



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication

serving SFSA steel casting industry Members

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Casteel Commentary Highlights:

How much profit does your foundry need to make for each pound of core in a mold? How much profit for each minute of radiography? How much for each heat, each mold, each order? This month's Casteel Commentary suggests that setting targets for these type questions may help us better price our products. With more sophisticated pricing we should be able to take on the most profitable work and add the most value in the marketplace.

SFSA Annual Meeting

The Annual Meeting is a great resource for business and management information, particularly in these rapidly changing times, and a great opportunity to interact with your peers in the steel casting industry, and it is an important part of the value of your SFSA membership. This year's meeting features presentations by Marty Regalia of the U.S. Chamber of Commerce on the future of the economy, Larry Kavanaugh of AISI on the future of steel, and Marty Stap will present the SFSA Market Forecast.



EPA MACT

The US EPA MACT standard requires major sources to develop a scrap inspection program. The detailed requirements are here <http://www.afsinc.org/MACT>.

Hexavalent Chrome PEL

A presentation on OSHA's proposed Permissible Exposure Limit for Hexavalent Chrome is available for download at <http://www.sfsa.org/sfsa/news>

International Trade

The US International Trade Commission has published the results of the 332 study, "Foundry Products: Competitive Conditions in the U.S. Market," investigation No. 332-460, USITC Publication 3771, May 2005. The report is available at <http://hotdocs.usitc.gov/docs/pubs/332/pub3771.PDF> (3MB, 368 pages). This is a fascinating study and well worth your time. It includes specific measures of profitability and competitiveness of steel foundries. One of the case studies cover in detail is an analysis of the steel valve casting market.

A list of upcoming international trade events, many of which the Chicago U.S. Export Assistance Center is organizing or co-sponsoring is available online here: <http://www.buyusa.gov/uppermidwest/events.html>

Carbon & Low Alloy Research Review

The Carbon and Low Alloy Research Review meeting will be held July 13 and 14 at the Ramada Plaza Hotel in Rosemont, Illinois. This is your opportunity to interact and direct the progress of the research projects currently under the direction of the Carbon and Low Alloy Research Committee. As usual there is not a registration fee for attendance at this meeting. The meeting will be held at the Ramada Plaza Hotel, Rosemont, IL. Reservations should be made directly with the hotel by calling (847) 827-5131 – mention SFSA to ensure you get the \$99 room rate.

Market News

The rate of increase has begun to slow but market demand has continued to grow for steel castings as seen in the graphs. The SFSA trend cards report strong continued growth in shipment compared to last year. The AISI numbers for steel shipments show some softening for the first quarter but they remain high and profitable. Iron and steel casting orders and shipments reported by Census show continued strong demand for castings. Nondefense capital goods orders and shipments continue to increase and remain strong relative to inventories. Some steel foundries have already sold their capacity for the year and are already taking orders for next year. We may see some slowing of the increase and perhaps some short term falls in demands in some markets but the overall picture remains strong for the balance of the year and at least the first quarter next year.

Casteel Commentary

Much of our attention is directed at our business environment, the value of the Chinese currency, the rate of inflation and interest rates, the cost of regulations, the lack of qualified workers, etc. While understanding our circumstances is essential for planning and profitably exploiting our circumstances, we need frequently to reflect on how we ought to respond. How should we manage the things under our control to maximize the value of our business? Especially now, how should we view the value of our products and price them during the strong demand we are experiencing?

One big answer is to recognize that the shift from over capacity to limited supply for steel castings in North America moves the market clearing price from cost plus to market value. When there are not enough steel foundries to supply the users of castings, the price is bid up by users from the cost of the last low cost producers supplying the user to the value of the casting to the last willing user purchasing the limited production available. From several examples in our recent past, the difference between cost plus and market value is something like 30 to 60%. It is easy to see from the legacy-pricing problem. If you were to rebid some of the work that you have produced for the past 5 years like it was brand new, how much higher would the new price be than your existing pricing?

