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2024 Review & 2025 Outlook

FGM Economics Group - Daniel Doderer & Gabrielle Ain

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Overview:

US Macro Economy:

- Overall, the U.S. economy is in a good position to continue to be the envy of the rest of the developed market economies.
- Balance sheets for both consumers and firms are in a healthy position which should lead to stable growth and a higher probability of reacceleration than cooling.
- Inflation, while currently cooling (on a bumpy trajectory) has a higher probability of ending 2025 at or above current levels than down at the FEDs target of 2%.
- The labor market is in a healthy position after cooling less than expected in 2024. Going into 2025, the base case is for this dynamic to continue, with risk skewed more towards overheating.

US Steel Industry:

- 1Q25 is set up to have strong headwinds as last year's surplus still exists. Dynamics in 4Q24 domestic production and buyer inventories suggest that a rally in HRC prices would be muted and find resistance at $800.
- We are already seeing signs of life in steel demand. However, 2Q25 and beyond is the timeframe where we anticipate strong recoveries in all the steel demand subsectors that we measure, excluding automotive. That is construction, manufacturing, appliance/household, and energy.
- The set up for imports leads us to believe that the 2025 monthly average for "All Sheet" arrivals will be below 2024 levels, however, the average for 2H25 with be higher than the first.
- To fill some of this hole and react to a higher steel consumption environment YoY, domestic production will likely surpass 2021 levels and reach a 5-year high.
- The potential mismatch in timing of all the dynamics above leads us to anticipate the widest min-max spread in HRC prices since 2022 at $875. (2023: $540, 2024: $442)

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US Macro Economy:

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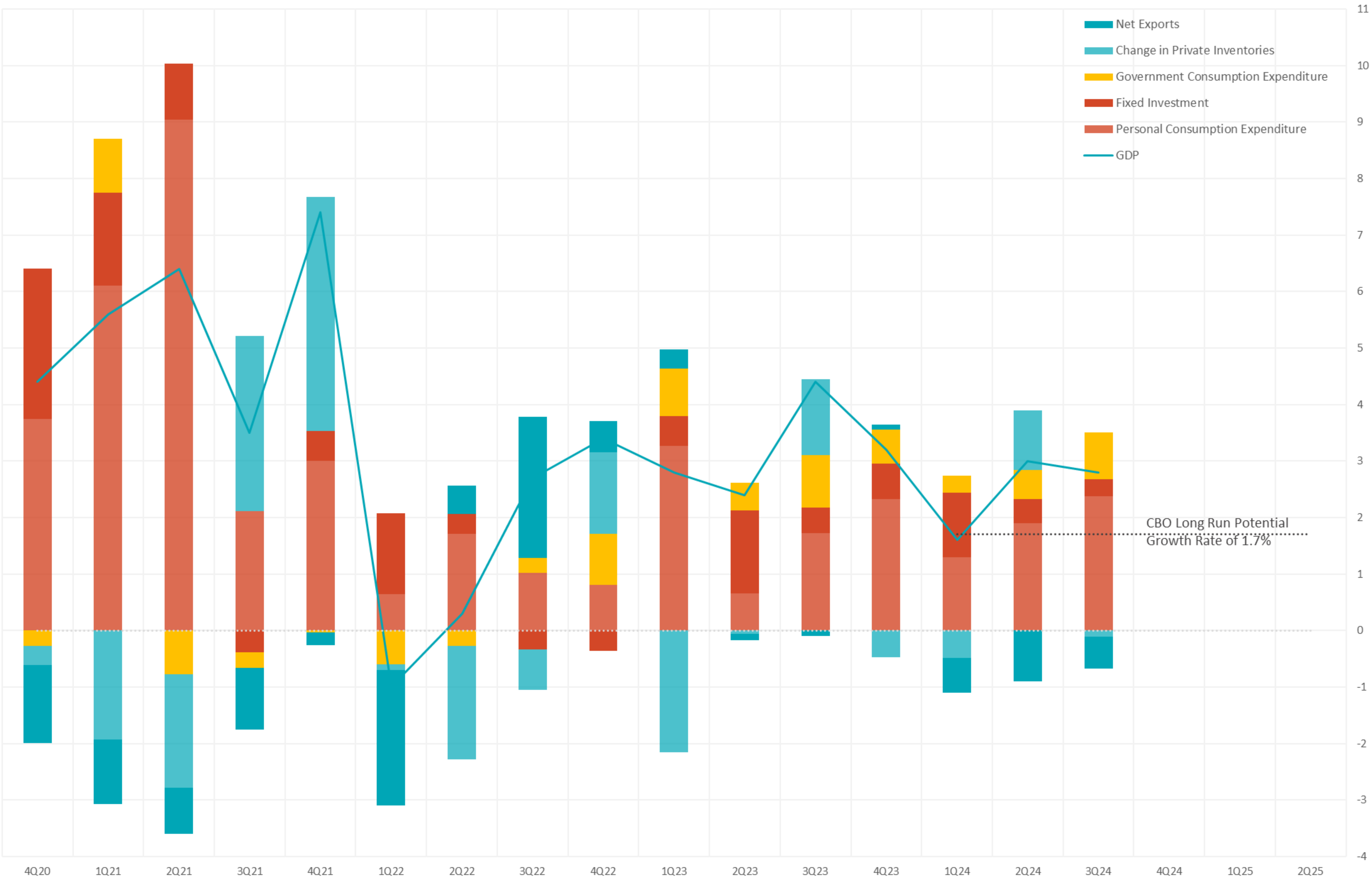
Gross Domestic Product (GPD):

A strong consumer (light orange) coming out of the pandemic continues to be the primary driver of strength in the U.S. economy.



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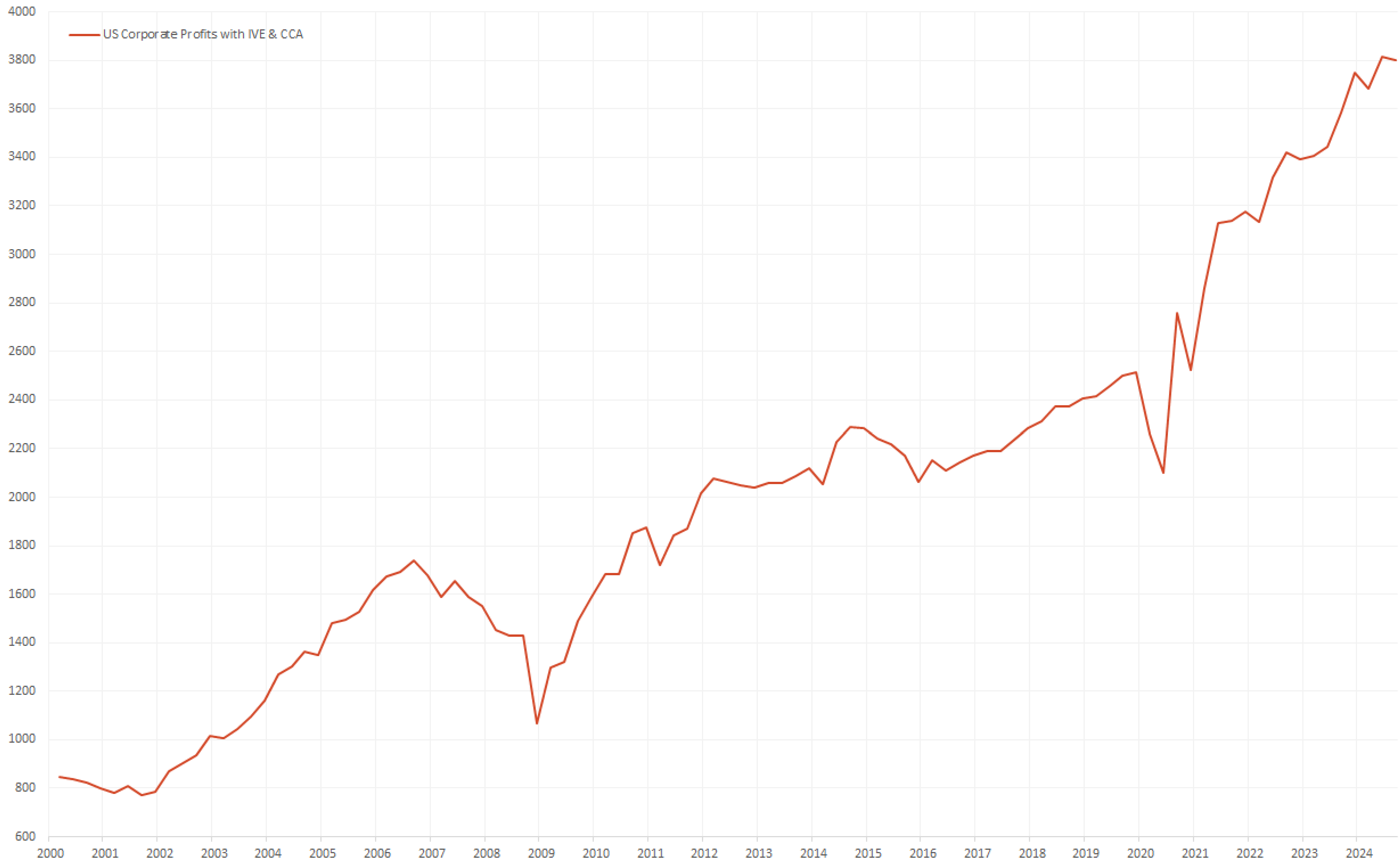
Corporate Profits:

US Quarterly Corporate profits (billions) recovered rapidly following the pandemic and remain near all-time highs.

*IVA (Inventory Valuation Adjustment), & CCA (Capital Consumption Adjustment)



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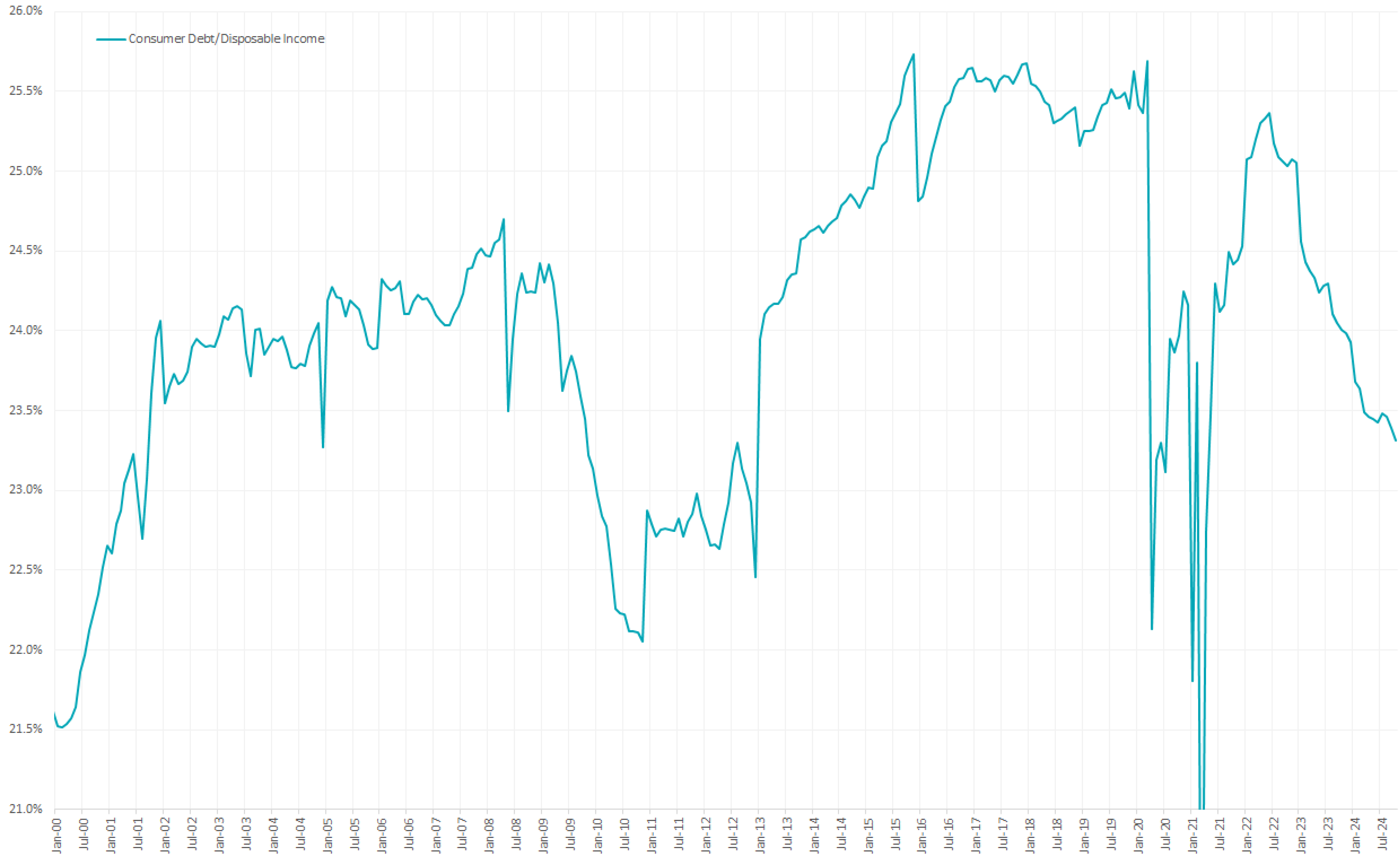
Debt to Income:

Although consumer debt is rising, the pace of the increase to disposable income is stronger than both revolving and nonrevolving debt levels. This gives us confidence that the consumer has further runway for above potential GDP growth in 2025.



