SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

205 Park Avenue, Barrington, IL 60010
847-382-8240 Fax: 847-382-8287
www.sfsa.org

JUNE — 2003

Casteel Commentary Highlights:

Steel foundries do not know their costs. This is an essential part of our lack of profitability and a major factor in many of the recent closures. The whole industry is hurt as expected pricing fails to cover the basic cost of production. Without dramatically better information about our costs, we will not prosper.

Annual Meeting and Technical & Operating Conference Member Workshops

This year only, SFSA will combine both the Annual Meeting and the Technical & Operating Conference into one meeting to be held in November at the Hotel Inter-Continental in Chicago.

Every year on the Wednesday afternoon prior to the T&O Conference, SFSA holds a Workshop where SFSA members can participate in hands-on activities and gain experience with subjects such as design of experiments, Gage R&R study of radiographic interpretation, and this year an exercise in casting rigging and layout.

SFSA will make a casting model available for download from our website next month; members who wish to participate in the workshop can download the file and then decide how they would lay out the gating and risering for that part for production in their foundries. Participating members will give a short presentation at the Workshop on how they would rig the casting for production.

Concurrent with the Technical Workshop on Wednesday, a Management/Marketing Workshop will be held with Bernie Lashinsky, consulting economist. He will present an economic forecast for industry. The Marketing Committee Forecast for 2004 will be presented Thursday morning.

Research Review

The Carbon & Low Alloy Research Review meeting will be held on July 29 & 30 in Chicago. This will provide an update on the content and status of seven SFSA research programs. The meeting is open to all members.

Market News

Information from March business conditions appears to finally signal an uptrend in business. While it could always retreat, new orders or bookings are out pacing shipments and the trend is modestly up. With the reallocation of business from plant closures and a small improvement in demand, surviving plants should see a continued improvement in business. Inventories are still in control and provide little cushion for users. Limits on domestic production due to closures and reduced work force should multiply any improvement in demand. The fall of the dollar should reduce the import of castings but this will take some time to unwind. As business improves, it will be key to operate profitably and create the new capital required to reinvigorate our industry, The graphs of business activity are included in this newsletter.

Casteel Commentary

Dramatic improvements in productivity were foundational to the unprecedented economic expansion of the 1990's. One key factor in improving productivity was the development and implementation of information technology. The use of computers, sensors, and networks allowed business better information on process control and quality. Internet and web based systems allowed service sector improvements as users did not need the back office to fill out forms, create reports, or process orders. Access to information was even seen as transformational in the recent war. Troops used GPS, internal networks, and new information gathering tools to identify and precisely destroy enemy capabilities.

The overcapacity in the steel casting industry in North America has limited the investment capital available to our members. This has resulted in aging plants with little opportunity to modernize. Not only do we not have more modern production equipment, we lack the information to profitably manage our operations. While variations in casting quality at shakeout are thought to be a major uncertainty in production scheduling, we lack any measure of quality at shakeout. Without this information, we are unable to improve either casting quality or finishing productivity. Without the information of what it takes to make a casting, we are unable to effectively manage the process.

This lack of information is a major cause of failure in our industry. We do not know what our costs are to produce castings. We do not know often how much it costs to grind, make a core, or rework a casting. This lack of cost information makes it impossible to profitably manage because we just do not know if we ought to scrap or rework a casting.

The worst part of our failure to know our full cost of production is inadequate pricing to assure profitable operation. This failure to know our costs and reflect those costs in pricing has hurt our industry for more than a decade. Many of the failed steel foundries ran out of money because their pricing did not cover their costs of production. These pricing levels created a cost structure expected by our customers that is unsustainable. Large customers have used their marketplace leverage and our ignorance to obtain below cost pricing. This has forced our industry into an inadequate return on sales making it impossible to survive.

