

# Metal Industry Indicators

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

April 2016

---

The primary metals leading index increased sharply in March, and its 6-month smoothed growth rate moved into positive territory. However, advanced new orders for durable goods increased only slightly in March, signaling that only modest metals demand from the U.S. manufacturing sector is likely in the near term. Furthermore, housing construction indicators have been subdued since the start of the year, thus the metals demand generated from the construction sector is likely to be slow to modest as well in the near term. However, the weaker U.S. dollar could promote metal products exports. The metals price leading index growth rate increased in February, suggesting that the decline in nonferrous metal prices could slow in the near term. High global nonferrous metal production is suppressing metal price growth.

The **primary metals leading index** increased 2.8% to 160.5 in March from a revised 156.2 in February. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend, increased to 2.3% from a revised -3.2% in February. 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.

All of the four indicators that were available for the index's calculation increased in March. The stock price index combining construction and farm machinery companies and industrial machinery companies, which had been falling since the summer of 2014, rose sharply in February and March. It contributed 1.4 percentage points to the overall increase in the leading index. The PMI, the Institute for Supply Management's purchasing managers' index, moved above the threshold that denotes an increase in future manufacturing activity. It made a 0.6-percentage-point contribution. A longer average workweek in primary metals establishments in March lifted the leading index 0.5 percentage point. The USGS metals price index growth rate, which has risen since November, made a 0.2-percentage-point contribution to the leading index in March. The primary metals leading index is subject to revision next month when the remaining four components become available.

Although the **primary metals leading index** growth rate surged in March, and moved above the threshold that denotes an increase in metals industry activity, a 1-month positive reading of the growth rate does not necessarily indicate an upturn in the primary metals industry. Advanced new orders for durable goods, particularly for nondefense transportation equipment, are still weak. This suggests that a significant increase in metals demand from the manufacturing sector is not likely in the months directly ahead. Moreover, metals demand from the construction sector

remains tentative. However, pent-up housing demand created by low housing inventories, low interest rates, and higher home prices should promote residential construction. Nonresidential construction activity increased in March after a slow start at the beginning of the year.

The **steel leading index** increased 0.7% to 111.9 in February from 111.1 in January. Its 6-month smoothed growth rate increased to -0.8% from a revised -2.5% in January. Four of its nine indicators increased in February. A rebound in S&P stock price index for iron and steel companies made the largest positive contribution to the net increase in the steel leading index in February. The rising steel scrap price growth rate also lifted the leading index. Steel scrap prices stand at the highest level since November 2014. In contrast, shipments of household appliances had a negative effect on the steel leading index in February. Appliance shipments have declined since 2014, which is a direct reflection of lower consumer spending and weak U.S. exports. Based on preliminary Census Bureau data, steel imports increased 13% in March from February; however, the steel import market share is gradually declining. The steel leading index growth rate has moved above the threshold which denotes a decrease in steel industry activity. The sharp decline in industry activity is likely to slow in the near future.

The **copper leading index** remained at the revised January level of 126.8 in February; however, its 6-month smoothed growth rate decreased to -1.8% from a revised -1.6% in January. The closest yield spread between the U.S. 10-year Treasury note and the federal funds rate in nearly four years made the largest negative contribution to the copper leading index. A rebound in the copper price and a longer average workweek in nonferrous, except aluminum, metals establishments offset most of that decline. An increase in nonresidential construction activity would normally boost copper industry; however, much of the copper demand from the construction sector will be met by

ample copper inventories. The negative copper leading index growth rate suggests that activity in the U.S. copper industry is likely to be flat or could decrease further in the near term.

