



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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Casteel Commentary Highlights:

Deflation of capital goods industries as a result of deliberate monetary and tax policies has severely hurt manufacturing. This has been exacerbated by the predatory trade practices of China. Public policy makers are indifferent to the plight of manufacturing because they believe we are not competitive and a shrinking part of the economy. We should not expect relief from these policies in the foreseeable future so our survival will depend on our own ability to operate profitably. The Casteel Commentary reviews some of the views of policymakers concerning our global position and domestic needs.

SFSA Foundation

The SFSA Foundation is soliciting from members, proposals to host the 2004 SFSA Intern. The details and application are available online here:
<http://www.sfsa.org/sfsa/news/2003/internapp.pdf>.
Our industry is rapidly losing the seasoned leadership that guided our industry for the past decade. Unfortunately we do not have the next generation leadership in place in many operations. If you will need an experienced engineer in 5 years with 5 years experience, you need to hire him now. Our intern program encourages you to consider trying out an engineer for the summer with the intent of hiring him at graduation. Our future does depend on developing the leaders for the future.

Annual Meeting and Technical & Operating Conference

This year over 140 attended the SFSA Annual Meeting and Technical & Operating Conference which were held in combination, at the Hotel Inter-Continental in Chicago. Highlights of the Annual Meeting included economic and market forecasts for the coming year, information on new market development, and the SFSA President's Address, by Mickey Beyersdorfer. The 2004 SFSA Market Forecast and President's Address are available for download here.
<http://www.sfsa.org/sfsa/annmtg/2003>

The 57th SFSA Technical & Operating Conference was a great success, with 47 papers presented. If you were unable to attend the Conference this year, copies of the Proceedings are available for \$150, including shipping within the US. The Conference Agenda, which includes a list of papers presented is available here:
<http://www.sfsa.org/sfsa/toconf/agenda.pdf>

Market News

Conditions continue to improve for the steel casting industry. The SFSA Trend Cards show strong positive results for orders and shipments for September. This is also reflected in the DOC Census numbers for iron and steel foundries. This is seen in the increasing orders for capital goods and increased shipments for steel products. Demand should rise through the balance of the year and remain positive for at least the first half of 2004.

Casteel Commentary

In an effort to control inflation that persisted through the late 1970's, the U.S. Federal Reserve maintained relatively high interest rates. Their success is now evident with inflation falling from double digits to undetectable. In fact, some economists have been concerned that deflation might become a significant problem especially in the past two years as stimulative interest rates, tax cuts, and increased federal spending failed to improve demand especially in manufacturing.

The decline in manufacturing is not just a cyclical recession but also the culmination of inflation fighting that has discouraged capital investment in manufacturing for the past twenty years. While deflation is not obvious as the economy gets close to the consumer, deflation is at the root of the troubles facing manufacturing. The disincentive to invest in capital equipment in the U.S. has opened our markets up to competitive threats from the rest of the world. The strong dollar, global competition, low demand, inadequate pricing are all reflections of deflationary pressures in manufactured goods. Leasing capital equipment and the purchases of domestic manufacturing by European firms are other signs of the difficulties investing in capital equipment. The lack of an adequate return has led to the lack of investment.

Political leaders are not considering any changes in policy to correct this systemic problem of lack of capital equipment investment. One reason is the shrinking role of manufacturing in the economy and another is the failure to recognize the predatory threat from other manufacturers. The consensus of this administration is that the recovery in the economy that is underway will eliminate the need for action. While this is true, without leadership and changes in public policy to improve the situation, we will lose our leadership position in technology. This will hurt our long-term ability to compete and to dominate in military strength.

