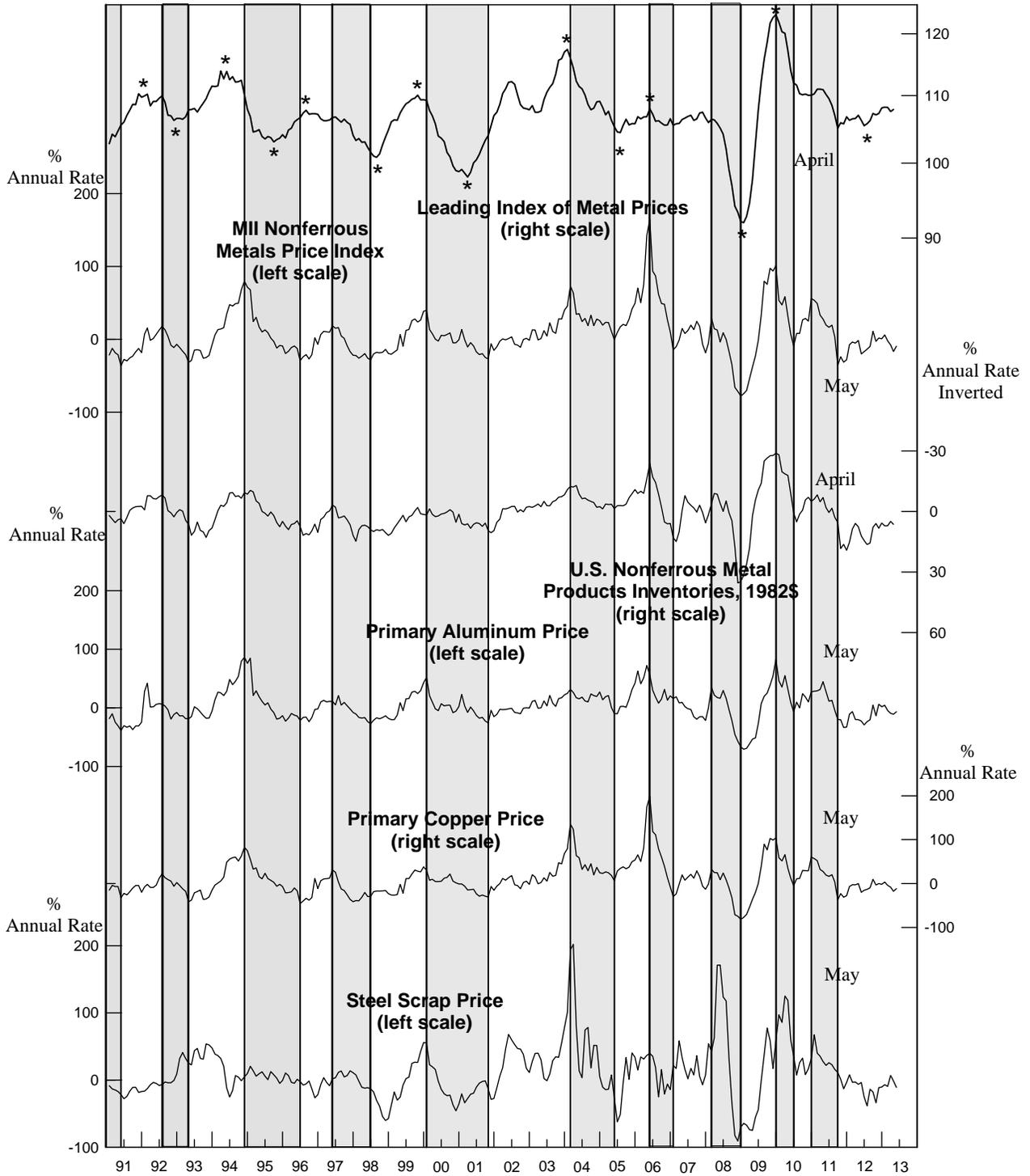
NA: Not available **r:** Revised

Note: The components of the Leading Index of Metal Prices are the spread between the U.S. 10-year Treasury Note and the federal funds rate, and the 6-month smoothed growth rates of the deflated value of new orders for nonferrous metal products, the Organization for Economic Cooperation and Development (OECD) Total Leading Index, and the reciprocal of the trade-weighted average exchange value of the U.S. dollar against other major currencies. The Metal Industry Indicators (MII) Nonferrous Metals Price Index measures changes in end-of-the-month prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange (LME). The steel scrap price used is the price of No. 1 heavy melting. Inventories consist of the deflated value of finished goods, work in progress, and raw materials for U.S.-produced nonferrous metal products (NAICS 3313, 3314, & 335929). Six-month smoothed growth rates are based on the ratio of the current month's index or price to its average over the preceding 12 months, expressed at a compound annual rate.

Sources: U.S. Geological Survey (USGS); American Metal Market (AMM); the London Metal Exchange (LME); U.S. Census Bureau; the Organization for Economic Cooperation and Development (OECD); and Federal Reserve Board.

**CHART 1.
LEADING INDEX OF METAL PRICES AND GROWTH RATES
OF NONFERROUS METALS PRICE INDEX, INVENTORIES OF
NONFERROUS METAL PRODUCTS, AND SELECTED PRICES**

1967 = 100



Shaded areas are downturns in the nonferrous metals price index growth rate. Asterisks (*) are peaks and troughs in the economic activity reflected by the leading index of metal prices. Scale for nonferrous metal products inventories is inverted.

