

# Metal Industry Indicators

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

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April 2004

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**The primary metals leading index increased for the sixth straight month in March, indicating continued activity growth in industry activity. The leading index of metal prices dipped in February; however, strong global demand for metals could keep prices relatively high in the near term.**

**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** increased 0.4% in March, moving up to 141.2 from a revised 140.7 in February. However, the index's 6-month smoothed growth rate eased down to 10.6% from a revised 11.3% in February. 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](#).

Only four of the leading index's eight components were available in time to compute the index value for March. Two of these indicators increased in March, while one declined, and one was unchanged from its February level. Soaring metals prices kept the JOC-ECRI metals price index growth rate up to the high levels of the mid-1970s. It made the largest positive contribution to the leading index. A rebound in the Institute for Supply Management's PMI also registered a positive contribution. An easing in the stock price component, which combines the S&P stock price indexes for construction and farm machinery companies and for industrial machinery companies, held the leading index down slightly. The length of the average workweek in primary metals establishments was virtually unchanged over the last 3 months.

Although the leading index growth rate declined in March, it has generally increased over the past year and is clearly indicating growth in the U.S. primary metals industry for the near term.

The **steel leading index** decreased 0.3% in February, the latest month for which it is available, edging down to 113.5 from 113.8 in January. Its growth rate decreased to 3.5% from a revised

4.5% in January. Movements among its indicators were mixed with a 0.5-hour decrease in the average workweek in steel mills making the largest negative contribution to the overall decline in the leading index. A large increase in the growth rate in the inflation-adjusted M2 money supply could not outweigh other declines. Despite the index's recent declines, its growth rate is still high enough to suggest modest growth in the domestic steel industry over the next few months.

The **copper leading index** jumped 1.2% in February to 126.6 from a revised 125.1 in January, and its 6-month smoothed growth rate soared to 11.0% from a revised 9.7% in January. High copper prices were the main contributor to the leading index's overall increase. While rising copper prices have been a major influence in the leading index in the past year, the other components have also moved up during this period. This suggests that a pickup in U.S. copper industry activity could begin in the near future.

### Short Metals Supply Likely to Buoy Prices

The **metals price leading index** dropped 1.1% in February, the latest month for which it is available, lowering to 115.8 from a revised 117.1 in January. Its 6-month smoothed growth rate decreased to 4.8% from a revised 7.7% in January.

All three of the leading index's available components decreased in February. The growth rate of the index measuring the trade-weighted average exchange value of other major currencies against the U.S. dollar made a -1.0-percentage-point contribution. The yield spread between the U.S. 10-year Treasury Note and the federal funds rate decreased slightly, making a -0.1-percentage-point contribution. The small decrease in the growth

rate of the inflation-adjusted value of new orders for U.S. nonferrous metal products rounded to zero.

The fourth index component, the growth rate of the Economic Cycle Research Institute's (ECRI) 18-Country Long Leading Index increased in January, the latest month for which it is available, and suggests continued growth in global economies. The ECRI 18-Country Long Leading Index signals changes in the growth of economic activity in major industrialized countries about 5 months in advance.

An indicator of supply of metals, the growth rate of the inflation-adjusted value of inventories of U.S. nonferrous metal

products was revised downward to -6.4% in January and fell again in February to -8.4%. These low growth rates have not been seen since the mid-1990s. The actual level of these inventories, which also declined, tends to move inversely with metal price growth.

The growth rate of the metals price leading index, low metals inventories, and strong global economic growth point to higher metal prices in the months ahead. 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**

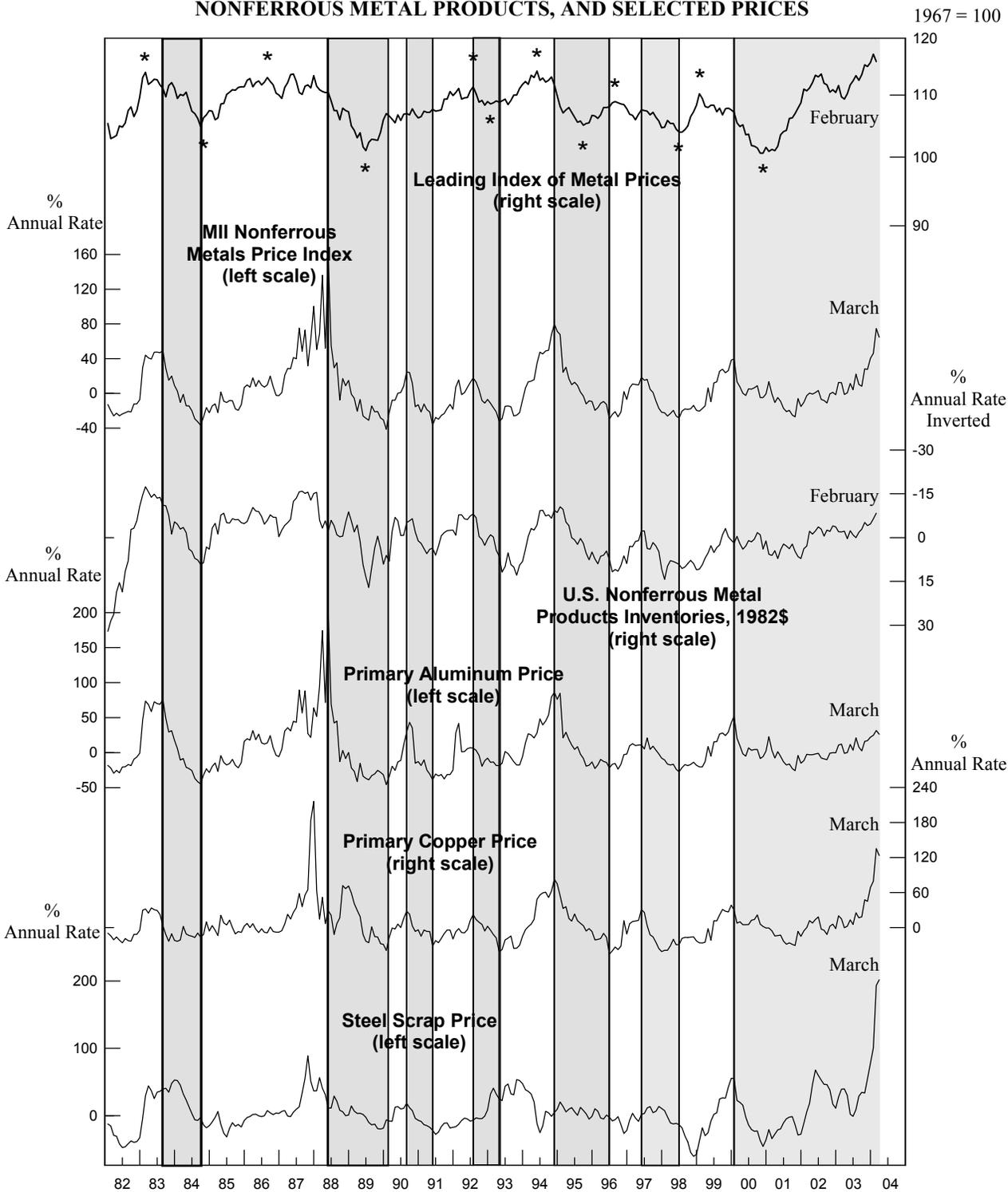
	Leading Index of Metal Prices (1967=100)	Six-Month Smoothed Growth Rates				
		MII Nonferrous Metals Price Index	U.S. Nonferrous Metal Products Inventories (1982\$)	Primary Aluminum	Primary Copper	Steel Scrap
<b>2003</b>						
February	109.7r	12.4	-1.9	12.4	14.9	39.5
March	109.3r	-1.1	-2.2	-1.0	-0.3	40.0
April	110.2r	0.7	0.4	0.1	2.3	30.1
May	111.7r	11.5	-2.4	11.6	13.4	2.3
June	112.4r	4.2	-0.9	3.3	5.6	-0.8
July	113.3r	22.4	0.0	21.2	25.2	9.1
August	112.5r	10.4	-1.8	7.9	16.8	29.1
September	113.5r	8.2	-2.9r	2.5	18.4	34.7
October	115.2r	28.2	-5.2r	15.9	47.5	33.8
November	114.9r	27.7	-4.1	17.2	44.8	55.2
December	115.6r	40.4	-4.7	22.2	68.6	77.9
<b>2004</b>						
January	117.1r	46.1	-6.4r	24.7	79.3	100.7
February	115.8	74.8	-8.4	31.7	135.4	193.5
March	NA	64.7	NA	26.3	123.4	201.9

