



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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AUGUST—2003

Casteel Commentary Highlights:

We need the U.S. to adopt public policies that encourage capital equipment investment, confront the nonmarket predatory export practices of China, and encourage development of advanced product and process development. SFSA has been involved in an ongoing set of meetings in D.C. advocating these policies on behalf of our members with little progress. The Casteel Commentary gives more details on these meetings and policy needs.

High Alloy Meeting

The High Alloy Product Group meeting will be held at the Ramada Plaza Hotel O'Hare August 27 and 28. This meeting is your opportunity to provide input into the research programs and to influence their direction. Projects to be covered at the meeting include the Ferrite Measurement Round Robin, Duplex Welding, Heat Treatment Procedure Qualification, CCT Diagrams, and an overview of SFSA activities. A tour of Finkl Forge is scheduled for the morning of August 28. Make reservations with the hotel at (847) 827-5131. We look forward to seeing you there.

Southern Division

The Southern Divisional T&O Meeting will be held in Longview, TX September 9 and 10. A tour of Southwest Steel Casting Company is planned for the morning of the 10th. More information will be sent to SFSA members soon.

Western Division

Mark your calendars for the Western Division meeting to be held at the Doubletree Hotel in Berkeley, CA August 21 and 22. The meeting on the 21st will include practical experiences from foundry operators and a review of activities in SFSA. A tour of Pacific Steel Casting Company is scheduled for the 22nd. Please let us know by email if you are planning on attending this meeting. The hotel telephone number for reservations is (510) 548-7920.

Market News

The three months' average for carbon and low alloy steel castings bookings and shipments based on SFSA trend cards are both positive for the first time in over two years. High alloy castings have shown irrational volatility and have swung wildly positive and negative. Raw steel shipments continued to increase but iron and steel castings tracked by U.S. Census declined. Capital goods orders showed a slight increase and order and shipments both increased relative to inventories. This mixed picture of an unsettled market place confirms the economic uncertainty reported in the manufacturing economy. No clear recovery has been confirmed while there are some modest signs of improvement. With the exception of a few special markets, like railroad, customers are not expecting any near term recovery. The macro economic situation should provide a relatively strong incentive for improved market conditions. With no clear timing for recovery, steel foundries should conserve resources. Continued closures of steel foundries makes it increasingly likely that supply will be limited when business improves.

Casteel Commentary

Manufacturing has become an issue of political concern. In the past two years we have lost more than two million jobs from manufacturing and conditions remain weak across the industry. With high unemployment in manufacturing regions of the industrial Midwest, the outcome of the next election may be influenced by the poor conditions in the marketplace. The Administration through the Department of Commerce has begun to talk with manufacturers about their needs and policies that might help. SFSA has been involved in a number of meetings to express our needs.

1. As a result of a personal contact of a member company, SFSA met with senior managers in the U. S. Trade Representative office on July 8. The failure of our officials to have an effective trade policy, especially with China, was raised as a fundamental challenge. USTR has been active in negotiating free trade agreements with a number of smaller trading partners without dealing with the nonmarket practices that China has used to prey on our economy. Their hope was that the ascension of China to the WTO would provide disciplines and incentive for China to change. This has not happened. China fixed the value of its currency to the dollar artificially weak so that as the dollar has fallen in world currency markets, China remains competitive in the U.S. and gains in other markets. Estimates are that China has a 30-40% advantage based on currency valuation. China has a nonmarket banking system so capital investments are done to promote exports not to maximize profits. The nonmarket allocation of capital allows China to buy new plant and equipment and tooling without having to recover their cost. China also rebates taxes on exports to encourage export driven sales. China producers often are locked into their labor and other costs so that export sales are used to offset these fixed costs. Their pricing is to capture the sale since any margin above their material costs contributes to defraying their costs. The undercost underpricing of China destroys the margins needed to sustain capital investment and profitable operation. Their population and growth have convinced many multinational OEMs to force suppliers to develop facilities in China. This capital investment competes with reinvestment in the U.S. economy. While China's nonmarket behaviour is unsustainable in the long term, they are trying to establish themselves in the U.S. market at the expense of U.S. firms. After we go out of business, they will be able to maintain or increase their market share over time. USTR and the Administration say they recognize the threat of China but were unable to identify a response that will resolve this issue.
2. SFSA met with the U.S. Department of Commerce management on July 9 to discuss the state of the industry and the policies needed to improve the situation. In addition to the trade situation describe above, SFSA raised the lack of incentives in U.S. policy for capital equipment investment in the economy. Depreciation penalizes the purchaser of capital equipment compared to other investment options. Capital equipment typically loses two thirds of its value at installation and this must be recovered by profitable operation. The investor in capital equipment is exposed to technology obsolescence, shifts in market demand, competitive product development, shifts in regulatory requirements, etc. Lending institutions require cash flow justifications for capital equipment investments that limit capital to industries in volatile businesses or in markets under attack from unfair trading practices. Many industries require an eighteen month payback making their investments cost reduction programs not capital investment programs. The lack of incentive for capital equipment investment makes modernization and domestic production problematic. Expensing capital equipment should be permitted