Table 2.
The Primary Metals Industry Indexes and Growth Rates

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
2012				
May	158.7r	-1.7r	110.8r	5.0
June	156.0r	-4.7r	110.5r	3.5r
July	156.0r	-4.6r	111.3r	4.1r
August	156.5r	-3.6r	111.3r	3.4
September	158.7r	-0.6r	110.1r	0.4r
October	159.0r	-0.2r	110.0r	-0.2r
November	158.7r	-0.6	110.9r	0.9r
December	161.1r	2.4r	111.2r	1.1r
2013				
January	161.5r	2.9r	110.9r	0.5r
February	162.5r	4.0	110.9r	0.5r
March	158.9r	-0.3r	109.9r	-1.2r
April	159.3r	0.4r	109.5	-1.9
May	159.8	1.0	NA	NA

NA: Not available **r:** Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 3.
The Contribution of Each Primary Metals Index Component to the Percent Change in the Index from the Previous Month

Leading Index	April	May
1. Average weekly hours, primary metals (NAICS 331)	-0.3r	0.0
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)	-0.2r	0.8
3. Ratio of price to unit labor cost (NAICS 331)	-0.1	NA
4. USGS metals price index growth rate	-0.1r	-0.1
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	0.1	NA
6. Index of new private housing units authorized by permit	0.6	NA
7. Growth rate of U.S. M2 money supply, 2005\$	0.4	NA
8. PMI	-0.1r	-0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.3r	0.3
Coincident Index	March	April
1. Industrial production index, primary metals (NAICS 331)	-0.4r	-0.1
2. Total employee hours, primary metals (NAICS 331)	-0.5r	-0.6
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	-0.1r	0.3
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.9r	-0.3

