



Metal Industry Indicators

Composite Indexes of Leading and Coincident Indicators of Selected Metal Industries for June and July—Summary Report

August 16, 2013

The **primary metals leading index** increased 2.2% in July to 161.7 from a revised 158.2 in June, and its 6-month smoothed growth rate jumped to 3.0% from a revised -0.9% in June. The 6-month smoothed growth rate is a compound annual rate that measures the near-term trend. Usually a growth rate above +1.0% signals an increase in metals activity, and a growth rate below -1.0% indicates a downturn in activity. This sharp increase in the primary metals leading index, and its high growth rate could be the first signal of an end to the steep decline in primary metals industry activity. Since the start of the year, durable goods orders have generated modest domestic metals consumption, and in recent months these orders have begun to accelerate. Moreover, global economic growth is improving and could possibly stimulate U.S. metal products exports.

Three of the four indicators that were available for the July index calculation increased, and one declined. The PMI made the largest positive contribution, 1.1 percentage points, to the net increase in the leading index. It stands at a 2-year high and is well above the threshold that denotes an increase in future manufacturing activity. A longer average workweek in primary metals establishments in July contributed 0.9 percentage point. A rebound in the stock price index combining construction and farm machinery companies and industrial machinery companies contributed 0.3 percentage point. In contrast, a drop in the USGS metals price index growth rate pulled the leading index down 0.1 percentage point. The July leading index should be considered preliminary because only four of its eight indicators were available, and the leading index will be subject to revision when the other components are added next month.

Metals are key inputs in durable goods manufacturing and construction, which account for almost a quarter of gross domestic product final sales. Therefore, the primary metals leading index also gives early signals of major changes in activity for the overall U.S. economy (Chart 8).

The steel leading index decreased 0.4% in June, the latest month for which it is available. The falling inflation-adjusted M2 money supply growth rate and a lower index for new building permits issued made the largest negative contributions to the steel leading index. A dip in the S&P stock price index for iron and steel companies and the declining steel scrap price growth rate also made sizable negative contributions. Gains in the PMI, the average workweek in iron and steel plants, and shipments of household appliances offset some of those declines in June. The steel leading index growth rate indicates further declines in steel industry activity growth are likely in the near term. The copper leading index decreased 1.9% in June. Five of its six indicators declined, with a shorter average workweek in nonferrous metals (except aluminum) plants making the largest negative contribution. Drops in the construction-related indicators, the S&P stock price index for building products and the index for new building permits issued, also had significant negative pulls on the copper leading index. A dip in

the copper price had a further negative impact. The yield spread between the U.S. 10-year Treasury Note and the federal funds rate was the only indicator registering a positive contribution. Higher global copper demand and a positive copper leading index growth rate suggest that the decline in industry activity could slow in the near term.

The **metals price leading index** increased 0.6% to 110.0 in June, the latest month for which it is available, from a revised 109.3 in May. Its 6-month smoothed growth rate increased to 4.8% from a revised 4.0% in May. Three of its four indicators increased in June. Two indicators, the yield spread between the U.S. 10-year Treasury Note and the federal funds rate and the growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar, posted 0.4-percentage-point contributions to the net increase in the leading index. The rising Organization for Economic Cooperation and Development (OECD) Total Leading Index growth rate contributed 0.2 percentage point. It indicates modest growth in many industrialized economies in the near future. In contrast, a slip in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed -0.4 percentage point. 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 June. Levels of these inventories continued to set new record highs. However, metal inventories elsewhere are beginning to recede, suggesting that metal prices could pick up in the near future.

The percent changes from May to June for the **metal industry coincident indexes**, which measure current economic activity, are shown below. June is the latest month for which these indexes are available.

Primary Metals	0.2%
Steel	0.9%
Copper	-1.4%

Tables 1, 3, 5, and 7 identify the indicators and, for the industry indexes, show the contributions of each indicator to its respective index.

The *Metal Industry Indicators* report is produced at the U.S. Geological Survey. For more information about these indexes and the *Metal Industry Indicators* monthly report, contact Gail James (703-648-4915), (e-mail, gjames@usgs.gov) at the U.S. Geological Survey.

The *Metal Industry Indicators* summary report with indexes for July and August is scheduled for release on the World Wide Web at 10:00 a.m. EDT, Friday, September 20, 2013.

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						
June	105.3r	-17.0	14.4	-29.1	-15.3	-25.1
July	105.5	-13.6	16.3	-23.5	-13.0	-38.6
August	106.2r	-9.9	15.6	-20.5	-9.5	-13.5
September	107.1r	11.0	7.8	4.2	9.7	-17.9
October	106.9r	-2.8	6.0	-13.7	-3.2	-34.0
November	107.1r	1.8	8.2	6.1	0.0	-11.2
December	107.9r	0.7	5.8	1.7	-1.9	-10.4
2013						
January	108.1r	6.0	7.1	4.2	3.3	-6.8
February	108.0r	-2.1	7.4	-4.7	-4.0	-9.4
March	107.6r	-7.7	4.9	-9.3	-8.1	7.0
April	108.2r	-16.8	6.2	-10.9	-17.7	-1.4
May	109.3r	-9.7	11.9r	-6.8	-11.6	-11.0
June	110.0	-20.2	12.0	-19.0	-21.9	-9.4
July	NA	-18.5	NA	-18.2	-19.4	1.3

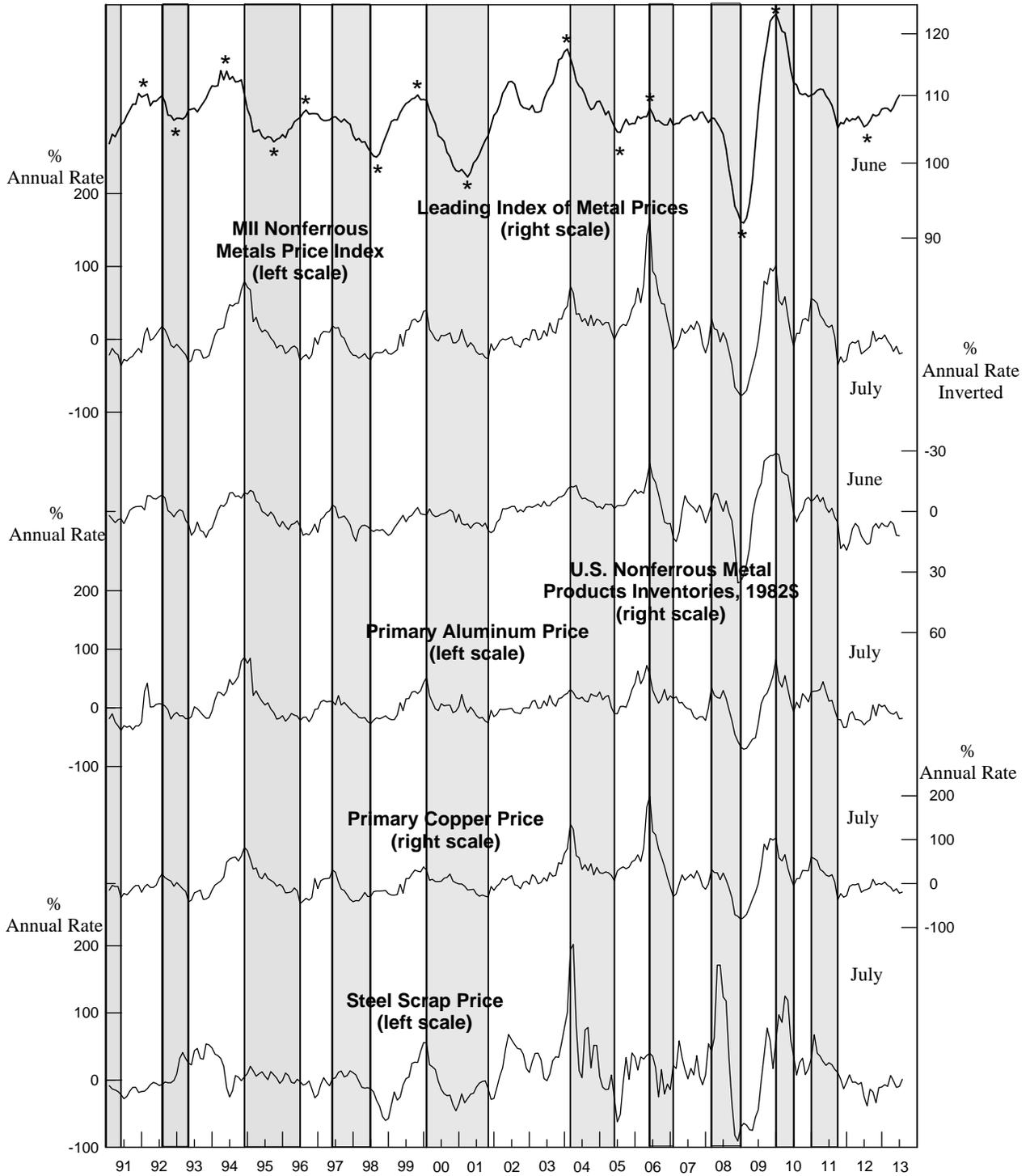
NA: Not available r: Revised

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				
July	155.8r	-4.8r	111.3	4.1
August	156.5	-3.6	111.3	3.4
September	158.7	-0.6	110.1	0.4
October	159.0	-0.2	110.0	-0.2
November	158.7	-0.6	110.9	0.9
December	161.0r	2.4	111.2	1.1
2013				
January	161.4r	2.8r	110.9	0.5
February	162.5	4.0	110.9	0.5
March	158.8r	-0.4r	109.9	-1.3r
April	159.5	0.7	109.5	-2.0r
May	159.5r	0.7r	110.0r	-0.9r
June	158.2r	-0.9r	110.2	-0.5
July	161.7	3.0	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			June	July
1. Average weekly hours, primary metals (NAICS 331)			-0.1r	0.9
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)			-0.1r	0.3
3. Ratio of price to unit labor cost (NAICS 331)			-0.1	NA
4. USGS metals price index growth rate			0.0	-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			-0.4	NA
7. Growth rate of U.S. M2 money supply, 2005\$			-0.4	NA
8. PMI			0.3r	1.1
Trend adjustment			0.0	0.0
			-0.9r	2.2
Coincident Index			May	June
1. Industrial production index, primary metals (NAICS 331)			0.2r	-0.1
2. Total employee hours, primary metals (NAICS 331)			0.2	-0.3
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$			0.1	0.4
Trend adjustment			0.1	0.1
			0.6r	0.1

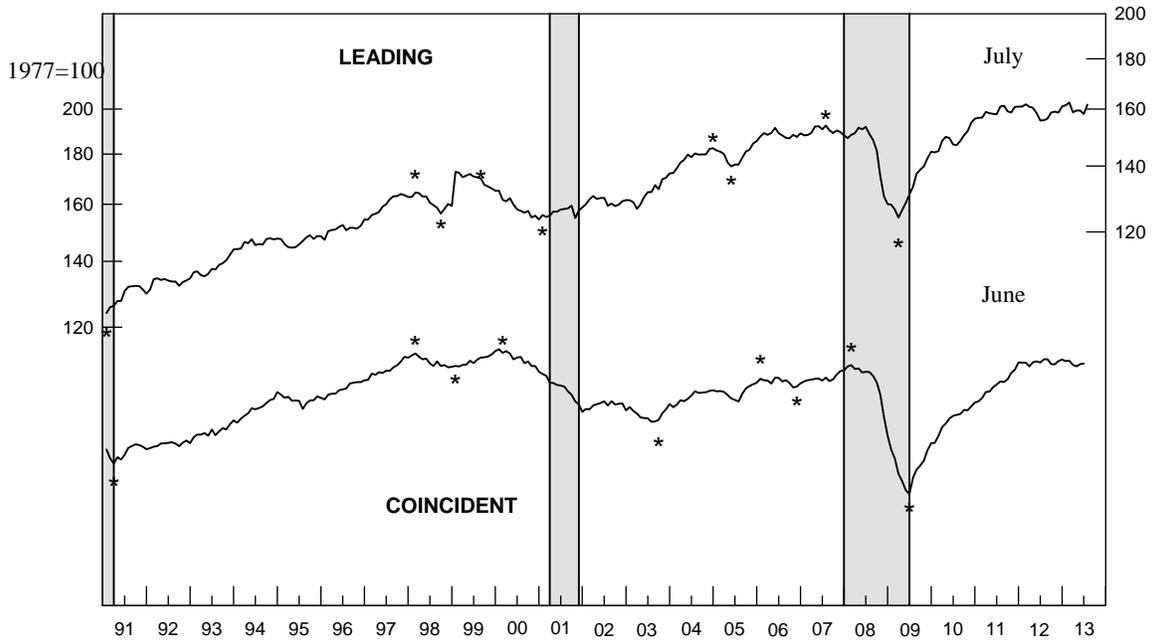
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board, 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.

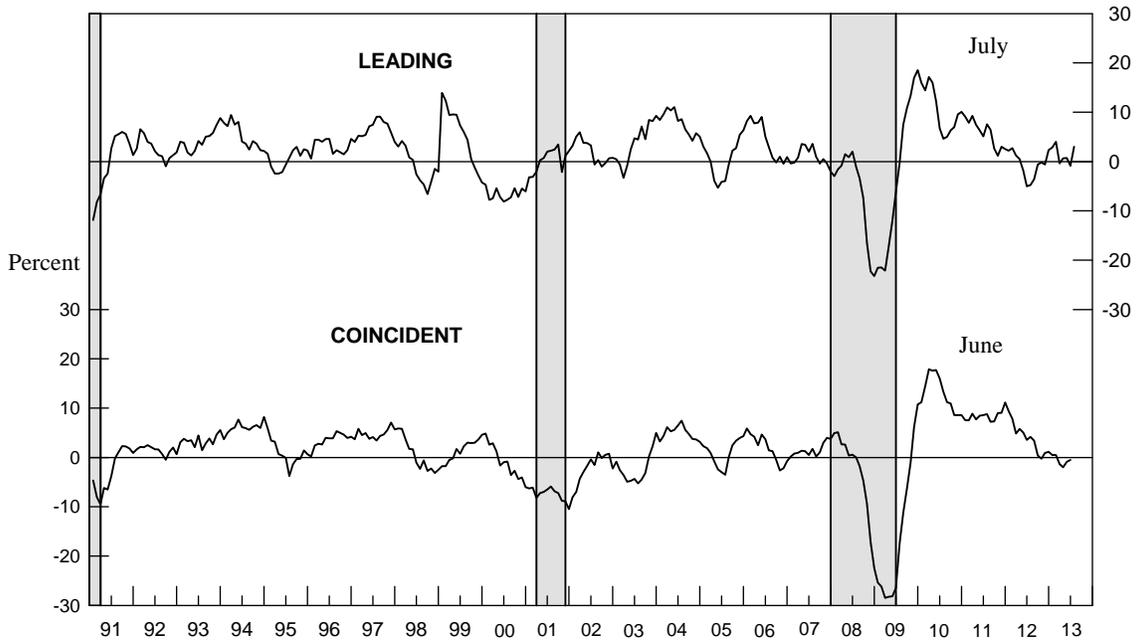
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1991-2013 1977=100



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				
July	109.0	-3.8	116.3	1.9
August	108.5r	-4.3r	116.8	2.1
September	110.6	-0.4	115.3	-0.7
October	110.5	-0.4r	115.7	-0.4
November	110.0r	-1.3r	116.1	0.1
December	111.3r	1.1r	116.1	-0.1
2013				
January	111.8r	2.2r	116.4	0.4
February	112.5	3.4	116.5	0.6
March	110.8r	0.4	116.0	-0.3
April	111.7r	1.9r	116.1	-0.2
May	111.2r	1.1r	115.5r	-1.1r
June	110.8	0.3	116.5	0.7

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

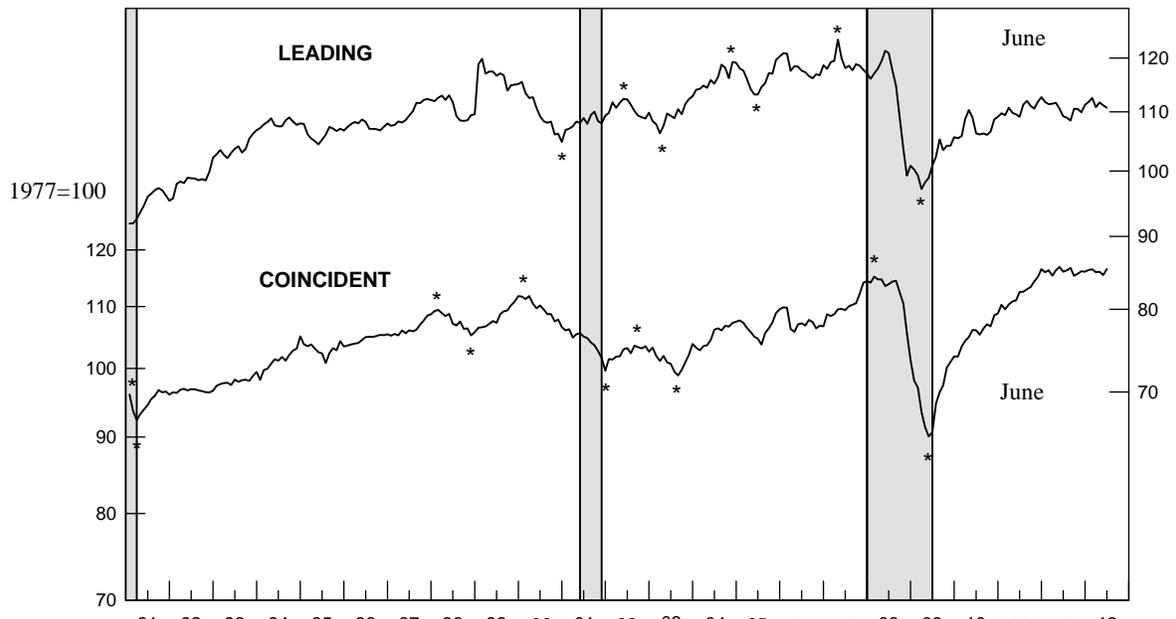
Leading Index	May	June
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	-0.3	0.2
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.0	0.0
3. Shipments of household appliances, 1982\$	0.2	0.2
4. S&P stock price index, steel companies	0.2	-0.2
5. Retail sales of U.S. passenger cars and light trucks (units)	0.0r	0.1
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	-0.1	-0.2
7. Index of new private housing units authorized by permit	-0.1	-0.3
8. Growth rate of U.S. M2 money supply, 2005\$	-0.3	-0.4
9. PMI	-0.2	0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.6r	-0.4
Coincident Index		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	0.0r	0.1
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.3r	0.6
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	-0.4r	0.1
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.6r	0.9

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

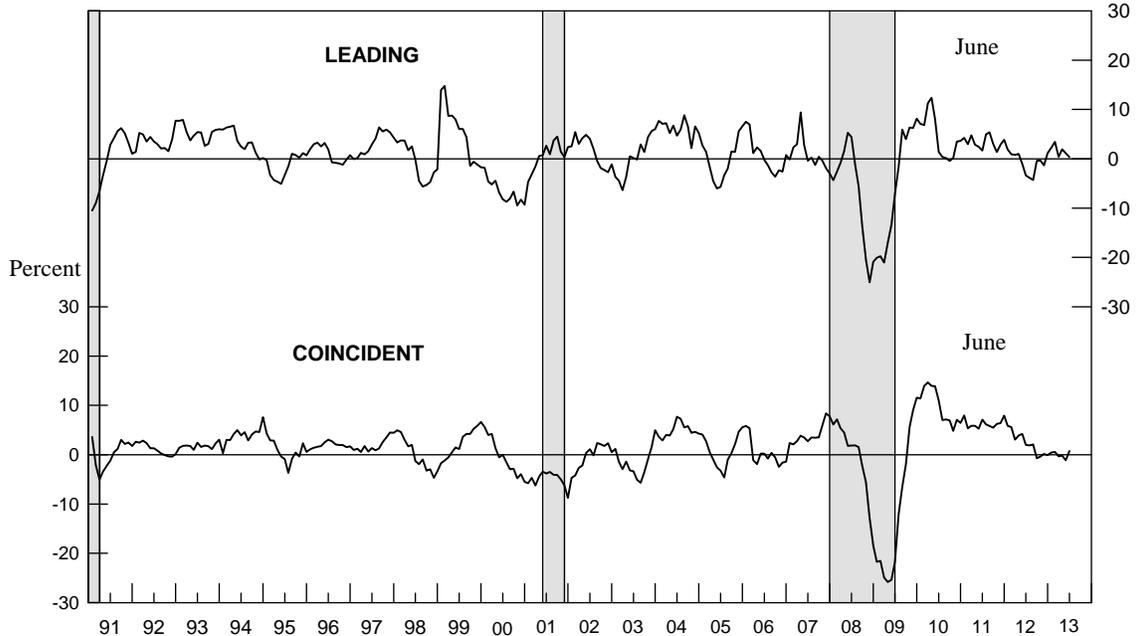
1977=100



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				
July	122.5	5.3	110.4	2.7
August	121.6	3.4	108.4	-1.2
September	123.3	5.6	106.8	-3.6
October	122.4	2.8	107.1	-2.8
November	124.0	4.6	106.7	-3.0
December	126.1	6.8	108.1	-0.3
2013				
January	124.2	2.9	104.3	-6.5
February	128.6	9.3	108.2	0.8
March	127.1	6.1	106.0r	-2.7r
April	126.8	4.8r	104.3r	-5.5r
May	129.8r	8.9r	106.9r	-0.2r
June	127.3	3.8	105.4	-2.8

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	May	June
1. Average weekly hours, nonferrous metals (except aluminum) (NAICS 3314)	0.9r	-0.7
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	0.6r	-0.2
3. S&P stock price index, building products companies	0.7	-0.5
4. LME spot price of primary copper	0.1	-0.4
5. Index of new private housing units authorized by permit	-0.1	-0.4
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.2	0.3
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	<u>2.4r</u>	<u>-1.9</u>
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.2r	0.0
2. Total employee hours, nonferrous metals (except aluminum) (NAICS 3314)	2.2r	-1.5
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	<u>2.5r</u>	<u>-1.4</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

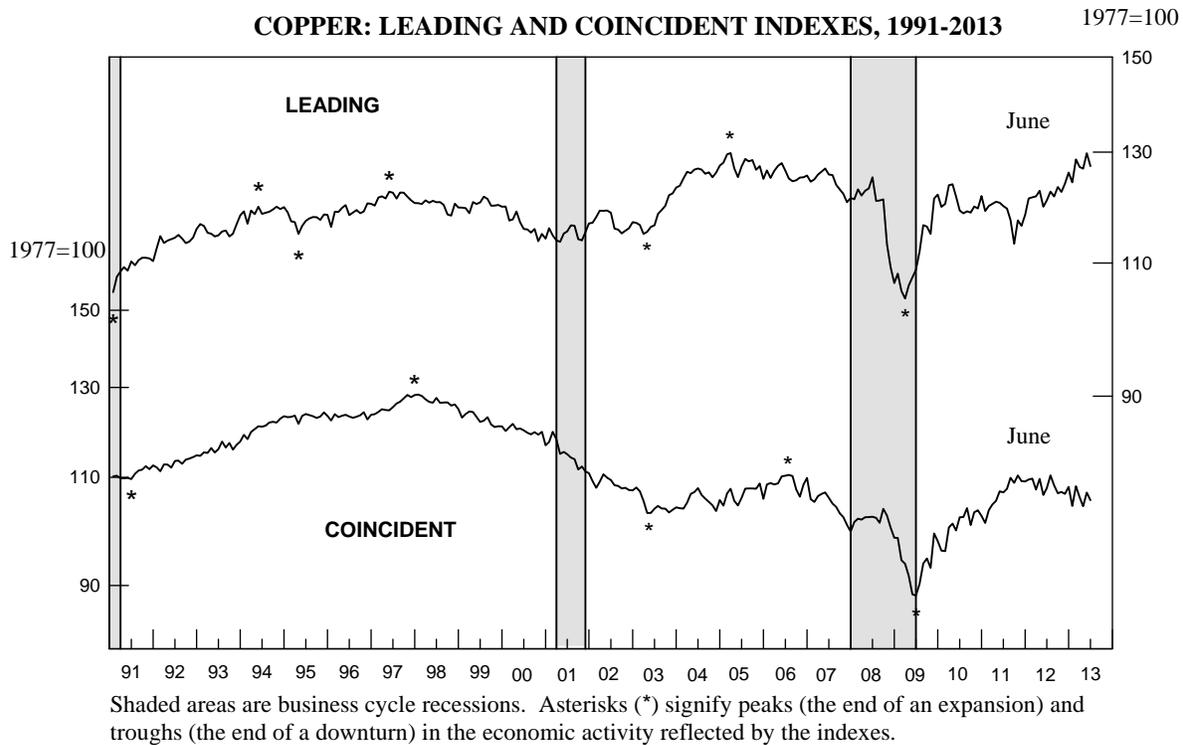


CHART 7.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1991-2013

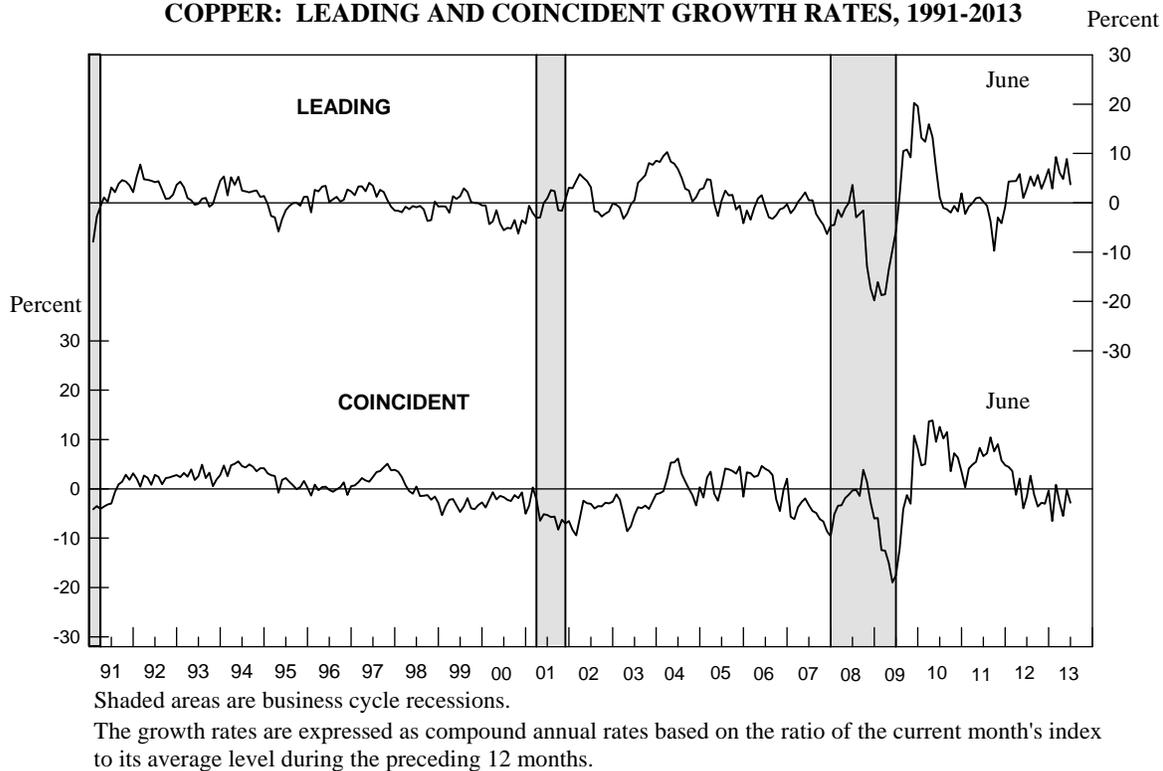
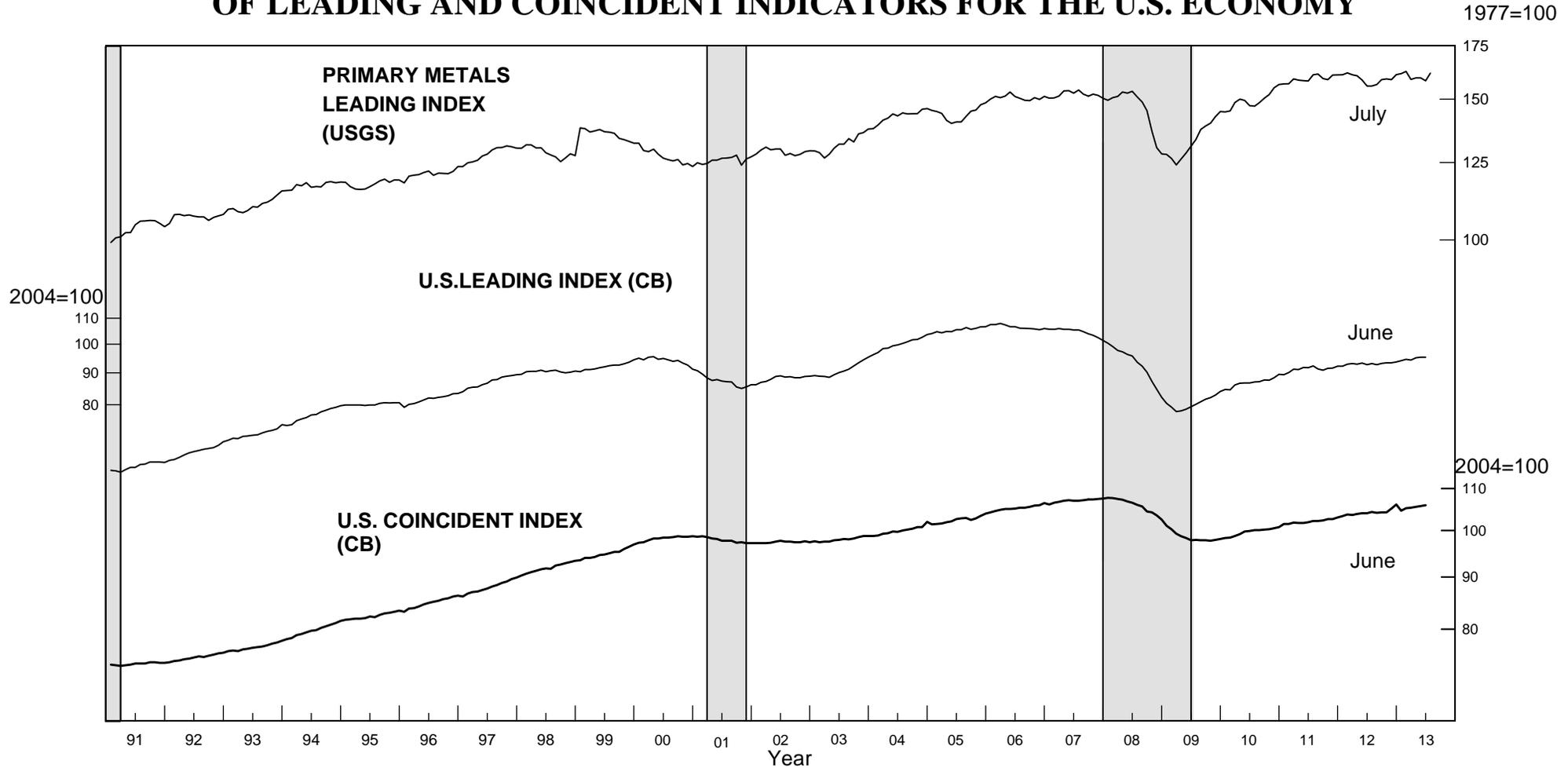


Chart 8.

**PRIMARY METALS LEADING INDEX AND COMPOSITE INDEXES
OF LEADING AND COINCIDENT INDICATORS FOR THE U.S. ECONOMY**



Shaded areas are business cycle recessions.

Sources: U.S. Geological Survey (USGS) and Conference Board (CB).

August 2013