## Low Production Cost Promotes Metal Production Despite Low Demand

The **leading index of metal prices** increased 0.4% to 104.6 in February from a revised 104.2 in January and its 6-month smoothed growth rate increased to 1.2% from a revised 0.4% in January. The rising growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar contributed 0.9 percentage point to the net increase in the leading index of metal prices. The Organisation for Economic Cooperation and Development (OECD) Total Leading Index growth rate, which has been steadily declining for more than 2 years, increased slightly in February, and contributed 0.1 percentage point to the metals price leading index. In contrast, the tightening yield spread between the U.S. 10-year Treasury note and the federal funds rate contributed -0.4 percentage point.

The decrease in the growth rate in the inflation-adjusted value of new orders for U.S. nonferrous metal products contributed -0.2 percentage point. 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, decreased in February. The actual value of metals inventories held in United States decreased from its new record high as well in February. Low production cost for nonferrous metals promoted metals manufacturing despite slow global economic growth and low metal demand, undermining nonferrous metals price growth.

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)	Leading Index of Metal Prices Growth Rates	MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
<b>2015</b>							
February	103.7	-5.9	-21.3	12.6	-9.4	-21.5	-54.9
March	103.3	-5.8	-15.1	11.1	-10.4	-14.9	-51.8
April	103.1r	-5.3	-4.5	11.3	0.5	-8.5	-47.3
May	104.0r	-3.0r	-10.7	7.1	-19.3	-11.7	-42.7
June	104.2r	-1.9r	-20.1	8.4	-23.8	-19.6	-29.9
July	103.8r	-2.0	-28.9	13.2	-26.9	-30.1	-32.7
August	103.8r	-1.4	-29.0	15.3	-28.1	-29.9	-42.1
September	104.1r	-0.4	-26.3	15.0	-23.7	-26.5	-43.5
October	104.5r	0.6r	-22.5	11.8r	-31.4	-22.1	-62.1
November	104.1r	0.1r	-31.7	10.8r	-28.4	-33.7	-64.1
December	104.5r	1.1r	-22.9	13.2r	-17.8	-27.1	-58.1
<b>2016</b>							
January	104.2r	0.4r	-24.3	14.7r	-12.9	-28.4	-43.3
February	104.6	1.2	-16.0	11.1	-0.2	-21.5	-35.9
March	NA	NA	-12.6	NA	-13.0	-13.9	-21.3

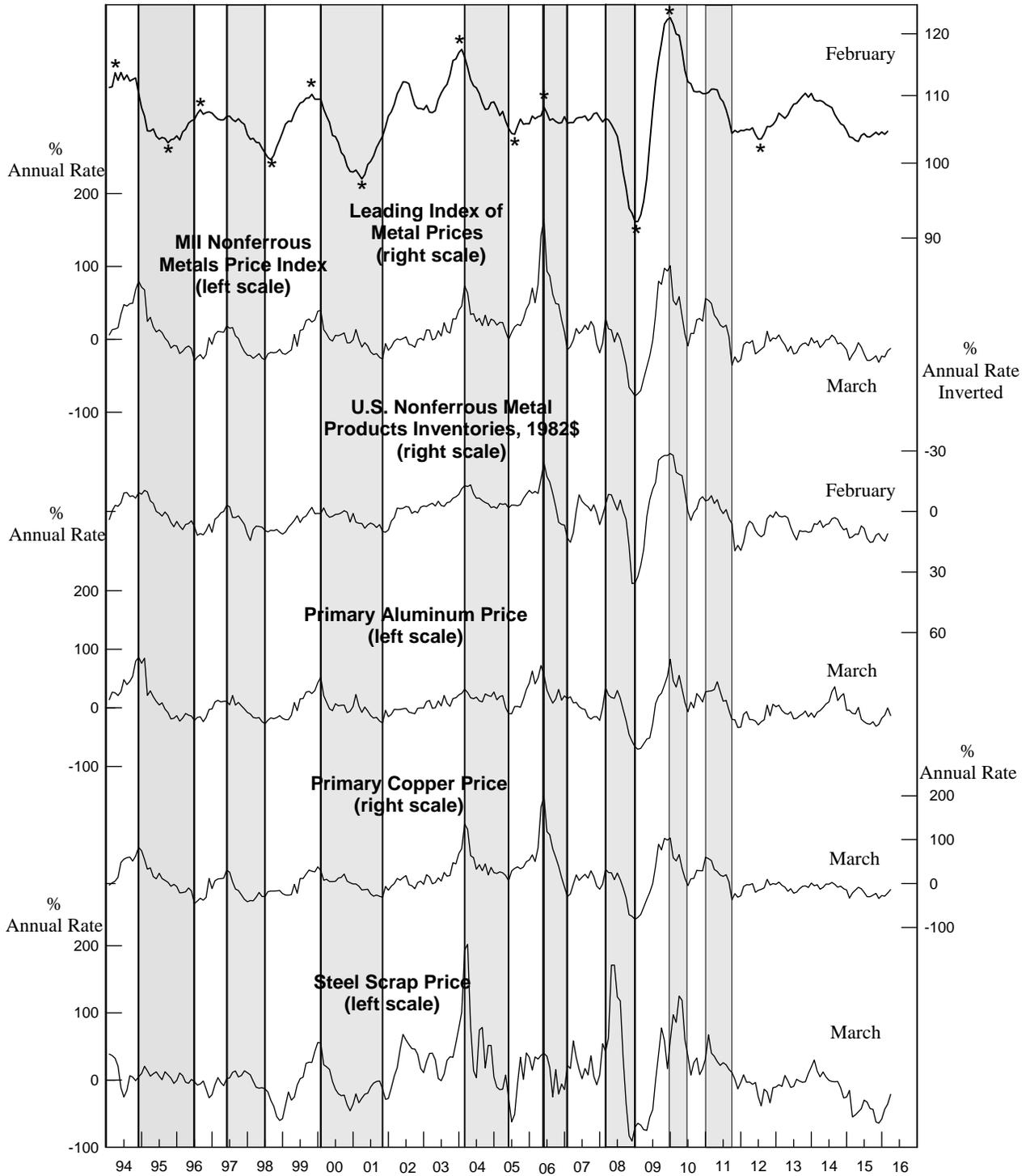
**NA:** Not available    **r:** Revised

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

**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.

**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>2015</b>				
March	159.5r	-5.4r	111.1r	-2.3r
April	160.7r	-3.6	110.8r	-2.8
May	162.2r	-1.6	111.1r	-2.3r
June	162.5r	-1.0r	111.8r	-0.9r
July	160.2r	-3.3r	111.9r	-0.6r
August	159.1r	-4.1r	111.3r	-1.5r
September	156.7r	-6.3	110.2r	-3.0
October	156.8r	-5.5r	110.3r	-2.5r
November	157.1r	-4.4r	110.5r	-1.7r
December	155.2r	-5.9r	109.8r	-2.6r
<b>2016</b>				
January	155.5r	-4.7r	110.0r	-1.9r
February	156.2r	-3.2r	109.3	-2.7
March	160.5	2.3	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**

<b>Leading Index</b>	<b>February</b>	<b>March</b>
1. Average weekly hours, primary metals (NAICS 331)	-0.8r	0.5
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)	0.4r	1.4
3. Ratio of price to unit labor cost (NAICS 331)	0.2	NA
4. USGS metals price index growth rate	0.3r	0.2
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	0.0	NA
6. Index of new private housing units authorized by permit	-0.1	NA
7. Growth rate of U.S. M2 money supply, 2009\$	0.1	NA
8. PMI	0.2r	0.6
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.3r	2.7
<b>Coincident Index</b>	<b>January</b>	<b>February</b>
1. Industrial production index, primary metals (NAICS 331)	-0.1r	0.1
2. Total employee hours, primary metals (NAICS 331)	0.1	-0.8
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	0.0r	0.0
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.1r	-0.6