and be permanent, like the home mortgage interest rate deduction. U.S. DoC listened sympathetically but could not identify anything beyond the current tax law changes to improve incentives for investment.

3. SFSA met with senior management at the Department of Energy to discuss technology development and the future of the Industries of the Future program. One clear strategy to maintain manufacturing vitality in the U.S. is the development of efficient technology, advanced products, and innovative processes. The Department of Energy is to improve our energy security, improve our energy efficiency, and reduce our environmental impact. The IOF program works directly with industry to achieve these policy goals to make industry more competitive while accomplishing the priorities of DoE. Industry consumes 37% of the energy used in the U.S. economy. Last year, DoE proposed a 60% cut in the IOF program. SFSA with the IOF industries expressed great concern that the Administration expressed a concern about the future of manufacturing but was cutting the most effective programs like the IOF. U.S. DoE indicated that manufacturing was only one of many priorities and that the proposed reduced budget reflected the Administration's priorities.

Frustration is expected when dealing in D.C. but the lack of an understanding of manufacturing issues and needed policies was frightening.

Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2003

August

21/22

Western Division T&O - Berkeley, CA

27/28

High Alloy Product Group - Chicago, IL

September

2/3

Centrifugal Product Group Meeting and plant tour, Watertown, WI

9/10

Southern Division T&O - Longview, TX

November

5/8

National T&O Conference - Hotel Inter-Continental, Chicago, IL

5

Board of Directors - Hotel Inter-Continental, Chicago, IL

5

Marketing Committee - Hotel Inter-Continental, Chicago, IL

18

Specifications Committee, Tampa, FL

2004

May

18

Specifications Committee, Salt Lake City, UT

September

11/15

Annual Meeting - Ritz Carlton Hotel, Amelia Island, FL

November

3/6

National T&O Conference - Hotel Inter-Continental, Chicago, IL

9

Specifications Committee, Washington, DC

**STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT**

SFSA Trend Cards 3 Mo Avg May Apr
(%-12 mos. Ago)

Carbon & Low Alloy

Shipments	5.6	11.0	0.0
Bookings	9.8	-9.2	11.0

High Alloy

Shipments	1.2	6.6	8.4
Bookings	-9.0	8.2	-13.5

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,270	1,250	1,259
New Orders	1,262	1,240	1,262
Inventories	1,788	1,756	1,802

Nondefense Capital Goods (billion \$)