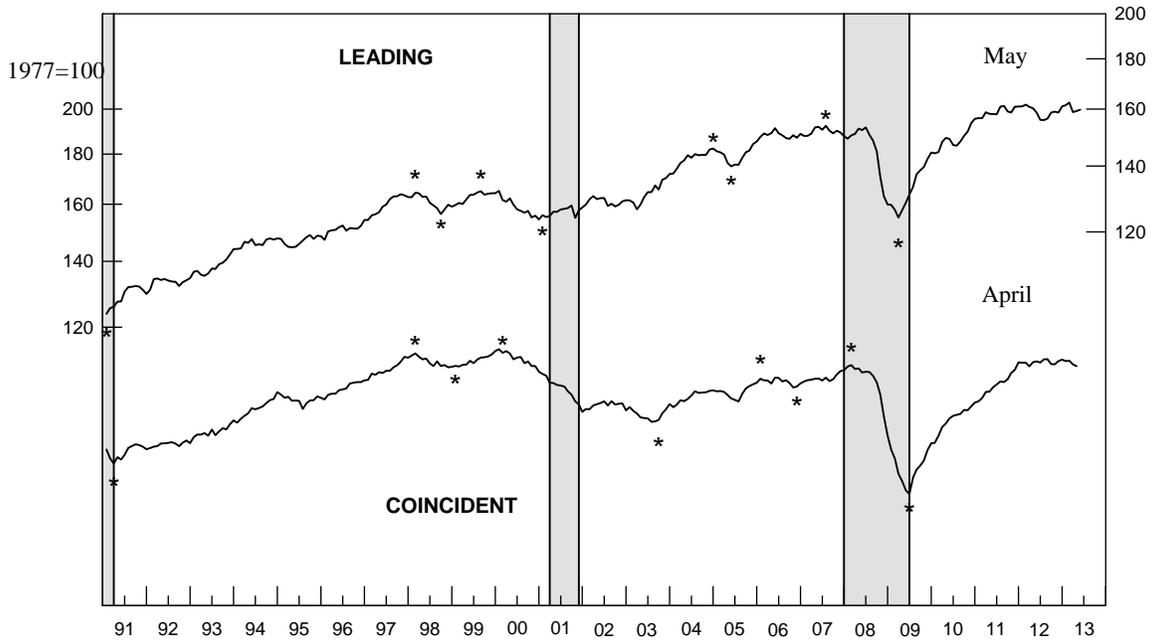
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 8, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey. All series are seasonally adjusted, except 2, 3, and 4 of the leading index.

NA: Not available **r:** Revised

Note: A component's contribution, shown in Tables 3, 5, 7, and 9, measures its effect, in percentage points, on the percent change in the index. Each month, the sum of the contributions plus the trend adjustment equals (except for rounding differences) the index's percent change from the previous month.

CHART 2.

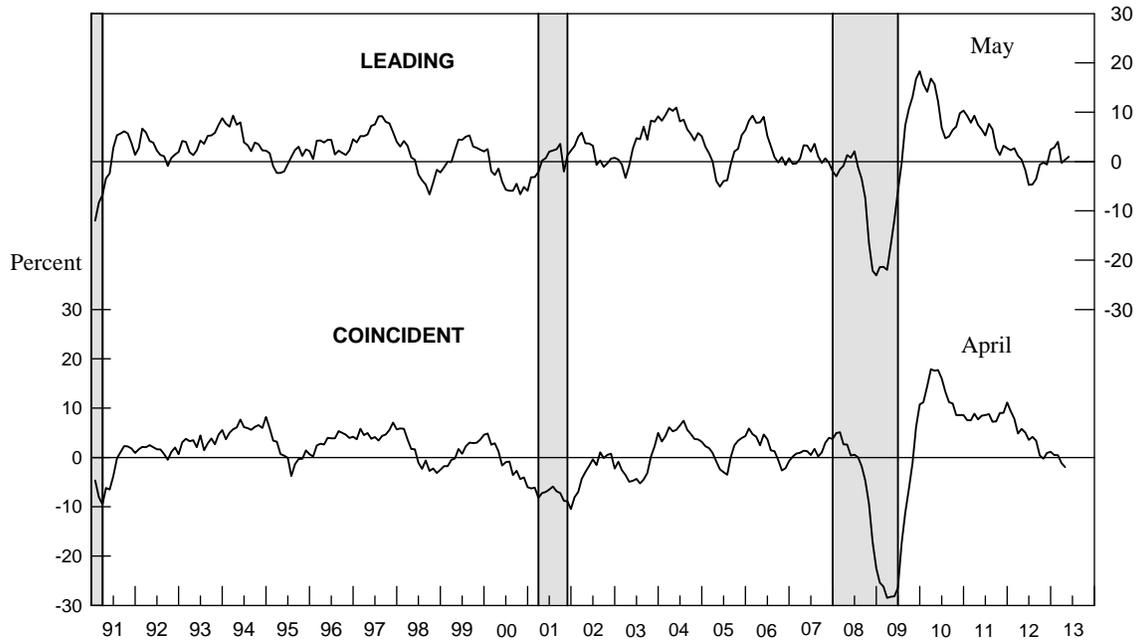
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1991-2013 1977=100



Shaded areas are business cycle recessions. Asterisks (*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

CHART 3.

