

'Cash for Clunkers' seen also helping steelmakers

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By Steve James

NEW YORK, Aug 3 (Reuters) - The "Cash for Clunkers" auto rebate program is not only helping automakers; it is also likely to boost steel and aluminum producers who supply the metals to Detroit carmakers, analysts said on Monday.

Already, AK Steel Holding Corp and Alcoa Inc. say they expect to benefit from the program, which gives drivers rebates to turn in old, gas-guzzling cars to buy new, more fuel-efficient models.

On Friday, the U.S. House of Representatives approved \$2 billion for the program on top of the initial \$1 billion approved in June to stimulate auto sales, which have plummeted since the economic downturn last September. U.S. auto sales have fallen from an average of around 16 million per year and are currently running at an annual rate of below 10 million.

"It may not make a huge impact in tonnage, but the psychological impact will be greater than the material impact," said Michael Locker, of Locker Associates, a steel industry consultant in New York.

"Congress would be stupid not to extend it. People are seeing movement in credit and movement in orders.

"It may not knock the socks off, but it gives people a real basis for hope," said Locker.

Min Ye, a steel analyst at Morningstar in Chicago said steel and aluminum producers will benefit in the near-term.

"Cash for Clunkers definitely helps, but it is probably only 250,000 new cars," she said. "It seems that the broad domestic restocking we are seeing will have a bigger impact.

"Integrated steel companies that produce high-quality flat-rolled steel, like AK Steel, U.S. Steel Corp and ArcelorMittal have been hurt; but we are seeing GM, Chrysler and Ford restarting production, and that will definitely help," Ye said.

CUTTING THEIR LOSSES

AK Steel just posted a second consecutive quarterly loss as shipments, much of them to the auto industry, dropped more than 50 percent. It was particularly hurt by GM and Chrysler idling production for several weeks earlier this year.

But the steelmaker now says shipments to the auto industry could be up 40 percent in the second half of the year. And Alcoa, which sells aluminum to carmakers, expects to see an increase in sales, too.

"Both Ford and Toyota have announced that they will revamp production for their most popular models in the second half of this year," Alcoa Chief Executive Officer Klaus Kleinfeld said last week.

In an interview with cable TV's CNBC, he said the Cash for Clunkers program was likely to help increase auto production.

"Everyone pretty much assumes that's going to mean another 250,000 cars for the U.S. though it's obviously back-end loaded to the end of this year," said Kleinfeld.

"Even on the Class A truck side, demand level has gone up 10 percent, so that's pretty good," he said.

Charles Bradford, an analyst with Affiliated Research Group, said the program might not be enough to make up for the big drop in auto production. "But it can't hurt, with a little over 1 ton of steel per car.

"It will also help the scrap guys, who have been having trouble," said Bradford, referring to the scrap metal that is a key raw material for some steelmakers.

Bradford said the initial \$1 billion Clunker program was expected to result in only 250,000 new cars. "That's not a lot, and many of the people trading in cars might have been buying anyway. If they increase it to a million cars, then it becomes meaningful for auto companies.

"(But) it is helpful, and the naysayers have been proved false. This is what the auto industry needs -- more sales," said Bradford.

(Reporting by **Steve James**, editing by **Gerald E. McCormick**)

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