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**

	Leading Index		Coincident Index	
	(1977 = 100)	Growth Rate	(1977 = 100)	Growth Rate
<b>2003</b>				
April	128.1	-1.1	96.3	-4.7
May	130.0	1.8	95.8	-5.1
June	130.7	2.8	95.0	-6.0
July	131.6	4.1	95.0	-5.3
August	134.1	7.4	94.7	-5.3
September	133.0r	5.1	95.1r	-3.8r
October	135.2r	7.5r	95.6	-2.3
November	136.5r	8.5r	96.5	0.1
December	138.1r	9.9r	97.5r	2.3r
<b>2004</b>				
January	139.5r	10.8r	97.8r	2.9r
February	140.7r	11.3r	97.2	2.0
March	141.2	10.6	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>February</b>	<b>March</b>
1. Average weekly hours, primary metals (NAICS 331)	-0.1r	0.0
2. Weighted S&P stock price index, machinery, construction and farm and industrial (December 30, 1994=100)	-0.2r	-0.2
3. Ratio of price to unit labor cost (NAICS 331)	0.5	NA
4. JOC-ECRI metals price index growth rate	0.6r	0.3
5. New orders, primary metal products, (NAICS 331 & 335929) 1982\$	-0.1	NA
6. Index of new private housing units authorized by permit	-0.1	NA
7. Growth rate of U.S. M2 money supply, 2000\$	0.4	NA
8. PMI	-0.2r	0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.8r	0.3
<b>Coincident Index</b>	<b>January</b>	<b>February</b>
1. Industrial production index, primary metals (NAICS 331)	0.0r	0.0
2. Total employee hours, primary metals (NAICS 331)	0.2r	-0.1
3. Value of shipments, primary metals products, (NAICS 331 & 335929) 1982\$	0.0r	-0.5
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	0.3r	-0.5

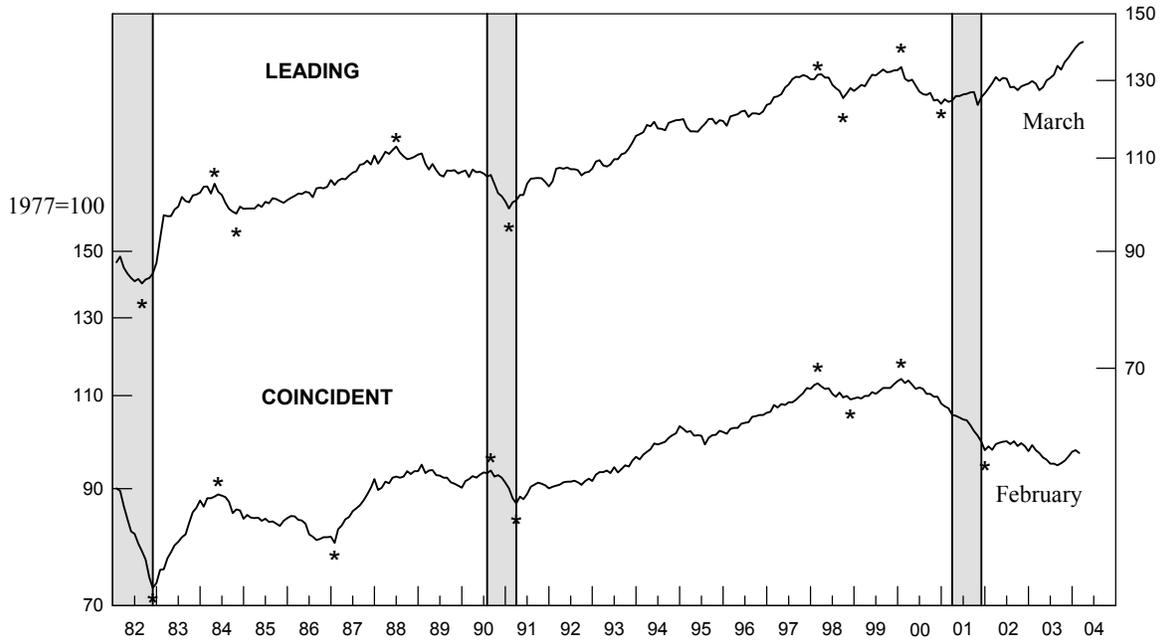
**Sources:** Leading: 1, Bureau of Labor Statistics; 2, Standard & Poor's and U.S. Geological Survey; 3, U.S. Geological Survey; 4, Journal of Commerce and Economic Cycle Research Institute, Inc.; 5, U.S. Census Bureau and U.S. Geological Survey; 6, U.S. Census Bureau and U.S. Geological Survey; 7, Federal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

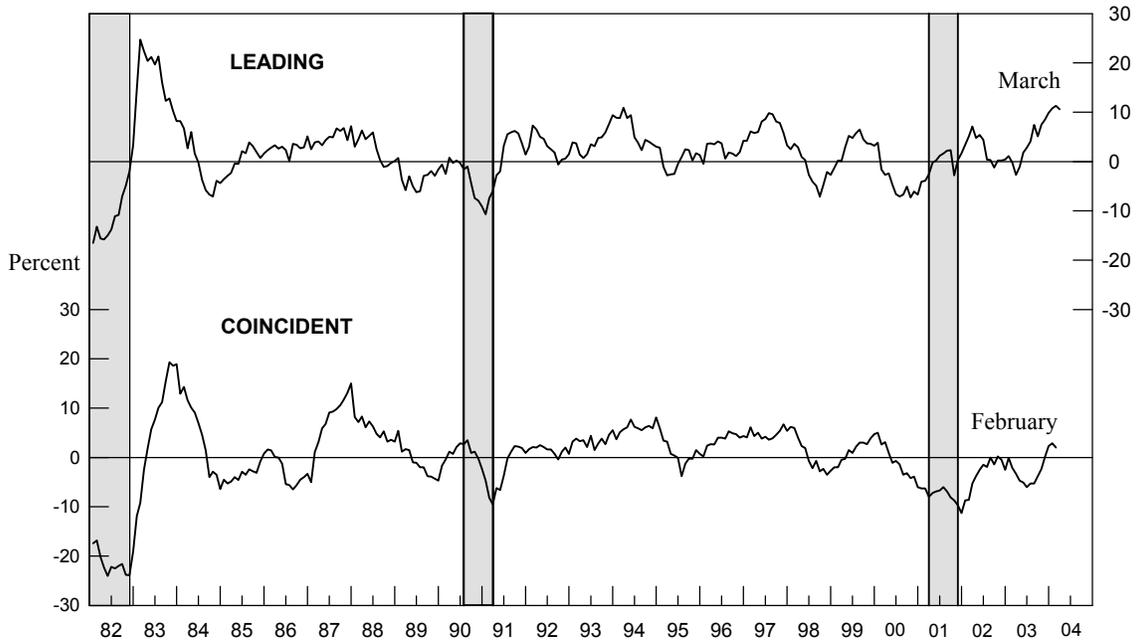
**PRIMARY METALS: LEADING AND COINCIDENT INDEXES, 1982-2004** 1977=100



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, 1982-2004** 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>2003</b>				
March	107.9	-4.9	93.0	-3.2
April	109.0	-2.6	93.4	-2.3
May	111.1	1.2	92.3	-4.2
June	110.9	1.1	91.0	-6.3
July	111.1	1.5	90.7	-6.4
August	112.7	4.4	90.1	-7.1
September	111.7r	2.5	91.0	-4.4
October	112.1	2.8	90.9	-4.0
November	113.6r	5.1r	91.5	-2.1
December	114.7r	6.5r	93.4	2.4r
<b>2004</b>				
January	113.8	4.5r	93.3	2.3
February	113.5	3.5	91.8	-0.5

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.