PRIMARY METALS: LEADING AND COINCIDENT GROWTH RATES, 1991-2013 Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

Table 4.
The Steel Industry Indexes and Growth Rates

	<u>Leading Index</u>		<u>Coincident Index</u>	
	<u>(1977 = 100)</u>	<u>Growth Rate</u>	<u>(1977 = 100)</u>	<u>Growth Rate</u>
2012				
May	110.6r	-1.0r	116.9r	4.2r
June	109.4r	-3.1r	116.1r	2.0r
July	109.0r	-3.8r	116.3r	1.9r
August	108.6r	-4.2r	116.8r	2.1r
September	110.6r	-0.4r	115.3r	-0.7r
October	110.5r	-0.5r	115.7r	-0.4r
November	110.1r	-1.2r	116.1r	0.1r
December	111.4r	1.2r	116.1r	-0.1r
2013				
January	111.9r	2.3r	116.4r	0.4r
February	112.5r	3.3r	116.5r	0.5r
March	110.8r	0.4r	116.0r	-0.3r
April	111.5	1.6	116.3	0.2

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

Table 5.
The Contribution of Each Steel Index Component to the Percent Change in the Index from the Previous Month

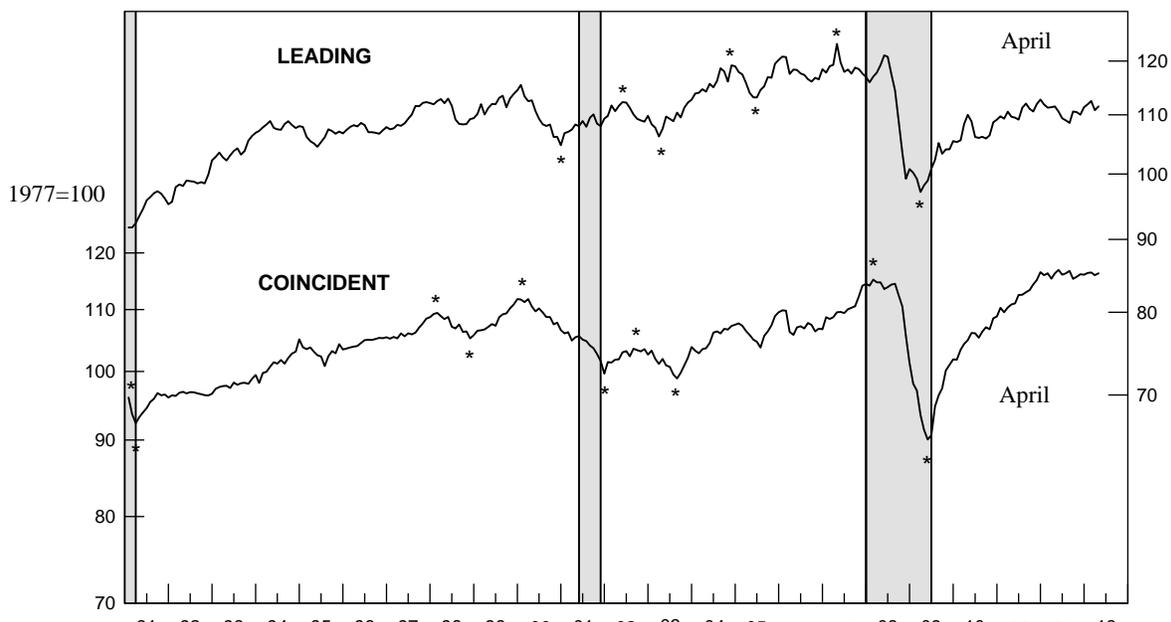
Leading Index	March	April
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.1	0.0
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.5r	0.1
3. Shipments of household appliances, 1982\$	-0.1r	0.0
4. S&P stock price index, steel companies	-0.3	-0.5
5. Retail sales of U.S. passenger cars and light trucks (units)	0.0	-0.1
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.0	0.2
7. Index of new private housing units authorized by permit	-0.3r	0.6
8. Growth rate of U.S. M2 money supply, 2005\$	0.0	0.4
9. PMI	-0.4	-0.1
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-1.5r	0.6
Coincident Index		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.4r	0.2
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.4r	0.2
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.3	-0.2
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.4r	0.3