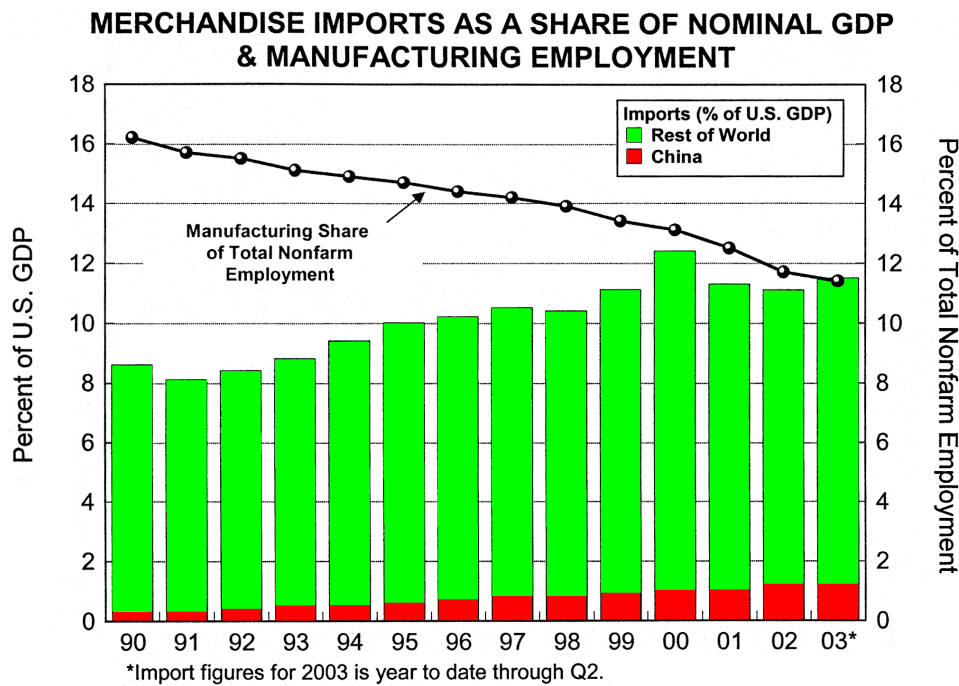
A look at the figure showing China's trade position illustrates this point. China has a growing trade deficit with the U.S. but is an importer from the rest of the world. This makes China have only a small net trade deficit with the world and shows that our concern in manufacturing about their currency interventions and predatory practices to be unfounded in the eyes of policy makers. We however see this graph as a powerful case that China is targeting the U.S. market and is using their nonmarket capital investment allocation to buy U.S. market share.



Their currency fix against the dollar is hurting their economy but the U.S. policy has led to a strong dollar that makes us noncompetitive in the whole world. The U.S. encouraged smaller economies to fix their currency to the dollar to provide market stability. China has done this quite successfully.

The recent tariff action in Washington is an effort to defuse the strong political pressure to deal with China. There is no consensus on confronting the predatory practices only a bowing to political pressure. The move for a general tariff in Congress and the political vulnerability of the South and Midwest are forcing these limited steps but will not continue when this political pressure subsides.

Another reason for lack of action is the shrinking role of manufacturing in the U.S. economy. Manufacturing is actually growing slowly with the increase in population but improved productivity makes the workforce requirements drop as a percent of total employment. This shrinkage is exaggerated as nonmanufacturing segments like healthcare or services grow more rapidly making manufacturing a relatively smaller part of the whole.



This point is shown in the chart of manufacturing employment. Manufacturing has fallen to less than twelve percent of the nonfarm employment. The workers (voters) involved in manufacturing are less politically important than unionized government employees.

As a result of the deflation/ strong dollar, our economy continues to increase imports. China is only a small but rapidly growing part of a secular shift in relying on imports. Policy makers see China displacing other importers like Mexico rather than threatening U.S. interests.

Because manufacturing is becoming less important, imports are growing providing low cost products to the U.S. economy, and manufacturing is not valued like agriculture, policymakers have little interest.

The upcoming election is inspiring some action. Market forces will undoubtedly force China to either change or fail but this may not be until they have institutionalized themselves into the U.S. market. Our future will depend on realizing profits in an improving market where capacity is not adequate. These profits allow us to invest in technology that gives us the competitive advantage we need to succeed. Given the cost cutting and customer pressure, we need to develop profitable arrangements with customers to ensure their supply and our survival.

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2004

Feb
27 North Central Technical & Operating Meeting, Milwaukee, WI

April
23 North Central Technical & Operating Meeting, Milwaukee, WI

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 Sep Aug
(%-12 mos. Ago)

Carbon & Low Alloy

Shipments	10.2	22.0	0.0
Bookings	2.5	17.0	-21.0

High Alloy

Shipments	14.5	10.3	34.3
Bookings	35.3	72.6	23.3

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,252	1,264	1,226
New Orders	1,279	1,317	1,235
Inventories	1,704	1,698	1,697

Nondefense Capital Goods (billion \$)