More than technology, we need to be smarter competitors. Individual foundries need sharp pencils. They need to know their costs to the penny. Only with this detailed information can they exploit the market by identifying profitable opportunities. Only with accurate costs can we identify waste and labor inefficiencies. Lack of labor productivity will stick out if we know the costs. The true cost of grinding, core making, rework, etc. will either be reflected in the pricing or be eliminated through innovation and investment.

Without better information about our costs, steel foundries are operating in the dark. It is time for us to come out of the dark and shine the light on our operations if we are to prosper.

Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA
MEETINGS CALENDAR

2003

June
10/11 Board of Directors, Technical Steering Committee, Rosemont, IL

July
29/30 Carbon & Low Alloy Research Review, Rosemont, IL

August
21/22 Western Division T&O - Berkeley, CA
27/28 High Alloy Product Group - Chicago, IL

September
9/10 Southern Division T&O - Longview, TX

November
5/8 National T&O Conference - Hotel Inter-Continental, Chicago, IL
5 Board of Directors - Hotel Inter-Continental, Chicago, IL
5 Marketing Committee - Hotel Inter-Continental, Chicago, IL
18 Specifications Committee, Tampa, FL

2004

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 (%-12 mos. Ago)	3 Mo Avg	Mar	Feb
Carbon & Low Alloy			
Shipments	-4.1	5.7	-10.8
Bookings	6.7	27.5	-14.0
High Alloy			
Shipments	16.6	-11.4	47.0
Bookings	0.3	-21.8	-27.3

Department of Commerce
Census Data

Iron & Steel Foundries (million $)

Shipments	1,300	1,302	1,300
New Orders	1,303	1,284	1,330
Inventories	1,797	1,805	1,797

Nondefense Capital Goods (billion $)

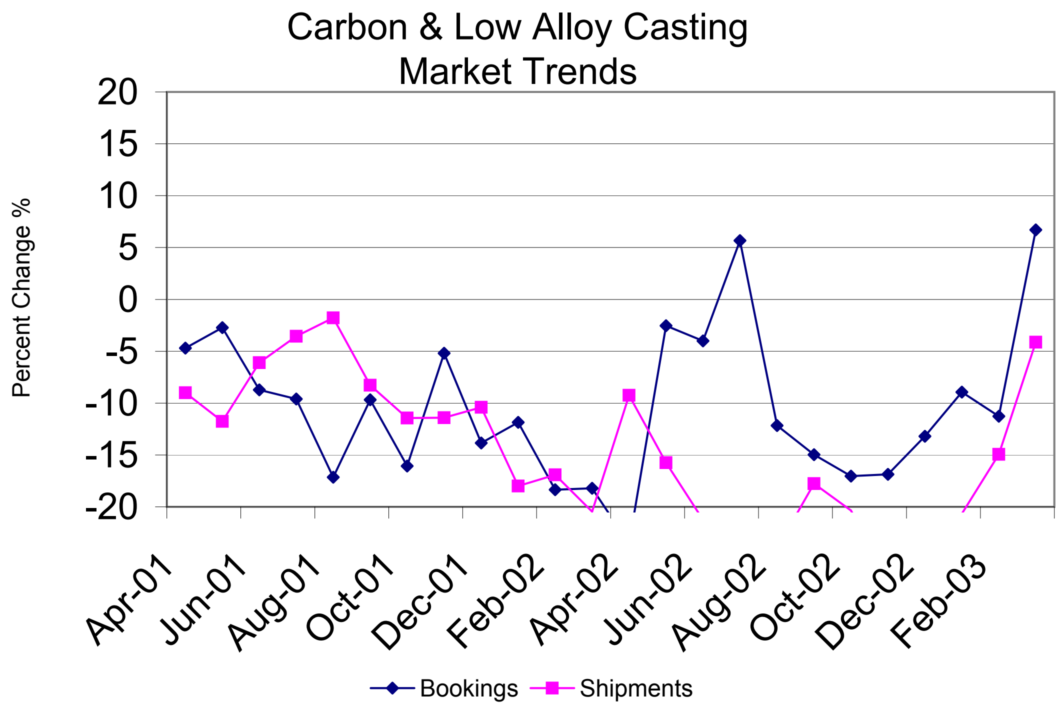
Shipments	55.6	55.8	55.3
New Orders	55.2	55.7	53.4
Inventories	111.4	110.8	111.1

Nondefense Capital Goods
less Aircraft (billion $)

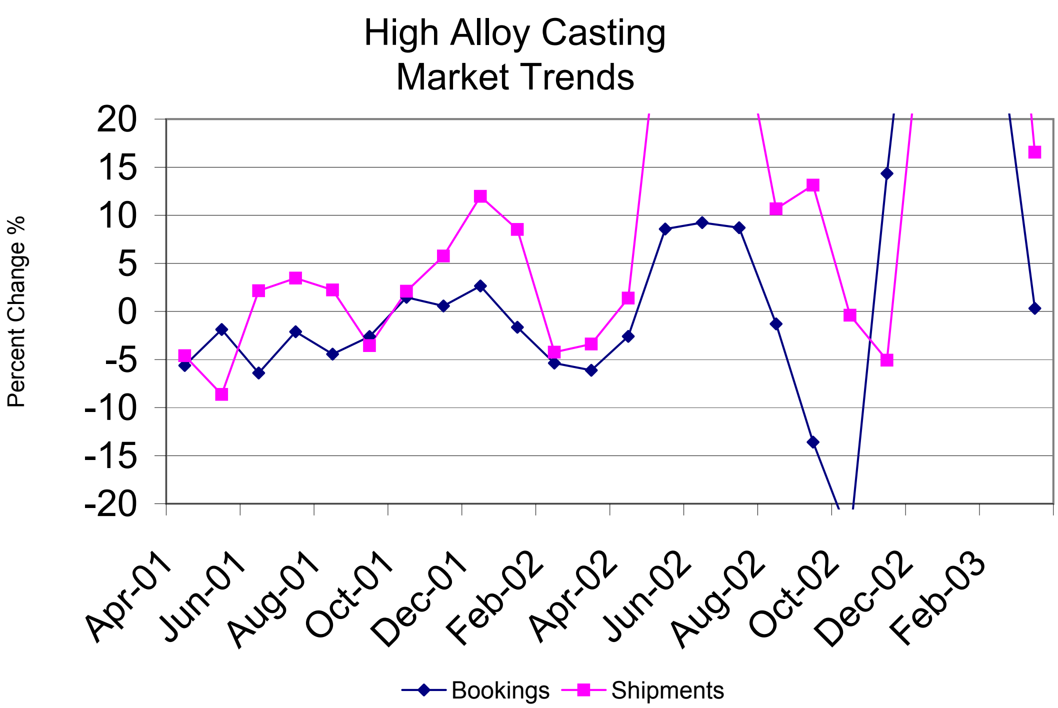
Shipments	53.2	53.1	52.4
New Orders	53.9	55.4	52.3
Inventories	88.7	88.3	88.5
Inventory/Orders	1.65	1.60	1.69
Inventory/Shipments	1.67	1.66	1.69
Orders/Shipments	1.01	1.04	1.00

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	8.5	9.1	8.1



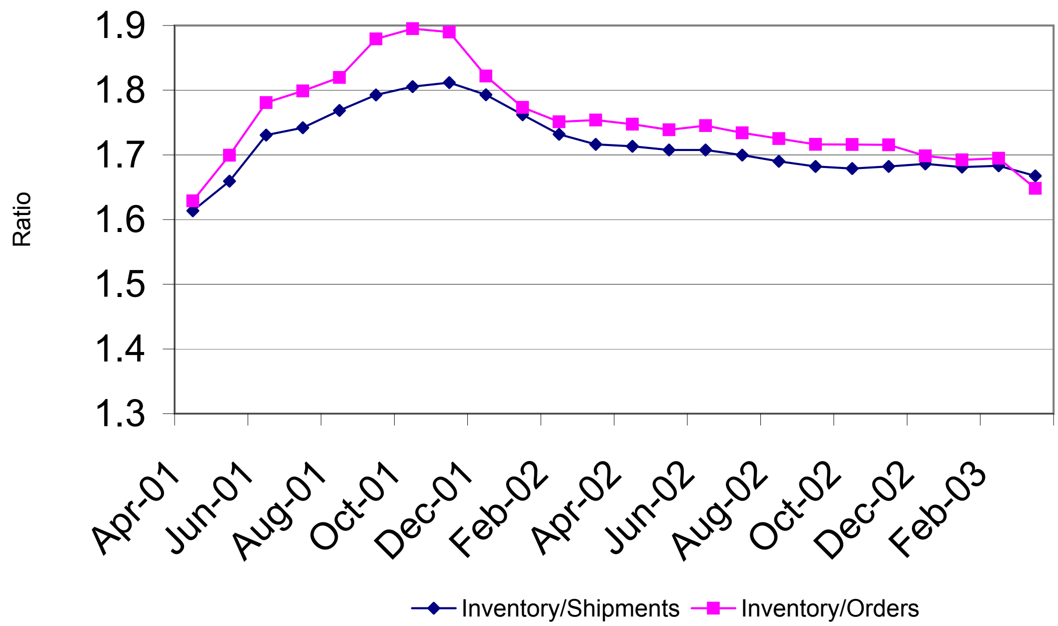
SFSA Postcards



SFSA Postcards

Nondefense Capital Goods less Aircraft

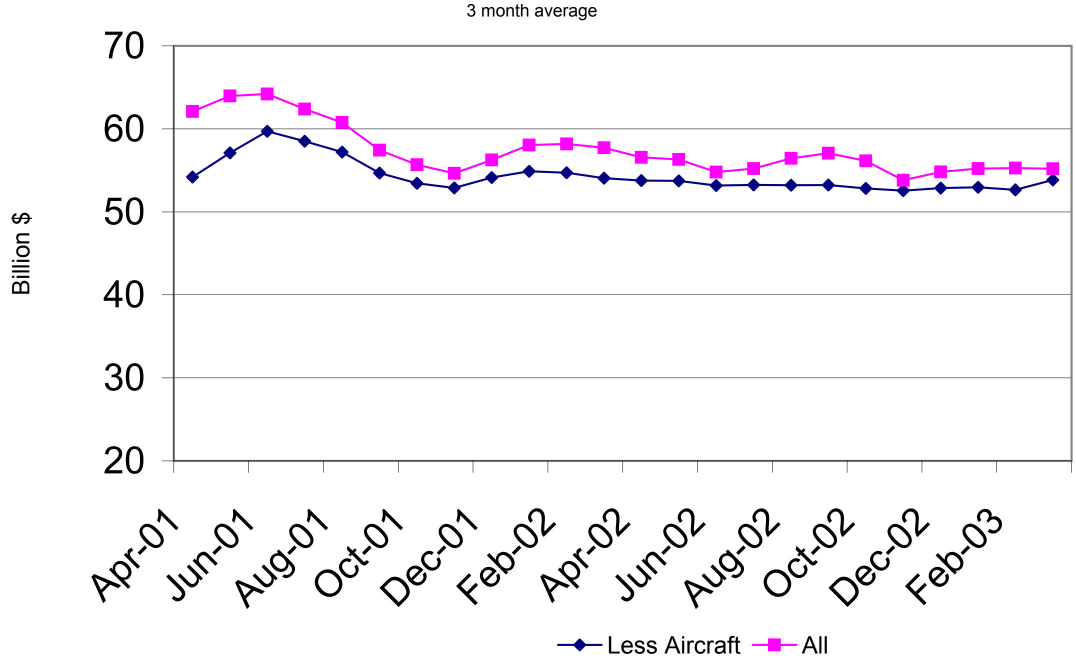
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

