



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a publication serving
SFSA steel casting industry Members

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December — 2013

Casteel Commentary

This month I have a guest Commentary from a member correctly objecting to my last Commentary. I was involved in discussing the relations between our industry and a large customer. It is always hard for steel foundries to deal with customers that are much larger businesses and have aggressive business practices. It is always our responsibility to run our businesses to provide a valued product at a profitable level to sustain our business and invest in the future. If we are unable to compete in the marketplace, then our customers are right to find alternative suppliers that can meet their expectations if they can. We need the integrity and strong business practices to stand up to unreasonable demands from customers and take responsibility for our success. I am glad to be corrected and commend this month's Commentary for your consideration.

Technical & Operating Conference

There's still time to register for SFSA's 67th Technical & Operating Conference. It will be held at the Drake Hotel in Chicago December 12-14. The T&O Committee has assembled a strong program with 40 papers, plus a member workshop on the afternoon of Wednesday, December 11. More information is available here: <http://www.sfsa.org/sfsa/toconf>

Safety/HR Meeting

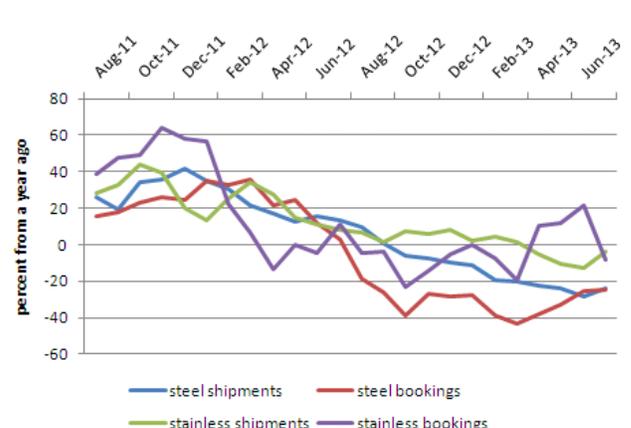
The Safety/HR group recently met in Pittsburgh. The meeting was hosted by McConway & Torley and included a tour of their foundry. Two hot topics were discussed at the meeting – GHS and silica. Members should be aware that OSHA has adopted Globally Harmonized System (GHS) and what it will mean to your business. First, MSDS will become Safety Data Sheets (SDS). The SDS follows a 16 section format and requires a complete re-write of MSDS sheets versus a simple conversion. Next, your employees need to be trained on the new format by December 1st of this year. We are planning to have SiteHawk present on GHS at the upcoming T&O Workshop on Wednesday, December 11th to continue bringing members the latest on this topic as it pertains to steel foundries. Steven Spiwak from Eagle Alloy presented to the group on the looming change to the PEL for respirable silica. The proposed rule will cut the PEL in half, which poses many challenges for steel foundries. AFS recently had an article in Modern Casting that provides a nice summary

(<http://content.yudu.com/A2itdx/ModernCastingNov2013/resources/40.htm>). If you would like to receive updates on these topics, please consider assigning a representative from your foundry to the SFSA Safety/HR group. Just send an email to David Poweleit (poweleit@sfsa.org) and you will be added to the mail list.

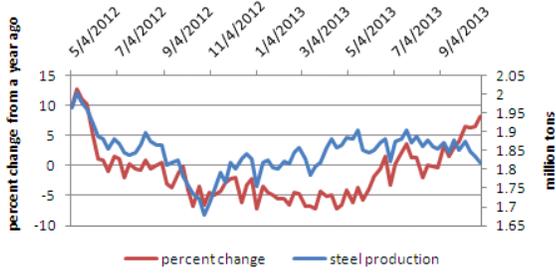
Market News

Steel casting production is still negative compared to last year's bookings and shipments. Shipments of steel castings are off more than 20% and stainless castings are off around 4%. Bookings are off as well and more than shipments.