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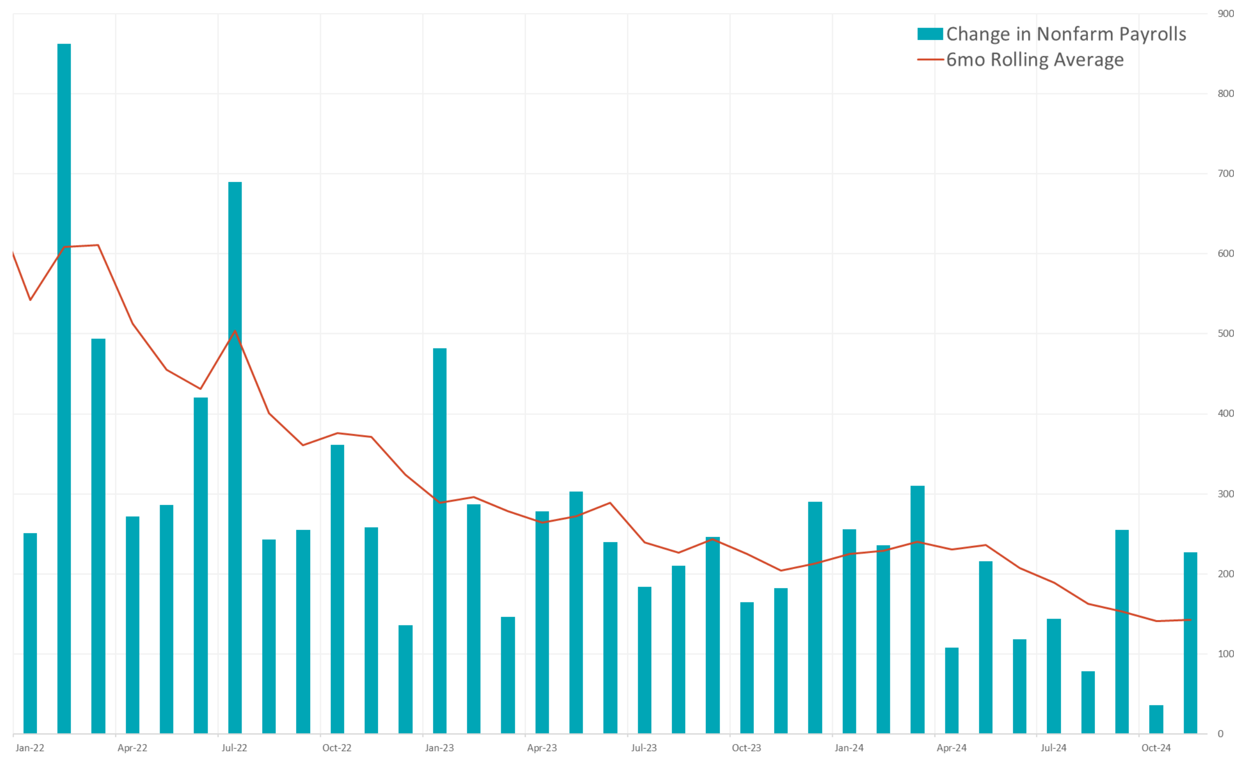
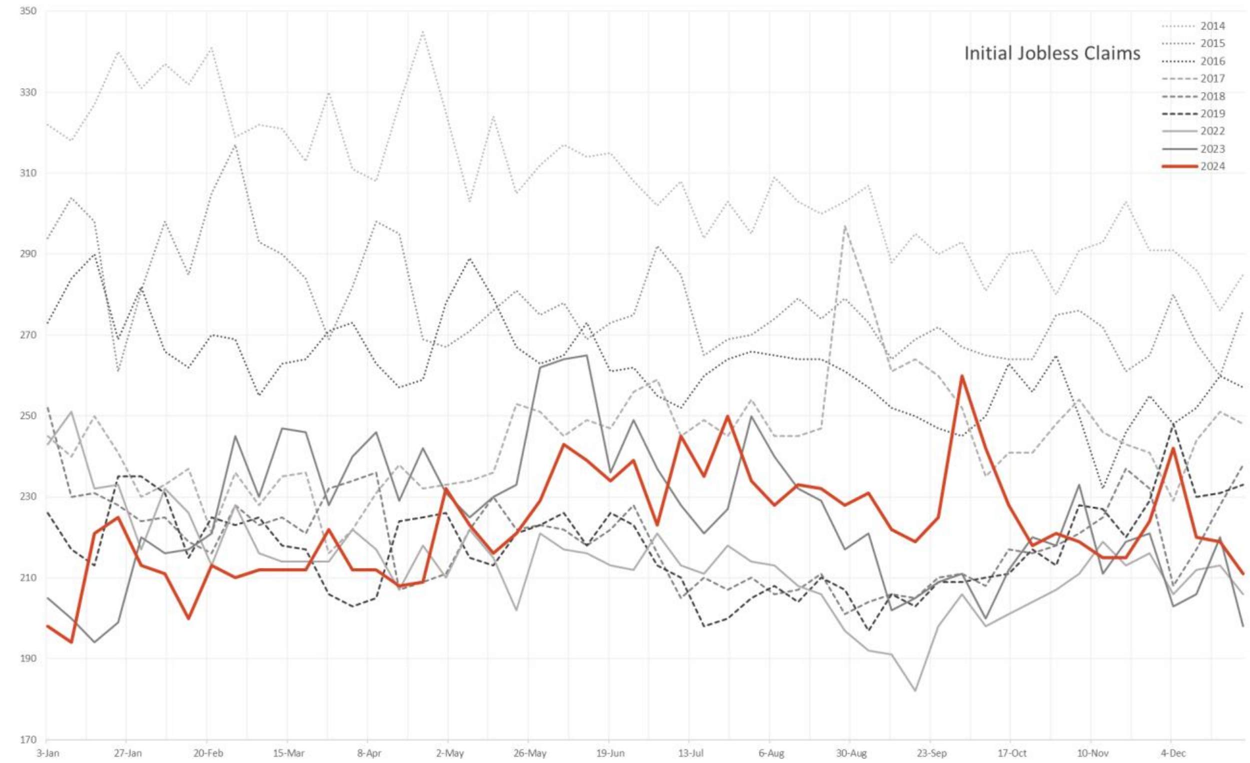
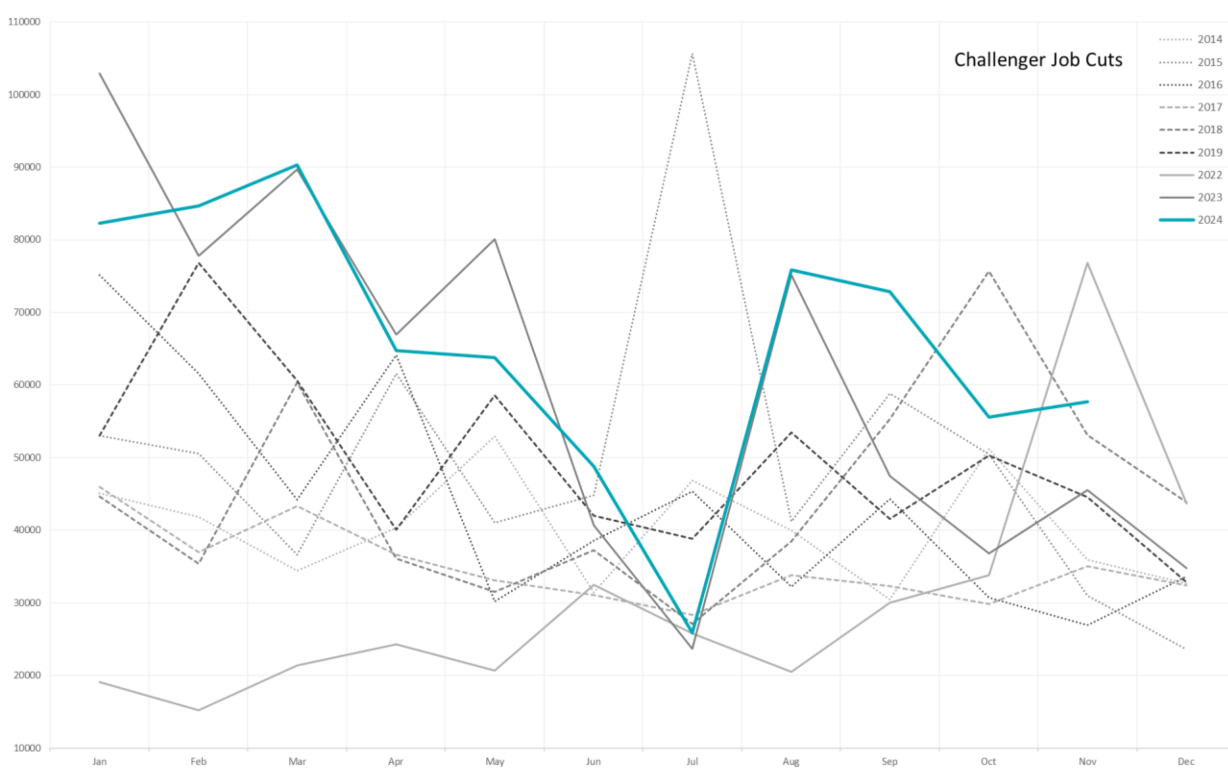
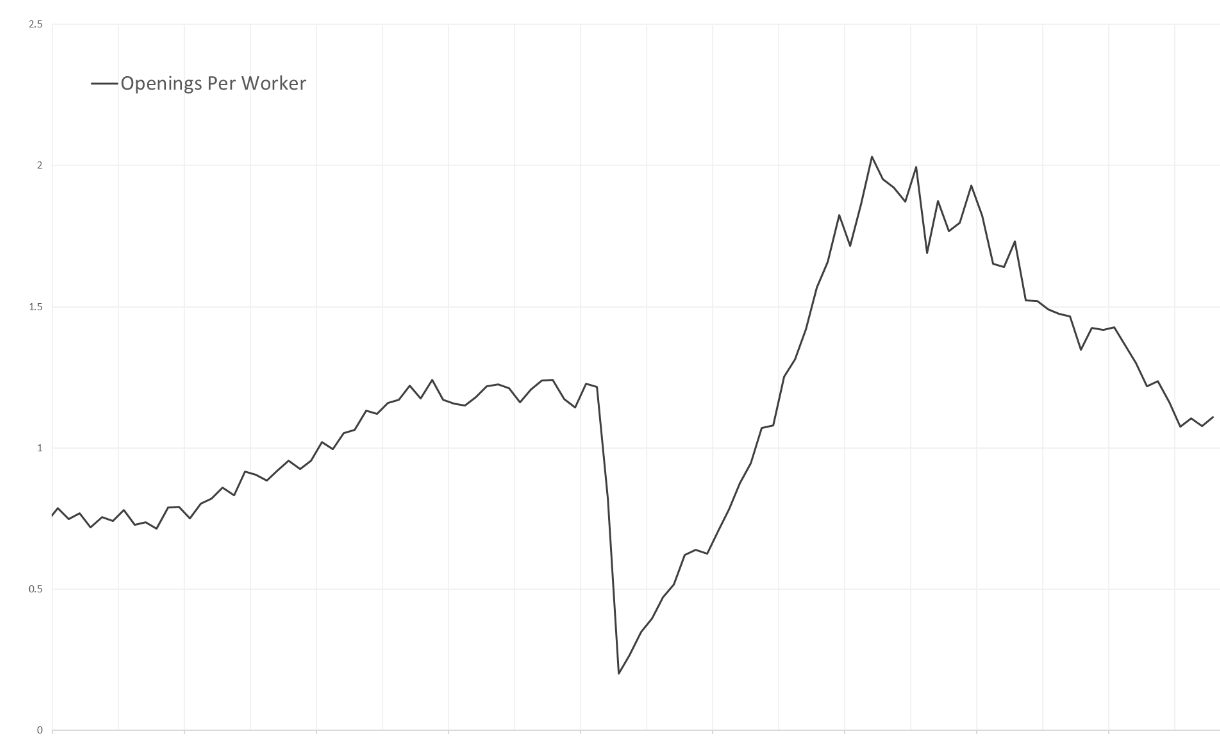
Labor Market:

While the labor market has been cooling for most of the last 2 years, the underlying signals show a healthy labor market that is not at serious risk of deterioration.









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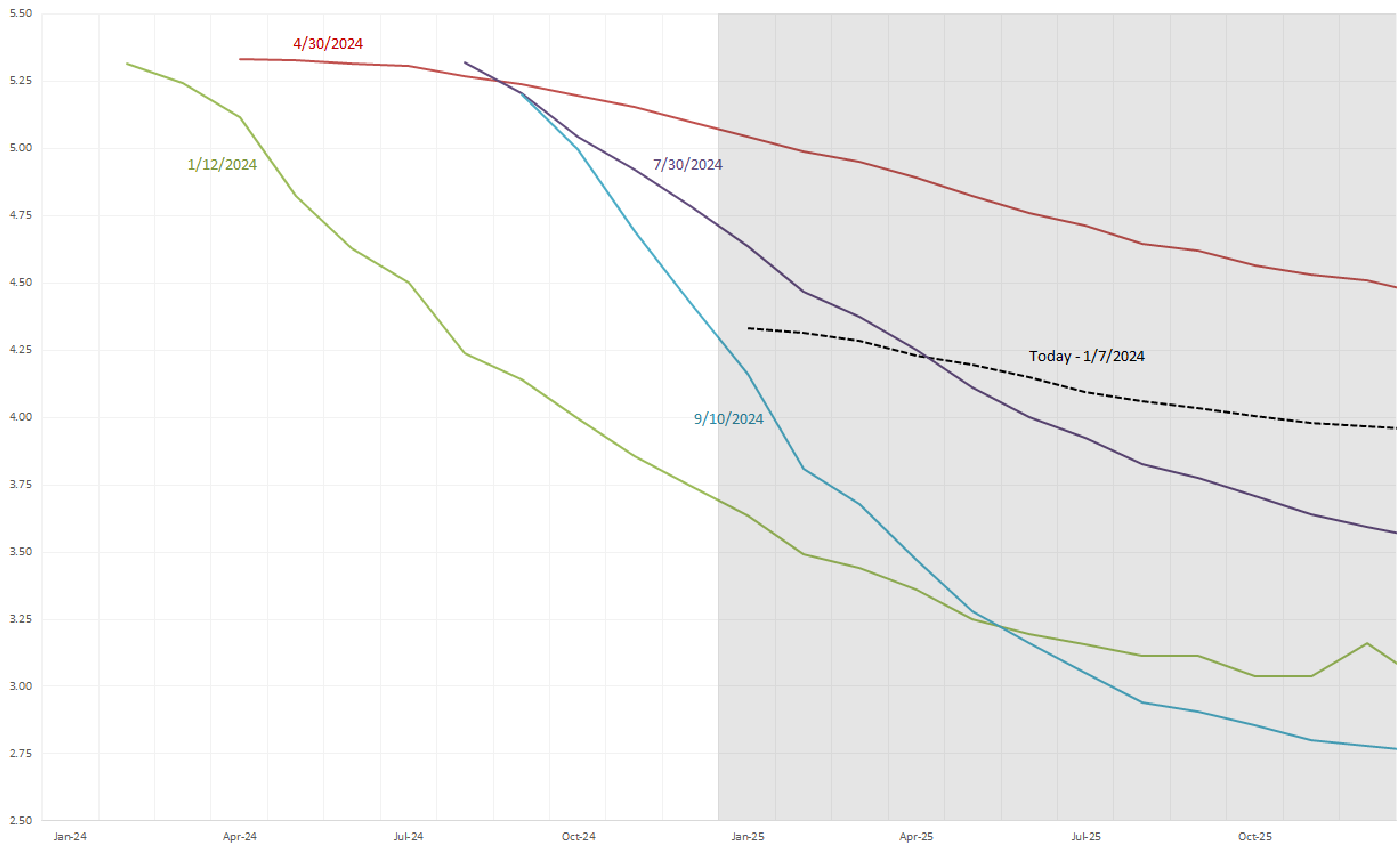
Market Interest Rate Cut Expectations:

The market shifted from pricing in 3 cuts to 1 cut before/after Decembers FOMC meeting. The lack of forward guidance from FED officials has led to significant volatility this year, but it's important to remember that the market historically does a poor job of predicting interest rate policy.



