SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication serving SFSA steel casting industry Members

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Casteel Commentary

Predictions are included in the newsletter. This year I will again go out on a limb. The reality however is that no one knows the future but we all need to plan.

Greenhouses Gases Mandatory Reporting

US EPA has issued a final rule requiring large sources of CO_2e to monitor and report their emissions of green house gases as CO_2 equivalents. For a US steel foundry to be required to report they must be capable of burning 30 mmBtu per hour in their stationary fuel combustion units and then release over 25,000 metric tons of CO_2e per year. A quick calculation based on an energy survey SFSA conducted would suggest that steel foundries over 40,000 ton a year of production may need to report. Each US member needs to determine the applicability of this rule. AFS is developing a calculator for this determination. A copy of the rule is available on the Casteel Reporter web page.

Combustible Dust Explosions

OSHA is in the process of developing a standard for industry to handle the danger poised by explosions caused by combustible dust. Attached is a Federal register Notice asking for industrial input in the development of a standard. The foundry industry is specifically identified due to the incident at Jahn foundry. Dust from the sand system with a high LOI can be a problem.

NADCA has training for this hazard online both in English and Spanish. The training is located here: http://www.diecasting.org/training/dust/.

Persons Available

A1242 graduates in the all with a BS in Manufacturing Engineering Technology with experience in metallography, casting and investment casting technology.

A1243 graduates in December with a BS in Mechanical Engineering with a minor in Materials. Also holds an AS. Significant military experience.

Market News

The table includes the update prepared by the SFSA Marketing Committee for the forecast for steel castings for 2010. While last December, SFSA forecast a decline of about 11% the anticipated actual decline is over 40%. Our SFSA trend cards indicate that carbon and low alloy casting shipments are off about 40% for 2009 so it matches the committee forecast. The 2010 SFSA updated forecast shows some growth for each of the non-railroad segments. Typical forecast numbers are 10 to 20%.

The SFSA Trend graphs show that production of most steel castings held up through March and then shipments declined rapidly. While the year 2009 will only be off by 40%, the first quarter's strength supports this higher result. Shipments fell dramatically and rest as seen in the graphs at over 50% below last year's levels.

Steel shipments for mill products have seen a recovery and are now off 35% after being off more than 60% in February through July. Iron and steel casting shipments tracked by the DoC fell about 40% from September 2008 to June 2009. There has also been a slight recovery since then in casting shipments.

Market Segment	Estimated 2008 (tons)	Projected 2009 (tons)	2009 Change (%)	Forecast 2010 (tons)	2010 Change (%)
Railroad	592,070	325,639	-45	263,767	-19
Mining	168,340	109,421	-35	131,305	20
Construction	121,081	72,649	-40	79,913	10
Trucks	18,662	11,197	-40	12,653	13
Vales & Pumps	51,500	33,475	-35	35,149	5
Oil Field	28,556	5,711	-80	5,711	0
Military	12,712	15,254	20	16,779	10
Other Markets	83,121	54,029	-35	59,431	10
Total	1,086,745	627,374	-41	604,709	-3

Orders for capital goods fell about 30% from early 2008 to early 2009. Only a slight improvement in capital goods orders is evident. Inventory adjustments are still being realized as seen in the ratio of inventory to order ratio declining.

All signs are to see a continued modest improvement in business through 2010 with a possibility of stronger performance in late 2010.

<u>Casteel Commentary</u>

What was predicted in 2009?

1. **While our forecast projects a decline of 11% I believe that rational business planning should be prepared for a 25% decline in business levels for at least a part of the year.**
2. **Commodity prices are likely to remain lower than last year's highs but not continue to decline.**
3. **Economic stimulus and infrastructure investment will help our business but not until 2010**
4. **Globalization will become more difficult as each region seeks to stabilize their own economic system. Overseas competitors will become less of a factor in the supply chain for capital equipment.**
5. **Purchasers will try but be unable to reverse the increase in pricing of most components.**

The drop to near zero for interest rates indicates a drop in demand for our products is imminent. Low commodity prices, significant increases in unemployment, massive bailouts suggest tough economic conditions.

