

SMU Community Chat

December 15, 2021

Starting at 11 AM Eastern

Michael Cowden, Steel Market Update

Tom Derry, Institute for Supply Management



SteelMarketUpdate.com/Blog/SMU-Community-Chat-Webinars

Steel Market Update



SMU Newsletter developed for active buyers & sellers of flat rolled steel.

Prices – Momentum – Trends – Analysis – with a guarantee

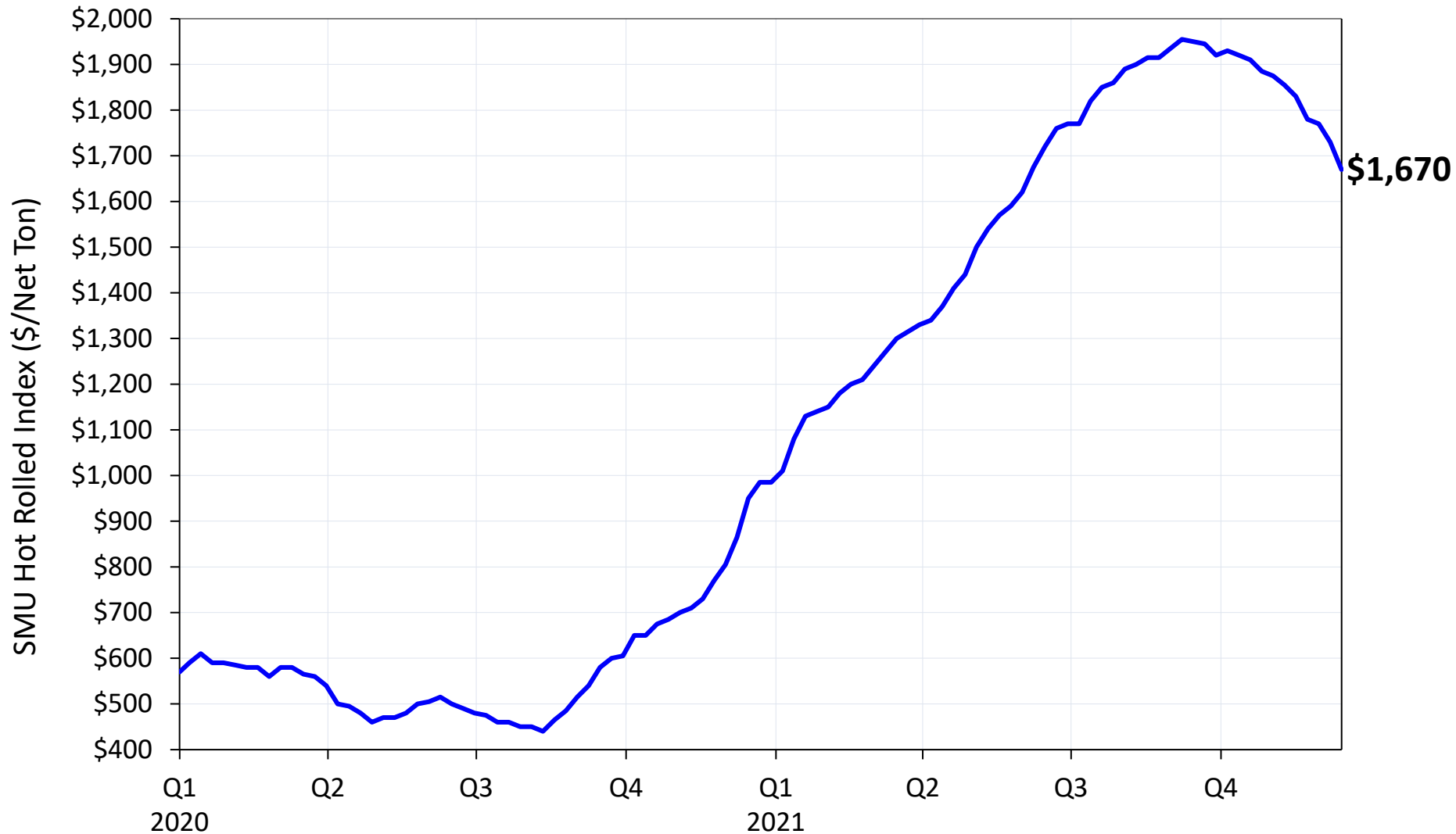
For more information visit www.SteelMarketUpdate.com

Upcoming SMU Events

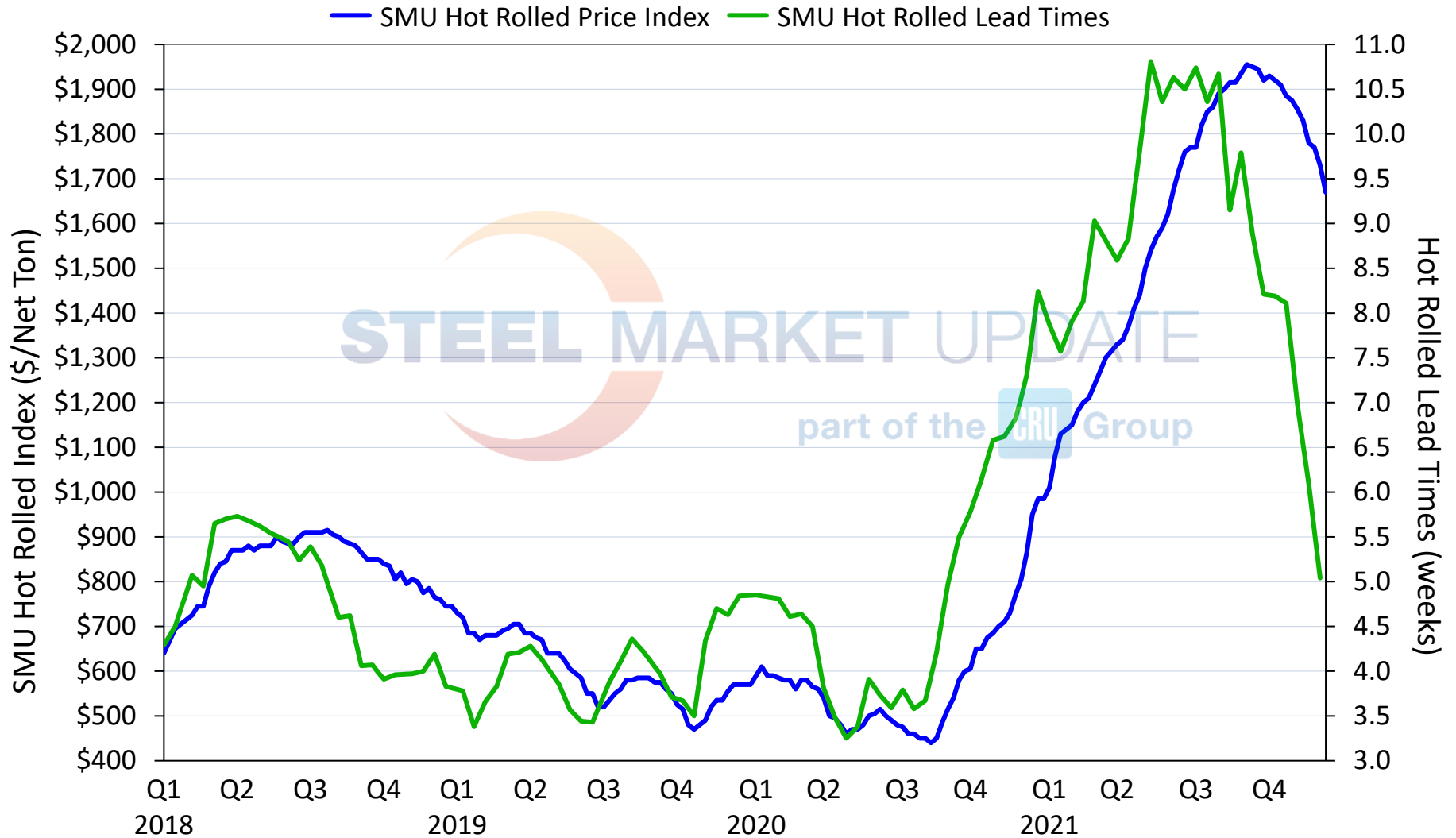
Date	Event	Status	Venue
January 11-12	SMU Steel 101 Workshop	Virtual	Online
February 14-15	SMU Introduction to Steel Hedging Workshop	Live	Marriott Waterside Hotel Tampa, Florida
February 14-16	Tampa Steel Conference	Live	Marriott Waterside Hotel Tampa, Florida
April 26-27	SMU Introduction to Steel Hedging Workshop	Virtual	Online
August 22-24	SMU Steel Summit Conference	Live	Georgia International Convention Center, Atlanta, Georgia

If you would like more information about any of our workshops, you may visit SteelMarketUpdate.com/Events or e-mail our team at Events@SteelMarketUpdate.com

SMU Hot Rolled Price Average

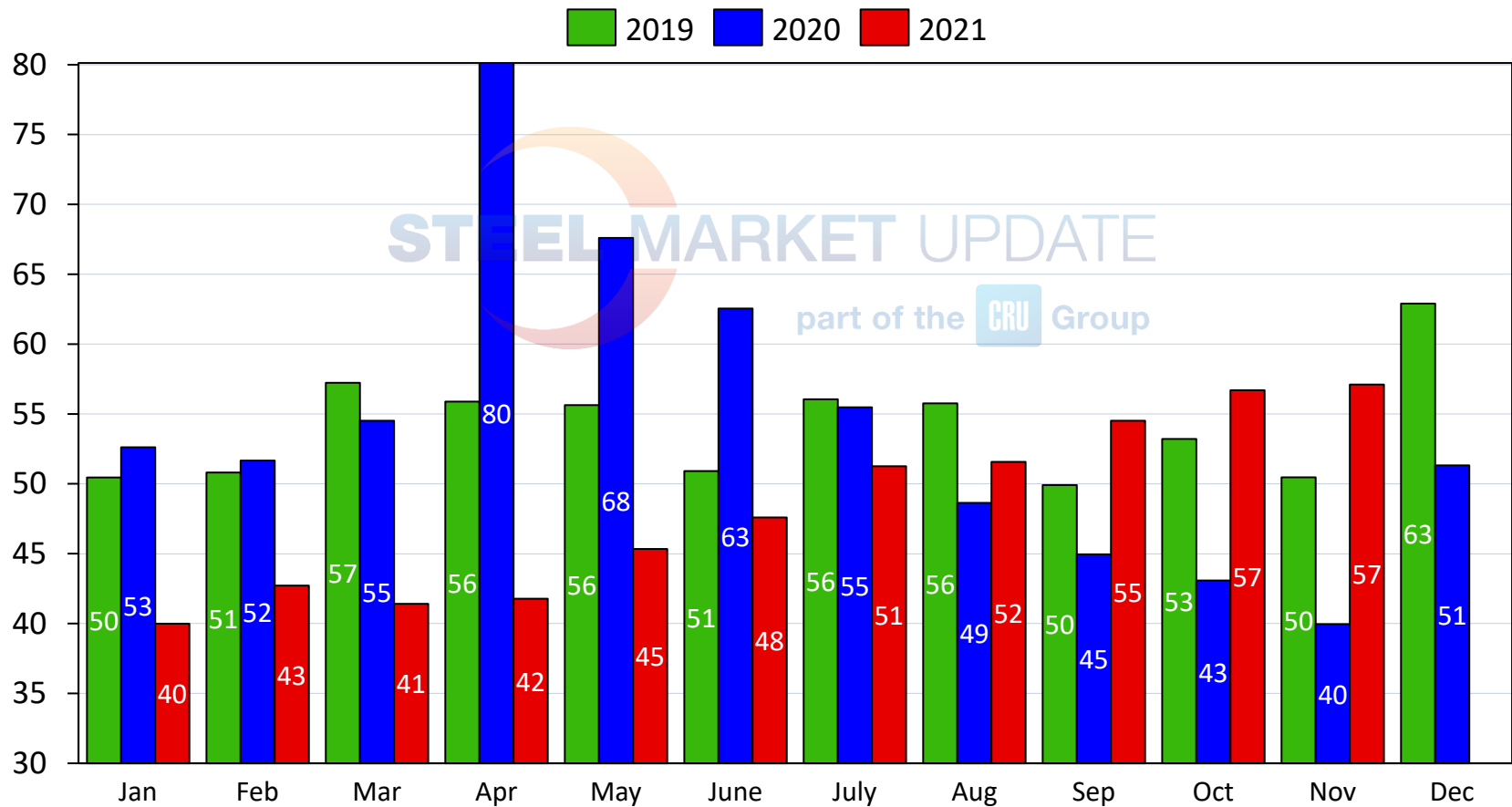


SMU Hot Rolled Index vs Lead Times

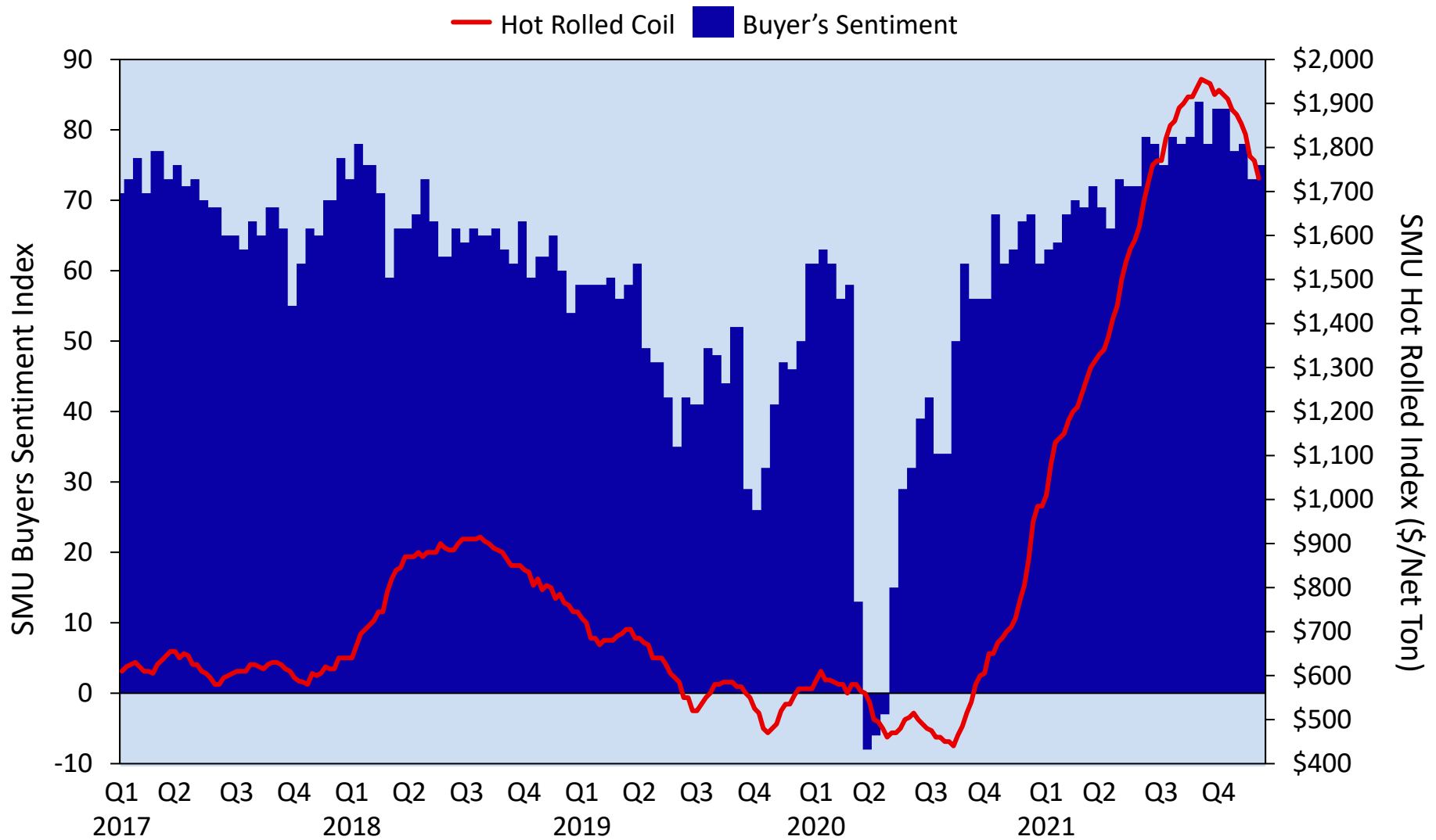


Service Center Inventories

Shipping Days of Supply – Flat Rolled



SMU Hot Rolled Index & Buyers Sentiment Index





Tom Derry is Chief Executive Officer of the Institute for Supply Management® (ISM®), with more than 30 years of experience in leadership and general management roles for public and private companies, and in the not-for profit sector. He has executed turn-arounds at the corporate and business-unit level through a variety of means, including acquisitions, divestitures, restructuring, and business process re-engineering.

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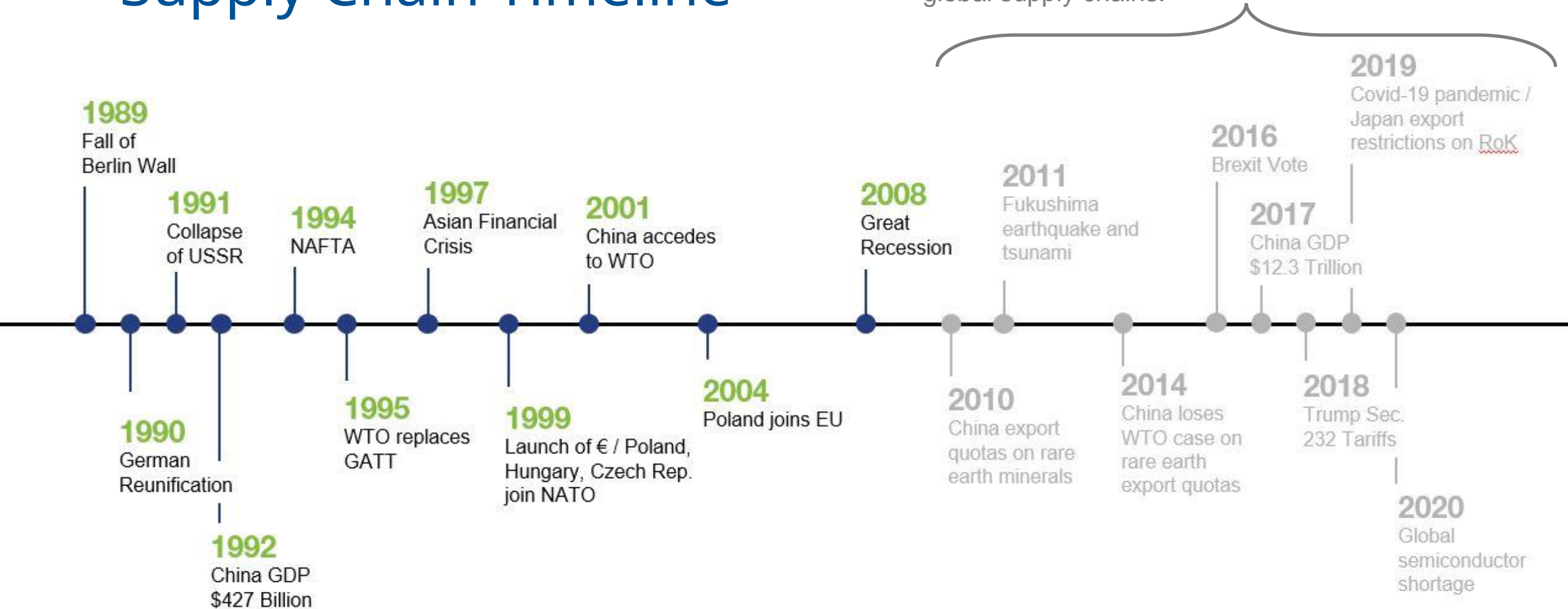
Supply Unchained: How We Got into this Mess, and What's Next