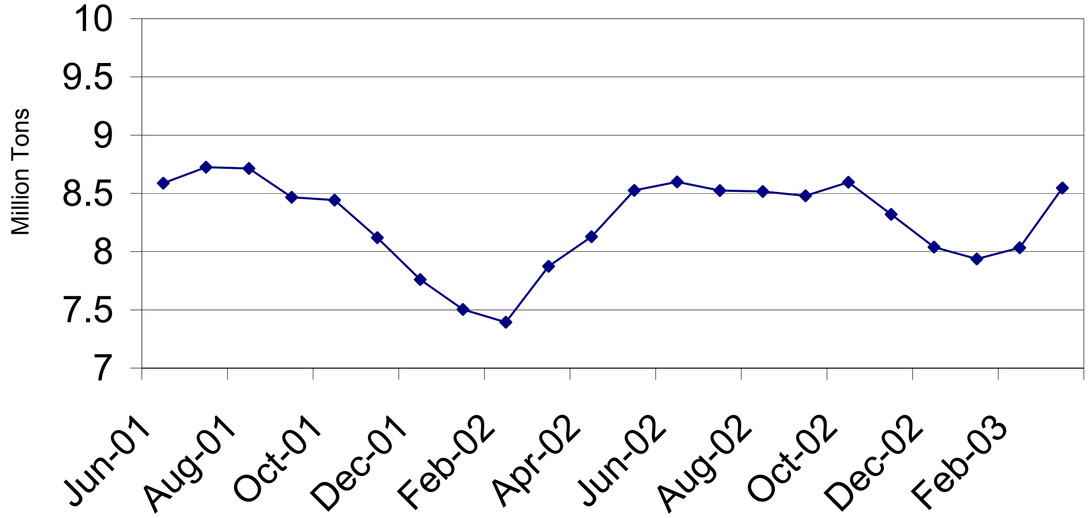
3 month average



Department of Commerce

Raw Steel Shipments

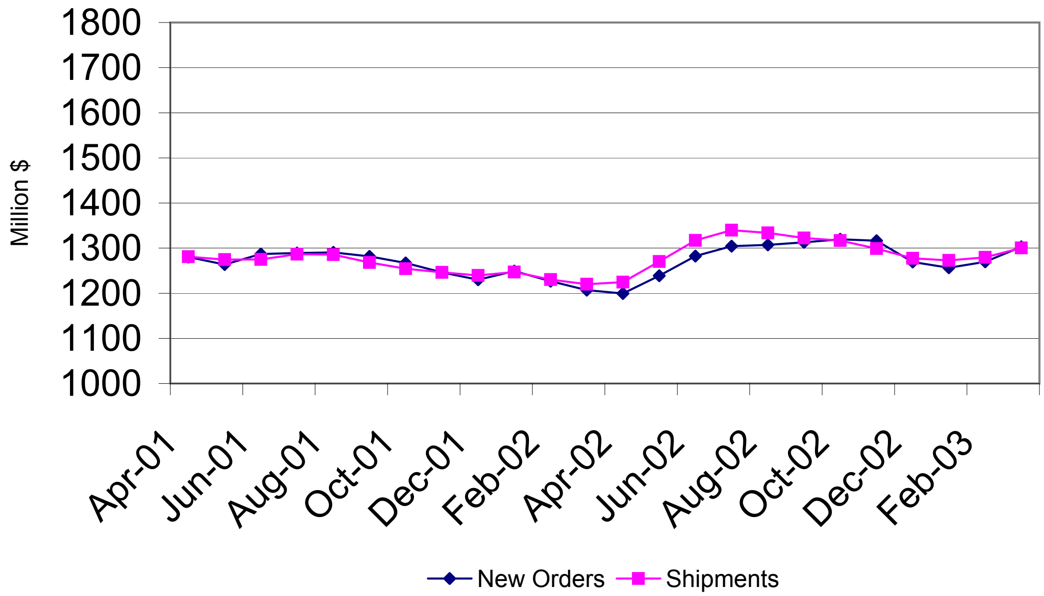
3 month average



AISI Data

Iron and Steel Castings

3 month average



SFSA