The U.S. metals industry enters the second half of 2023 under pressure as a weak Chinese economic recovery, tighter financial conditions in many developed economies, and a more slowly growing global economy weigh on metal prices. PNC's baseline forecast calls for a mild U.S. recession starting in late 2023 or early 2024, with a small contraction in GDP of less than 1%, lasting into mid-2024. PNC expects the U.S. economy to grow 1.5% on a year-over-year basis in 2023 followed by a small 0.3% decline in 2024. China’s reopening in late 2022 was a boost for the global economic outlook, but declining factory activity and softening demand for Chinese exports will weigh on the Chinese economy. The Bank of England (BoE) and the European Central Bank (ECB) are set to continue raising interest rates through 2023 to fight persistent inflationary pressures. The World Bank forecasts global GDP growth to slow to 2.1% in 2023 (on a year-over-year basis) from 3.1% in 2022 (World Bank, June 2023).

U.S. manufacturing output is set to decline (Chart 1) as consumers spend more on services and experiences while tighter financial conditions weigh on the demand for interest-sensitive and metal-intensive durable goods such as cars, refrigerators, and dryers. A shortage of semiconductors upended the U.S. auto industry in the first couple of years following the pandemic, leading to widespread production cuts. Auto production should improve in the second half of the year, although rising interest rates will likely weigh on sales (Chart 2).

Factory activity in China has lost steam in recent months due to weaker domestic demand, a cooling real estate market (Chart 3), and declining external demand. According to data from National Bureau of Statistics of China's, its industrial output of crude steel was up 0.4% in June on a year-over-year basis, and a weak Chinese economic outlook will continue to weigh on production through 2023. Bloomberg forecasts flat Chinese steel demand in 2023 and growth of 1.1% in 2023.

The U.S. housing market is weak entering into the second half of 2023 although homebuilding sentiment has improved in recent months (Chart 4), according to the National Association of Home Builders’ Housing Market Index. The index rose five points to 55 in June and has increased in every month of this year; a reading above 50 indicates expansion. With elevated mortgage rates and the Federal Reserve signaling additional interest rate hikes in 2023, housing starts and permits will remain depressed (Chart 5), weighing on demand for metals with heavy use in construction such as steel, iron, aluminum, and lead. PNC expects housing starts to decline further until late 2024 and then pick up in late 2024 (PNC Economics June forecast). According to data from U.S. Census Bureau, the number of units under construction in recent months are still near the highest level since 1970s, and this should support construction spending in the near term. Public construction spending is likely to get some support over the next decade from major bills passed in recent years such as the Infrastructure Investment and Jobs Act of 2021, the CHIPS and Science Act, and the Inflation Reduction Act of 2022.

Risks to the outlook are tilted to the upside. Better growth prospects in China coupled with a soft or bumpy landing in the U.S. would support base metals demand. PNC’s expectation for a weaker dollar (Chart 6) in the next year will make dollar-priced metals cheaper for foreigners and provide some upside to demand.
**Chart 1. Global Manufacturing Activity Set to Decline Further**

Business Climate Indicator (EU) (R)

Manufacturing PMIs (L) (US, China)

Sources: CFLP, ISM, EU EcFin

**Chart 2. U.S. Auto Sales Expected to Decline In 2023**

PNC Forecast

U.S. auto sales (millions #, SAAR)

Sources: Moody's Analytics, PNC Economics June 2023 Forecast

**Chart 3. China's Real Estate Sector Is Still in Trouble**

Floor space sold

Floor space started

Source: China Index Academy Limited: National Real Estate Development

**Chart 4. Homebuilder Sentiment Is Now in Positive Territory**

NAHB/Wells Fargo Housing Market Index (HMI)

Source: National Association of Home Builders

**Chart 5. Starts and Permits Are Down From 2022 but Completions Are Set to Increase**

Ths., SAAR

Sources: U.S. Census Bureau

**Chart 6. Weaker Dollar Will Provide Support to Metal Prices**

U.S. dollar DXY index

Mar 1973 = 100

Sources: Bloomberg, PNC Economics June 2023 Forecast

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