*Thomas W. Derry, CEO
Institute for Supply
Management*

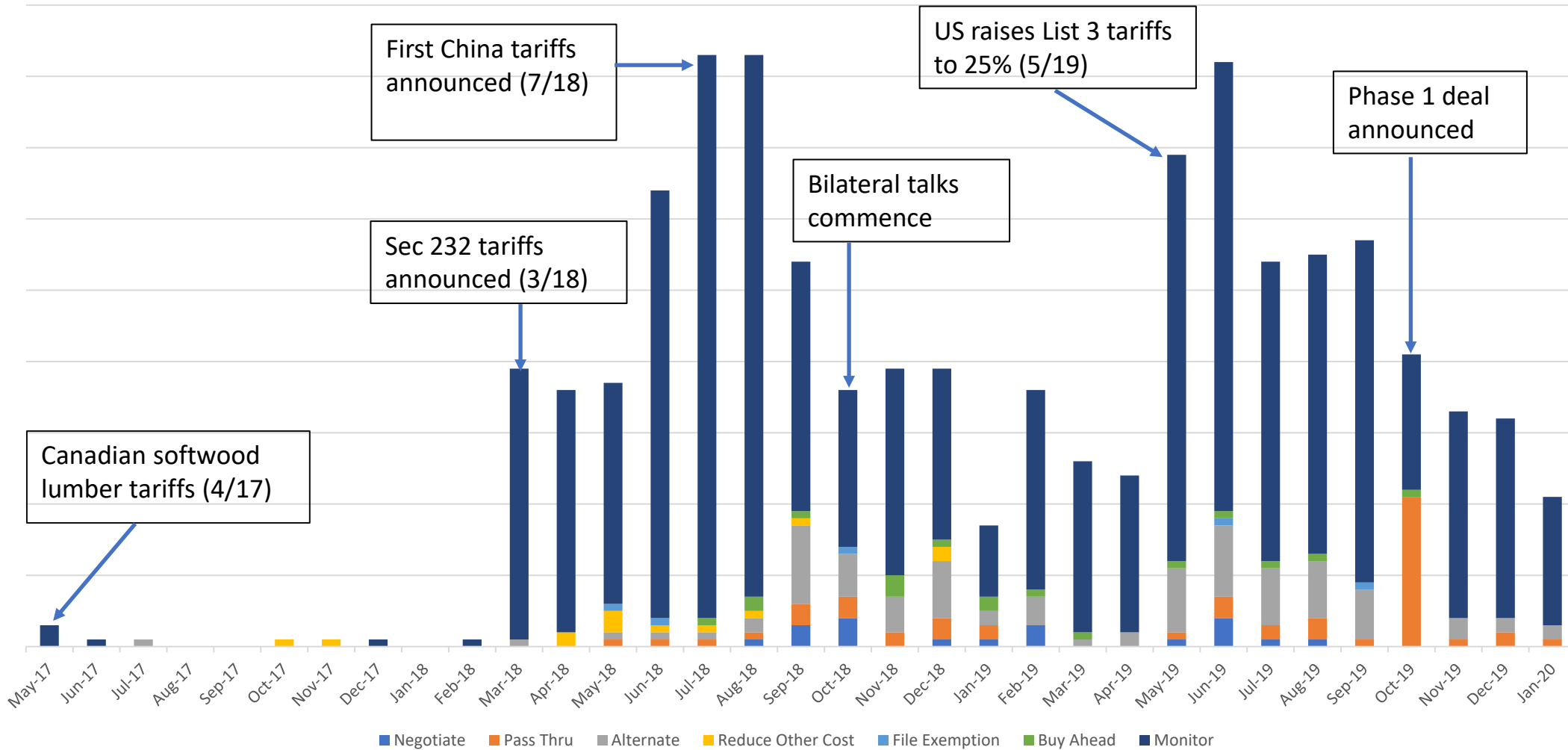
How Did We Get into this Mess?

Supply Chain Timeline

Signs of fracturing in the global consensus on the benefits of free trade and recognition of fragility of global supply chains.

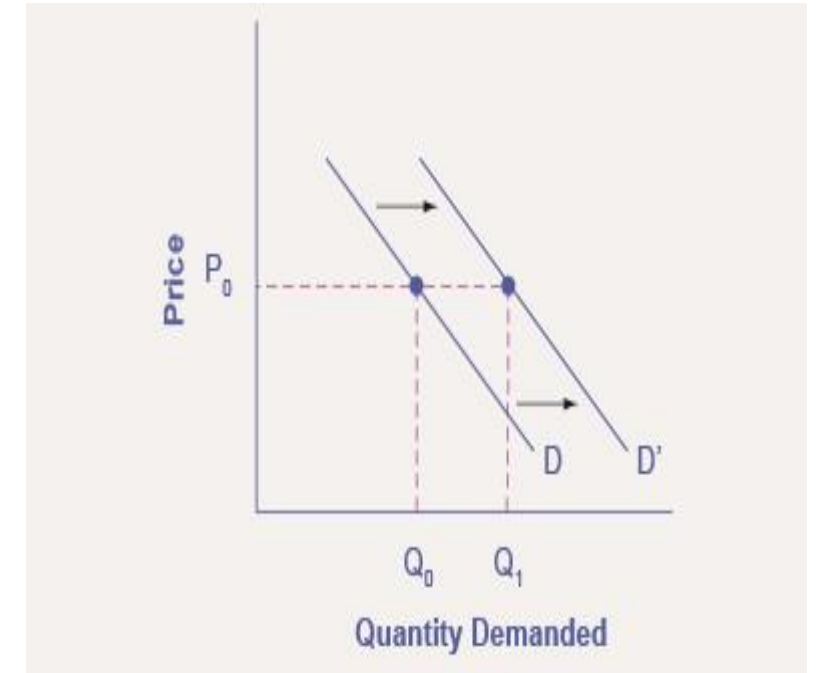


Tariff Strategies Timeline

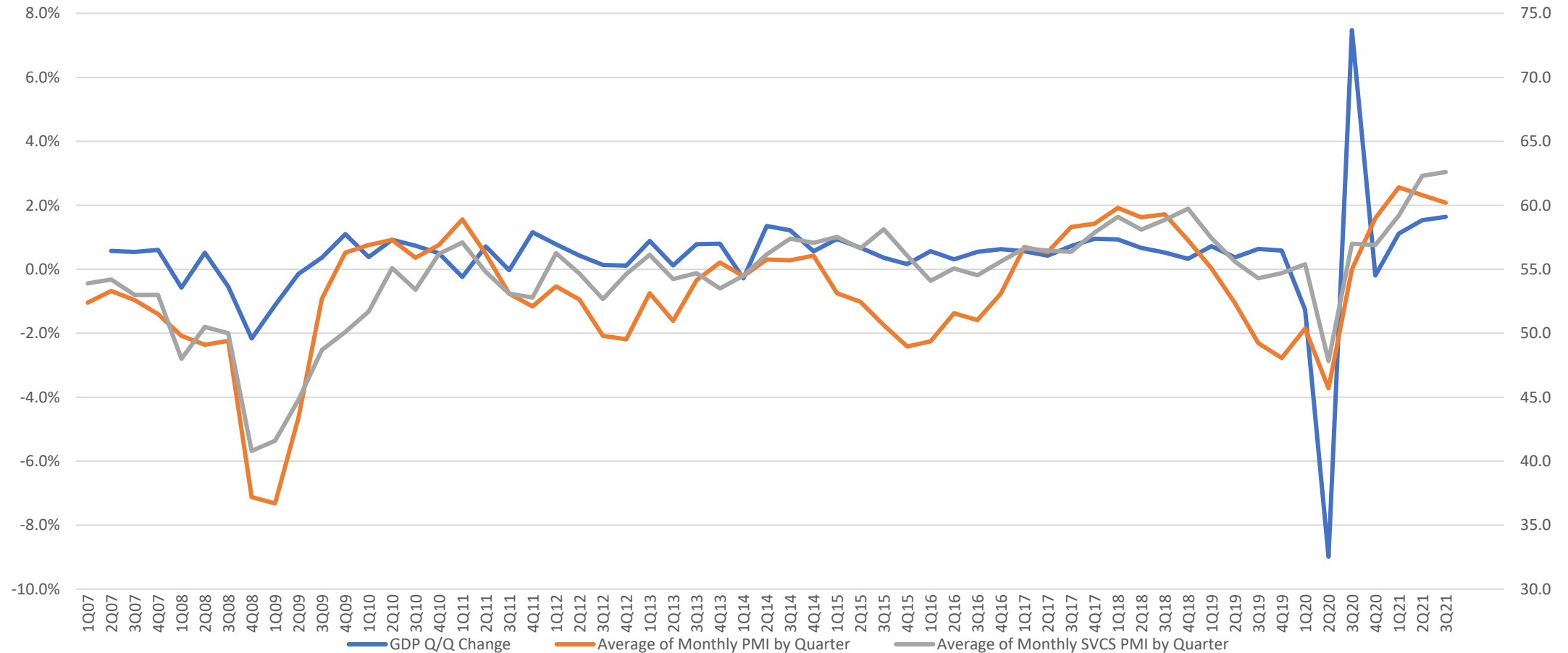


How Did We Get into this Mess?

- Covid-19 Lockdowns: Supply Disruption
- Rapid Economic Recovery
- U.S. Fiscal Policy: Demand Curve Shifts for Manufactured Goods
- Global Manufacturing Capacity Overwhelmed by Demand Shift
- Global Logistics Capacity Unprepared for Demand Shift
- Factor Market Rivalry, Disruptions Lead to Price Increases



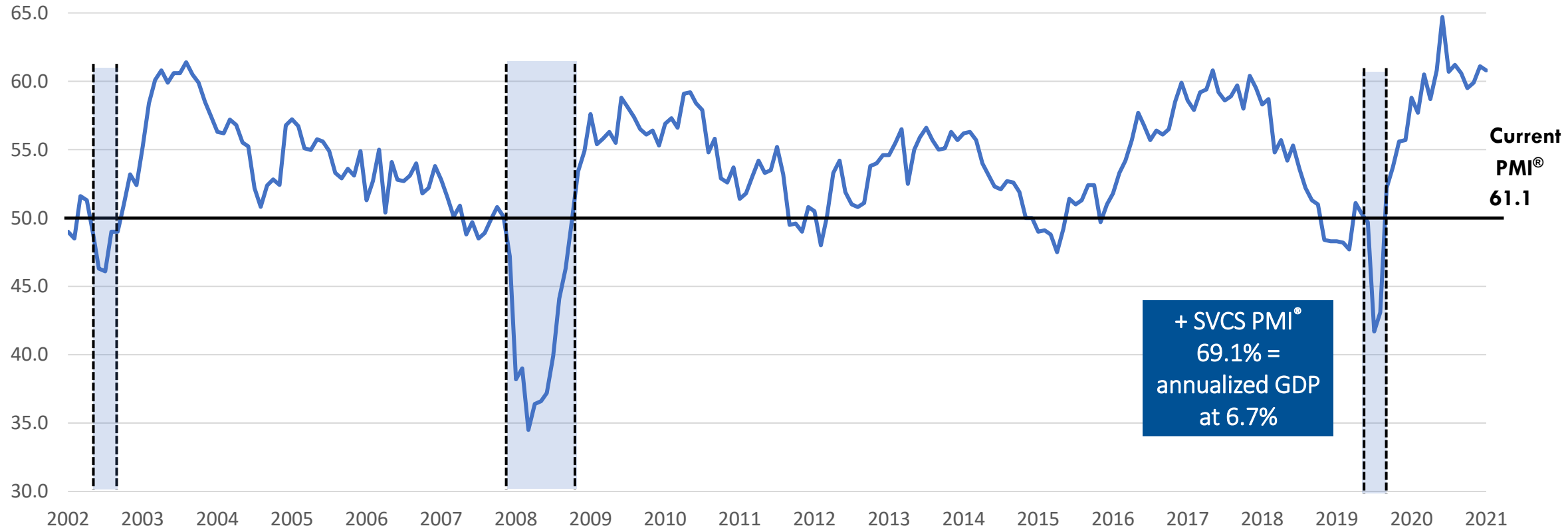
GDP, Manufacturing PMI®, & Services PMI® 2007-2021



PMI® 2002 to 2021

We are 18 Months into Expansion out of a Typical 35+ Month Expansion Cycle

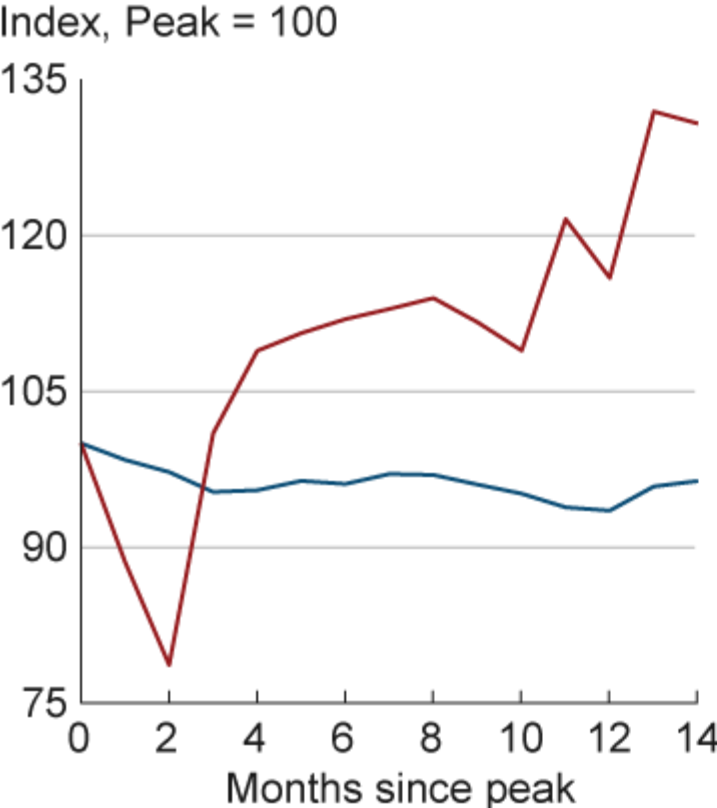
U.S. Economic Outlook and GDP 'Speedometer'



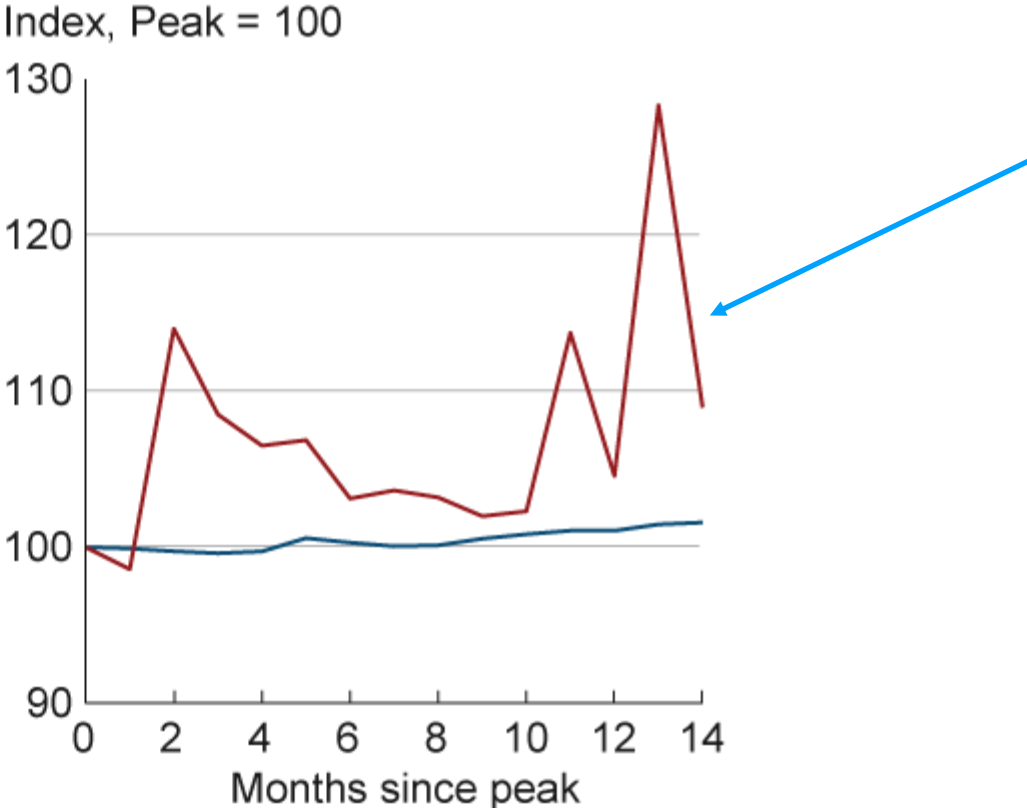
Shaded areas indicate U.S. recessions

Figure 1. Dynamics of Spending and Income after Business Cycle Peaks

Panel A. Real PCE Durable Goods



Panel B. Real Disposable Income

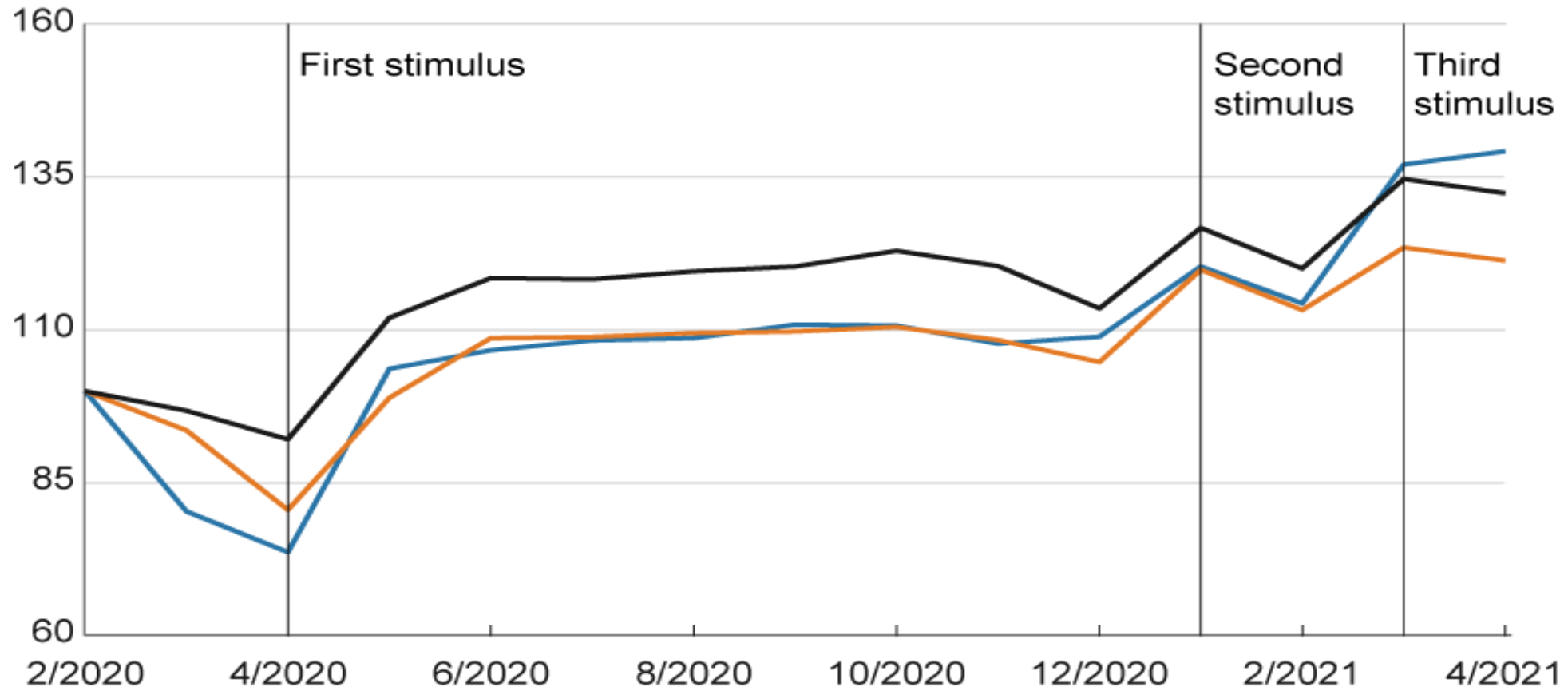


Source: Cleveland Fed

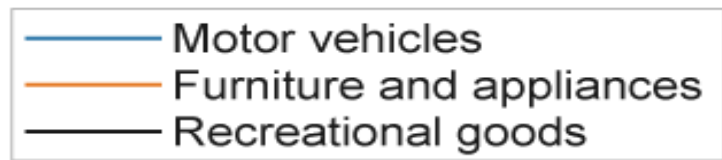


Figure 2. Durable Goods Spending during the Pandemic

Index, 2/2020 = 100



Source: Cleveland Fed



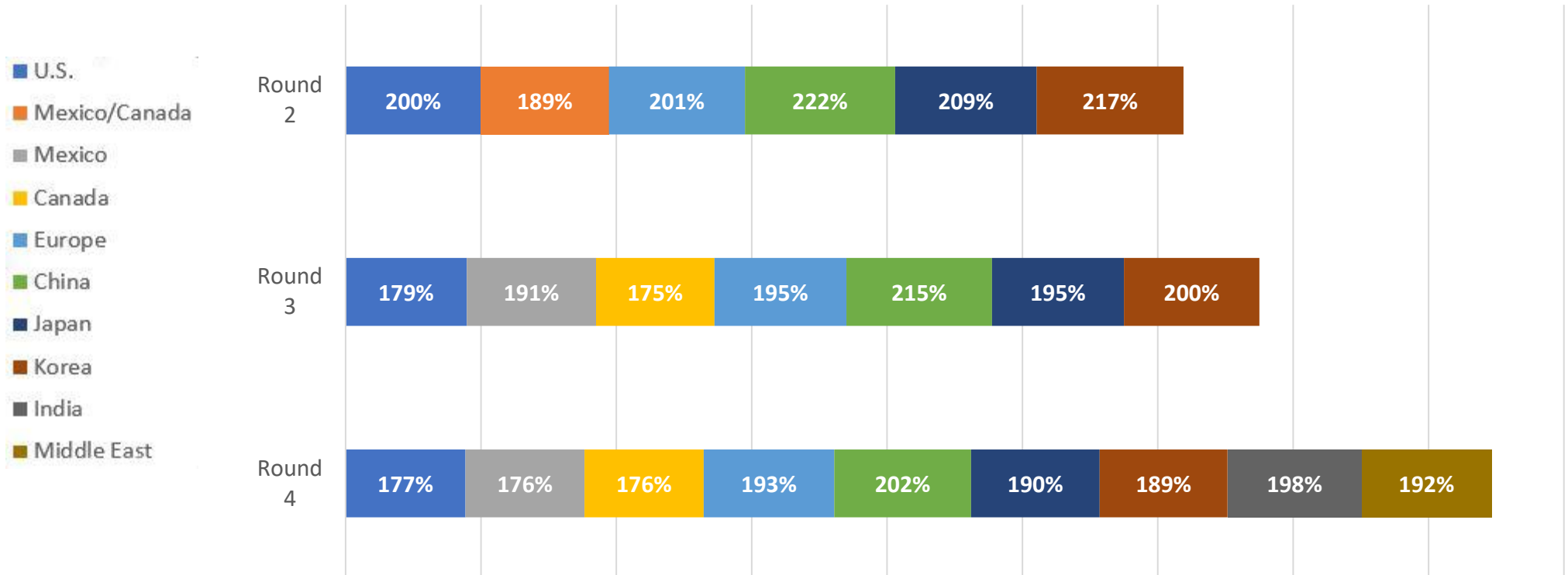


How Bad is It?

LEAD TIMES

Among those experiencing longer lead times right now, lead times are less than in Round 3, but still substantial

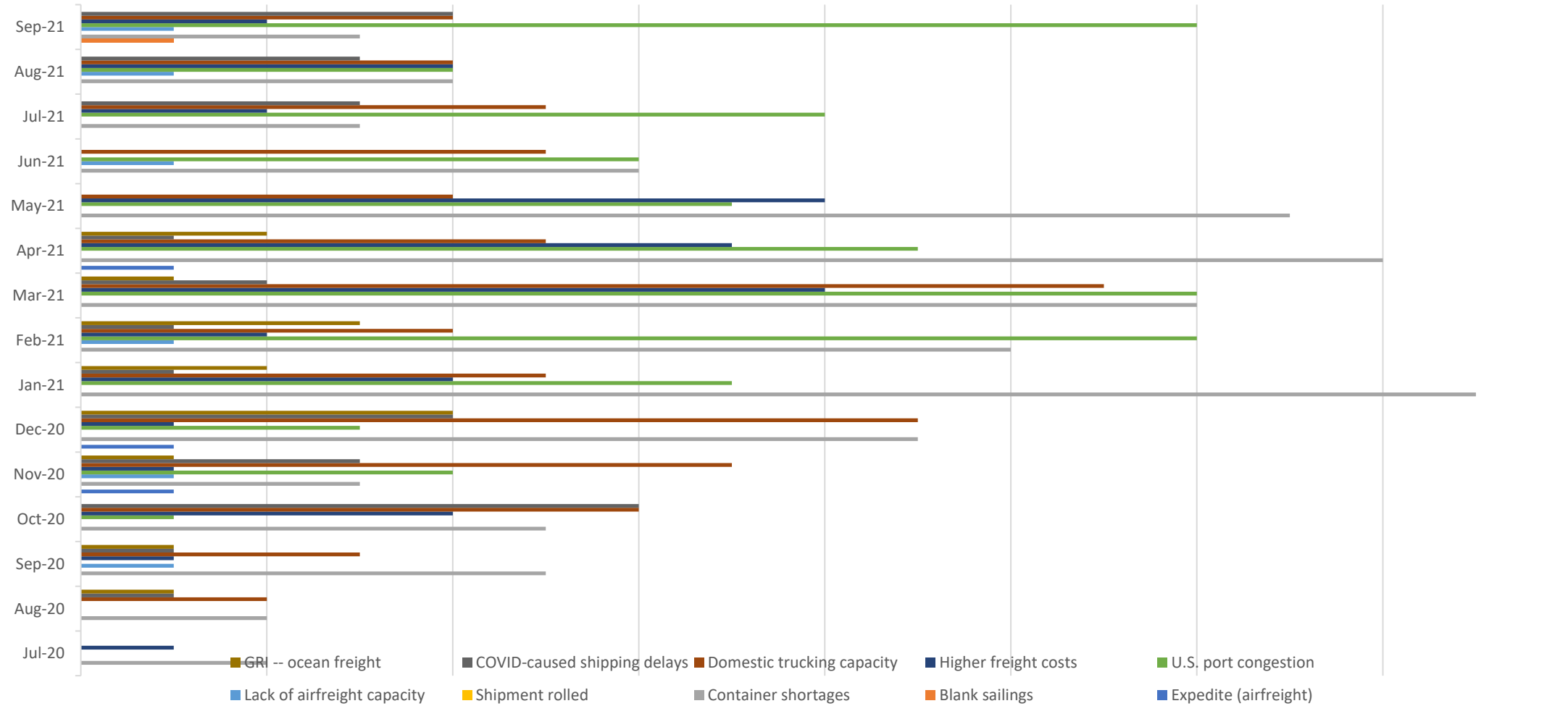
Estimated Increase in Lead Time



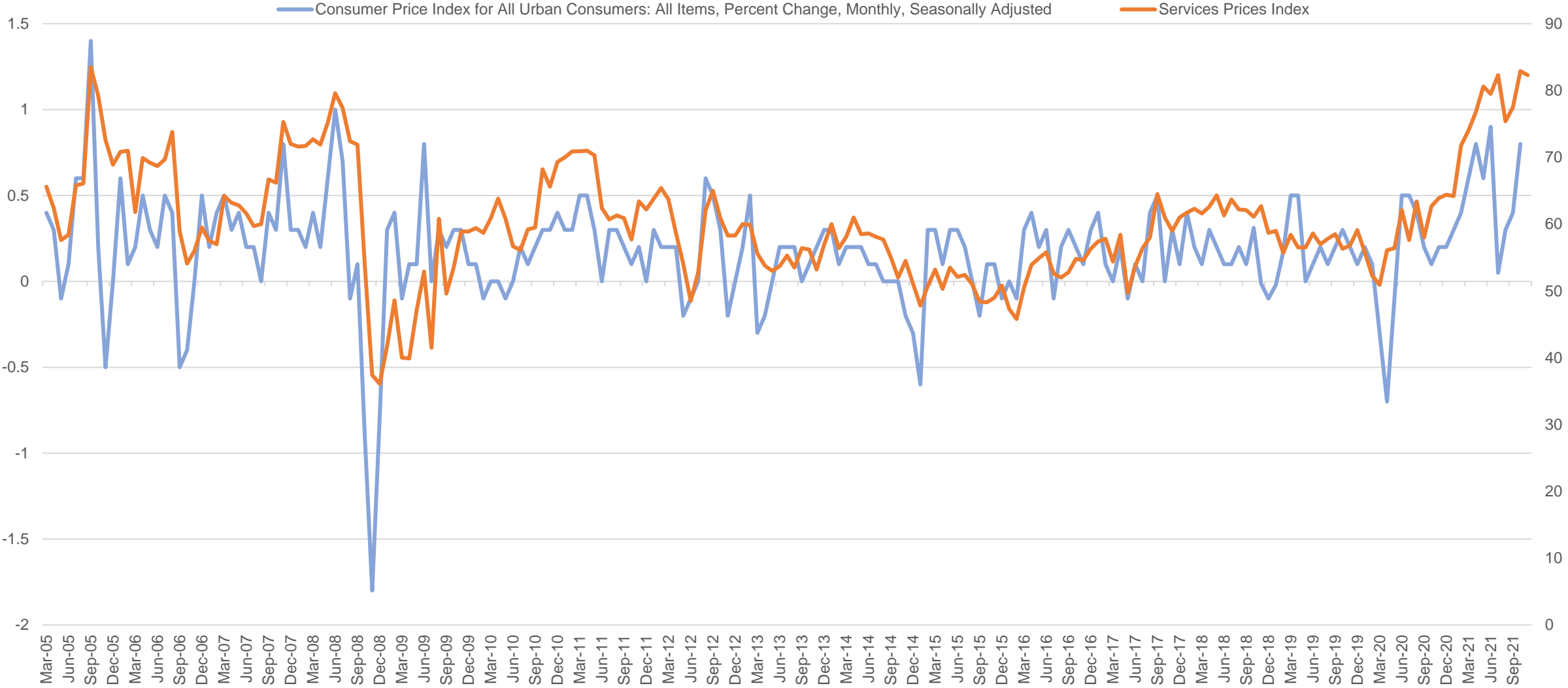
Round 2 combined Mexico/Canada, which were separated starting in Round 3.

Round 4 newly included India and Middle East

Freight Challenges by Type

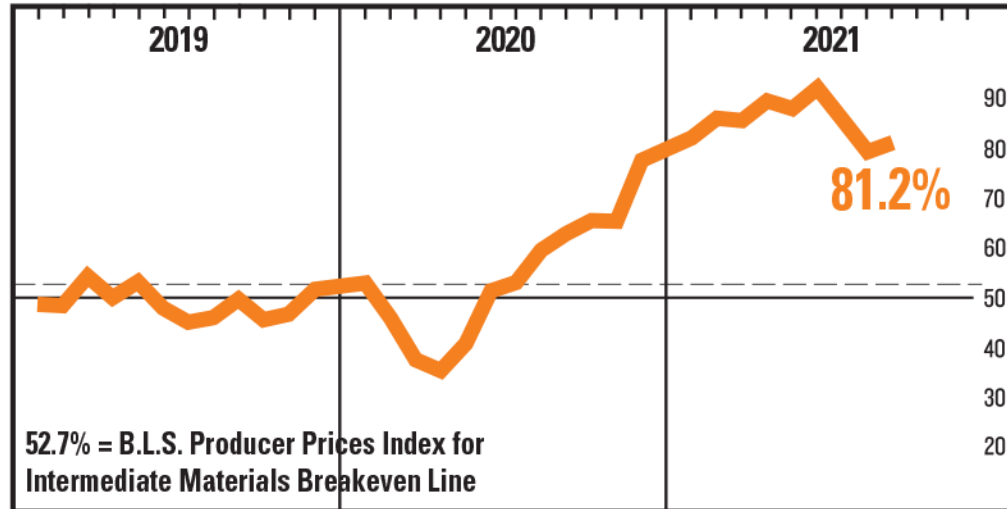


Inflation and Service Sector Prices Index January 2005 to Nov 2021

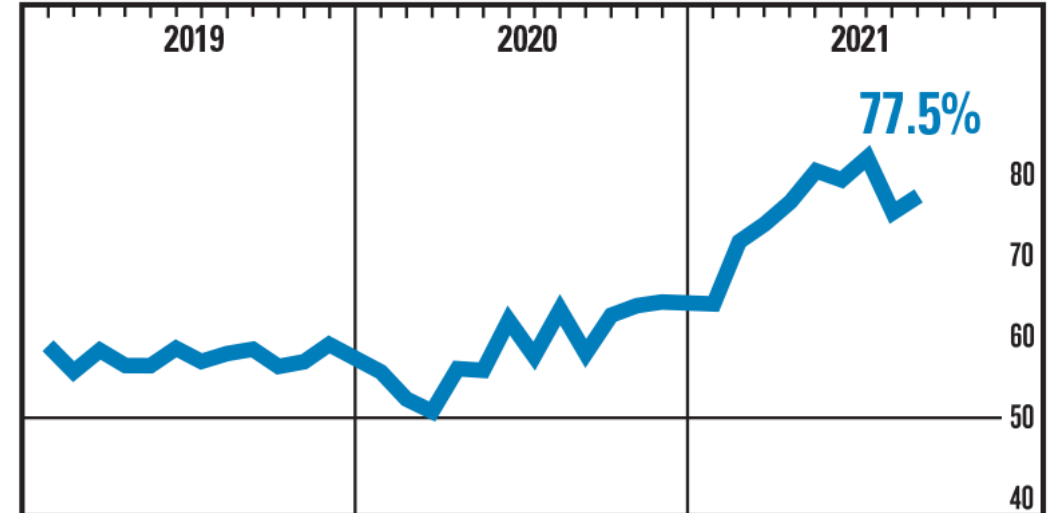


Prices Paid Trend from PMI[®] Reports

Manufacturing PMI

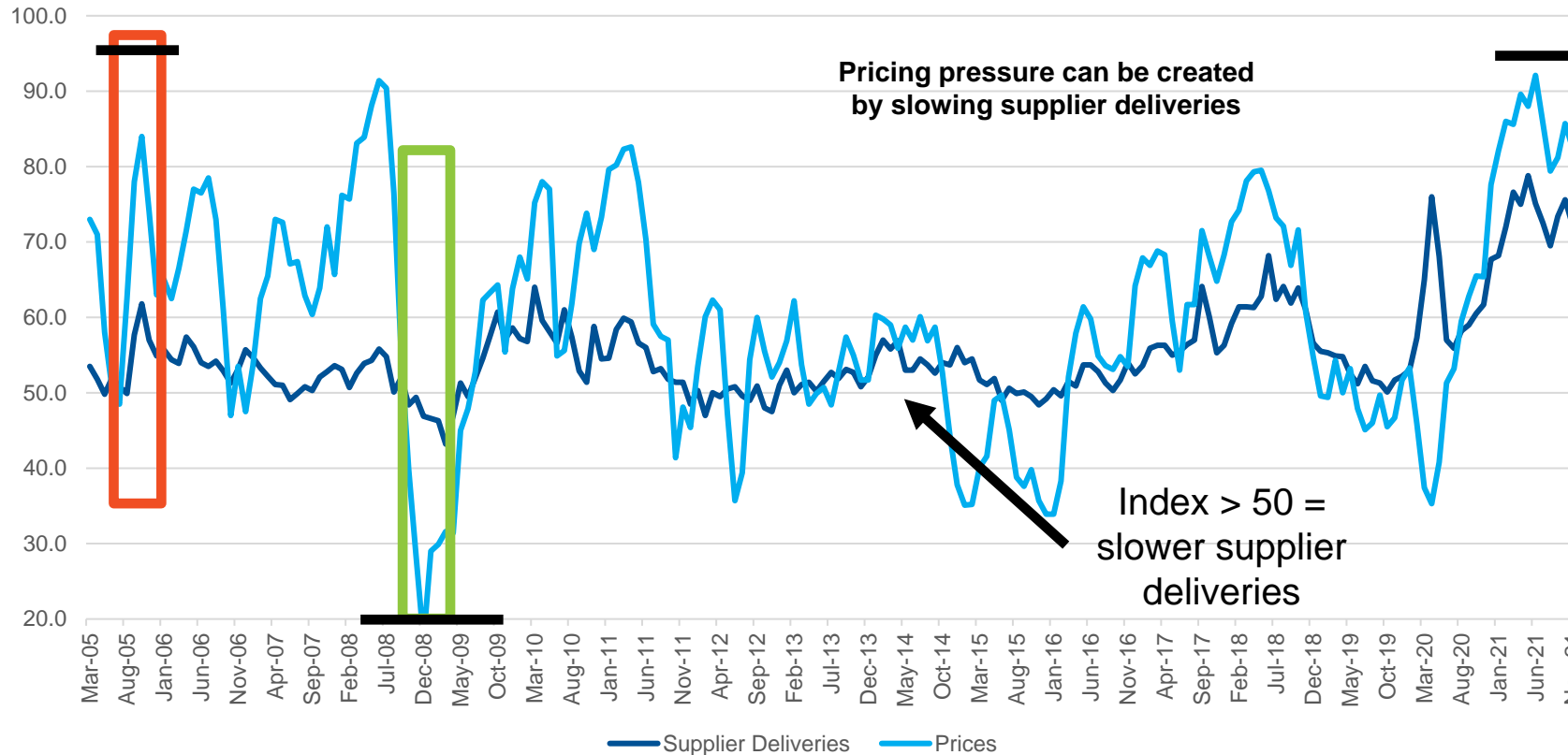


Services PMI



Lead Times, Market Conditions, Commodity Detail

ISM® Manufacturing Supplier Deliveries and Prices 2005-2021



Up in Price

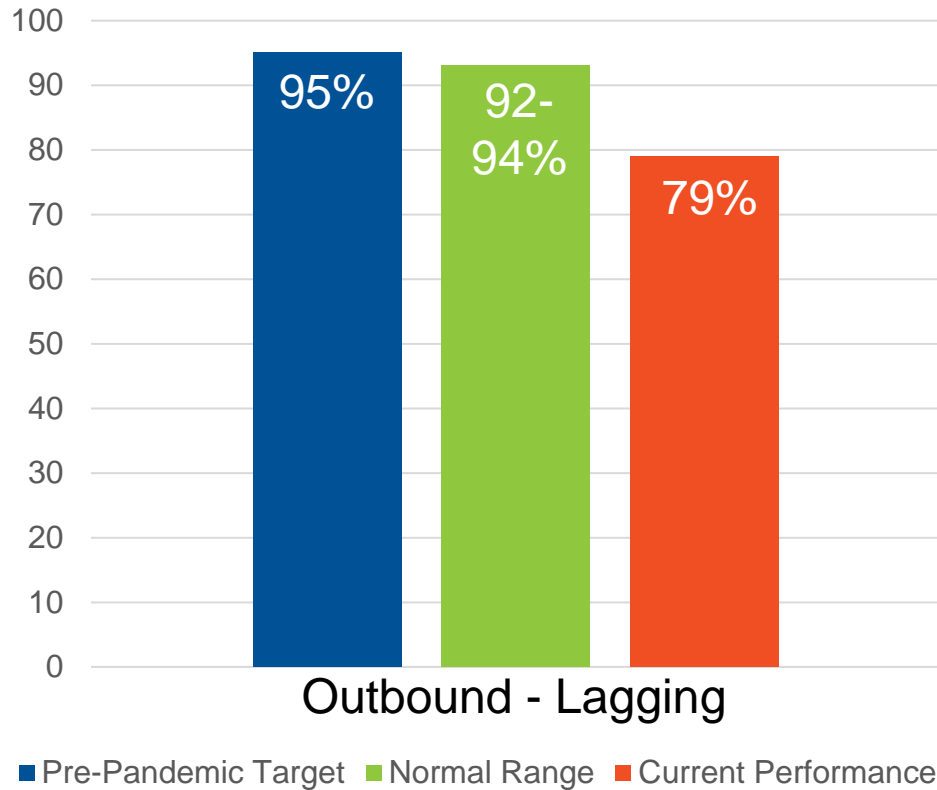
- Adhesives (5)
- Aluminum* (18)
- Aluminum Products (8)
- Caustic Soda (6)
- Copper (3)
- Corrugate (14)
- Corrugated Packaging (13)
- Crude Oil (2)
- Diesel Fuel (11)
- Electrical Components (12)
- Electronic Components (12)
- Freight (13)
- Gasoline
- Hydraulic Components
- Labor — Temporary (7)
- Magnesium
- Motors (2)
- Natural Gas (5)
- Nylon (2)
- Ocean Freight (12)
- Packaging Supplies (12)
- Paper (3)
- Plastic Containers (3)
- Plastic Resins* (15)
- Resin-Based Products (10)
- Rubber-Based Products (4)
- Semiconductors (10)
- Silicon
- Silicone
- Soy Products
- Steel* (16) <See report for all types>
- Surfactants
- Zinc

Short Supply

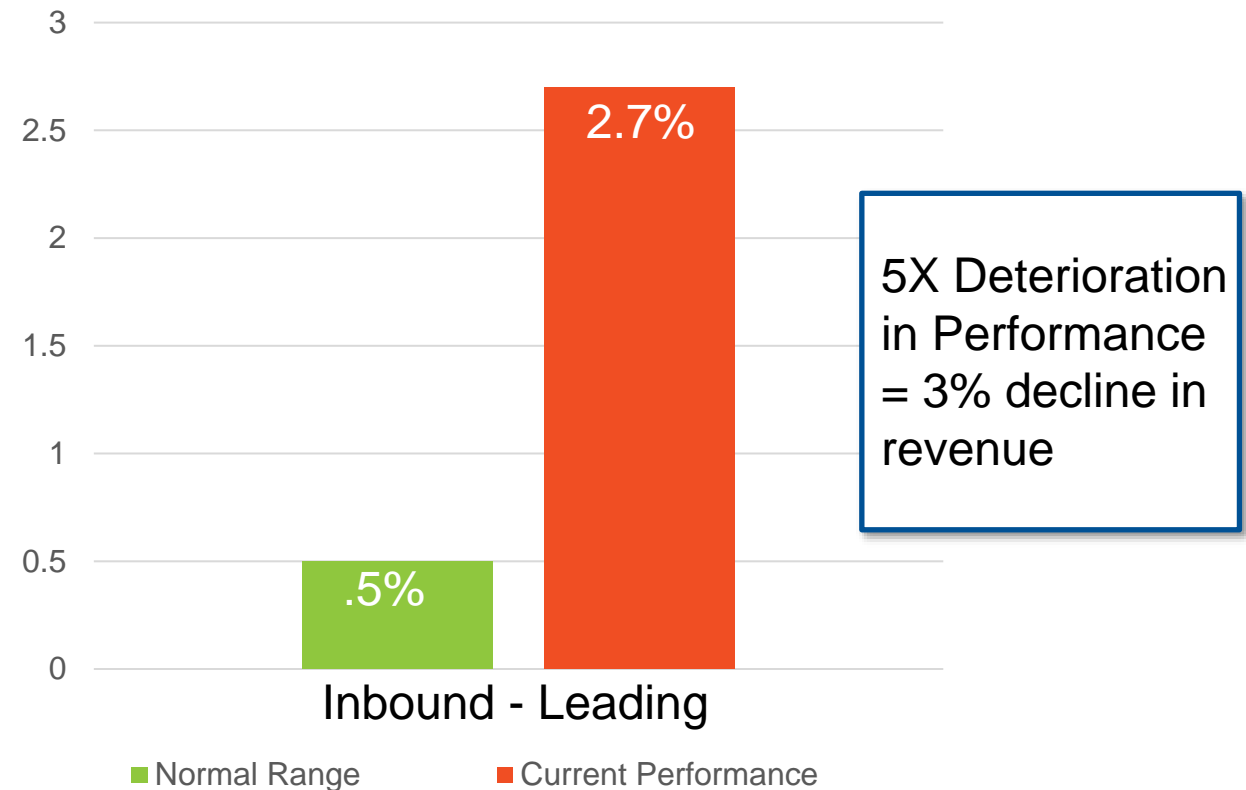
- Aluminum*
- Aluminum Products
- Corrugated Packaging (5)
- Electrical Components (14)
- Electronic Components (12)
- Fasteners
- Freight (3)
- Glass Bottles
- Hydraulic Components
- Labor — Temporary (7)
- Magnesium
- Ocean Freight (8)
- Ocean Freight Containers (2)
- Paper
- Plastic Containers (3)
- Plastic Products (10)
- Plastic Resins — Other (9)
- PCBA's (4)
- Semiconductors (12)
- Silicone
- Steel (12)
- Steel Products

*Indicates both up and down in price

On Time Delivery*



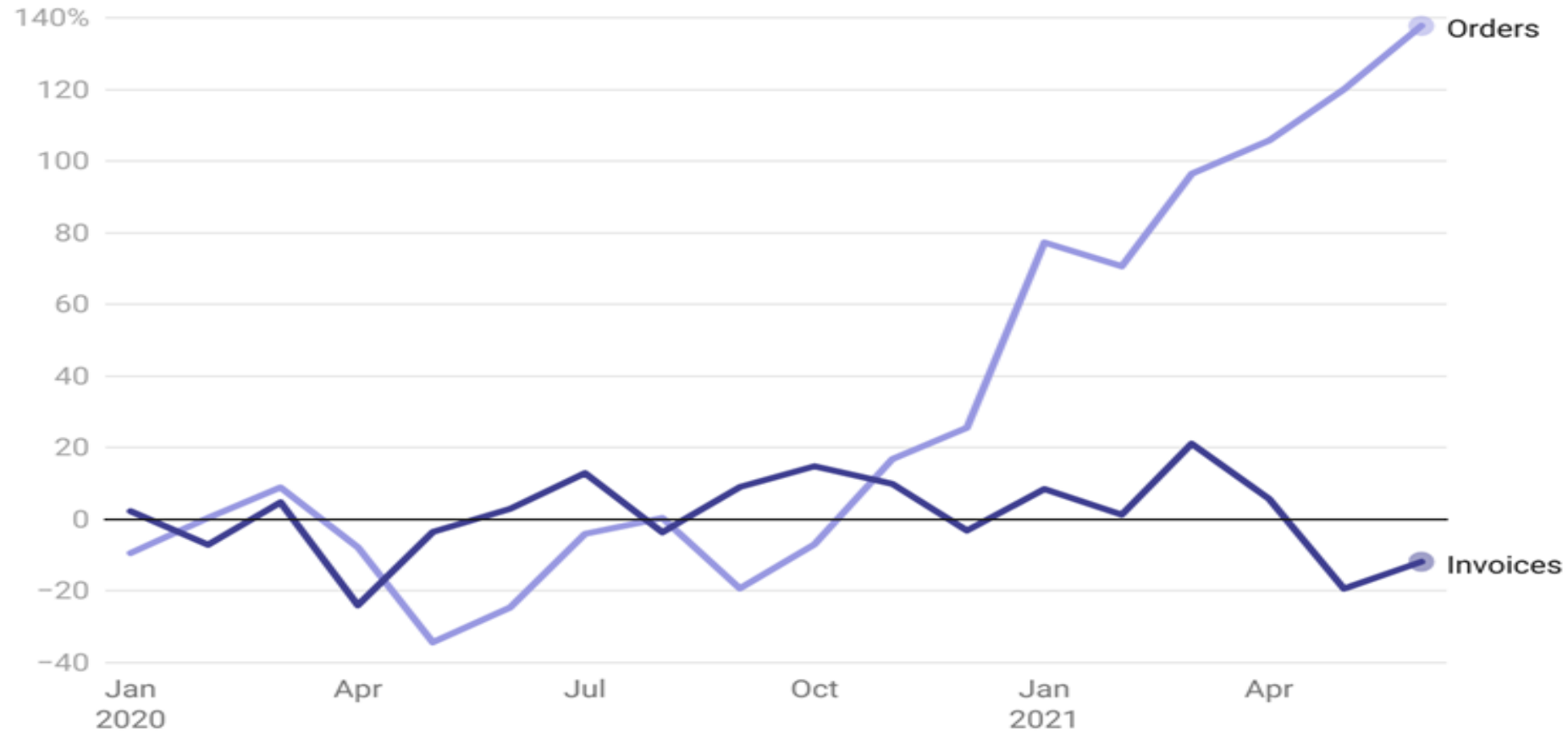
Past-Due Backlog



*Definition: Customer Request Date

How Have Companies Responded?

Companies Over-Ordering



Source: Tradeshift

INVENTORY

80% of respondents say their firms' input inventories have been adjusted; the majority are holding more inventory than usual

How have your input inventories been adjusted in response to coronavirus?

	Round 2	Round 3	Round 4
Intentionally holding less than usual	10%	18%	14%
Unintentionally holding less than usual	15%	13%	12%
Intentionally holding more than usual	35%	36%	49%
Unintentionally holding more than usual	5%	13%	7%
No adjustment	36%	19%	18%

So What Next?



Evidence of restoring equilibrium, but also signs that supply constraints will decelerate the economic recovery

- Already signs that market forces are restoring equilibrium to ocean freight
- Need to address Covid-19 outbreaks and disruptions
- Restore normal passenger flight operations
- Capacity expansion in electronics components – demand curve has shifted
- However, already signs that consumption patterns for consumers are returning to their normal mix
- Consumer disposable income returning to pre-pandemic levels
- Some commodity shortages (e.g., semiconductors) have a “spreading deceleration” effect on interconnected supply chains

Thank You

Thank you for attending our SMU Community Chat. And a special thank you to Mr. Derry for his participation today.

Our next webinar is **Wednesday, January 5 at 11 AM ET** with Wolfe Research Managing Director Timna Tanners.

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To contact Tom Derry: Tom.Derry@ISMWorld.org

For information about subscribing to SMU, contact Paige Mayhair: Paige@SteelMarketUpdate.com

To participate in our survey: Brett@SteelMarketUpdate.com

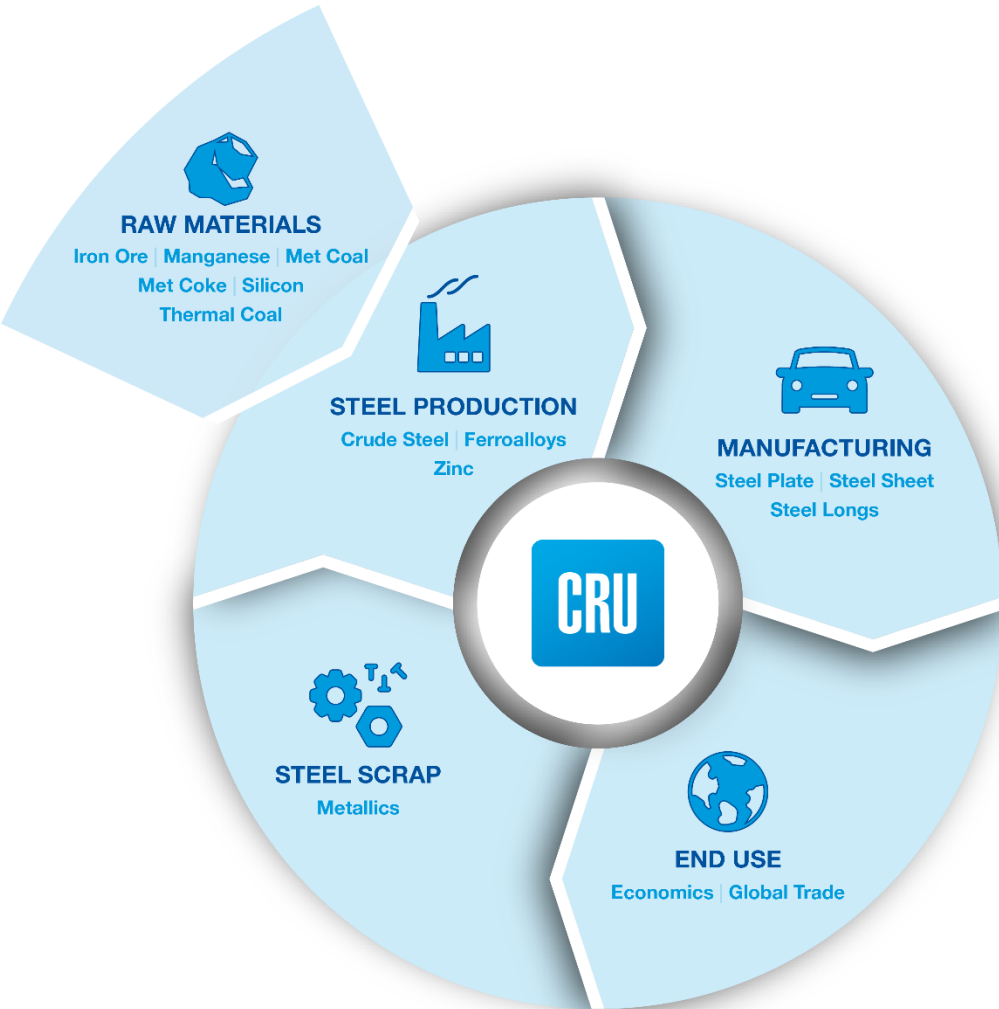
Stay safe and stay tuned to Steel Market Update!



- **Timna Tanners** is a Managing Director at **Wolfe Research**. She has covered the Metals and Mining sector since 2002. She was ranked #1 in Metals and Mining in the Institutional Investor All-America Research Poll from 2013 to 2018. Before joining Wolfe Research, Tanners worked as a Managing Director at Bank of America, where she covered metals and mining not only in North America but in Latin America as well. She began her career in 2002 at UBS. Tanners has a BA in politics from Pomona College, an MS in journalism from Northwestern University, and an MBA from UCLA. She is based in New York.

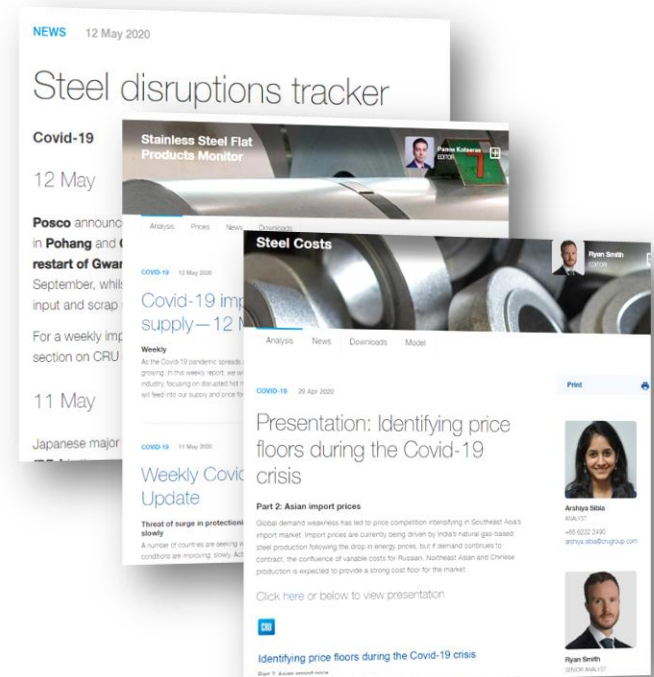
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