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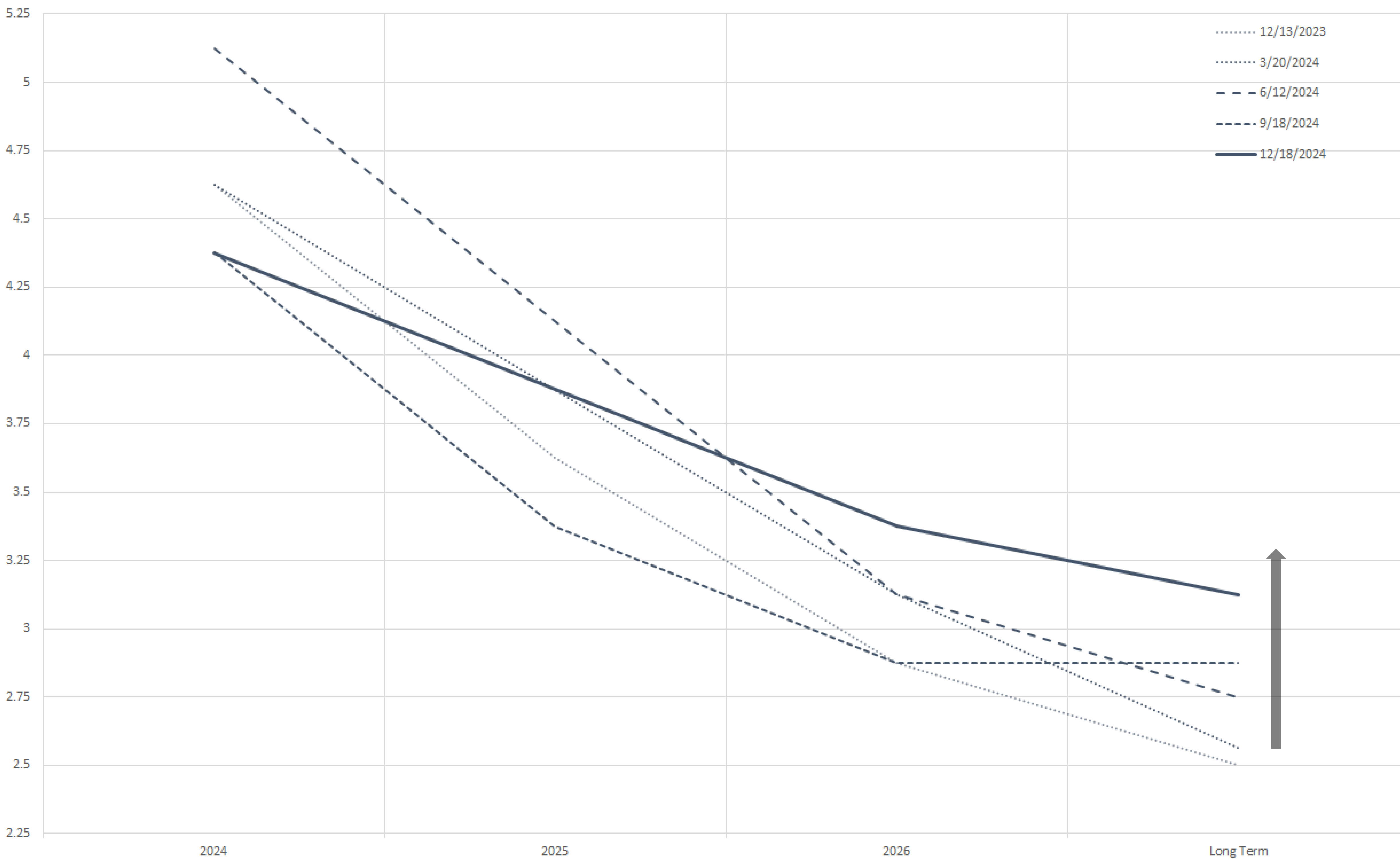
Long Term Median Dot Plot:

The long-term median dot plot from the FOMC (Federal Open Market Committee) has been gradually increasing for 5 consecutive meetings. This suggests the FOMC members overall are more bullish on the U.S. economic outlook.



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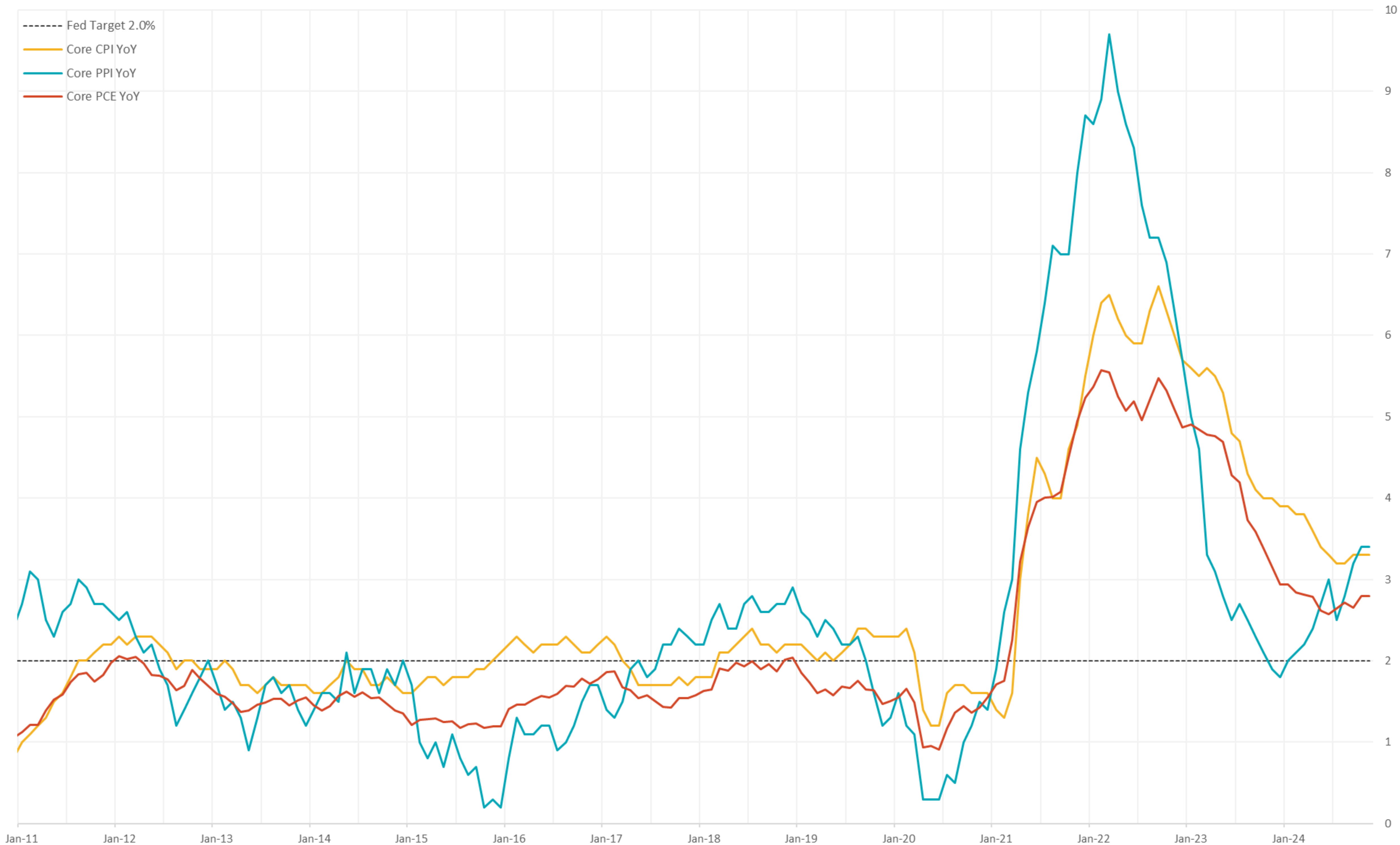
Inflation:

Although current inflation levels are less problematic than those observed over the past three years, the recent slight upticks in the Consumer Price Index (CPI, yellow) and Personal Consumption Expenditures (PCE, orange) are the primary reason we anticipate the FED will pause its rate-cutting cycle. As for upside risk, Core Producer Price Index (PPI, blue)—excluding food and energy—has been steadily rising throughout 2024. This is a signal that the goods price disinflation, has temporarily come to an end.



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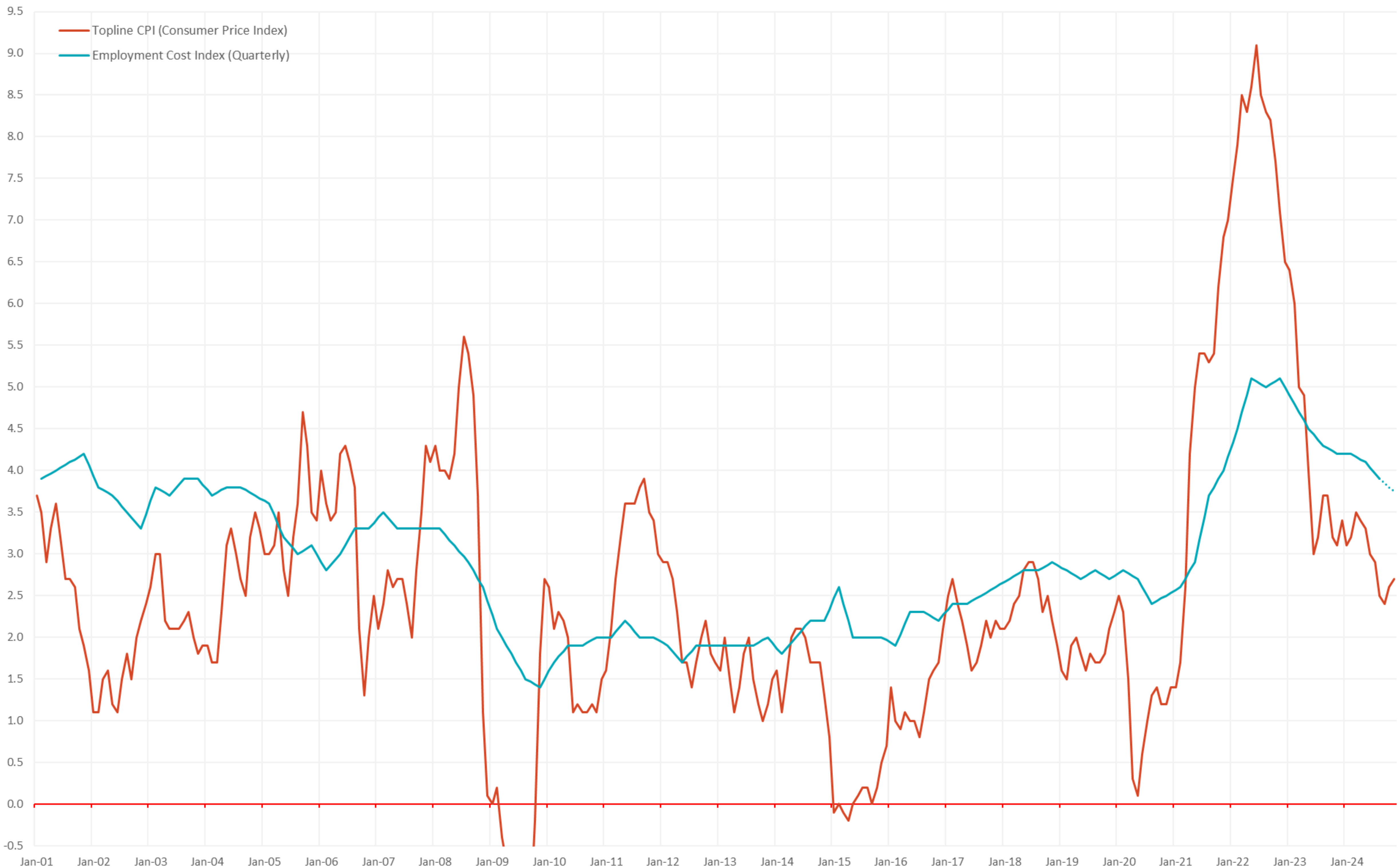
Wages & Inflation:

While debt to income is not a major concern, consumers, especially in the lower income distribution, have not recovered from the 2021-22 spike in inflation. Wages have been beating inflation since mid-2023 but will require years of stability in this dynamic to recoup what was lost.



