

Economic briefing

Macro and procurement outlook

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Macro Supply Chain Overview

The bottom line

Commodity and machinery prices face upward pressure from tariffs, but not demand. Thus, essentially isolated to the United States.

Wages and services escalation is less than post-COVID surge

Demand is tepid to be generous, downright weak in some sectors. Demand is not strong enough to drive increases.

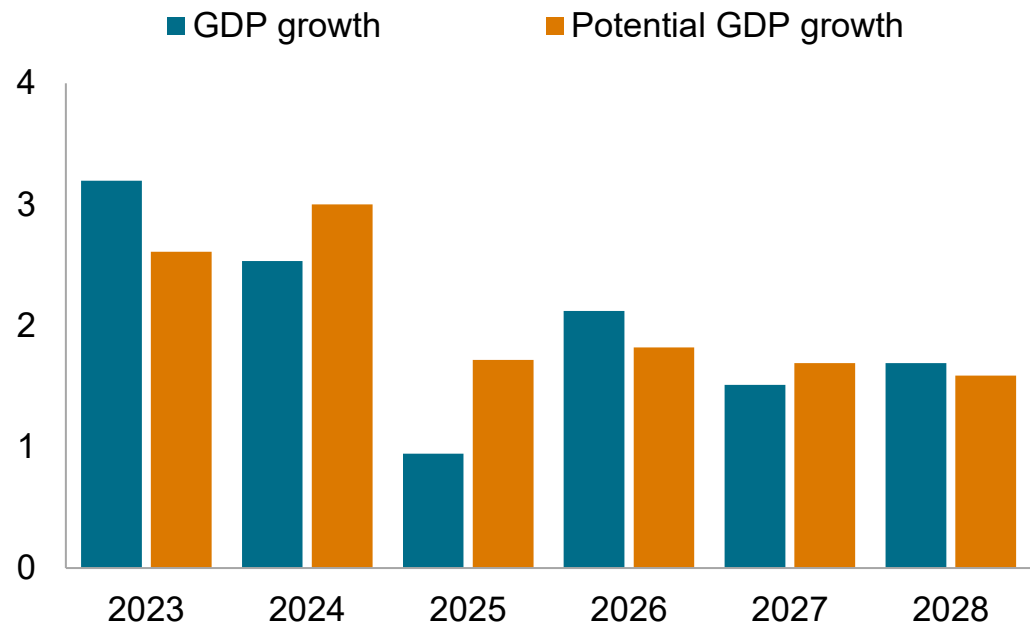
Looking forward, 2026 will be more of the same.

US: Period of below-potential growth implies rising unemployment rate

GDP growth *below potential* 2024–2025

Actual and potential GDP growth

4-quarter percent change

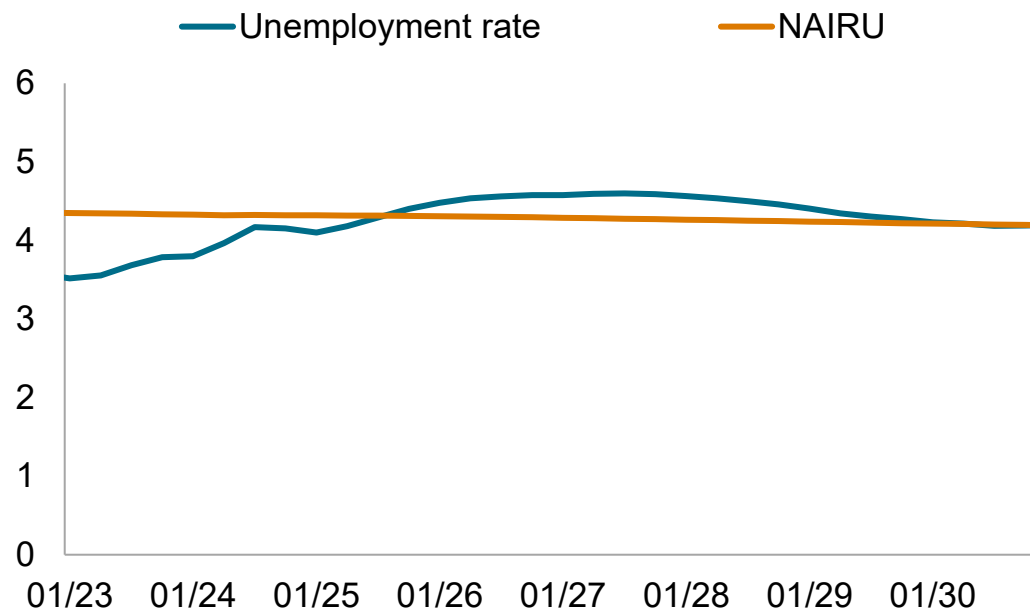


As of July 8, 2025.
Sources: S&P Global Market Intelligence; BEA.

Unemployment rate rises *above NAIRU*

Unemployment rate and NAIRU

Percent of labor force

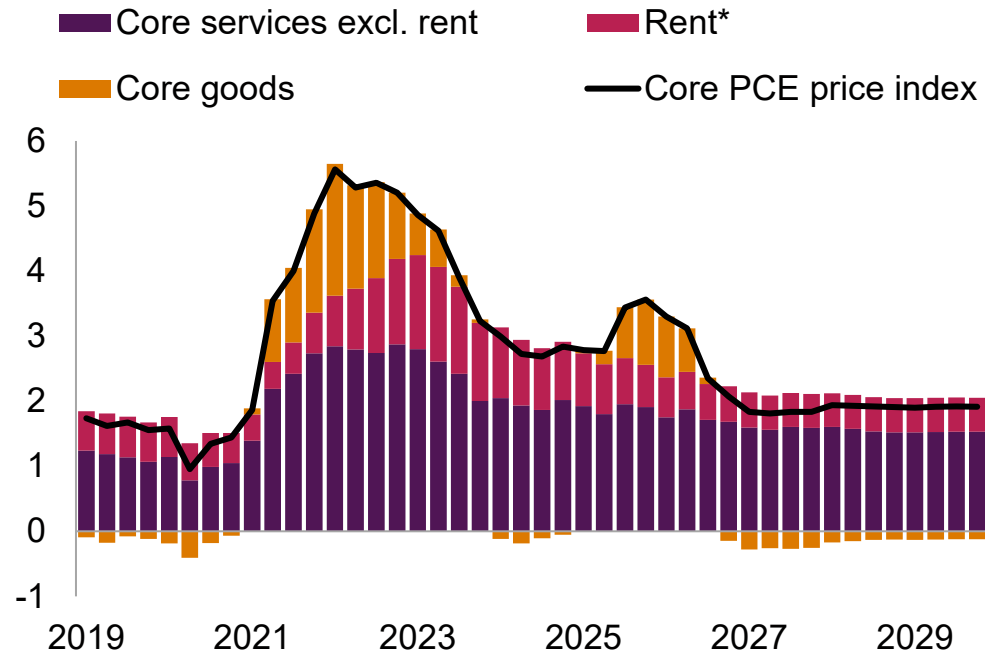


Data compiled July 8, 2025.
NAIRU = non-accelerating inflation rate of unemployment.
Sources: S&P Global Market Intelligence; Bureau of Labor Statistics; Congressional Budget Office.

US: Inflation to return to 2% after tariffs run their course; Fed to resume easing

Contributions to core PCE inflation

4-quarter % change



As of July 8, 2025.

