

# **ECONOMIC OUTLOOK - 2006**

## **THINGS ARE REALLY LOOKING UP**

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### **Economic Overview**

- Longer than ever on capital
- Still short on justifiable uses
  
- But justification process has changed
- Capital rationing is no longer the dominant factor in the economy

## Housing is no longer the only game in town

- Housing boom reflected the unique availability of credit in mortgage markets and capital rationing elsewhere
- Now capital is available practically everywhere
- Housing developers haven't caught on, but they will

## Credit Conditions

- It ain't the rate, it's the availability that counts.
- Low rates reflect low availability

## Improved capital availability

- Commercial paper
- Equipment trust certificates
- Equipment leases
- Commercial and industrial bank credit
- Long term corporate bonds, including junk bonds
- Venture capital activities
- Stock market; initial public offerings and hedge fund operations

Best financial conditions since 1995

## Transportation Equipment benefiting from capital availability

- Railroad cars
- Heavy trucks and trailers
- Commercial aircraft

## Off the Road Equipment

- Construction Equipment
  - Worldwide boom
- Mining Equipment
  - Boom outside the U.S.
  - Replacement and modernization in the States
  - Mesabi iron nugget project- Exception that proves the rule

## Energy Projects currently the biggest sector for capital projects

- Natural Gas
  - Drilling at home feeds equipment boom
- Coal Fired Power Plants
  - A boom in the making
    - Fluid Bed Plants
    - Gasification/Dual Cycle Plants
- Petroleum Refineries
  - Low sulfur equipment will go
  - New refineries are doubtful

## Energy Projects .....

- Ethanol Plants
  - 1.7B gal of capacity under construction
  - Big bucks but won't dent the import problem
- NGL Receiving Ports
- Gas to Liquids Plants at stranded gas fields overseas

## Energy Projects.....

- Canadian Tar Sands Projects
- Natural Gas Pipelines
  - From NGL ports to major transmission lines
  - Rockies Express Pipeline from Wyoming to Ohio

## Steel Industry

- Domestic Mills at supportable Capacity
- Shipments will be up by four million tons
- Supply/demand normalized
- Severcorr Steel Project is proof positive of change in project justification criteria
- Ferrous metallics supply strained/ Scrap prices should stay high

### U.S. STEEL INDUSTRY APPARENT DOMESTIC SUPPLY – ALL PRODUCTS (Million Tons)

	2005(e)		2005(E) – 2006(F)				2006 Year	% Ch Y-o-Y
	4-Q	Year	1-Q	2-Q	3-Q	4-Q		
Shipments	26.0	103.5	26.7	28.0	26.2	26.4	107.3	+3.7
+Imports	7.8	31.8	7.2	8.7	8.9	8.2	33.0	+3.8
-Exports	<u>2.0</u>	<u>8.0</u>	<u>1.8</u>	<u>2.2</u>	<u>2.0</u>	<u>2.0</u>	<u>8.0</u>	-
Ap Dom Sply	31.8	127.3	32.1	34.5	33.1	32.6	132.3	+3.9
Im. for Conv	<u>1.6</u>	<u>6.8</u>	<u>1.6</u>	<u>1.7</u>	<u>1.8</u>	<u>1.7</u>	<u>6.8</u>	
Net Supply	30.2	120.5	30.5	32.8	31.3	30.9	125.5	+4.2
Ch Inventory	+0.2	-1.8	-0.5	-0.5	-0.5	-0.5	-2.0	
Consumption	30.0	122.3	31.0	33.3	31.8	31.4	127.5	+4.3
Memo:								
Im. for Cons	6.2	25.0	5.6	7.0	7.1	6.5	26.2	+4.8

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## Steel Castings

Every major market remains strong

- Railroad Cars
- Heavy trucks and trailers
- Off Road Equipment
- Energy projects
- Infrastructure
- Commercial Construction
- Industrial Machinery: up but not impressive

## Economic Measures

- GDP goes up 4%
- Industrial production goes up 3.5%
- Prices go up 3%

## International Scene

- Major world economies are moving up
- Best, most synchronous, economic expansion in decades
- China still the wild card, but less so
- India joins the fray
- All's well while the expansion lasts