



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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Casteel Commentary Highlights:

This month to start the year off, the Casteel Commentary makes some relatively timid projections for the coming year. Business should be very similar to last year and we will face fundamentally many of the same challenges of staffing and volatile pricing. Last Reporter I mentioned the use of HIP to improve the properties of steel castings. In that paragraph I mentioned that a fluid was used to provide high pressures at high temperatures. This is incorrect; the process uses argon gas at high pressure to achieve the desired improvement.

Area Source Rule

The US EPA Area Source Rule Final for Steel Foundries and a summary document is available here, on the Casteel Reporter web page.

Market News

Casting trends continue to show softening. Bookings are down from a year ago for both Carbon and Low Alloy and High Alloy castings. Backlogs have declined slightly. Steel log products and iron castings have seen some modest improvement. Capital Goods orders, shipments and inventories suggest continued but slow growth. Large castings and high alloy castings should remain strong with high commodity prices but smaller castings will be weaker. This should change later in the year and smaller castings should see market improvements. Graphs and other information are attached to the PDF version of this newsletter. An update for the SFSA Forecast is given in the Table below.

Market Segment	Estimated 2006 (tons)	Projected 2007 (tons)	2007 Change (%)	Forecast 2008 (tons)	2008 Change (%)
Railroad	684,870	650,627	-5	650,627	0
Mining	143,000	155,870	9	162,105	4
Construction	118,800	116,424	-2	114,096	-2
Trucks	25,920	20,736	-20	20,736	0
Valves	42,000	44,100	5	44,100	0
Pumps	12,075	12,679	5	12,932	2
Oil Field	22,000	25,960	18	27,258	5
Military	10,800	11,556	7	12,712	10
Other Markets	75,400	79,924	6	83,121	4
Total	1,134,865	1,117,875	-1	1,127,686	1

Casteel Commentary

What will happen in 2008?

1. The consumer economy will remain weak as consumer spending grows but is for energy and other necessities.

The consumer economy dominates the economic activity in North America exceeding 70%. Economic growth will slow but not decline and consumers will spend but they will need to buy energy and other consumables that will be higher in price. This will limit growth in the rest of the economy. This will cause smaller higher production castings to face challenges of softer demand. The closer your plant is to the stable and large consumer economy, the more challenge you will face.

2. The commodity economy will continue to be strong and volatile.

The production of oil, coal, copper, nickel, iron ore, etc. will not be able to consistently or confidently keep up with global growth in demand. Prices for many materials will drift down and trade in a range that is lower than the peak but much higher than historical values. Like gas prices went from \$0.25 per gallon to over \$1.00 per gallon in the 1970's and remained there for years while inflation eroded the real cost, gas prices are in excess of \$3.00 per gallon and we may see the same step change in prices. This is likely to occur in steel, nickel and a host of other commodities. Plants that are dedicated to mining or energy will clearly remain busy. Commodities will be challenging to buy but will stimulate added investments in equipment that will support demand.

3. Purchasers will try to use global suppliers and moderation in some commodity prices to gain price concessions.

The steep rise in prices and the continued upward pressure on prices will cause purchasers especially large OEM's to pressure suppliers for price concessions. The purchasers will marshal their facts, figures and rationales. Suppliers that fail to know their costs and margin requirements will be hurt and will subsidize their customers with inadequate pricing structures. Only improving margins will justify the restaffing and capital investment we need to be reliable suppliers that have the technical capabilities needed in the marketplace.

4. Staffing and retention will remain issues.

Strong economic activity, hard difficult foundry jobs, and fewer available workers will make production challenging. This will be an issue to provide enough laborers to make production. Even more problematic will be recruiting or training technical and production management personnel. We will need to become aggressive recruiters with realistic understanding of the local and national job markets.

5. China will face increasing pressure from North America on currency and trade issues.

China is gearing up for the Olympics. It has organized its markets and investment to provide rapid growth and modernization. Recently China has become more forceful in foreign policy and military exercises. The US and the rest of the developed world have become more concerned and confrontational on trade and other issues. The recent concession by China in the face of the US WTO case on prohibited subsidies will likely encourage more litigation and confrontation between North America and China. China's steel foundries will continue to develop and it is not clear how North American producers can organize or profit from their growth. OEM's continue to want North American technology transferred to global suppliers without allowing profitable long term structures for their North American supply base.

6. The election cycle will reduce any significant moves in domestic or foreign policy.

Unless there is a significant unseen event, this year will be status quo as the administration tries to govern and the political parties position themselves on every issue to gain electoral advantage.

In total the likely outcome of next year will be a softer but still strong year for business in the steel casting business.

Raymond

STEEL FOUNDERS' SOCIETY OF AMERICA
MEETINGS CALENDAR

2008

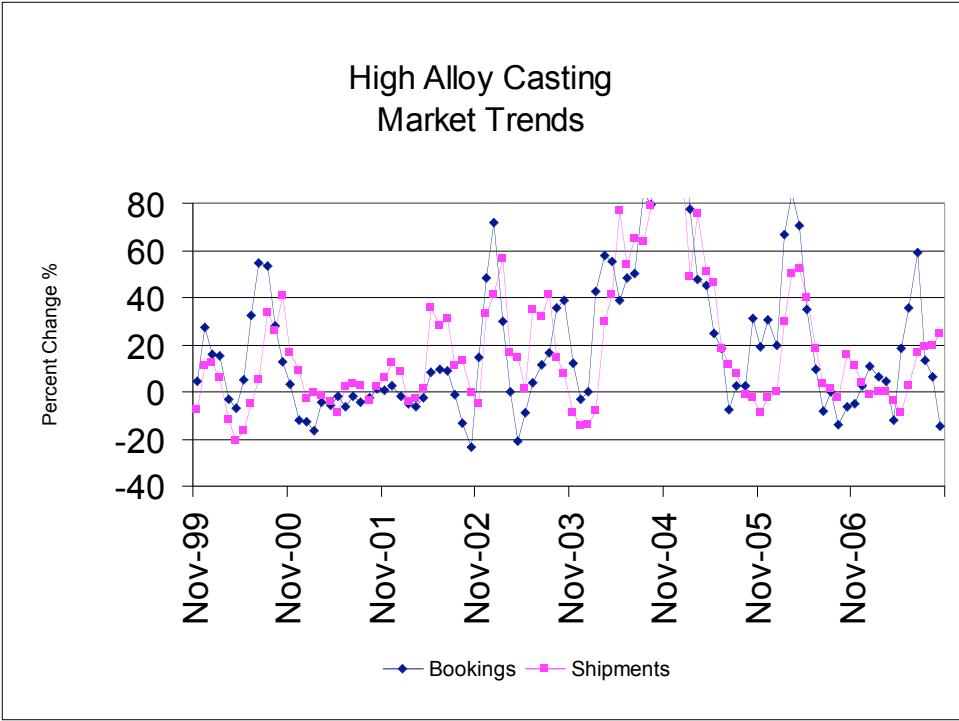
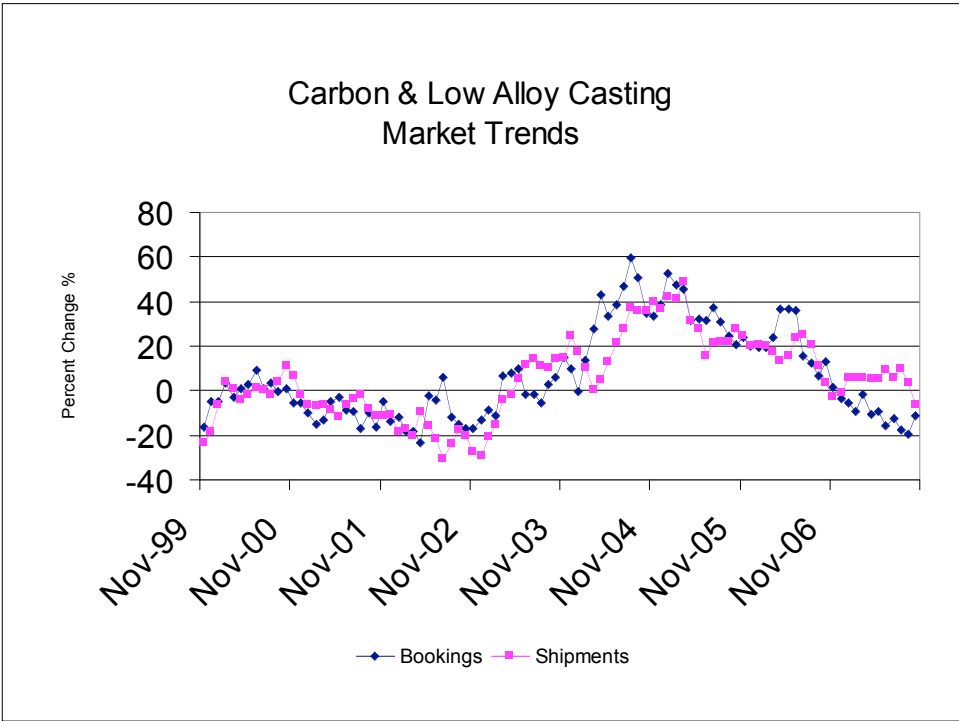
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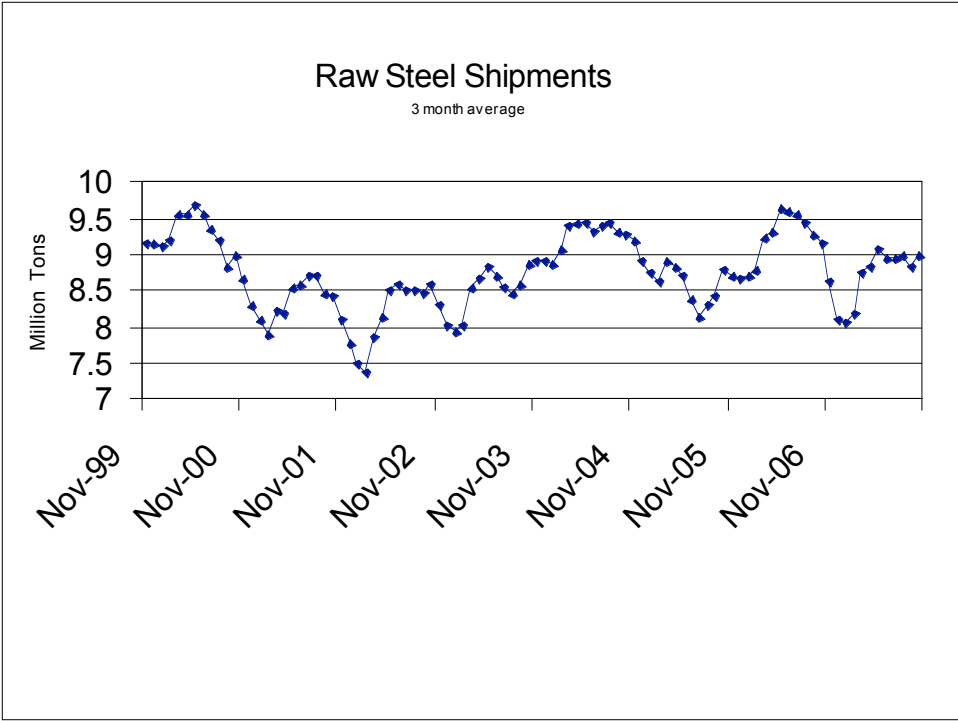
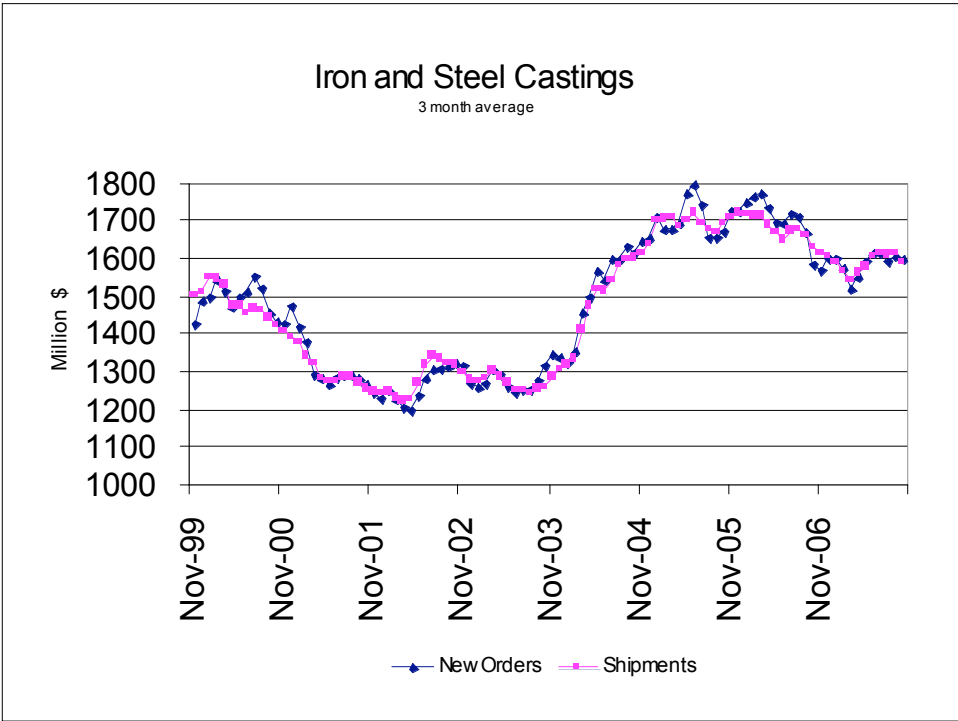
Foundry Study Tour

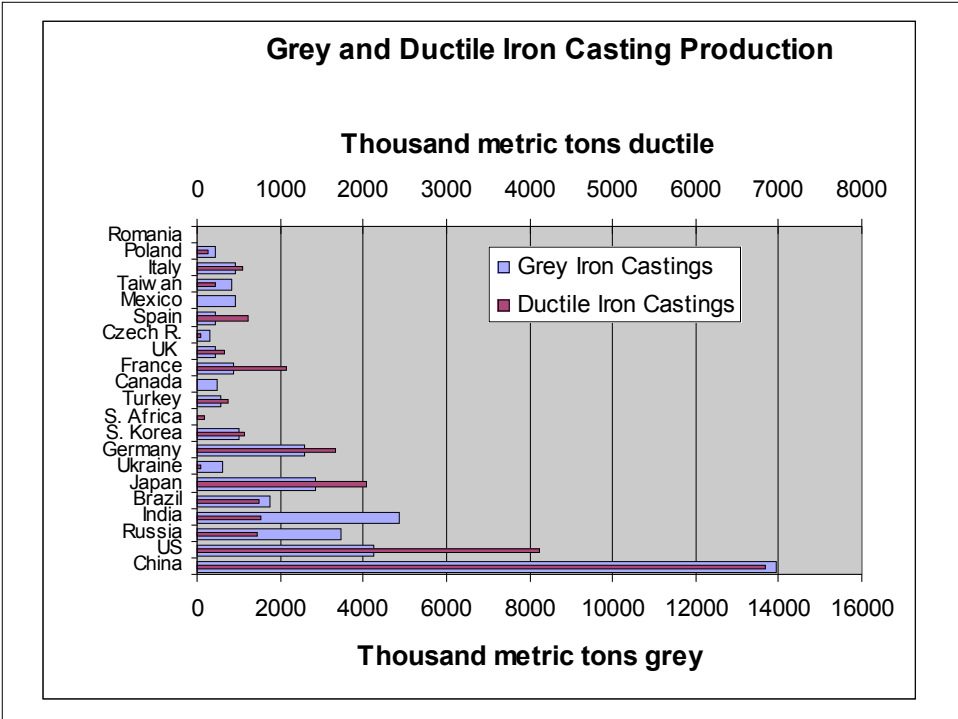
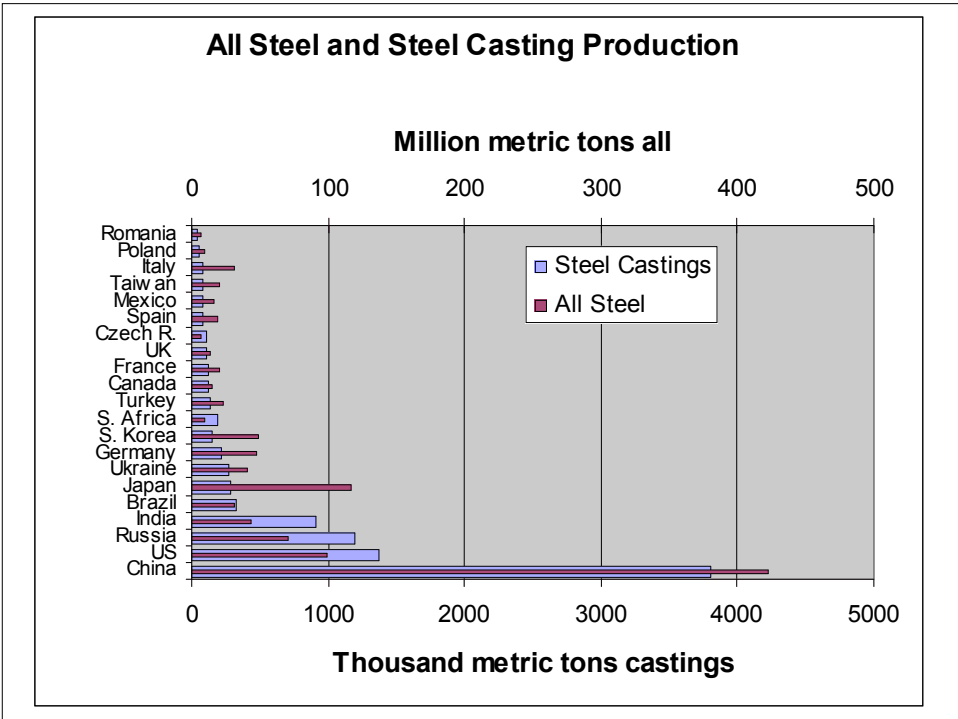
Brazil

