

# Metal Industry Indicators

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

March 2014

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**The primary metals leading index increased in February, and its 6-month smoothed growth rate returned to positive territory. U.S. manufacturing output rebounded in February, offsetting its slump in January and providing a modest boost to metals demand. However, decreases in construction activity have held back that sector's metals consumption. Recent data for most industrialized countries, as well as emerging economies, show that growth has slowed and further slowdowns could occur. This limits demand for U.S. metals and metal products. The metals price leading index decreased in January. U.S. metals inventories decreased; however, LME inventories are beginning to rise. Chinese metal inventories held as collateral are vulnerable to loan default. The possibility of oversupply of metals is creating instability in metals prices.**

The **primary metals leading index** increased 0.5% to 163.1 in February from a revised 162.3 in January. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend, increased to 1.6% from a revised 0.8% in January. A growth rate above +1.0% is usually a sign of an upward near-term trend for future metals activity, whereas 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](#).

Two of the four indicators that were available for the index's calculation increased in February. A jump in the PMI, the Institute for Supply Management's purchasing managers' index, contributed 0.5 percentage point to the net increase in the primary metals leading index. It still points to further expansion in future U.S. manufacturing activity. The rising stock price index combining construction and farm machinery companies and industrial machinery companies reached a new record level and contributed 0.1 percentage point. In contrast, a drop in the USGS metals price index growth rate contributed -0.1 percentage point. The average workweek in primary metals establishments has been stable over the last 3 months, and its contribution to the leading index in January was zero. The primary metals leading index is subject to revision next month when the remaining four components become available.

The **primary metals leading index** growth rate suggests that metals industry activity is likely to grow modestly in the near future. Manufacturing activity is rebounding and is stimulating metals demand. Increased new orders for durable goods, particularly transportation equipment, will promote metals consumption in the months directly ahead. However, reduced metals consumption from the weakening construction sector will offset some of that lift in metals demand. The recovery in the

primary metals industry is likely to be underpinned mostly by domestic metals consumption in the near term.

The **steel leading index** decreased 1.1% to 112.4 in January, the latest month for which it is available, from a revised 113.6 in December. Its 6-month smoothed growth rate fell to -0.2% from a revised 2.1%. Five of its nine indicators decreased, but the decline in the January PMI made the most negative impact. A shorter workweek in iron and steel mills and a dip in the index for new building permits also made sizable negative contributions. The U.S. steel industry is still struggling with low-priced steel imports and declining exports, particularly to Canada and Mexico. The U.S. economy appears to be strong enough to support flat to slow growth in steel industry activity in the near term.

The **copper leading index** decreased 0.5% in January to 131.7 from a revised 132.3 in December. Its 6-month smoothed growth rate decreased to 3.7% from a revised 5.3% in December. Four of its six indicators decreased, with the index for new housing permits posting the largest negative contribution. A drop in the copper price and fewer new orders for nonferrous metal products also pulled the copper leading index down in January. The S&P stock price index for building products companies made the only positive contribution. The leading index growth rate indicates an increase in U.S. copper industry activity, barring a sudden copper supply surplus.

### Global Metals Inventories Rise

The **metals price leading index** decreased 0.7% to 109.6 in January from a revised 110.4 in December. Its 6-month smoothed growth rate also decreased, falling to 0.9% in January

from a revised 2.8% in December. A pullback in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed -0.4 percentage point to the overall decrease in the metals price leading index. The Organization for Economic Cooperation and Development (OECD) Total Leading Index growth rate fell to its lowest rate since May 2013, suggesting a decrease in growth in major industrialized countries. It contributed -0.3 percentage point. A dip in the growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar contributed -0.2 percentage point. The contribution from a tighter yield spread between the U.S. 10-year Treasury note and the federal funds rate rounded to zero. 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, declined in January. Meanwhile, global LME inventories have risen recently, particularly aluminum and copper inventories. Furthermore, Chinese copper inventories are increasingly used as loan collateral, possibly flooding the market with surplus copper if these borrowers default.

The business cycle and inventories are only two factors in metal price determination. Some other factors that affect prices include changes in metals production, speculation, 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
<b>2013</b>						
January	107.8r	6.0	7.1	4.2	3.3	-6.8
February	107.6	-2.1	7.4	-4.7	-4.0	-9.4
March	107.2r	-7.7	6.3	-9.3	-8.1	7.0
April	107.6	-16.8	7.5	-10.9	-17.7	-1.4
May	108.6	-9.7	11.6	-6.8	-11.6	-11.0
June	109.1	-20.2	13.1	-19.0	-21.9	-9.4
July	109.4	-18.5	16.4	-18.2	-19.4	1.3
August	109.9r	-10.3	11.1	-13.5	-11.5	-1.5
September	110.3	-6.5	13.8r	-10.5	-6.0	-3.1
October	110.7	-4.8	10.8	-5.5	-5.5	-2.5
November	110.0r	-8.9	9.9	-15.5	-8.8	9.7
December	110.4r	2.0	12.3r	-8.9	1.5	19.6
<b>2014</b>						
January	109.6	-4.9	8.3	-16.4	-5.0	29.8
February	NA	-1.9	NA	-7.6	-2.7	13.1

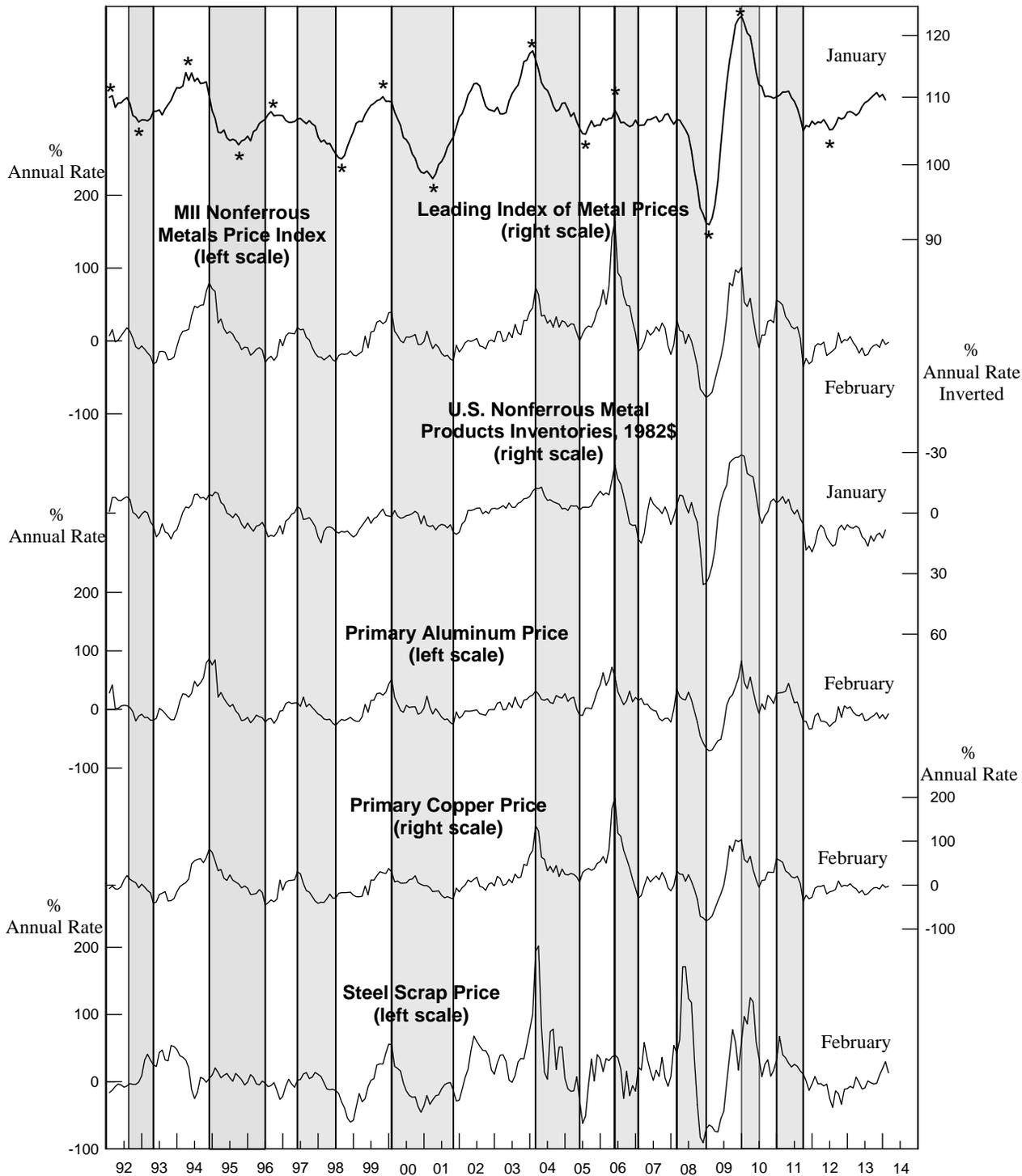
**NA:** Not available    **r:** Revised

**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
<b>2013</b>				
February	162.6	4.2	111.0	0.7
March	159.6	0.6	110.0	-1.0
April	159.8	1.0	109.9	-1.4
May	160.3	1.7	110.2	-0.7
June	158.8	-0.2	110.0	-1.0
July	160.8	1.9	111.3	1.4
