

Metal Industry Indicators

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

February 2015

The primary metals leading index decreased for the fourth consecutive month in January, and its 6-month smoothed growth rate descended into negative territory. The U.S. economy is strong enough to support modest metals demand in 2015. However, the strong U.S. dollar and weak global economic growth are suppressing U.S. metal products exports, while metal imports continue to rise. The steadily declining metals price leading index growth rate indicates further decreases in most metal prices. Domestic metals inventories continue to climb, setting new record high levels most months. LME metal inventories, with the exception of aluminum and zinc, continue to increase as well.

The **primary metals leading index** decreased 0.9% to 165.8 in January from a revised 167.3 in December. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend, decreased to -1.3% from a revised 0.7% in December. 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.

Three of the four indicators that were available for the index's calculation decreased in January, and one increased. The second consecutive decline in the stock price index combining construction and farm machinery companies and industrial machinery companies contributed -0.7 percentage point to the net decrease in the leading index. The revised PMI, the Institute for Supply Management's purchasing managers' index contributed -0.4 percentage point. However, the PMI is still above the threshold that denotes an increase in future manufacturing activity. The USGS metals price index growth rate has declined steadily since August; it contributed -0.3 percentage point to the leading index. In contrast, a slightly longer average workweek in primary metals establishments contributed 0.4 percentage point. 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 activity in metals industry activity is likely to slow in the near future. The U.S. economy slowed more in the final quarter of 2014 than previously reported; this could decrease manufacturing activity in the near term. Advanced new orders for durable goods increased in January; however, this increase was caused by a sharp rise in orders for transportation equipment, specifically nondefense aircraft. The aerospace equipment industry is highly

volatile and without its orders increase, durable goods new orders were basically flat. The metals consumption from the construction sector will likely be volatile in 2015. Nonresidential construction activity underpinned domestic metals demand with long term building projects, particularly manufacturing plants and energy facilities, last year. However, subdued new orders for manufactured goods and lower oil prices may delay some of these industry's construction projects in the short term. Rising employment, low interest rates, and low housing inventories are likely to promote residential construction activity in 2015. In January, permits for single-family home construction remained close to the 7-year high record set in December.

The **steel leading index** decreased 0.5% to 114.6 in December from a revised 115.2 in November. Its 6-month smoothed growth rate settled at zero from a revised 1.0% in November. Six of its nine indicators decreased, but a drop in the December PMI made the largest negative contribution to the leading index. The falling S&P stock price index for iron and steel companies also held the leading index back significantly. In contrast, the highest inflation-adjusted M2 money supply growth rate in nearly a year offset much of those declines. Much of U.S. steel demand is being met with low-cost steel imports. Steel imports increased sharply in January, the steel import market share was more than 32% for the start of 2015.

The **copper leading index** was unchanged in December from the revised 131.4 in November. However, its 6-month smoothed growth rate decreased to 1.8% from a revised 2.1% in November. The rising S&P stock price index for building products companies posted the only positive contribution to the copper leading index. In contrast, the falling copper price, fewer new orders for nonferrous metal products, and the tighter yield

spread between the U.S. 10-year Treasury note and the federal funds rate held the leading index back in December. However, the copper leading index growth rate remained in the range that suggests an increase in U.S. copper industry activity growth.

Falling Leading Index of Metal Prices Indicates Further Metals Price Declines

The **leading index of metal prices** decreased 0.4% to 105.2 in December from a revised 105.6 in November. Its 6-month smoothed growth rate decreased to -4.5 in December from a revised -4.3% in November. The declining trade-weighted average exchange value of other major currencies against the U.S. dollar growth rate contributed -0.3 percentage point to the net decrease in the leading index of metal prices. The tighter yield spread between the U.S. 10-year Treasury note and the federal funds rate contributed -0.1 percentage point. A drop in the growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products also contributed -0.1 percentage point. In contrast, the Organisation for Economic Co-operation and Development (OECD) Total Leading Index growth rate increased

in December, but remained below the threshold that denotes economic declines in most industrialized countries. It contributed 0.2 percentage point to the metals price leading index. The leading index of metal prices 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 for a fourth consecutive month in December. The value of metals inventories held in United States reached a new recent high. However, LME inventory levels have been mixed. High metals inventories, along with the declining metals price leading index growth rate, indicate further metal price decreases.

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, 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
2013						
December	110.0	2.0	11.2	-8.9	1.5	19.6
2014						
January	108.9	-4.9	9.3	-16.4	-5.0	29.8
February	108.5r	-1.9	8.7	-7.6	-2.7	13.1
March	108.6	-11.3	7.7	-5.0	-12.7	4.9
April	108.5	-7.1	10.6	0.3	-8.7	12.1
May	108.3	-0.7	8.9	6.7	-1.0	4.7
June	108.0	-0.1	8.2	10.2	-1.5	-0.4
July	107.8r	5.7	6.2	27.8	2.8	-1.9
August	107.0r	2.2	5.5r	36.0	-1.7	-2.5
September	106.3r	-6.1	6.4	12.2	-8.1	-2.0
October	105.9r	-4.7	10.3	19.7	-5.7	-11.6
November	105.6r	-8.9	12.5r	24.0	-11.6	-26.6
December	105.2	-14.6	14.0	-4.1	-14.5	-25.3
2015						
January	NA	-28.6	NA	-4.0	-33.0	-15.6

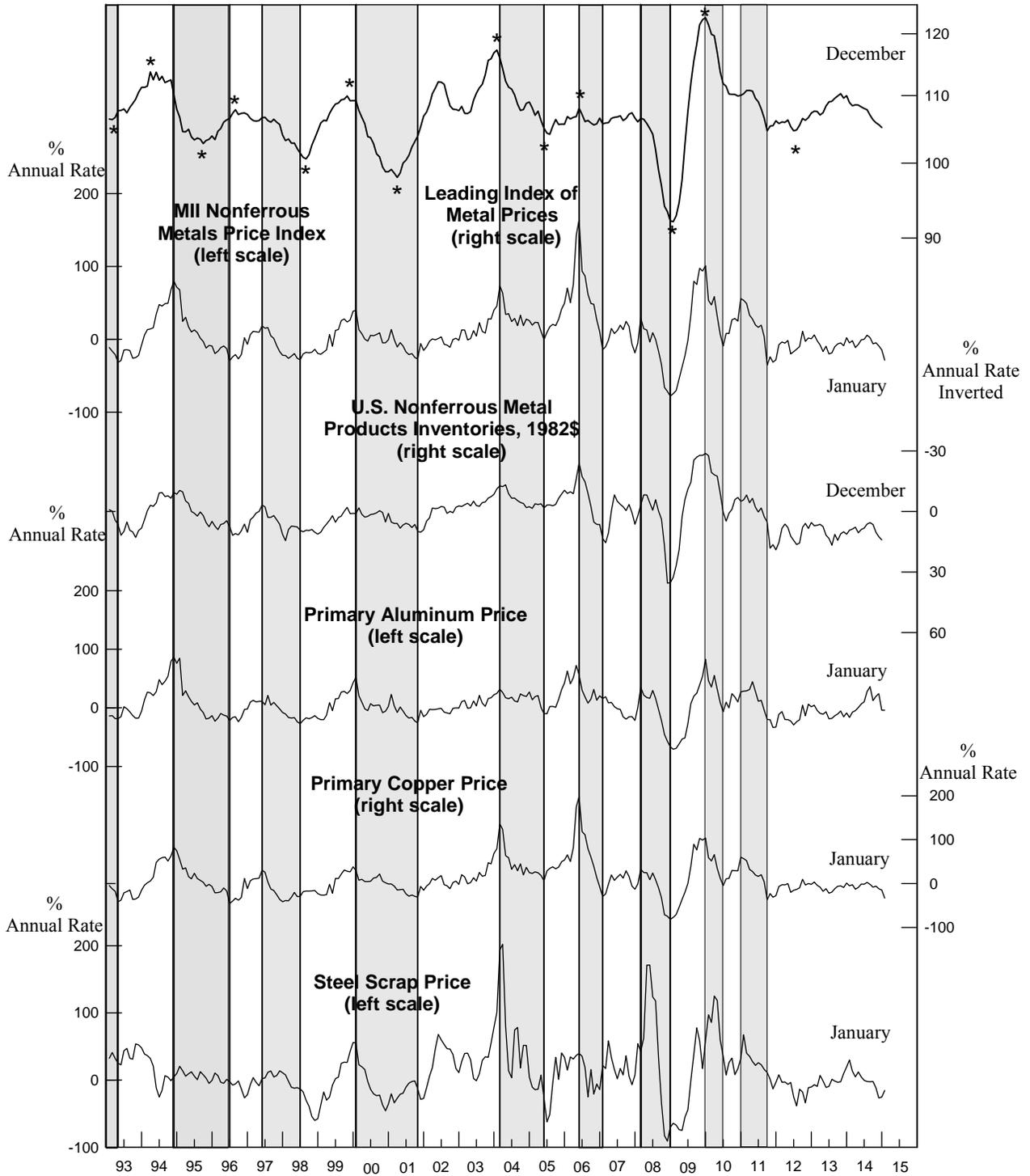
NA: Not available **r:** Revised

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
2014				
January	162.6r	0.5r	113.7r	2.3r
February	165.6	3.9r	114.8r	3.9
March	165.4r	3.4	114.8r	3.4
April	166.7r	4.4r	115.7r	4.4r
May	167.4r	4.6r	116.6r	5.2r
June	167.9r	4.4r	117.7r	6.2r
July	168.9r	4.8r	118.3r	6.2r
August	168.1r	3.1r	118.0r	4.8r
September	168.3r	2.7r	118.7r	5.2r
October	168.1r	2.0r	118.9r	4.8r