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

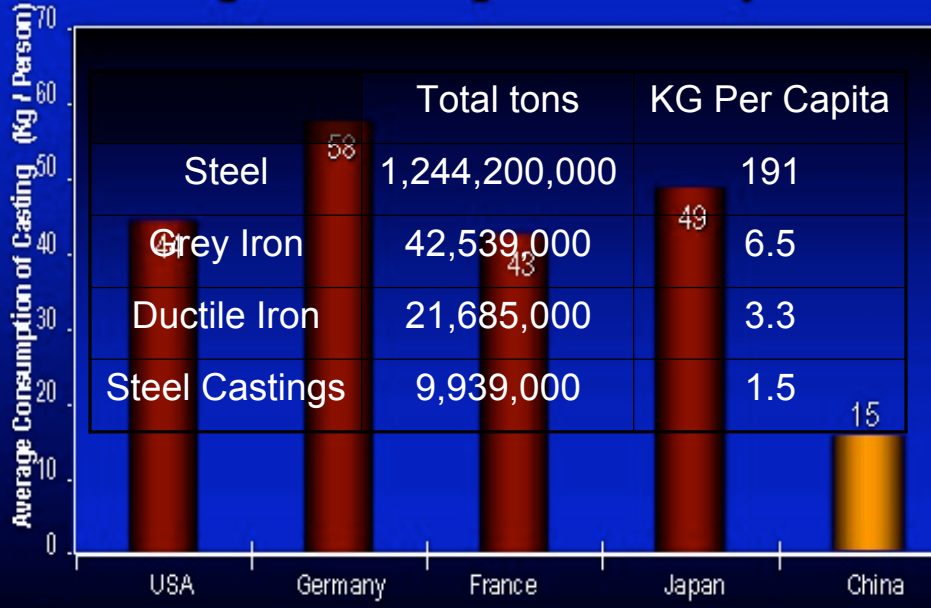
SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	Oct	Sep
Carbon & Low Alloy				
Shipments	2.9	-6.0	-16.7	-6.5
Bookings	-9.9	-11.3	17.0	-15.0
Backlog (wks)	10.9	10.8	10.3	10.0
High Alloy				
Shipments	9.0	24.5	52.6	12.8
Bookings	10.7	-14.7	-28.1	7.1
Backlog (wks)	11.2	10.0	10.0	10.0
Department of Commerce Census Data				
Iron & Steel Foundries (million \$)				
Shipments	1,588.3	1,589	1,553	1,633
New Orders	1,592.3	1,600	1,592	1,634
Inventories	2,441.4	2,548	2,566	2,533
Nondefense Capital Goods (billion \$)				
Shipments	66.4	67.6	67.7	67.6
New Orders	75.5	73.0	73.0	74.7
Inventories	119.6	123.3	124.0	123.1
Nondefense Capital Goods less Aircraft (billion \$)				
Shipments	61.1	61.8	61.8	62.1
New Orders	62.4	62.5	61.6	63.1
Inventories	97.8	99.2	99.8	99.1
Inventory/Orders		1.59	1.62	1.57
Inventory/Shipments		1.60	1.61	1.59
Orders/Shipments		1.01	1.00	1.01
American Iron and Steel Institute				
Raw Steel Shipments (million net tons)	8.7	9.0	9.2	8.5







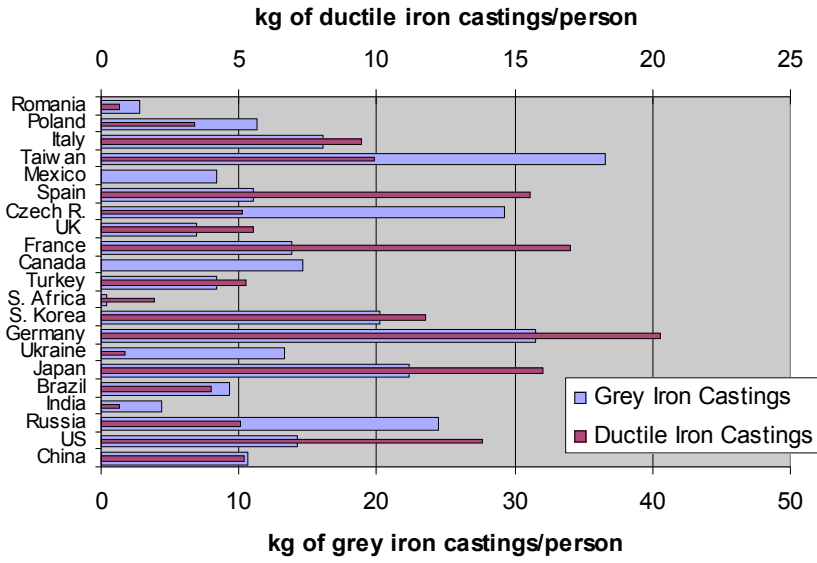
Average Casting Consumption



All Steel and Steel Casting Production per Capita



Grey and Ductile Iron Production per Capita





Thank You from SFSA and the Preferred Partner Programs!

Members,

Thank you for continuing to support our association and the cost savings programs we bring to our members. Through your membership, you can save on regional and national less-than-truckload services for all of your freight needs. In addition, you can save on small parcel and office products. If you are not familiar with the many benefits you are eligible to take advantage of, please contact us or call your dedicated representative listed below.

The preferred partners look forward to working with you and your company!



YRC Regional Transportation

If you would like to take advantage of your member benefits or if you would like more information, please call your dedicated representative, Krista Appleton, at 800-647-3061 ext. 6549.

Connecting savings and solutions for SFSA Members