

Metals Demand to Remain Soft in 2024, Recovery in 2025

- **Iron and steel prices weakened into mid-year, due to both demand- and supply-side factors.**
- **Prices of nonferrous metals have increased in 2024 because of stronger demand.**
- **PNC expects nonferrous metal prices to be flat or lower in the second half of 2024, while prices for iron and steel will continue to drop through the rest of the year.**

Iron and steel prices started 2024 strong but weakened into mid-year. The Producer Price Index (PPI) for iron and steel dropped more than 8% from January to May, according to the Bureau of Labor Statistics (BLS). The downward pressure on iron and steel prices is coming from both the demand and supply sides in 2024. Weak construction and industrial activity in the U.S. and China are weighing on demand for iron and steel this year, while a pickup in crude steel production in Asia and Europe has pushed steel prices even lower.

Even as U.S. production in primary metals manufacturing remains below its pre-pandemic peak in 2024 (Chart 1), crude steel production jumped 13.5% from January to May in Asia and 14.7% in the European Union, according to the World Steel Association. In the meantime, an increase in the 30-year fixed mortgage rate since January 2024 has reduced domestic demand from residential construction, with housing starts down more than 7% in May from January (Chart 2). A decline in public construction in 2024 has also weighed on demand.

In addition, U.S. real consumer spending on durable goods fell 1.1% in the first quarter, according to the Bureau of Economic Analysis (BEA). Consumer-oriented demand for iron and steel retreated somewhat under elevated interest rates and high borrowing costs (Chart 3). Value added in motor vehicles and parts dropped 3.7% in the first quarter from the fourth quarter of 2023, and 6.7% from a year earlier, according to the BEA.

While credit conditions have tightened in the U.S. over the past few years, China, the largest consumer of steel products, is lowering borrowing costs in an effort to stimulate its property sector and domestic demand. However, that effort is struggling. Chinese floor space for sale continues to pile up and is increasing at a year-over-year pace of more than 15% (Chart 4). In the meantime new home construction has slowed, with floor space started and sold declining rapidly so far this year.

While prices for iron and steel have dropped, those of nonferrous metals have increased in 2024, in large part because of differences in their end-usage. Unlike for iron and steel, the PPI for nonferrous metals has increased in 2024. Despite the contraction in manufacturing activity globally (Chart 5), U.S. consumers are in solid shape. Consumer spending on furnishings and durable household equipment still grew a weak 0.1% in the first quarter in the U.S. even with high interest rates, supported by an historically tighter labor market.

Some widely-used base metals and light metals experienced price gains in this environment as input costs also rose, particularly for energy. Prices for coal, electricity, and natural gas, which are main energy inputs in the metals manufacturing industry, all increased somewhat in the first half of 2024.

PNC expects nonferrous metals prices to be flat or lower in the second half of 2024. Even demand for less cyclical nonferrous metals used in packaging (e.g., aluminum packaging in pharmaceuticals, personal care, health and beauty, and food cans and cases) will weaken with slower growth in wages, consumer spending, and business investment. PNC expects positive but slower growth in aluminum consumption this year. Prices of iron and steel will likely continue to drop in the second half of 2024 as drags from high interest rates in advanced economies and high debt in China's real estate and local government sectors continue to weigh on manufacturing and construction needs in the near term.

Overall, PNC expects lower interest rates later this year will set for a gradual recovery in both residential and nonresidential construction spending and the metals industry. Price gains should resume next year as growth in business fixed investment in equipment and structures picks back up with Federal Reserve easing and lower interest rates (Chart 6).

Risks to this outlook are balanced. A later-than-expected monetary policy shift in the U.S. could lead to additional drags on demand and production in the metals industry. More governmental support and more effective economic policies out of the Third Plenum in China and a stronger near-term economic recovery throughout 2024 in Europe could support infrastructure spending and demand for metals in 2024 and 2025.

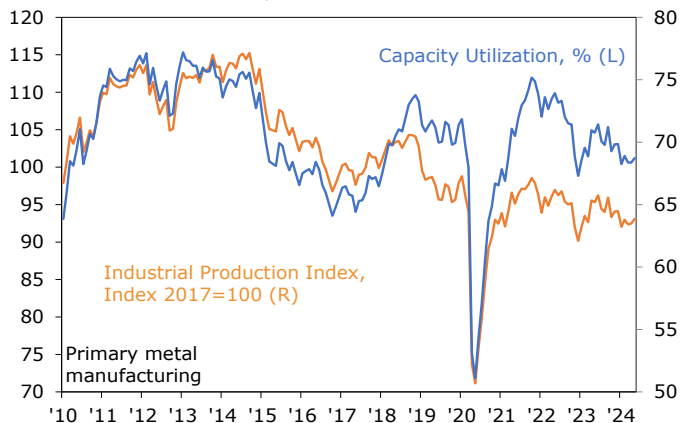
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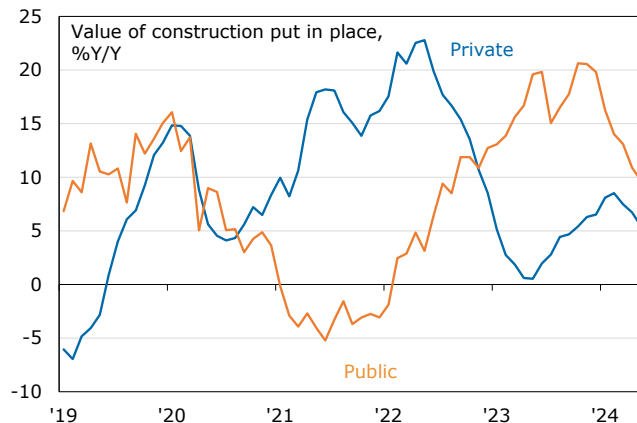
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Chart 1. Production Has Waned in US Primary Metal Manufacturing Industries Over the Past Year



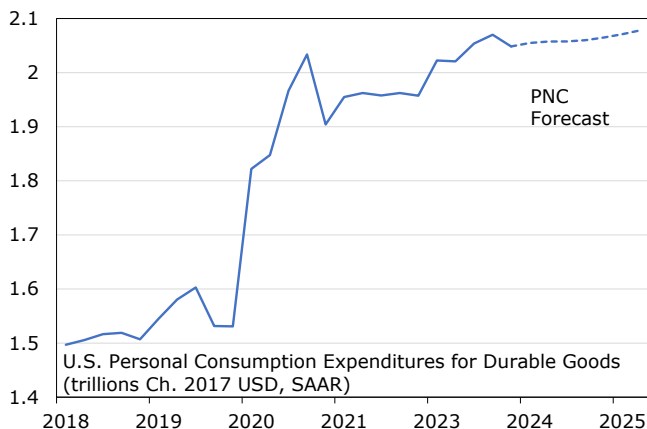
Source: FRB

Chart 2. Construction Spending Expected To Grow, Albeit at a Slower Pace



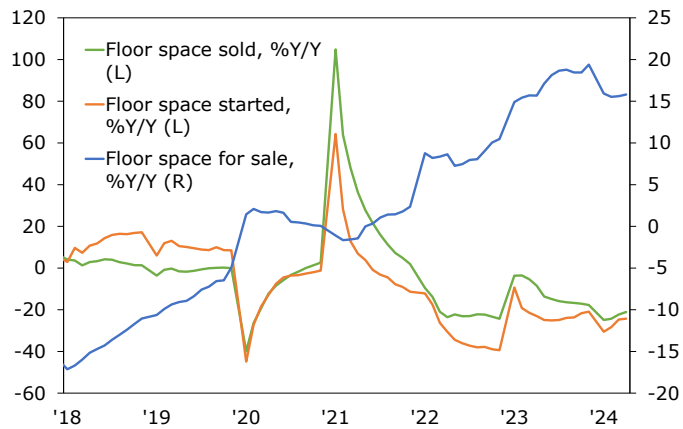
Source: U.S. Census Bureau

Chart 3. Durable Goods Consumption Expected To Grow at a Slower Pace in 2024



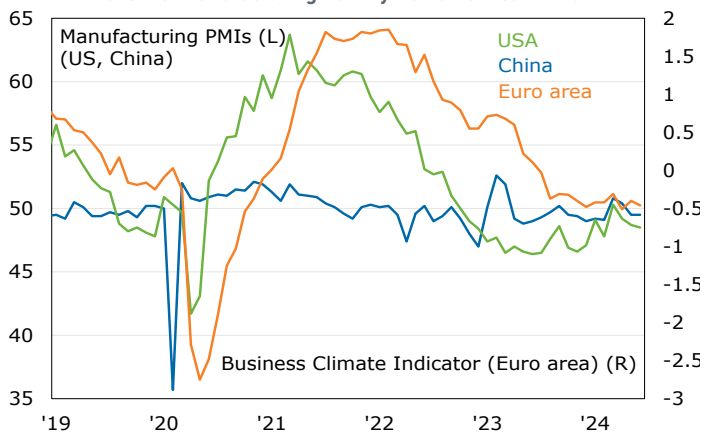
Source: BEA, PNC Economics June 2024 Forecast

Chart 4. Commodity Buildings in China Have Piled Up for Sale While Housing Construction Is Declining



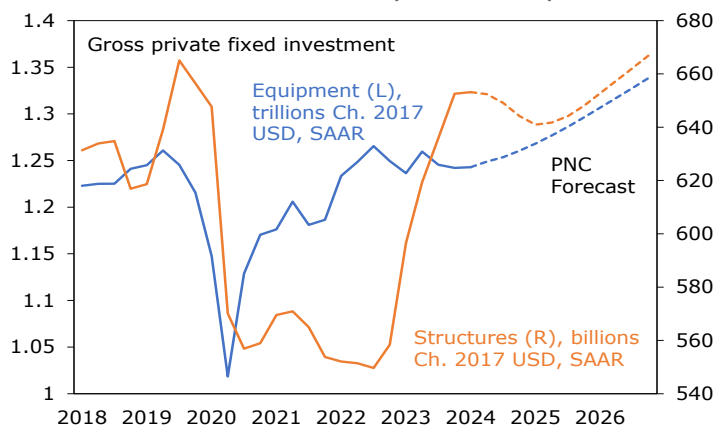
Source: China Index Academy Limited: National Real Estate Development

Chart 5. Manufacturing Activity Remains Weak in 2024



Source: CFLP, ISM, EC

Chart 6. Business Investment Expected To Pick Up in 2025



Source: BLS, PNC Economics June 2024 Forecast