November	167.7r	1.3r	118.3r	3.2r
December	167.3r	0.7r	119.4	4.4
2015				
January	165.8	-1.3	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	December	January
1. Average weekly hours, primary metals (NAICS 331)	0.0r	0.4
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)	-0.2r	-0.7
3. Ratio of price to unit labor cost (NAICS 331)	0.1	NA
4. USGS metals price index growth rate	-0.2r	-0.3
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	-0.1	NA
6. Index of new private housing units authorized by permit	0.0	NA
7. Growth rate of U.S. M2 money supply, 2009\$	0.4	NA
8. PMI	-0.3r	-0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.3r	-1.0
Coincident Index	November	December
1. Industrial production index, primary metals (NAICS 331)	-0.2r	0.4
2. Total employee hours, primary metals (NAICS 331)	-0.2r	0.2
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	-0.2	0.2
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.5r	0.9

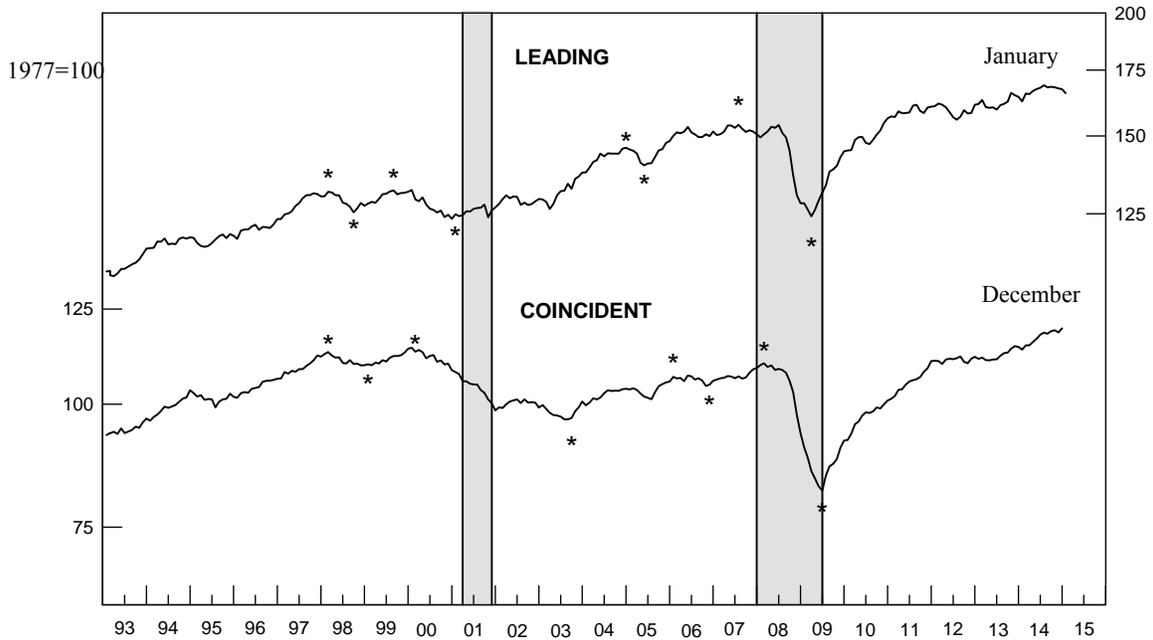
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board,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

