

THE ECONOMY IN 2012

Steel Founders' Society of America

Chicago, Illinois

May 2, 2012

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THE RECESSION WAS NOT ALL OF A PIECE

**REDUCTION IN FIXED INVESTMENT AND INVENTORY
ACCOUNTED FOR 85% OF THE DECLINE**

BUSINESS INVESTMENT PLANNING WAS DEVASTATED

SOME SECTORS WERE LARGELY UNEFFECTED

Medical Services

Education

Government

THE RECOVERY IS NOT ALL OF A PIECE

INVESTMENT IS DOING SURPRISINGLY WELL

INVESTMENT IN EQUIPMENT IS BEST

**INVESTMENT IN PLANT IS STILL LAGGING, BUT
PLANNING HAS REACHED A TIPPING POINT**

**CONSTRUCTION HAS REACHED BOTTOM BUT IS STILL THE WEAK
SPOT IN THE RECOVERY**

**INVENTORY RESTORATION SLOWED WITH DECLINES IN COMMODITY PRICES
BUT HAS NOW RESUMED**

INVENTORIES OF DURABLE GOODS HAVE CONTINUED TO INCREASE

OTHER INDICATORS OF RECOVERY

INCREASES IN:

Stock Market

Advertising

Travel

Hotel, Motel, Resort Occupancy

Eating Out

Freight Transportation

State, Local and Federal

Government Revenue

Research and Development

FOUNDERS END MARKETS HAVE RECOVERED

RAILROAD ROLLONG STOCK

PETROLEUM INDUSTRY EQUIPMENT

CONSTRUCTION MACHINERY

AGRICULTURAL EQUIPMENT

METALWORKING EQUIPMENT

HEAVY TRUCKS

ENGINES, TURBINES AND POWER TRANSMISSION EQUIPMENT

MINING MACHINERY

RECOVERY OVERVIEW

DURABLE GOODS ARE STRONGEST

SOME MARKETS LAG, Re: RECOVERY IN RESIDENTIAL CONSTRUCTION

Home Electronics

Appliances, Home Furnishings

Building Materials

SOME ARE LIKELY TO LAG, Re:

Import Competition

Paper

Furniture

Textiles

Clothing

Technological Innovation

Printing and Support Industries

ENERGY SECTOR LEADS INVESTMENT

PETROLEUM EXPLORATION AND PRODUCTION, INCLUDING FRACKING

PIPELINES

LNG PROJECTS

GAS TO LIQUIDS PROJECT

REFINERIES

POWER PLANTS

TRANSMISSION GRID

NATURAL GAS VIA FRACKING IS A GAME CHANGER

PRICE JUST BROKE THROUGH \$2 / Mcf

Thermal Value Equals oil at \$12/Bbl

CHANGES ENERGY SCENE

Cost

Availability

Reserve Position

Supports Export of Natural Gas and Fuel Oil

ELECTRIC POWER

Combustion Turbines to the Fore

PETROCHEMICALS

U.S. Costs Second only to Saudi Arabia

New, Multi-billion Dollar Plants Planned

Dow in Louisiana

Shell in Pittsburgh Area

(New Plastics and Fabrics Plants Should Follow)

GAS TO LIQUIDS PLANT

SASOL seeking permits for Multi-billion Dollar Plant in Louisiana

PROJECT INVESTMENT PLANNING IS AT TIPPING POINT

AMERICAN INSTITUTE OF ARCHITECTS BILLING INDEX IS STRONG

**Majority Reports Rising Billings for all
Non-residential Projects in March for Fifth
Straight Month in March**

Even Larger Majority Reports Increased Inquiries

**Commercial / Industrial Index Hits Highest Level Since
November, 2007**

Midwest and Northeast are Strongest, Followed by South

AUTO INDUSTRY PLANS

Ford plans to spend \$1.1 to retool a plant near Kansas City, adding 1,600 jobs in the process

GM intends to spend \$380 million to refit its Wentzville Missouri plant to build mid-size pickup trucks

Chrysler is retooling and expanding force to support production of a new Dodge Viper

Toyota is ramping up capacity in its U.S. plants with intentions of exporting U.S made models

Nissan is expanding its plant at Smyrna, Tenn. to

Assemble new luxury model Infiniti JX. Another Smyrna plant is expanding to build the Leaf

Volkswagen just opened a new plant in Tennessee and is considering building a second plant to build Audi vehicles

BMW is expanding its plant in South Carolina to increase production for both U.S and foreign markets

Mercedes Benz is said to be considering adding a second plant in Alabama

HOUSING

DISTRESSED MARKET

Still distressed but, “The lowest layer of default housing is gone. We are well into the upper layers.”