Shipments	58.2	62.9	55.9
New Orders	55.6	55.3	55.8
Inventories	109.8	109.4	109.2

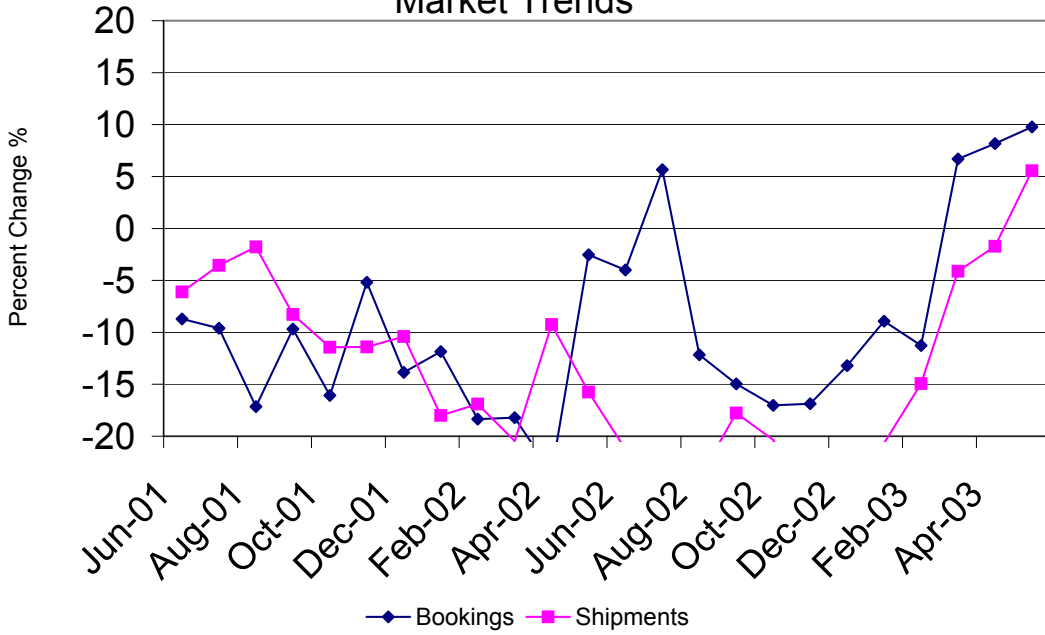
**Nondefense Capital Goods
less Aircraft (billion \$)**

Shipments	54.1	55.6	53.7
New Orders	54.4	53.8	54.0
Inventories	87.2	86.7	86.7
Inventory/Orders	1.60	1.61	1.60
Inventory/Shipments	1.61	1.56	1.61
Orders/Shipments	1.01	0.97	1.01

American Iron and Steel Institute

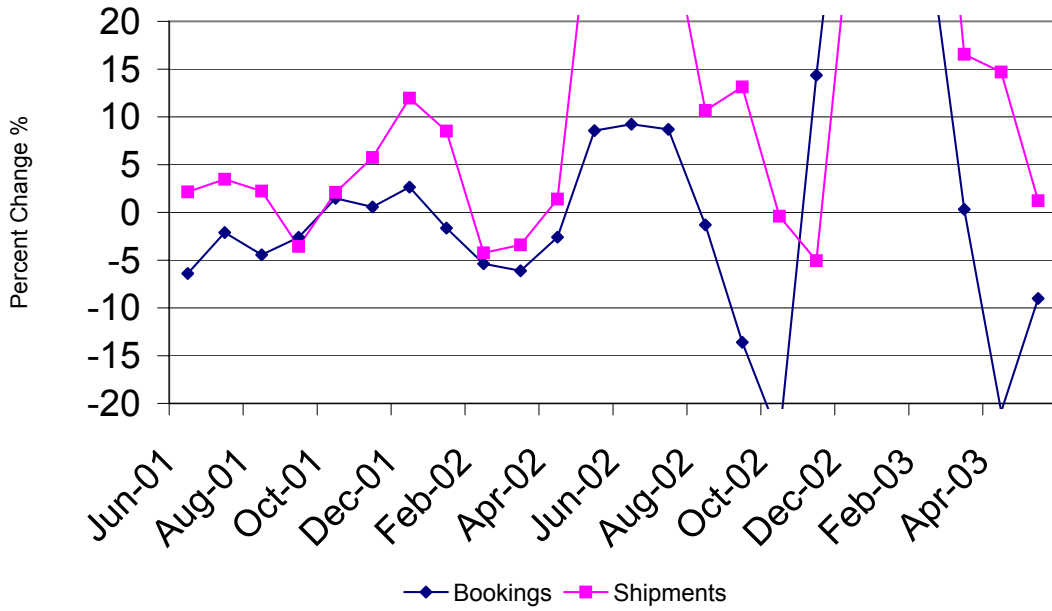
Raw Steel Shipments (million net tons)	8.8	8.6	8.8
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Carbon & Low Alloy Casting Market Trends



SFSA Postcards

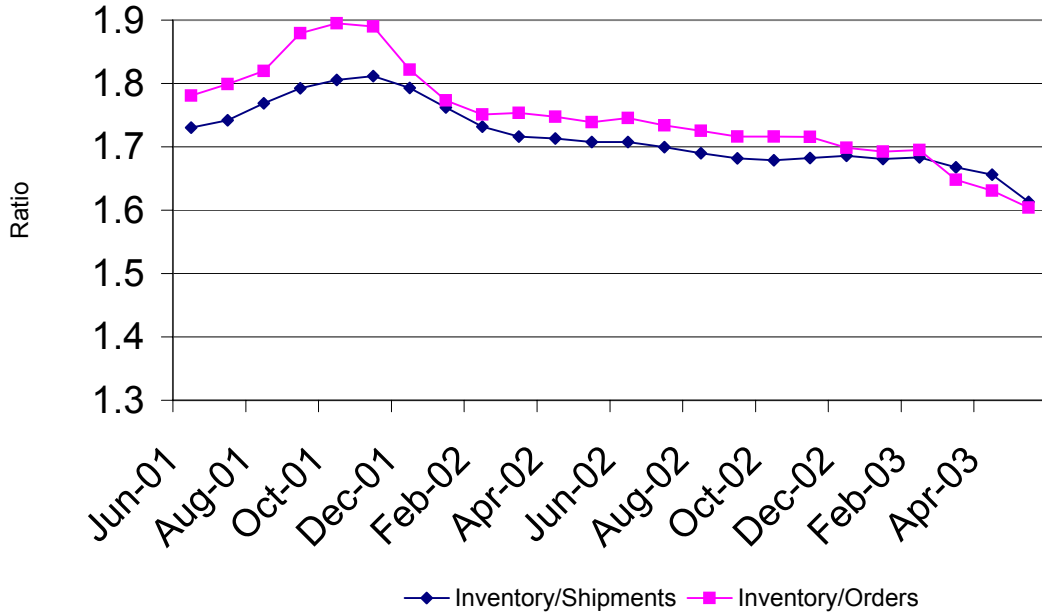
High Alloy Casting Market Trends



SFSA Postcards

Nondefense Capital Goods less Aircraft

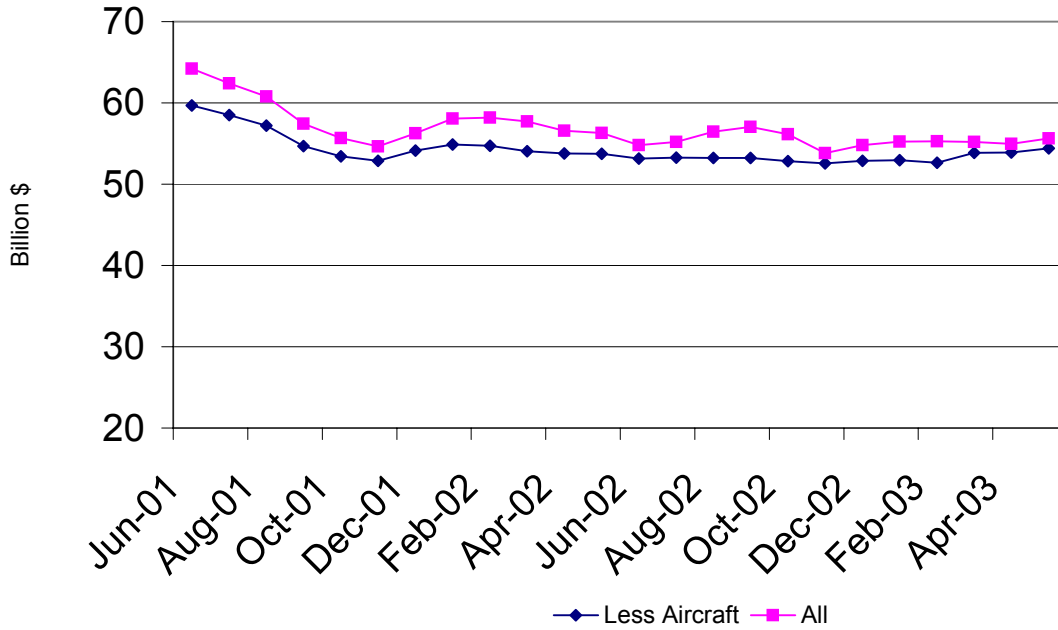
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

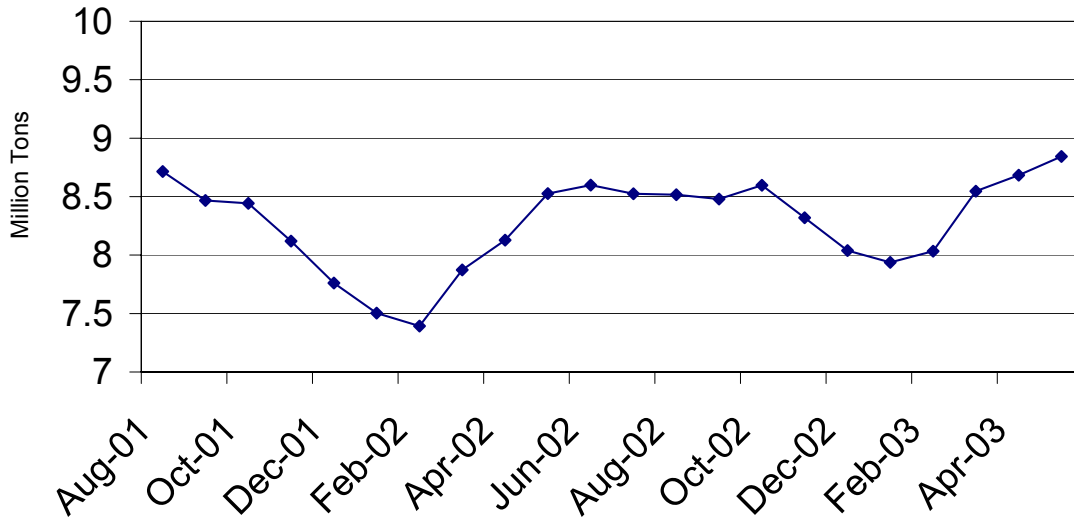
3 month average



Department of Commerce

Raw Steel Shipments

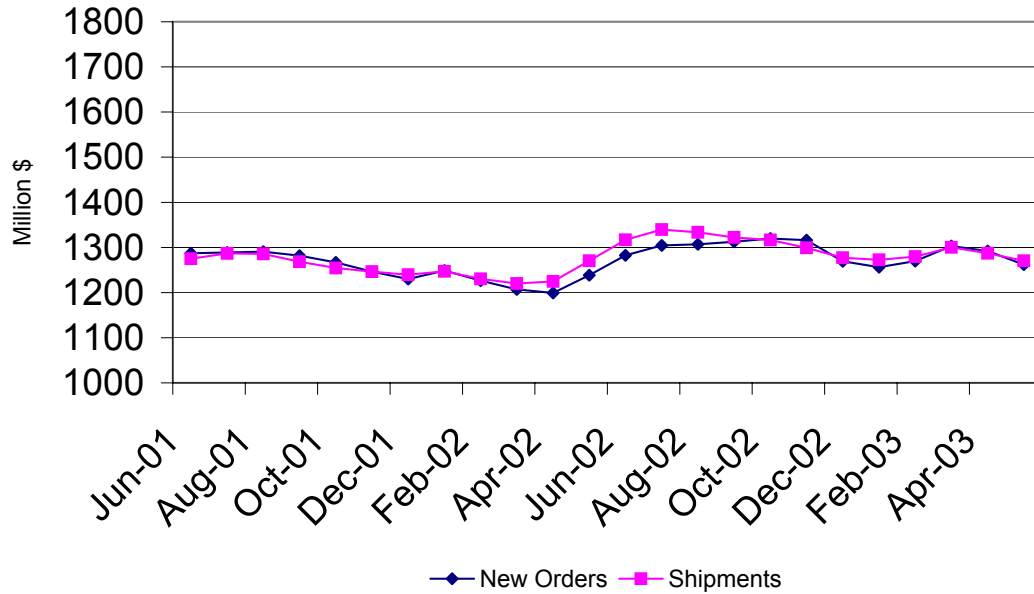
3 month average



AISI Data

Iron and Steel Castings

3 month average



SFSA