A big problem of our industry is an inability to know our costs. When a member asks about software and steel foundry costing systems, I am unable to provide much help. Some vendors serve the marketplace, no product seems to meet the need of accurate and timely costing information. Most costing systems work well if the products are in a narrow family of parts. When 20% of the production or less is much different, no system seem to be very good. If as most steel foundries a wide variety of products are produced, costing becomes problematic. The traditional process of materials plus direct labor plus overhead, rarely provide enough guidance for accurate costing.

One approach is to set a series of target profits or a system of profit contributors based on different constraints. When operating near capacity, maximizing profitability is not about cost recovery but about auctioning off the production capability of the facility. While the cost of molding or melting or finishing may not be a major cost component, if it is the bottleneck of production, it is the most important profit constraint. In a limited supply market, throughput, not cost, constrains sales and profits.

Factors that might be included as a separate screen or a factor in composite include certain minimums like; dollars per order, dollars per mold, dollars per pound of metal, dollars per pound of core, dollars per square inch of parting line, dollars per pound of mold, dollars per

page of certification, dollars per minute of radiography, dollars per number of purchase specification requirements, dollars per heat, dollars per pour, dollars per shipment, dollars per square inch of riser and gate contact, dollars per day awaiting payment, etc. This provides a usable and maintainable way of understanding the pricing strategy and the constraints on profits.

Ultimately with a computerized production system and traceability, we should be able to track and manage our cost more effectively. In this time of changes and demands, it is time for us to reorganize our efforts to recover the capital we need to modernize and expand. We will only be able to do this if we maximize this window of opportunity. This means that we must understand the capital needs and requirements for sustaining our business. Fundamentally we need a much better understanding of the profit potential locked up in our business.

Raymond

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2005

July
13-14

Carbon & Low Alloy Research Review, Rosemont, IL

September
10/14

SFSA Annual Meeting, Incline Village, NV

November
2/5

National Technical & Operating Conference, Chicago, IL

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

SFSA Trend Cards 3 Mo Avg Mar Feb
(%-12 mos. Ago)

Carbon & Low Alloy

| | | | |
|-----------|------|------|------|
| Shipments | 48.8 | 54.0 | 44.0 |
| Bookings | 45.3 | 41.5 | 38.6 |

High Alloy

| | | | |
|-----------|------|-------|------|
| Shipments | 75.7 | 104.0 | 22.0 |
| Bookings | 47.7 | 9.0 | 38.0 |

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

| | | | |
|-------------|-------|-------|-------|
| Shipments | 1,708 | 1,661 | 1,657 |
| New Orders | 1,677 | 1,657 | 1,586 |
| Inventories | 2,049 | 2,114 | 2,052 |

Nondefense Capital Goods (billion \$)

| | | | |
|-------------|-------|-------|-------|
| Shipments | 67.5 | 67.0 | 66.8 |
| New Orders | 68.5 | 66.1 | 70.0 |
| Inventories | 112.7 | 113.5 | 113.1 |

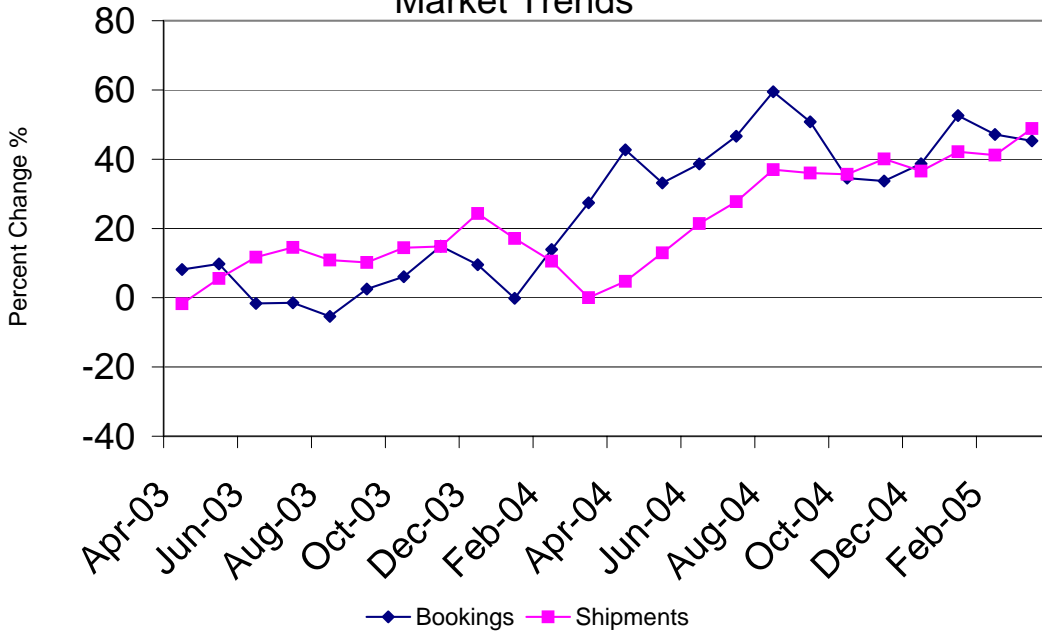
**Nondefense Capital Goods
less Aircraft (billion \$)**