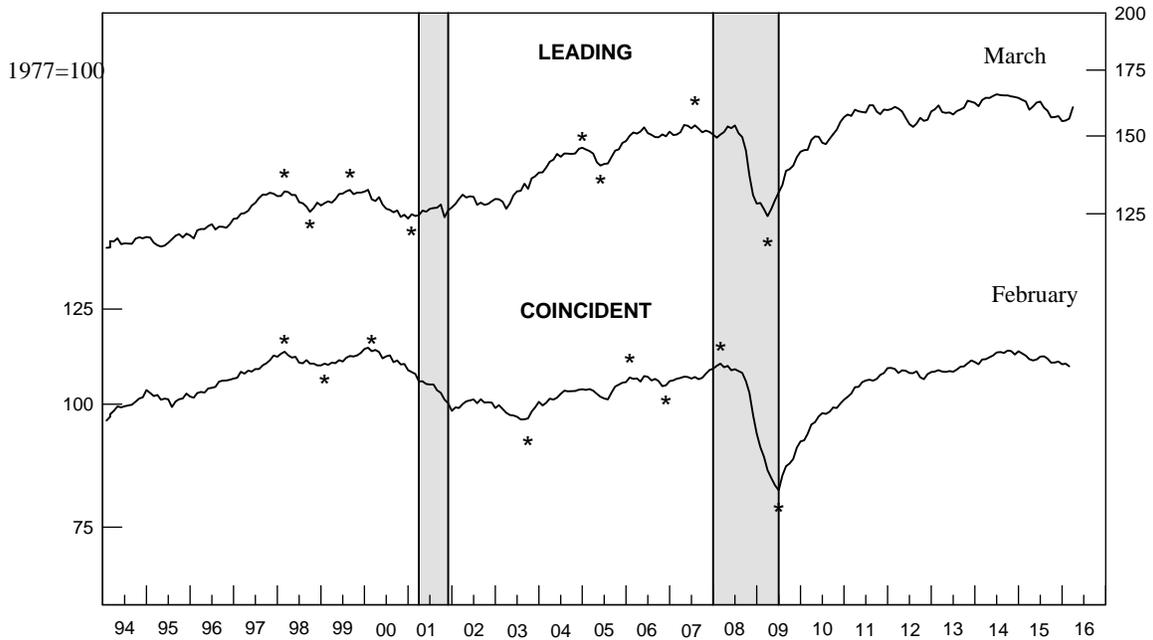
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board,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

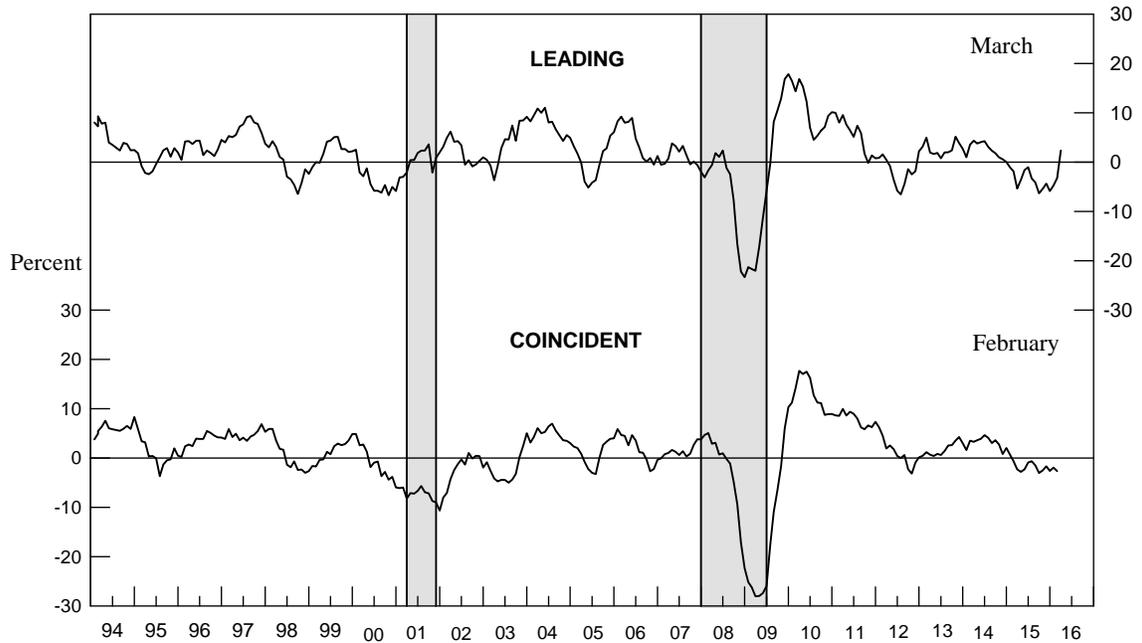
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1994-2016** 1977=100



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, 1994-2016** 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>2015</b>				
March	113.1	-2.8	118.4r	-1.3r
April	113.4	-2.1	117.3r	-2.9r
May	113.9	-1.2	116.9r	-3.5r
June	113.3	-2.1	117.9r	-1.8r
July	112.4	-3.2	117.4r	-2.3r
August	112.8	-2.2	117.6r	-1.8r
September	111.4	-4.1	116.5r	-3.3r
October	111.2	-3.9r	116.6r	-2.6r
November	111.1	-3.6	115.7r	-3.7r
December	110.4	-4.1	115.7r	-3.2r
<b>2016</b>				
January	111.1	-2.5r	116.3r	-1.6r
February	111.9	-0.8	116.6	-0.8

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

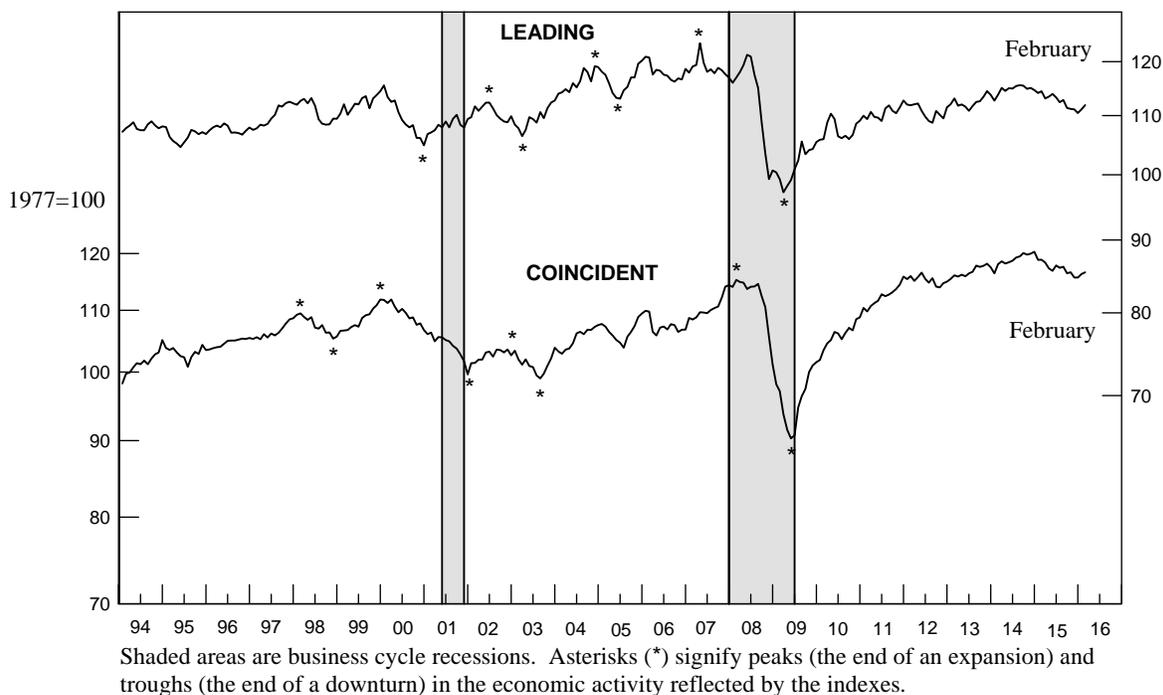
<b>Leading Index</b>	<b>January</b>	<b>February</b>
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.2	0.0
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.1	0.0
3. Shipments of household appliances, 1982\$	-0.1	-0.2
4. S&P stock price index, steel companies	-0.5	0.4
5. Retail sales of U.S. passenger cars and light trucks (units)	0.1	0.0
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.3	0.3
7. Index of new private housing units authorized by permit	0.0	-0.1
8. Growth rate of U.S. M2 money supply, 2009\$	0.5	0.1
9. PMI	0.0	0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.6	0.7
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	0.1r	0.3
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.4	-0.1
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.0	-0.1
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.6r	0.2

**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

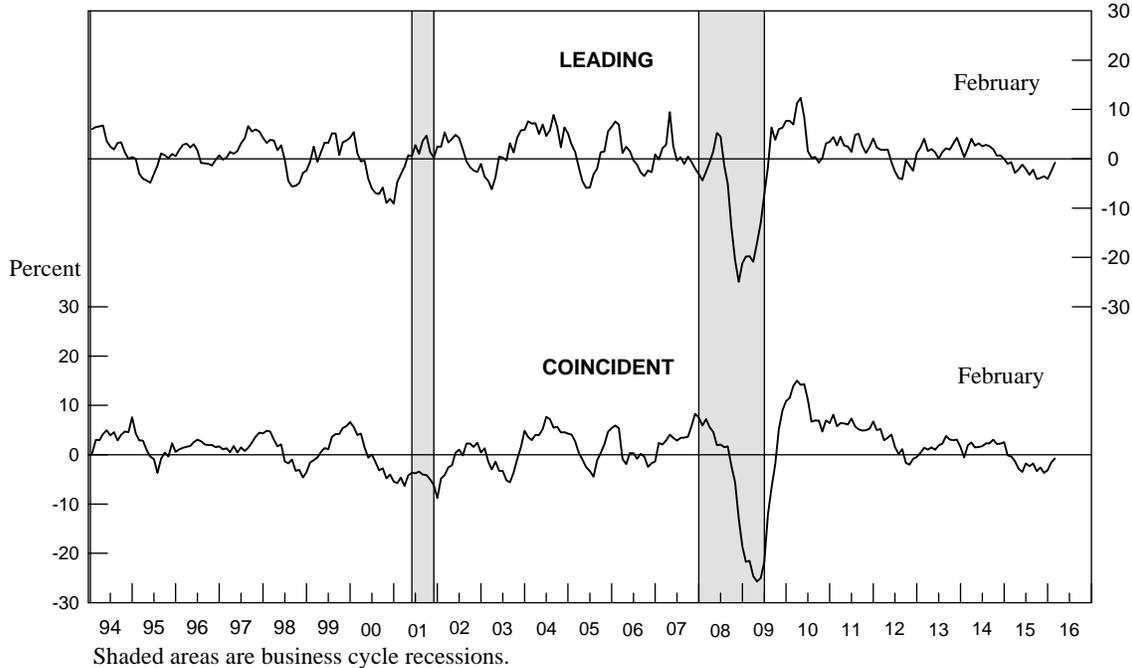
**CHART 4.**  
**STEEL: LEADING AND COINCIDENT INDEXES, 1994-2016**

1977=100



**CHART 5.**  
**STEEL: LEADING AND COINCIDENT GROWTH RATES, 1994-2016**

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>2015</b>				
March	128.7	1.1	111.9r	3.1r
April	128.4	0.7	111.0r	1.4r
May	129.7	2.5	111.6r	2.3r
June	129.5	1.8	111.2r	1.4r
July	126.9	-2.1	110.2r	-0.1r
August	128.2	-0.1	110.4r	0.6r
September	125.7	-3.8	108.0r	-3.4r
October	126.7r	-2.2r	109.5r	-0.7r
November	128.1	0.1	110.4r	0.4r
December	128.2	0.2r	110.9r	0.5r
<b>2016</b>				
January	126.8r	-1.6r	111.9r	2.2
February	126.8	-1.8	111.9	2.0

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.

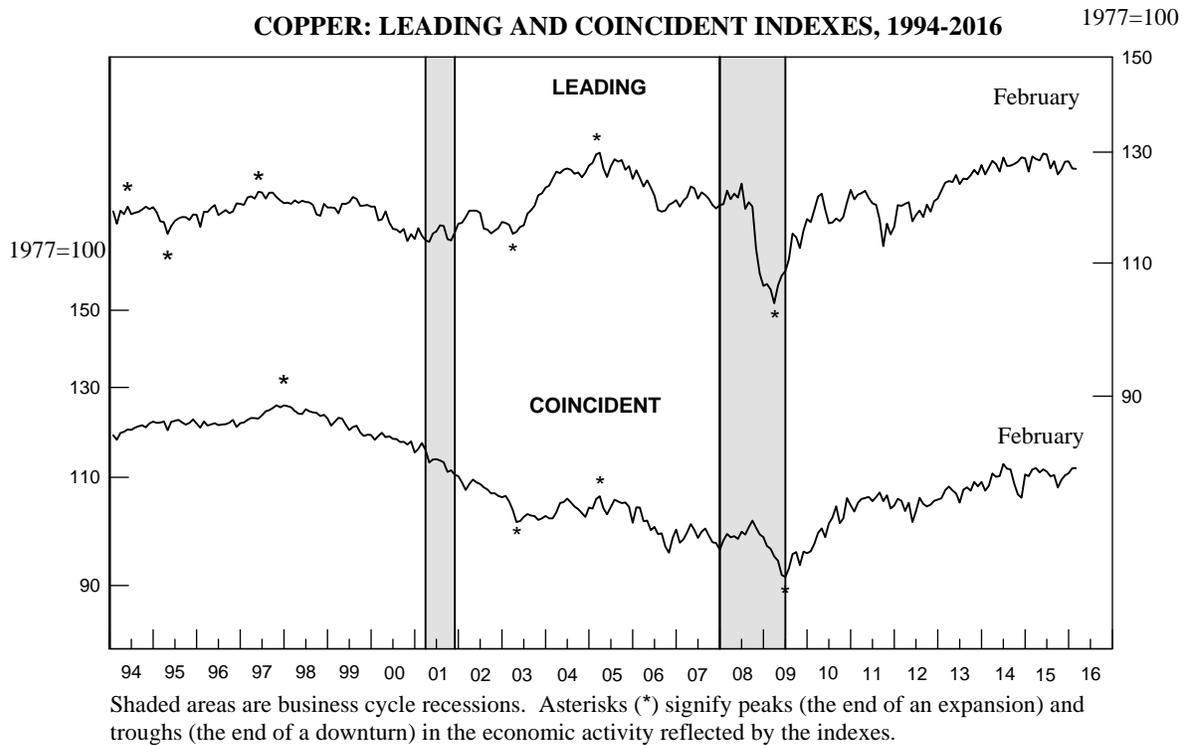
**Table 7.**  
**The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month**