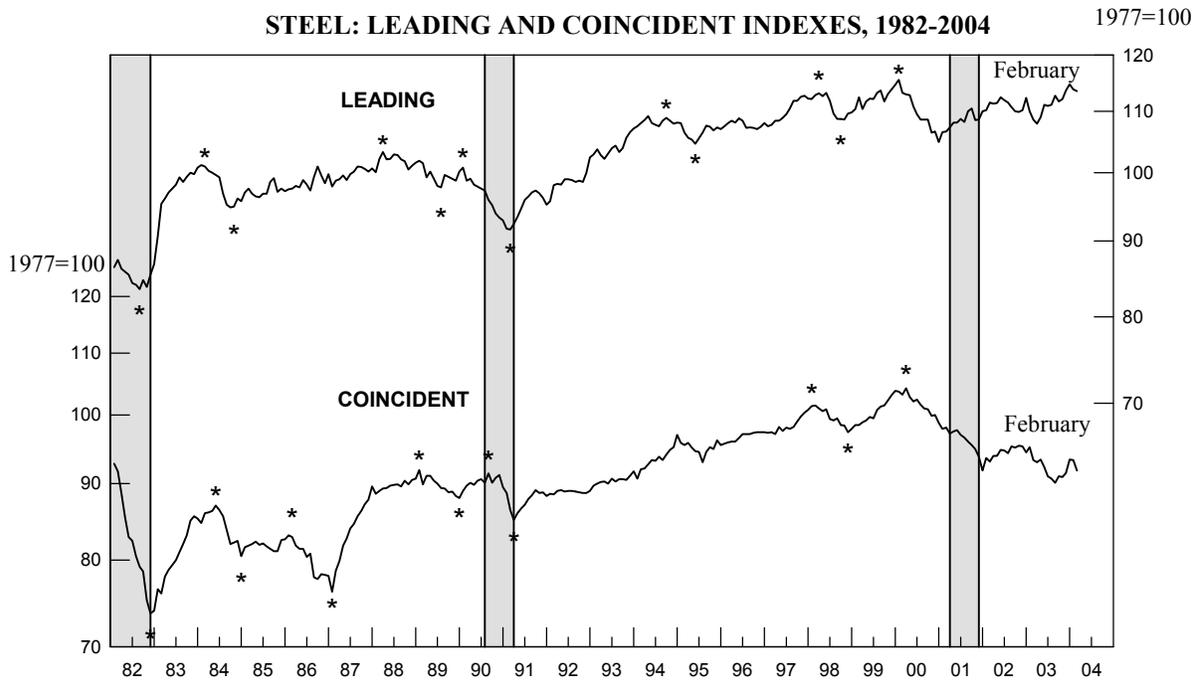
**Table 5.  
The Contribution of Each Steel Index Component to the Percent Change  
in the Index from the Previous Month**

Leading Index	January	February
1. Average weekly hours, iron and steel mills (NAICS 3311 & 3312)	0.6r	-0.4
2. New orders, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.1r	-0.2
3. Shipments of household appliances, 1982\$	-0.6r	0.0
4. S&P stock price index, steel companies	0.3	0.1
5. Retail sales of U.S. passenger cars and light trucks (units)	-0.5	0.0
6. Growth rate of the price of steel scrap (#1 heavy melting, \$/ton)	0.0	0.0
7. Index of new private housing units authorized by permit	-0.1	-0.1
8. Growth rate of U.S. M2 money supply, 2000\$	-0.4	0.4
9. PMI	0.0	-0.2
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	-0.8r	-0.4
<b>Coincident Index</b>		
1. Industrial production index, iron and steel products (NAICS 3311 & 3312)	-0.1r	-0.2
2. Value of shipments, iron and steel mills (NAICS 3311 & 3312), 1982\$	-0.4r	-0.9
3. Total employee hours, iron and steel mills (NAICS 3311 & 3312)	0.3r	-0.7
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.1	-1.7

**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.

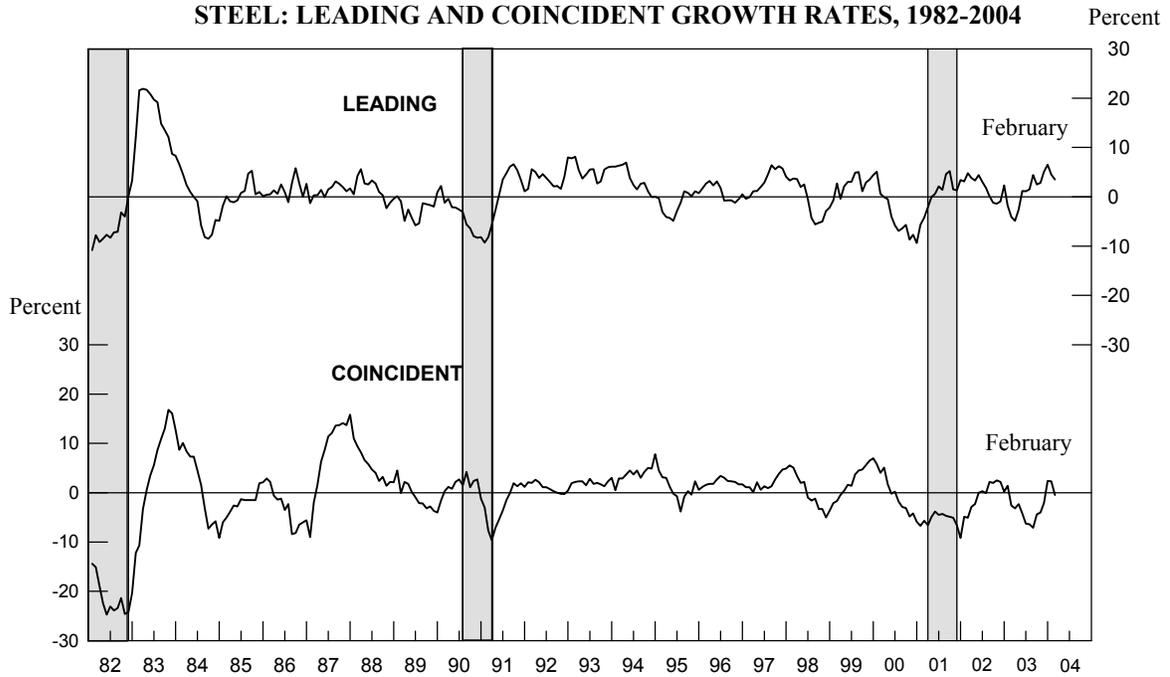
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**CHART 4.**  
**STEEL: LEADING AND COINCIDENT INDEXES, 1982-2004**



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, 1982-2004**



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>2003</b>				
March	114.8	-5.5	106.9	-4.8
April	115.6	-3.6	104.9	-7.5
May	117.0	-0.7	106.1	-4.8
June	117.7	0.8	107.1	-2.4
July	119.4	3.9	108.7	0.9
August	119.7	4.4	107.3	-1.4
September	120.2	4.9	107.5	-0.6
October	122.3	7.9	106.2	-2.6
November	122.6	7.6	106.5r	-1.8r
December	124.6r	9.9r	108.2r	1.6r
<b>2004</b>				
January	125.1r	9.7r	108.0r	1.2r
February	126.6	11.0	107.9	1.2

**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.

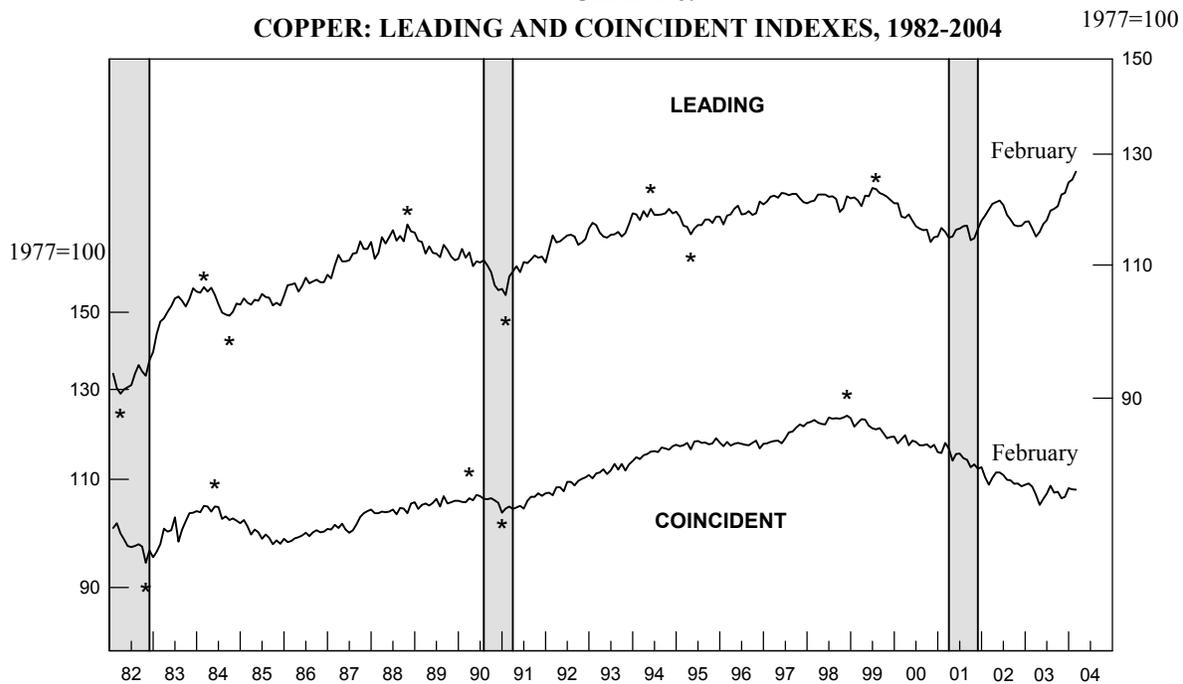
**Table 7.**  
**The Contribution of Each Copper Index Component to the Percent Change in the Index from the Previous Month**

	January	February
<b>Leading Index</b>		
1. Average weekly overtime hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	-0.2	0.2
2. New orders, nonferrous metal products, (NAICS 3313, 3314, & 335929) 1982\$	0.4	0.0
3. S&P stock price index, building products companies	0.0	0.1
4. LME spot price of primary copper	0.4	1.0
5. Index of new private housing units authorized by permit	-0.1	-0.1
6. Spread between the U.S. 10-year Treasury Note and the federal funds rate	-0.1	-0.1
Trend adjustment	0.0	0.0
Percent change (except for rounding differences)	0.4	1.1
<b>Coincident Index</b>		
1. Industrial production index, primary smelting and refining of copper (NAICS 331411)	0.2r	-0.2
2. Total employee hours, copper rolling, drawing, extruding, and alloying (NAICS 33142)	-0.5r	0.0
3. Copper refiners' shipments (short tons)	0.0	NA
Trend adjustment	0.1	0.1
Percent change (except for rounding differences)	-0.2r	-0.1

**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.

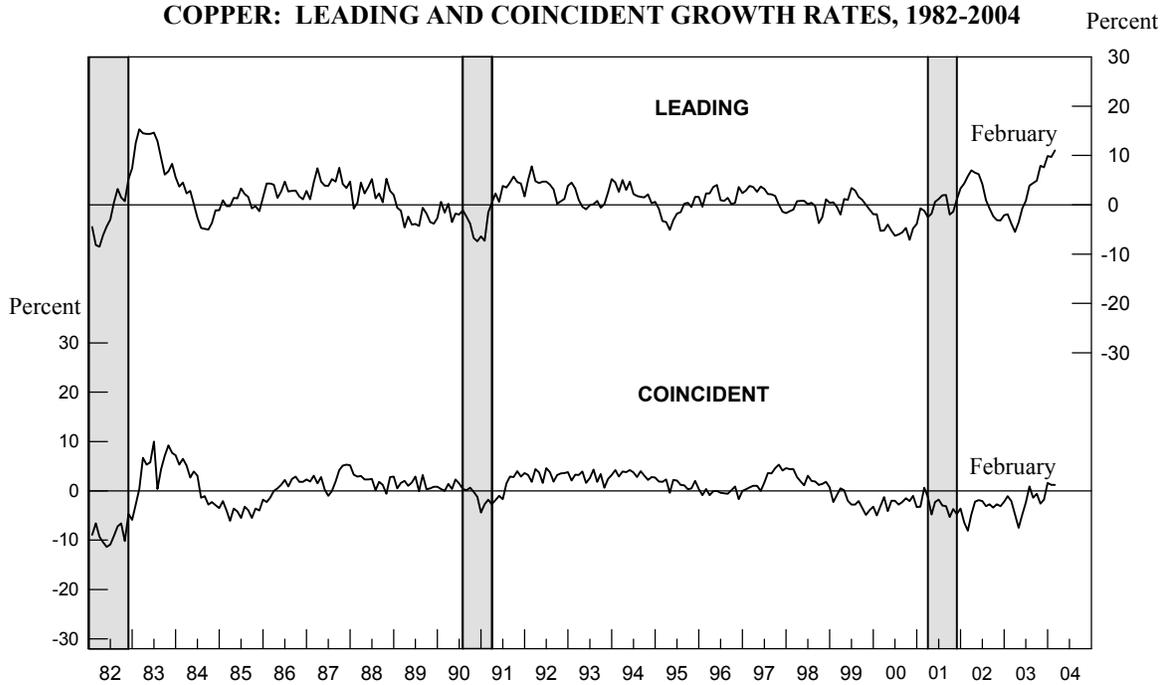
**r: Revised**

**CHART 6.**  
**COPPER: LEADING AND COINCIDENT INDEXES, 1982-2004**



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, 1982-2004**



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 summary is scheduled for release on the World Wide Web at 10:00 a.m. EDT, Friday, May 21. 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 Kenneth Beckman (703-648-4916; e-mail: [kbeckman@usgs.gov](mailto:kbeckman@usgs.gov)), and Gail James (703-648-4915; e-mail: [gjames@usgs.gov](mailto:gjames@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:

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