On the other hand (speaking like an economist), it is hard to see the overall demand dropping to levels below 2002 or around 700,000 tons per year. Our current production is roughly 1,100,000 tons per year or a 40% drop in overall production. With the liquidation of excess capacity even this drop would not be as problematic a on a per plant basis. I think a rational business plan for 2009 should conserve cash and anticipate poor results for most of the year.

I believe that we should be prepared for a rapid deterioration in business conditions mid-year with the possibility of a slow recovery until things improve in 2010.

What about 2010?

Business conditions are likely to remain sluggish for the first half of 2010. While commodity prices for energy and materials are sufficient to justify significantly new investments, these investments with their equipment demands are likely to be delayed. There are several key factors causing a delay in investment.

Inventories are high for many of the commodities even with the higher prices. Some of this is an anticipation of stronger demand and even higher prices. Some is an attempt to secure supplies needed by developing economies before the recovery. Some of the pricing and inventory is a hedge against the likelihood of significant inflation. In any case high inventories make new investments difficult.

Economic uncertainty is another factor limiting investment. The instability of large financial institutions with the unprecedented intervention by central banks and regulatory agencies make economic conditions uncertain. No one knows the rules of the game or which player has the strongest pieces. No one knows whether the current policies have avoided a catastrophe or created the next crisis. No one is confident whether the future will deal with another round of deflation because of slack in the system or inflation because of liquidity flooding the system. The current conditions in big finance make it easy to take profits by following the policy of the Federal Reserve and availing your institution of their guarantees. No rational decision maker for a big project would move ahead without a clearer idea of the future economic conditions.

The economic uncertainty is complicated by political uncertainty. Proposed changes in the economic regulations are only one area of political uncertainty. Health care reform makes it difficult to know what costs and liabilities are going to be imposed on businesses. Taxes and other revenue enhancers make investment decisions difficult. Proposed Cap and Trade programs make large capital equipment investments risky. Geopolitical instability in the Middle East and Asia complicate the investment environment.

History is also a major impediment to investment. After three decades of excess capital equipment investment, current managers and investors are reluctant to commit to large capital equipment investments without clear and systemic payback expectations. In an environment of uncertainty, these investments will be minimized to protect capital and wait for a clearer market signal.

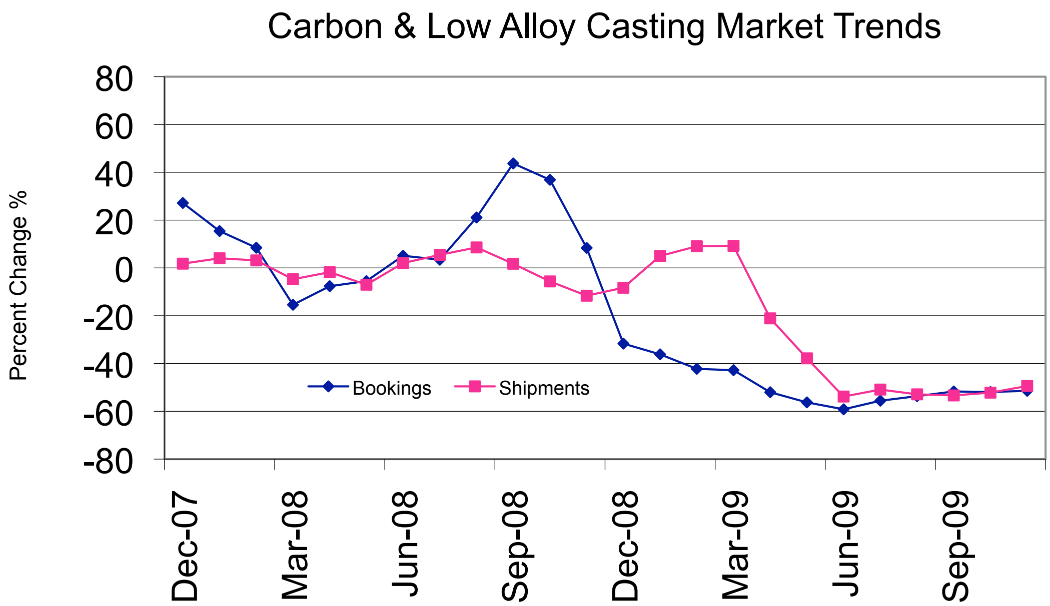
So what for 2010?

