SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication serving SFSA steel casting industry Members

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July — 2011

Casteel Commentary

This month's Casteel Commentary suggests that we need to prepare to recapitalize and improve our capability to succeed in the global market place. Economic growth will require more and bigger equipment and there is likely to be a short supply in steel castings to support this need. In particular, complex, high quality, reliable steel castings will be in demand.

Building Construction

Steel building construction is down and continues to lag behind other markets that have seen an upward trend recently. Even in the down market, Cast Connex has seen enough business to reach a breakeven point. Cast Connex is a Canadian startup company that is transitioning academic work for connecting together hollow structural shapes with castings and now deploying custom design castings. They have become true leaders in the industry and have developed a core knowledge of castings. They are ideal disciples for the casting industry. Their latest application, the Scorpion, takes full advantage of cast geometry and material properties. Check out the video at http://watch.discoverychannel.ca/409236#clip409236.

Annual Meeting

Don't miss joining industry professionals at our Annual Meeting 2011 in Laguna Beach, California, September 10-13, 2011. View the session offerings below and register today!

Business session presentations will include: merger and acquisition considerations in the foundry industry, safety and industry capacity, Death by China, the 2012 steel casting forecast, business succession planning, wealth planning & management, ITAR, the reshoring initiative to bring manufacturing back home, and an update on U.S. trade law issues from the Department of Commerce. Registration is currently being offered at a discounted fee. Laguna Beach is easily accessible, located just 30 minutes from John Wayne Orange County Airport (SNA). Visit http://www.sfsa.org/meetings/annmtg11 today to register.

Future Leaders

The SFSA Future Leaders activity offers a one-of-a-kind opportunity to network with peers, tour foundries, and benefit from key experience from colleagues and industry graybeards. The next meeting is scheduled for September 28-29 at Harrison Steel and will include a tutorial on Design of Experiments and a discussion on the book, *"The Goal"*. For additional information and to register please contact David Poweleit at poweleit@sfsa.org.

Safety / HR Meeting

The next meeting of the Human Resources/Safety meeting will be held in Spokane, WA, August 8 and 9. The HR session program includes a presentation by an attorney on Confidentiality and the forms you might ask your employees to sign, a member presentation on Lessons learned on hiring for quality and retention, and a round table discussion. Richard Stone of Iowa State University will also discuss the web-based screening test that they have developed for visual inspectors. A tour of the Spokane Steel Foundry plant will be given. At the Safety session a review of OSHA Form 300 data supplied by SFSA member companies will be presented by Malcolm Blair, and a round table discussion will be held with particular reference to the Plant Tour.

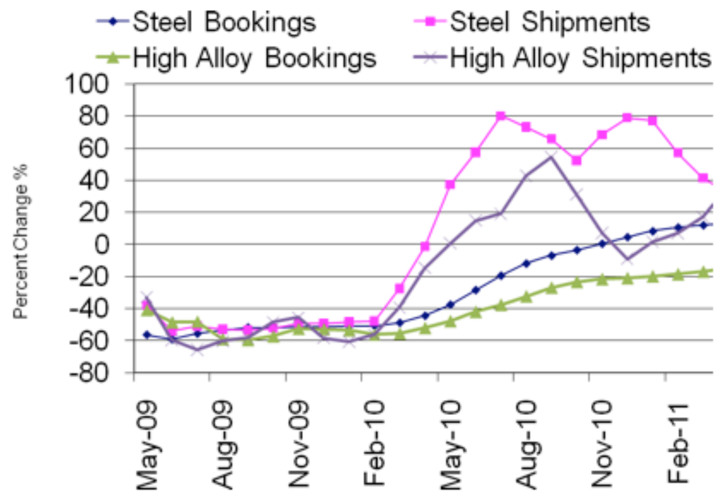
Eastern Division / Heavy Section Product Group Meeting

The meeting will be held in Bay City, Michigan on August 17-18 at the Doubletree Hotel. The program is being developed at this time. A plant tour of Bay Cast, Inc. is planned for August 18 – it has been many years since we have toured Bay Cast. Hotel information is available online.

Investment Casting Product Group

This meeting is scheduled for August 23-24 in Milwaukee. Meeting details are still being finalized; information will be sent to SFSA members when it becomes available. The program will include a plant tour and a roundtable discussion.

Market News



Steel castings continue to see robust production, up over 30% YOY, and stainless castings are also finally up over 30% YOY. Bookings continue to be weaker, suggesting that orders are on quick delivery and not showing up in the booking totals.

Steel and stainless steel casting backlogs have continued to expand. Steel casting backlogs are over 10 weeks and stainless casting backlog stands at 9 weeks.

The data from the Census for iron and steel castings shows similar recovery gaining back to monthly sales comparable to production rates for 2007. Long steel products have also recovered from the extremely low production rates in 2009 but have not recovered to pre-recession levels.

Orders for non-defense capital goods minus aircraft have continued to increase. Orders and shipments have returned to low normal levels indicating that inventory levels are not excessive.

Recent softening in the economy may be a cautionary note for a slowing market for steel castings for the balance of the year. Even with that potential for a slower growth rate or even stalled production levels, it seems clear that our near term future is likely to be challenged to meet the customer demands for castings.

Casteel Commentary

Uncertain economic and political conditions make planning and managing a business challenging. The current situation is especially troubling since it is clear that trends that extend back decades in public finance may be changed. Budget deficits draw into question the ability of the Federal Government to support infrastructure or adequately fund defense. The current size or growth of government is unsustainable. Growing costs for entitlements and regulatory burdens makes the difficulties for businesses even greater.

On the other hand, the developing world's appetite for materials and energy will require significant investment in capital equipment. Increasing production of energy and materials while traditional rich sources are depleted indicate that we will need more and bigger equipment. Increasing technical demands and risks of large equipment in hostile environments makes suppliers in developed economies preferable. Recapitalizing infrastructure will be required even as government goes broke.

Economic conditions still remain uncertain but it is becoming increasingly clear that qualified suppliers of large demanding steel components are in short supply. The lack of supply for all specialized products is becoming possible. The poor business conditions for the period of 1982 through 2004 coupled with the severe trials of 2001-2003 and 2009-2010 has liquidated ant excess capacity. Globalization has had the effect of reducing the number of producers. The price competition from developing low cost economies and the relentless pressure from large OEM firms has resulted in fewer qualified suppliers often with only one or two in each economic region.

This reduction in qualified suppliers will make capacity and capability scarce. As steel casting producers we need to be prepared for market conditions that are much stronger. The uncertainty and volatility means we also have to plan for steep drops in demand and poor market conditions.

It is clear to me that we will need to take advantage of the coming strong markets to recapitalize and increase our capacity and capability. We cannot compete on tons or size but will need to provide engineered products with the highest quality requirements. It seems to me that we will need to upgrade our quality and performance while modestly adding to capacity.

We will not make and should not make the investments in capacity to meet the global requirements. Instead we should concentrate on sustainable market opportunities that allow us first to recapitalize and then to prosper. We all need a clear plan for investment and market development.

Adding capacity to chase volatile and marginal business is not a likely successful strategy. Improving capability to make unique complex and demanding products in a recapitalized modern facility should be our goal.

Steel Founders' Society of America Presents: Annual Meeting 2011

Don't miss joining industry professionals at our Annual Meeting 2011 in Laguna Beach, California, September 10-13, 2011. View the session offerings below and register today!

Business session presentations will include: safety and industry capacity, the 2012 steel casting forecast, business succession planning, wealth planning & management, ITAR, reshoring, management systems, and an update on trade from the Department of Commerce. We will have a special presentation by Greg Autry on "Death by China". Registration is currently being offered at a discounted fee using the attached form. Laguna Beach is easily accessible, located just 30 minutes from John Wayne Orange County Airport (SNA). The hotel information sheet that includes reservation information is attached.

Details of the ocean kayaking, Mission San Juan Capistrano tour, thalassic beach walk, and golf tournament are available online, be sure to complete the separate registration sheet in order to attend these optional events.

The tentative schedule of events is:

Saturday 9/10/11

9-11am Executive Committee Meeting

9am Executive Committee Spouse Breakfast

1-4pm Ocean Kayaking (optional)

6:30-8pm Registration & Cocktail & Hors D'Oeuvre Reception

Sunday 9/11/11

9-11am Board of Directors Meeting

9am Board of Directors Spouse Breakfast

1-5pm Mission San Juan Capistrano Tour

6:30-9pm Cocktail & Hors D'Oeuvre Reception and Dinner

Monday 9/12/11

8am-12pm Business Session

9-10am Thalassic Beach Walk & Breakfast - Spouses

1pm Golf Tournament

7:30-10pm Cocktail & Hors D'Oeuvre Reception and Dinner

Tuesday 9/13/11

8am-12pm Business Session

9-10am Spouse Breakfast

6:30-8pm Cocktail & Hors D'Oeuvre Reception

BUSINESS REPORT

SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	Apr	Mar
Carbon & Low Alloy				
Shipments	60.5	32.3	25.8	36.0
Bookings	-0.3	13.1	13.7	13.2
Backlog (wks)	8.6	10.2	12.0	10.0
High Alloy				
Shipments	22.2	36.6	58.7	30.0
Bookings	-23.8	-14.6	-11.9	-15.0
Backlog (wks)	7.7	9.0	10.0	8.5

Department of Commerce Census Data

Iron & Steel Foundries (million $)

Shipments	1,326.8	1,509.0	1,576	1,569
New Orders	1,362.0	1,598.3	1,650	1,693
Inventories	1,841.9	1,928.0	1,962	1,929

Nondefense Capital Goods (billion $)

Shipments	65.4	66.4	66.1	67.3
New Orders	67.5	70.1	65.3	73.8
Inventories	136.4	147.3	158.4	143.0

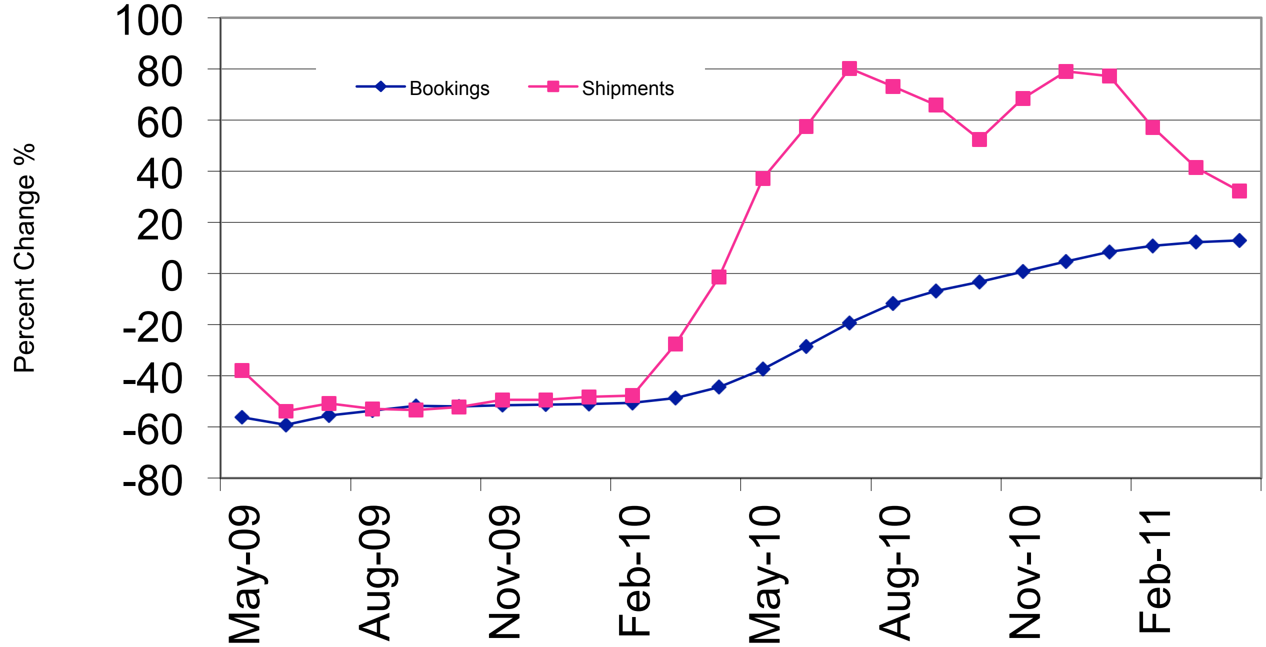
Nondefense Capital Goods less Aircraft (billion $)

Shipments	61.2	62.4	62.2	63.2
New Orders	63.2	64.9	65.3	66.0
Inventories	103.5	107.6	109.9	107.1
Inventory/Orders		1.66	1.68	1.62
Inventory/Shipments		1.72	1.77	1.69
Orders/Shipments		1.04	1.05	1.04

American Iron and Steel Institute

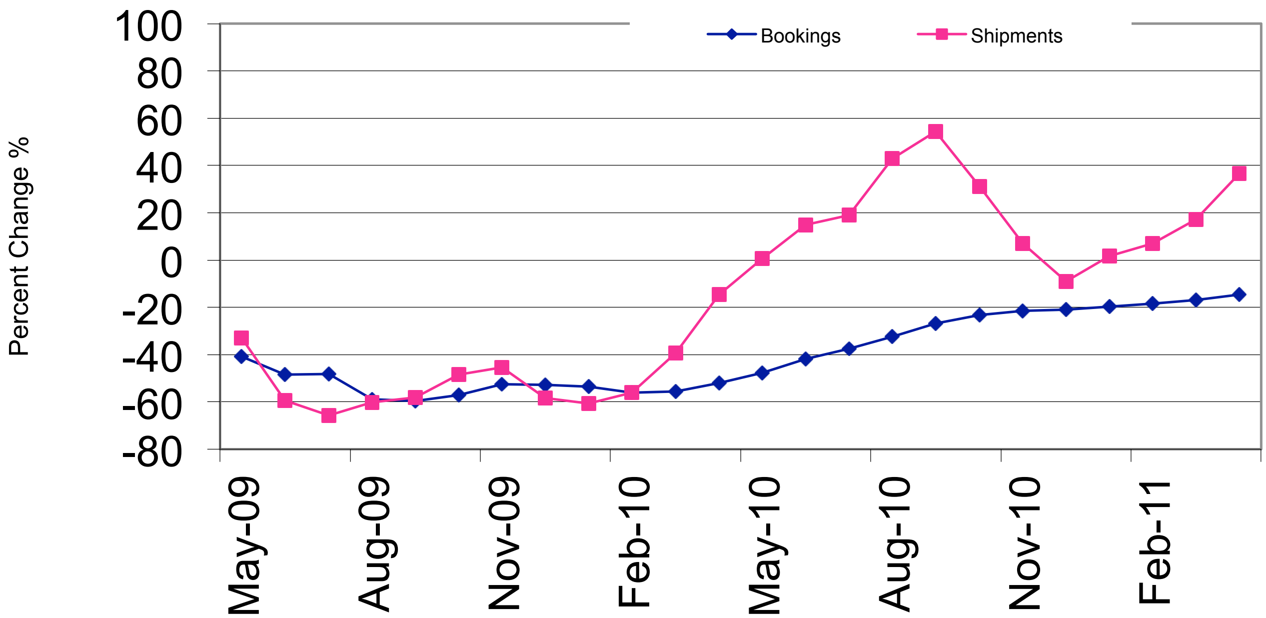
Raw Steel Shipments (million net tons)	7.1	7.4	7.3	8.0

Carbon & Low Alloy Casting Market Trends

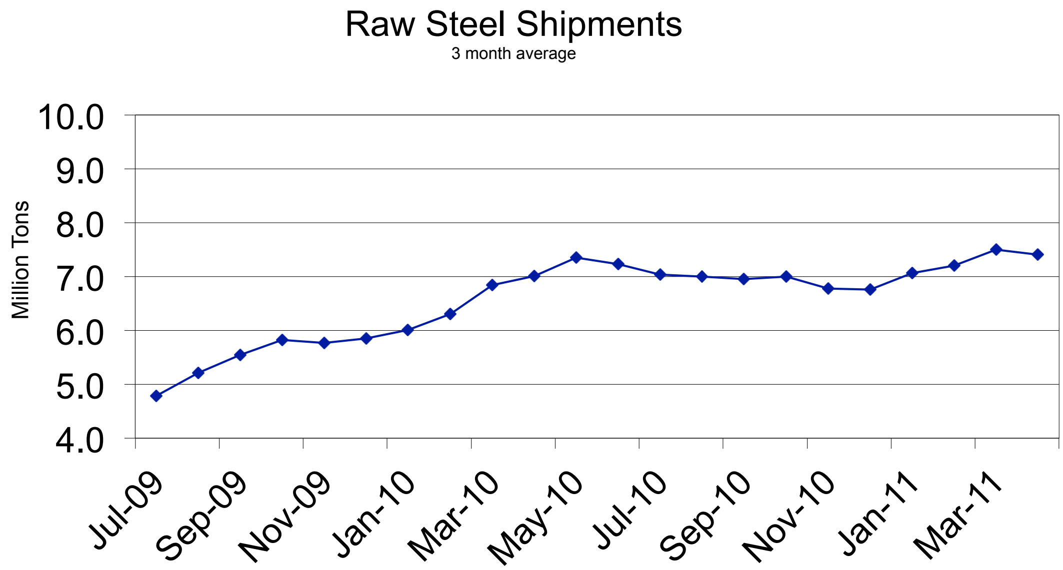


SFSA Postcards

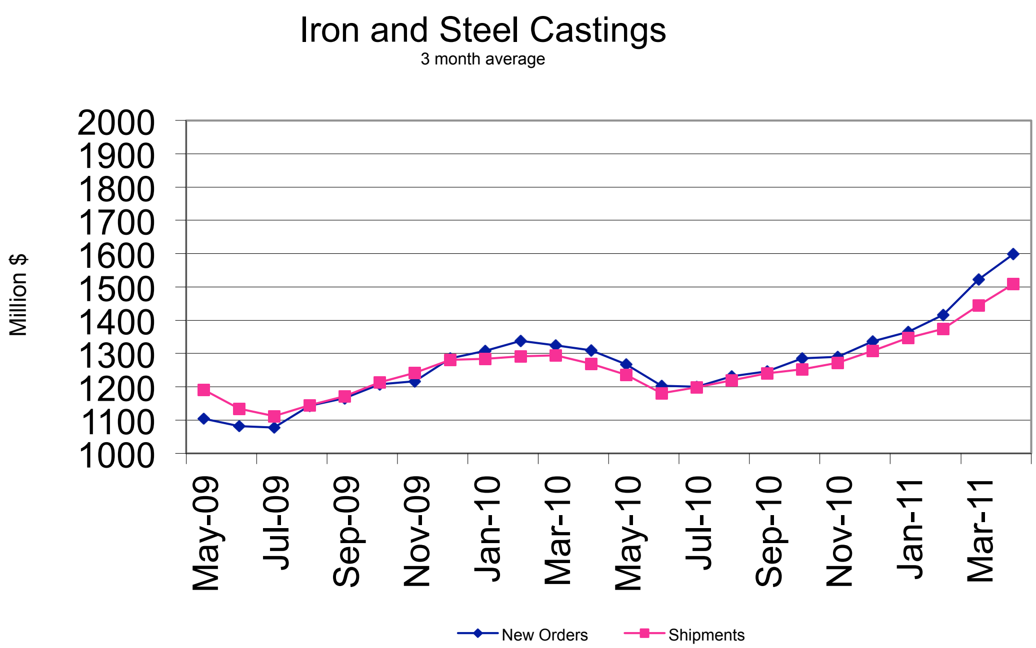
High Alloy Casting Market Trends



SFSA Postcards



AISI Data



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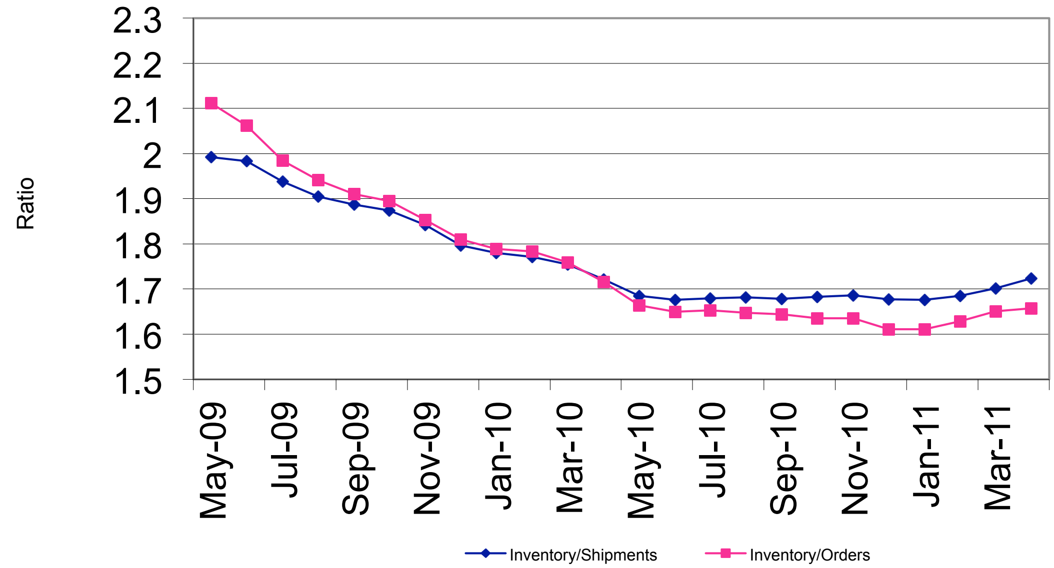
Nondefense Capital Goods less Aircraft

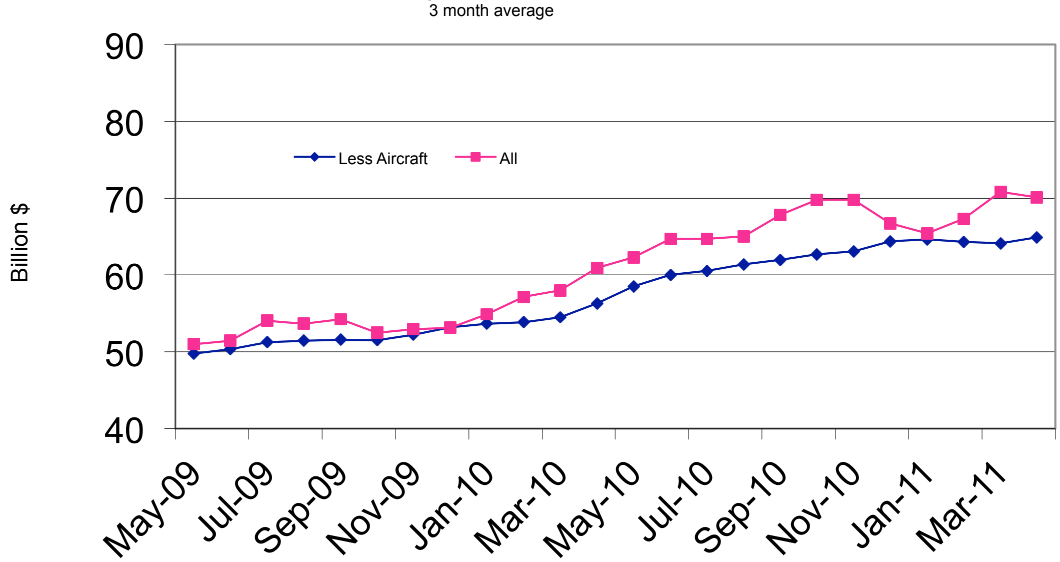
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce