



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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July — 2009

Casteel Commentary

Economic conditions are dreadful. Steel casting orders and shipments are off more than 50%. This sharp drop reminds us of the drop in the early 1980's. However this drop is in fundamentally different circumstances. Unlike the slow recovery and poor conditions for decades, our industry should rebound as global economic activity will require new capital equipment investment. This month's Casteel Commentary compares the differences in these two periods and the reason for optimism.

Meetings and Events

SFSA has a full calendar of valuable meetings coming up. As always, all SFSA members are welcome to attend any division meeting. Consult the calendar of events on the SFSA website – we make it a priority to have additional information about each meeting, including registration information, available online as soon as it becomes available.

Annual Meeting

This year's SFSA Annual Meeting focuses on "Survival Strategies for the CEO" and will present cost reduction strategies, the market and economic forecast, public policy concerns, future market opportunities, and a roundtable discussion covering current challenges, issues and experiences of steel foundry management professionals. We have tightened up the meeting program into a one-day session rather than two half-days and we have reduced the registration fee to less than the 2008 fee. A further reduction in registration fees is available to attendees who register by July 22. Further information along with the registration package and program is available online at <http://www.sfsa.org/meetings/annmtg09>



Safety/HR Meeting

The next meeting of the Safety/HR Group is scheduled for August 5 in Muskegon, MI with a tour of Eagle Alloy on August 6. The program will consist of presentations on regulatory issues, training, Lock-Out Tag-Out, and a presentation by OSHA on the 25 most frequent accidents. Discussions will also be held on safety, and on updates of issues at attendees' plants.

Western Division

August 13/14 in Salt Lake City, UT. The Technical & Operating meeting, to be held on the 13th includes presentations on strategies regarding electricity and gas usage, drying molds and power supplies, employee retention, Magma software developments and applications, an update on SFSA and a business roundtable discussion. A tour of May Foundry will be conducted on the 14th.

High Alloy Product Group and Eastern Division

The combined Eastern Division and High Alloy Product Group meeting will take place on August 26, with a tour of FOPAT to be held on August 27. Miamisburg, OH. The meeting program includes Carbon Pickup, Advantages of Dry Vibratory Linings, presentations on heat treatment, welding and impact testing of 6% Mo Superaustenitics, High Strength Steels, Development of Ceramic Shells using Foam Patterns, a presentation on FOPAT, and an update on SFSA.

FEF

The Foundry Educational Foundation's College Industry Conference will be held in Chicago this November, and is a great place to find the high quality engineering students who will be needed for our industry to prosper in the future. The flier is attached to the PDF version of this newsletter.

Market News

Orders for carbon and low alloy steel castings began to fall sharply in December 2008. Since then orders have continued to decline and in the latest three month average are more than 50% lower YoY. Production lagging orders fell 20% YoY in the last three month average. This dramatic fall is mirrored in the decline in high alloy casting orders, off 49%, and shipments unchanged on average but off over 50% in the latest month. Backlog for all castings hit a single month low mark in March of 1 week for carbon and low alloy castings and 2 weeks for high alloy castings. April backlog numbers rebounded but are still low at 4 weeks.

The steel casting business follows the steel production numbers closely. Steel shipments have fallen dramatically from over 9 million tons a month to 4 million tons in April. New orders for iron and steel castings have fallen from over 1.8 billion a month to less than 1.2 billion.

In capital goods, new orders excluding aircraft have fallen by over 35%. While inventories have not grown, the sharp decline in demand has led to a collapse of ordering to conserve cash and to avoid inventory buildup.

Casteel Commentary

Brutal business conditions have made the operation of a steel foundry difficult for the past half-year. The only comparable period in terms of decline and capacity utilization is back in the early 1980's. As an industry we fell from a production peak of 2.04 million tons in 1979 to 730,000 tons in 1983, a 65% drop in production. Many steel foundries have experienced a similar size drop but not in 4 year, in 6 months.

As similar as the drop from the 1980's is to the size of the drop this time, the fundamental economic conditions are quite different. The drop in the 1980's followed a capital boom where industrial expansion was rapid and capacity was growing. Interest rates were high due to inflationary pressures. Unemployment was high leading to the coining of the term stagflation, a combination of high inflation and unemployment. The conventional wisdom was that higher inflation was the price to pay for higher employment. Higher inflation with rising unemployment was unexpected. The policies that led to inflation also made capital investment attractive. The monetary and fiscal policy of the US government made additional capital investment more attractive than the market demand required. A peak in interest rates and inflation accompanied by a rapid and excessive increase in capacity led the collapse in the early 1980's. Liquidating excess inventory was a significant part of the sharp downturn. Liquidating the excess capacity made the following two decades difficult for steel foundries.

While our current situation shares the sharp drop in business and rise in unemployment, in many ways it is a mirror image of the downturn of the 1980's. We have been liquidating capacity especially in the 2001-2003 drop compared to increasing capacity in the 1975 to 1979 boom. We are concerned about deflation instead of trying to tame inflation. Interest rates are not at historic highs but historic lows. Unemployment for the decade preceding the current crisis was low trending down compared with high trending up in the 1970's. Instead of excess inventories and capacity, our industry was unable to meet the peak demand in 2007 because of a lack of investment and capability.

The crisis has likely already bottomed out. The lowest level of manufacturing activity for most segments may have already occurred in the spring. While business has improved for some, another dip later this summer is still possible. The likely balance of the year should show improved business levels. The production levels at the end of the year should be closer to 60% of our capability rather than the current 45%.

Economic stability will expose the ongoing lack of capacity in commodity production. Energy requirements for the global economy will require significant added capital investment dependent on steel castings. If energy prices for oil stabilize above \$70 a barrel, investments will surely follow.

We need to be obsessed with surviving the current economic calamity. This requires we find a balance and flexibility to maintain our capabilities and key workforce while remaining financially stable. We also need to see the possibility early next year for significant increases in business activity and production. Survivors will prosper!

Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2009

July

15-16 Carbon & Low Alloy Research Review Schiller Park, IK

August

5-6 Safety/HR Meeting Muskegon, MI

13-14 Western Division T&O Meeting Salt Lake City, UT

26-27 High Alloy Product Group and Eastern Division Meeting Miamisburg, OH

September

19-22 SFSA Annual Meeting Sunriver, OR

November

10 Specifications Committee Atlanta, GA

December

9-12 National T&O Conference Chicago, IL

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

SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	Apr	Mar
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Carbon & Low Alloy

Shipments	-4.1	-21.1	-64.0	2.5
Bookings	-11.6	-50.3	-52.3	-53.0
Backlog (wks)	9.3	3.7	4.0	1.0

High Alloy

Shipments	17.6	2.7	-52.1	31.4
Bookings	15.7	-48.7	-62.8	-31.6
Backlog (wks)	9.2	2.5	3.5	2.0

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,639.9	1,294.7	1,188	1,311
New Orders	1,570.0	1,137.0	1,088	1,219
Inventories	2,686.7	2,596.7	2,532	2,554

Nondefense Capital Goods (billion \$)

Shipments	63.8	57.9	56.6	58.1
New Orders	61.2	50.6	49.0	50.4
Inventories	141.7	143.8	142.8	143.1

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

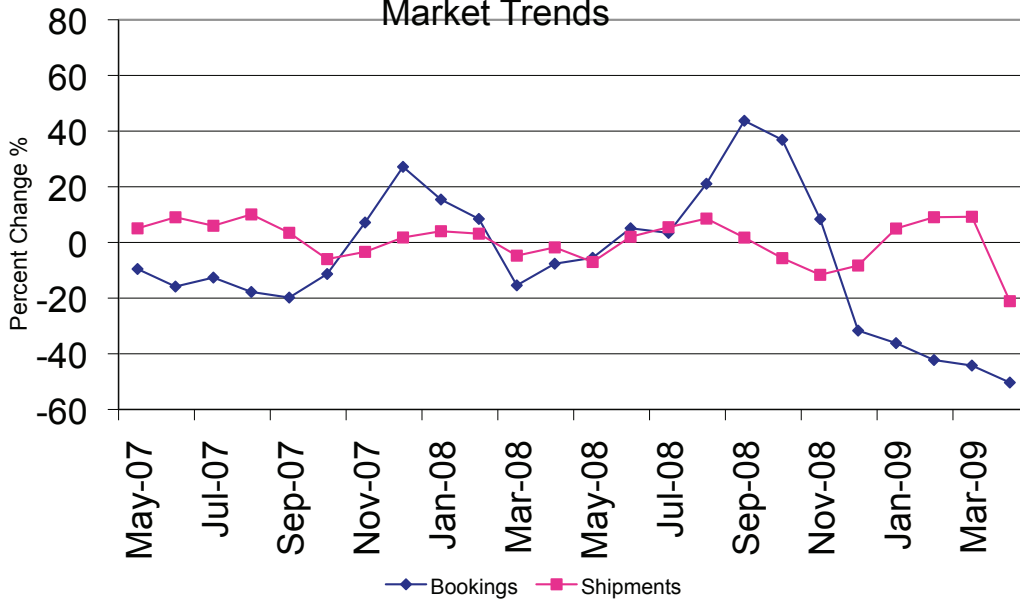
Shipments	60.1	53.8	52.4	53.8
New Orders	58.8	50.3	48.8	50.0
Inventories	107.8	106.4	105.2	106.0

Inventory/Orders		2.12	2.16	2.12
Inventory/Shipments		1.98	2.01	1.97
Orders/Shipments		0.94	0.93	0.93

American Iron and Steel Institute

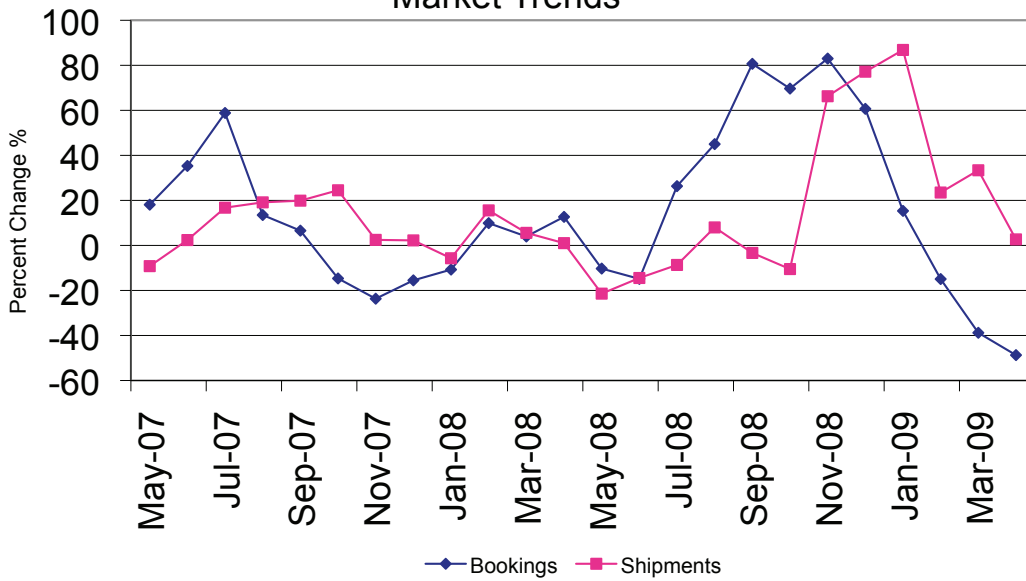
Raw Steel Shipments (million net tons)	6.5	4.2	4.0	4.1
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Carbon & Low Alloy Casting Market Trends



SFSA Postcards

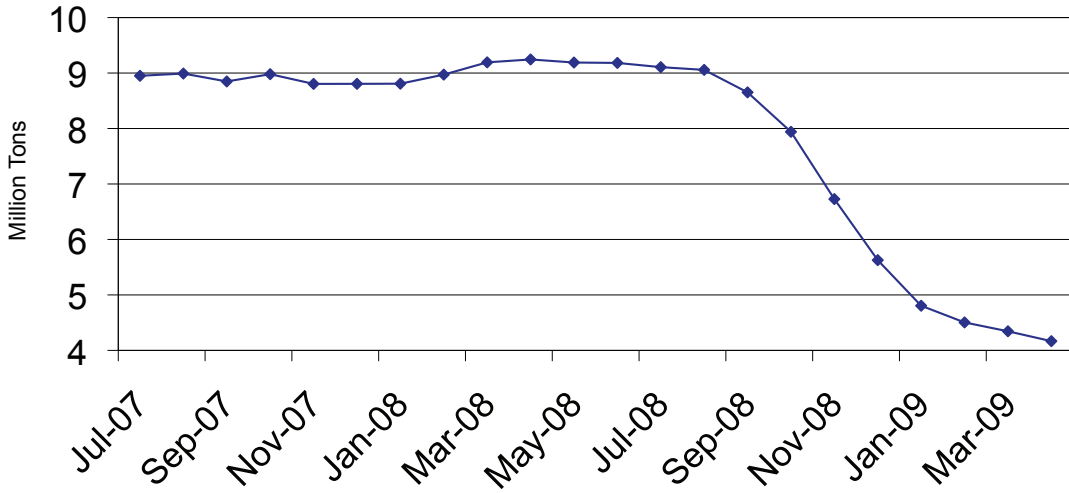
High Alloy Casting Market Trends



SFSA Postcards

Raw Steel Shipments

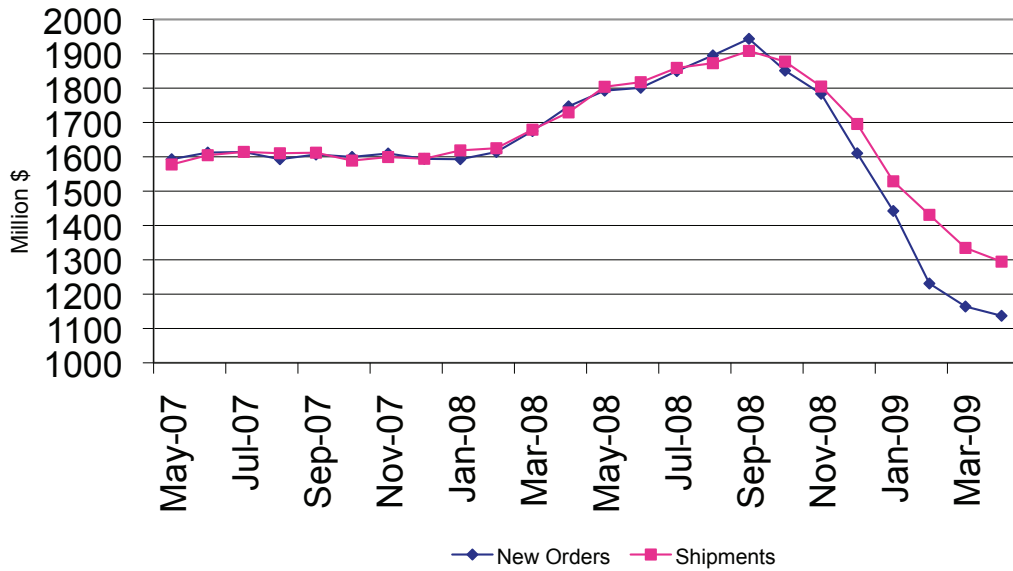
3 month average



AISI Data

Iron and Steel Castings

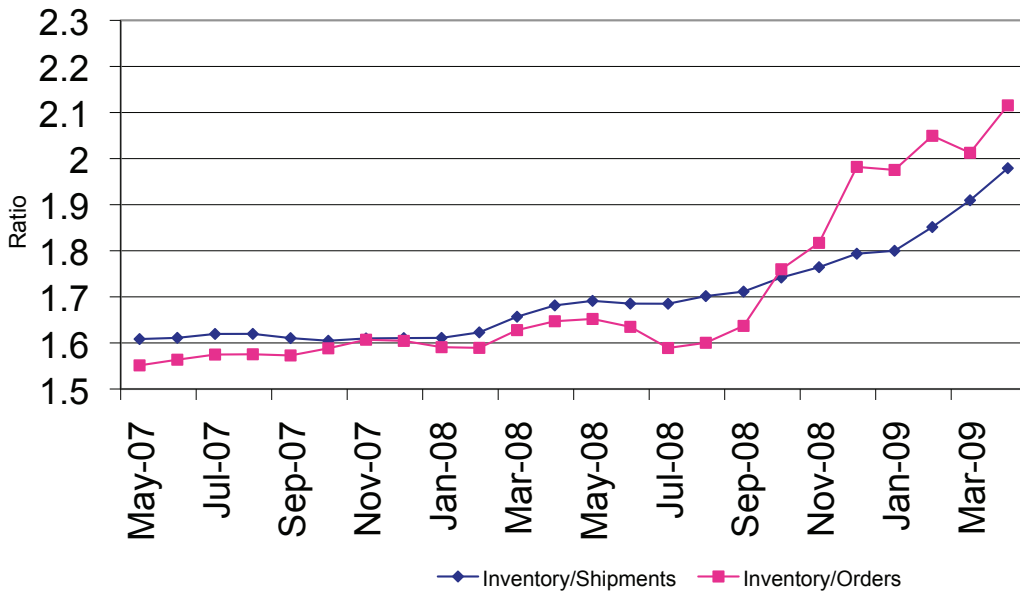
3 month average



SFSA

Nondefense Capital Goods less Aircraft

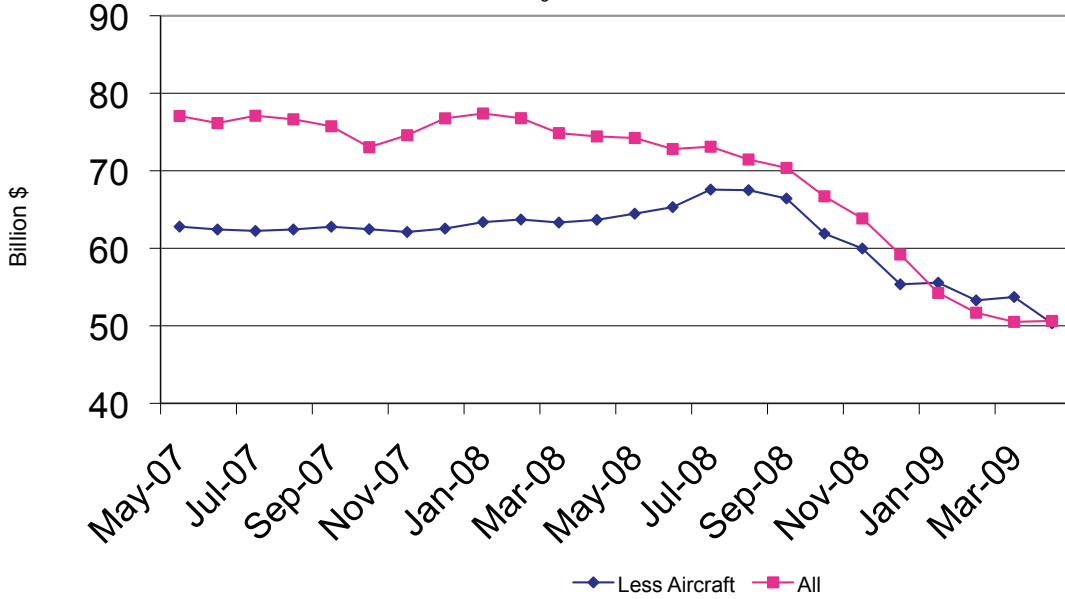
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce

Mark Your Calendars Now!

FEF College Industry Conference

November 19-20, 2009

Drake Hotel, Chicago, Illinois



- Over 80 of the Top Engineering Students in One Location
- Industry Information Session and Follow Up Mixer
- Company Table Tops Available

- Conference Speaker Sessions Including Globalization, Casting Markets, Why I Make Castings
- Awards Luncheon
- Conference Celebration Reception



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FEF

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