Shipments	57.6	58.2	56.3
New Orders	57.2	59.6	56.9
Inventories	106.0	105.8	106.2

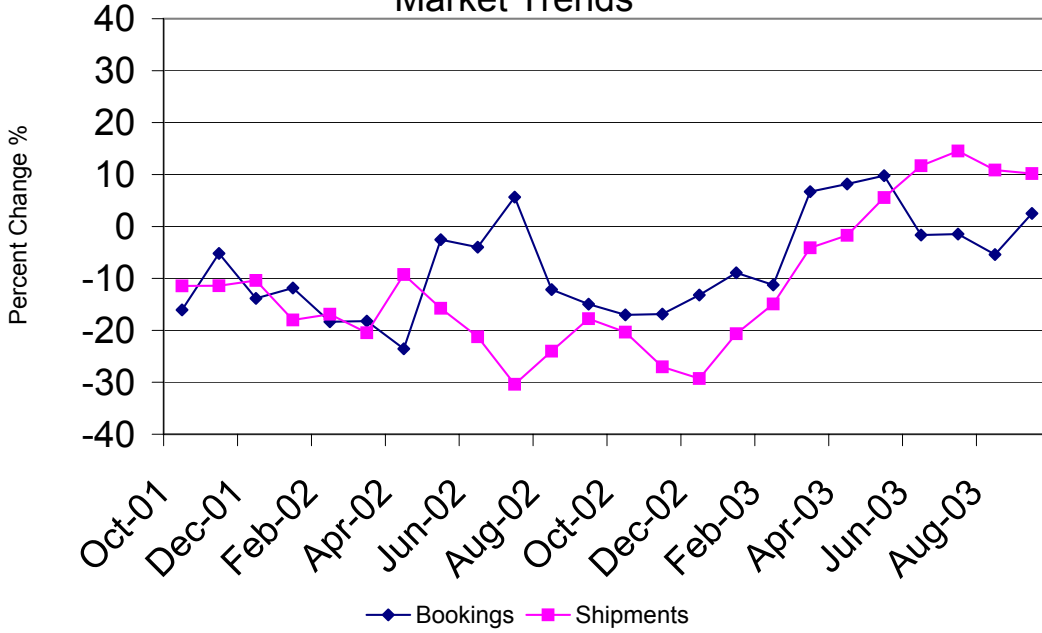
**Nondefense Capital Goods
less Aircraft (billion \$)**

Shipments	54.9	55.5	53.9
New Orders	55.5	57.4	54.4
Inventories	85.8	88.0	88.5
Inventory/Orders	1.55	1.53	1.63
Inventory/Shipments	1.56	1.59	1.64
Orders/Shipments	1.01	1.03	1.01

American Iron and Steel Institute

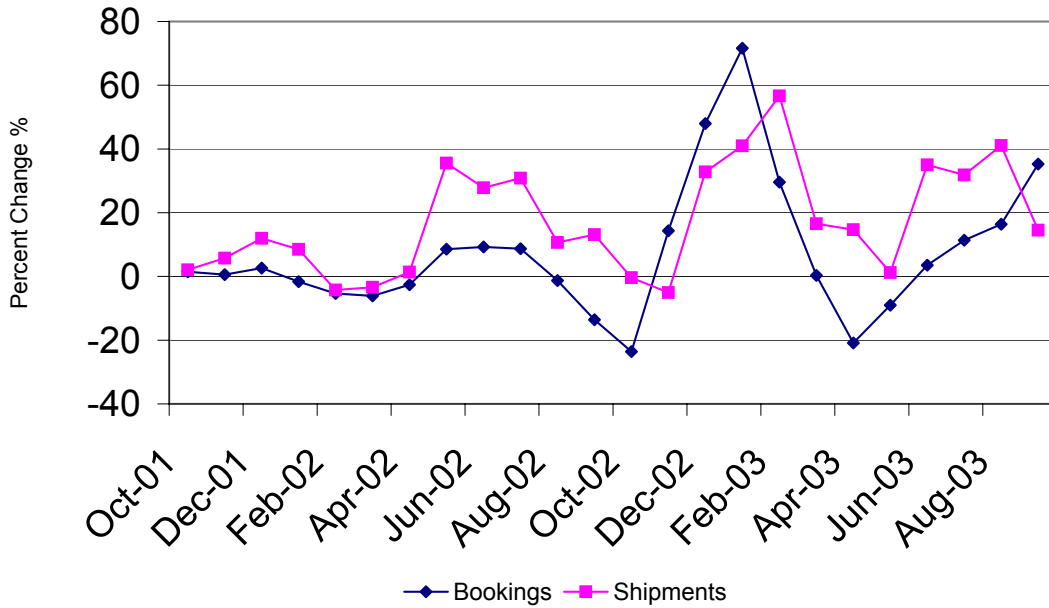
Raw Steel Shipments (million net tons)	8.6	9.0	8.3
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Carbon & Low Alloy Casting Market Trends



