



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

January — 2007

Casteel Commentary Highlights:

The Casteel Commentary asserts that while the coming year will see some softness in demand, the systemic lack of capacity and the continued global growth will support stable prices and end with strong demand.

Performance Benchmarking

SFSA is again offering to members a free participation in a Performance Benchmarking Study. I will be sending out a letter and would encourage your participation. I find the survey to cover important measures of effectiveness and if enough steel foundries participate, you will be benchmarked against others in our industry. Call me or email if you have questions or need additional information.

Hexavalent Chromium

SFSA is gathering information from member concerning exposure to hexavalent Chromium in compliance with the new OSHA standard. If you have not submitted your data please send it confidentially to me. This will allow me to compile a report of our industry tests for use in your future compliance planning.

Innovation

Short Cycle heat treatment has been discussed and explored several times in the past three decades. Recent developments in control technology and instrumentation coupled with capacity constraints and energy costs suggest that real implementation is now possible. Based on earlier research, FALK Corporation has been qualifying short cycle heat treatments.

Tim Nitz at the SFSA T&O Conference presented this methodology. If heat treatment is of interest you should see if this approach could be used in your plant.

Specification Note

Welding is a common production process used in steel foundries to meet customers' requirements. Welders are a normal part of staffing and are qualified to ensure that their production activities can meet specification limits. Our industry and customers refer to production welding as repair welding. This is inappropriate and unclear. The term repair welding comes from fabrication welding where a weld is inspected and if it fails to meet the quality required, it must be removed and the fabricated joint welded again to repair an unacceptable weld. In casting, no weld was made and no weld is repaired. Instead, production of castings may require welding for joining, to fill in a chaplet removal site, to plug an unwanted core print, or to meet the NDE requirements. These welds are production welds and are called this in ISO Steel Casting Standards.

Market News

The SFSA Trend cards shows continued strong growth for October in bookings for most steel castings. Shipments of these castings is still growing but more slowly. High alloy castings show reduction in bookings but still robust growth in shipments. The Department of Commerce Census data for iron and steel foundries show continued declines. Much of this is likely due to slowdowns in consumer activity

affecting iron castings used in durable goods like autos. Steel shipments are also showing some slowdown. Non Defense Capital goods are also showing slowing activity.

The SFSA Marketing Committee reviewed the forecast for 2007 prepared last summer and updated the projections in December. The updated forecast is included for your use. Other market information is available here in the SteelGuru document available on the Casteel Reporter web page.

Market Segment	Estimated 2005 (tons)	Projected 2006 (tons)	2006 Change (%)	Forecast 2007 (tons)	2007 Change (%)
Railroad	617,000	684,870	11	675,967	-1
Mining	130,000	143,000	10	151,580	6
Construction	110,000	118,800	8	118,800	0
Trucks	24,000	25,920	8	19,440	-25
Valves	40,000	42,000	5	44,520	6
Pumps	11,500	12,075	5	12,800	6
Oil Field	20,000	22,000	10	25,300	15
Military	10,000	10,800	8	11,340	5
Other Markets	65,000	75,400	16	81,432	8
Total	1,027,500	1,134,865	10	1,141,178	1

Casteel Commentary

Prices for oil has dropped significantly since the beginning of the year. Is this a signal that the demand for capital goods supported by high commodity prices will tank or is this only an adjustment to the market based on a mild winter and excessive market risk?

Steel casting demand is driven in large part by the demand for capital equipment. Sustained high prices for many commodities, like oil and copper, have led to robust demand for equipment. While the price of nickel and other commodities remain high, copper and oil have seen declines. Is this a significant and sustained trend marking the end of strong demand, a temporary set back in a growing shortage, or an easing of demand and pricing at a new higher level typical of the future. It is not clear.