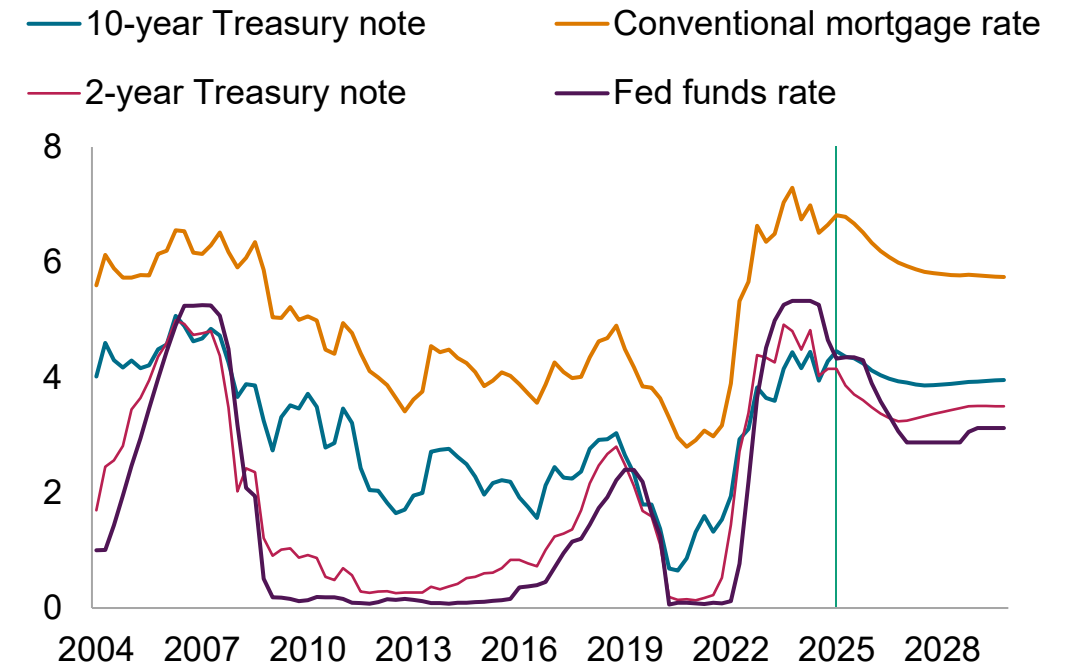
* Rent includes both owner- and tenant-occupied nonfarm housing.

PCE = personal consumption expenditures.

Sources: S&P Global Market Intelligence; BEA.

Fed on pause until December 2025, cuts rapidly in 2026 as labor market softens

Percent



As of July 8, 2025.

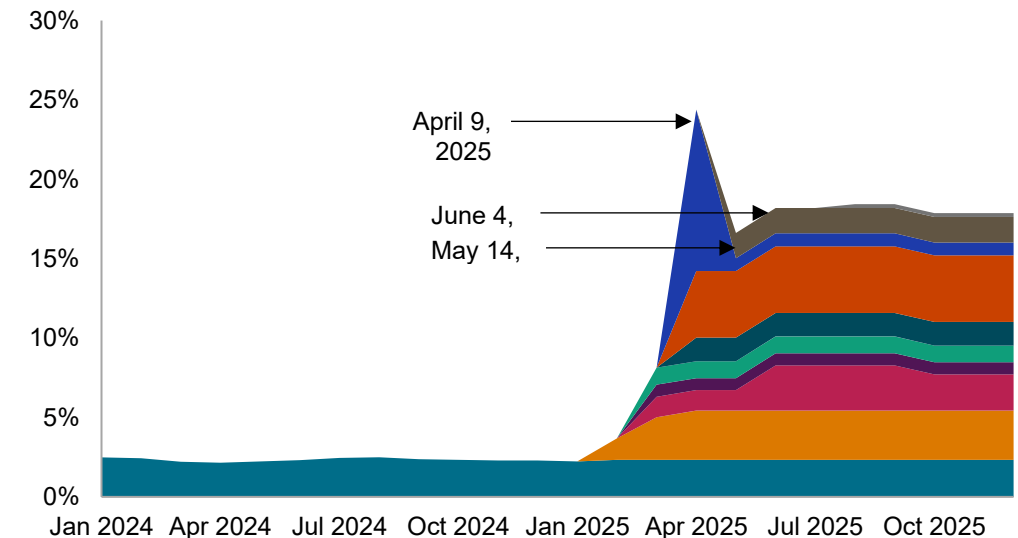
Sources: S&P Global Market Intelligence; FRB.

The tariff wall

- The 3 most important metals – steel, aluminum, and copper – now face 50% tariffs
- And very importantly, tariffs extend down to metal-bearing goods
- Different countries face a host of different rates
 - Confusion is rampant, and adds to perils of importing
- Augst 1 deadline for key decisions on large trading partners
 - Expect cans to be kicked down the road
- Shipping also has current and threatened restrictions, adding to cost and disruption

US tariff actions create trade wall (based on 2024 trade values)

- Section 232 copper
- Section 232 parts
- IEEPA mainland China reciprocal (ex. 232 & Annex II)
- IEEPA reciprocal 10% excluding mainland China (ex. 232 & Annex II)
- Section 232 autos
- IEEPA Mexico (ex. USMCA compliant, 232 & Annex II)

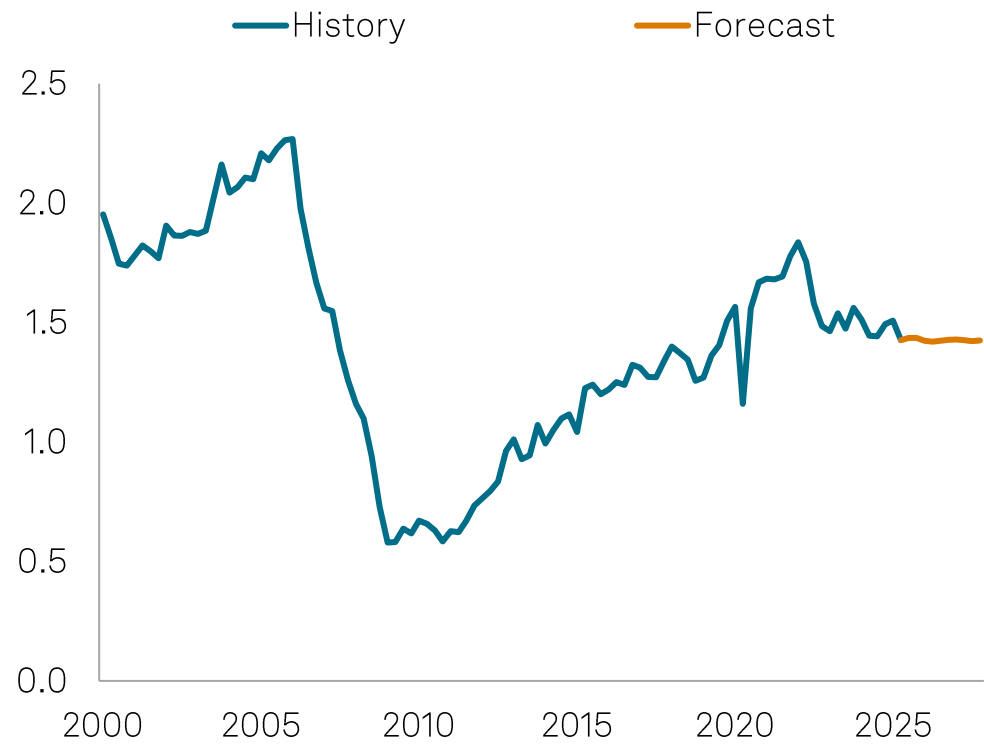


Data compiled July 15, 2025.
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US Demand: Activity in key sectors

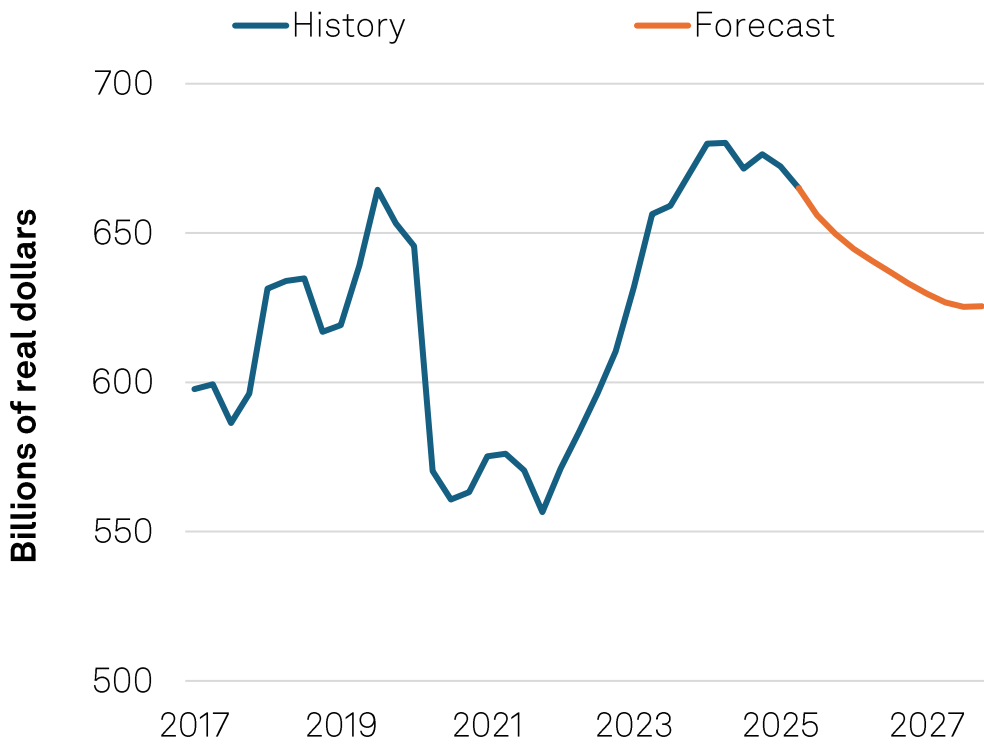
Construction is not a source of strength