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, U.S. Census Bureau and U.S. Geological Survey; 4, Standard & Poor's; 5, U.S. Bureau of Economic Analysis and American Automobile Manufacturers Association; 6, Journal of Commerce and U.S. Geological Survey; 7, U.S. Census Bureau and U.S. Geological Survey; 8, Federal Reserve Board, Conference Board, and U.S. Geological Survey; and 9, Institute for Supply Management. Coincident: 1, Federal Reserve Board; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Bureau of Labor Statistics and U.S. Geological Survey. All series are seasonally adjusted, except 4 and 6 of the leading index.

r: Revised

CHART 4.
STEEL: LEADING AND COINCIDENT INDEXES, 1991-2013

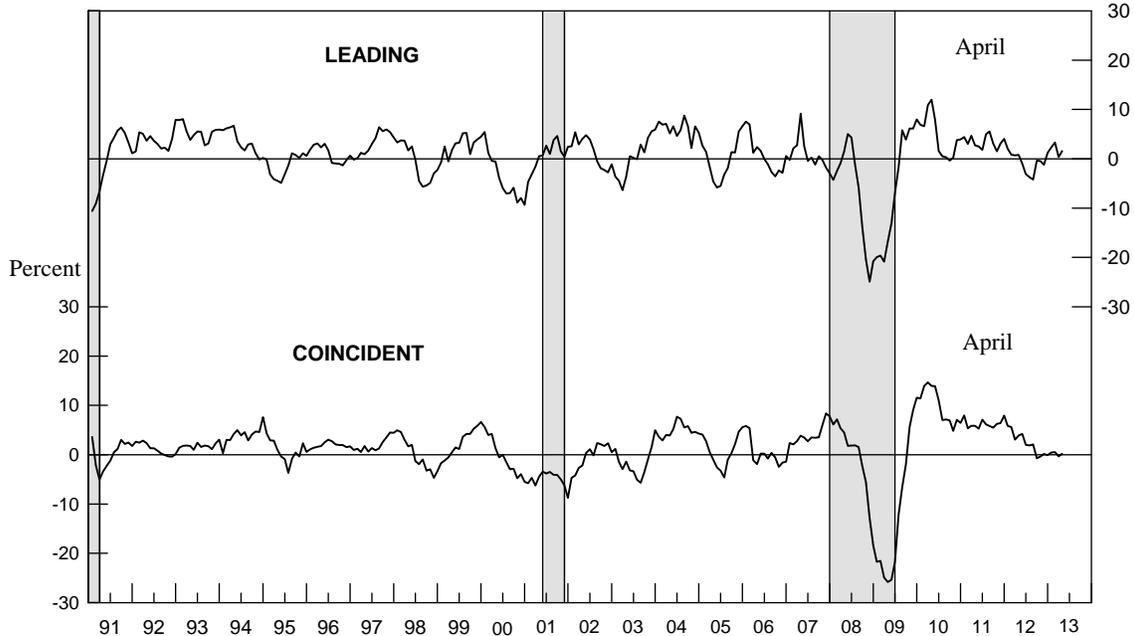
1977=100



Shaded areas are business cycle recessions. Asterisks (*) signify peaks (the end of an expansion) and troughs (the end of a downturn) in the economic activity reflected by the indexes.

CHART 5.
STEEL: LEADING AND COINCIDENT GROWTH RATES, 1991-2013

Percent



Shaded areas are business cycle recessions.

The growth rates are expressed as compound annual rates based on the ratio of the current month's index to its average level during the preceding 12 months.