In any sudden upswing in demand, prices escalate rapidly as the market begins to recognize the shortage and bids up the price of supply. At these higher and rising prices, users and others speculate on increased prices in the future and try to acquire the existing stock. Users scramble to get supply to allow continued operation and sales as alternatives are found. Alternate sources or materials are proposed but not yet on the market.

After some time, holders of inventory sell to realize high prices. New and expanded sources of supply come on stream. Alternative materials and sources penetrate the market. Some users find other materials or reduce production and consumption. Just like speculation causes prices to overshoot, high prices tend to balance the market and allow the prices to drop. As prices drop, speculators and holders of inventory sell to gain higher prices depressing prices. This causes the price to stabilize and drop causing further anticipation of falling prices.

As someone has observed, in the short term markets are voting booths; in the long-term they are weighing machines. The actual midterm outlook for capital equipment depends not on market pressures but the balance of supply and demand. As given several months ago, the reinvestment price for oil is likely around \$40 a barrel and for copper is \$1.15 a pound. Even with the recent price drops, these commodities are still well above their reinvestment target prices. As long as the world economy is expanding, the supplies of commodities will need to grow to meet the demand. The inability to meet world demand should continue to support and sustain demand for capital equipment.

Significant economic disruptions could cause a severe slow down. Even given the positive overall demand for commodities and equipment, market activity and the overall consumer business cycle will affect the demand for steel castings. But until the capacity to adequately supply a growing world market with all the basic commodities is in place, demand for steel castings should remain relatively strong. As long as the demand does not create new investment and capacity, prices should remain attractive and profitability should allow our industry to recapitalize. This coming year should see some slowdown in consumer activity that may cause some stability or slowness in the market demand for castings but our systemic lack of capacity will allow prices to remain stable.

Raymond

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2007

August

18/22

SFSA Annual Report, Alyeska Resort, AK

December

12/15

National Technical & Operating Conference, The Drake Hotel, Chicago, IL

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

SFSA Trend Cards (%-12 mos. Ago)	3 Mo Avg	Oct	Sep
--	----------	-----	-----

Carbon & Low Alloy

Shipments	3.2	1.8	-5.5
Bookings	13.0	11.5	4.4
Backlog (wks)	11.7	13.4	12.0

High Alloy

Shipments	16.1	23.0	-2.7
Bookings	-6.3	-10.6	-39.4
Backlog (wks)	11.2	12.0	13.0

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,629	1,598	1,630
New Orders	1,587	1,511	1,605
Inventories	2,214	2,259	2,196

Nondefense Capital Goods (billion \$)

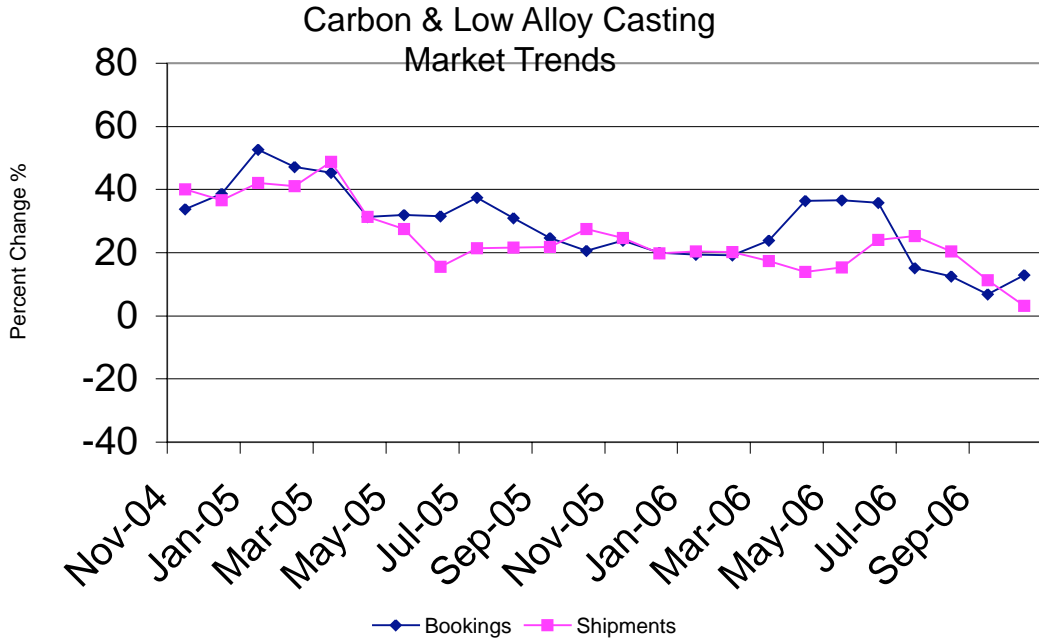
Shipments	67.4	66.3	67.9
New Orders	81.8	73.2	86.7
Inventories	113.0	113.6	112.9

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

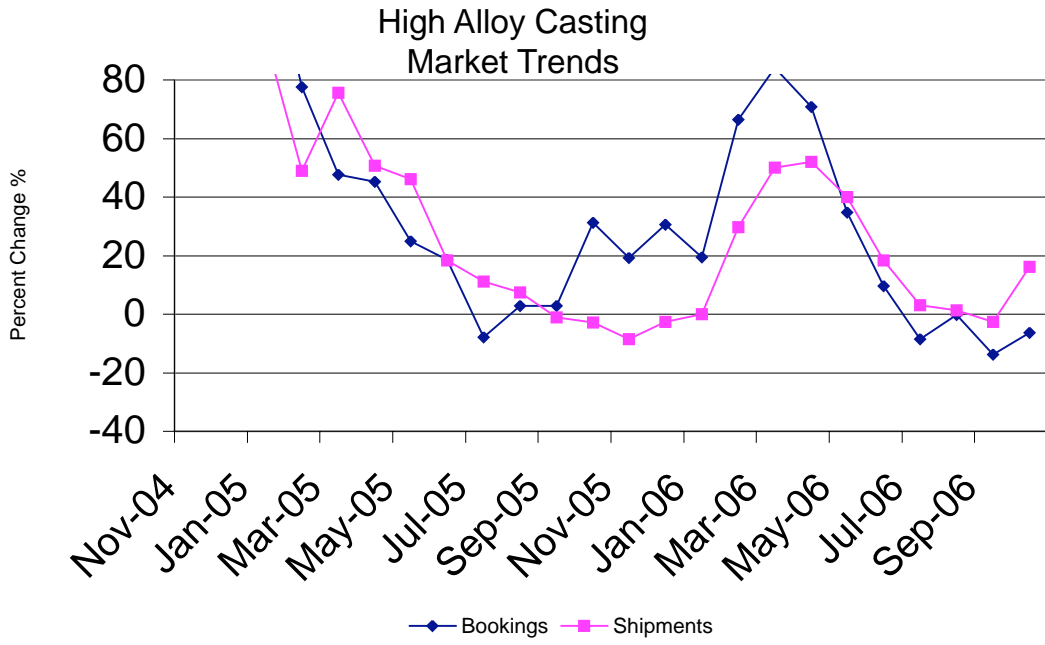
Shipments	61.6	60.9	61.9
New Orders	65.3	63.4	66.6
Inventories	94.9	95.2	94.9
Inventory/Orders	1.45	1.50	1.42
Inventory/Shipments	1.54	1.56	1.53
Orders/Shipments	1.06	1.04	1.08

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	9.2	8.7	9.2
---	-----	-----	-----



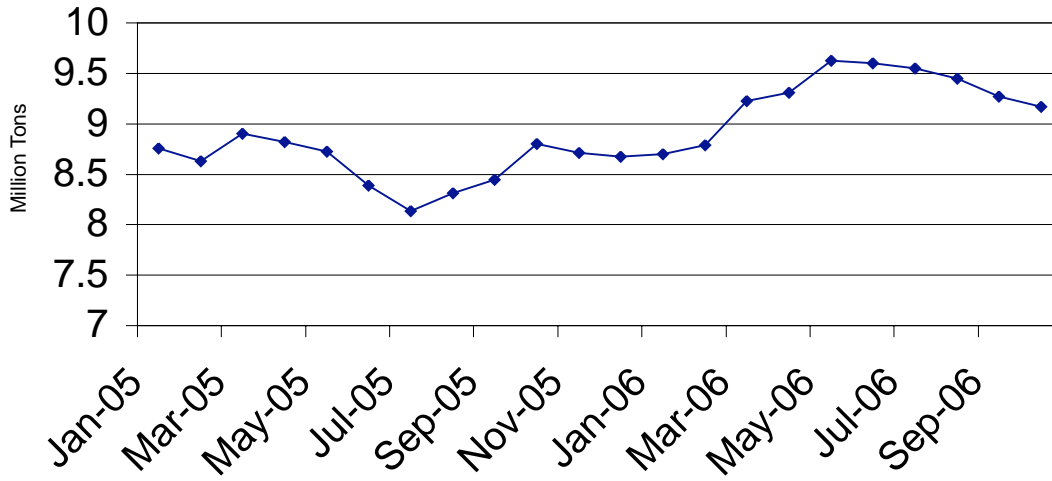
SFSA Postcards



SFSA Postcards

Raw Steel Shipments

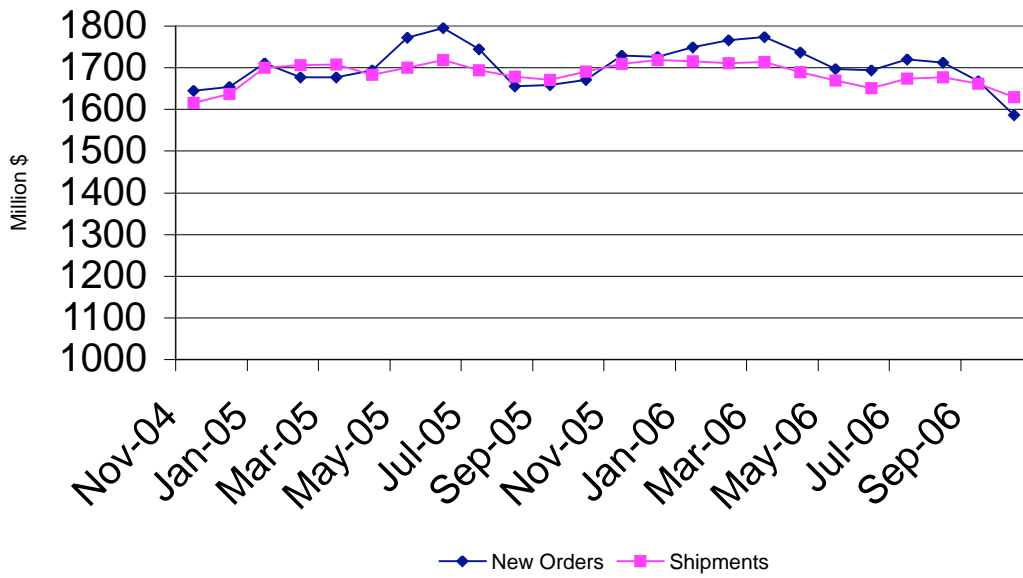
3 month average



AISI Data

Iron and Steel Castings

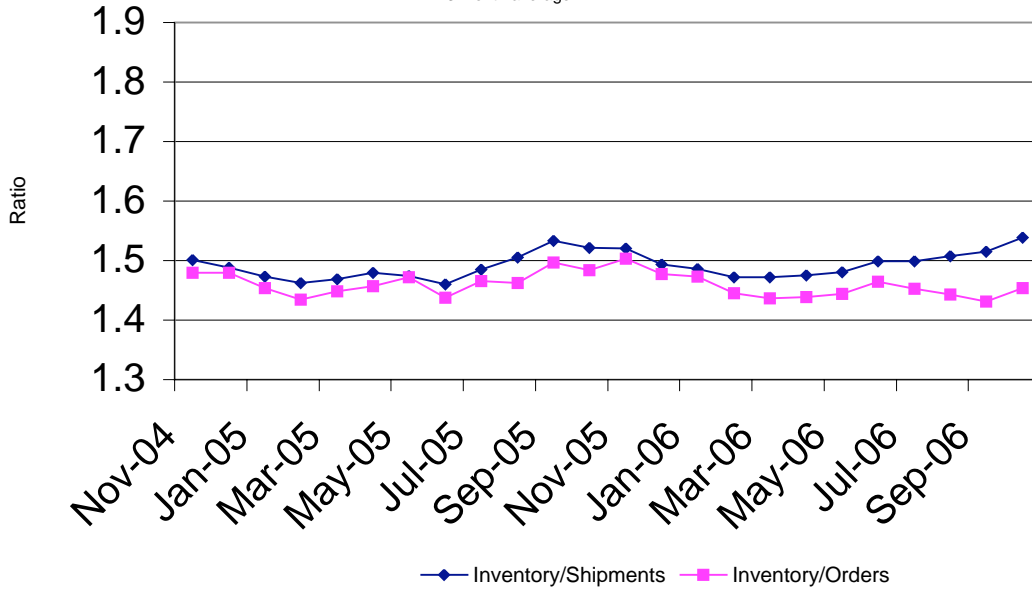
3 month average



SFSA

Nondefense Capital Goods less Aircraft

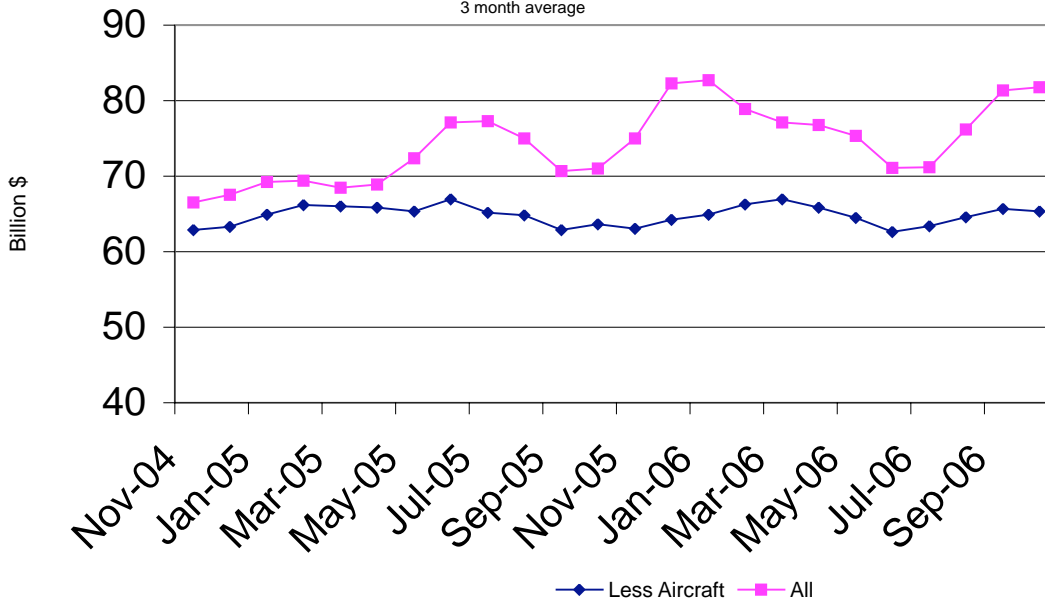
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce