

**THE YEAR AHEAD FOR THE ECONOMY
AND STEEL CASTINGS MARKETS**

**STEEL FOUNDERS SOCIETY OF AMERICA
CHICAGO, ILLINOIS**

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ANATOMY OF THE RECESSION

- **OUR FINANCIAL SYSTEM IS UNSTABLE**
 - **LEVERAGED**
 - **SUBJECT TO RUNS**
- **EVERY MAJOR CATEGORY OF FINANCIAL INSTITUTION AND MARKET WAS EFFECTED IN THE 2008 FINANCIAL CRISIS**

CATEGORIES OF FINANCIAL INSTITUTIONS AND MARKETS HIT BY THE CRISIS

- **COMMERCIAL BANKS**
 - **Capital Base Eroded by Mark to Market Rule**
- **COMMERCIAL PAPER MARKET**
- **INVESTMENT BANKS**
- **FINANCE COMPANIES**
- **INVESTMENT FUNDS**
- **HEDGE FUNDS**
- **MORTGAGE BANKS**
- **MONEY MARKET FUNDS**
- **CREDIT UNIONS**

ELEMENTS OF THE DOWNWARD SPIRAL IN THE ECONOMY

- **INDUSTRIAL AND COMMERCIAL FIRMS**
 - **Adopt Deferred Repair and Maintenance**
 - **Cut Inventories**
 - **Cut Orders on Suppliers**
 - **Close Some Plants**
 - **Fail to Replace Depreciated Equipment**
 - **Suspend Planning Process for Plant and Equipment**

IMPACT OF THE RECESSION BY SPENDING CATEGORY IN 2008

- **GROSS PRIVATE DOMESTIC INVESTMENT**
 - 15% of GDP
 - 87% of the Drag on the Economy
- **PERSONAL CONSUMPTION EXPENDITURES**
 - 70% of GDP
 - 13% of the Drag on the Economy

ANATOMY OF THE RECOVERY

□ BAILOUT MECHANISM

- Fed and Treasury Place Funds in Hands of All Pressured Firms and Institutions
- Pressured Financial Firms Give Funds to Their Creditors
- Creditors Run for Cover, e.g., Buy
- Treasury Bills to the Point of Driving Rates to Zero
- Mark to Market Rule Is Dropped
- Pressured Firms Sell Off Their Assets in “Orderly Markets” and
- Pay Back Government Loans

CURRENT INDUSTRIAL / COMMERCIAL SITUATION

- **IMPROVED FINANCIAL CONDITIONS SET IN MOTION AN UPWARD ECONOMIC SPIRAL**
 - **Initiation of Remedial Repair and Maintenance Programs**
 - **Restoration of Inventories at All Levels**
 - **Renewed Orders Placed on Suppliers**
 - **Replacement of Some Depreciated Equipment**
 - **Re-opening of Some Closed Plants and Distribution Outlets**
 - **REACTIVATION OF PLANNING PROCESSES**

SOME TRENDS IN INVESTMENT

- **MAJOR OIL COMPANIES ARE INCREASING INVESTMENTS UPSTREAM**
 - **Pre-salt Offshore Play Using Rigs**
 - **Built Overseas but Equipped in the U.S.**
 - **Onshore Shale Gas Play Using a Lot of New American Rigs and Equipment**
 - **Pumps for Hydraulic Fracturing of Shale Looks Like a Whole New Market.....Any Steel Castings?**

SOME TRENDS IN INVESTMENT

- **“ONSHORING” OR TRANSFERRING MANUFACTURING TO THE U.S.**
 - ▣ **Caterpillar Says That It will Build It’s Next Hydraulic Excavator Plant in the U.S.**
 - **Work Will be Taken from Japanese Plants and Combined with U.S. Work**
 - **Cat is “Shopping” the Plant to Midwestern and Eastern States**
 - ▣ **General Electric says that it Will Move Production of Some Water Heaters from China to It’s Louisville, Kentucky Facility**
 - ▣ **U.S. Block Windows Has Decided to Move Production from China to Pensacola, Florida**

FINANCIAL DEVELOPMENTS FAVORING DURABLE GOODS MARKETS

- **Re-opening of Floor Plan Financing for Vehicle and Equipment Dealerships Allows for Restoration of Dealer Inventories**
- **Re-opening of Financing and Leasing Based on Specific Equipment as Collateral Builds End-User Demand**
- **EFFECTED MARKETS**
 - ▣ **Autos and Light Trucks**
 - ▣ **Heavy Trucks, Trailers and Containers**
 - ▣ **Railroad Cars and Locomotives**
 - ▣ **Commercial Aircraft**
 - ▣ **Construction Equipment**
 - ▣ **Off Highway Equipment Generally**
 - ▣ **Agricultural Equipment**

CONSUMER MARKETS

□ HOUSING

□ **Markets Are Open and Functioning, But Muddled Statistics Make It Difficult to Describe Progress**

□ Housing Starts - Thousands

■ 2009 550

■ 2010 720 +31%

□ Light Vehicles

□ **Production Has Been Helped by Replacement of Dealer Inventories**

□ Sales – Millions

■ 2009 10.4

■ 2010 11.4 +9.6%

MARKETS OF INTEREST TO STEEL FOUNDERS

- **MARKETS WITH BEST PROSPECTS**
 - **PLANT REPAIR AND MAINTENANCE**
 - **OIL AND GAS MARKETS**
 - **TRANSPORTATION EQUIPMENT**
 - **Railroad Cars and Equipment**
 - **Heavy Trucks and Trailers**
 - **CONSTRUCTION EQUIPMENT**
 - **AGRICULTURAL EQUIPMENT**
- **MARKETS TIED TO EXPANSION ARE STILL ON HOLD**
 - **HEAVY CONSTRUCTION**
 - **INDUSTRIAL MACHINERY**

STEEL INDUSTRY

- **Raw Steel Production Has Been Rising Contraseasonally Since the End of April, 2009 Marking the Trough of the Current Business Cycle.**
- **Industry Operations Mirror the General Economic Upward Spiral.**
 - ▣ **Deferred R & M Has Been Replaced by Remedial R & M.**
 - ▣ **Inventories Are Being Restored at Every Level.**
 - ▣ **Plants Are Being Reopened.**
 - ▣ **Orders on Suppliers, Including Iron Ore Mines, Have Been Raised.**
- **PRODUCTION OF RAW STEEL YEAR-TO-DATE IS RUNNING 59% AHEAD OF THE YEAR AGO LEVEL**

STEEL INDUSTRY

- **Shipments for the full year are forecast to reach 85 million tons, up 43% from last year's total of 59 million tons.**
- **Industry activity will be rising all year long on a seasonally adjusted basis, but still show a small seasonal downturn in the third quarter.**
- **Fourth quarter activity is expected to be strong, reflecting a continuation of the expansion into 2011.**
- **Inventories are forecast to be rising all year long, accounting for some of the strength in mill operations.**
- **Consumption is expected to rise a relatively modest 27%. A True recovery in consumption is not expected until long lead-time projects reach the construction stage.**

IRON AND STEEL SCRAP

- ❑ **Low Collections During the Recession**
- ❑ **Yards Picked Clean**
- ❑ **Prompt Industrial Collections Are Improving but Are Still Very Low**
- ❑ **Demolition Is at a Very Low Level**

JOBS

- **“Lingering Unemployment” Stems Partially from Completion of Major Long Lead-time Projects**
- **INDUSTRIAL LABOR PRACTICES DURING EARLY PHASES OF RECOVERY**
 - **Increase Production Via Higher Operating Rates**
 - **Increase Overtime Before Adding Workers**
 - **Add Temporary Workers Before Increasing Full Time Employees**
- **Statistics Verify That All Three Practices Are Now Being Used**

TOO BIG TO FAIL

- **Should Be Reworded to Cover Firms that Are “Too Systemically Sensitive to Fail”**
- **WE NEED AN SSS:**
 - ▣ **SYSTEMIC SURVEILLANCE SYSTEM**
- **Comparable to FDIC But Also Covering Sensitive Non-bank Financial Institutions**

INTEREST RATES

- **THE FED DOES NOT CONTROL INTEREST RATES
IT JUST PRETENDS TO**
- **EXPECT:**
 - ▣ **INTEREST RATES TO RISE**
 - ▣ **THE YIELD CURVE TO FLATTEN**