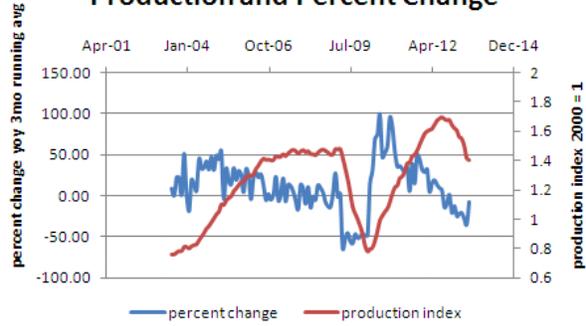
SFSA Trend Cards



AISI Weekly Steel mill Production

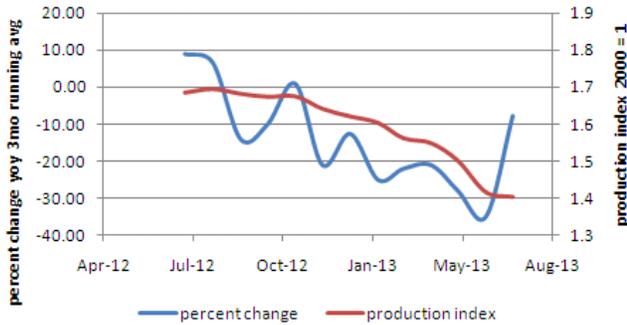


Production and Percent Change

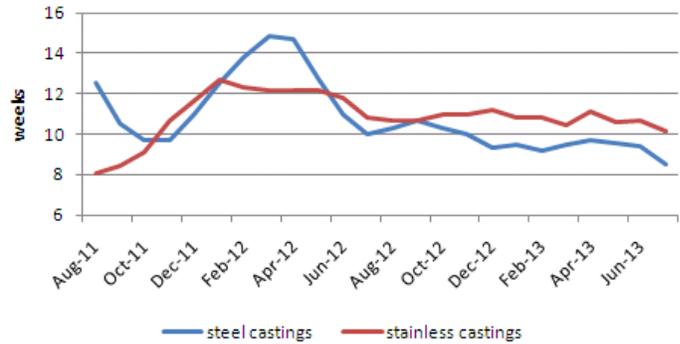


This trend graph is the change from a year ago. This does not allow you to see the actual production levels of steel castings. If I take the weekly steel mill graph reported and graphed each week, you can see how the percent change can move in a contrary direction to the actual production level. If last year had an odd low month, this year will see a positive year over year change even when the production level is still down compared to the prior month. In steel production, the weekly trend remains in a range with the possibility of seeing continued decline indicating a possible slowdown of activity early next year.

Production and Percent Change

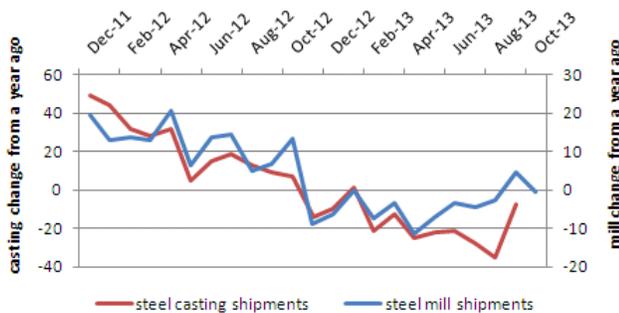


SFSA Trend cards



In order to try to give a more complete picture of the steel casting production as well as the year over year percent change, 2000 production was selected as an index and assigned a production value of 1 for each month. This index value is adjusted each month from the prior year based on the percent change. To smooth out the noisy data a rolling 12-month average is used. This is shown in the graph for the past 10 years. This seems to give a reasonable production picture with at capacity production in 2006 and 2007 with a sharp fall till the end of summer 2009 and a sharp recovery after that. It is not clear that changes in product mix and changes in the responding sample may affect the index making it limited but perhaps still useful. You can see that the index value in 2012 exceeds production index values for 2007 but this may be correct, as many plants have added to their capacity. It also could be a distortion since some capacity has been shut down since 2000 and this would not be reflected in the percent change in the reporting plants. In fact closures would constitute an upward bias while new plants would push the numbers lower.

Steel Mill and Steel Casting Shipments



Non-defense capital goods less aircraft



This does show the slowing rate of decline in July for steel casting shipment in the graph that shows the prior year. Casting shipments have declined according to the index by 30%. Let me know if you find this index graph helpful in looking at business conditions. Backlog remains stable perhaps slightly declining in the past month.

Steel mill shipments are in sync with our percent change in steel castings. We have both seen a slowing market with actual declines in production since the end of December 2012. Steel mill production was off 20% in May while steel castings hit a low point of about a 20% decline in September.

This slowdown in steel production in mill products and castings is reflected in the demand for capital goods. Non-defense capital goods shipments and orders have been trending down since late Spring. This generally is coincidental with all steel demand.

Casteel Commentary

I feel compelled to respond to October's Casteel Commentary. I get where you are coming from and I think your rallying cry for reinvestment in plant, equipment, and human capital along with the call for greater innovation in our industry is essential. Our company and other SFSA member companies are aggressively pursuing all these areas of need.

