



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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April — 2013

Casteel Commentary

The Casteel Commentary considers the relative value of intermediate materials and capital equipment for the past 50 years. It is clear that for much of that time the capital equipment makers have maintained a higher relative value compared to materials suppliers. Since 2003 the value of materials has risen sharply while the value of capital equipment has been stagnant. We need to recognize that this is a global market response indicating that our customers have maintained adequate capacity for the market but material suppliers like us have not. Our relative rising prices is a market signal of the need for us to make additional capital investment in capacity.

Management Meeting

The Management Meeting has been scheduled for May 14th from 2-6pm followed by a group dinner and May 15th from 8am-12pm in Milwaukee. The program includes a roundtable discussion and Bernie Lashinsky's economic update. This meeting will be useful for CEOs, COOs, senior management, and sales and marketing personnel.

The meeting will be at:

Crowne Plaza Milwaukee Airport
6401 S 13th St Milwaukee, WI 53221
(414) 764-5300

<http://www.cpmilwaukeeairport.com>

SFSA room block rate \$89, reservation cutoff date April 13, 2013

Marketing Committee

The Marketing Committee will have its meeting in conjunction with the Spring Management meeting.

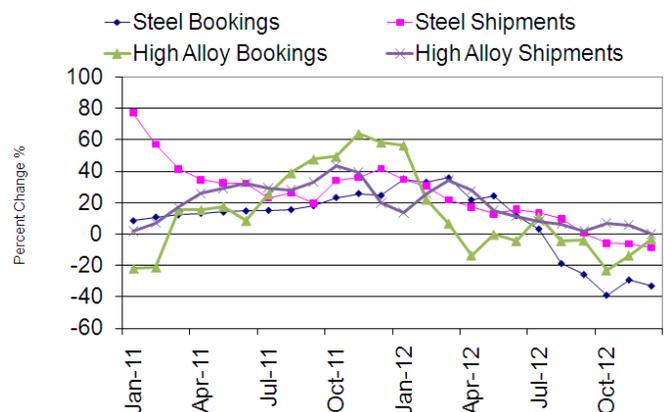
Annual Meeting

The Board of Directors of the Steel Founders' Society of America invites you to attend the 111th Annual Meeting, which will be held in Half Moon Bay, CA, September 7-10, 2013. The Board of Directors looks forward to your attendance and participation in this educational and networking meeting and welcomes the opportunity to share new knowledge of the steel casting industry with you. Half Moon Bay is easily accessible, located just 30 minutes from San Francisco International Airport. More information and the meeting registration package can be found at

<http://www.sfsa.org/meetings/annmtg13>

Market News

As can be seen in the SFSA trend card graphs, growth has slowed dramatically since the beginning of 2012. Carbon and low alloy steel casting bookings showed a contraction beginning in late summer. Shipments began contracting in October for these products. Stainless steel castings (aka high alloy) bookings were contracting earlier in the spring but the shipments have remained positive.



Casting backlog for all products peaked early in spring with longer than 12 weeks for stainless castings and 14 weeks for carbon and low alloy steel castings but has fallen since then. Carbon and alloy steel backlogs are around 10 weeks and stainless products have a backlog of 11 weeks.

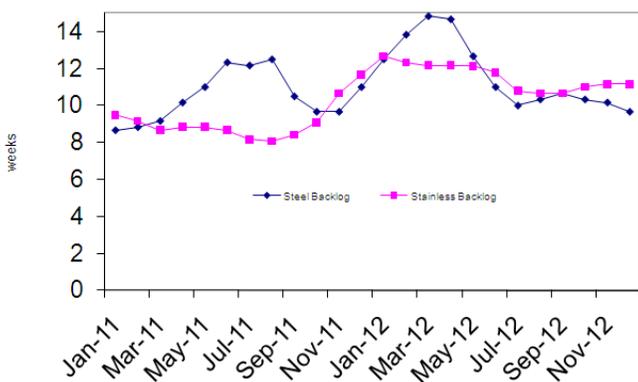
Iron and steel products reported by AISI and by the Department of commerce show a similar downturn since spring and summer of 2012. Orders and shipments of iron and steel castings reported by DOC show a slight downward trend since February. Shipments of steel long products have been more like steel castings showing a sharp decline since summers end. The shipments for steel products were up in January over December to 8.21 million tons. This is up 9% from December but down from the prior January.

The new orders for non-defense capital goods excluding aircraft shows the same decline for most of 2012 with a pickup for the end of 2012. Inventory levels relative to orders and shipment increased through September and then began to decline.

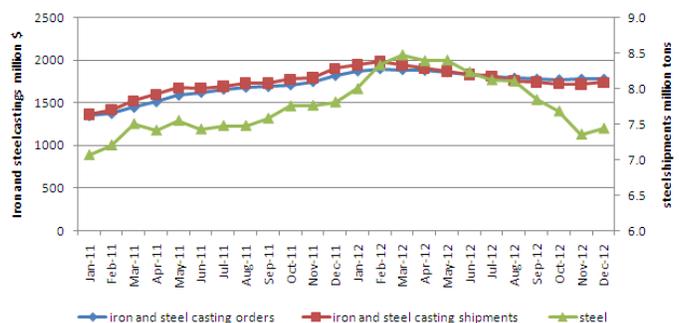
There continues to be a considerable uncertainty not only about the current market conditions but also in the outlook for the future. Most economic projections are anticipating a growth rate of the GDP of about 1.5% with some indication that we may exceed that and get more than 2%. A minority of commentators are concerned that the equity markets and bond markets are likely to see a sharp pullback this year. Equities are price for the continuation of record profits and growth in the coming year. Bonds remain a “safe” parking place for un-invested funds even though they have historically low interest rates and the possibility of losses when interest rates rise.

Steel castings are required for capital investment and driven by that activity. In an uncertain economic environment, companies are reluctant to commit to projects. The current market continues to see strong demand for commodities and this has supported the market for consumable castings used in mining and energy. The lack of capital spending because of the economic conditions has led to a sharp slowdown in demand for new equipment in mining or construction depressing those markets by up to 40%. The consensus projection is for a modest improvement for the balance of the year but I remain skeptical that we will see much of an improvement and expect we may see added weakening of demand in some of the segments currently still strong.