| | | | |
|---------------------|------|------|------|
| Shipments | 65.1 | 64.2 | 64.7 |
| New Orders | 66.0 | 64.1 | 66.8 |
| Inventories | 95.6 | 95.9 | 95.7 |
| Inventory/Orders | 1.45 | 1.50 | 1.43 |
| Inventory/Shipments | 1.47 | 1.49 | 1.48 |
| Orders/Shipments | 1.01 | 1.00 | 1.03 |

American Iron and Steel Institute

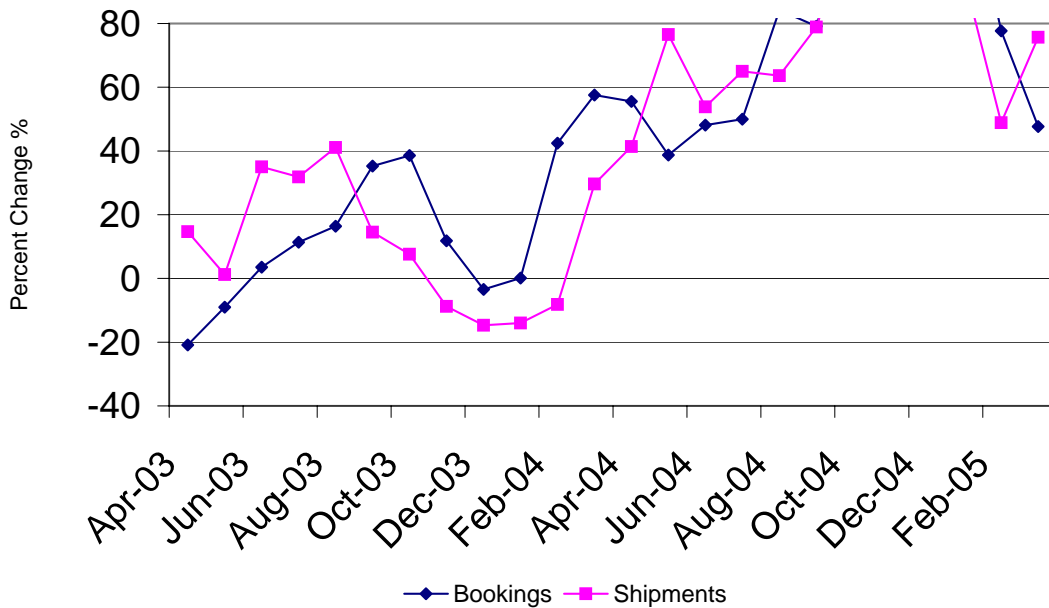
| | | | |
|---|-----|-----|-----|
| Raw Steel Shipments (million net tons) | 8.9 | 9.2 | 8.7 |
|---|-----|-----|-----|

Carbon & Low Alloy Casting Market Trends



SFSA Postcards

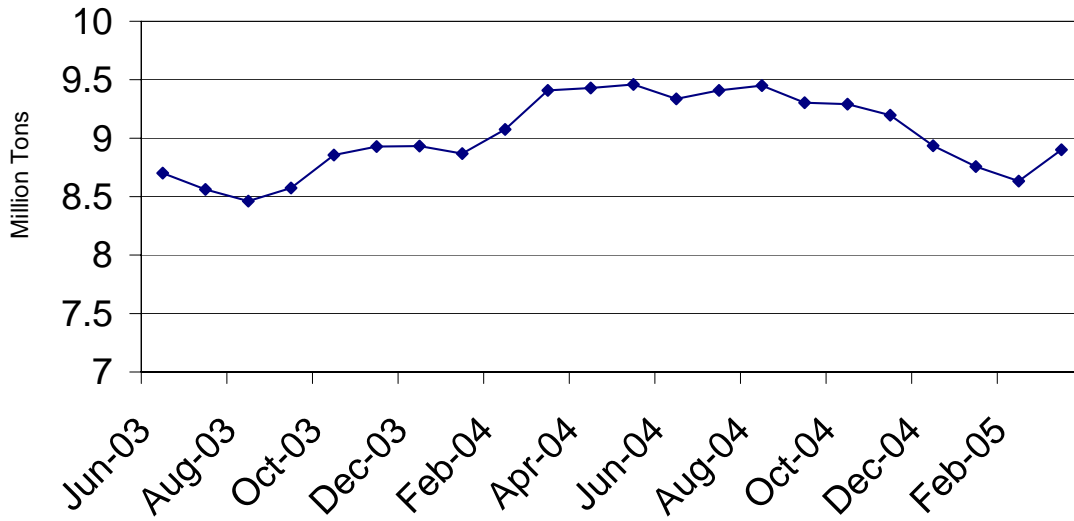
High Alloy Casting Market Trends



SFSA Postcards

Raw Steel Shipments

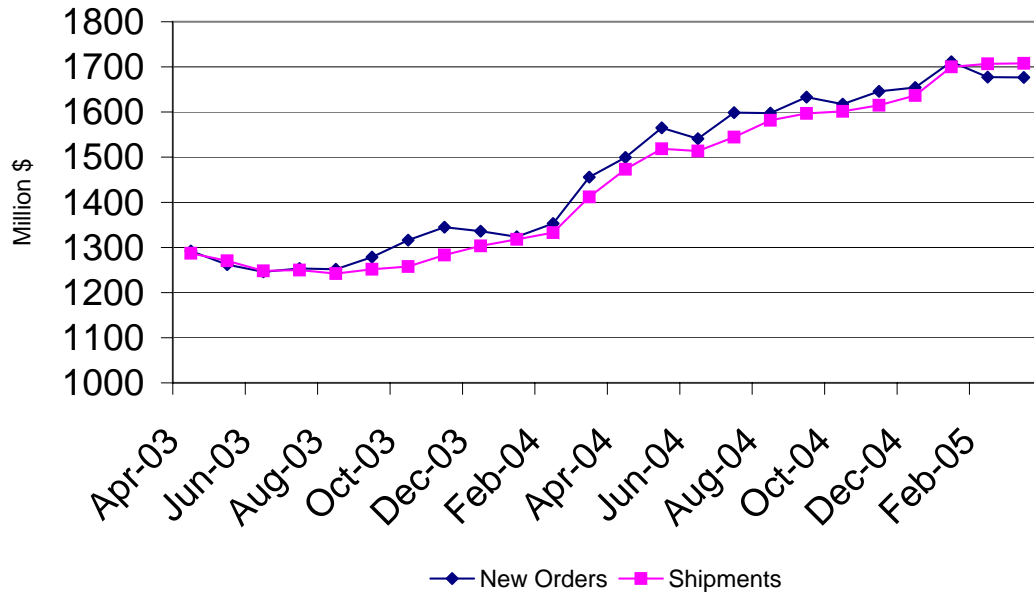
3 month average



AISI Data