But I think you go too far when you attempt to make an argument putting the responsibility for the lack of investment in our industry onto the backs our customers. We will not address the problems our industry faces today if we expect our customers to bail us out. It is not their fault; we are doing it to ourselves. To threaten price increases due to lack of profitability will ultimately drive our customers to seek value elsewhere; either a low cost pole casting supplier or an alternative method of manufacture.

If our customers can find equivalent value in the market place at price points that derive your stated 28% gross margin for our industry, who's problem is that; the customers or the foundry operators? Should we indict customers for pursuing "self-interest purchasing policies"? Do we really expect them to do anything else? Do foundry operators act any differently?

If ownership, whether private, VC/PE or public, desires to sustain and grow the enterprise can they truly refuse to invest in the business unless the customers pay higher prices? I believe the solution lies in improving our operations to the point where the returns will attract the needed investment. I believe we must be capable of providing value as recognized by the customer if we are to succeed long term. Does it seem reasonable to "demand" a cash on cash rate of return that is over three times the five year return for the S&P 500? Further, is there any industry where suppliers effectively "demand" a return from their customer base? How would we respond if our suppliers did the same?

I contend that our industry remains manufacturing focused; this is what we make and how we make it, go find someone to buy it at a price based upon our cost. This attitude is very short sighted. Unfortunately, we don't control prices; the market does. We need to take ownership for the negative perceptions of the industry and not cast blame (sorry for the pun) on our customers. If we are viewed as not capable of high performance, if the value of steel castings has not been demonstrated, it's our job as individual businesses and an industry to address it. Not just through what we say, but in the way we serve our customers day in and day out. We must thoroughly understand the drivers of their self-interest and then work to meet them.

I believe a more effective strategy is to meet or exceed the needs of our customers. Our goal has become to understand what the customers want and to deliver. This often requires delivering more than metal. When we are successful in delivering more than just metal, the returns follow.

Our industry suffers from a poor reputation of on time delivery and error free product.

Underperforming foundries providing inferior quality products hurt all of us. The site leader of a customer company recently told me that castings represent "long lead times and lots of problems". It may not be fair but it is a perception that exists broadly. Is there a clear direction for a foundry to increase this customer's perceived value of castings? The pathway to prosperity lies in happy customers. The users of steel castings are crying out for suppliers who will do what they say they will when they say they will. If we simply meet our commitments for quality and on time delivery, we can delight our customers.

I wholeheartedly agree with your call for more innovation in both products and processes. Both should be performed in collaboration with our customers. I also agree that we need more really smart young people in our companies. We need to attract them with opportunity for professional and personal growth, access to the latest technologies, continual training to learn new things, a clean, safe working environment, and we have to be more flexible with our working hours to accommodate life outside of work.

I believe there is a bright future for foundries that meet or exceed customer expectations. I am excited to be in this industry. I'm not exactly sure where our company will trend in the years ahead but I am certain that our customers will lead us there.

If you have read this far, thanks. I believe as individual businesses and through the SFSA we should be focused on demonstrating how steel foundries can increase their value proposition with customers and improve their returns for owners.

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

SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	July	June	May
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Carbon & Low Alloy

Shipments	-15.7	-23.6	-7.7	-35.0	-28.0
Bookings	-32.2	-24.6	-23.6	-26.5	-23.7
Backlog (wks)	9.5	8.5	7.3	9.5	8.8

High Alloy

Shipments	0.0	-4.1	2.8	-10.0	-5.0
Bookings	-5.1	-8.2	-4.1	-10.3	-10.3
Backlog (wks)	10.8	10.1	10.4	10.2	9.8

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,735.3	1,643.3	1,603	1,685	1,642
New Orders	1,711.3	1,676.7	1,685	1,739	1,606
Inventories	2,169.4	2,255.0	2,247	2,231	2,287

Nondefense Capital Goods (billion \$)

Shipments	71.8	74.6	73.5	74.5	75.9
New Orders	74.8	84.7	75.9	92.0	86.1
Inventories	172.8	171.0	171.3	170.8	170.9

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

Shipments	64.6	65.8	64.9	65.9	66.5
New Orders	65.0	68.6	67.3	69.7	69.0
Inventories	120.6	119.6	119.5	119.5	119.7
Inventory/Orders		1.7	1.78	1.71	1.74
Inventory/Shipments		1.8	1.84	1.81	1.80
Orders/Shipments		1.0	1.04	1.06	1.04

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	7.8	8.0	8.3	7.8	8.0
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