



## Recession May Force Extended Idling of Granite City Works

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The sudden idling of United States Steel Corp.'s Granite City Works, announced last month, was the result of a swift, dramatic collapse in demand that hit the domestic steel industry at the end of 2008.

As the credit crisis this fall caused the overall economy to freeze up, the automotive and construction sectors -- two of the largest steel-buying industries -- didn't need as much steel. Within three months, steel producers quickly cut back production across the nation and locally in the Metro East area.

Some analysts expect workers to return to their plants later this year. But others say they can't predict how long the cutbacks will last. Observers, companies and union officials say it depends on the recession and how much of a boost the steel industry gets from President-elect Barack Obama's stimulus package.

"The whole crux of all of this is really the economy," said Terry Wooden, president of United Steelworkers Local 3643, which represents workers at Alton Steel Inc. About 40 of his members were laid off in mid-November from the small steel plant, where slabs, billets and bars are made for construction, auto and other manufacturing businesses.

At Granite City Works, about 2,150 workers were affected by the idling, according to a U.S. Steel filing with the state. Union and local officials, however, pin the number at less than 2,000. U.S. Steel declined to confirm the actual figure.

A sharp drop in steel demand -- and the layoffs that followed -- happened unexpectedly, analysts say.

The steel industry had regained stability since a wave of bankruptcies in the late 1990s and early 2000s forced steel producers to liquidate or consolidate operations. During those hard times, thousands of steelworkers lost their jobs, while many others were forced to accept concessions.

U.S. Steel took a \$420 million loss in 2003, when it bought the Granite City and Great Lake steel operations from bankrupt National Steel.

By 2008, the industry's turnaround was considered a clear success.

Capacity utilization, or how much output a plant actually made to how much it could be producing, hovered near 90 percent in August. Through September, steel production at U.S. Steel and other steel producers was up 4 percent year-over-year, even as the auto and construction sectors suffered.

For U.S. Steel, surging prices and increased shipments, plus an increase in production thanks to two Canadian plants acquired in October 2007, meant record sales and profits for the three months ended Sept. 30. The company earned a staggering \$1.3 billion profit for the quarter, the biggest in its 107-year history.

U.S. Steel's employees, too, reaped the benefits: A four-year labor contract, approved in September, was touted by steelworkers as the best industry deal in the past 30 years.

"The stars were aligned there in the third quarter," said Bob Richard, senior equity analyst at Longbow Research near Cleveland. But then the economy began to unravel.

Steel demand evaporated as the auto and construction sectors slowed down. Wholesalers -- called service centers in the steel industry -- also found more difficulty in getting credit to buy steel from mills and sell it to these industries, said Michael Locker, president of steel-consulting firm Locker Associates in New York.

The industry's capacity tumbled. It dropped below 50 percent by Dec. 6, according to the American Iron and Steel Institute in Washington.

U.S. Steel's response to fewer orders was to consolidate steel production to five of its seven flatrolled-steel mills, idling Granite City and Great Lakes until demand strengthens.

Company spokeswoman Erin DiPietro said the plants that remained open met customer demands in the most cost-efficient ways, but she would not elaborate.

DiPietro declined to comment on when production at Granite City Works might restart or what industry conditions might look like this year.

Richard said Granite City Works is a "very well-regarded facility" but that other plants logistically are cheaper to operate. They are closer to U.S. Steel's coal and iron ore sources.

Analysts aren't expecting a quick rebound given the country's deepening recession.

The steel industry won't rebound in 2009, although demand will stabilize, said Carol Cowan, vice president and senior credit officer at Moody's Investors Service in New York.

"You're looking at least until 2010" for the industry to recover, she said.

Still, stabilization might be enough to reopen idled plants like Granite City Works at the end of this year, Locker said.

And nobody is expecting the plant to be closed. Once demand rebounds, U.S. Steel will need the local steel mill, analysts said.

"I don't see Granite City being (permanently) shut down," Richard added. "U.S. Steel's just playing the cards they're dealt with at this time."

For now, the steel industry is pinning its hope on Obama's stimulus plan, which may boost steel demand. The package could include a huge public works investment for rebuilding highways, schools and other infrastructures.

"If they start building bridges ... under that infrastructure stimulus (plan), then that's definitely going to increase our orders here at Granite City (Works)," said Russ Saltgaver, president of USW Local 1899. His union represents most of the workers at the plant, where steel production is weighted toward the construction and energy industries.

Any impact from a federal package could take six to nine months before it reaches the Metro East's steel factories, he estimated.

Still, Saltgaver hopes steel orders increase before then and plant doors open sooner than analysts expect.

"No one's got a crystal ball, but best-case scenario, we start this mill back up in March or April," he said.