**Table 6.
The Copper Industry Indexes and Growth Rates**

	<u>Leading Index</u>		<u>Coincident Index</u>	
	<u>(1977 = 100)</u>	<u>Growth Rate</u>	<u>(1977 = 100)</u>	<u>Growth Rate</u>
2012				
May	119.7r	1.0	106.5	-3.9
June	120.9r	2.9	107.8	-1.6
July	122.5r	5.3r	110.4	2.7
August	121.6r	3.4r	108.4	-1.2
September	123.3r	5.6r	106.8	-3.6
October	122.4r	2.8r	107.1	-2.8
November	124.0r	4.6	106.7	-3.0
December	126.1r	6.8r	108.1	-0.3
2013				
January	124.2r	2.9r	104.3r	-6.5r
February	128.5r	9.3r	108.2r	0.8r
March	127.1r	6.1r	106.5r	-1.8r
April	126.6	4.5	104.1	-5.8

r: Revised

Note: Growth rates are expressed as compound annual rates based on the ratio of the current month's index to the average index during the preceding 12 months.

**Table 7.
The Contribution of Each Copper Index Component to the Percent Change
in the Index from the Previous Month**

Leading Index	March	April
1. Average weekly hours, nonferrous metals (except aluminum) (NAICS 3314)	-1.0r	-0.7
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.1	0.2
3. S&P stock price index, building products companies	0.5	-0.2
4. LME spot price of primary copper	-0.2	-0.4
5. Index of new private housing units authorized by permit	-0.4r	0.8
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.0	-0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	<u>-1.2r</u>	<u>-0.5</u>
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.0r	-0.4
2. Total employee hours, nonferrous metals (except aluminum) (NAICS 3314)	-1.6r	-2.0
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	<u>-1.5r</u>	<u>-2.3</u>

Sources: Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; 3, American Bureau of Metal Statistics, Inc. and U.S. Geological Survey. All series are seasonally adjusted, except 3, 4, and 6 of the leading index.