SFSA Postcards

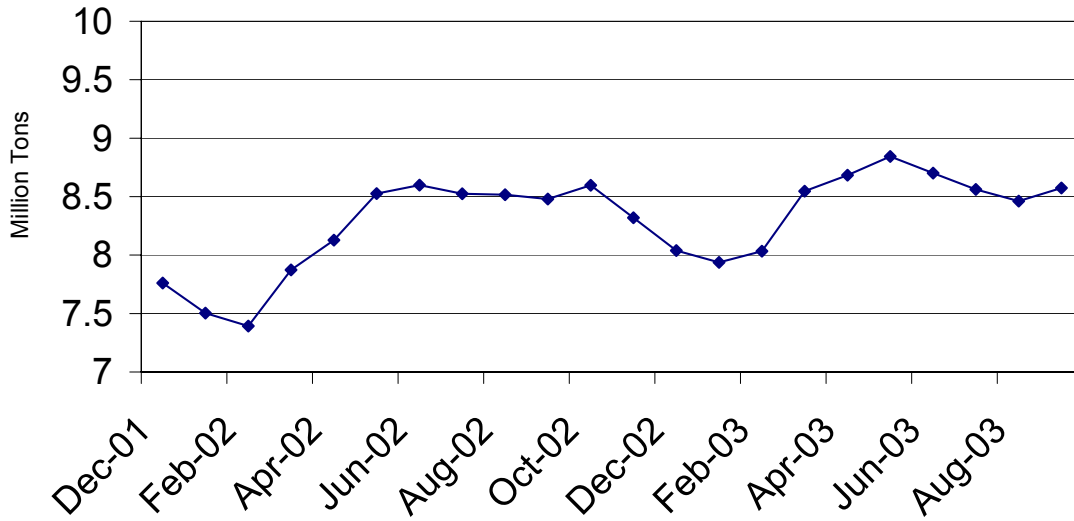
High Alloy Casting Market Trends



SFSA Postcards

Raw Steel Shipments

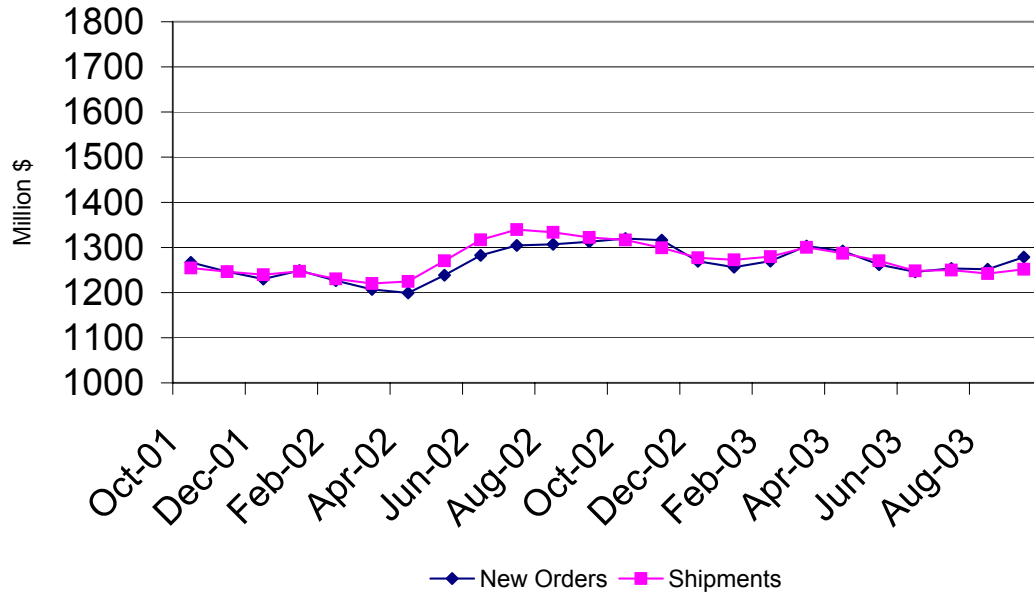
3 month average



AISI Data

Iron and Steel Castings

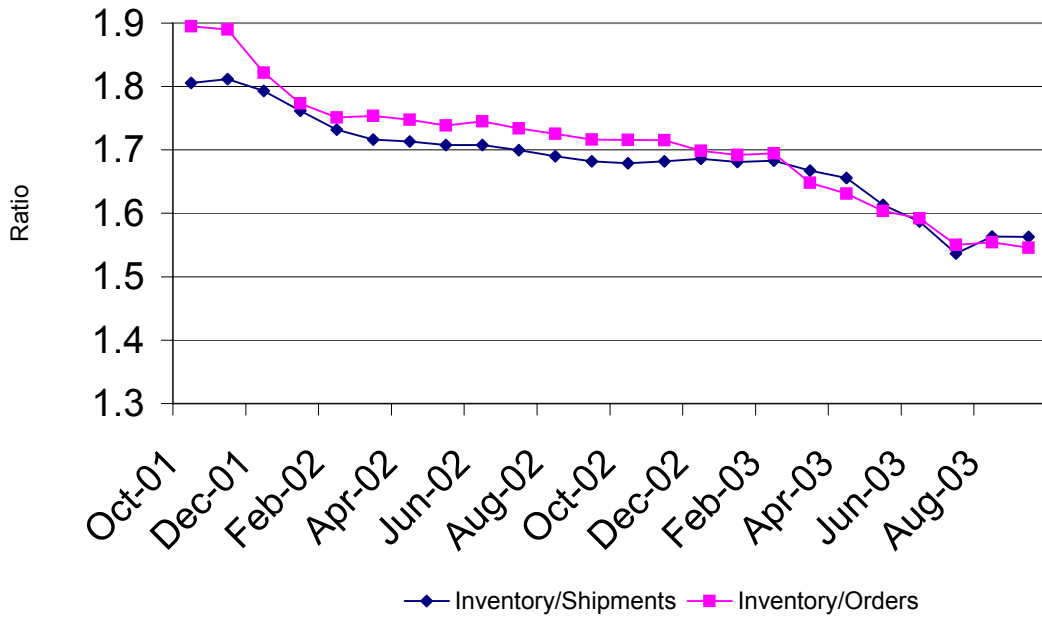
3 month average



SFSA

Nondefense Capital Goods less Aircraft

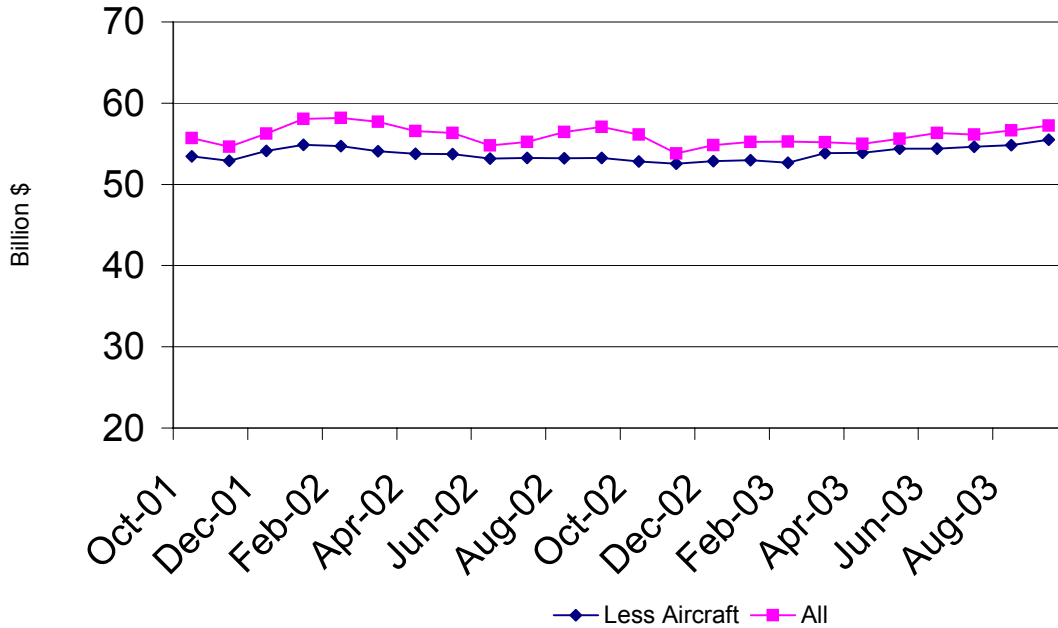
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce