

Metal Industry Indicators

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

January 2013

The primary metals leading index decreased in December, and its 6-month smoothed growth rate ended the year in negative territory. The 8-month span of negative growth rates indicates that U.S. metal industry activity growth is likely to decrease further in the near term. The U.S. economic recovery supported domestic primary metals industry activity with modest metals demand from the manufacturing and construction sectors. However, slower global economic growth has reduced demand for U.S. metals. The metals price leading index increased slightly in November; however, the level of nonferrous metals inventories held in the United States reached recent record highs. These high domestic inventories, as well as growing global metals stocks, point to further declines metal prices in the near term.

The **primary metals leading index** decreased 0.6 to 158.6 in December, from a revised 159.5 in November. The index's 6-month smoothed growth rate, a compound annual rate that measures the near-term trend decreased to -1.5% from a revised -0.6% in November. A growth rate above +1.0% is usually a sign of an upward near-term trend for future 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](#).

Only one of the index's four available components, average weekly hours in primary metals establishments, decreased in December; however, that component outweighed gains in the other indicators. In contrast, a rise in the USGS metals price index growth rate added 0.6 percentage points to net change in the primary metals leading index. A second consecutive monthly increase in the stock price index combining construction and farm machinery companies and industrial machinery companies contributed 0.5 percentage points to the leading index. The Institute for Supply Management's PMI edged up into the range that denotes an expansion in future U.S. manufacturing activity. It contributed 0.3 percentage points. The primary metals leading index will likely be revised next month when the remaining four components become available.

The decline in the primary metals leading index growth rate suggests that activity in the metals industry could decline further in the near future. New orders for durable goods, which have increased 7 of the last 8 months, generated modest metals demand during most of 2012. However, the U.S. economy slowed in the last quarter because of declines in private inventory investment, federal spending, and exports of U.S. goods and services.

Although the drop in the U.S. GDP suggests that the metals demand generated from the manufacturing sector might be limited, growth in the construction sector could boost metals demand in 2013.

The **steel leading index** held steady from October to November, the latest month for which it is available, at 109.9. Its 6-month smoothed growth rate remained at October's -1.0%. The highest light truck and car sales in 5 years, the rising inflation-adjusted M2 money supply growth rate, and a jump in the index for new housing permits boosted the steel leading index in November. In contrast, dips in the steel scrap price growth rate, the PMI, and the S&P stock price index for iron and steel companies offset those gains. The steel leading index growth rate has generally moved higher since August, but it is still suggesting that U.S. steel industry activity could slow in the near term.

The **copper leading index** increased 1.5% in November to 126.1 from a revised 124.2 in October. Its 6-month smoothed growth rate rose to 4.8% from a revised 2.6% in October. Five of the index's six indicators posted gains; only the yield spread between the U.S. 10-year Treasury note and the federal funds rate declined. A jump in new orders for nonferrous metal products made the largest positive contribution to the copper leading index in November. Rises in the S&P stock price index for building product companies and average weekly hours also made sizable contributions. The relatively high copper leading index growth rate would normally suggest that activity in the U.S. copper industry could increase, but until there is a significant draw down in copper inventories, activity growth will be restrained.

Growing Inventories Place Downward Pressure on Metal Prices

The metals price leading index inched up 0.1% in November, the latest month for which it is available, to 107.0 from 106.9 in October, and its 6-month smoothed growth rate increased to 0.1% from a revised -0.2% in October. The growth rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products made the largest positive contribution to the net increase in the leading index. It contributed 0.5 percentage points. Growth in new orders has generally fallen in 2012. The Organization for Economic Cooperation and Development (OECD) Total Leading Index growth rate was barely positive in November, suggesting further global economic weakness. Its contribution was 0.1 percentage point. In contrast, the volatile growth rate of the trade-weighted average exchange value of other major currencies against the U.S. dollar contributed -0.3 percentage points. The

narrower yield spread between the U.S. 10-year Treasury note and the federal funds rate contributed -0.1 percentage point. The metals price leading index signals major changes in the growth rate of nonferrous metals 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 in November after three consecutive declines. Inventory levels stand at a 40-month high. High inventories and the barely positive metals price leading index growth rate suggest further declines in metal prices.

The business cycle and inventories are only two factors in metal price determination. Some other factors that affect prices include changes in metals production, 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
2011						
November	107.3	-31.4	17.9	-33.6	-31.1	-12.9
December	109.1r	-28.1	21.6	-32.9	-27.4	-3.3
2012						
January	107.5	-7.4	18.6	-11.1	-6.8	7.8
February	107.5	-3.7	12.3	-6.5	-2.7	-3.1
March	107.2	-5.3	9.8	-20.0	-2.7	-3.0
April	107.3	-1.6	11.9	-20.3	0.0	-6.4
May	106.4	-20.3	16.1	-22.5	-19.6	-3.6
June	105.7	-17.0	18.5	-29.1	-15.3	-25.1
July	105.6r	-13.6	20.8r	-23.5	-13.0	-38.6
August	106.2	9.9	19.6	-20.5	-9.5	-13.5
September	107.1	11.0	13.8	4.2	9.7	-17.9
October	106.9	-2.8	9.2r	-13.7	-3.2	-34.0
November	107.0	1.8	11.9	6.1	0.0	-11.2
December	NA	0.7	NA	1.7	-1.9	-10.4

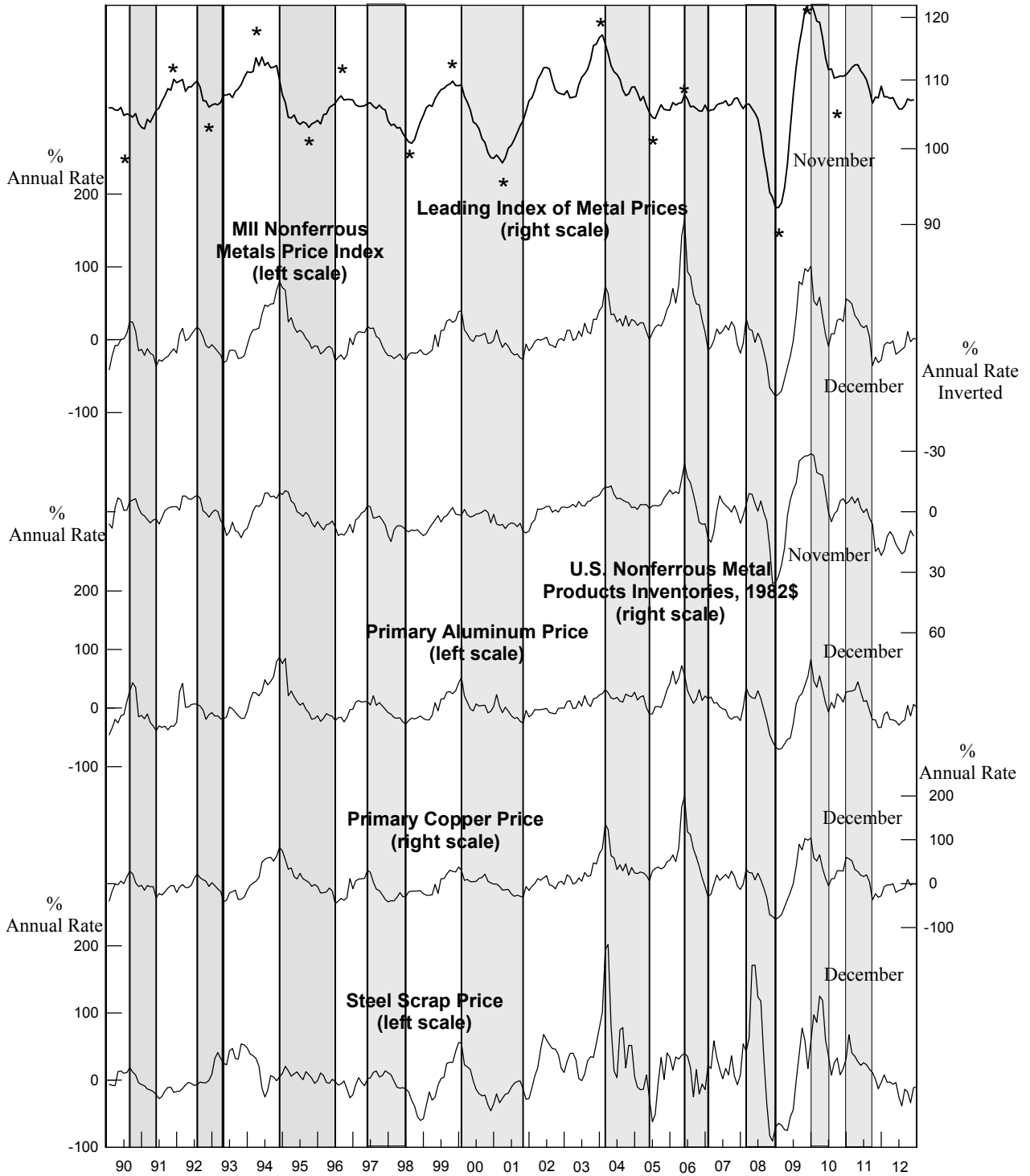
NA: Not available r: Revised

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
2011				
December	162.2	3.7	114.2	15.2
2012				
January	162.6	3.6	113.3	11.6
February	163.3	3.9	113.5	10.0
March	162.4	2.3	112.6	6.7
April	161.8	1.3	113.8	7.5
May	160.0	-1.0	113.6	5.8
June	156.7	-4.9	113.3	4.2
July	156.2	-5.2	113.9	4.2
August	156.6r	-4.3r	113.9r	3.1r
September	158.5	-1.8	112.6	0.1
October	158.6r	-1.7r	112.3r	-1.1r
November	159.5r	-0.6r	114.2	1.7
December	158.6	-1.5	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	November	December
1. Average weekly hours, primary metals (NAICS 331)	0.1r	-2.0
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994 = 100)	0.2r	0.5
3. Ratio of price to unit labor cost (NAICS 331)	0.1	NA
4. USGS metals price index growth rate	-0.2r	0.6
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	0.2	NA
6. Index of new private housing units authorized by permit	0.2	NA
7. Growth rate of U.S. M2 money supply, 2005\$	0.2	NA
8. PMI	-0.3r	0.3
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.5r	-0.6
Coincident Index	October	November
1. Industrial production index, primary metals (NAICS 331)	-0.2r	0.7
2. Total employee hours, primary metals (NAICS 331)	-0.2r	0.0
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	0.0r	0.9
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.4r	1.7

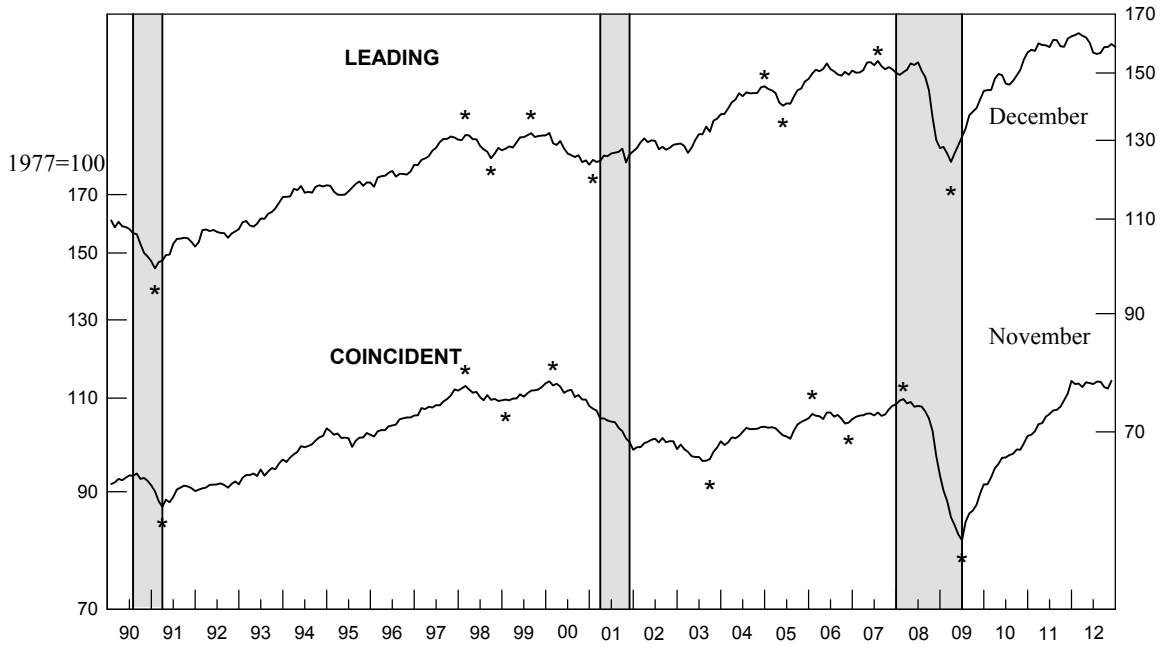
Sources: Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and U.S. Geological Survey; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal Reserve Board,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

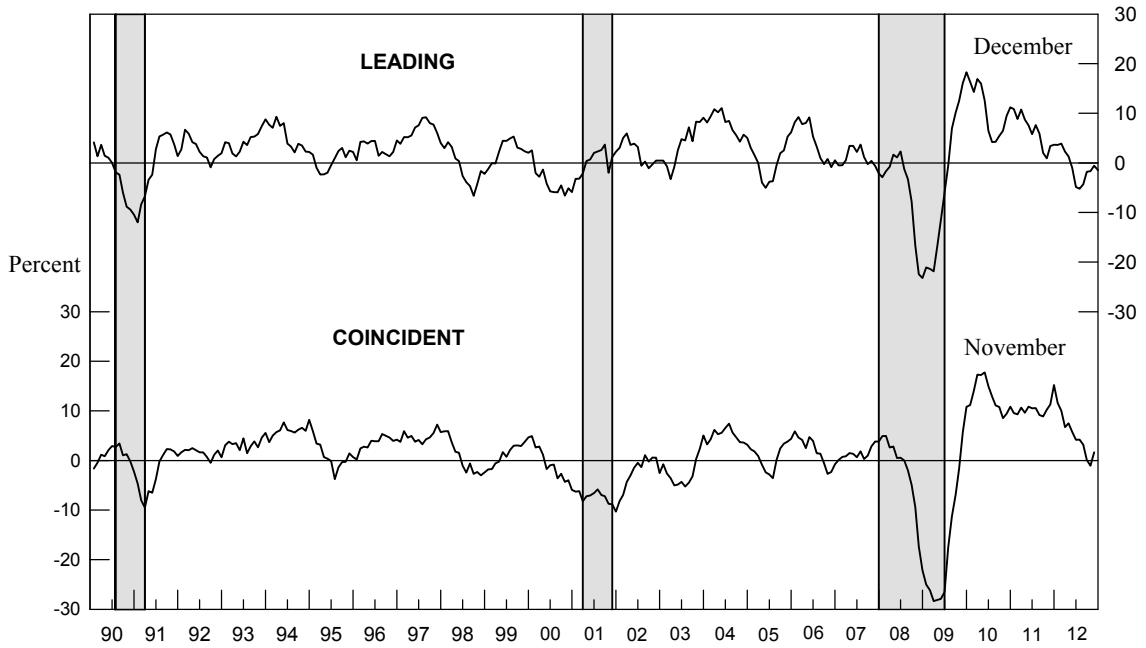
PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1990-2012 1977=100



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, 1990-2012 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
2011				
December	112.0	3.0	117.5	9.7
2012				
January	112.2	3.0	117.0	7.8
February	111.5	1.5	117.4	7.4
March	111.6	1.4	116.4	4.5
April	111.5	1.1	117.3	5.2r
May	110.7	-0.5	117.6	4.6
June	108.9	-3.5	116.5	2.0
July	108.5r	-4.3	116.6	1.5
August	107.9	-4.8	117.3	2.1
September	109.8	-1.4	115.8	-0.9
October	109.9	-1.0	116.1r	-0.8r
November	109.9	-1.0	117.1	0.6

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**

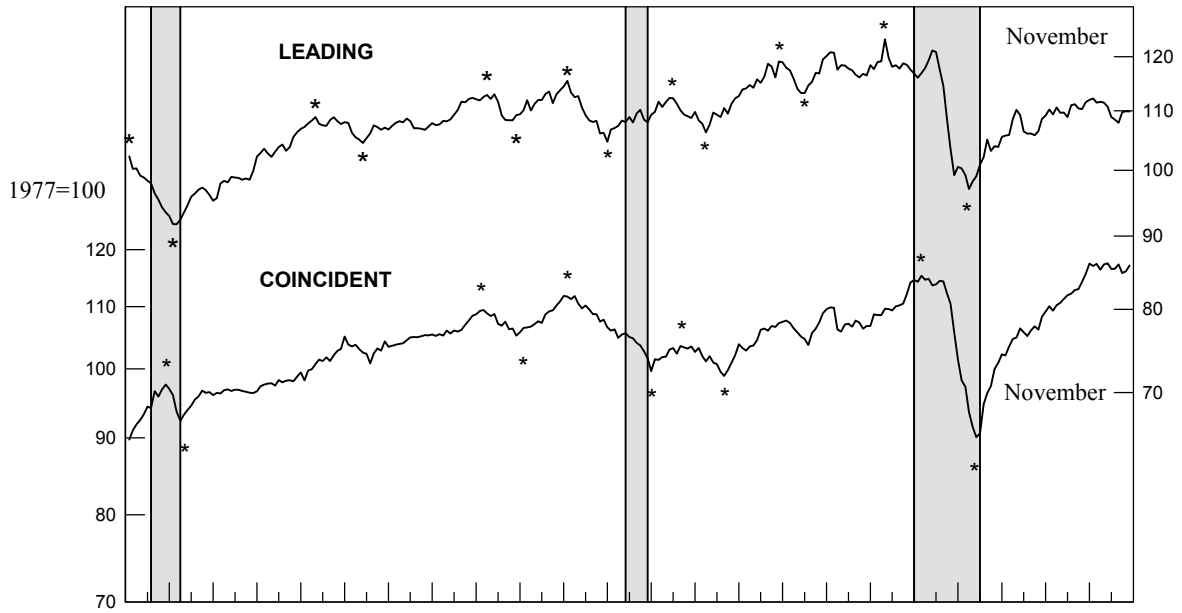
Leading Index	October	November
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	-0.6	0.1
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	0.4	-0.1
3. Shipments of household appliances, 1982\$	0.0	0.1
4. S&P stock price index, steel companies	0.0	-0.2
5. Retail sales of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

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, 1990-2012

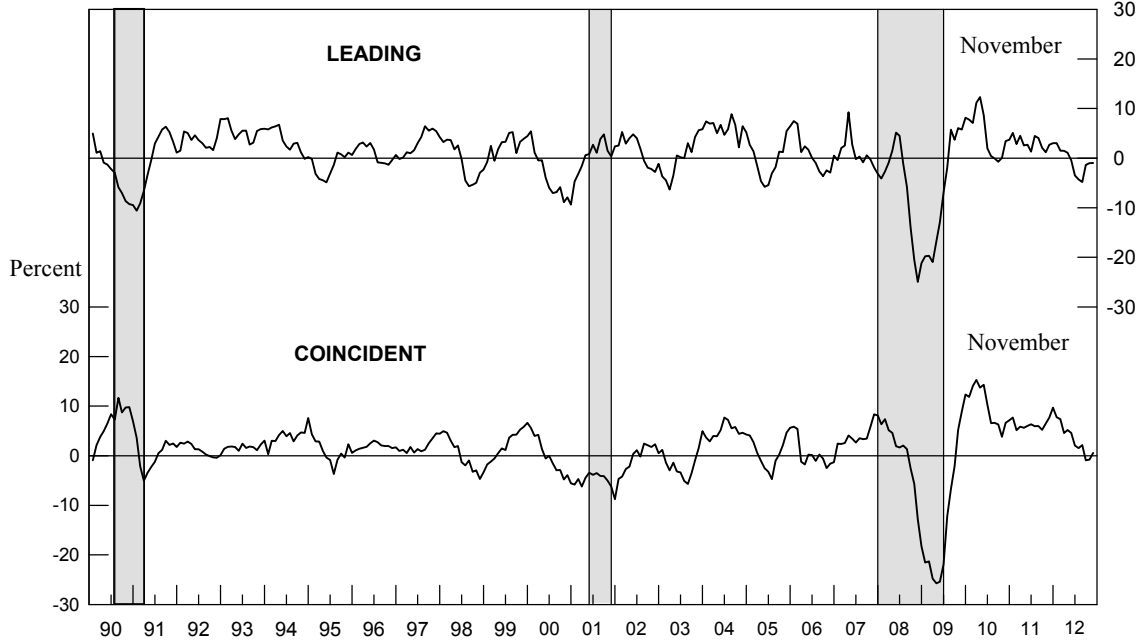
1977=100



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, 1990-2012

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
2011				
December	120.7	0.9	108.5	5.4
2012				
January	123.1	4.8	109.1	5.4
February	123.3	4.7	109.1	4.1
March	123.6	4.9	106.7	-0.9
April	124.5	5.9	109.1	2.7
May	121.5	1.0	105.8	-3.6
June	122.7	2.9r	106.6	-2.3
July	124.3	5.2	110.4	3.9
August	123.3	3.1	108.1	-0.5
September	125.2	5.5	106.7	-2.7
October	124.2r	2.6r	106.3r	-3.2r
November	126.1	4.8	106.3	-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 7.
The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month

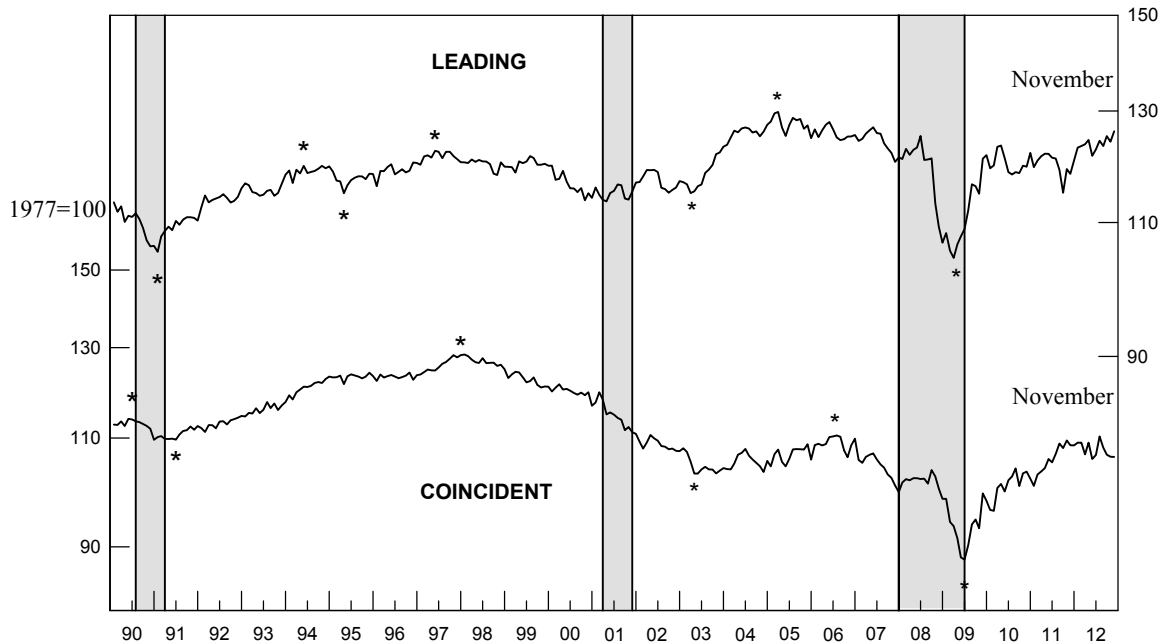
Leading Index	October	November
1. Average weekly hours, nonferrous metals (except aluminum) (NAICS 3314)	-0.2	0.4
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	-0.2	0.5
3. S&P stock price index, building products companies	0.0	0.4
4. LME spot price of primary copper	-0.3	0.1
5. Index of new private housing units authorized by permit	-0.2	0.2
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)	-0.9	1.5
Coincident Index		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.1r	-0.1
2. Total employee hours, nonferrous metals (except aluminum) (NAICS 3314)	-0.6	0.0
3. Copper refiners' shipments (short tons)	NA	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.4r	0.0

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, 1990-2012

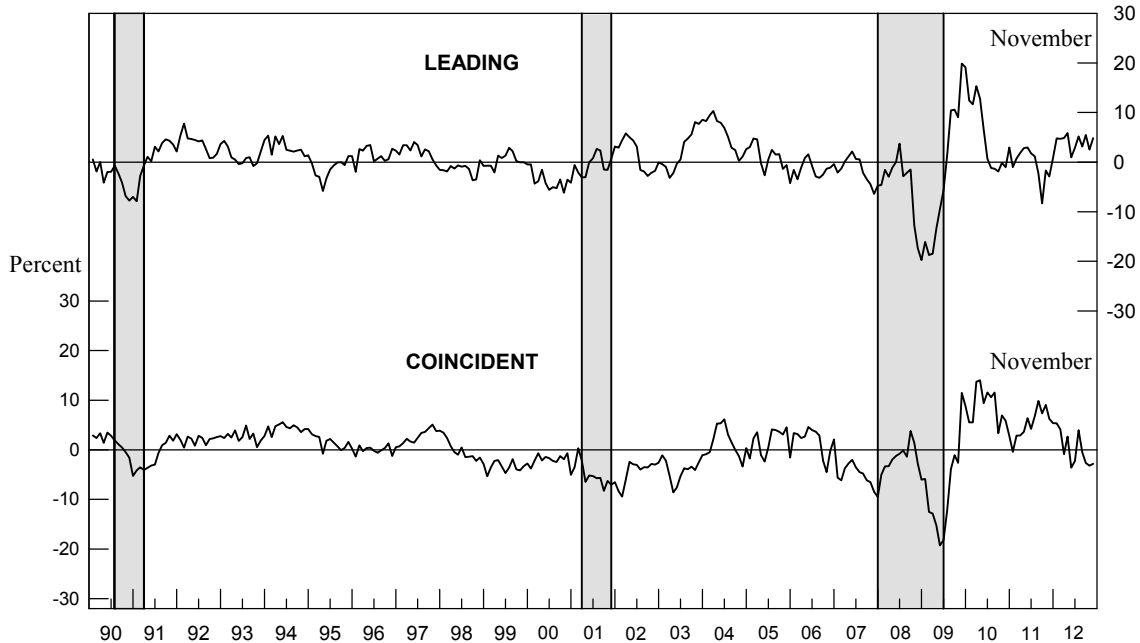
1977=100



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 7.
COPPER: LEADING AND COINCIDENT GROWTH RATES, 1990-2012

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.

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.

¹Business 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. EST, Friday, February 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 National Minerals Information Center. The report is prepared by Gail James (703-648-4915; e-mail: gjames@usgs.gov) and Ken Beckman (703-648-4916; e-mail: 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