

Steel Prices Shine, Lifting U.S. Makers

So, why should you care about the state of the steel industry in the U.S. (*if you don't work for a steel related company*)? The answer is because if you transport your goods on flatbed truck/trailers, what happens in the steel industry will affect you one way or the other. The steel industry absorbs more flatbed capacity than any other commodity market.....by more than double. So when times are good for the steel mills and processors as they are now, their prosperity will have a much greater impact on flatbed truck availability than what is going on in the general economy. Most of the economic indicators are more indicative of van type freight than flatbed freight.

As evidenced below, the steel industry is successfully increasing prices (up 25% since Nov. 2!). Tonnage was up by 6.7 million tons for the first 10 months in 2011 vs. same period 2010. Heavy steel users such as farm gear, oil drilling equipment, oilfield pipe, and automakers are booming. Automakers are expected to produce 3.0 million more vehicles than just three years ago. Projections for 2012 are that steel tonnage will continue to increase and steel prices will go up in lockstep.

All of this is good news to flatbed carriers and perhaps not so good news to flatbed shippers. The steel industry demand will clearly absorb many trucks AND with the price increases steel producers are getting from their customers, carriers will expect them to be able to pay higher rates. If you are not in the steel business, you too will likely experience capacity shortages and/or rate increases.



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By JOHN W. MILLER

Christmas came early for the U.S. steel industry.

Buoyed by rising sales of cars, farm gear and oil-drilling equipment, steelmakers are increasing prices and expanding production after setbacks earlier this year when the U.S. recovery stalled and the European debt crisis deepened.

Gerdau SA, based in Brazil, will invest \$67 million to expand production at a plant in Monroe, Mich., which makes steel for aerospace and defense industries. Russian steelmaker OAO Severstal last

month opened a new part of its plant in Columbus, Miss., a \$550 million project that doubled annual capacity to 3.4 million tons.

"If you take the [European Union] out of the equation, things look pretty good," says Lou Schorsch, who oversees ArcelorMittal's flat carbon operations in North and South America. Gerdau's Michigan plant expansion came as a "result of our confidence in the recovery and growth of the North American market," Chief Executive André Gerdau Johannpeter said last week.

ArcelorMittal, AK Steel Holding Corp., Nucor Corp. and Severstal recently have raised prices on benchmark hot and cold rolled steel used by the auto industry. After declining earlier this year, steel prices are up 25% since Nov. 2, with, for example, mills charging around \$750 a ton for hot rolled steel, from around \$600, causing upward price pressure on goods from cars to washing machines.

Tom Marchak, a vice president for Severstal North America, said that prices previously had declined for 33 weeks and that demand has reached a level "to support these increases."

Total shipments by U.S. steel plants were 76.4 million tons in the first 10 months of 2011, up from 69.7 million tons over the same period in 2010.

Still, producers remain cautious, noting that the U.S. is still recovering from a recession and gains could stall, if companies and consumers get skittish. Certain markets, including construction, remain weak and their outlook uncertain. Profit margins remain tight, due largely to high raw material and energy costs, and some producers are warning that increased imports and higher production could erode prices. Nucor issued a profit warning last week saying increased imports and new domestic supplies were eroding prices and margins.

U.S. steel imports have risen 14.5% during the first 10 months of 2011, due to the strong markets and prices in the U.S., and could rise dramatically next year if growth in China, which produces half the world's steel, slows markedly. The European economy could crash even harder, hurting banks and businesses around the world.

"People remain spooked by the EU, and China potentially slumping," said Arcelor's Mr. Schorsch.

The U.S., said Mr. Schorsch and others, has become an outlier in outperforming other regions. "There are some glimmers," said Alan McCoy, a spokesman for AK Steel.

The strongest market: automotive. U.S. auto makers are expected to turn out 13.4 million vehicles in 2011, up from 10.4 million units in 2009, according to the Manufacturers Alliance for Productivity and Innovation. Shipments of steel, strip and coiled plate steel, used to make cars, were up 11.9% to 44.1 million tons in the first 10 months of 2011, compared to last year.

Other markets are likewise strong, energy in particular. Gas and oil companies are buying more steel pipes to tap natural gas in shale basins. Michelle Applebaum, managing partner at Chicago-based research firm Steel Market Intelligence, noted that shipments of energy pipe were up 24.3% to 2.6 million tons in the first 10 months of 2011. That has helped keep prices strong in the U.S. relative to other parts of the world, she said. "The U.S. is ahead of everybody right now, thanks to pockets of activity" Ms. Applebaum added.

Richard Robinson, president of Nebraska-based Norfolk Iron & Metal, a company that buys and distributes steel to car makers and other manufacturers, said demand for heavier flat rolled steel is high "thanks to agribusiness, and the push for gas drilling in the upper Midwest." As a result, he expects recently announced price increases to stick "at least for the short term."

There are some bleak spots. Mr. Robinson said the company is selling less steel to makers of refrigerators, washing machines and other household appliances, which are typically big steel buyers. Household appliance production fell 4% in 2011, according to MAPI. Big manufacturers such as Whirlpool Corp. and Electrolux AB have cut jobs and output recently because of weak sales. Nonresidential construction has also suffered along with the real-estate market. Shipments of rebar, the steel that supports concrete in structures, were down 13% to 4.7 million tons during the first 10 months of 2011.

In 2011, public works construction was down 9% while private non-residential construction, traditionally a big user of steel, was merely flat.

Bremen Castings Inc., which makes castings, valves and other parts used in the military, agriculture and heavy truck industries, is ordering more steel with sales set to increase 25% from \$47 million last year. The higher sales are helping to offset higher costs for steel.

"We've seen steel prices go up 50 bucks, and we expect them to go up another 50 in January," says J.B. Brown, the company's president. Bremen recently paid \$564 a ton for a shipment of two-inch thick plate steel kind of steel. "But that's OK because we're having a record year."

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