

# METALS INDUSTRY REPORT

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## Summary

### **CHINA REOPENING TO SUPPORT METAL PRICES WHILE GLOBAL ECONOMY SLOWS IN 2023**

- Lukewarm global economic growth and China's reopening to support base metals demand.
- The outlook for U.S. construction is weak and total auto sales will fall this year.
- The World Steel Association forecasts global steel demand will grow 1% in 2023.

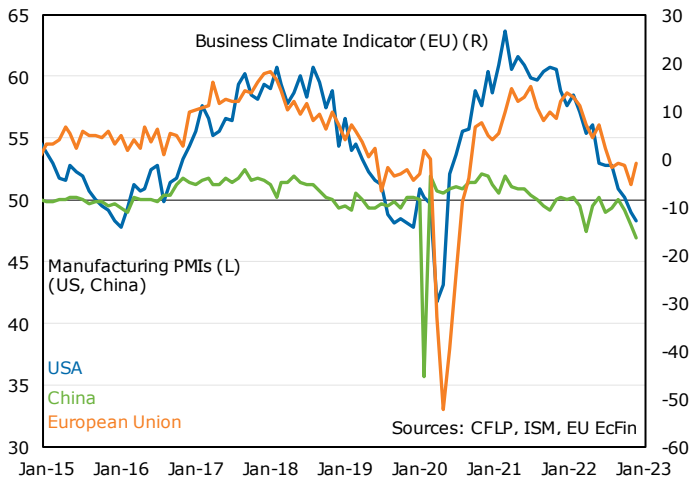
Many base metals had a volatile 2022. The Russian invasion of Ukraine pushed up prices in the first half of 2022, while aggressive monetary policy tightening by many major central banks, a weak Chinese economy, and elevated global recession risks drove the sharp decline in prices in the second half of the year. Hot-rolled coil steel peaked at \$1535 per ton in March before closing the year at \$744. Aluminum peaked at \$3878 per ton in March before dropping to \$2349 at the end of 2022. PNC's baseline forecast calls for a mild recession in the U.S. this year as the Fed pushes up interest rates further, the housing downturn continues, and global economic growth slows. Global recession fears are elevated in early 2023 as many central banks continue their hiking cycles to fight inflation. The U.K. economy contracted in the third quarter on a quarter-over-quarter basis thanks to higher interest rates, inflation, and a weaker global economy; PNC forecasts a year-long recession in the U.K., which likely started in the third quarter of 2022. The eurozone economy will likely experience a policy-driven shallow recession starting in the first quarter of 2023 as the European Central Bank (ECB) raises interest rates higher. The eurozone likely avoided a recession at the end of last year due to a mild winter and higher-than-average gas storage levels. China's reopening will be a slight boost to the global economy, but increased risks of a new COVID outbreak, slower growth in domestic consumer spending, and a still-weak housing sector will temper economic activity. The World Bank forecasts global real GDP growth of 1.7% in 2023 and 2.7% in 2024.

The decline in global manufacturing activity (Chart 1) will continue in 2023 as higher interest rates weigh on the demand for durable goods, inflationary pressures continue, and labor shortages persist, although improved supply-chain networks will limit the contraction. Lower U.S. steel capacity utilization (Chart 2), high steel production in China, and weak global demand will limit price growth for U.S. steel in 2023. The World Steel Association (WSA) forecasts global steel demand will grow 1% this year after contracting 2.3% in 2022.

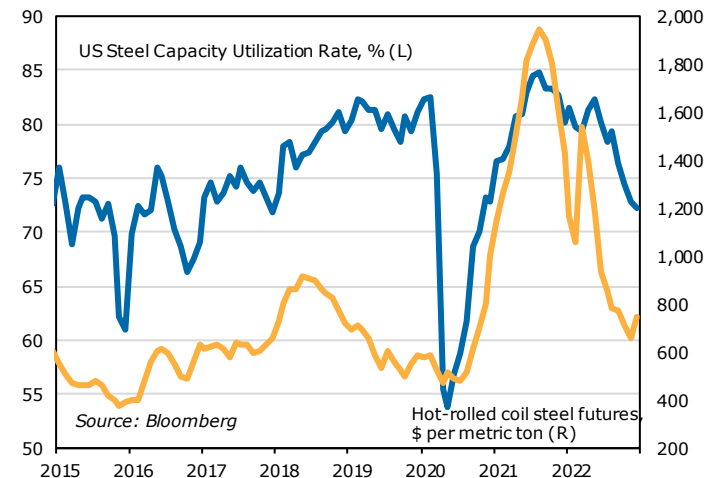
Higher mortgage rates and deteriorating affordability will continue to weigh on U.S. homebuilding (Chart 3), putting downward pressures on the demand for metals with heavy use in construction such as steel, iron, aluminum, and lead. Higher borrowing costs will lead to a decline in investment in nonresidential structures (Chart 4) but infrastructure spending from bills passed in 2021 and 2022 (Inflation Reduction Act, the CHIPS and Science Act, and the Infrastructure Investment and Jobs Act) should provide some support in 2024.

Sales of electric and hybrid vehicles should increase this year thanks to the green energy transition but total sales in the automotive sector will likely decline (Chart 5) in 2023, in large part due to higher financing costs, before rebounding in 2024 when the U.S. economy is expected to recover. China is the biggest consumer of base metals and a strong rebound in its economy this year will be bullish for base metals. This may be why forecasters (Chart 6) expect a 30% increase in the price of hot-rolled coil steel in the U.S. in 2023.

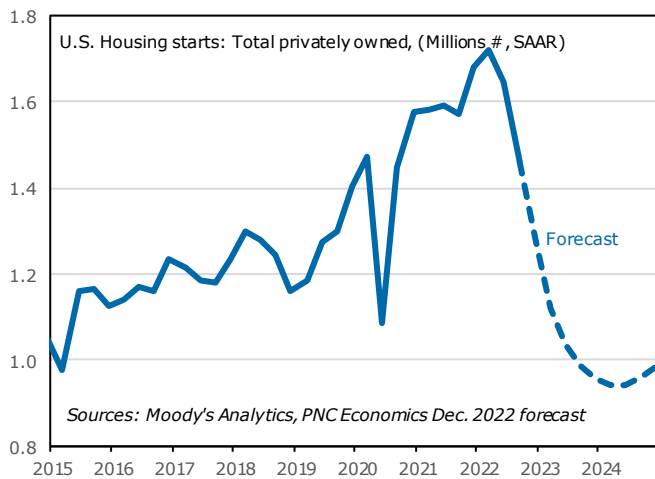
**Chart 1: Global manufacturing slump to deepen**



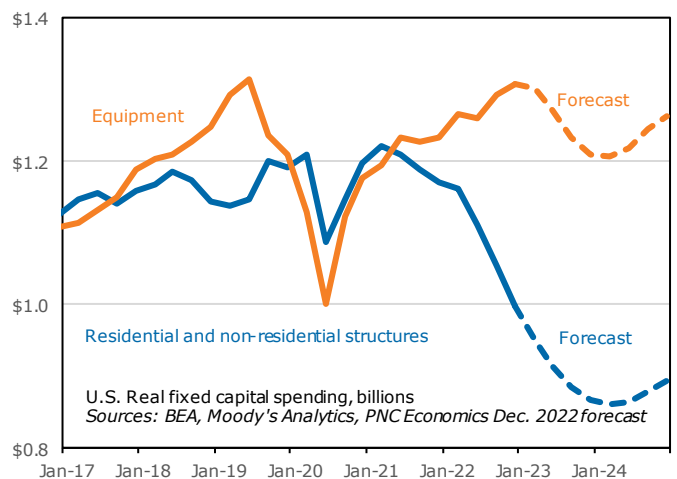
**Chart 2: Hot-rolled coil steel prices have slumped**



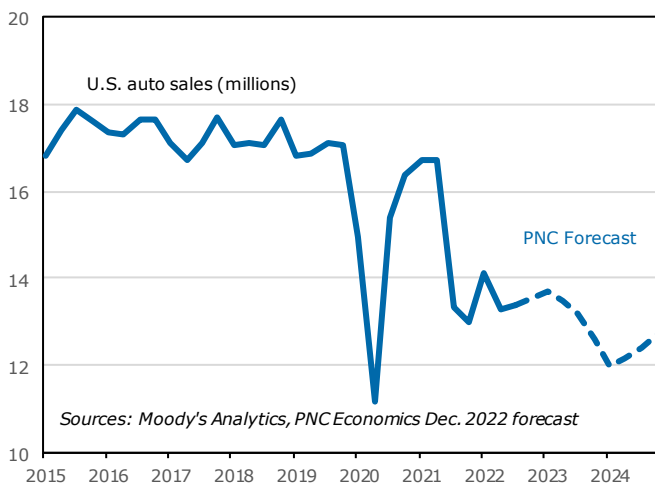
**Chart 3: Housing market will slow further**



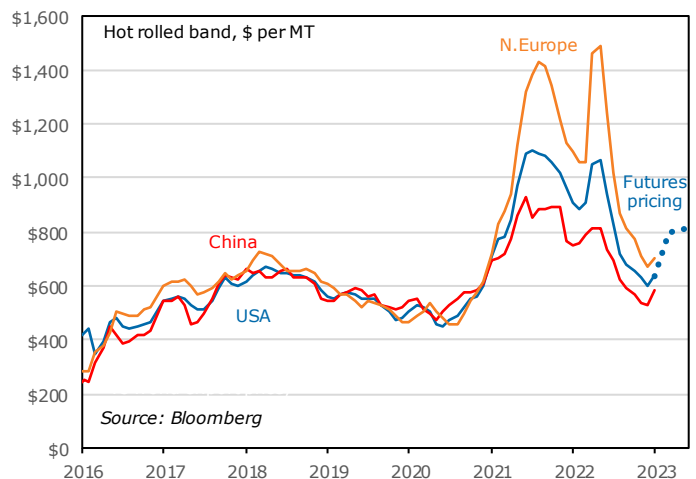
**Chart 4: Pullback in construction expected to continue**



**Chart 5: Auto sales are headed lower**



**Chart 6: Futures markets are bullish on steel**



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