NORMAL MARKET

Banks are lending again but at lower risk levels

Real estate agents report “Shortage of Listings”

HOUSING BASICS

OTHER FACTORS ARE AT WORK IN THE HOUSING MARKETS

Growth in Household Formation

Now Exceeds the “Over Build”

Rents are Going Up

**Replacement Costs now Greatly Exceed Market
Values**

Affordability is at a Postwar High

**Demolitions are Proceeding at Historically High
Levels**

**AUTO MARKET
LIGHT VEHICLE SALES ESTIMATE**

<u>Million Units</u>		
<u>2011</u>	<u>2012</u>	
12.8	14.2	+11%

FACTORS AT WORK IN AUTO MARKETS

The average age of light vehicles is at an historic high

Scrappage increased in 2011 after lagging during the recession

Used car prices have been moving up, thereby lowering the cost of trading in for new cars

New product introductions have been increasing, which has the effect of increasing buyer interest in new vehicles

The U.S. has a fast growing driving-age population, faster than other industrialized countries.

NEW AUTOMOTIVE PRODUCT INTRODUCTIONS

Additional Gear Ratios

Direct Fuel Injection

“Stop – Start” or Micro-hybrid Technology

Electronic Controls

Dampers on Radiators

STEEL INDUSTRY

INCREASED SHIPMENTS (Million Tons)

2009	59.3	
2010	83.4	+40.6%
2011	91.8	+10.1%
2012 (F)	102.0	+11.1%

INCREASED INVENTORIES

Steel Service Centers

Receiving Docks, Marshalling Yards

Work-in-process

CONSUMPTION

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**U.S. STEEL INDUSTRY
APPARENT DOMESTIC SUPPLY – ALL PRODUCTS**

(Million Tons)

2011 – 2012(F)

	2011		2011 – 2012(F)				2012	% Ch Y-o-Y
	<u>4-Q</u>	<u>Year</u>	<u>1-Q</u>	<u>2-Q</u>	<u>3-Q</u>	<u>4-Q</u>		
Shipments	22.5	91.8	25.7	27.5	24.8	24.0	102.0	+11.1
+Imports	6.5	28.4	8.5	9.0	9.6	7.5	34.6	+21.8
-Exports	<u>2.1</u>	<u>8.5</u>	<u>2.2</u>	<u>2.2</u>	<u>2.3</u>	<u>2.1</u>	<u>8.8</u>	<u>+3.5</u>
Ap Dom Sply	26.9	111.7	32.0	34.3	32.1	29.4	127.8	+14.4
Im. for Conv	<u>1.4</u>	<u>6.6</u>	<u>2.0</u>	<u>2.3</u>	<u>2.2</u>	<u>2.0</u>	<u>8.5</u>	<u>+28.8</u>
Net Supply	25.5	105.1	30.0	32.0	29.9	27.4	119.3	+13.5
Ch Inventory	+1.0	+2.0	+1.0	+1.5	+1.0	+0.5	+4.0	
Consumption	24.5	103.1	29.0	30.5	28.9	26.9	115.3	+11.8
Memo:								
Im. for Cons	5.1	21.8	6.5	6.7	7.4	5.5	26.1	+19.7

Sfca 04-21-12 (13b) ADS-qty-fcat 2012

LATEST GASOLINE PRICE HIKE UNRAVELED

AUTUMN REFINERY TURN AROUND FOR MAXIMUM HEATING OIL YIELD

Warm, warm winter in Midwest and Northeast Coast

Heating oil tankage fills up

Refinery runs cut back, so gasoline production cut back

EARLY SPRING TURN AROUND TO DECREASE HEATING OIL YIELD, SO

Further cutback in gasoline production

GASOLINE PRICES SPIKE UNTIL SPRING TURN AROUNDS ARE DONE