



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication

serving SFSA steel casting industry Members

780 McArdle Drive Unit G, Crystal Lake IL 60014

815-455-8240 Fax: 815-455-8241

www.sfsa.org

March — 2005

Casteel Commentary Highlights:

An historic shift from excess capacity to limited supply in the past year has fundamentally changed our marketplace. Imbedded in this shift is a move from low cost to maximum throughput as the critical limitation on profitability. This also shifts from a cost plus pricing to market valued pricing as a result of customers bidding up our limited capacity. The Casteel Commentary reflects on these two changes in our business.

Membership Benefits

SFSA members made 3533 shipments with the SFSA Yellow Freight Program, saving \$2,389,098.90 during 2004. This program provides a 62% on-bill discount on inbound and outbound standard ground LTL shipments. A thank-you letter from James L. Welch, President and CEO of Yellow Transportation is attached to this newsletter. To enroll in the program, visit <http://www.enrollhere.net>

Casteel Commentary

In a shift from excess capacity to limited supply, fundamentals about the conduct of business change almost overnight. Two to consider in your planning are the change from cost to throughput for profitability and from cost-plus to market value pricing. Understanding these shifts help steel casting producers manage and adjust to succeed in a dramatically different business climate.

Market News

Market demand for steel castings remains strong. Growth that began hesitantly in 2003 was positive throughout 2004. This now is compounding over the positive results of 2003 and 2005 looks to be strong. Growth may slow but is unlikely to slowdown significantly. Most market users of steel castings are not concerned about their market demand but their casting supply. The Census report on ferrous castings shows continued growth throughout 2004. AISI reports a December slowdown in shipments but for 2004 they shipped 112,085,000 tons compared to 105,974,000 tons in 2003. Nondefense capital goods orders continue steady growth accelerating through most of 2004.

AFS Government Affairs Conference

The AFS Government Affairs Conference (March 9-11, 2005 in Washington, D.C.) allows our industry to work together to influence political decisions in Washington. I would suggest that each member consider attending. The schedule registration materials are attached to this newsletter.

continued on next page

In times of excess capacity, low costs are the driving force for profitability. Because there are many suppliers and customers have excess capacity, it is possible to shop for the best price. If a mistake is made, the excess capacity of suppliers and manufacturers allow us to "catch up". Lean inventories, minimal staffs, restricted capital investment, low cost maintenance strategies, and cheap approaches drive costs down. These lower costs allow pricing to remain stable or drift down over time. This low cost approach leads to a downward drift in pricing as existing work is moved between competitive vendors seeking the lowest costs. This excess capacity is being destroyed slowly through unsustainable pricing levels that wear out equipment that will not be replaced. Eventually, the destruction of capacity is complete and we shift into an era of limited supply.

When supply is limited, maximum throughput replaces lowest cost as the determiner of profitability. Without excess capacity, we cannot "catch up" and lost sales are lost profits. Most of our customers are in the same circumstances and cannot afford the loss of production. The lack of capacity does not allow short lead times so existing customers can shift their requirements so that existing capacity is directed at their most urgent needs. In a limited supply market where profitability depends on throughput, building inventories, recruiting competent staff, targeted capital investment, aggressive maintenance efforts, and costly fast fixes accelerate production. Limited supply results in pricing improving dramatically and quickly as customers realize that lost production exceeds any savings from shopping for lower cost. Capacity is added slowly as profitability provides the needed resources and pricing is sustained. Eventually new capacity is needed to meet growing demands.

The shift from excess capacity to limited supply shifts pricing from cost-plus to market value. In times of excess capacity, pricing is set as low cost producers absorb market demand until the last needed producer meets the last incremental demand. When supply is limited, prices are bid up until some users create alternative like fabrication or offshore suppliers. This market based pricing is normally significantly higher than costs. This is especially true at the end of a period of excess capacity where prices have drifted to unsustainably low levels. The legacy of low prices and costs gives way to the reality of limited supply and inflexible need. The shift in pricing from unsustainable legacy levels to market value is likely to exceed a 40% increase in pricing levels. The shift takes time as the new realities only gradually become clear. We must not think that it is somehow unfair or wrong to use pricing to allocate our limited supply. We need not think that market based pricing based on need is somehow cheating but need to see that this is the most economically efficient way to allocate our limited supply.

Managing now will require different approaches than we have had for the past twenty years. Investing in equipment, hiring needed staff, increasing production are all difficult, especially with a limited availability of capital. Leveraging the current market demands into financial stability, re-equipping the plant and replacing our aging skilled workforce will be the challenge we face for the next 10 years.

Raymond

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2005

March
9/11

AFS Government Affairs Conference, Washington, DC

May
3/4
3/4

Heavy Section Product Group Meeting & Plant Tour, Attica, IN
Marketing Committee Meeting & Plant Tour, Attica, IN

September
10/14

SFSA Annual Meeting, Incline Village, NV

November
2/5

National Technical & Operating Conference, Chicago, IL

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

SFSA Trend Cards 3 Mo Avg Dec Nov
(%-12 mos. Ago)

Carbon & Low Alloy

Shipments	36.6	31.0	47.0
Bookings	38.7	47.0	55.0

High Alloy

Shipments	112.5	23.6	159.0
Bookings	148.7	99.0	197.0

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,637	1,657	1,637
New Orders	1,654	1,659	1,688
Inventories	1,913	1,913	1,919

Nondefense Capital Goods (billion \$)

Shipments	65.4	66.5	64.1
New Orders	67.6	68.7	69.5
Inventories	110.3	110.6	110.9

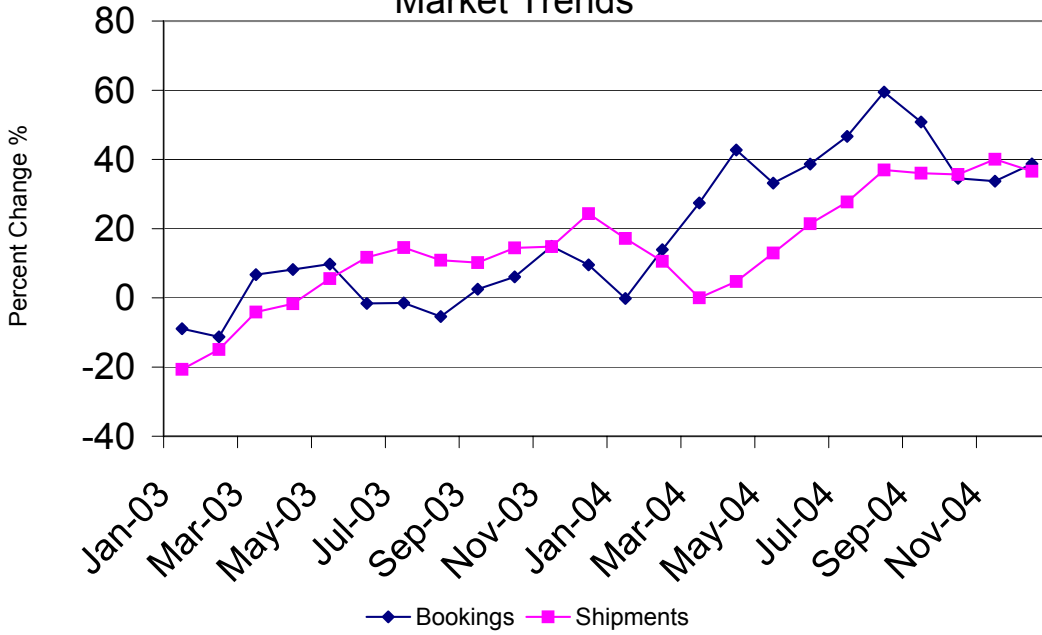
**Nondefense Capital Goods
less Aircraft (billion \$)**

Shipments	62.9	63.7	62.1
New Orders	63.3	64.5	63.0
Inventories	93.6	94.0	93.8
Inventory/Orders	1.48	1.46	1.49
Inventory/Shipments	1.49	1.48	1.51
Orders/Shipments	1.01	1.01	1.01

American Iron and Steel Institute

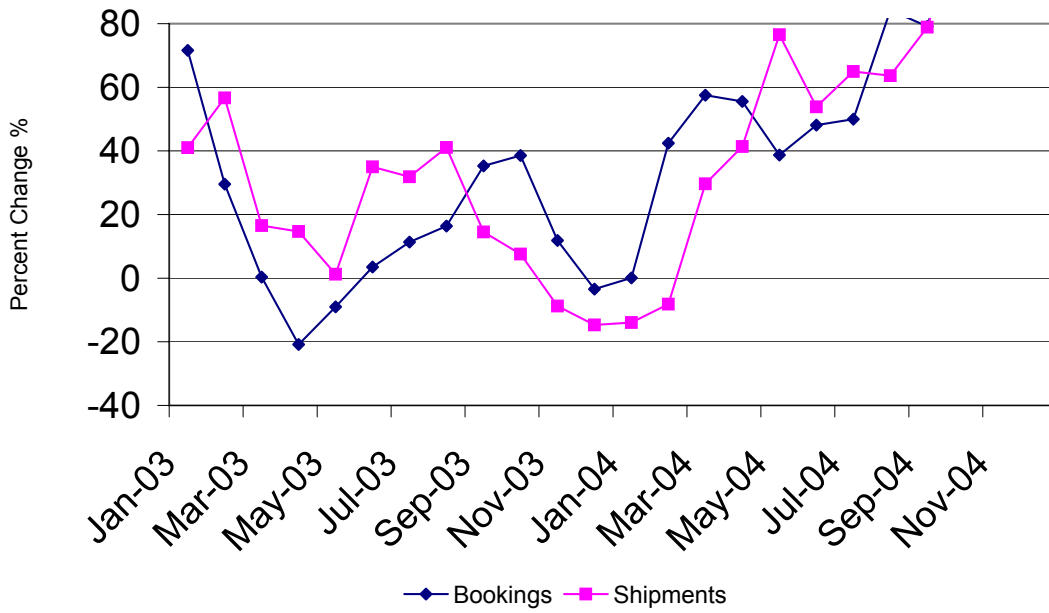
Raw Steel Shipments (million net tons)	8.9	8.4	9.0
---	-----	-----	-----

Carbon & Low Alloy Casting Market Trends



SFSA Postcards

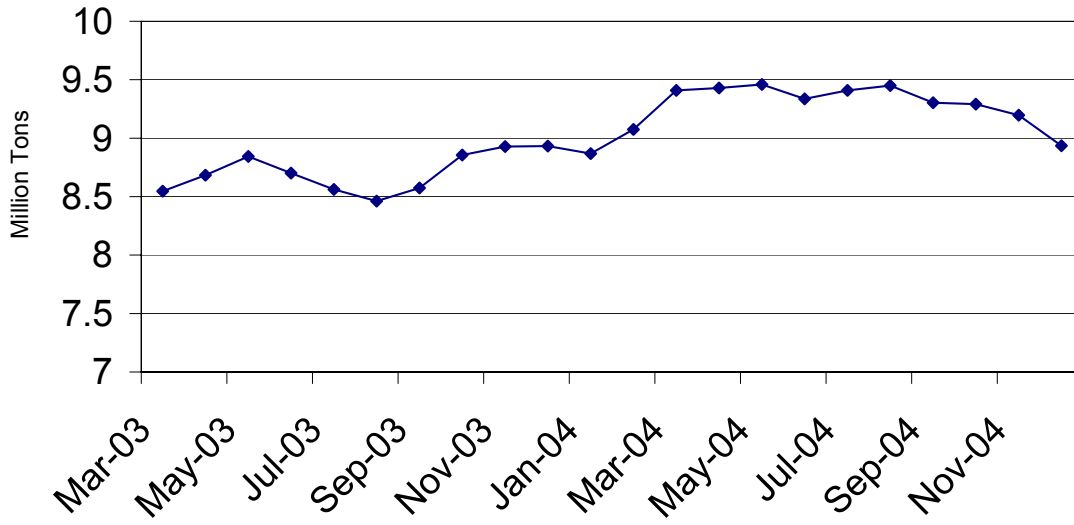
High Alloy Casting Market Trends



SFSA Postcards

Raw Steel Shipments

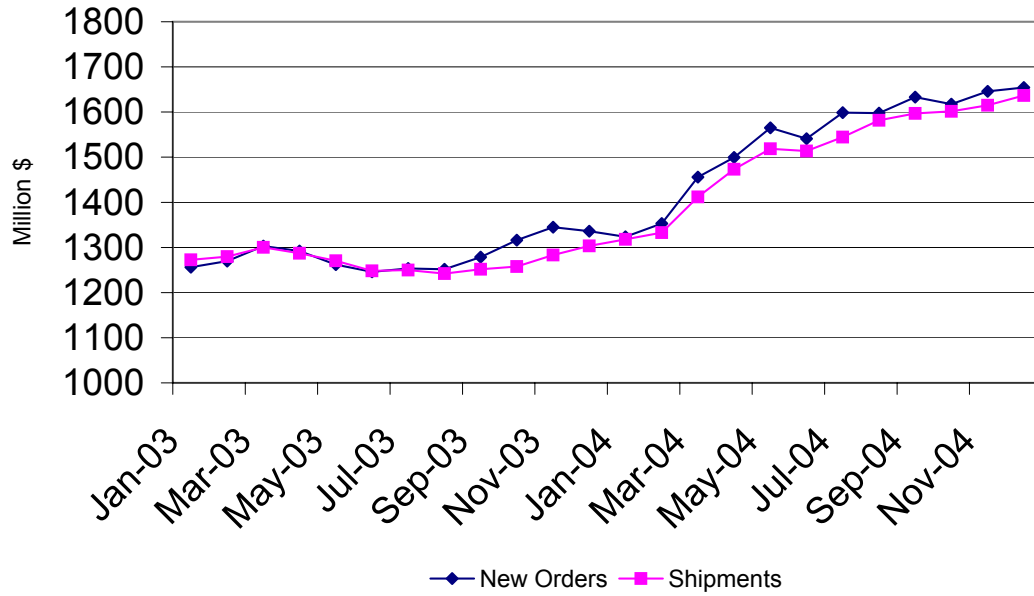
3 month average



AISI Data

Iron and Steel Castings

3 month average

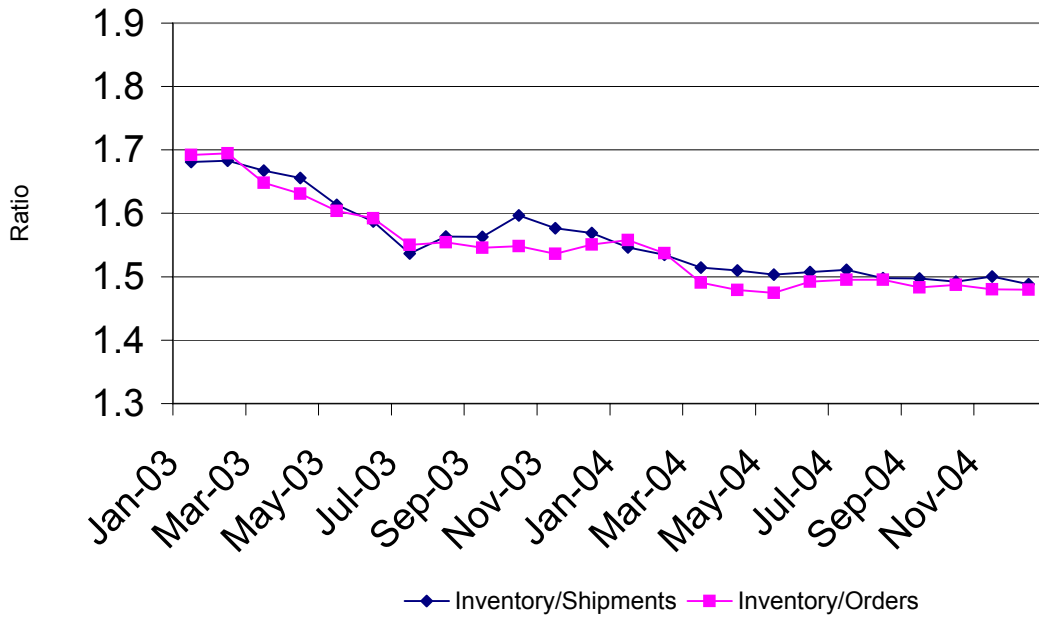


◆ New Orders ■ Shipments

SFSA

Nondefense Capital Goods less Aircraft

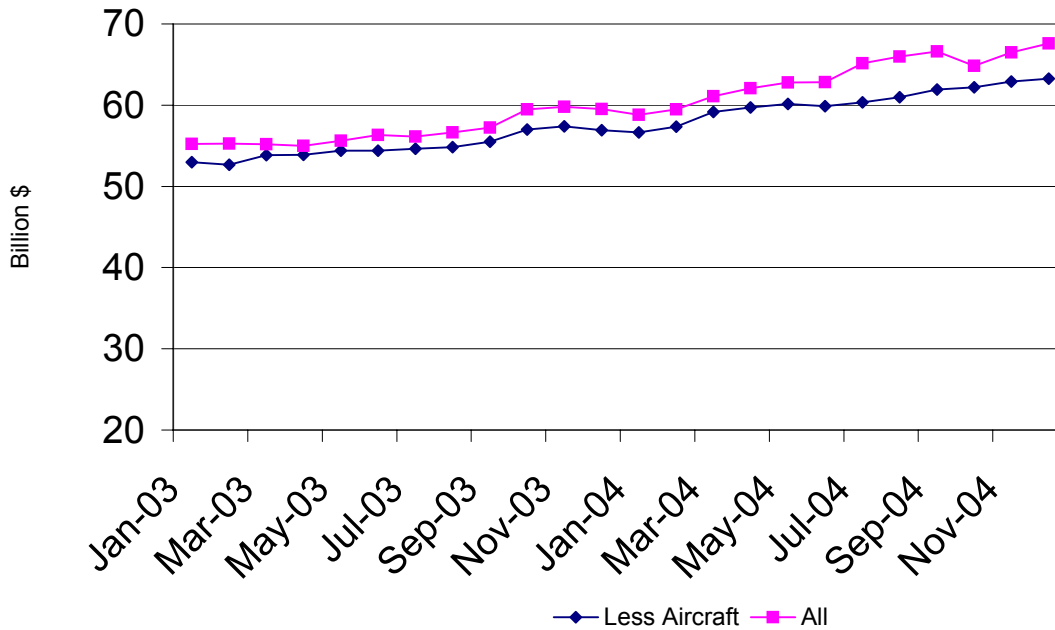
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce

American Foundry Society Metalcasting Industry Government Affairs Conference

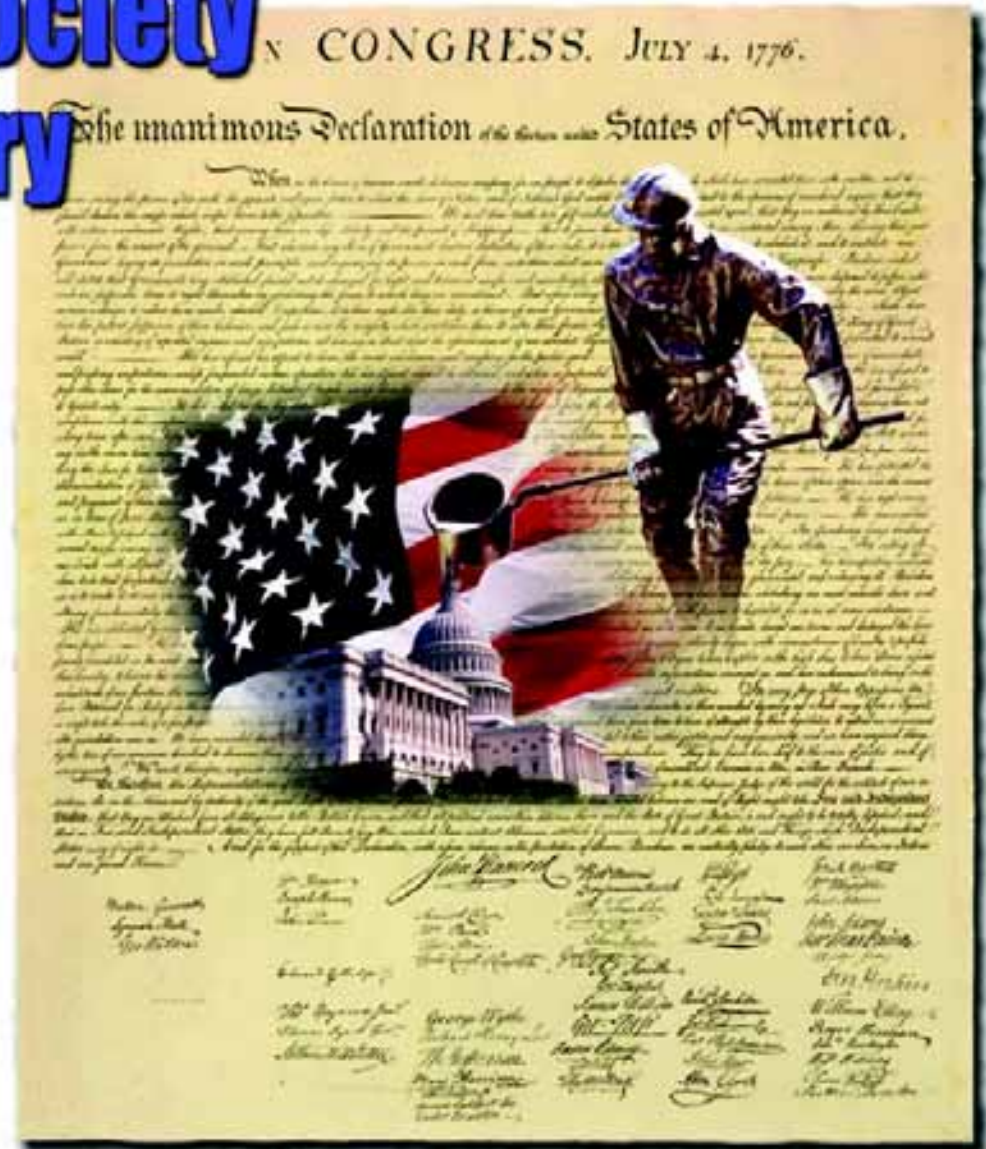
**Founders of the Nation -
Casters of the Future**

March 9-11, 2005

**Loews L'Enfant Plaza Hotel
Washington, D.C.**

Make your plans NOW to attend.

We need your voice in Washington!



AFS Metalcasting Industry Government Affairs Conference

Founders of the Nation - Casters of the Future **March 9-11, 2005**

Loews L'Enfant Plaza Hotel ★ 480 L'Enfant Plaza ★ Washington, D.C. 20024 ★ Hotel phone: 202/484-1000

Make your plans now to attend the 2005 AFS Metalcasting Industry Government Affairs Conference, March 9-11, 2005. We need your voice in Washington today as we did in 1776.

The American foundry industry has a long, proud tradition of creating the items needed to make the United States go. In fact, seven signers of the Declaration of Independence were foundrymen and helped cast the direction of a fledgling democracy. These businessmen realized that for this new American government to work, participation by its citizens was vital.

Everyday policy makers in Washington are involved in decisions that impact your business' bottom line. Each new initiative brought forth by Congress has the potential to give needed help or hinder your ability to remain competitive and grow in the global market.

YOU CAN MAKE A DIFFERENCE! Your voice is needed in DC to tell your elected government officials about the importance of the U.S. remaining a competitive location for businesses.

AFS Metalcasting Industry Government Affairs Conference AGENDA

Wednesday, March 9

1:30-5:30 p.m.

Wednesday afternoon will focus on current legislative issues and the impact on your ability to compete against low-cost imports.

Thursday, March 10

The day will kick-off with a breakfast and briefing at 8:00 a.m. Following that attendees are encouraged to make hill visits and discuss issues that are affecting your business with your Congressional representatives. **Call Capitol Hill at 202/224-3121 to contact your congressional offices and schedule an appointment.** Thursday evening we will have a reception with guest speaker Newt Gingrich.

Friday, March 11

8:00.-11:30 a.m.

Friday will be dedicated to regulatory issues. Various representatives from OSHA and EPA will be on hand to discuss regulations that are affecting you and the cost to do business.

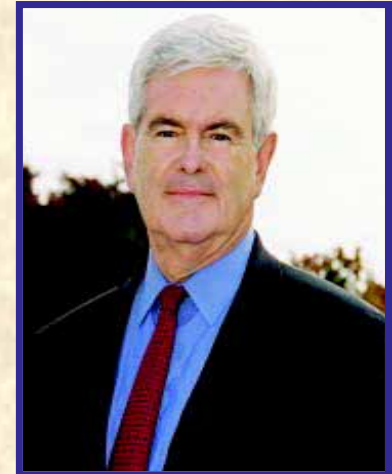
(For a more complete agenda, please visit our website at www.afsinc.org)

SPEAKERS

Newt Gingrich - Guest Speaker, Thursday evening, March 10

Newt Gingrich is well known as the architect of the Contract with America that led the Republican Party to victory in 1994 by capturing the majority in the United States House for the first time in 40 years. After he was elected Speaker, he disrupted the status quo by moving power out of Washington and back to the American people. Under his leadership, Congress passed welfare reform, passed the first balanced budget in a generation, and restored funding to strengthen our defense and intelligence capabilities, in addition to passing the first tax cuts in 16 years.

But, there is a lot more to Newt Gingrich than these remarkable achievements. As an author, Newt has published seven books including the best sellers, *Contract with America* and *To Renew America*. His most recent books are *Saving Lives & Saving Money*, which demonstrates how to transform health and healthcare into a 21st century system; *Gettysburg: A Novel of the Civil War* an active study in the lessons of warfare based on a fictional account of the battle of Gettysburg; and the sequel, *Grant Comes East*, co-authored with William Fortschen.



Newt Gingrich

Newt Gingrich is CEO of the Gingrich Group, a communications and consulting firm that specializes in transformational change, with offices in Atlanta and Washington, DC. He serves as a senior fellow at the American Enterprise Institute in Washington, DC, a distinguished visiting fellow at the Hoover Institution at Stanford University in Palo Alto, California, the honorary chairman of the NanoBusiness Alliance, and as an advisory board member for the Museum of the Rockies. Newt is also a news and political analyst for the Fox News channel.

Other invited speakers include: Rep. Donald Manzullo (R-IL), Todd Tiahrt (R-KS) and Rep. Tom Delay (R-Tex)

AFS Metalcasting Industry Government Affairs Conference

The conference will begin at 1:30 p.m. on Wednesday, March 9 and conclude at 11:30 p.m. on Friday, March 11.

Registration Information

AFS Member.....\$550

Nonmember.....\$650

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip/Postal Code _____

Phone _____ Fax _____

Email _____

Check Enclosed

The following information is required to charge:

American Express

MasterCard

VISA

Account# _____ Exp. Date _____

Authorized Signature _____

Mail to: American Foundry Society, Inc., 1695 N. Penny Lane, Schaumburg, IL 60173, Fax: 847/824-7848

Conference Fees: Conference registration is \$550 for AFS Members and \$650 for nonmembers. Fee includes conference registration, materials, breakfast, luncheon, reception and coffee breaks.

Cancellations and Substitutions: Substitutes will be accepted at any time. However, cancellations of confirmed registrants with full refund of fees cannot be accepted unless received one week prior to conference date. In the unlikely event the conference is canceled for any reason, AFS liability is limited to the return of the registration fee.

Housing Information: Hotel reservations must be made directly with the Loews L'Enfant Plaza Hotel, 480 L'Enfant Plaza SW, Washington DC 20024, Phone: 202/484-1000. Ask for "American Foundry Society Conference" room block. A room rate of \$189 single and double is available to conference participants. Room reservations must be made by February 9. Any reservations made after this date will be confirmed on a space-available basis.



American Foundry Society

1695 N. Penny Lane
Schaumburg, IL 60173
www.afsinc.org

PRE-SORTED
STANDARD
U.S. POSTAGE PAID
PERMIT #82
SCHAUMBURG, IL
60173-4555

Monday, Jan 17, 2005



We get your show on the road. Or in the air. Your choice.

Thanks for Letting Us Help You Keep Your Promises

Dear **SFSA** Friends,

As 2005 begins anew, I want to thank you for placing your trust in Yellow. We work hard every day to keep our promises, so you can keep yours.

Our efforts have led to a number of honors; we are proud to be named the #1 company in our industry in the Fortune Most Admired Companies issue for the second year in a row. However, the most important endorsements come from you, our valued customers, who return to us day after day for transportation solutions.

To provide you the best solutions, Yellow continually enhances our transportation network and the services we offer. The past year has been a time of great growth for our company, and I hope you have enjoyed some of the new services and enhancements, such as Standard Ground Truckload.

Rest assured that your feedback and your business concerns help guide continuing service improvements at Yellow. We're devoted to delivering comprehensive solutions for all your transportation challenges. With you in mind, Yellow plans more upgrades in 2005: adding options to Exact Express, enhancing our regional offerings and providing even better tools on MyYellow.com.

This award-winning Website is a great value-added feature from Yellow, and I encourage you to make full use of it. MyYellow.com can be a powerful ally as you work to streamline your supply chain. If you have any questions about the site and the tools we offer, call 1-800-610-6500.

Again, thank you for your support. On behalf of everyone at Yellow, I wish you a happy, healthy and prosperous new year.

Sincerely,
James L. Welch,
Yellow Transportation President and CEO