1. **Demand for steel castings will see stronger than forecast growth in non-railroad applications, over 20% from current levels or back to 60% of our higher production volumes by year end. This will be spotty and volatile.**
2. **Political and economic uncertainty will be reduced but not eliminated in the run up to the 2010 elections allowing for the possibility of a strong uptick in the final quarter next year.**
3. **China will see a significant reversal of fortune economically, but not next year. They will continue to grow and be a trade issue in the US.**
4. **Commodity prices will bounce in a trading range at a value high enough to justify investments.**
5. **Infrastructure spending and utility investments will add to demand in the second half of next year.**
6. **Other construction investment will remain slack.**
7. **Pricing will remain stable for commodities and for most steel cast products.**

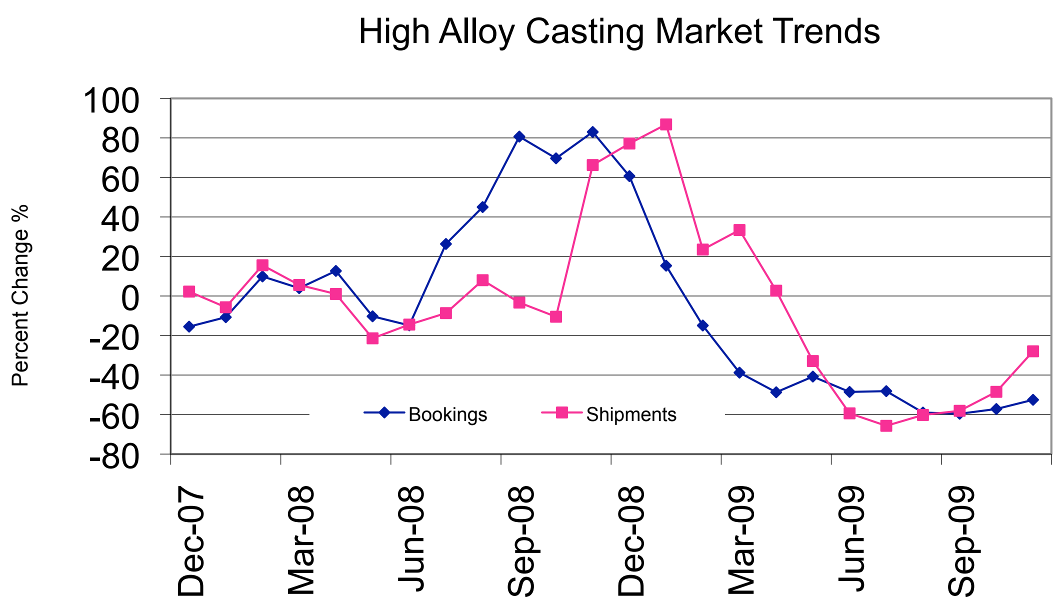
Raymond Monroe

STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT

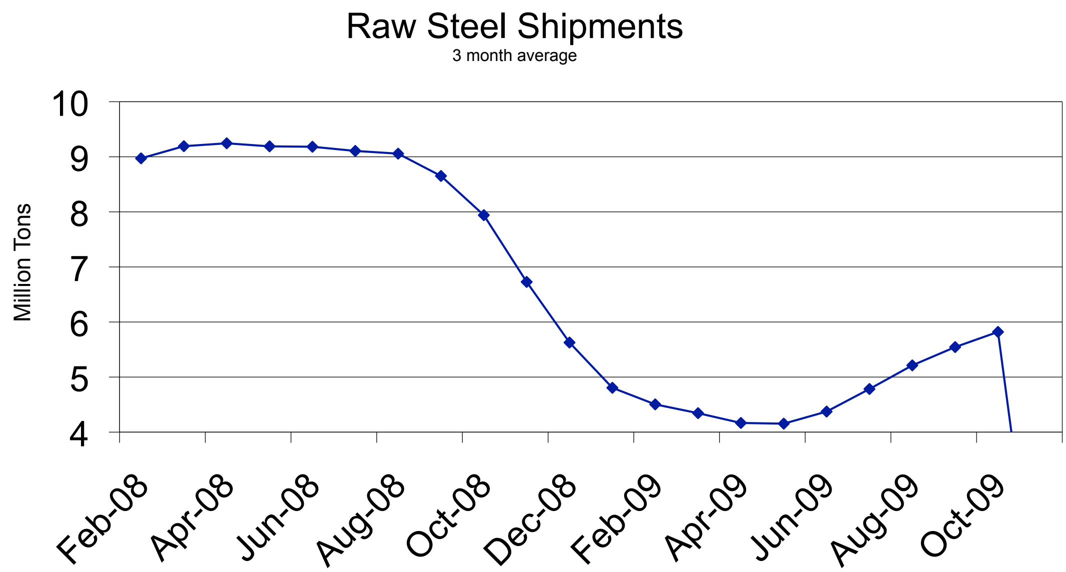
SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	Nov	Oct
Carbon & Low Alloy				
Shipments	-32.8	-49.4	-49.7	-51.8
Bookings	-50.9	-51.4	-51.3	-51.5
Backlog (wks)	5.4	5.0	8.0	5.0
High Alloy				
Shipments	-24.4	-28.0	0.0	-42.3
Bookings	-41.8	-52.5	-46.6	-54.3
Backlog (wks)	3.8	2.0	0.0	4.0
Department of Commerce Census Data				
Iron & Steel Foundries (million $)				
Shipments	1,252.4	1,242.0	1,258	1,249
New Orders	1,173.8	1,217.3	1,229	1,202
Inventories	2,430.8	2,188.0	2,146	2,171
Nondefense Capital Goods (billion $)				
Shipments	57.8	56.9	57.1	56.8
New Orders	52.3	52.9	53.8	51.4
Inventories	139.6	132.4	132.3	132.5
Nondefense Capital Goods less Aircraft (billion $)				
Shipments	54.1	52.5	53.3	52.7
New Orders	51.7	52.2	53.3	51.4
Inventories	102.6	96.8	96.0	96.5
Inventory/Orders		1.85	1.80	1.88
Inventory/Shipments		1.84	1.80	1.83
Orders/Shipments		0.99	1.00	0.98
American Iron and Steel Institute				
Raw Steel Shipments (million net tons)	4.5	5.9		6.1



