

# Metal Industry Indicators

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

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July 2008

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**The primary metals leading index decreased in June, and its 6-month smoothed growth rate dipped below zero. This suggests that activity in the U.S. primary metals industry could continue to slow in the coming months. The metals price leading index growth rate moved below the threshold that signals a decline in metals price growth in the near future.**

**The primary aluminum and the aluminum mill products indexes are suspended because of discontinued availability of industry-specific historical data. The USGS will continue to calculate the steel and copper composite indexes.**

The **primary metals leading index** decreased 1.1% to 151.0 in June from a revised 152.7 in May, and its 6-month smoothed growth rate retreated to -0.3% from a revised 1.6% in May. The 6-month smoothed growth rate is a compound annual rate that measures the near-term trend. Normally, a growth rate above +1.0% signals an upward trend for future growth in metals activity, while 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](#).

The JOC-ECRI metals price index growth rate fell sharply in June, making the largest negative contribution, -1.7 percentage points, to the net decline in the primary metals leading index. A lower stock price index combining construction and farm machinery companies and industrial machinery companies held the leading index back another 0.6 percentage points. In sharp contrast, longer average working hours in primary metals establishments in June offset some of those declines by 0.9 percentage points. The Institute for Supply Management's PMI hovered above the threshold that indicates an increase in future U.S. manufacturing activity, contributing 0.2 percentage points to the leading index. Only four of the leading index's eight components were available for the June index calculation. The primary metals leading index will likely be revised next month when the remaining four components become available.

The U.S. economy continues to slow, with the slumping housing market decreasing construction industry activity. While the domestic demand for manufactured goods has slowed, overseas

demand remains relatively high. This could help to bolster domestic metals demand. This is especially true for emerging economies, such as China and oil-rich countries. The U.S. primary metals industry is likely to slow in the near future.

The **steel leading index** increased 1.3% to 121.4 in May, the latest month for which it is available, from a revised 119.8 in April. Its 6-month smoothed growth rate increased to 4.7% from 1.5% in April. The largest contributions to the net increase in the leading index came from the soaring growth rate of the steel scrap price and the climbing S&P stock price index for steel companies. Although these indicators reached recent highs in May, June data show a retreat from these levels. On the other hand, new orders for iron and steel mill products and the inflation-adjusted M2 money supply growth rate made relatively strong negative pulls on the leading index. Despite the spike in the steel leading index growth rate, growth in the domestic steel industry will likely be under downward pressure in the near term.

The **copper leading index** increased 0.6% in May to 124.8 from 124.1 in April, and its growth rate rose to -0.5% from -1.9% in April. Added overtime hours in copper rolling, drawing, extruding, and alloying facilities outweighed declines in four of the index's six indicators in May. A wider yield spread between the U.S. 10-year Treasury Note and the federal funds rate also buoyed the copper leading index. The still negative copper leading index growth rate is indicating that growth in U.S. copper industry activity could decline in the near term.

## Global Slowdowns Place Downward Pressure on Metal Prices

The **metals price leading index** decreased 0.2% to 105.7 in May from a revised 105.9 in April. May is the latest month for which it is available. Its 6-month smoothed growth rate moved lower in negative territory, settling at -1.4% from a revised -1.0% in April. A second consecutive monthly drop in the growth rate of the index measuring the trade-weighted average exchange value of other major currencies against the U.S. dollar made the largest negative contribution, -0.7 percentage points, to the leading index. The growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products also fell for the second month in row, contributing -0.2 percentage points. In contrast, the wider yield spread between the U.S. 10-year Treasury Note and the federal funds rate contributed 0.7 percentage points. The fourth index component, the growth rate of the Economic Cycle Research Institute's (ECRI) 18-Country Long Leading Index, was

only available through April, when it moved slightly deeper into negative territory. The ECRI 18-Country Long Leading Index signals changes in the growth of economic activity in major industrialized countries about 5 months in advance.

The growth rate of the inflation-adjusted value of inventories of U.S. nonferrous metal products, which is an indicator of metals supply, increased in May. However, it is still negative. Slower growth in the U.S. and other major industrialized economies has reduced metals demand. While growth in emerging economies could underpin metals price growth some, metal prices are under significant downward pressure.

The business cycle and inventories are only two factors in metals price determination. Other factors that affect prices include changes in metals production, speculation, strategic stockpiling, foreign exchange rates, geopolitical instability, 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**

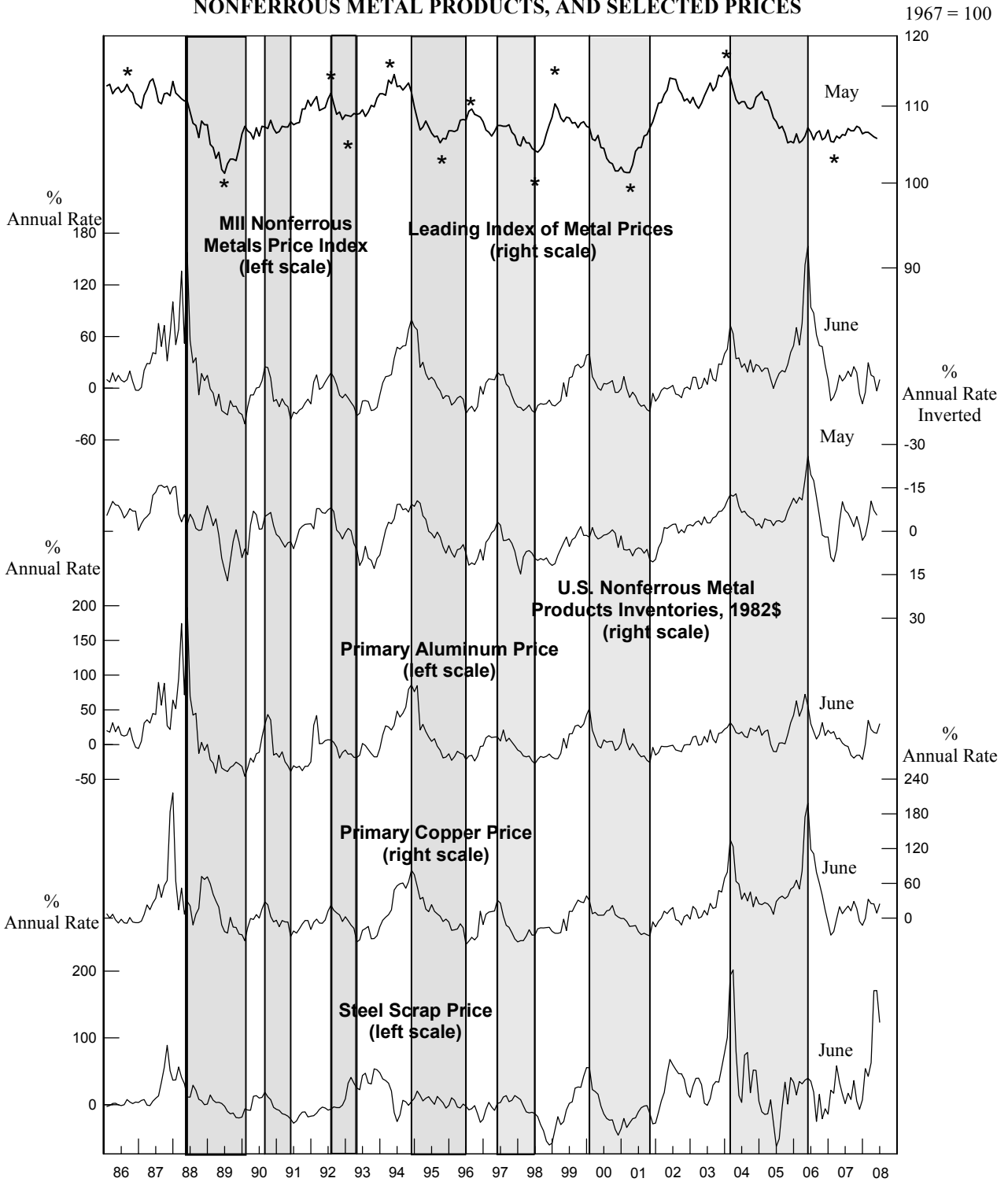
	Leading Index of Metal Prices (1967=100)	Six-Month Smoothed Growth Rates				
		MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
<b>2007</b>						
May	106.2	8.4	-10.2	2.0	7.5	15.9
June	106.1	12.3	-7.2	-1.4	14.7	1.8
July	107.0	19.9	-6.2	-2.8	20.9	17.4
August	106.7r	13.6	-4.1	-15.4	12.4	7.7
September	106.7r	25.1	-1.6	-19.4	28.9	36.2
October	107.3r	18.2	-5.1	-15.5	16.3	5.6
November	107.1r	-6.6	-1.7	-15.3	-5.7	-6.8
December	106.3r	-18.1	3.1	-21.4	-12.6	7.4
<b>2008</b>						
January	106.5	-4.8	1.5r	0.3	-0.9	54.1
February	106.5r	29.6	-3.2	34.9	32.5	42.5
March	106.2r	15.1	-10.4	21.6	25.1	62.7
April	105.9r	13.2	-7.2r	17.6	24.6	170.9
May	105.7	-3.2	-5.6	16.2	8.7	171.1
June	NA	9.7	NA	29.7	24.2	123.6

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 Economic Cycle Research Institute's 18-Country Long 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 Economic Cycle Research Institute, Inc. (ECRI); 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**



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**

	<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>2007</b>				
July	154.5	2.7	106.2	1.4
August	152.3	0.0	105.4	0.2
September	150.9	-1.9	105.2	0.1
October	150.9	-1.9	105.8	1.3
November	149.3	-3.8	106.2	1.9
December	147.9	-5.3	106.2r	1.7
<b>2008</b>				
January	148.4r	-4.4r	107.1r	3.0r
February	150.0r	-2.3r	106.7r	1.9r
March	152.0r	0.3r	106.7r	1.5r
April	152.9r	1.6r	106.0r	0.2r
May	152.7r	1.6r	104.9	-1.8
June	151.0	-0.3	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>May</b>	<b>June</b>
1. Average weekly hours, primary metals (NAICS 331)	-0.2r	0.9
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)	0.4r	-0.6
3. Ratio of price to unit labor cost (NAICS 331)	0.8	NA
4. JOC-ECRI metals price index growth rate	-0.2r	-1.7
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	-0.4	NA
6. Index of new private housing units authorized by permit	0.0	NA
7. Growth rate of U.S. M2 money supply, 2000\$	-0.6	NA
8. PMI	0.1r	0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.1r	-1.2
<b>Coincident Index</b>	<b>April</b>	<b>May</b>
1. Industrial production index, primary metals (NAICS 331)	-0.1r	0.0
2. Total employee hours, primary metals (NAICS 331)	-0.4	-0.4
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	-0.2	-0.7
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.6r	-1.0

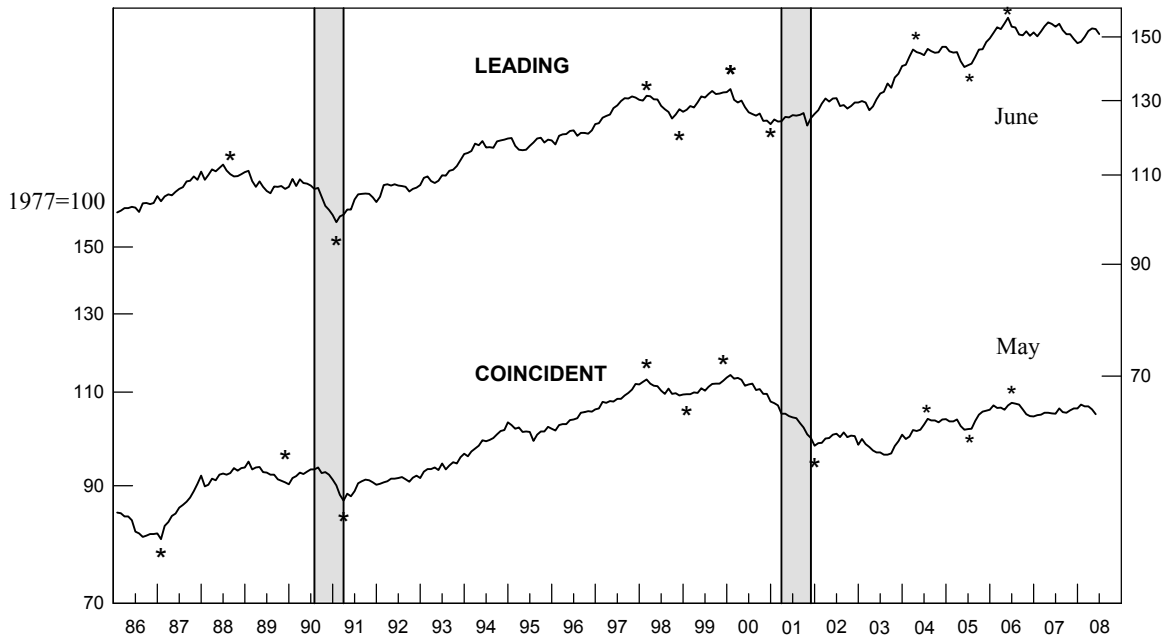
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and Economic Cycle Research Institute, Inc.; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal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

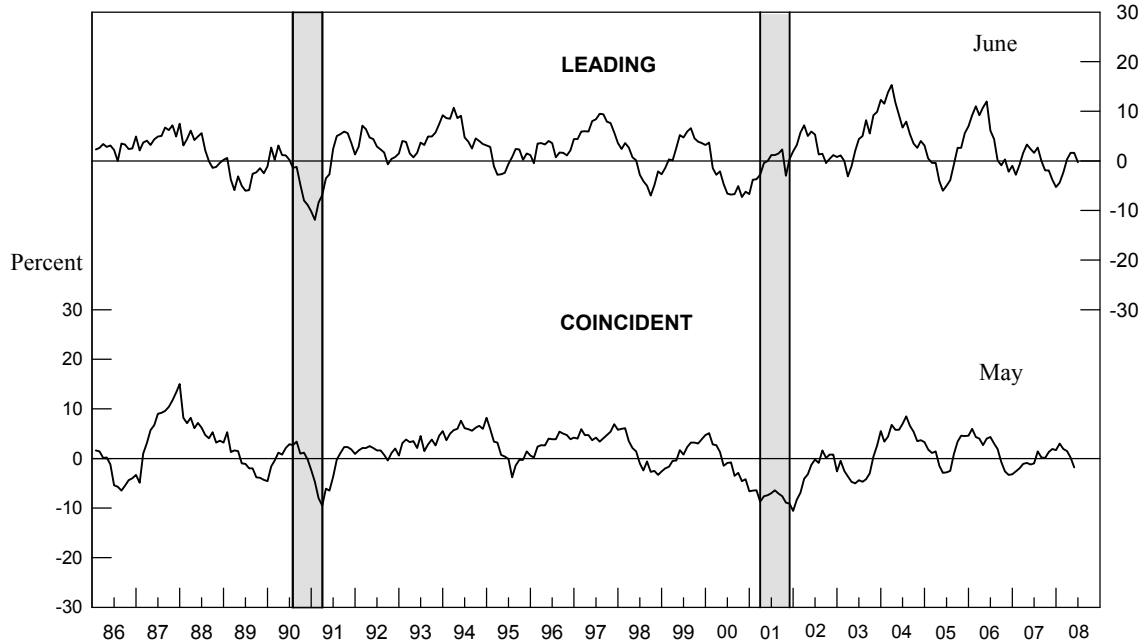
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1986-2008** 1977=100



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, 1986-2008** 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**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2007</b>				
June	118.5	-1.9	101.3	0.7
July	118.8	-1.2	102.2	2.4
August	118.3	-1.9	102.1	1.9
September	118.6	-1.5	101.5	0.9
October	118.6	-1.7	102.6	2.8
November	118.5	-1.9	104.2	5.4
December	116.3	-5.3	103.8	3.9
<b>2008</b>				
January	116.2r	-4.9r	103.0	1.7r
February	117.4	-2.8	103.9	3.1
March	119.2r	0.5	103.9	2.7
April	119.8	1.5	102.7r	0.0r
May	121.4	4.7	101.1	-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 5.  
The Contribution of Each Steel Index Component to the Percent Change  
in the Index from the Previous Month**

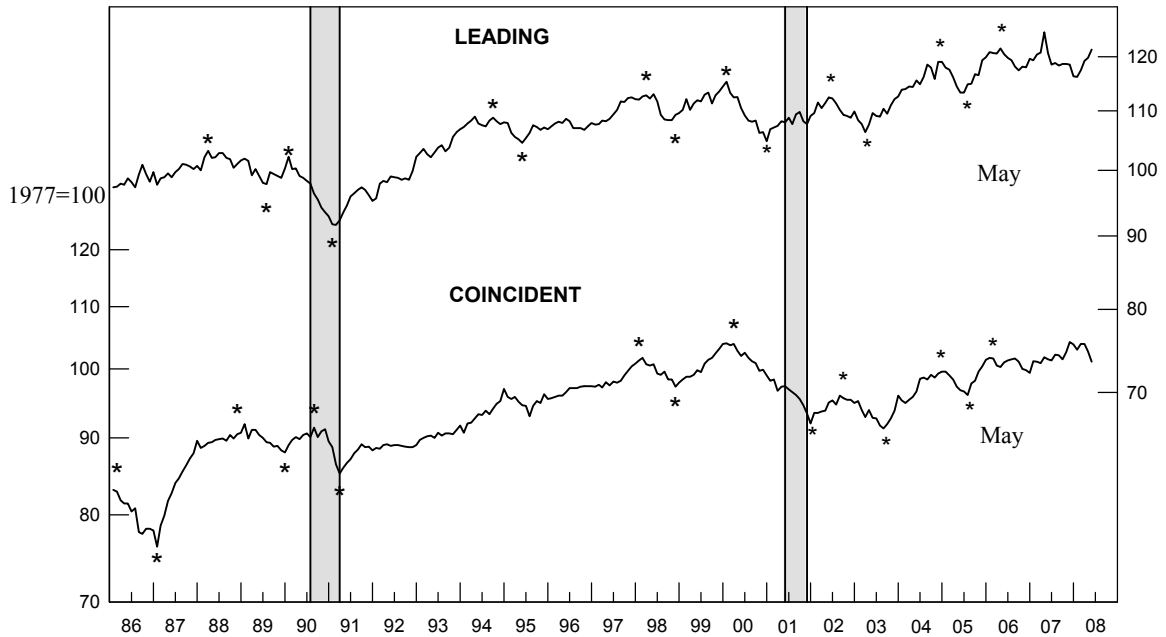
<b>Leading Index</b>	<b>April</b>	<b>May</b>
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	-0.8	-0.2
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.1r	-0.5
3. Shipments of household appliances, 1982\$	0.1	0.0
4. S&P stock price index, steel companies	0.6	0.5
5. 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)	1.1	2.1
7. Index of new private housing units authorized by permit	0.3	0.0
8. Growth rate of U.S. M2 money supply, 2000\$	-0.3	-0.5
9. PMI	0.0	0.1
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.7r	1.4
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.1r	0.1
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.4r	-1.1
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	-0.7r	-0.6
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-1.1r	-1.5

**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, 1986-2008**

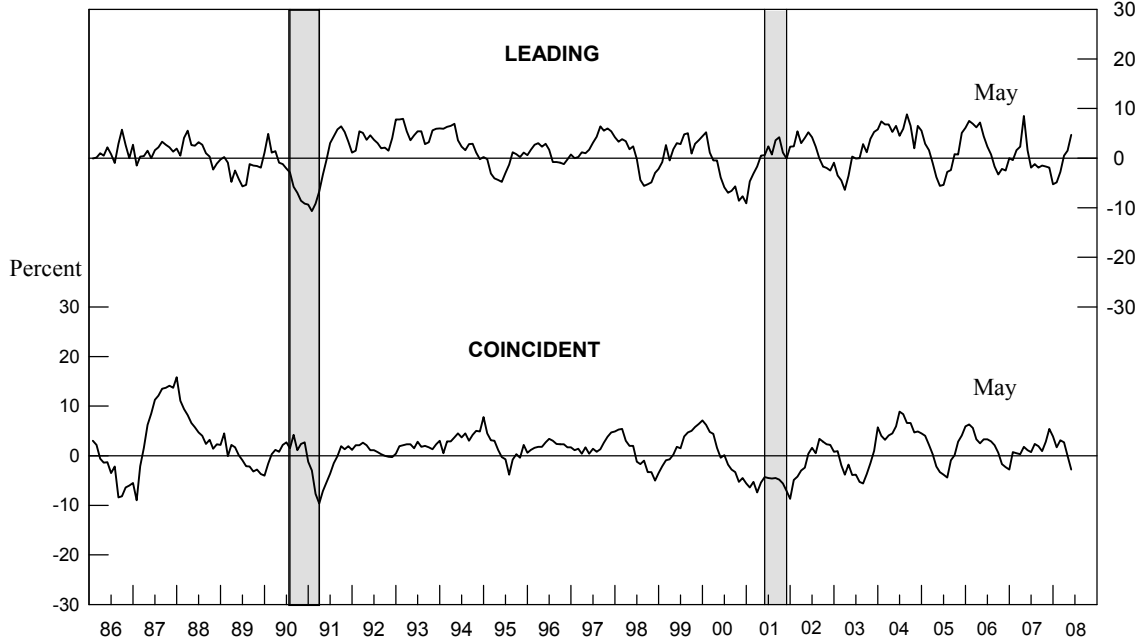
1977=100



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, 1986-2008**

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**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2007</b>				
June	127.6	2.0	104.9	-1.8
July	127.9	2.5	106.6	2.0
August	125.8	-0.7	104.4	-1.2
September	124.3	-2.7	103.6	-1.9
October	124.6	-2.2	103.5	-1.8
November	123.2	-4.2	102.2	-4.3
December	124.2	-2.7	101.3	-5.5
<b>2008</b>				
January	122.6	-4.8r	102.2r	-3.2r
February	124.9	-1.2r	103.2r	-1.2r
March	124.2	-2.0	104.6r	1.2r
April	124.1	-1.9	104.4r	0.9r
May	124.8	-0.5	105.1	2.1

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**

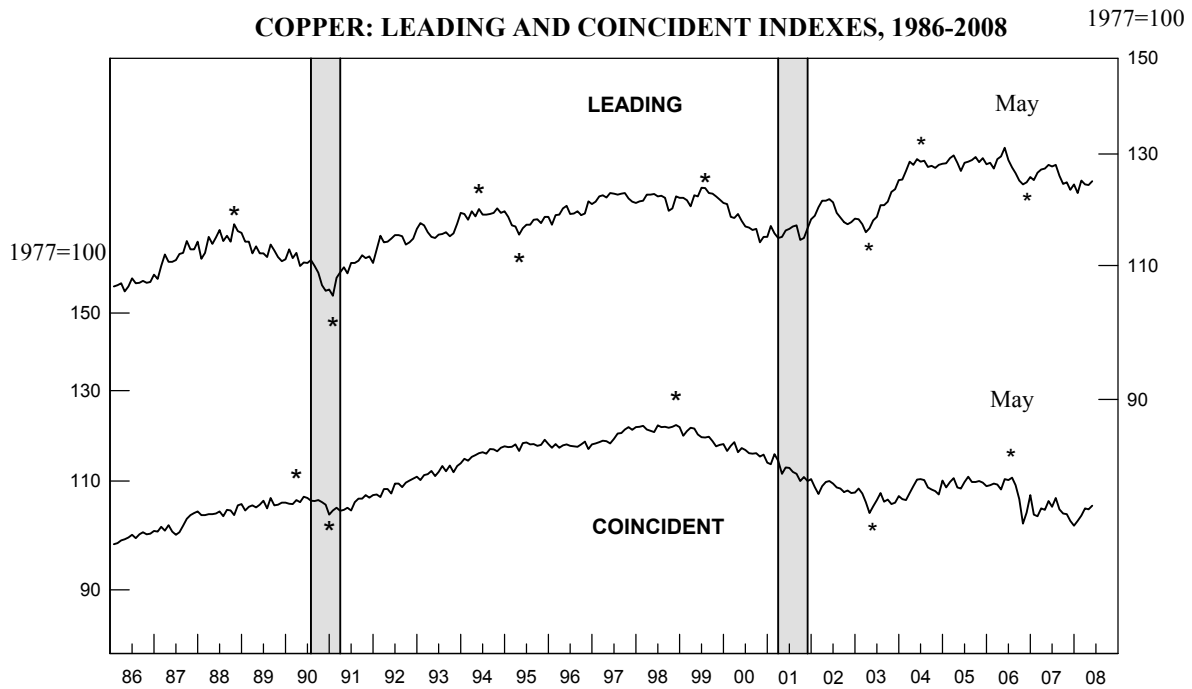
Leading Index	April	May
1. Average weekly overtime hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	-1.0	0.9
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.2r	-0.2
3. S&P stock price index, building products companies	0.1	-0.2
4. LME spot price of primary copper	0.1	-0.4
5. Index of new private housing units authorized by permit	0.4	0.0
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	0.4	0.4
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.2	0.5
<b>Coincident Index</b>		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.3r	-0.3
2. Total employee hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	-0.6r	0.9
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.2r	0.7

**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

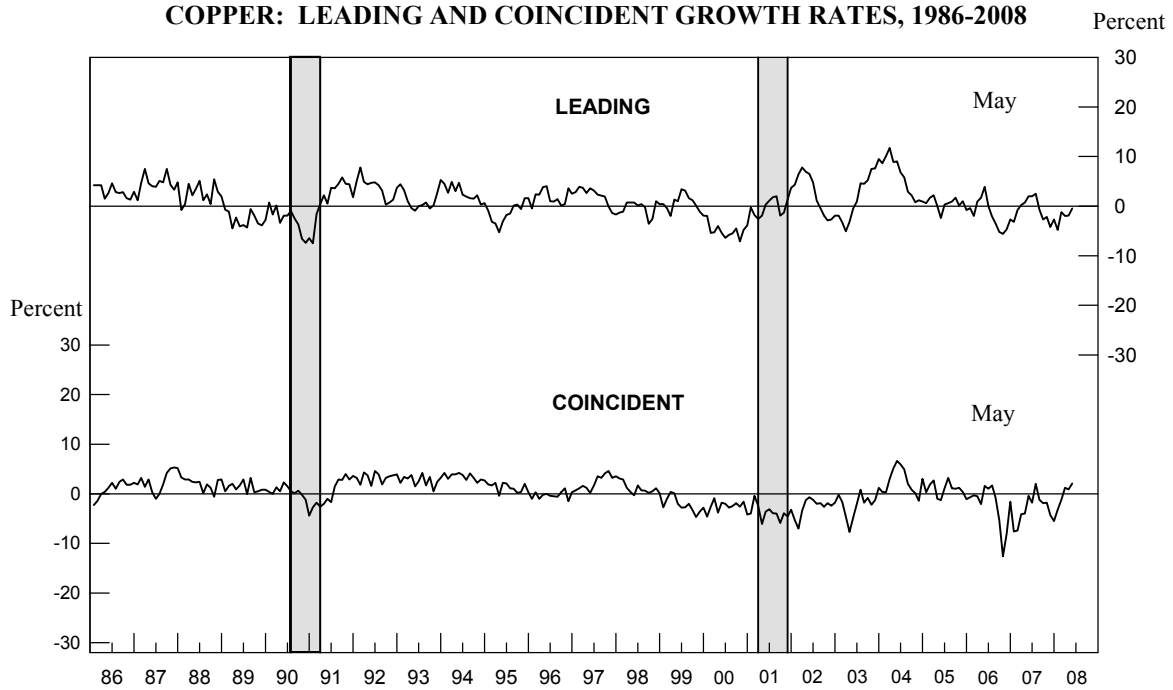


**CHART 6.**  
**COPPER: LEADING AND COINCIDENT INDEXES, 1986-2008**



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 7.**  
**COPPER: LEADING AND COINCIDENT GROWTH RATES, 1986-2008**



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.

## 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.

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<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. Since the historic 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 average lead time for the primary aluminum leading index is 6 to 8 months, and the average lead time for the aluminum mill products leading index is 6 months.

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.

$$\left[ \left( \frac{\text{current value}}{\text{preceding 12-month moving average}} \right)^{\frac{12}{6.5}} - 1.0 \right] * 100$$

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, August 15. 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 Minerals Information Team. 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  
Minerals Information Team  
988 National Center  
Reston, Virginia 20192