r: Revised NA: Not available

CHART 6.
COPPER: LEADING AND COINCIDENT INDEXES, 1991-2013

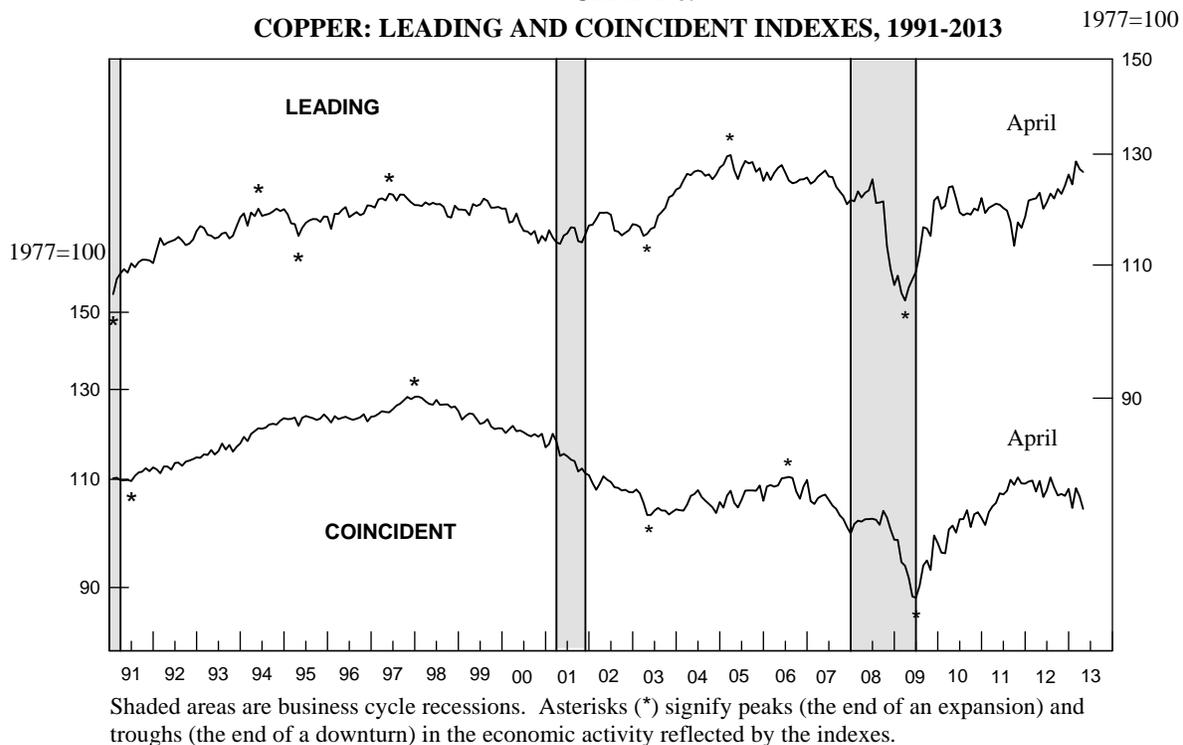
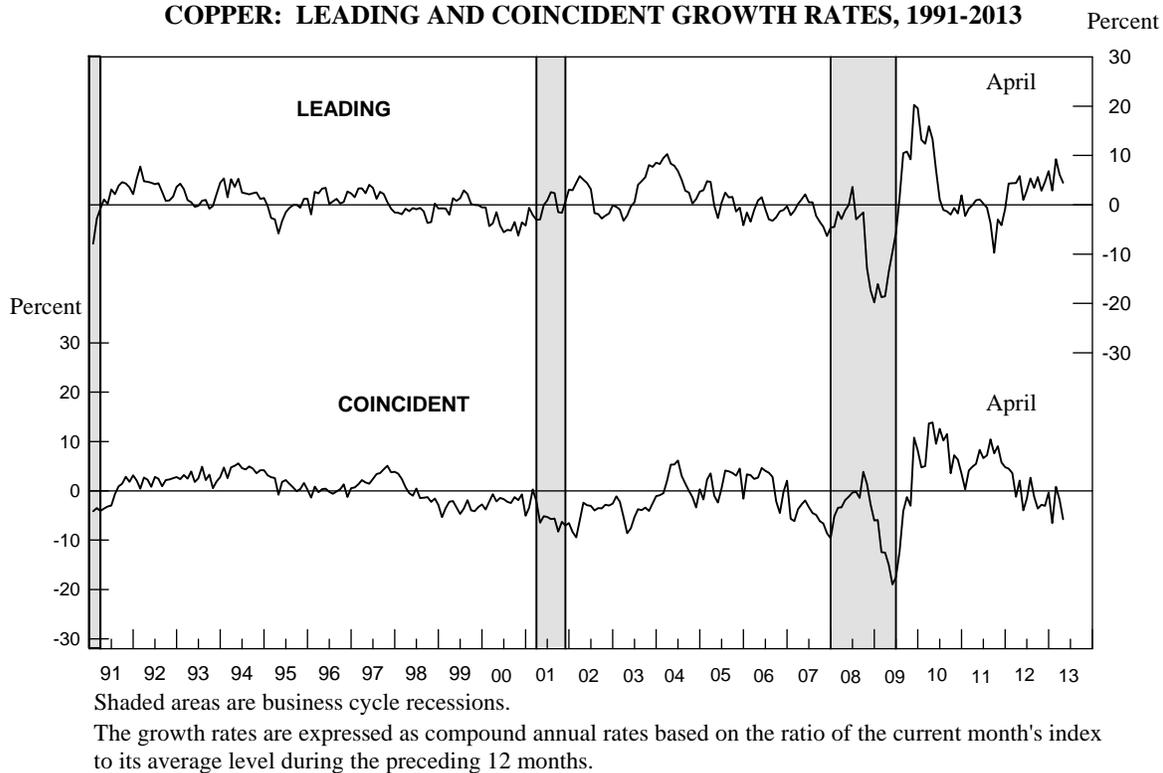