Iron and Steel Castings

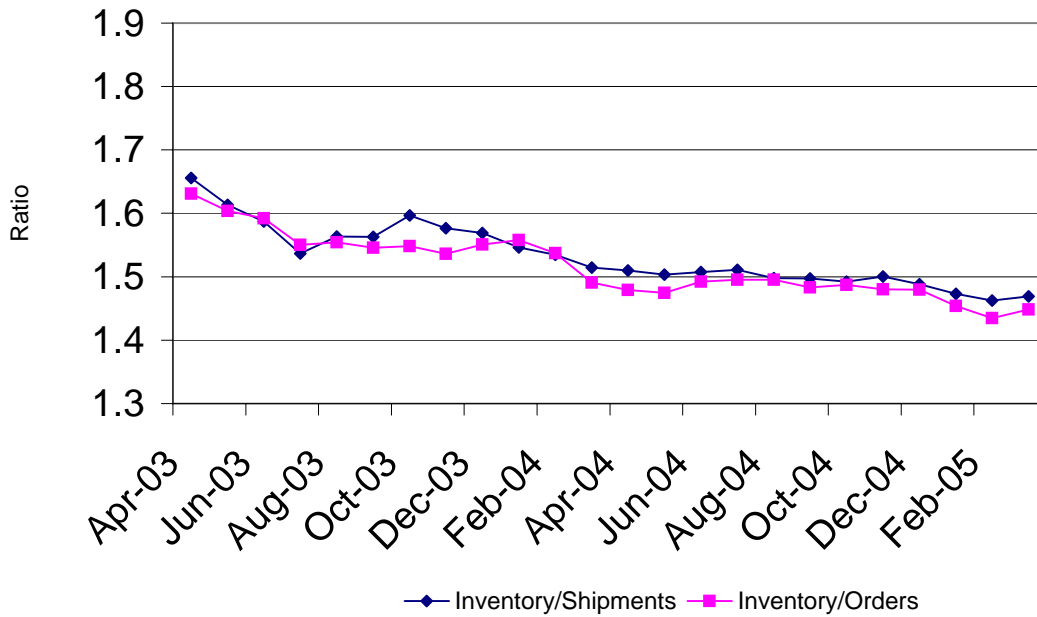
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SFSA

Nondefense Capital Goods less Aircraft

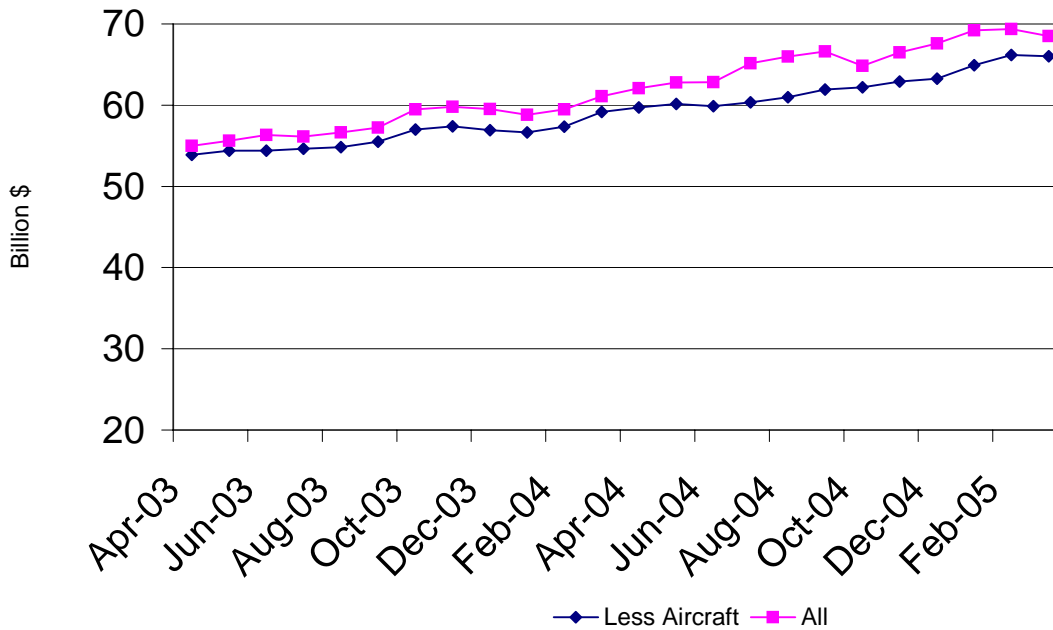
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce