



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a publication
serving SFSA steel casting industry Members

780 McArdle Drive Unit G, Crystal Lake IL 60014
Tel: 815-455-8240 Fax: 815-455-8241
<http://www.sfsa.org>

February — 2012

Casteel Commentary

As an annual practice, I have reviewed last years prognostications and added new ones for this year. I believe the market will slow midyear but that 2012 will exceed 2011 in demand and production of steel castings.

Malcolm Blair

Malcolm Blair is an invaluable member of SFSA. He has been serving the industry on staff for over 20 years. Unfortunately for all of us, he is planning to retire at the young age of 70, next Spring. As a Society we will miss his wit and wisdom. SFSA will be looking to add a staff person to provide the detailed metallurgical and foundry support that we all rely on Malcolm to offer. Our SFSA Board of Directors thought we should make this announcement now so all of you are aware of our planned changes and future direction.

Persons Available

A1252 seeks a management position. Has experience in metallurgy, project management, induction furnace operation, sand quality control, and molding. Has a MS in Operational Management focusing in industrial management, and a BS in Metallurgical Engineering.

HR / Safety Committee

The next meeting of the Safety / HR Committee will be held in Moss Point, MS on March 3. Rolls Royce Naval Marine have offered to host a plant tour of their Pascagoula, MS facility on March 4. Presentations are scheduled on subjects including pre-hire physicals, the safety program at Rolls Royce, and development of an apprenticeship program. Discussions will be held on use of social media for recruitment and silica abatement. All attendees will participate in a roundtable discussion on safety issues. More information is available online. Register your attendance with Malcolm Blair.

Southern Division Meeting

Southwest Steel Casting Company will host the Southern Division meeting at their plant in Longview, TX March 13, with a plant tour on March 14. Presentation topics include use of calcium wire injection in induction melting, a comparison of zircon and alumina mold wash, a review of melting practice, a summary of the Clean Steel program, and an update on SFSA. A business condition/issues roundtable discussion will be held. Register your attendance with Malcolm Blair.

Future Leaders Group

The next Future Leaders meeting will be at Carondelet in Pevely, MO, on April 25 and 26. This is MetalTek's high alloy sand foundry. A mini-seminar, roundtable discussion, plant tour, and graybeard discussion will be held. Plan to arrive by Tuesday evening on the 24th if you would like to join the group for dinner. Register your attendance with David Poweleit.

Marketing Committee

SFSA Marketing Committee is meeting on April 10 and 11 in Guadalajara. The committee will have a chance to tour two member plants and begin work on next year's market forecast. If you have an interest in joining the committee please email Raymond Monroe, monroe@sfsa.org.

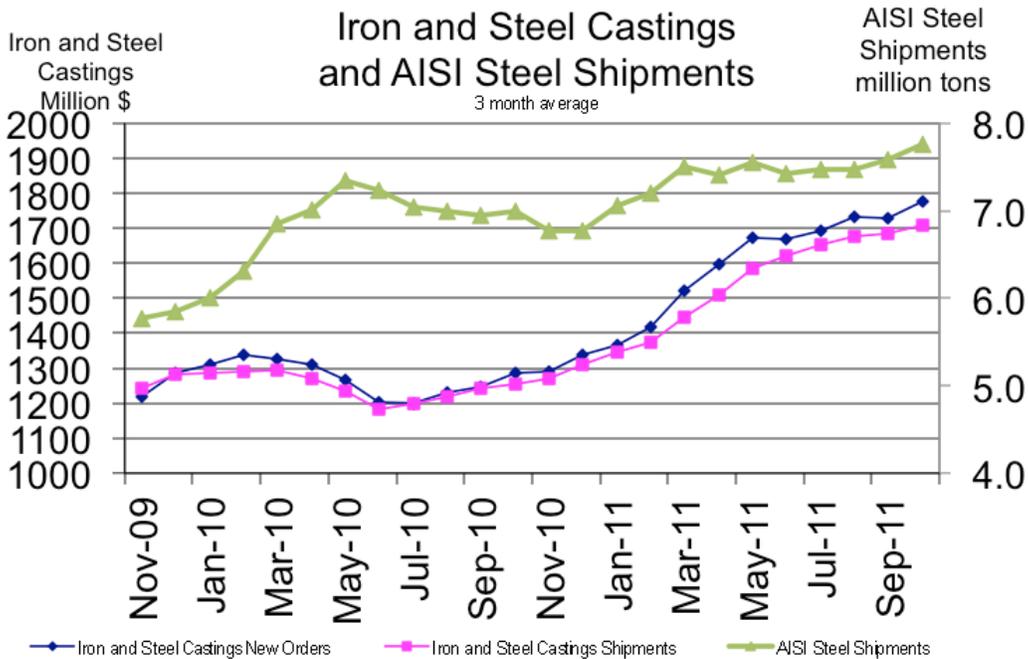
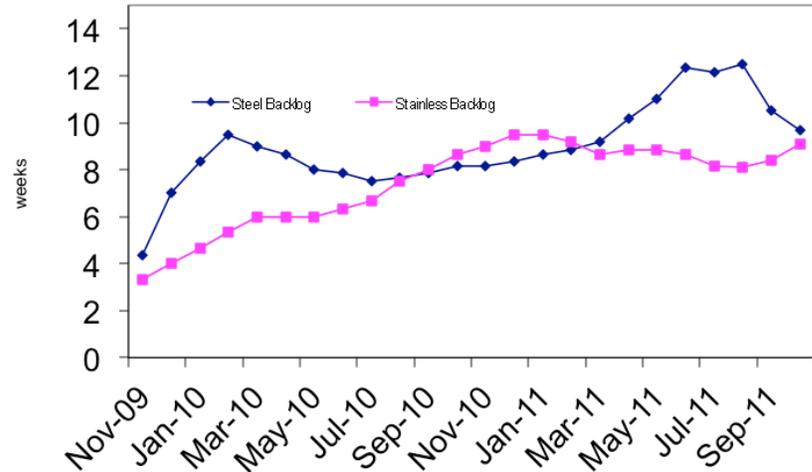
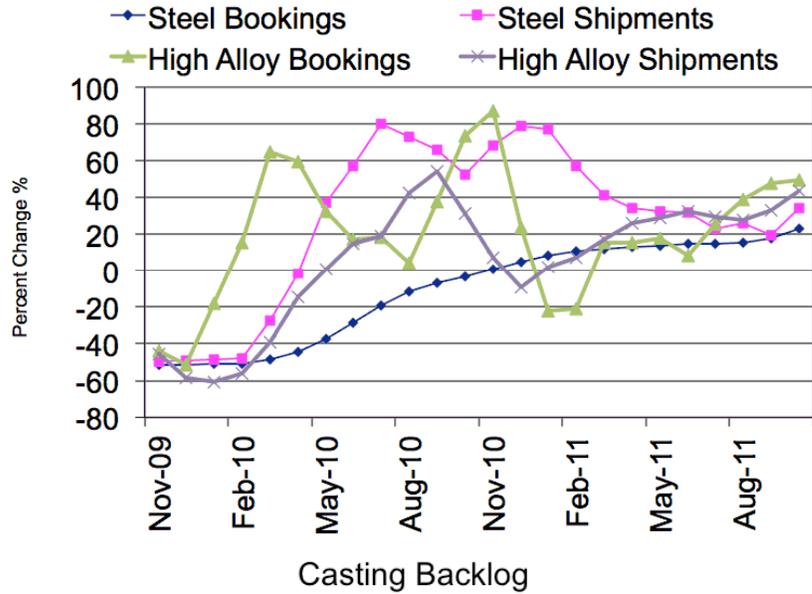
Market News

Shipments for both steel and stainless steel castings were up strongly from a year ago in October. Bookings for these castings are still positive but are not up as substantially as shipments from a year earlier. We have had an error in calculating and reporting the stainless booking for over a year and this has been corrected.

Casting backlog exceeds 9 weeks and shows strong demand. The continued improvement in the market for steel castings is mirrored in the reports on iron and steel castings from Census and steel shipments from AISI. Steel shipments are over 7.5 million tons a month or 90 million tons a year and iron and steel casting shipments exceed \$1,700,000,000 a month or \$20 billion a year.

For Capital goods orders, inventories remained stable with the ratio of inventories to orders or inventories to shipments declining. New orders continued modest growth.

Details for the month are in the table found at the end of the newsletter. The SFSA Marketing Committee in their update in December projected a growth in steel casting production in 2012 of 19%



Casteel Commentary

Last year's prognostication included:

1. **Demand for capital equipment will continue to increase and steel foundries especially for larger castings will be at the maximum production capability by the final quarter of the year.**

This appears to have been realized. Most large steel casting producers are at or near their capability, with indications from customers of continued strong demand.

2. **Off shore suppliers of steel castings will also be busy and unable to provide the castings needed by OEM.**

Major users have continued to develop overseas sourcing. While they have had only modest success the shortfall of supply from North America has force them to increasingly rely on offshore supplier.

3. **China facing internal inflation and external pressure will not continue to grow at near double digits. While developed economies will grow more than expected, developing economies will slow facing higher commodity and energy prices.**

China has seen some slowdown in growth with many observers believing that their reports overstate the growth of their economy. China has become less an important market factor in the past year.

4. **Commodity prices will not continue to climb and will remain in a range for the next year. They will be high enough for added investment. Slowing demand from developing countries offset partially by improved requirements from developed countries, we will see a near balance in supply and demand. Depending on production, weather and chance, inventories will drive pricing.**

Commodity prices did see some appreciation. Oil started 2011 at about \$89 a barrel and finished at \$98. Copper started above \$4 a pound and fell to about \$3.4. These prices still support expanded investment.

5. **Construction for residential and nonresidential buildings will improve by year's end but not dramatically.**

No end in sight for subdued levels of construction. Fortunately, mining and energy production are already using the industry's capacity.

6. **High speed rail and nuclear construction will not be significant.**

No indication that these sectors have added to demand.

7. **Natural gas investments in production and electrical generation will be strong.**

Fracking activity has been a major source of steel casting demand this year.

8. **Prices for steel castings will increase as limited supply leads customers to bid up prices to get capacity.**

So what lies ahead?

I suspect in a presidential election year we will see little change in legislation. We may see a flurry of regulations and executive orders depending of course on the political environment. Economic uncertainty is still real. In the markets, volatility is down some economic growth and recovery appears to be on track. Some are optimistic that we will continue to see improvement and council investing in the recovery. Others believe we are more likely to see a market downturn. Europe has managed not to collapse but the outlook remains uncertain and risky. So in the vein of prior years I will make a few cautious forecasts:

- 1. Economic activity in North America will slow by the middle of this year and may dip into a recession.**
- 2. European financial structures will need fundamental reworking. This may not occur and Europe may just find ways to kick the can further down the road. Germany will pay what is required to maintain the euro.**
- 3. China's growth will slow significantly, with rates falling well below double digits.**
- 4. Commodity prices, oil and copper, will remain comfortably high enough to spark continued investment but will moderate and not see continued strong price increases.**
- 5. Steel casting production will increase this year but will moderate as the economy does resulting in shrinking backlogs but not in lower production.**
- 6. Construction will finally turn the corner and will notably increase.**
- 7. Large customers will continue to find it difficult to purchase all the steel castings they need for production and global acquisition will decline. Existing plants will make targeted investments to increase their capacity and capability.**

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

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

Shipments	42.2	34.2	49.2	14.7
Bookings	14.9	23.2	30.7	23.0
Backlog (wks)	10.2	9.7	9.0	8.0

High Alloy

Shipments	25.1	43.6	48.3	55.0
Bookings	17.2	49.4	56.3	42.0
Backlog (wks)	8.9	9.1	10.0	9.0

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,554.4	1,706.7	1,744	1,692
New Orders	1,607.8	1,775.7	1,868	1,672
Inventories	1,947.5	2,049.3	2,085	2,047

Nondefense Capital Goods (billion \$)

Shipments	68.0	71.2	71.3	71.1
New Orders	70.9	75.3	72.7	75.4
Inventories	153.7	167.4	168.1	167.2

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

Shipments	63.7	66.2	65.7	66.4
New Orders	66.1	67.9	67.8	68.5
Inventories	109.6	114.6	115.0	114.6

Inventory/Orders		1.69	1.70	1.67
Inventory/Shipments		1.73	1.75	1.73
Orders/Shipments		1.03	1.03	1.03

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	7.4	7.8	7.9	7.9
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