Housing starts, in millions



Data compiled July, 2025
Source: S&P Global Market Intelligence.
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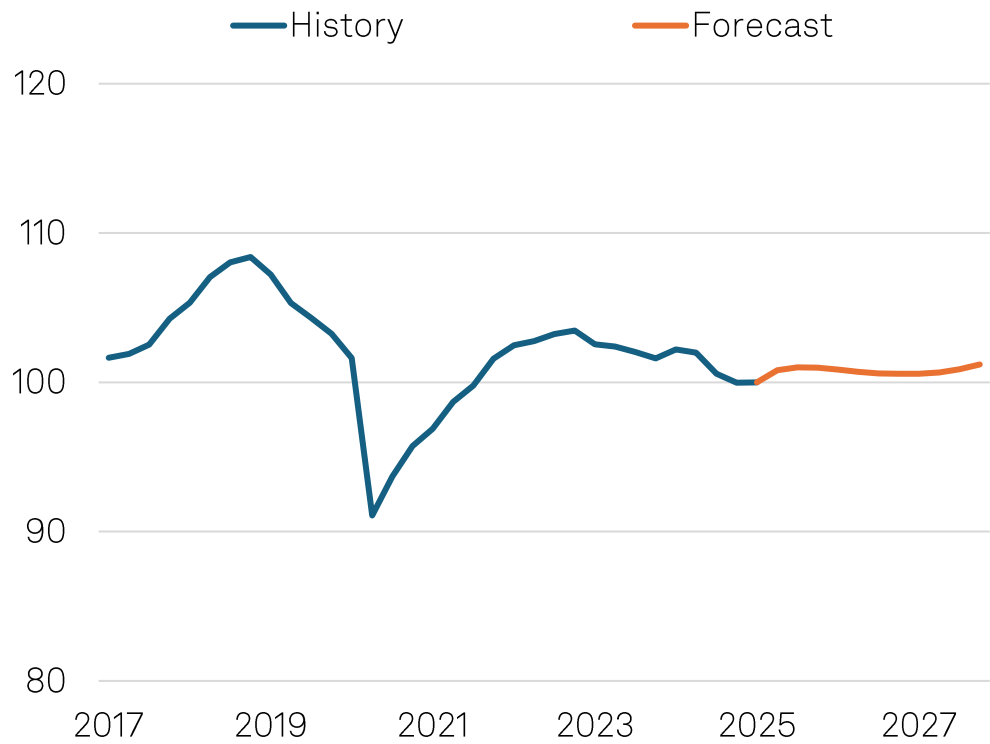
Nonresidential construction investment



Data compiled July, 2025
Source: S&P Global Market Intelligence.
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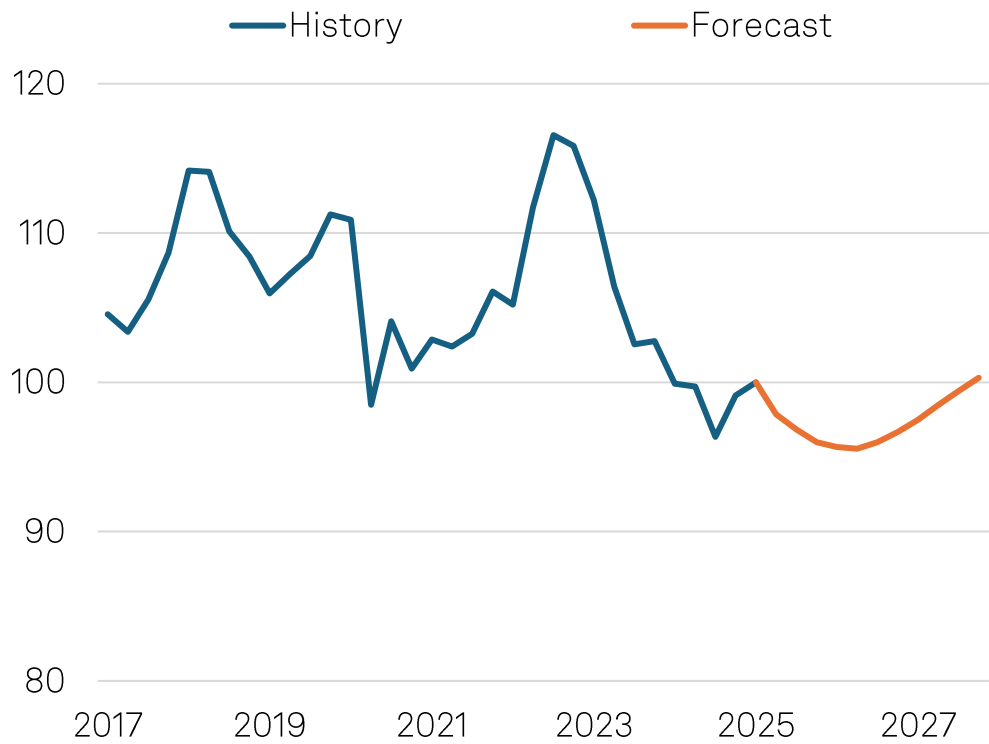
Industrial production index, based to 2025Q1=100

Fabricated metals



Data compiled July, 2025
Source: S&P Global Market Intelligence.
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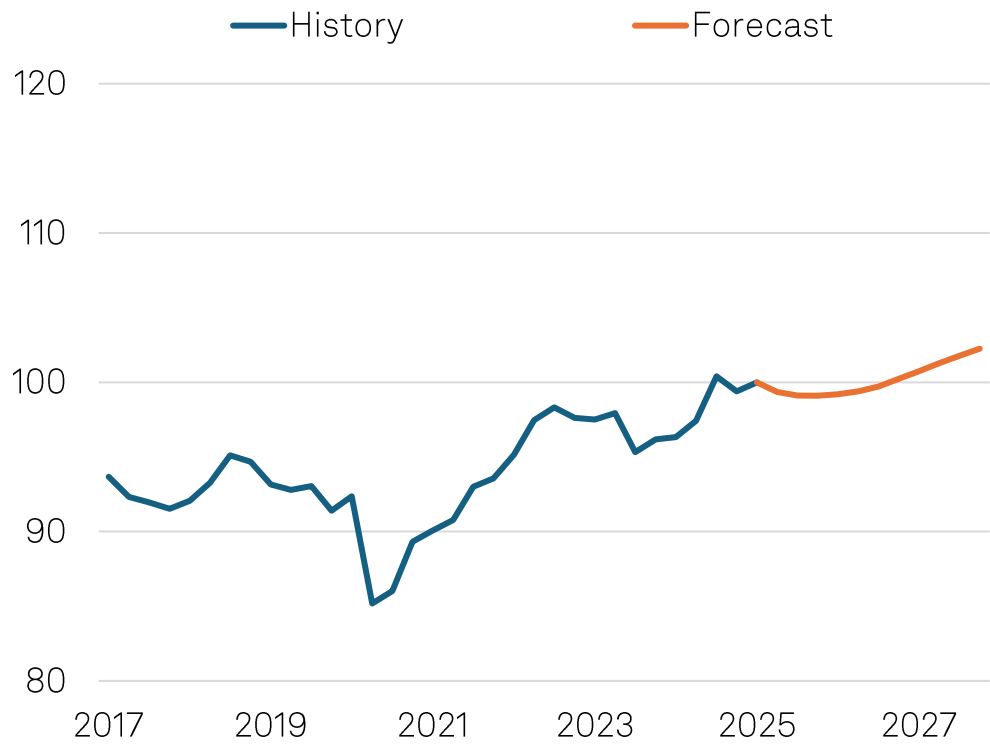
Industrial machinery



Data compiled July, 2025
Source: S&P Global Market Intelligence.
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Industrial production index, based to 2025Q1=100

Electrical industrial machinery



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Appliances

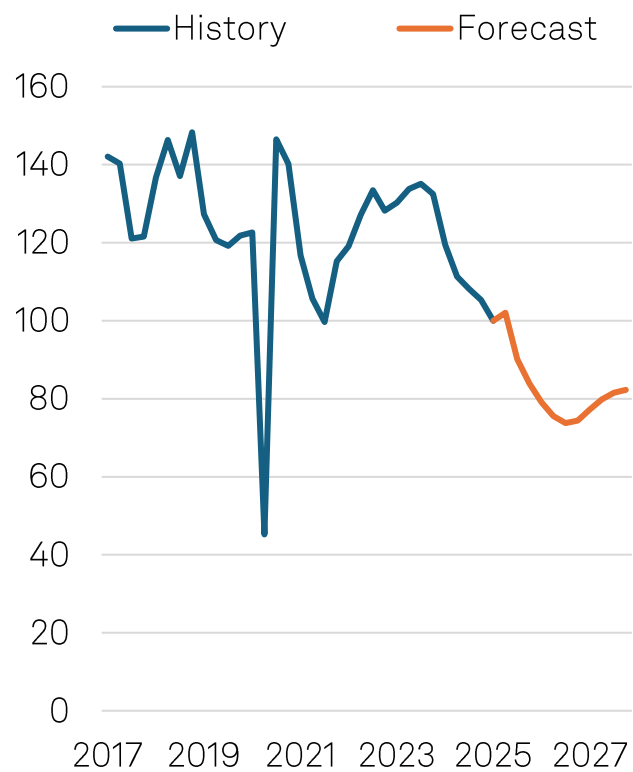


Data compiled July, 2025
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Light trucks are OK but cars and parts are weak

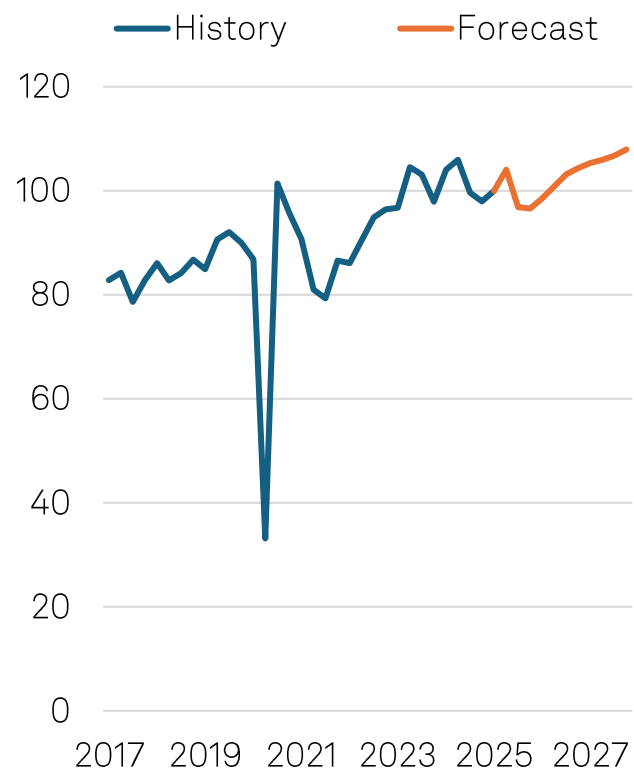
Index, 2025Q1=100

Automobiles



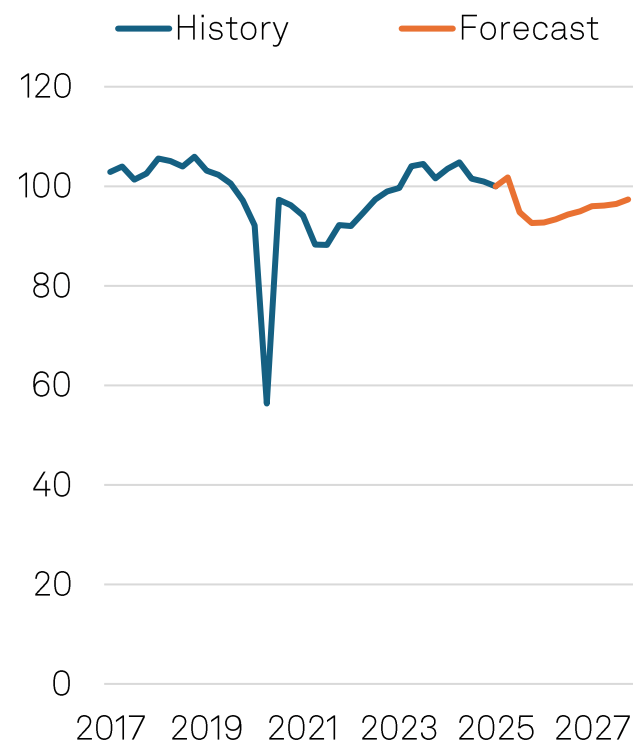
Data compiled July, 2025
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Light trucks and SUVs



Data compiled July, 2025
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Motor vehicle parts



Data compiled July, 2025
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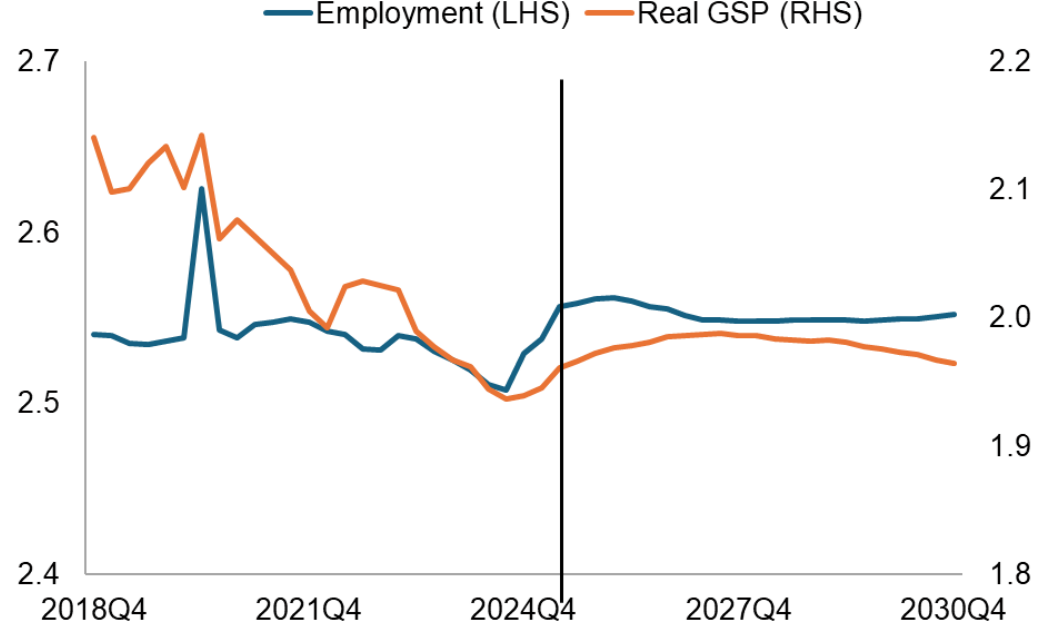
Productivity gains lead to growth in real manufacturing GSP

Minnesota manufacturing employment and real GSP, year over year change (%)



Data compiled July 2025.
Source: S&P Global Market Intelligence; Bureau of Labor Statistics.
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Minnesota manufacturing employment and real GSP, share of national (%)



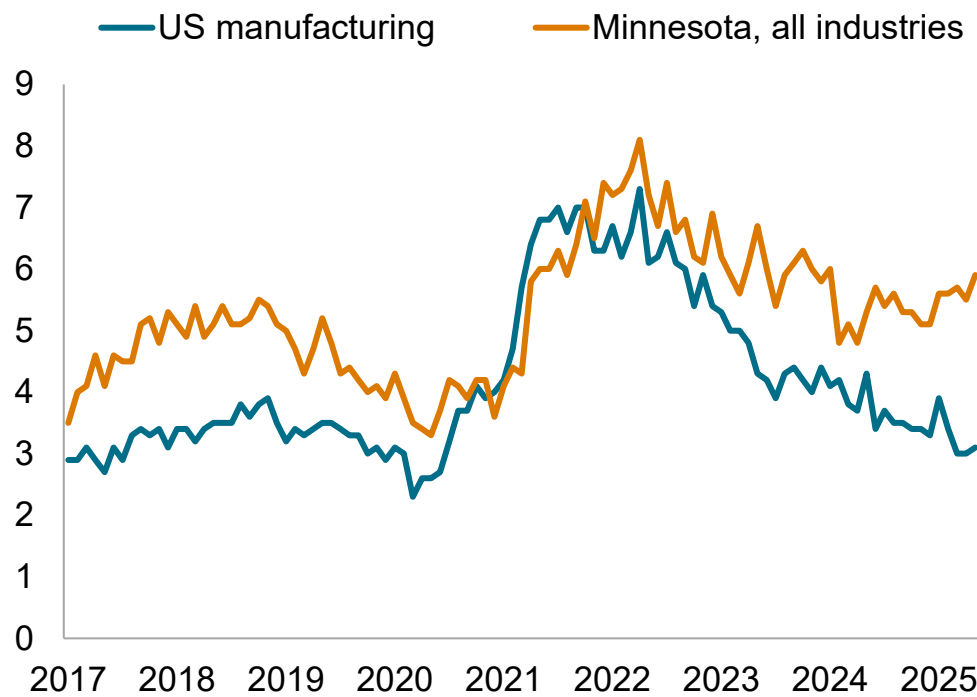
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Labor

Shortages re-emerge in the Midwest as labor demand moves higher

Recent strength bolstered by food and fabricated metals

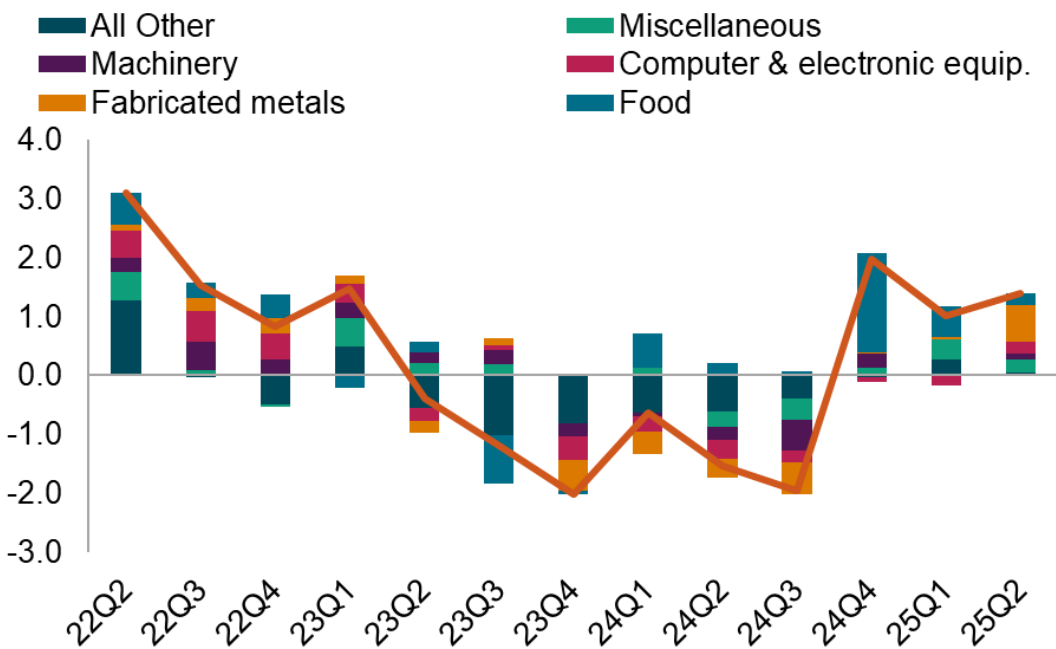
Job openings indicate renewed shortages in Minnesota's labor market



Data compiled July 25, 2025.
Source: S&P Global Market Intelligence.
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Minnesota manufacturing employment

Quarter-on-quarter change, thousands

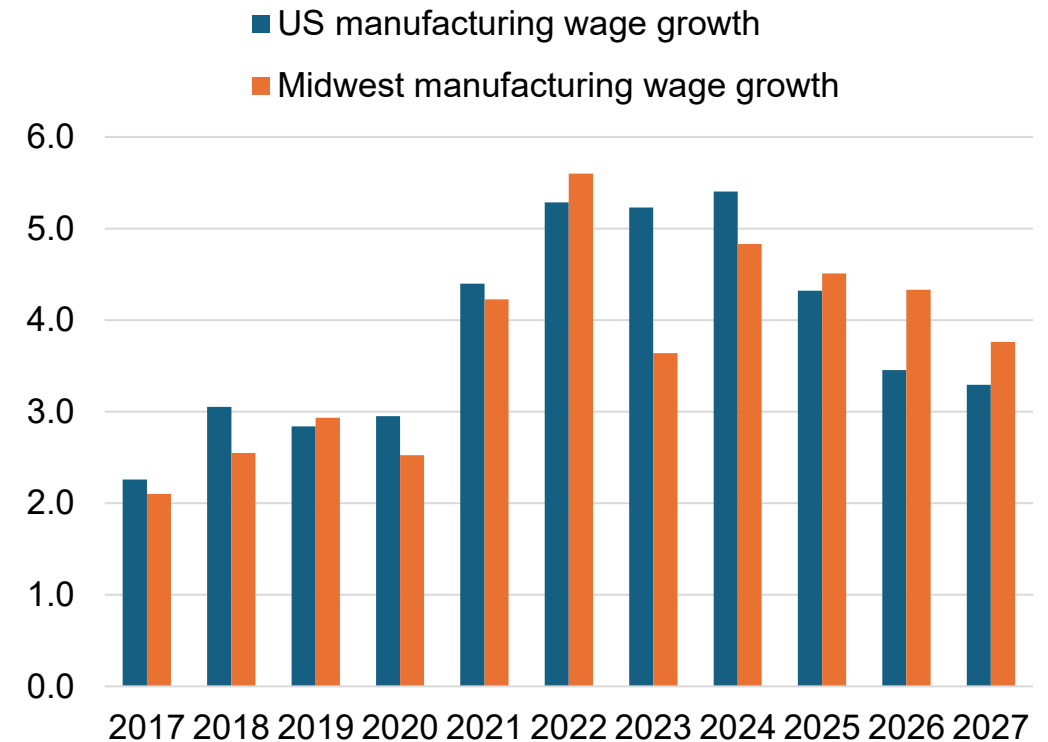


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Midwest manufacturing wage growth will slow gradually

- US manufacturing saw a surge in activity over the first few months of 2025 – this will not be sustained
- Labor markets are frozen – employers are being cautious about new hires, but are also being cautious about layoffs given worker availability concerns
- Shortages are more of a concern in the Midwest – The share of jobs going unfilled jumped from 5.1% at the end of 2024, to 5.9% as of May which coincided with a hiring surge
- Job creation will slow alongside manufacturing activity over the latter half of 2025 and into 2026, however worker availability will remain a challenge keeping Midwest wage growth in the manufacturing sector stronger than the national average

Wage growth, annual percent change

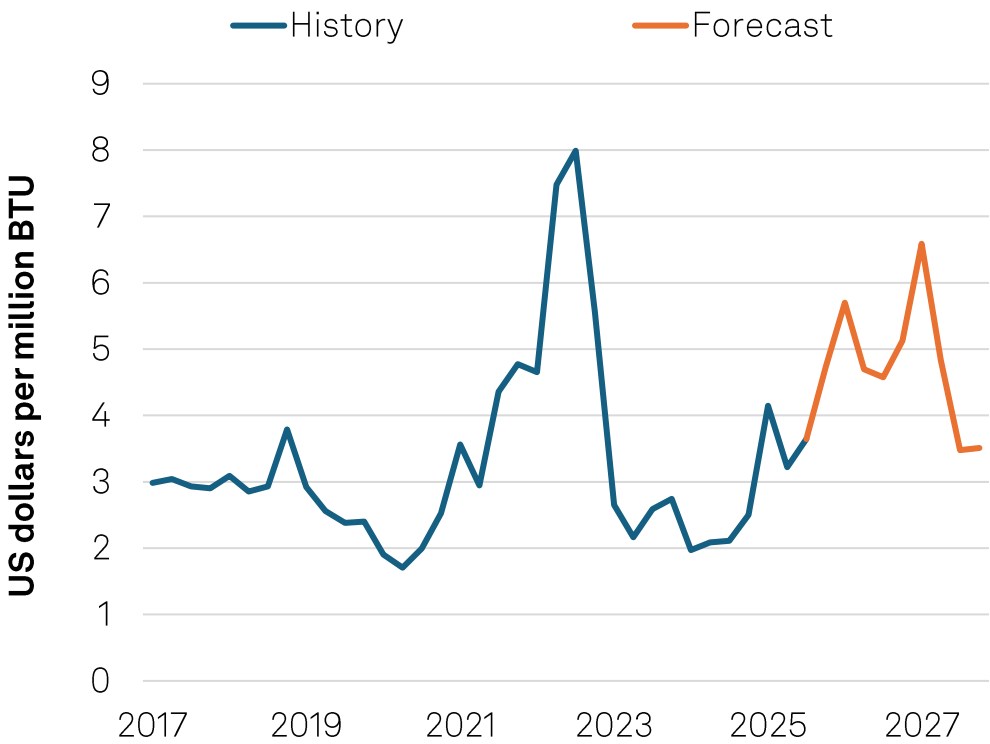


Data compiled July 25, 2025.
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Energy and chemicals

Energy prices rise from low starting points

Natural gas, US Henry Hub



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Oil, West Texas Intermediate

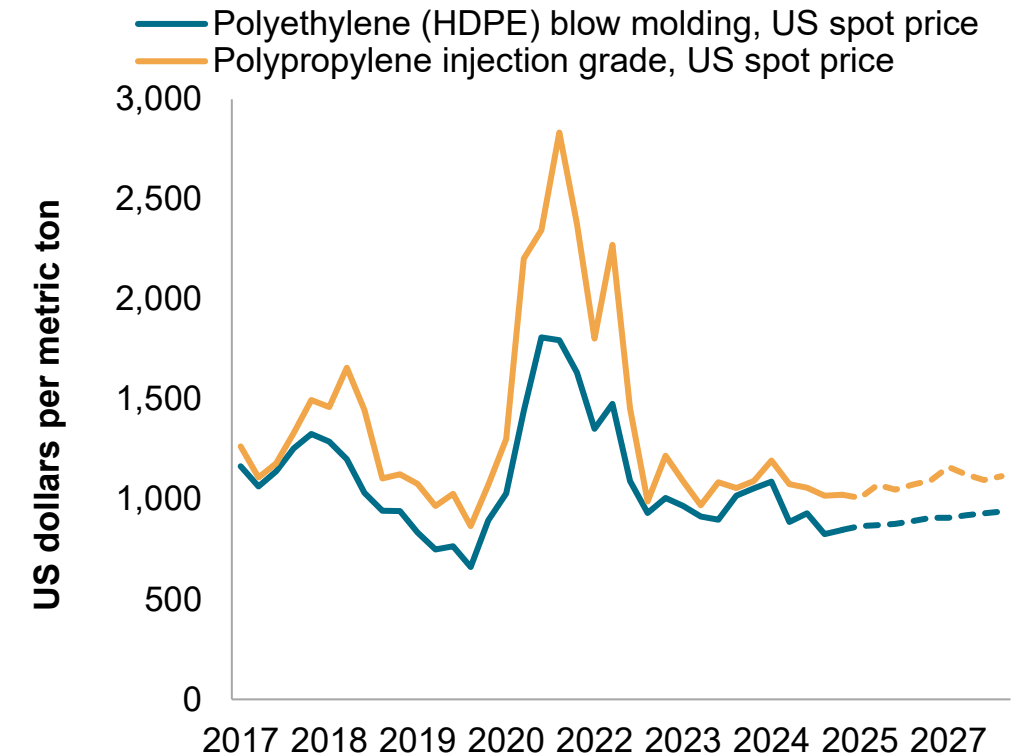


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Weak demand, excess supply will limit upside pricing risk for chemicals

- *The market is facing the stark fundamental realities of eroding global demand and excess supply capacity*
- The global polyethylene market is flush with supply and continues to have several big new capacity additions in the pipeline.
- A surge in new production capacity has quickly pushed the world market for high-density polyethylene (HDPE) into oversupply, and the situation is likely to persist through 2027.
- Both polyethylene and polypropylene markets are facing the harsh realities of eroding demand
- Price movements are expected to be minimal going forward. Market fundamentals remain unchanged, with bearish downstream demand heard. Downstream, the construction, automotive, and consumer goods sectors are underperforming.

US chemicals prices at bottom



Data compiled July 25, 2025.

Source: S&P Global Market Intelligence, historical data source S&P Global Commodity Insights.

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Metals

Steel overview – Weak for rest of 2025, small dead-cat bounce for 2026

Prices will remain soft for the remainder of this year. Expect higher prices for 2026 but based on mean reversion more than stronger fundamentals

- Asian prices supported by protectionism and expected capacity idling.
- US more likely to be flat-ish because already high

Demand is lackluster from construction and durable goods. Slightly better for 2026

Capacity has been idled yet supply easily meets consumption

Steel Tariffs – why they matter, why they don't

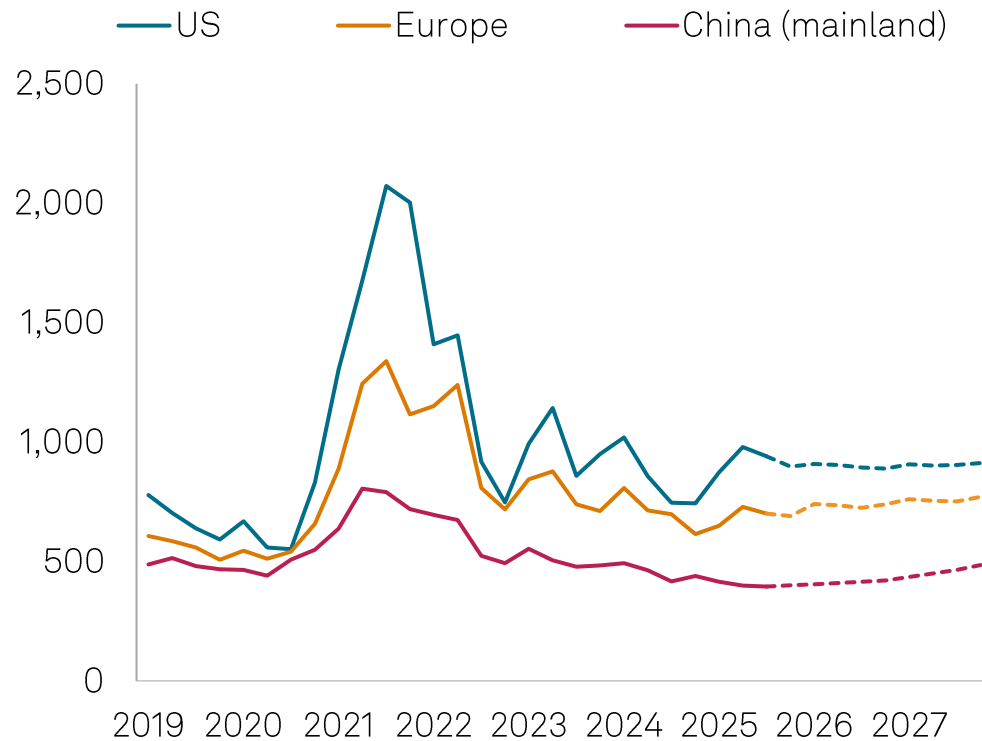
United States

- Section 232 at 50%
 - 25% drove up prices but imports still flowed. $\$600 + 25\% = \750 , while USA was \$900 to \$1000
 - 50% will hit volumes harder. $\$600 + 50\% = \900 , parity with USA
- Europe, Brazil, Mexico, and Canada are effectively priced out
 - Prices at or above \$600/mt
 - Tariffed price about \$900
- Asia is still competitive, and imports remain a ceiling on prices
 - Prices around \$500/mt
 - Tariffed price around \$750