Casting Backlog

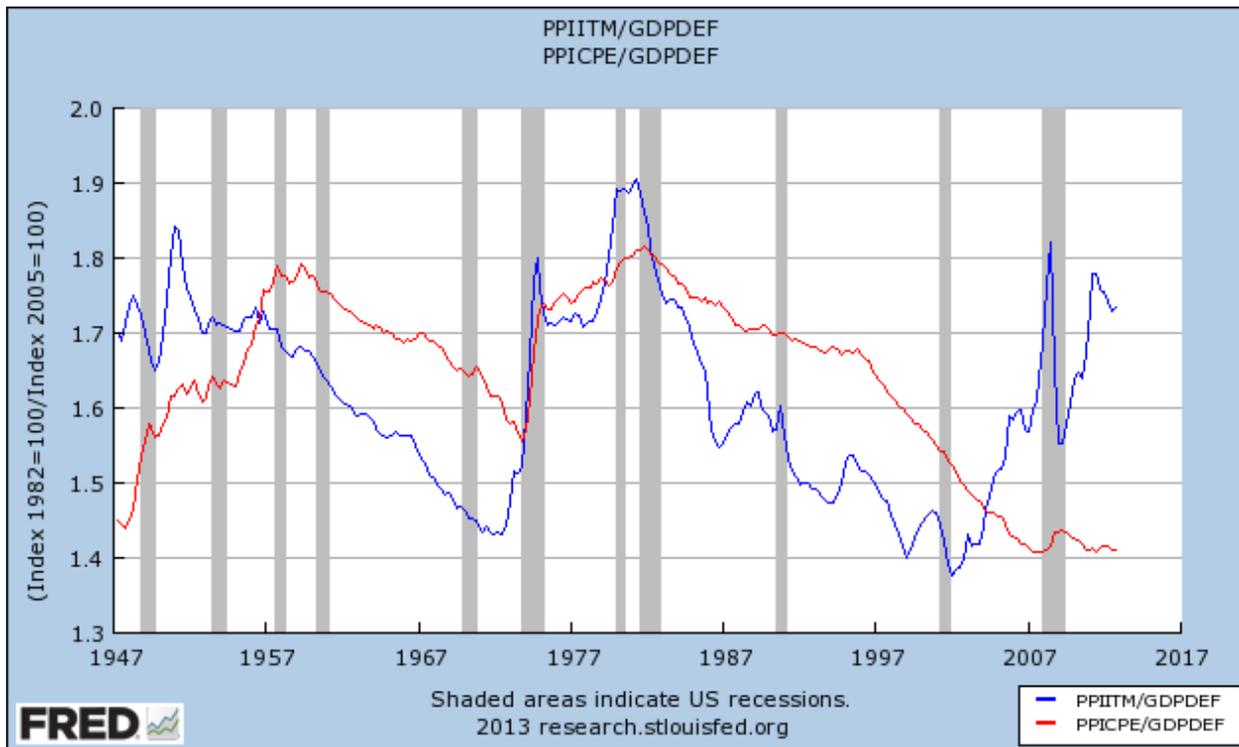


Iron and steel casting shipments and AISI steel shipments



Casteel Commentary

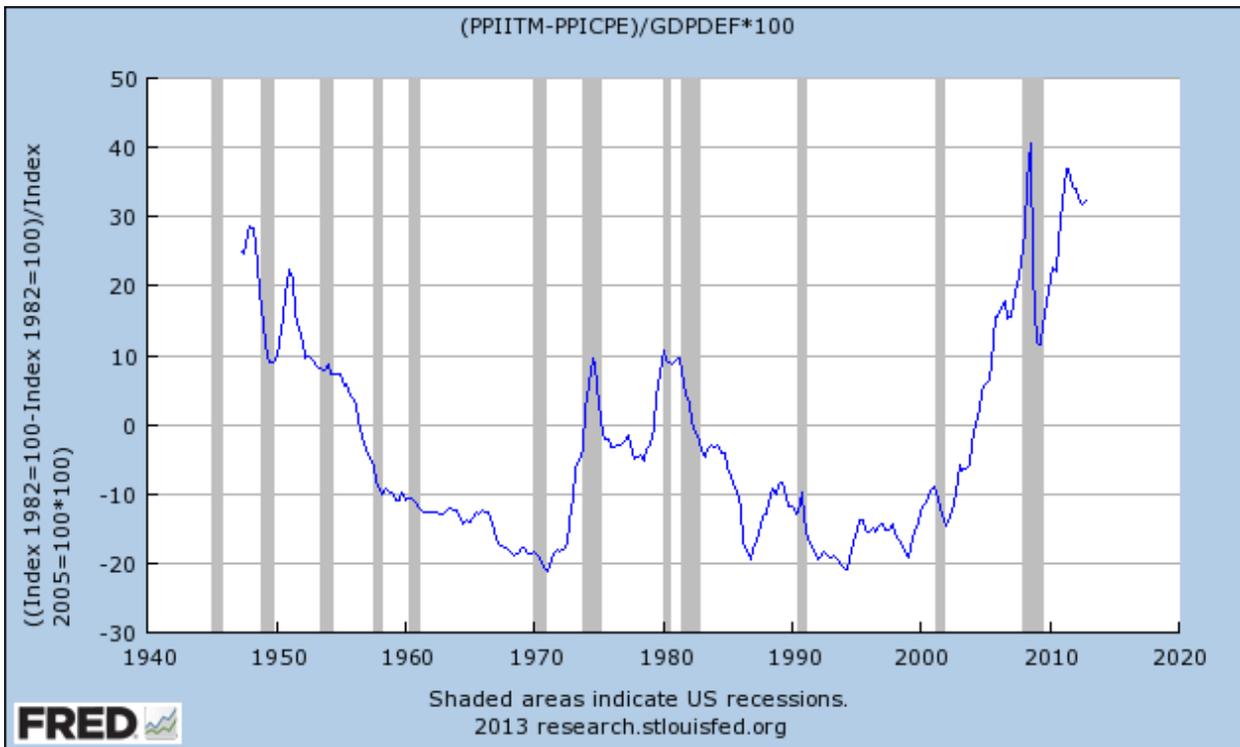
The graph is a snapshot of the relative value of manufactured intermediate materials like castings and capital equipment. The blue line is the producer price index for intermediate materials (PPIITM) divided by the implicit price deflator for the gross domestic product (GDPDEF). The PPIITM is the change in the price of products like castings and the GDPDEF is the change in the value of money and allows adjustment of any price data to constant dollar value. Dividing the PPIITM by the GDPDEF gives the relative price of PPIITM over the time period.



The red line is the producer price index for finished goods: capital equipment (PPICPE) divided by the GDPDEF like before. This makes the same adjustment for capital equipment as made for intermediate materials and allows us to compare the relative value of the two.

This graph shows the capital equipment undervalued relative to intermediate materials before 1957, strongly higher in value during a time of declining values from 1957 to the early 1970s, sharply increasing slightly behind materials until the early 1980s and then remaining above materials during the decline in value from then until the middle 2000s and then materials increased sharply.

If we take the difference between the two and multiply by 100 we get a percentage difference in relative value (compared to a base year of 1982=100 for both). This graph shows that in the base year of 1982 is the origin so that the relative change positive or negative is a function (or artifact) of that year selection. But for any base year you can see that the value of intermediate materials relative to capital equipment was declining and low for the periods of 1960 to 1970 and 1985 to 2003. The period of capital expansion and rising value for both in the late 1970s allowed a period of profitability and investment that closed after 1982. Our current increase in value is not matched by the capital equipment makers. This is causing obvious stress in the marketplace as steel casting producers are trying to operate profitably and create the capital they need for reinvestment while our major customers feel squeezed between our pricing and their market conditions.



This picture is obviously limited. Our customers are experiencing record profits and growth that have not been seen in their pricing. The sharp increase in relative value does support the notion that our and other industries are limited in capacity and see the market respond with pricing indicating the need for added investment.

Raymond

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

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

Shipments	7.3	-8.7	-21.0	5.0	-10.0
Bookings	-2.9	-33.1	-42.4	-12.0	-45.0
Backlog (wks)	11.5	9.7	9.5	10.5	9.0

High Alloy

Shipments	14.7	9.8		2.5	17.1
Bookings	-1.1	-2.9	0.0	12.0	-20.8
Backlog (wks)	11.4	11.2	10.5	12.0	11.0

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,817.7	1,774.7	1,768	1,784	1,772
New Orders	1,811.2	1,737.7	1,746	1,686	1,781
Inventories	2,123.8	2,123.3	2,125	2,113	2,132

Nondefense Capital Goods (billion \$)

Shipments	70.3	71.2	71.8	71.4	70.3
New Orders	72.0	72.0	71.9	71.2	72.8
Inventories	169.8	173.2	172.6	173.6	173.5

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

Shipments	63.9	64.0	64.5	64.5	63.1
New Orders	63.4	63.0	63.3	63.8	61.8
Inventories	119.7	121.3	120.7	121.6	121.7

Inventory/Orders		1.9	1.90	1.90	1.97
Inventory/Shipments		1.9	1.87	1.89	1.93
Orders/Shipments		1.0	0.98	0.99	0.98

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	8.0	7.4	7.5	7.4	7.4
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