ECONOMIC OUTLOOK - 2006

THINGS ARE REALLY LOOKING UP

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CONSULTING ECONOMIST

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

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<th>U.S. STEEL INDUSTRY</th>
<th>APPARENT DOMESTIC SUPPLY – ALL PRODUCTS</th>
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Note: 2006 q4/y 3.38
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