Note that landed prices are higher than tariffed because of shipping

Carbon steel: Weakness is deep-seated

Hot-rolled sheet prices, US dollars per ton

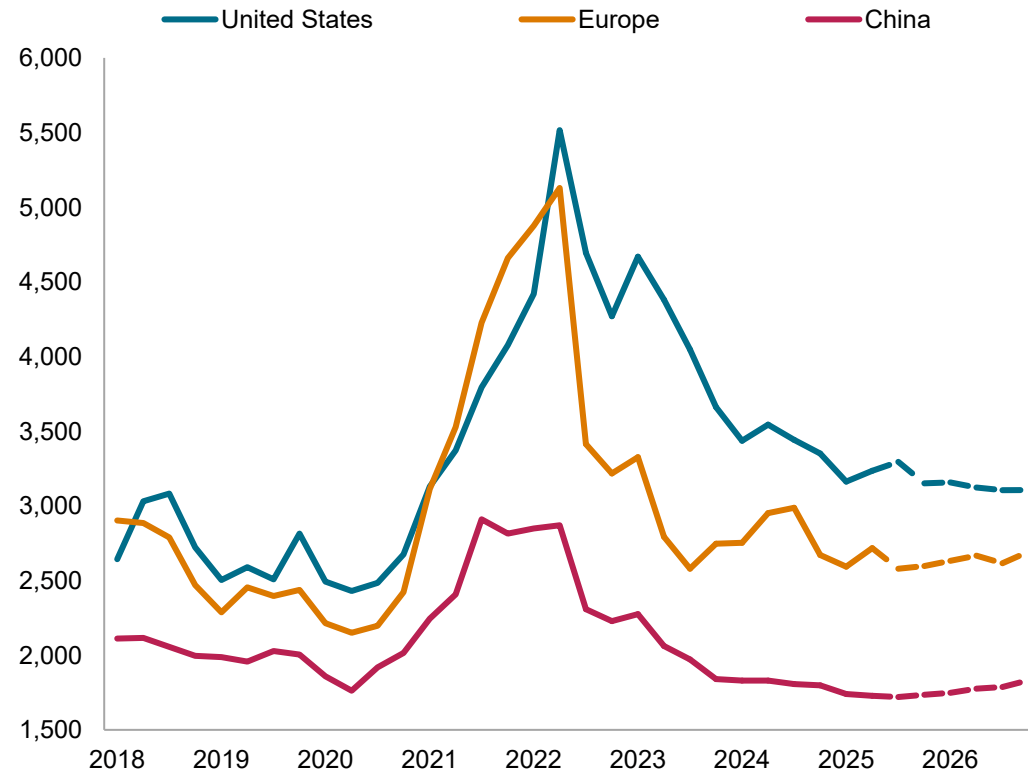


Data compiled July 2025.
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- Mainland China and other Asia very low
 - Mainland China prices – flat and long – now show almost no increase in 2025
 - Anti-dumping will slightly boost non-mainland China, suppress mainland China even more.
- United States high but stabilizing
 - Tariff impact is now priced in
 - Mills want higher but buyers refuse
- The outlook for European steel markets is weak but muddled
 - Demand is very soft
 - Production cuts and increased protectionism support prices
 - Imports however remain a threat

Stainless steel: Imports are still a bargain

Stainless 304 cold rolled sheet, US dollars per metric ton

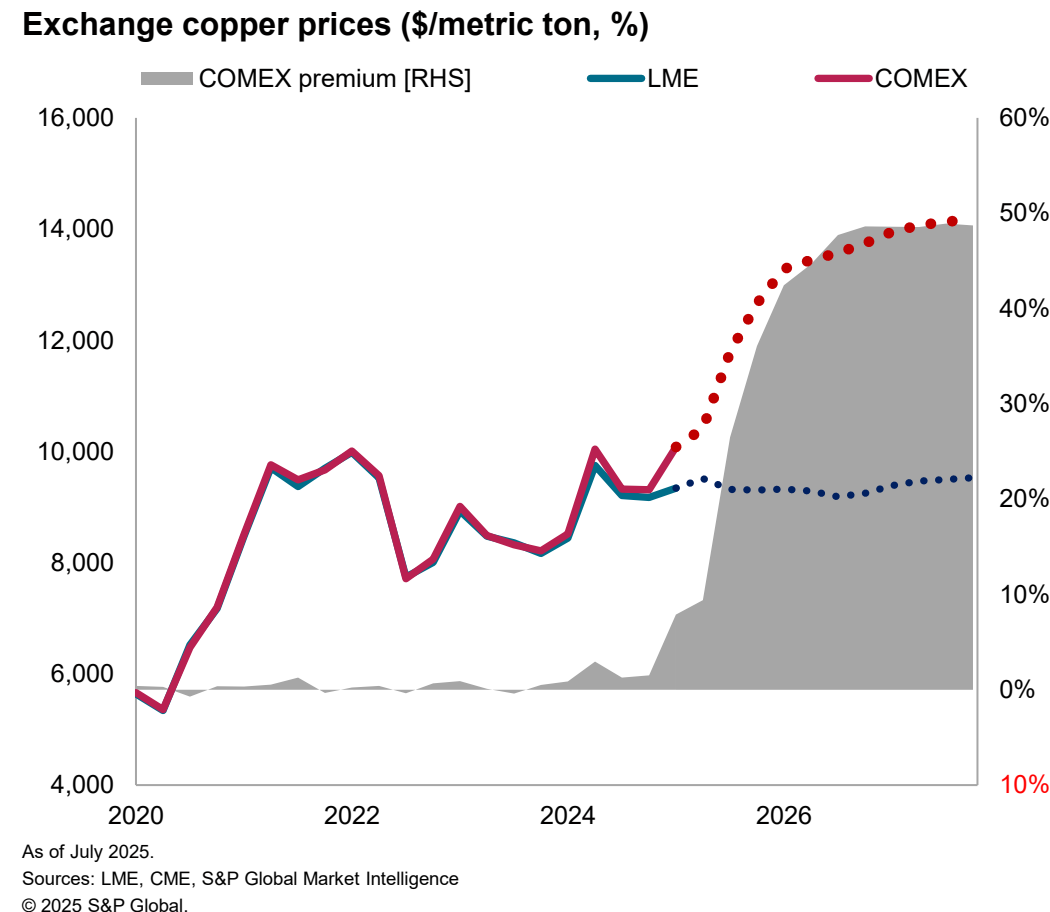


Data compiled Jul. 18, 2025.
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- Stainless steel pricing and overall market conditions remain weak in mainland China and Asia overall.
- Stainless steel markets in Europe are more muddled.
 - Weak demand undercuts pricing
 - Offset by production cuts
- US prices high, but pressured by import potential
 - Europe priced out at 50% tariffs
 - China priced out by anti-dumping/countervailing duties
 - But other Asia very cheap even with 50% tariff

Copper – Global pressure after 2027; US faces tariffs

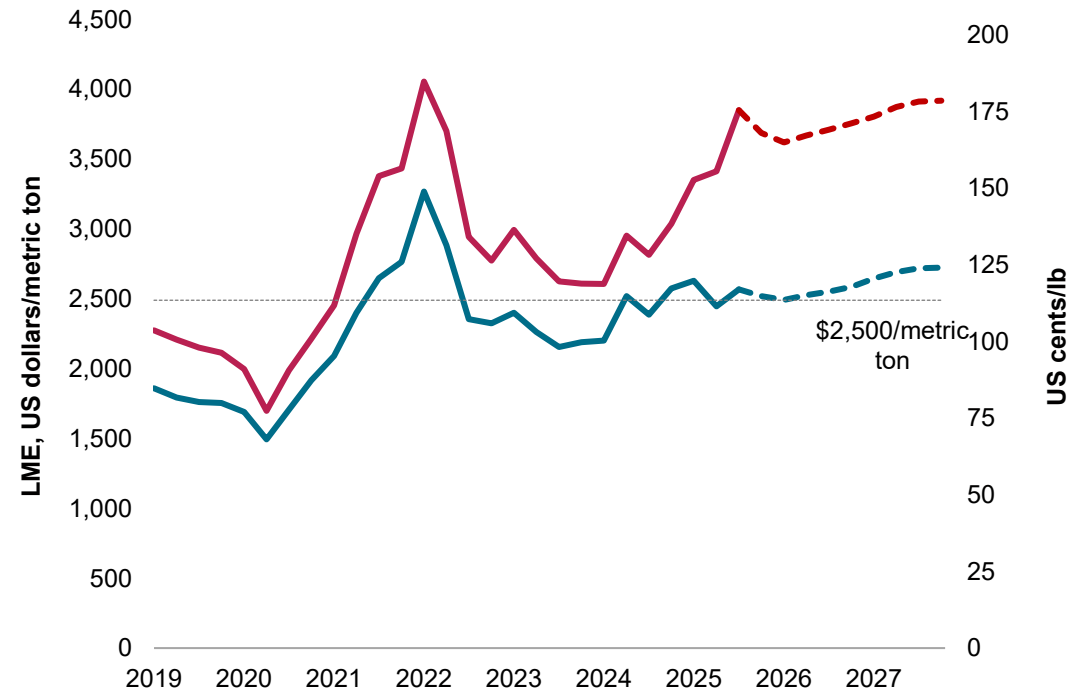
- Global production/consumption is surplus through 2026
 - Deficit after 2028
- US has announced a tariff of 50% from August 1.
- Limited details, so potential for walking back, exclusions or delayed timeline
 - Applies to copper, raw materials and ‘derived products’ – What derived products encompasses is unknown?
- Pricing shows uncertainty
 - LME-COMEX premium rose 15% on news, but has stayed at 25% level - Well short of 50%
- Tariff trade saw COMEX inventories balloon so plenty of supply



Aluminum prices volatility falls, with fundamentals coming to the fore

Aluminum price forecasts

Q1 2025 forecast shown lightened for comparison



As of June.. 2025.

Source: S&P Global Market Intelligence.

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US refined aluminum sourcing – 2024 (2023 figures):

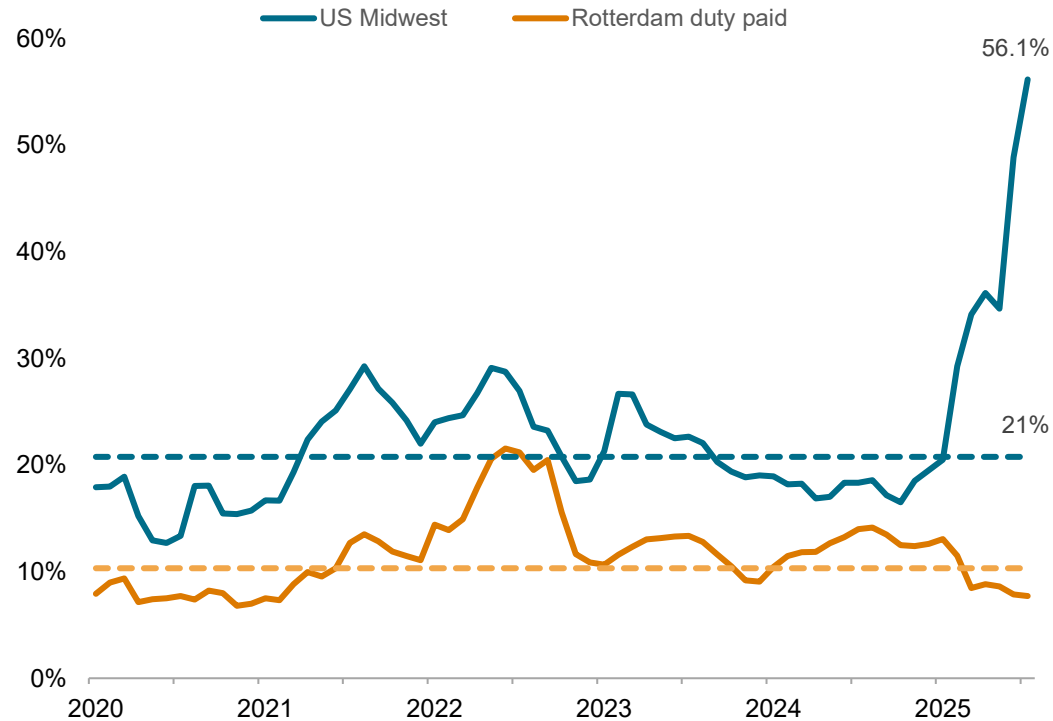
- Import reliance: 47% (43%). Secondary share of supply: 37% (33%)
- Import sources: Canada: 56% (52%), UAE: 8% (8%), Bahrain: 4% (4%)

- After news of Section 232 rise last month, aluminum prices movements have been less pronounced
- Midwest premium reflecting the expected tariffs on Canadian material, as the major import source.
- Production has improved, so availability is good, but cross-border supply threatened by tariff implementation.
 - Expect adaption to avoid multiple tariffs hits when cross borders.
- Demand is mediocre, so prices a bit lower than full tariff would imply
- Price guidance: Buy as needed
 - Exchange prices reflecting subdued fundamentals, but controlled supply and weaker dollar brings rangebound prices.

US premium are at historic levels, but when tariffs are stripped out, do not fully capture other costs

Aluminum P1020 regional premium to LME spot (%)

2018-2024 average premiums shown dotted



Data compiled July. 22, 2025.

Sources: Argus Media, S&P Global Market Intelligence

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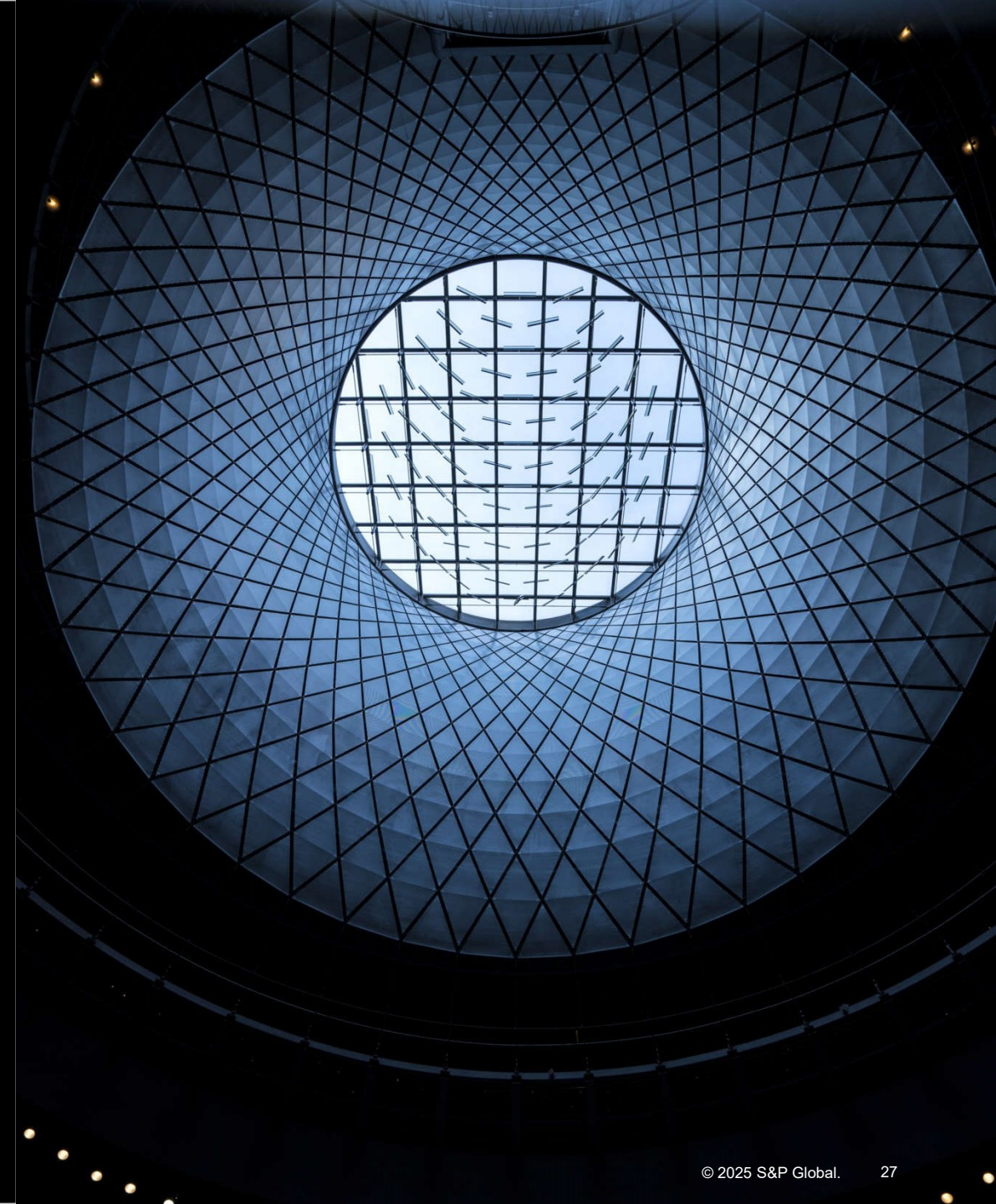
- Besides tariffs, premiums include logistics and warehousing costs.
- The recent jump in the Midwest premium is Section 232 tariff related.
 - The 2018-2024 average level included the first round of 10% Section 232 tariffs – Non-tariffed level of 11%.
 - Now with 50% tariff, the current Midwest premium of 56% has scope to rise further – $50\% + \underline{11\%} = 61\%$.
- European premiums are below long-run averages, pointing to buying opportunity in a weak market.
 - Highlighting a weaker demand picture and/or good supply, partly as material is diverted away from the United States.

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