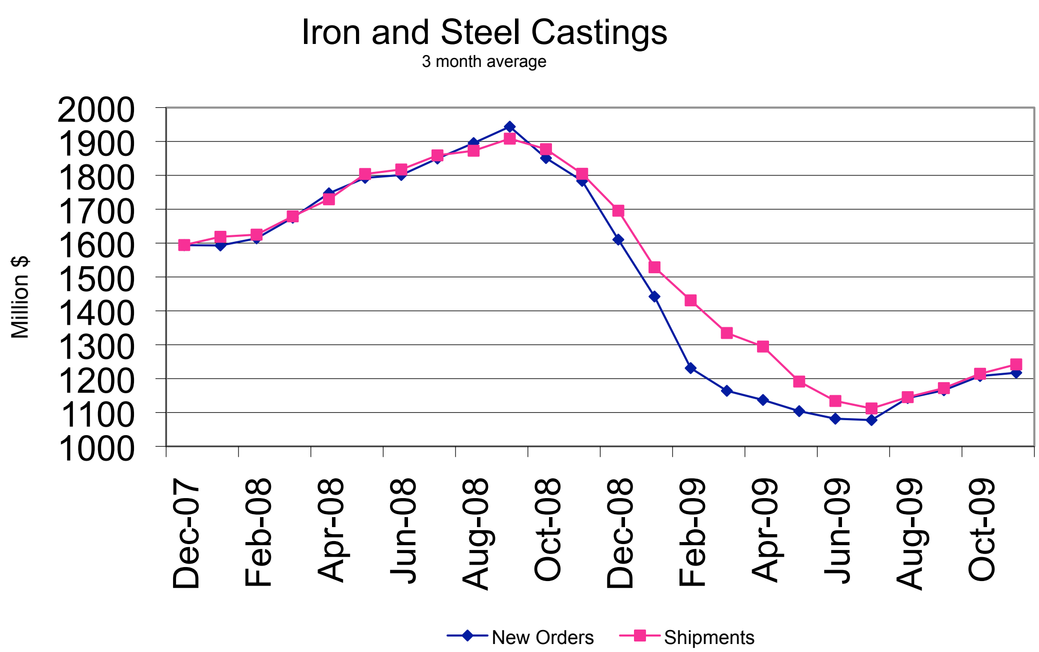
SFSA Postcards



SFSA Postcards



AISI Data



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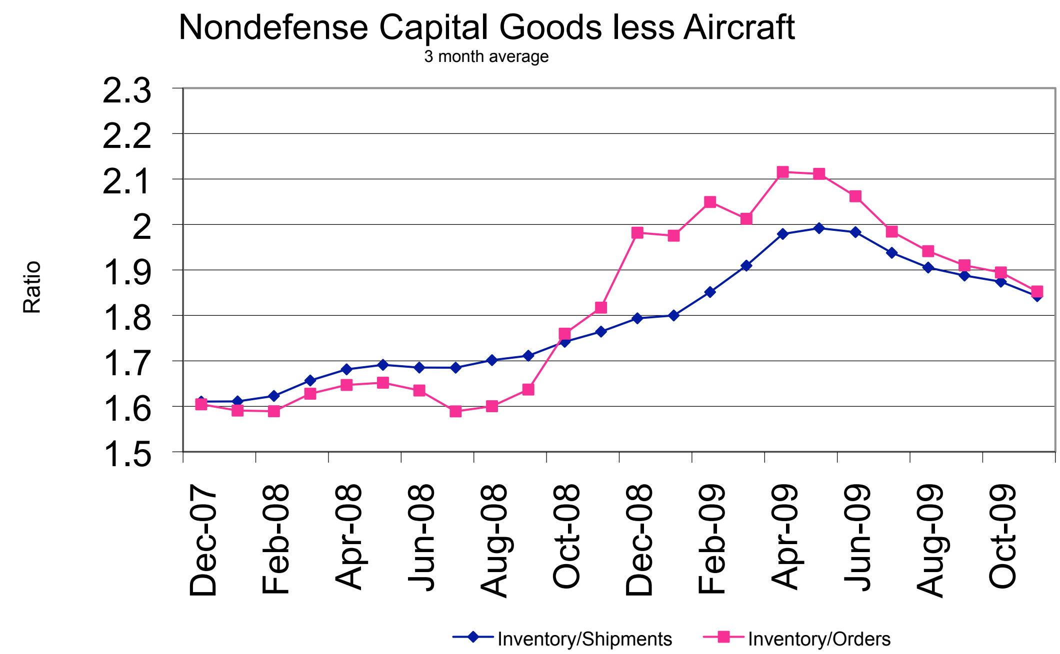
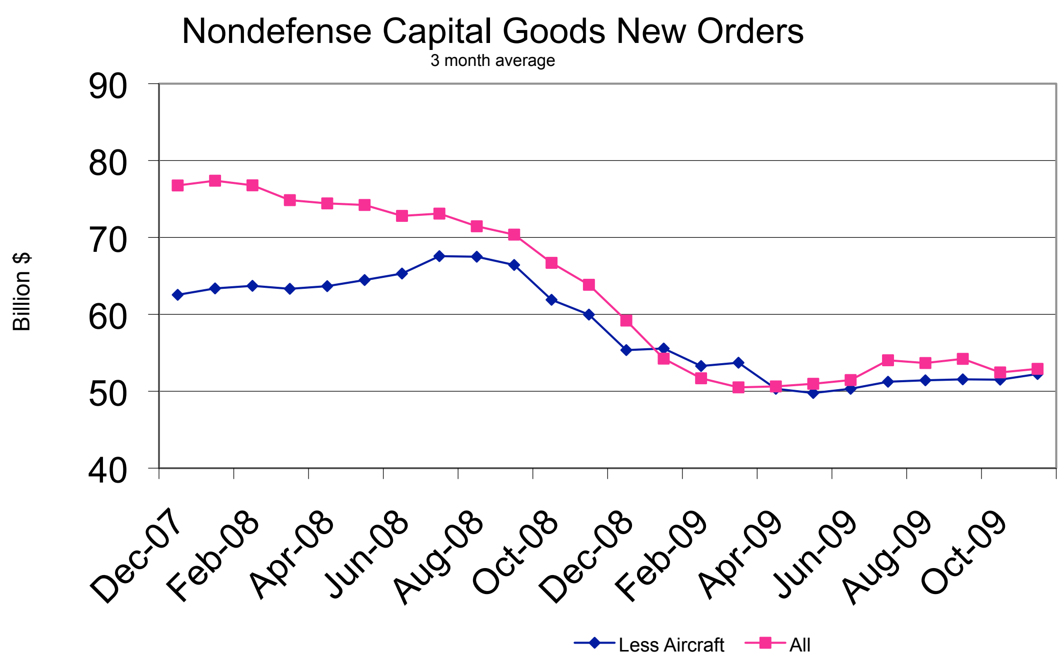