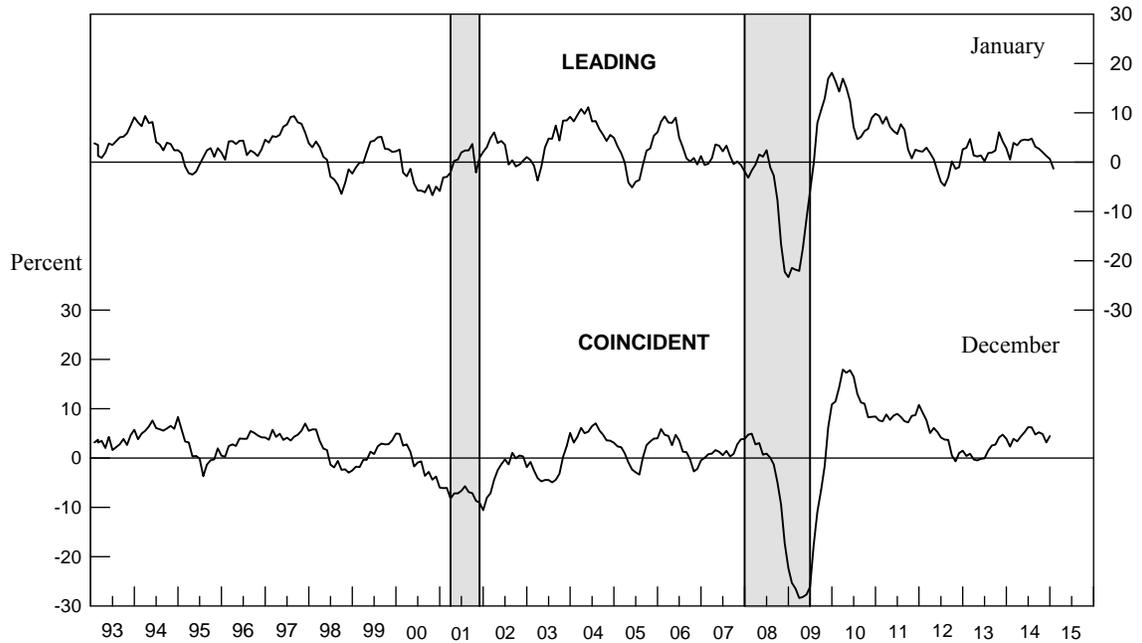
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1993-2015 1977=100



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, 1993-2015 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>
2014				
January	112.5r	-0.1r	115.8r	-0.8r
February	113.8	1.9r	117.1r	1.2r
March	114.3	2.6	117.5r	1.6r
April	114.5	2.6	117.5r	1.4r
May	114.8r	2.7r	117.8r	1.4
June	114.5	1.8	118.5r	2.3r
July	115.5r	2.9r	119.4r	3.3
August	115.6	2.5r	119.6r	3.2
September	115.7	2.3	120.5r	4.3
October	115.1	1.0	120.8r	4.2
November	115.2r	1.0r	120.8r	3.9r
December	114.6	0.0	121.7	5.0

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	November	December
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\$	-0.3r	-0.1
3. Shipments of household appliances, 1982\$	0.1	-0.1
4. S&P stock price index, steel companies	0.2	-0.2
5. Retail sales of U.S. passenger cars and light trucks (units)	0.2	-0.1
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	-0.2	-0.1
7. Index of new private housing units authorized by permit	-0.2	0.0
8. Growth rate of U.S. M2 money supply, 2009\$	0.2r	0.4
9. PMI	0.0	-0.3
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.1r	-0.5
Coincident Index		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.4r	0.5
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.0r	-0.1
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)	0.0r	0.7

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; and 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

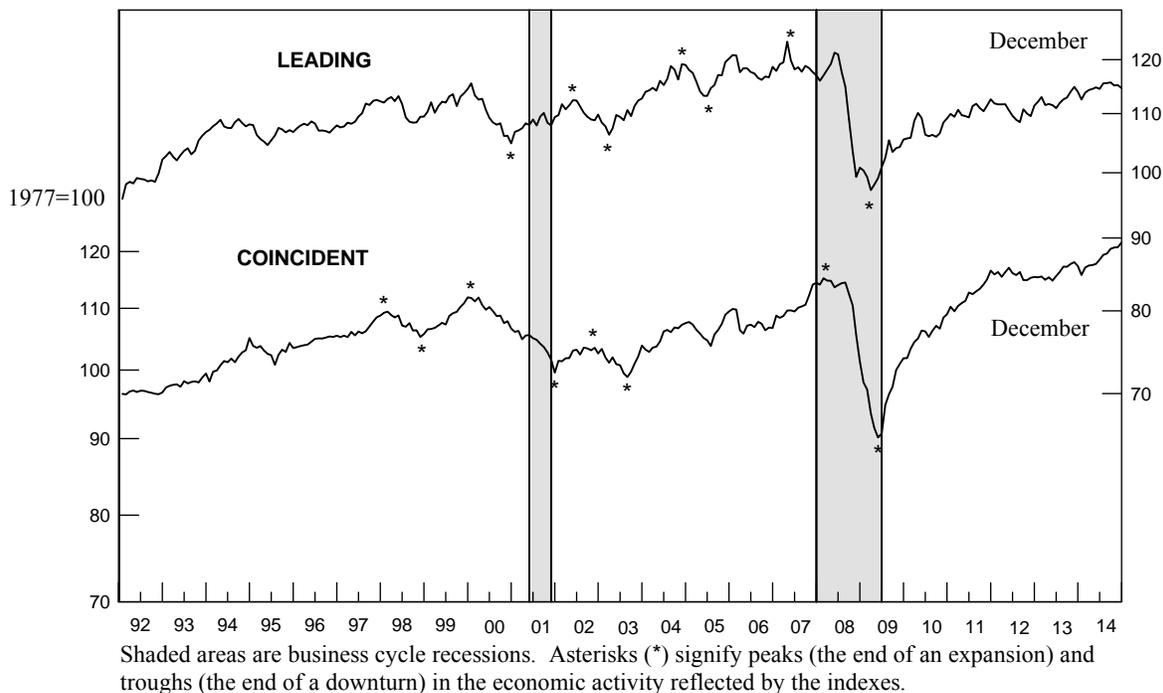
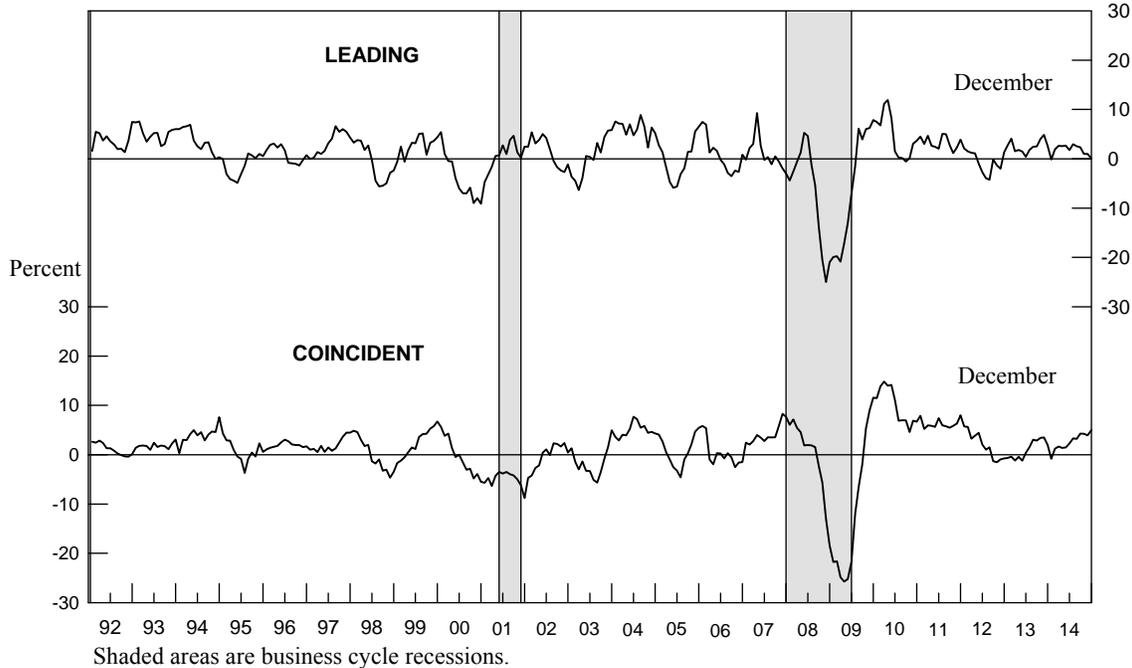


CHART 5.
STEEL: LEADING AND COINCIDENT GROWTH RATES, 1992-2014

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>
2014				
January	128.1	0.3	107.8r	-1.5r
February	129.5	2.1	109.2r	0.7r
March	130.6	3.2	111.4r	4.5r
April	130.4	2.5	110.7r	3.2r
May	129.0	0.1	111.5r	4.3r
June	131.3	3.3	114.3r	8.8r
July	130.2	1.2	113.2r	5.8r
August	129.9	0.6r	112.8r	4.3r
September	130.2	0.8	110.7r	0.3r
October	130.8	1.3	111.0r	0.3r
November	131.4r	2.1r	111.6r	1.2r
December	131.4	1.8	113.0	3.0

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	November	December
1. Average weekly hours, nonferrous metals (except aluminum) (NAICS 3314)	0.4r	0.0
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	0.0r	-0.1
3. S&P stock price index, building products companies	0.4	0.3
4. LME spot price of primary copper	-0.2	-0.1
5. Index of new private housing units authorized by permit	-0.2	0.0
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.0	-0.1
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.4r	0.0
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.2r	0.3
2. Total employee hours, nonferrous metals (except aluminum) (NAICS 3314)	0.3r	0.7
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.6	1.1

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; and 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau of Labor Statistics; and 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

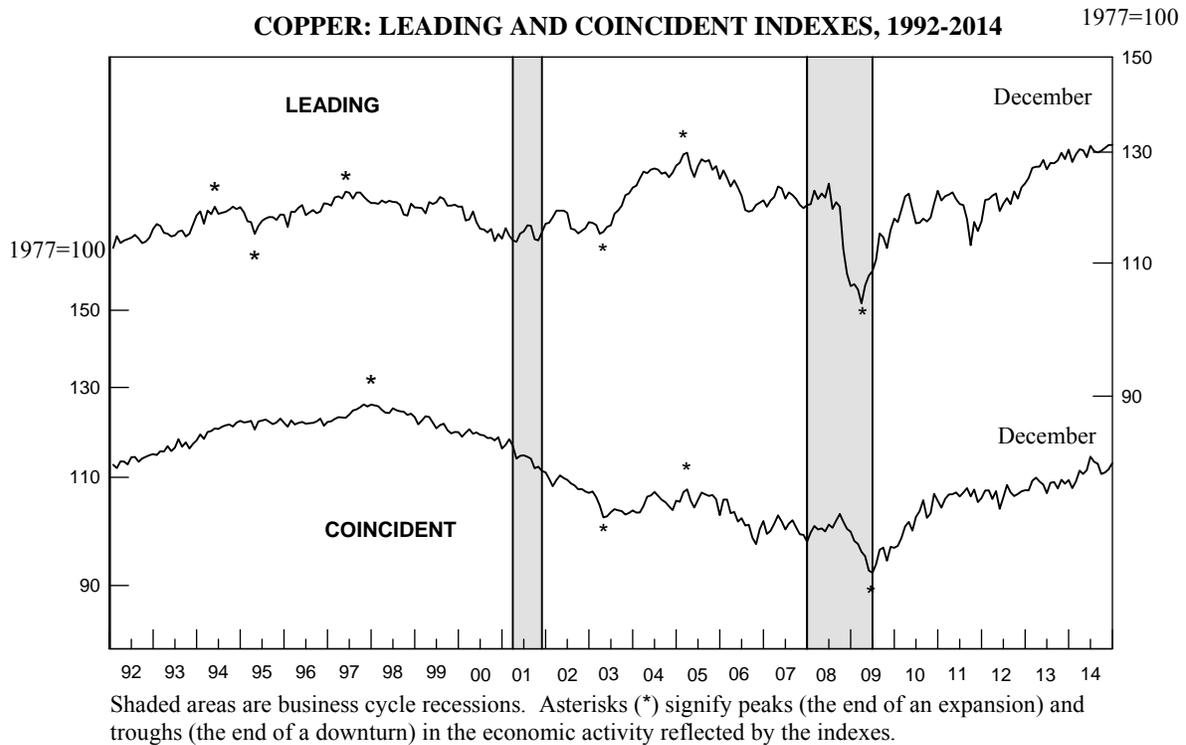
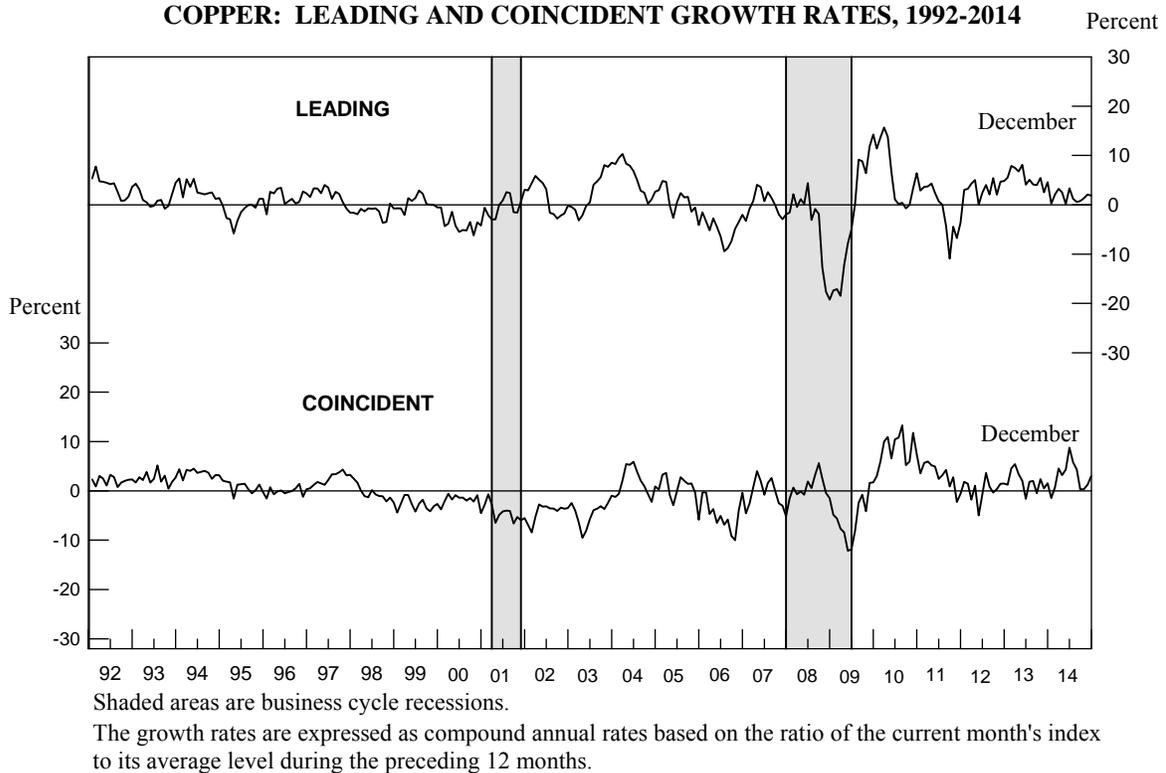


CHART 7.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1992-2014



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.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.

¹ 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, March 20. 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). 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