CHART 7.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1991-2013



Explanation

Each month, the U.S. Geological Survey tracks the effects of the business cycle on five U.S. metal industries by calculating and publishing composite indexes of leading and coincident indicators. Wesley Mitchell and Arthur Burns originated the cyclical-indicators approach for the economy as a whole at the National Bureau of Economic Research in the mid-1930s. Over subsequent decades this approach was developed and refined, mostly at the National Bureau, under the leadership of Geoffrey H. Moore.¹

A business cycle can briefly be described as growth in the level of economic activity followed by a decline succeeded by further growth. These alternating periods of growth and decline do not occur at regular intervals. Composite indexes, however, can help determine when highs and lows in the cycle might occur. A composite index combines cyclical indicators of diverse economic activity into one index, giving decision makers and economists a single measure of how changes in the business cycle are affecting economic activity.

The indicators in the metal industry leading indexes historically give signals several months in advance of major changes in a coincident index, a measure of current metal industry activity. Indicators that make up the leading indexes are, for the most part, measures of anticipations or new commitments to various economic activities that can affect the metal industries in the months ahead.

Composite coincident indexes for the metal industries consist of indicators for production, shipments, and total employee hours worked. As such, the coincident indexes can be regarded as measures of the economic health of the metal industries.

The metal industry coincident indexes reflect industry activity classified by the U.S. Standard Industrial Classification (SIC) and the North American Industry Classification System (NAICS). Of the five metal industries, primary metals (NAICS 331) is the broadest, containing 25 different metal processing industries. Steel, aluminum, and copper are specific industries within the primary metals group.

The SIC was the main vehicle used by the U.S. Government and others in reporting industry economic statistics throughout most of the last century. Starting with the 1997 U.S. Economic Census, the U.S. Government began using the NAICS, which classifies economic data for industries in Canada, Mexico, and the United States. In general, metal industry indexes starting in 1997 begin to reflect the NAICS classification, while indexes for earlier years follow the SIC. Hence, composite indexes from 1997 forward are not entirely consistent with those of earlier years.

The largest change to primary metals because of the NAICS deals with other communication and energy wire manufacturing (NAICS 335929). Under NAICS, this manufacturing has been removed from primary metals and added to electrical equipment, appliance, and component manufacturing. Because monthly shipments and new orders for this wire are not available, the USGS is estimating their values from 1997 onward and adding them to the appropriate metal industry indicators and indexes to maintain consistency.

¹Business Cycle Indicators, A monthly report from The Conference Board (March 1996).

There are other small changes to the primary metals industry because of the switch to the NAICS. Coke oven activity not done by steel mills, for example, is removed and alumina refining, a part of industrial inorganic chemical manufacturing under the SIC, is added. Since the historic trends of the composite indexes are not affected by these small changes, the USGS is not making specific adjustments to the indexes for them for the periods before and after 1997.

The metal industry leading indexes turn before their respective coincident indexes an average of 8 months for primary metals and 7 months for steel and copper. The average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

The leading index of metal prices, also published in the *Metal Industry Indicators*, is designed to signal changes in a composite index of prices for primary aluminum, copper, lead, and zinc traded on the London Metal Exchange. On average, this leading index indicates significant changes in price growth about 8 months in advance.

The growth rate used in the *Metal Industry Indicators* is a 6-month smoothed growth rate at a compound annual rate, calculated from a moving average. Moving averages smooth fluctuations in data over time so that trends can be observed. The 6-month smoothed growth rate is based upon the ratio of the latest monthly value to the preceding 12-month moving average.

$$\left[\left(\frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

Because the interval between midpoints of the current month and the preceding 12 months is 6.5 months, the ratio is raised to the 12/6.5 power to derive a compound annual rate.

The growth rates measure the near-term industry trends. They, along with other information about the metal industries and the world economy, are the main tools used to determine the outlook of the industries. A 6-month smoothed growth rate above +1.0% usually means increasing growth; a rate below -1.0% usually means declining growth.

The next update for these indexes is scheduled for release on the World Wide Web at 10:00 a.m. EDT, Friday, July 19. The address for *Metal Industry Indicators* on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>

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