August	161.3r	2.0r	111.8r	2.1r
September	162.2r	2.5r	112.3r	2.9r
October	165.4r	6.0r	113.4r	4.5r
November	164.0r	3.6r	113.7r	4.4r
December	163.1r	2.0r	113.6r	3.8r
<b>2014</b>				
January	162.3r	0.8r	113.4	3.2
February	163.1	1.6	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**

<b>Leading Index</b>	<b>January</b>	<b>February</b>
1. Average weekly hours, primary metals (NAICS 331)	0.0r	0.0
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)	0.1r	0.1
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	-0.2	NA
7. Growth rate of U.S. M2 money supply, 2005\$	0.0	NA
8. PMI	-0.6r	0.5
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.5	0.5
<b>Coincident Index</b>	<b>December</b>	<b>January</b>
1. Industrial production index, primary metals (NAICS 331)	-0.2r	0.0
2. Total employee hours, primary metals (NAICS 331)	0.0r	0.0
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	-0.1r	-0.2
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.2r	-0.1

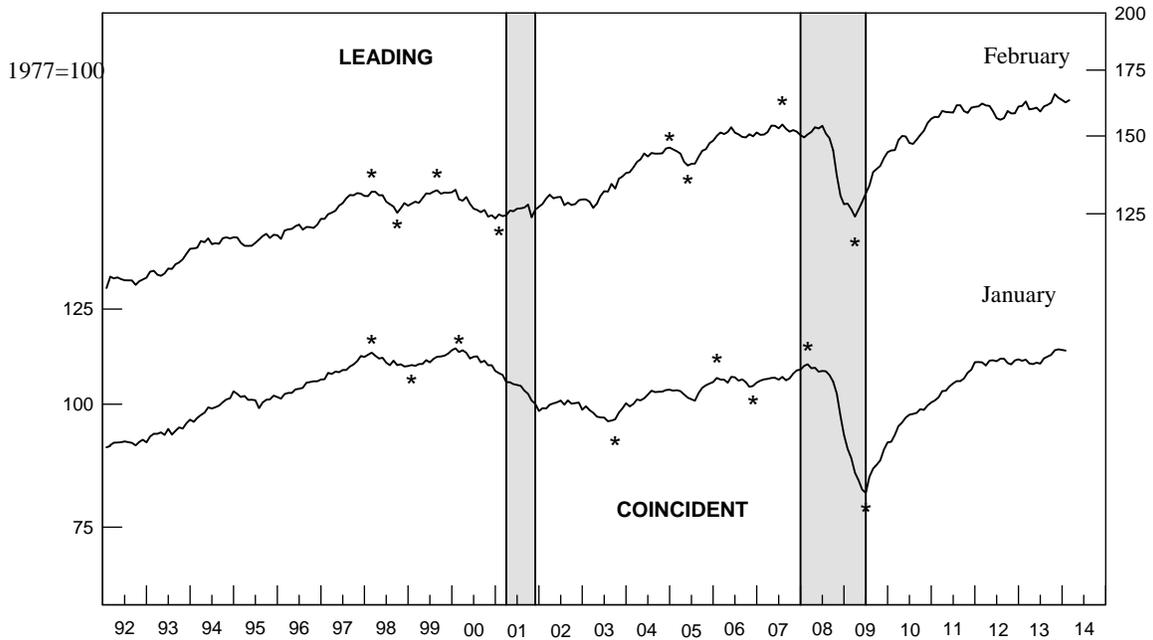
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board,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

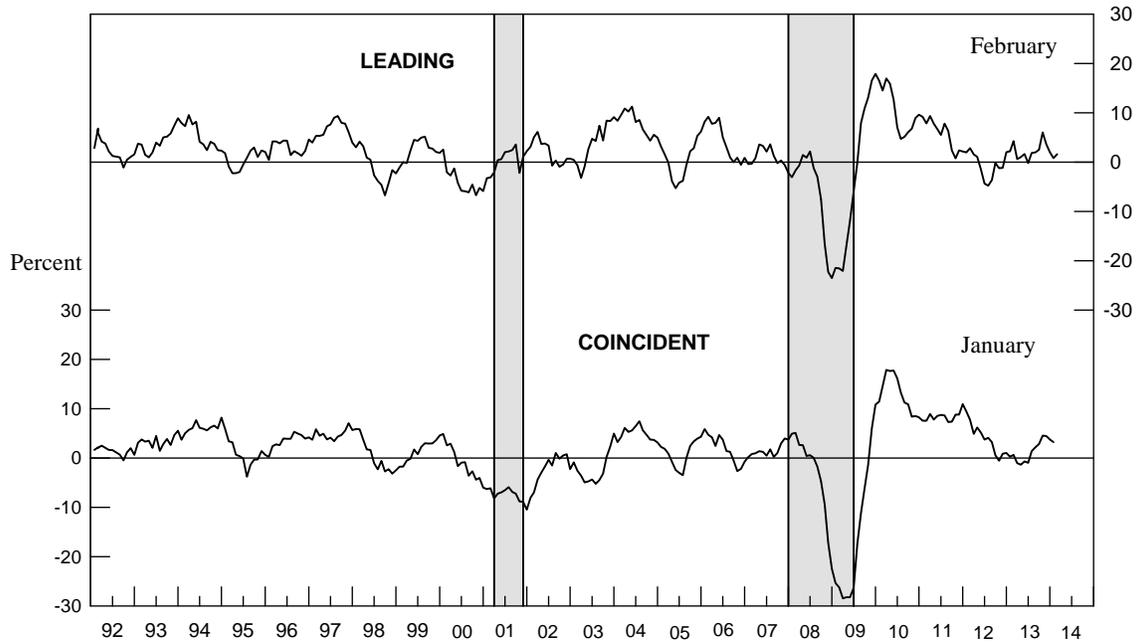
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1992-2014** 1977=100



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, 1992-2014** 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>
<b>2013</b>				
February	112.6	3.6	115.5	-0.3
March	111.4	1.4	115.0	-1.1
April	111.8	2.0	115.1	-0.8
May	111.7	1.8	114.5	-1.7
June	111.0	0.6	115.4	0.0
July	112.0	2.1	116.4	1.7
August	112.8	2.9	117.1	2.8
September	112.8	2.4	117.0	2.5r
October	114.0	4.0r	118.0	3.8
November	114.6r	4.5r	117.8	3.0
December	113.6r	2.1r	117.0r	1.4r
<b>2014</b>				
January	112.4	-0.2	116.1	-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**

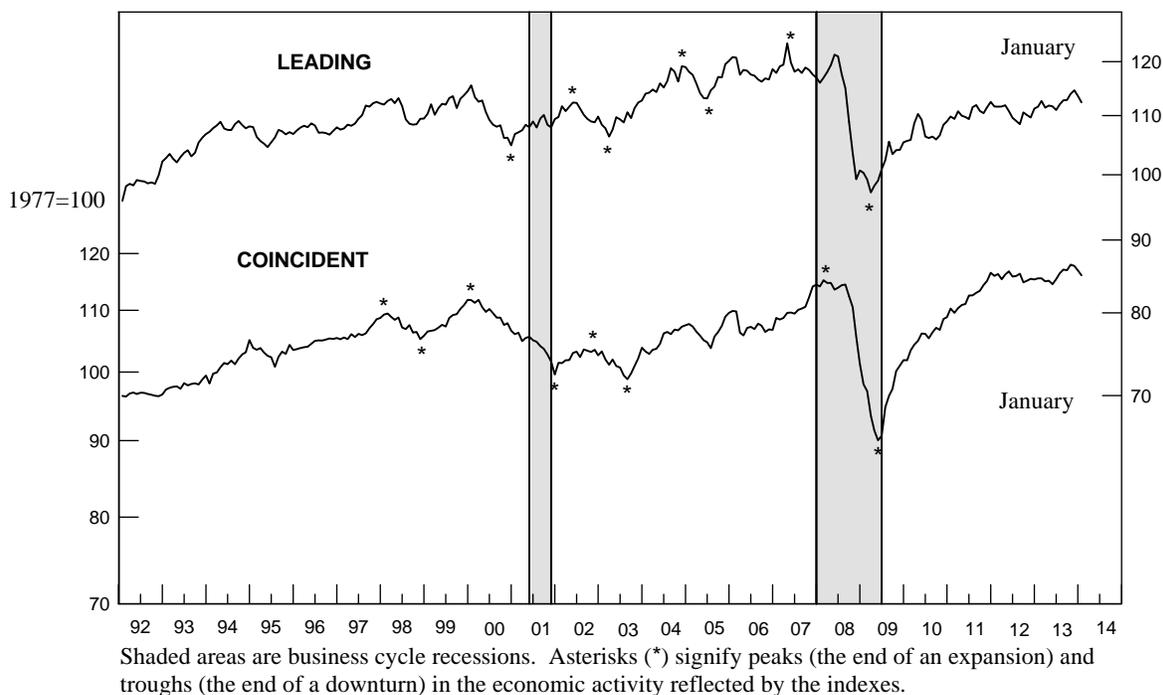
<b>Leading Index</b>	<b>December</b>	<b>January</b>
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.2r	-0.3
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.6r	-0.1
3. Shipments of household appliances, 1982\$	0.0r	0.0
4. S&P stock price index, steel companies	-0.1	-0.1
5. Retail sales of U.S. passenger cars and light trucks (units)	-0.3	0.1
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.2	0.2
7. Index of new private housing units authorized by permit	-0.1	-0.2
8. Growth rate of U.S. M2 money supply, 2005\$	-0.1	0.0
9. PMI	-0.1	-0.6
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.9r	-1.0
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.4r	0.0
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.8r	-0.5
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.4r	-0.4
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.7r	-0.8

**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

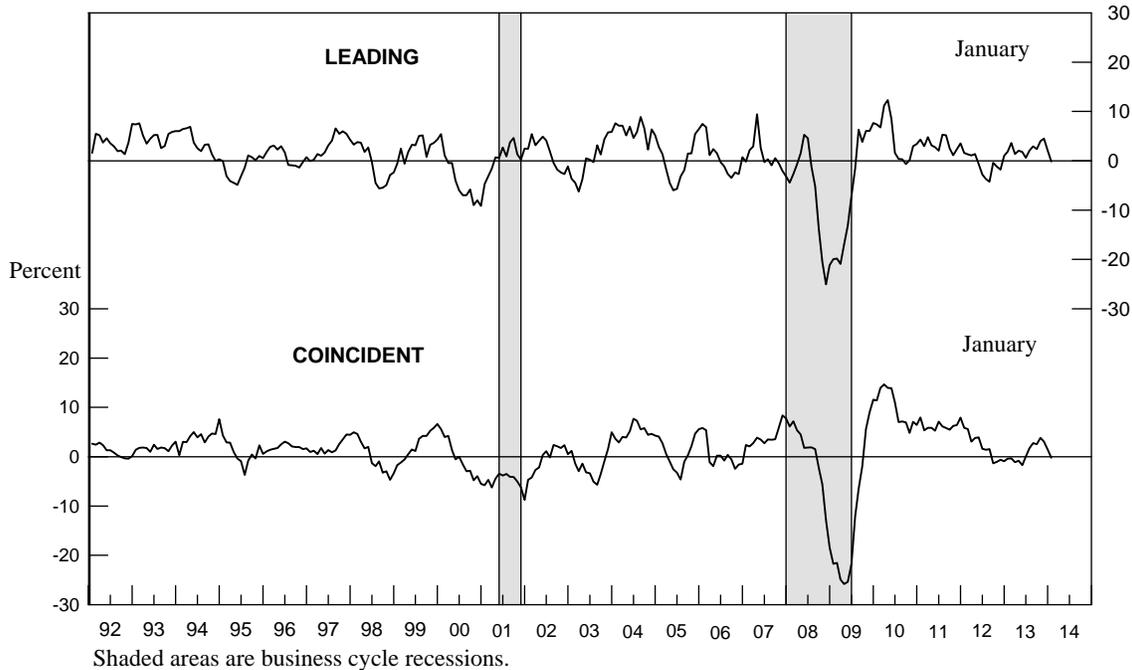
**CHART 4.**  
**STEEL: LEADING AND COINCIDENT INDEXES, 1992-2014**

1977=100



**CHART 5.**  
**STEEL: LEADING AND COINCIDENT GROWTH RATES, 1992-2014**

Percent



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>
<b>2013</b>				
February	128.6	9.3	108.2	0.8
March	127.2	6.2	106.0	-2.7
April	126.8	4.9	105.1	-4.0
May	129.8	8.9	107.2	0.2
June	127.3	3.7	104.1	-5.2
July	129.7	6.6	107.7	1.4
August	129.6	5.5	108.1	2.6
September	131.2	6.8	107.4	1.3
October	132.1	7.2	109.0r	4.1r
November	131.2	4.6	106.7r	-0.2r
December	132.3r	5.3r	106.8r	-0.1r
<b>2014</b>				
January	131.7	3.7	107.0	0.5

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.

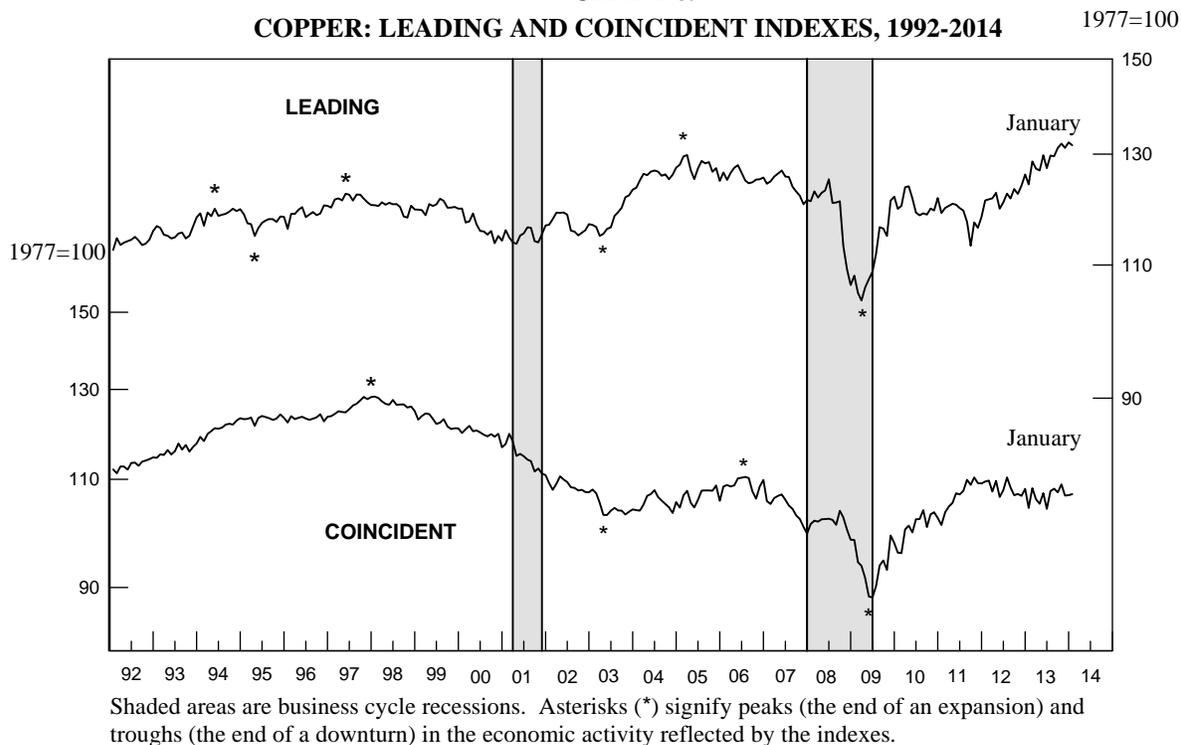
**Table 7.  
The Contribution of Each Copper Index Component to the Percent Change  
in the Index from the Previous Month**

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

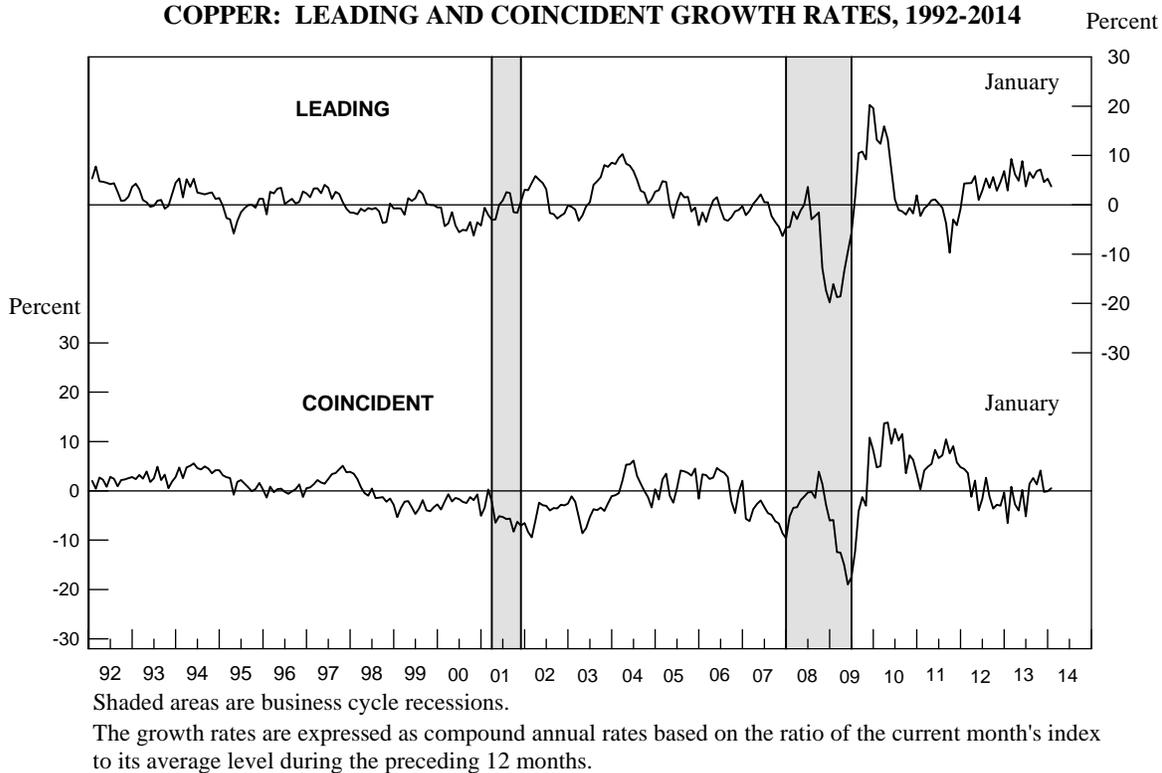
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau 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, 1992-2014**



**CHART 7.**  
**COPPER: LEADING AND COINCIDENT GROWTH RATES, 1992-2014**



## 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.<sup>1</sup>

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.

<sup>1</sup> Business 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. Because the historical 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 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:

$$\left( \left( \frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1 \right) * 100$$

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, April 18. The address for Metal Industry Indicators on the World Wide Web is: <http://minerals.usgs.gov/minerals/pubs/mii/>**

The Metal Industry Indicators is produced at the U.S. Geological Survey by the National Minerals Information Center. The report is prepared by Gail James (703-648-4915; e-mail: [gjames@usgs.gov](mailto:gjames@usgs.gov)) and Ken Beckman (703-648-4916; e-mail: [kbeckman@usgs.gov](mailto:kbeckman@usgs.gov)). The former Center for International Business Cycle Research, under the direction of Dr. Geoffrey H. Moore, and the former U.S. Bureau of Mines developed the metal industry leading and coincident indexes in the early 1990s. Customers can send mail concerning the Metal Industry Indicators to the following address:

U.S. Geological Survey  
National Minerals Information Center  
988 National Center  
Reston, Virginia 20192