BERNARD LASHINSKY
CONSULTING ECONOMIST

ECONOMIC OUTLOOK - 2007

THE EXPANSION IN FULL FLOW

Steel Founders Society of America

Chicago, Illinois

APRIL 13, 2007

ECONOMIC OVERVIEW

LONGER THAN EVER ON CAPITAL

CAPITAL CONTINUES TO POUR IN FROM OVERSEAS

DOMESTIC CAPITAL FORMATION CONTINUES UNABATED

– Profits
– Personal Savings

HOUSING

RISKY MORTGAGE LOAN STRUCTURE IMPLODES

LOSSES ARE REAL BUT RELATIVELY SMALL AND DISPERSED

PRIME RISK MARKET ROLLS ON

RENTAL UNITS REPLACE CONDOS ON DEVELOPERS’ PLANNING BOARDS

OPEN CAPITAL MARKETS

COMMERCIAL PAPER

EQUIPMENT TRUST CERTIFICATES

EQUIPMENT LEASES

COMMERCIAL AND INDUSTRIAL BANK CREDIT

LONG TERM CORPORATE BONDS,

INCLUDING JUNK BONDS

PROJECT FINANCE

VENTURE CAPITAL ACTIVITIES

STOCK MARKET:

- INITIAL PUBLIC OFFERINGS
- HEDGE FUND OPERATIONS

BEST FINANCIAL CONDITIONS SINCE 1995

ENERGY PROJECTS

CURRENTLY THE BIGGEST SECTOR FOR CAPITAL PROJECTS

NATURAL GAS

- Drilling at Home Feeds
- Equipment Boom
- Deep Offshore Play Looms Large

COAL FIRED POWER PLANTS

A Boom in the Making

- Fluid Bed Plants
- Gasification / Dual Cycle Plants

POWER TRANSMISSION LINES

PETROLEUM REFINERIES

- Low Sulfur Equipment Will Go
- New Refineries Are on the Drawing Boards

ENERGY PROJECTS (Continued)

ETHANOL PLANTS

- 1.7 B gal of capacity under construction
- Big bucks but won’t dent import problem
- (Corn prices double)

NGL RECEIVING PORTS

GAS TO LIQUIDS PLANTS AT STRANDED GAS FIELDS OVERSEAS

CANADIAN TAR SAND PROJECTS

NATURAL GAS PIPELINES

- From NGL ports to major transmission lines
- Rockies Express

  Pipeline from Wyoming to Ohio

TRANSPORTATION PROJECTS

NATURAL GAS PIPELINES (Redux)

RAILROAD EXPANSION

Double Tracking Railroads
From Chicago to Los Angeles
- Union Pacific
- Burlington Santa Fe

NEW YORK CITY

- Hudson River RR Tunnel
- East Side Terminal for Long Island RR
- Second Avenue Subway

PANAMA CANAL WIDENING

PROJECTS IN OTHER SECTORS

SEMICONDUCTORS

- New Plants
- Wide Spread Retooling

SEARCH MONSTERS

PORTLAND CEMENT

Biggest US Plant Ever Is Under Construction in Missouri

AUTOMOTIVE

Toyota Will Build a Big Automotive Plant "in the South"

FOOD PROCESSING

PHARMACEUTICALS

TELECOMMUNICATIONS

BUT: Machinery, Equipment and General Manufacturing Remain in the Doldrums

TRANSPORTATION EQUIPMENT

- BENEFITING FROM CAPITAL AVAILABILITY

RAILROAD CARS
- **At Capacity**

HEAVY TRUCKS / TRAILERS
- **At Desired Operating Level**

COMMERCIAL AIRCRAFT
- **Boeing is at Capacity**
- **Civil Aviation is Booming**

CONSTRUCTION

HIGH RISE OFFICE BUILDINGS
- New York City, Chicago, Nashville…

MALLS (Never Stopped)

INSTITUTIONAL
- Hospitals… Private Room Boom
- Schools

INFRASTRUCTURE
- Airports
- Highways, Bridges
- Water and Sewer

LONG-LEAD-TIME PROJECT SYNDROME

ORDERS PLACED EARLY-ON
(Steel is Especially Front-end Loaded)

INVENTORIES / MARSHAL YARD MATERIALS ACCUMULATE

VALUE PUT-IN-PLACE GOES ON SEEMINGLY FOR EVER

WHOLE PROCESS SUCKS UP SHORT TERM FINANCE

USDC DOES A POOR JOB OF DOCUMENTING PROJECTS

STEEL CASTINGS

EVERY MAJOR MARKET REMAINS STRONG

- **RAILROAD CARS**
- **HEAVY TRUCKS AND TRAILERS**
- **OFF ROAD EQUIPMENT**
- **ENERGY PROJECTS**
- **CHEMICAL PROCESS INDUSTRIES**
- **INFRASTRUCTURE**
- **COMMERCIAL CONSTRUCTION**
- **INDUSTRIAL MACHINERY: UP BUT NOT IMPRESSIVE**

STEEL INDUSTRY

DOMESTIC MILLS OFF ABOUT 2%

SUPPLY / DEMAND NORMALIZED

SEVERCORR STEEL PROJECT WILL START UP THIS YEAR

THYSSEN STEEL WILL BUILD IN MEMPHIS

NIPPON STEEL WILL BUILD IN "THE SOUTH" TO SERVE TOYOTA

FERROUS METALLICS SUPPLY STILL STRAINED / SCRAP PRICES SHOULD STAY HIGH

DEVELOPMENTS TO WATCH

TIGHT LABOR MARKETS

- 4.4% Unemployment
- A Better Measure of Economic Conditions than GDP

GROWING INVENTORIES

- Project Related Materials and Equipment

RISING INTEREST RATES

ENDEMIC BUT HARMLESS INFLATION FEARS

COMMODITY PRICES STABILIZE

THE DOLLAR PRESENTS NO SERIOUS PROBLEM

THE TRADE DEFICIT GROWS MORE SLOWLY

CONSUMER DURABLE MARKETS HOLD UP

INFORMATION TECHNOLOGY REVS UP

USDC CONTINUES TO UNDERSTATE WORK ON MAJOR INVESTMENT PROJECTS

BERNARD LASHINSKY
CONSULTING ECONOMIST

U.S. STEEL INDUSTRY
APPARENT DOMESTIC SUPPLY - ALL PRODUCTS
(Million Tons)

2006(E) - 2007(F)

	2006(E)						2007	% Ch
	4-Q	Year	1-Q	2-Q	3-Q	4-Q	Year	Y-o-Y
Shipments	24.3	107.7	25.5	27.5	26.0	26.5	105.5	-2.0
+Imports	10.5	44.3	8.5	10.0	11.0	9.5	39.0	-12.0
-Exports	2.0	8.0	2.0	2.0	2.0	2.0	8.0	-
Ap Dom Sply	32.8	144.0	32.0	35.5	35.0	34.0	136.5	-5.2
Im. For Conv	2.1	9.1	2.0	2.0	2.0	2.0	8.0	-12.1
Net Supply	30.7	134.9	30.0	33.5	33.0	32.0	128.5	-4.7
Ch Inventory	-2.3	+2.0	-3.0	-1.5	-0.5	-1.0	-6.0	
Consumption	33.0	132.9	33.0	35.0	33.5	33.0	134.5	+1.2
Memo: Im. For Cons	8.4	35.2	6.5	8.0	9.0	7.5	31.0	-11.9

Asfsa15-ads-qtly 4-7-07