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2024 Steel Review:

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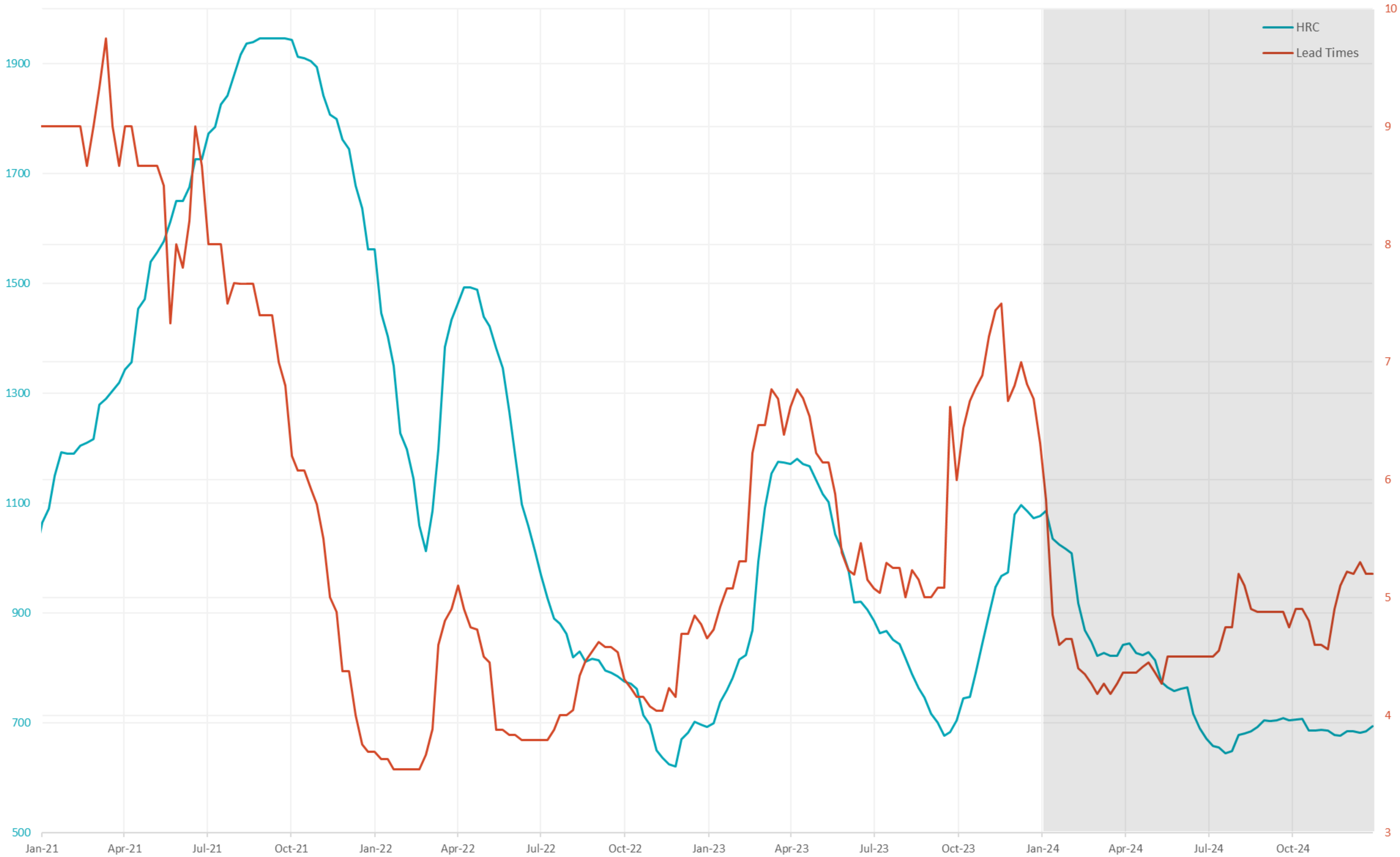
HRC Spot Price & Lead Times:

The HRC spot price struggled to find substantial upward momentum in 2024, while lead times have recently shown more volatility than the tight rangebound prices.



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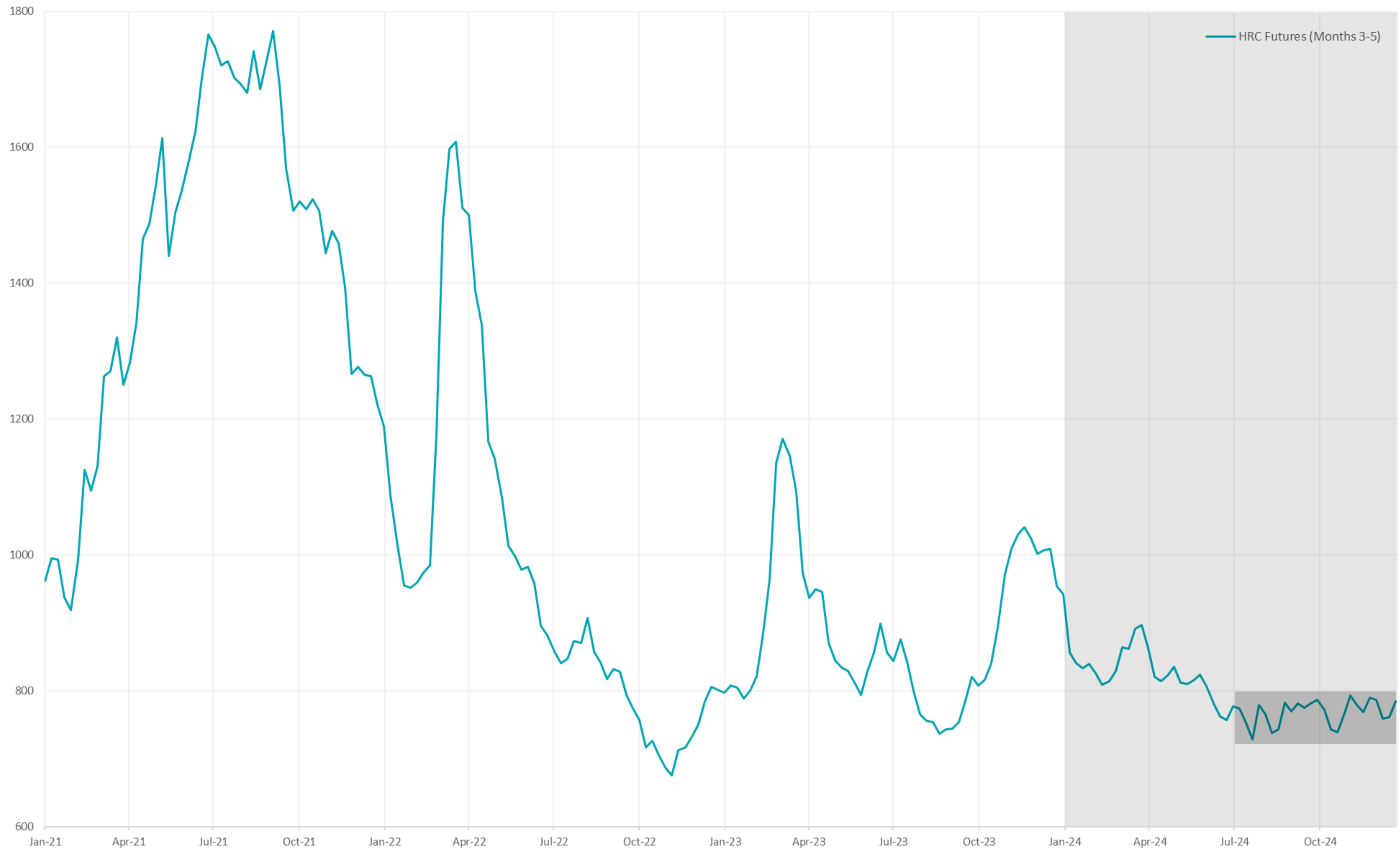
HRC Futures (Average of Months 3-5):

In the 2nd half of 2024, HRC Futures traded in the $730 to $800 range. For 2025, the major question is: What changes expectations to become bullish or bearish outside this range? In our view, demand will have to be the determining factor because surpluses and production cuts on their own were not able to move the needle.



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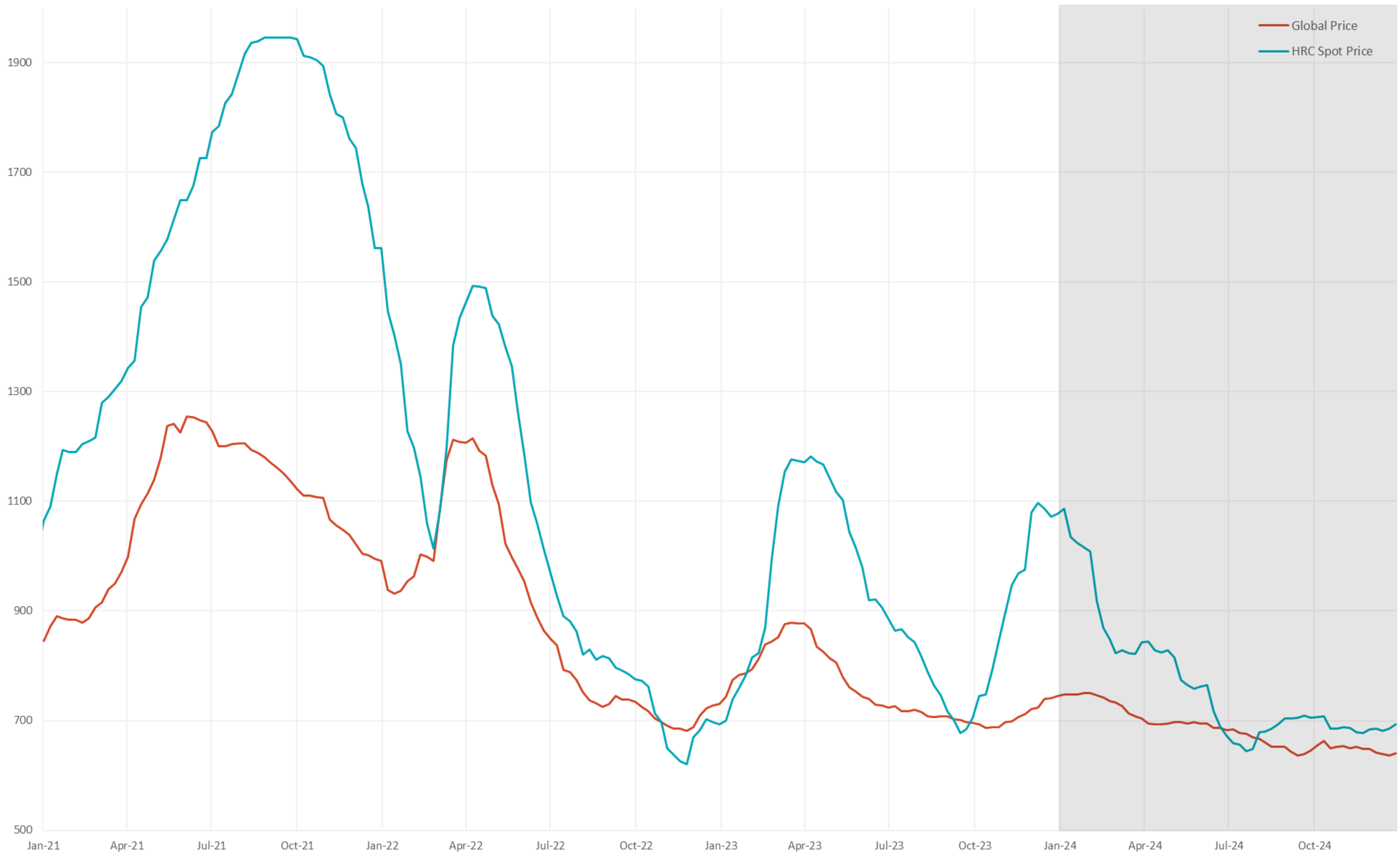
Global Spot Price:

The Global spot price steadily weakened throughout 2024. Even though the domestic-global price differential went negative in July (historically a bullish indicator). The lack of upward momentum abroad took the wind out of the sails for a domestic price rally.



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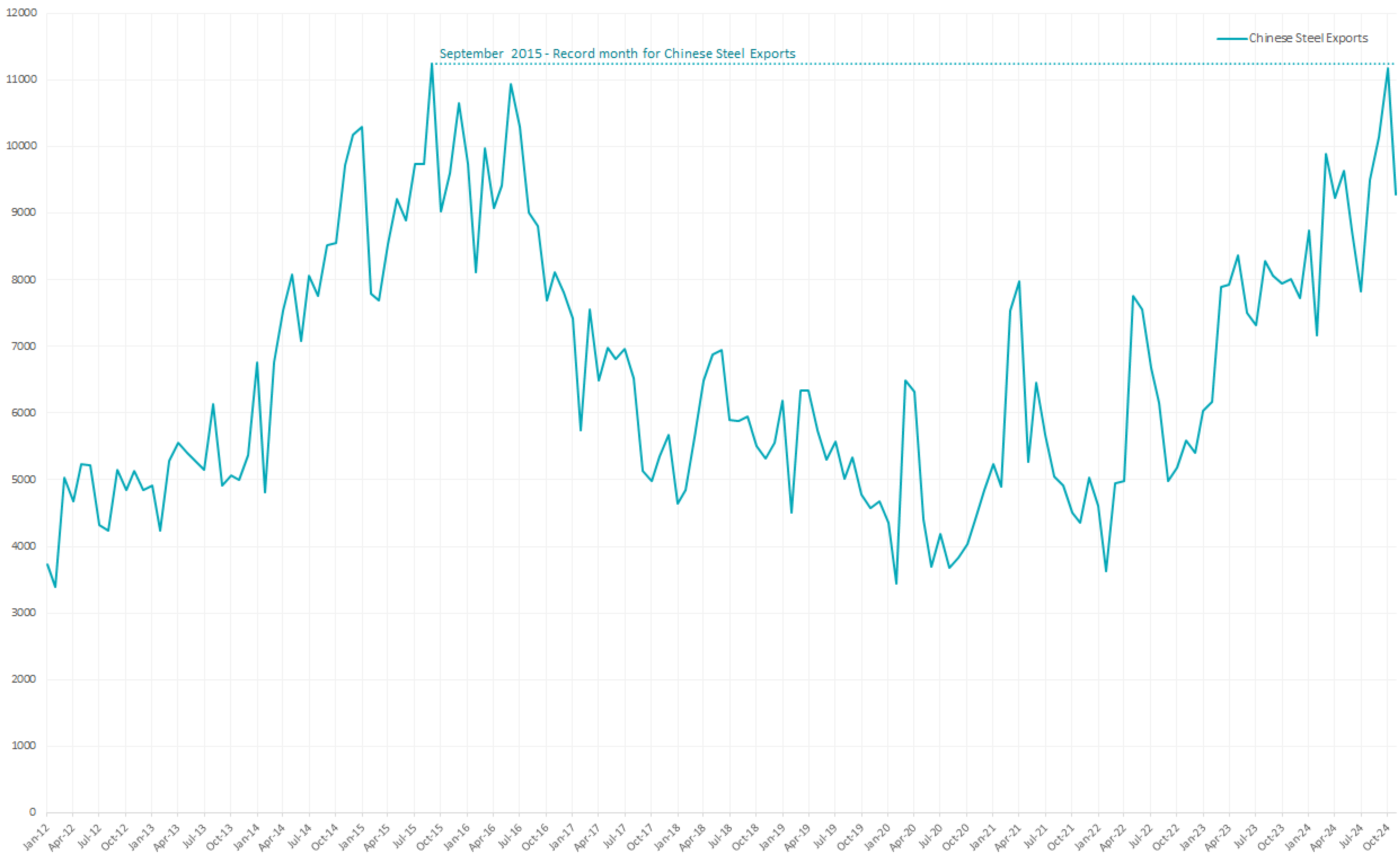
Chinese Exports:

Although existing tariffs have all but stopped the direct flow of Chinese material into the U.S., other countries have clearly passed this material through (open trade cases). Chinese overcapacity in a time of soft domestic consumption is one of the primary reasons global pricing has not been able to gain any upward momentum.



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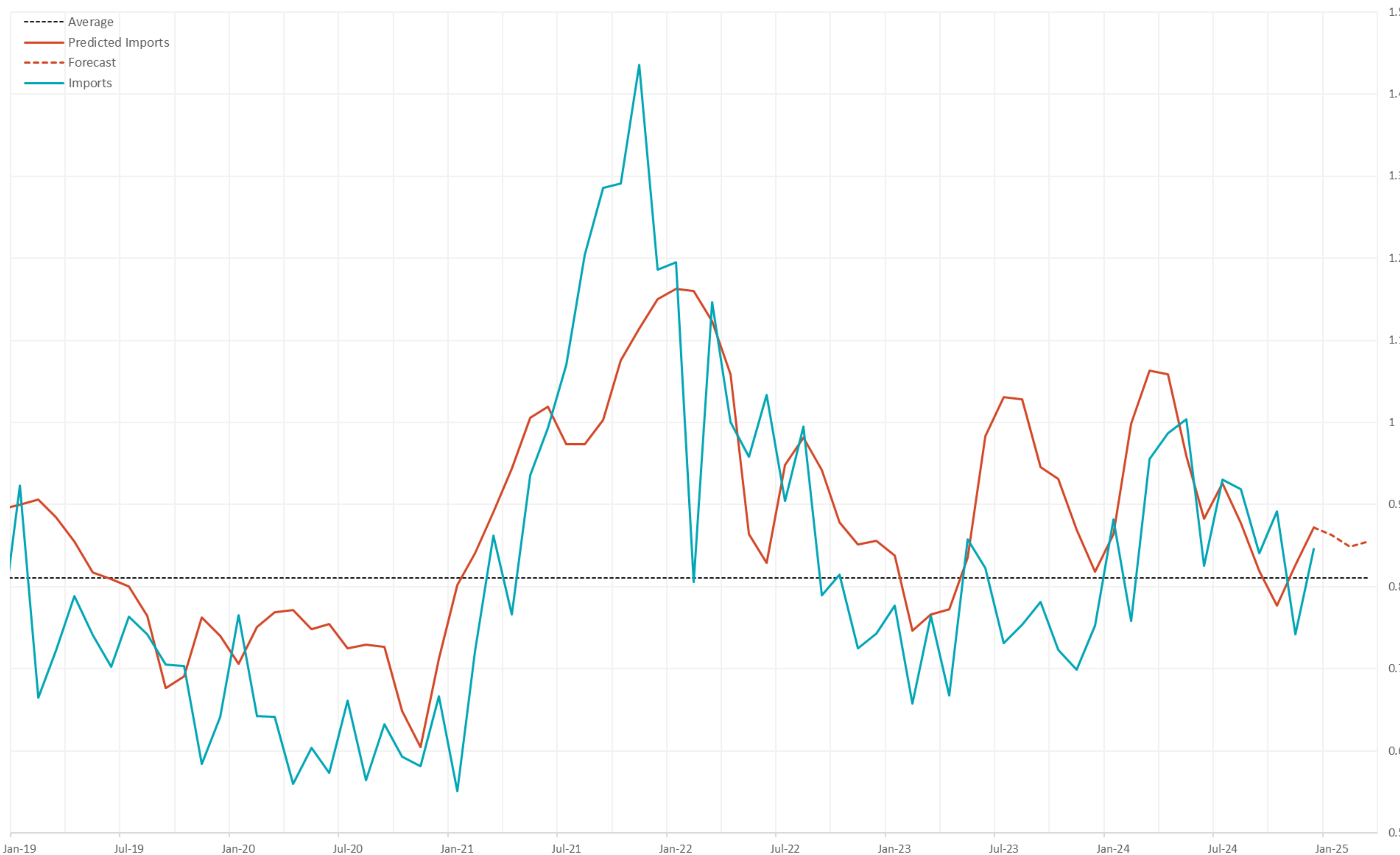
U.S. Total Sheet Imports (s.ton):

Imports started the year experiencing delays yet have largely come in line with our expectations this year. Recently, trade cases, timing mismatches, global price weakness, and tariff front running have led to significant volatility in the data going into 2025.



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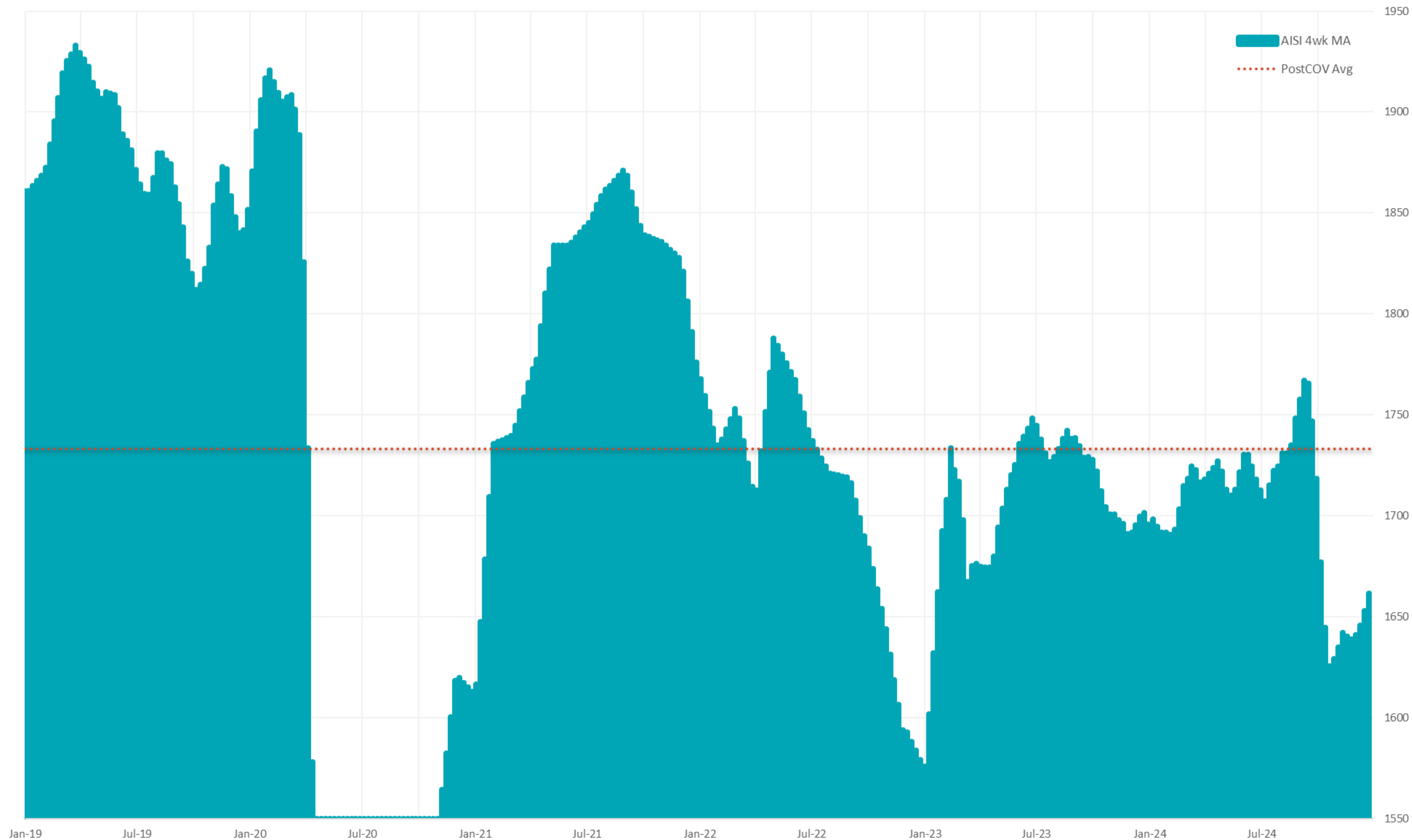
Domestic Steel Production:

For most of the year, domestic production overshot demand, contributing to a supply surplus. This dynamic shifted during fall maintenance/outage season, when significant production cuts (including the idling of Cleveland Cliffs – Cleveland facility) alleviated some downward pressure from supply. Since then, another upward trend has formed.



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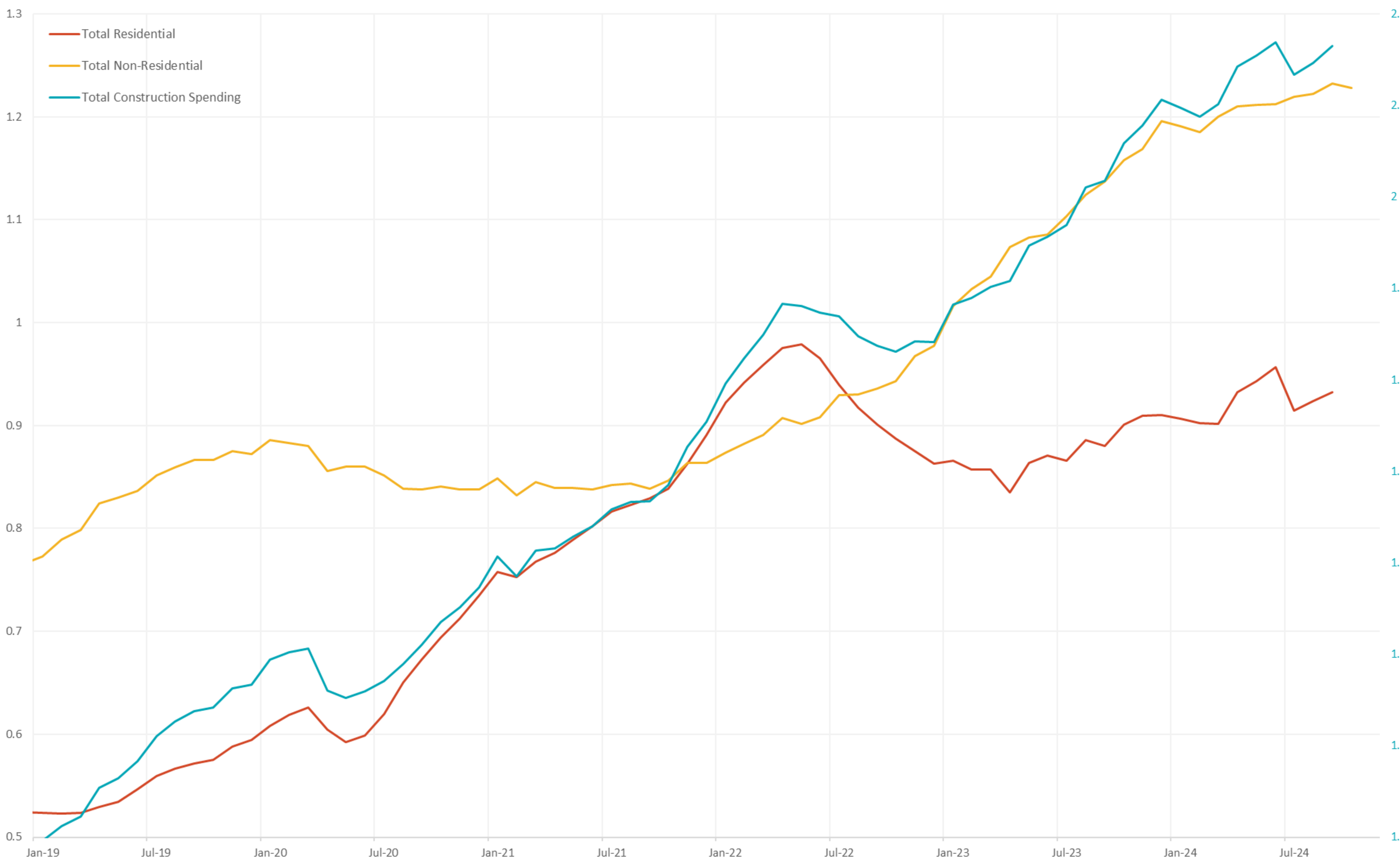
Construction Spending:

Private Residential spending has been the primary driver of growth in spending this year, however, when you combine Public and Private Nonresidential spending, we see steady increases.



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Construction Spending on Manufacturing:

One of the clear bright spots over the last two years comes from reshoring and domestic investment in manufacturing. The chart below underscores the significance of this trend, showing that the share of spending allocated to manufacturing has more than doubled since the beginning of 2023 (dotted line below).

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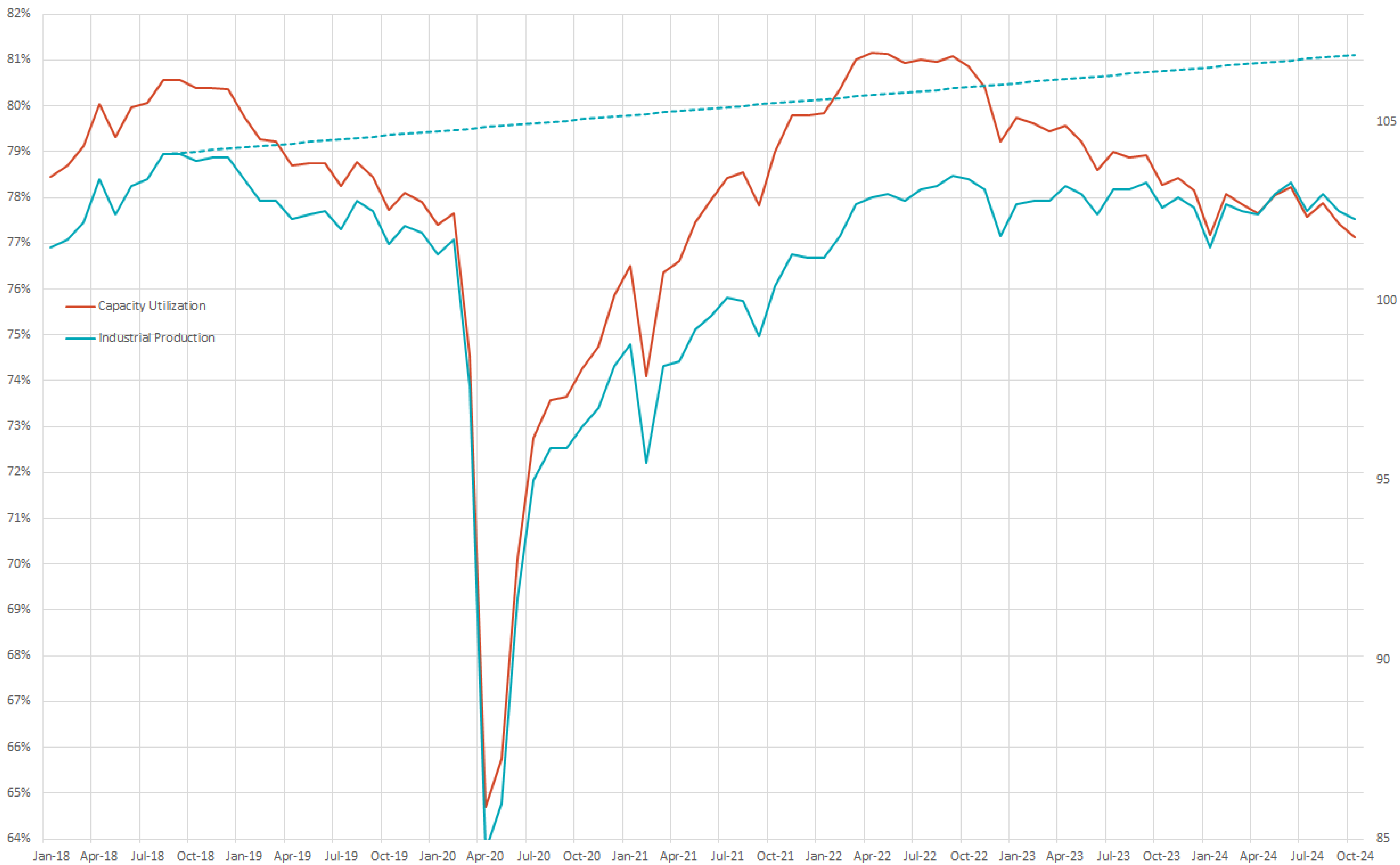
Industrial Production & Capacity Utilization:

The dashed line provides one of the most encouraging signals for the upcoming years of industrial consumption. It shows where today's production would be if we were using the capacity utilization levels from our prior record peak, in September 2018 (80.6%). This chart/data is on of the clearest examples of how much investment in domestic manufacturing has occurred.



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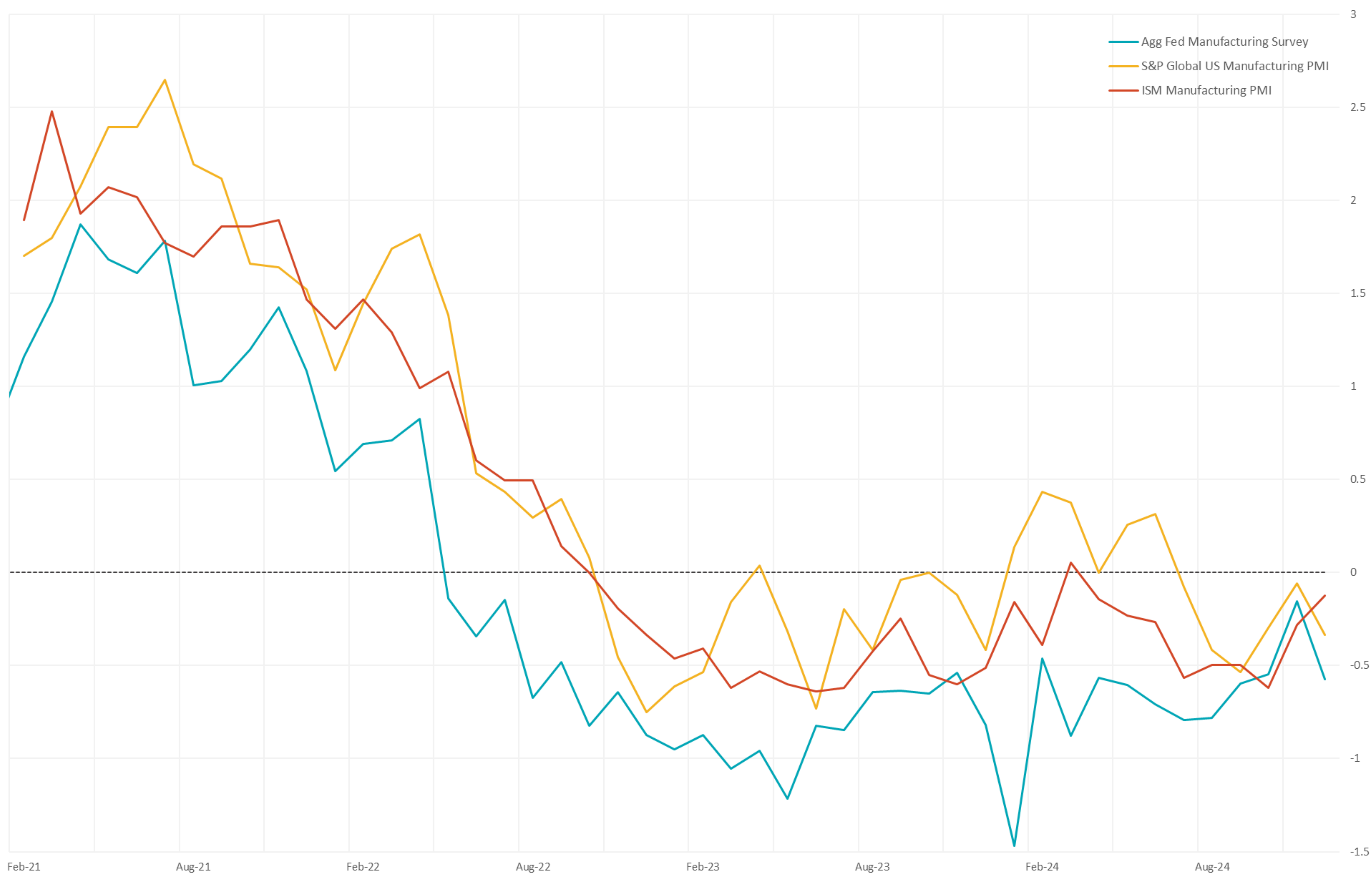
Manufacturing Sector Activity:

The U.S. industrial economy has been contracting for the past 25 months, although it is clearly on the path toward expansion.



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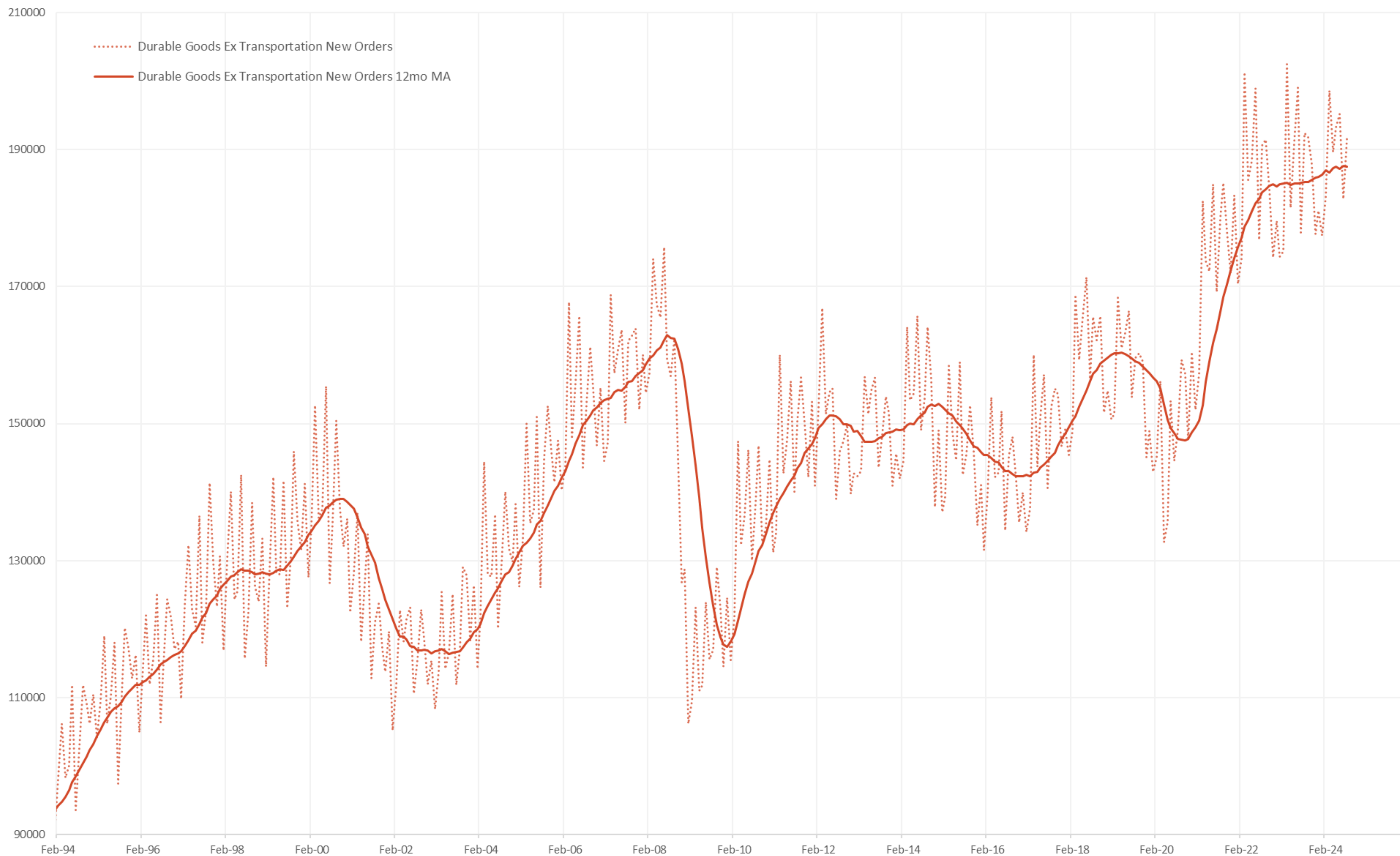
Durable Goods Ex Transportation:

Durable Goods Excluding Transportation new orders have held steady and grown slightly throughout the year.



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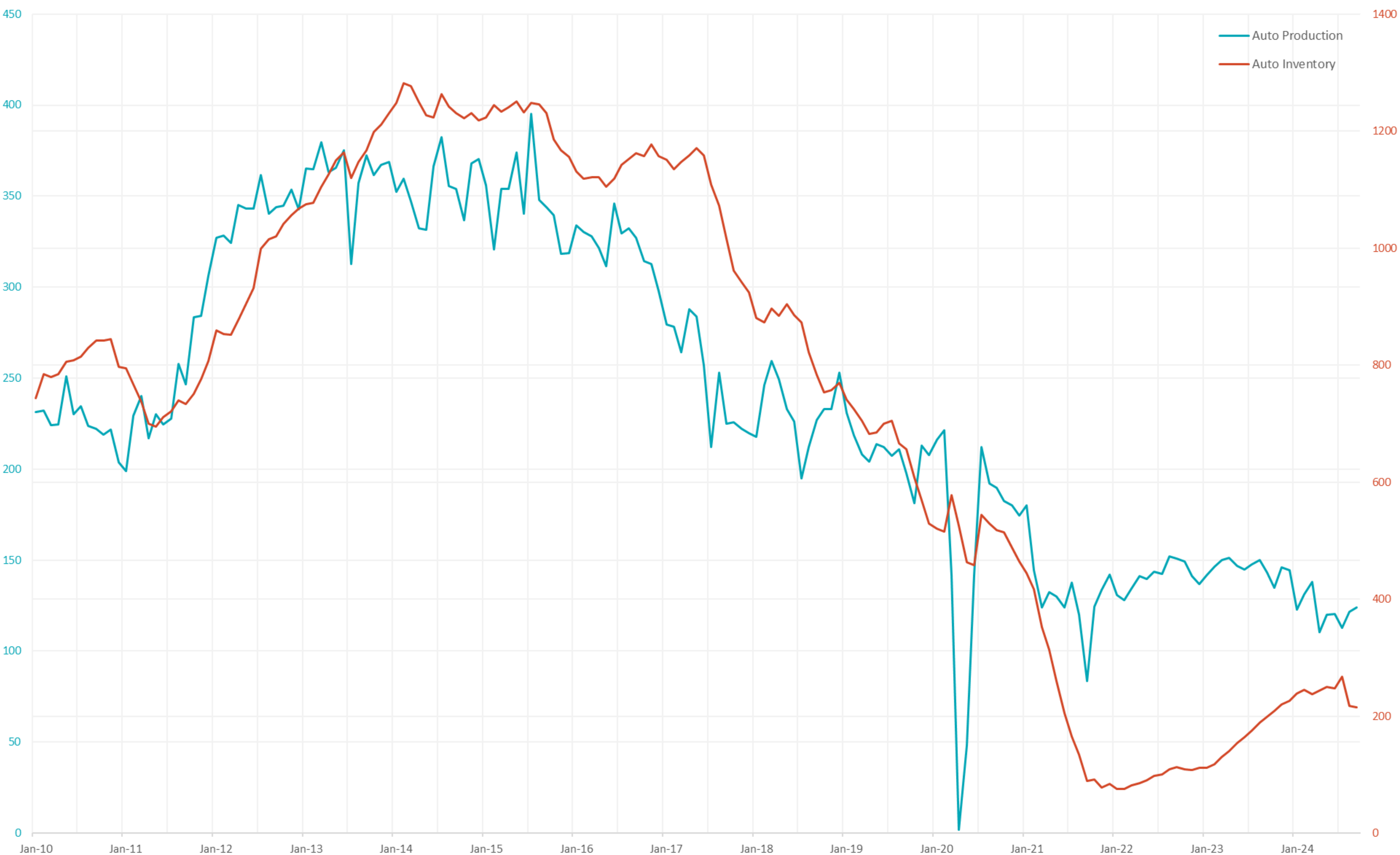
Automotive Production & Inventory:

Auto production and inventory have a long way to go to return to pre-pandemic levels, and with current consumer affordability concerns, there will be significant hurdles before normalizing. Going into 2025, however, the end of year surge in auto sales drew down inventories which could cause a sizable increase in steel consumption in 1Q25.



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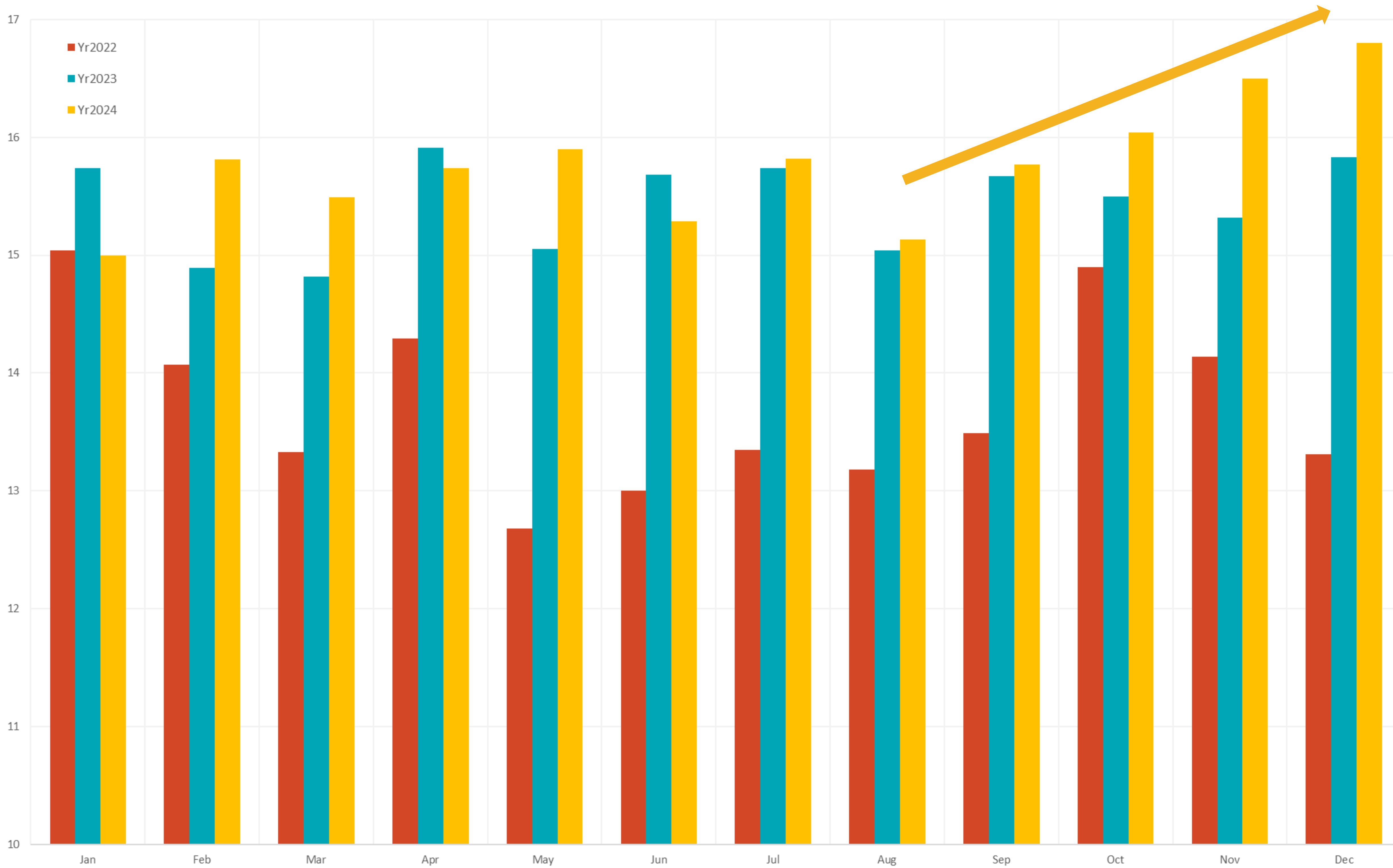
Total Vehicle Sales:

Automotive sales have finally started an upward trend to end the year, firmly surpassing the symbolic 16m SAAR level. At this point, the current move is likely driven by consumers attempting to front-run the risk of higher prices, given available survey responses.



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2025 Outlook:

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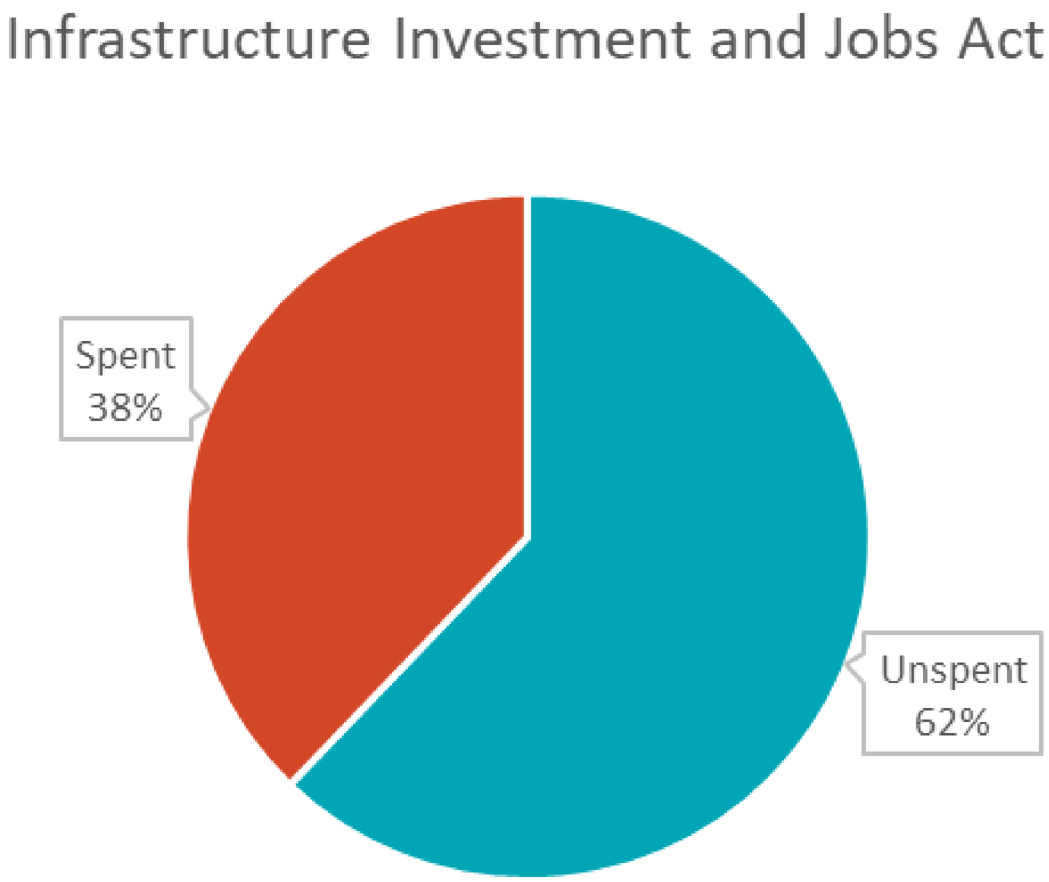
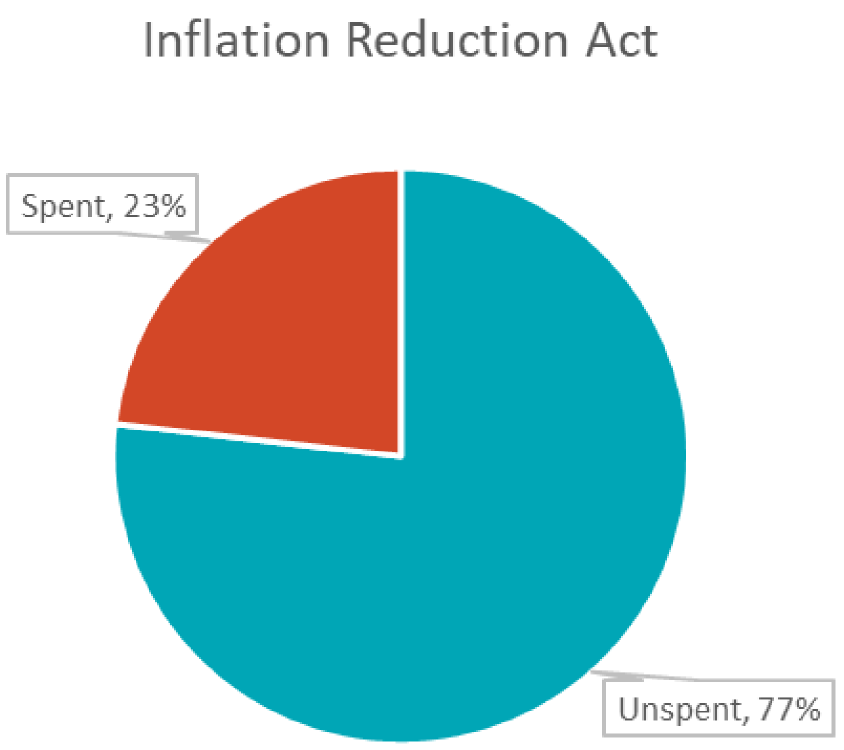
There's still a substantial amount of funds to provide a safety net for activity:

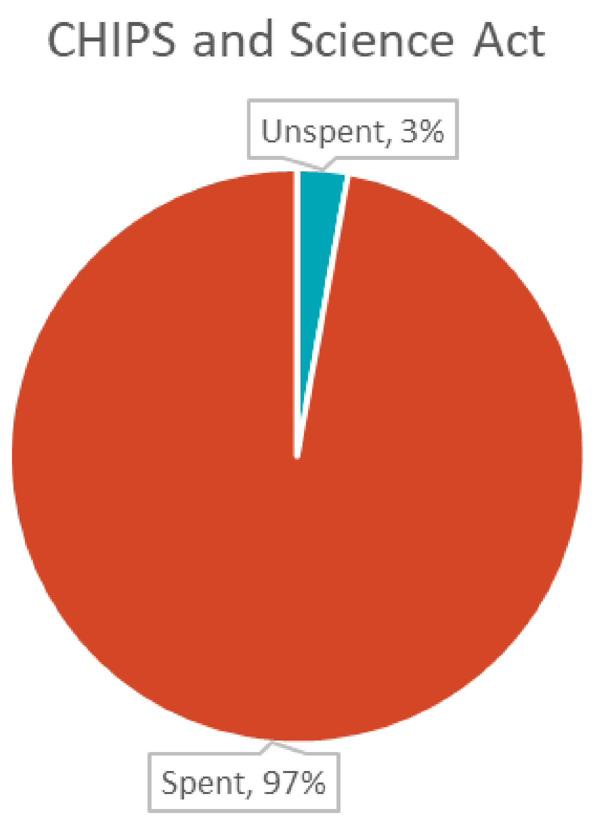
Infrastructure Investment and Jobs Act to date, $454 billion of the IIJA's $1.2 trillion has been announced according to the White House.

Inflation Reduction Act contains $500 billion in new spending and tax breaks, so far only $116 billion total investment dollars have been allocated (181 total projects & 99.5k jobs created).

CHIPS and Science Act authorized roughly $280 billion in new funding, so far $272 billion total investment dollars have been allocated (37 projects & 36.3k jobs created).







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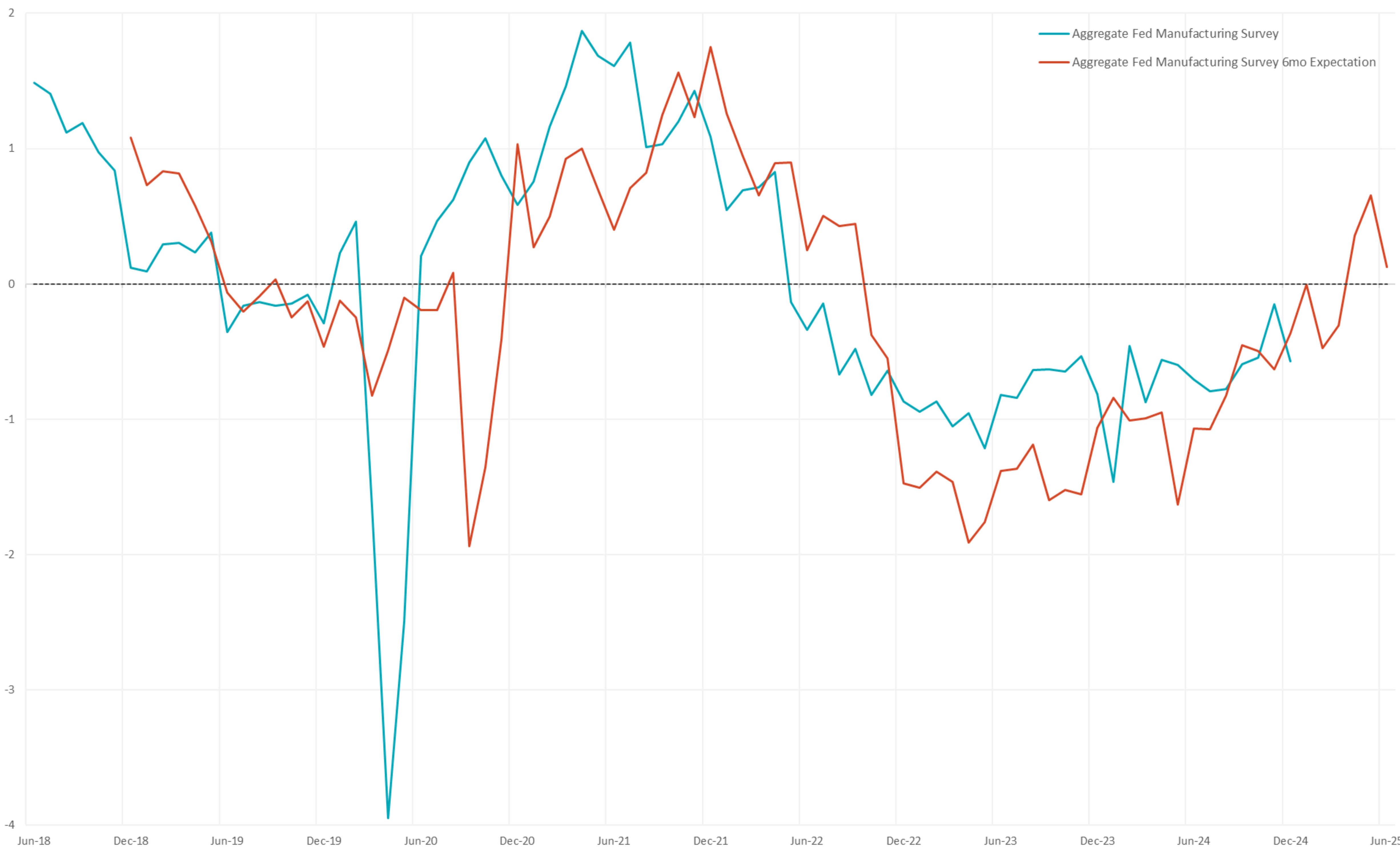
Manufacturing Sector Activity 6 Month Expectations:

The spread between expected manufacturing activity in 6 months (shifted forward) and current manufacturing activity notably widened to end the year, with expectations of a push into expansion territory by 2Q25 according to the Fed Manufacturing Surveys.



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Steel Supply/Demand % Change QoQ:

2024

- The surge in supply, primarily from imports in the first half of the year, was insurmountable, as tepid demand led to a downstream inventory build which kept the U.S. domestic market in a surplus environment all year.

1Q25

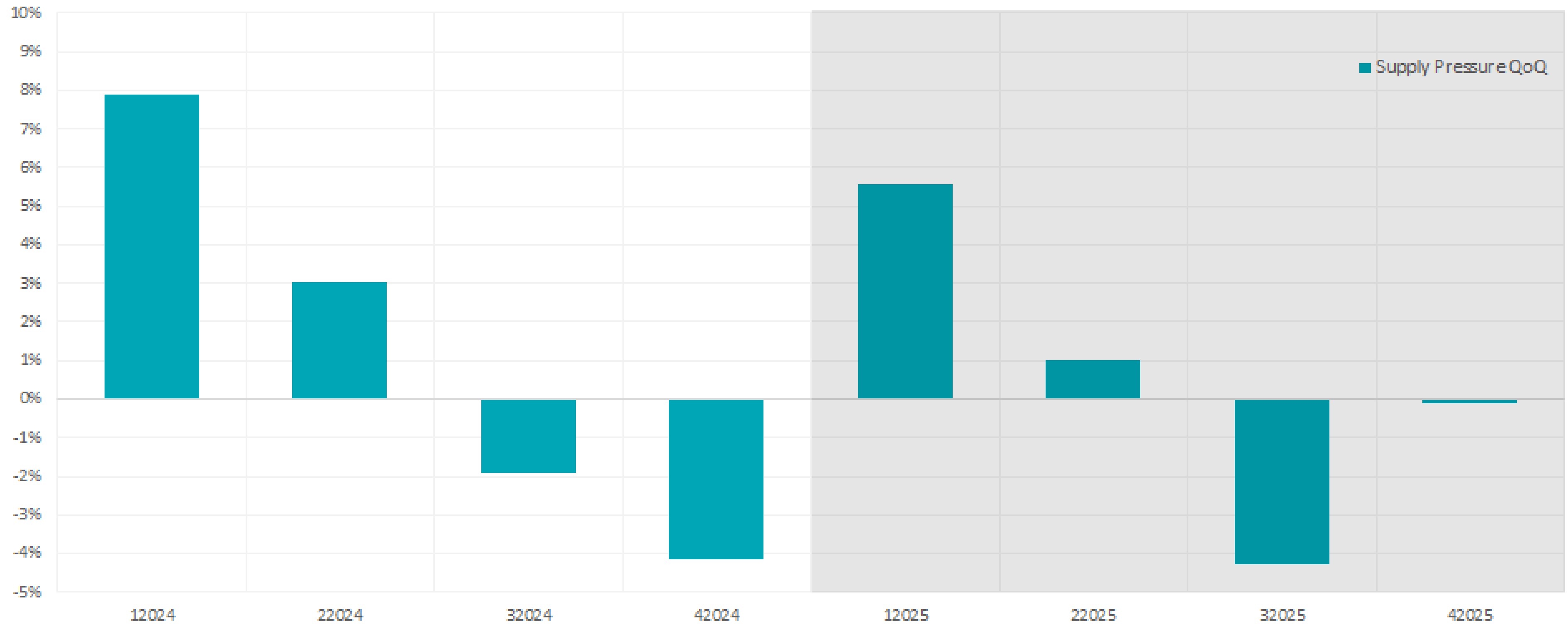
- Increases to supply:
  1. Uptrend in domestic production,
  2. Elevated inventories (2024 demand hangover),
  3. And attempts to front-run tariffs with inexpensive tons from abroad.
- Will be more significant than the (also) increasing demand:
  1. Better than expected 4Q24 auto sales will lead to increased auto production,
  2. Manufacturing moving into recovery,
  3. Continued YoY increases in construction spending.

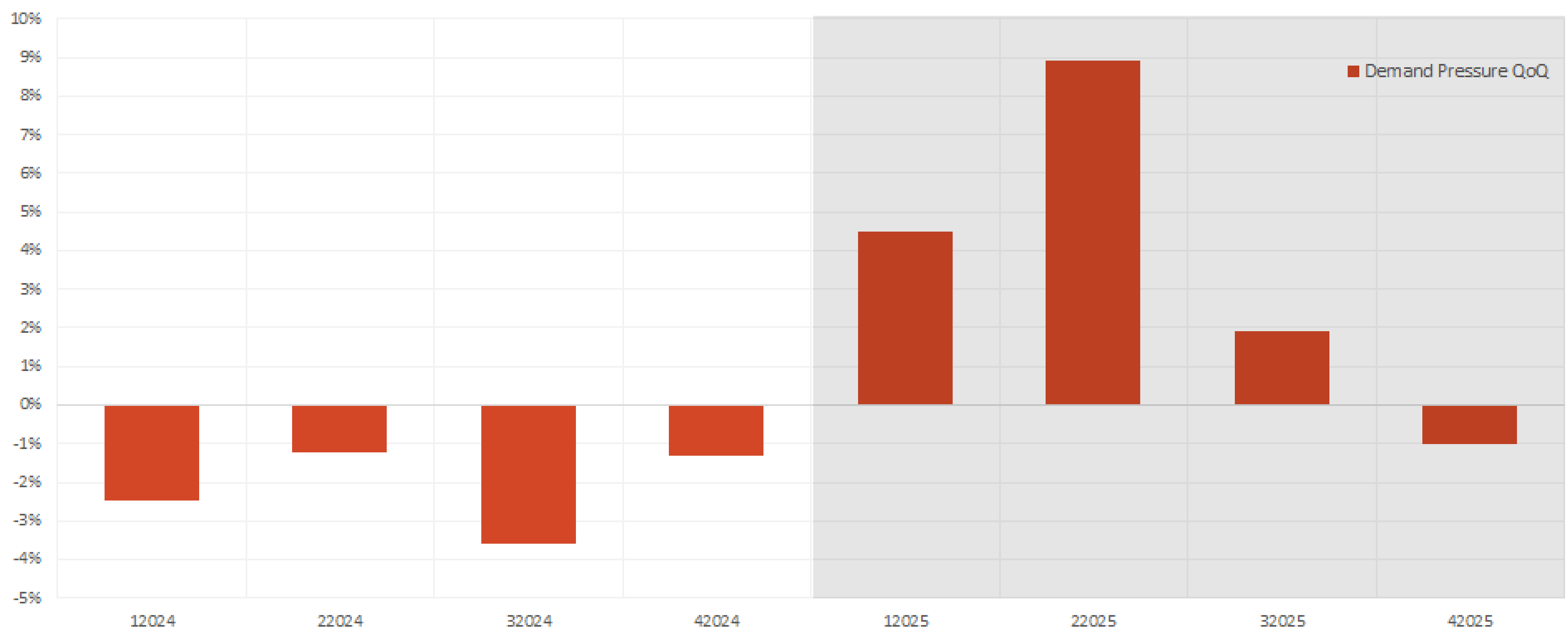
2Q25

- Bright spots from Q1 demand are expected to flourish as previously dormant capacity kicks into gear and increases consumption. On the supply side, we anticipate action around trade to meaningfully cut imports while increases in domestic production push overall supply modestly higher.

2H25

- The inventory overhang is worked through as imports remain under significant pressure. Demand continues to increase in Q3 and moderate in Q4 to end the year in balance, with continued optimism around domestic demand.





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Risks (& Probabilities):

U.S. Macro

- 2017 Tax Cuts extended **(95%)**
- Tariffs are put in place on imports **(90%)**
- 15% corporate tax rate for business that make their products in America **(90%)**
- Global tariff retaliation on U.S. Exports **(75%)**
- M&A/IPO activity rebounds after consecutive years of moderate activity **(75%)**
- U.S. Economy (GDP) reaccelerates in 1H25 (from the 2.2-2.7% estimates for 4Q24) **(70%)**
- U.S. Inflation (Topline PCE) ends the year higher than its current level (Nov: 2.4%) and well above the FED's target of 2%. **(65%)**
- Restrictive immigration policy results in a rebound of wage inflation **(65%)**
- The 30yr Fixed Mortgage Rate National Average remains above 6% **(55%)**
- FOMC cuts the Fed Funds interest rate less than the median December dot plot suggested (2 cuts) **(50%)**
- Equity market/crypto underperform sky-high expectations **(35%)**
- FOMC votes to increase Fed Funds interest rate **(30%)**
- Distress in the lower-income distribution results in broader contagion and sours consumption **(20%)**
- Government Shutdown **(10%)**
- U.S. Recession **(5%)**

Global Macro

- U.S. growth outpaces all other DM economies **(85%)**
- End of the Russia/Ukraine war **(75%)**
- China continues exporting at record highs **(70%)**
- Canada & Mexico increase trade restrictions in lock-step with the U.S. to strengthen USMCA **(60%)**
- The ECB (European Central bank) rate cutting cycle continues rapidly and has interest rates below 2% by their July meeting **(55%)**
- German Recession **(40%)**
- Europe bolsters trade restrictions/protectionist policy **(40%)**
- 25% tariffs on Canada & Mexico are re-established **(30%)**
- Further escalation of tensions in Korea **(20%)**
- Cyber attacks have a major impact on global financial/energy sector **(15%)**
- Further expansion of Russian military actions into the Baltics **(10%)**
- China invades Taiwan **(5%)**

Risks (& Probabilities), continued:

U.S. Steel Industry

- Reshoring/Manufacturing investment to continue in the U.S. with the percentage of construction spending on manufacturing holding above 10% of total construction **(90%)**
- Trade action against Vietnam & Taiwan cause their arrivals to be less than 10% of total arrivals in 4Q25 **(85%)**
- The East Coast/Southern Dockworkers strike occurs **(80%)** and it lasts more than 1 week **(55%)**
- Hiring for manufacturing and construction rebound and respective payrolls surpass post-GFC highs **(80%)**
- Overreaction on the supply side to green shoots in demand pushes the supply surplus into 2Q25 **(75%)**
- Tariffs on steel and finished goods cause a resurgence in domestic production, pushing the AISI Raw Steel Weekly Production average to a 5-year high **(70%)**
- Housing Starts surpass the 1.6M level last seen in April 2022 **(70%)**
- Supply chain disruptions, strikes, issues with reshoring result in higher transportation cost **(65%)**
- The FEDs Industrial Production measure reaches an all time higher in 2025 (previously September 2018) **(65%)**
- Affordability issues in the automotive sector persist, keeping the 2025 average below the pre-pandemic average of 16.1M SAAR **(60%)**
- The Domestic HRC spot price surpasses $1,100 in 2025 **(55%)**
- Skilled labor gap & workforce challenges cause nonresidential construction activity to only moderately increase YoY **(45%)**
- Indefinite idling of Mon Valley & Granite City, following President Biden's blocking of the U.S. Steel/Nippon Deal **(30%)**
- Higher producer costs (Core PPI) put a ceiling on downstream demand for durable goods **(25%)**
- US Steel/Nippon transaction still occurs, after being blocked on 1/3/2025 **(20%)**
- A new anti-dumping trade case is brought to the government because of ASEAN overcapacity **(10%)**

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Survey: https://qualtricsxmncld2bnfz.qualtrics.com/jfe/form/SV_3JmTroBaestF5fU