<b>Leading Index</b>	<b>January</b>	<b>February</b>
1. Average weekly hours, nonferrous metals (except aluminum) (NAICS 3314)	0.1	0.2
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	0.0r	-0.1
3. S&P stock price index, building products companies	-0.8	0.1
4. LME spot price of primary copper	-0.2	0.2
5. Index of new private housing units authorized by permit	0.0	-0.1
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>-1.1r</u>	<u>0.0</u>
<b>Coincident Index</b>		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.3r	0.0
2. Total employee hours, nonferrous metals (except aluminum) (NAICS 3314)	0.5r	-0.1
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	<u>0.9</u>	<u>0.0</u>

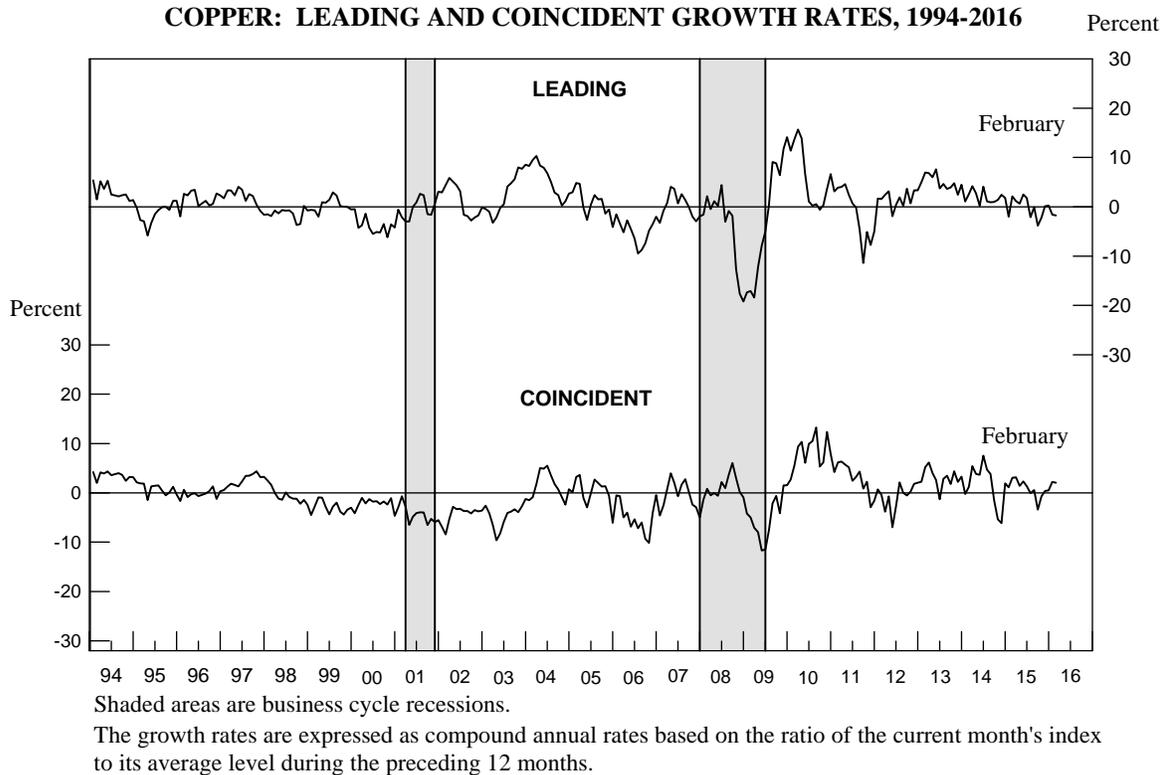
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, U.S. Census Bureau and U.S. Geological Survey; 3, Standard & Poor's; 4, London Metal Exchange; 5, U.S. Census Bureau and U.S. Geological Survey; and 6, Federal Reserve Board and U.S. Geological Survey. Coincident: 1, Federal Reserve Board; 2, Bureau 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, 1994-2016**



**CHART 7.**  
**COPPER: LEADING AND COINCIDENT GROWTH RATES, 1994-2016**



## 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, May 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](mailto: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