Department of Commerce



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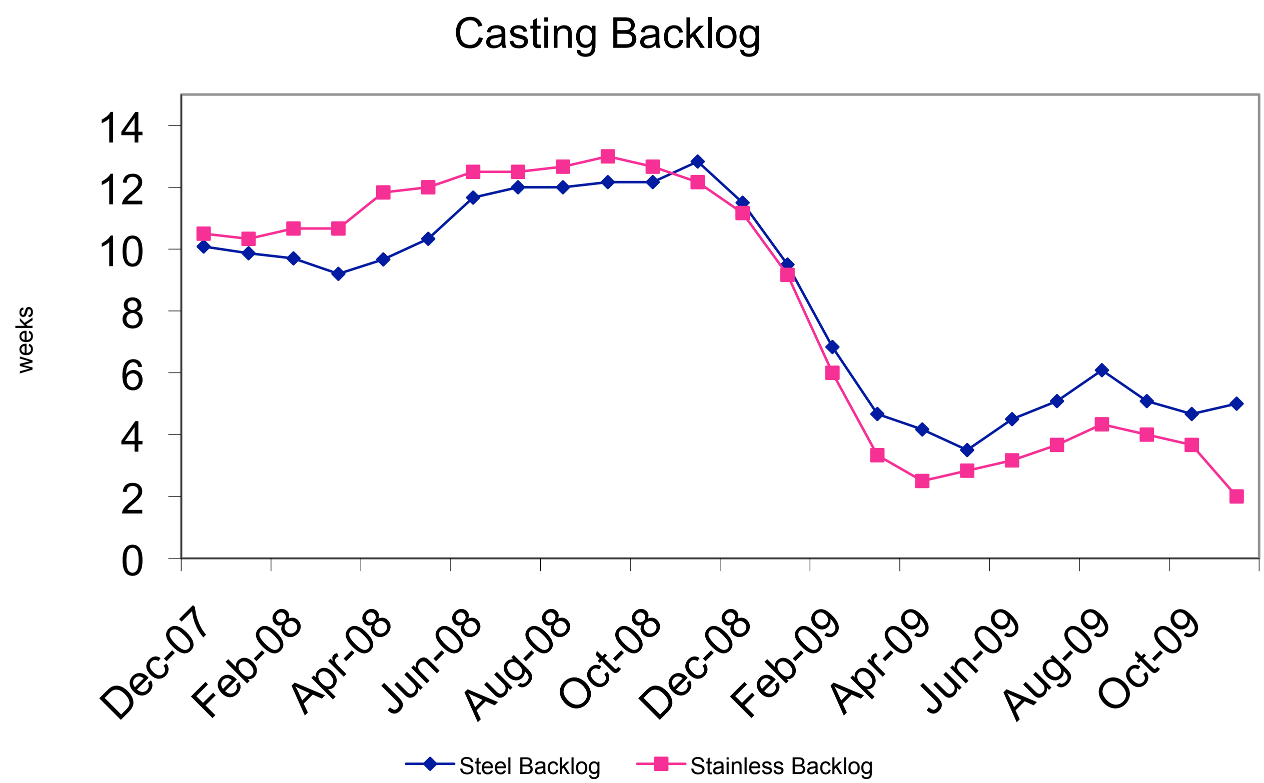
Casting Backlog
weeks
0
2
4
6
8
10
12
14
Dec-07
Feb-08
Apr-08
Jun-08
Aug-08
Oct-08
Dec-08
Feb-09
Apr-09
Jun-09
Aug-09
Oct-09
Steel Backlog
Stainless Backlog