

# ***Slow and Painful Recovery***

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Presented to

***UAW Steel Council***

**September 16, 2009**

Presented by:

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# ***Locker Associates: Client Service***

Serving unions on business issues and campaigns

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**Over 25 years of experience** as a steel industry expert

- 225 U.S. and Canadian engagements -- focus on steel & other metals, as well as manufacturing and distribution
- Major union clients: IBT, IAM, Airline Pilots, Unite-Here, AFM, Boilermakers, IUE, USW, independent steel locals and others
- Emphasis on reorganizations requiring operating improvements
  - Joint labor-management efforts to enhance performance
  - Identify & negotiate with union-friendly buyers for distressed companies
  - Evaluate company business & market plans, as well as cap ex
  - Economic and industry analysis for contract negotiations
- Extensive experience protecting union interests in the bankruptcy process
- Major work on corporate campaigns

## ***Major Findings: Part I***

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- World economy imploded with US financial collapse
  - steel industry literally brought to its knees
  - domestic shipments cut in half, prices drop 60%; imports also fell and are not expected to rise in the near future
  - the decline was far swifter and sudden than prior episodes
- Integrated producers were harder hit
  - find it difficult to contain fixed costs & support sizeable capex
  - most older, high-cost mills won't survive, especially blast furnaces
- China successfully cushioned the economic shock by instituting a vast government stimulus program along with easy credit
- Downward recalibration of asset values, consumer demand, production and trade in the traditional developed nations
  - but NOT in Asia, especially China & India
- Severe depletion of inventories lays a solid basis for the current recovery
  - combined with a slow and painful resumption of economic growth

## ***Major Findings: Part II***

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- Cyclical bottom occurred in the second quarter; we expect positive economic growth in the 2nd half of this year and a recovery next year
- But we are NOT going back to the boom years any time soon
  - a sharp reduction in capacity is required to rebalance supply and demand
- China continues to drive the bus, pushing its steel production to just under 50% of total world output
  - excess capacity could be a real issue generating a dangerous export surge
- Demand is picking up, lead times are lengthening and steel prices are rising faster than input costs
  - all are strengthening the bottom line, combined with a slow and painful resumption of economic growth
  - containing imports and strengthening exports will be key; largely dependent on US dollar's value

# ***Major Findings: Part III***

**Those that survive the next two years will do well**

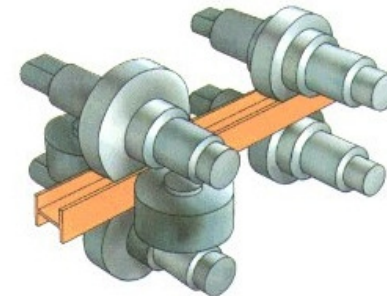
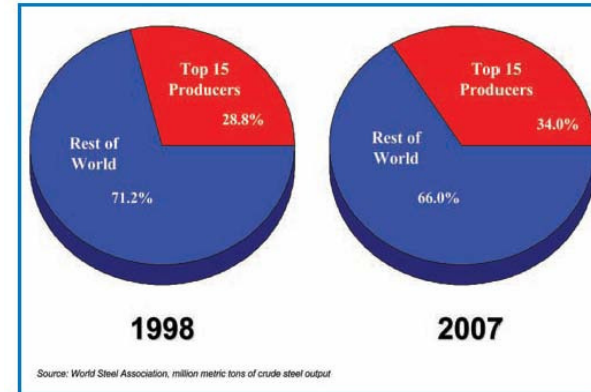
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- Foreign owners dominate the consolidated US steel industry
- Major dangers
  - weakening dollar stimulates imports -- steel and non-steel
  - continuing decline in traditional manufacturing
  - breakdown in supplier discipline floods the market
  - uneven playing field due to strong environmental regs
  - lack of business credit strangles growth
  - second wave of bursting bubbles--credit cards, commercial real estate, etc.
  - companies fail to implement new business strategies in light of smaller market and over capacity
- Major positives
  - value-added manufacturing is returning to the United States
  - imports tanked and are not expected to recover in the near future
  - unlike the past, no steel mill bankruptcies -- yet
  - Federal stimulus program is gaining traction, boosting demand
  - new, low-cost capacity additions are being delayed or canceled

# Top 20 Producing Countries 2008-2007

Top five produce 63% of world output

Top 20 Steel Producing Countries, 2008 & 2007 (in 000 tonnes)				
Rank	Country	2008	2007	% Chg
1	China	502,010	487,314	3.0%
2	Japan	118,738	120,199	-1.2%
3	United States	91,490	97,213	-5.9%
4	Russia	68,510	72,412	-5.4%
5	India	55,050	49,873	10.4%
6	South Korea	53,488	51,312	4.2%
7	Germany	45,833	48,550	-5.6%
8	Ukraine	37,107	42,830	-13.4%
9	Brazil	33,713	33,787	-0.2%
10	Italy	30,477	31,939	-4.6%
11	Turkey	26,410	25,447	3.8%
12	Taiwan	20,210	20,556	-1.7%
13	Spain	19,048	19,010	0.2%
14	Mexico	17,615	17,215	2.3%
15	France	17,874	19,252	-7.2%
16	Canada	15,130	16,081	-5.9%
17	UK	13,538	14,468	-6.4%
18	Iran	9,964	10,050	-0.9%
19	South Africa	8,550	9,100	-6.0%
20	Austria	7,630	7,578	0.7%



# World's Top Steelmakers, 2008 & 2007

Top five have 18% of world market

The World's Top Steelmakers, 2008 & 2007 (million tonnes)						
Rank		Company	Country	2008 Output	2007 Output	% Chg
'08	'07					
1	1	ArcelorMittal	Luxembourg	103	116	-11.3%
2	2	Nippon Steel	Japan	37	35	7%
<b>3</b>	<b>5</b>	<b>Baosteel Group</b>	<b>China</b>	<b>35</b>	<b>29</b>	<b>24%</b>
4	4	Posco	South Korea	35	33	6%
5	3	JFE Steel	Japan	34	34	0%
<b>6</b>	--	<b>Hebei Steel</b>	<b>China</b>	<b>33</b>	<b>31</b>	<b>7%</b>
<b>7</b>	<b>10</b>	<b>Wuhan Steel</b>	<b>China</b>	<b>28</b>	<b>20</b>	<b>37%</b>
8	6	Tata Steel (incl Corus)	India	24	27	-8%
<b>9</b>	<b>7</b>	<b>Shangang Group</b>	<b>China</b>	<b>23</b>	<b>23</b>	<b>2%</b>
<b>10</b>	<b>9</b>	<b>U. S. Steel</b>	<b>US</b>	<b>23</b>	<b>21</b>	<b>13%</b>
11	13	Gerdau	Brazil	20	18	10%
12	15	Severstal	Russia	19	17	15%
<b>13</b>	<b>11</b>	<b>Nucor</b>	<b>US</b>	<b>18</b>	<b>20</b>	<b>-9%</b>
14	12	Riva Group	Italy	18	18	0%
15	16	Evraz	Russia	18	16	9%
17	14	ThyssenKrupp	Germany	16	17	-6%

# Chinese Steelmakers

Top five control 33% of the market -- still low

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Company	2008	Share
Shanghai Baosteel Group	35.4	7.1%
Hebei Iron & Steel Group	33.3	6.6%
Wuhan Iron & Steel Co	27.7	5.5%
AnBen Iron & Steel Group	23.4	4.7%
Jiangsu Shagang Group	23.3	4.7%
Jinan Iron & Steel Group	21.8	4.4%
<b>Total of Key Steelmakers</b>	<b>392.1</b>	<b>78.3%</b>
<b>Total</b>	<b>500.5</b>	<b>100.00%</b>

# Chinese Steel Consumption

Mainly driven by infrastructure and property capex

Steel downstream demand breakdown

China	
Construction: property	25%
Construction: infrastructure	25%
Machinery	16%
White goods	6%
Automobile	3%
Others (transport, shipbuilding, energy)	25%
<b>Total</b>	<b>100%</b>

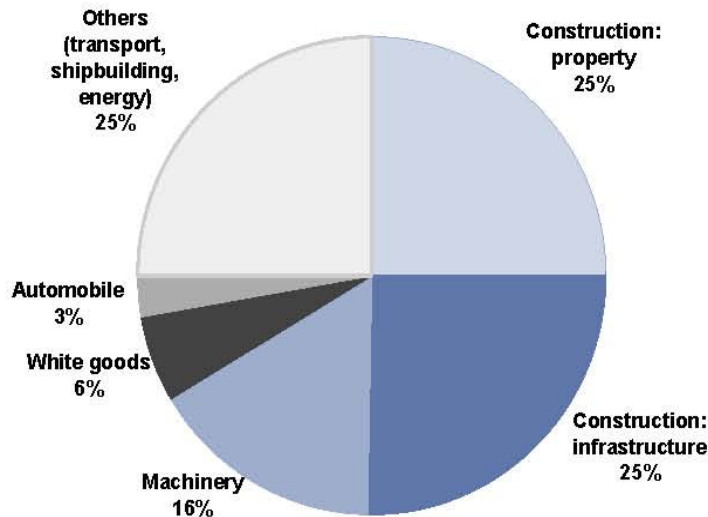
Respective growth indicators

Yoy%	2009 ytd	2009E	2010E
Property FAI	15%	10%	20%
Infrastructure FAI	49%	30%	20%
Export	-22%	-20%	0%
Production	-3%	0%	10%
Production	15%	15%	15%
GDP	7%	8%	11%

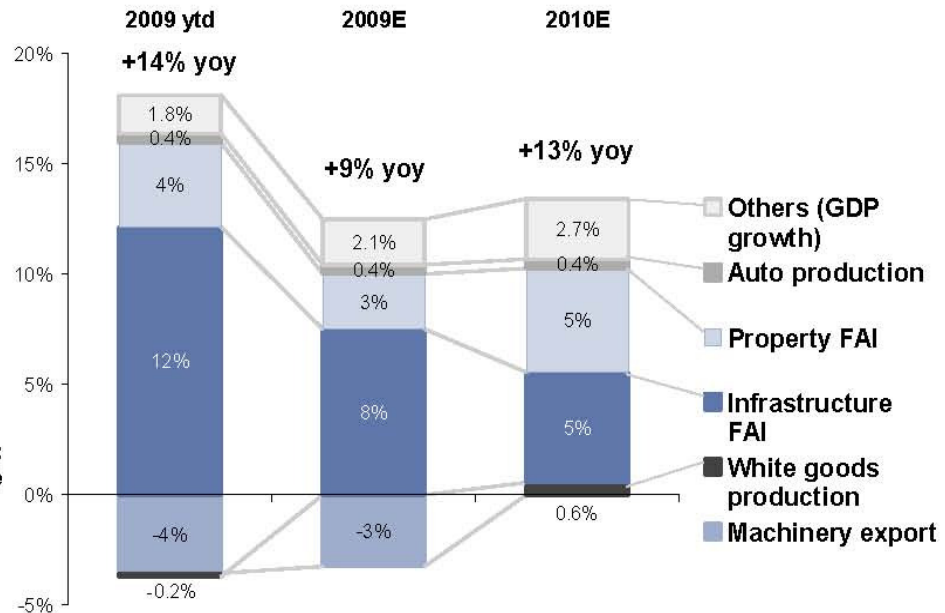
Contribution to demand growth

Yoy%	2009 ytd	2009E	2010E
Property FAI	4%	3%	5%
Infrastructure FAI	12%	8%	5%
Machinery export	-4%	-3%	0%
White goods production	-0.2%	0.0%	0.6%
Auto production	0.4%	0.4%	0.4%
Others (GDP growth)	1.8%	2.1%	2.7%
<b>Implied steel demand growth</b>	<b>14%</b>	<b>9%</b>	<b>13%</b>

Steel downstream demand breakdown in China



Contribution to demand growth



# Overall Domestic Performance

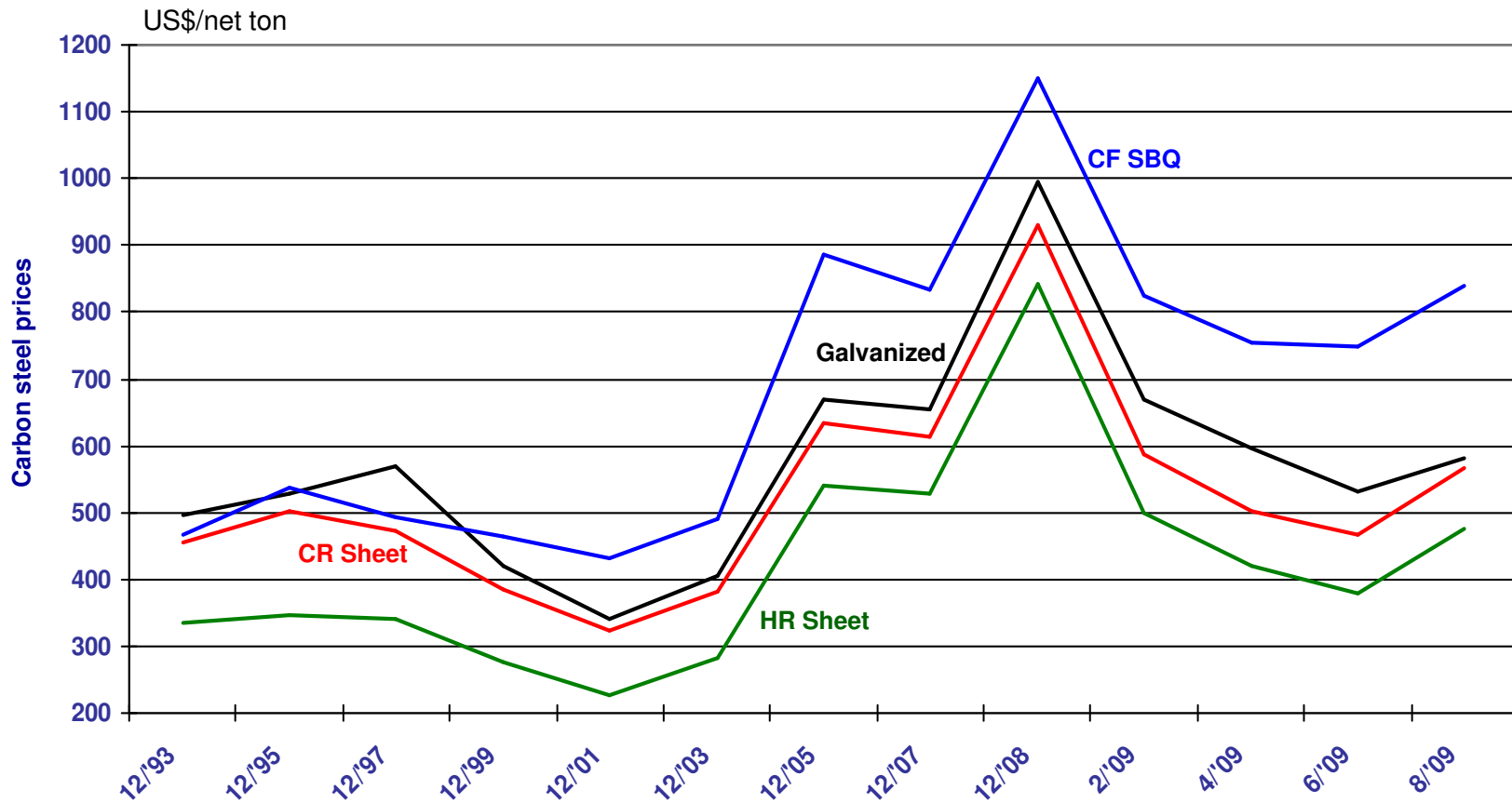
Unprecedented upside, then collapse

(000 tons, except for prices)	2006	2007	2008	2009 (7 mos)	07/08 %chg
<b>Raw Steel Production</b> .....	108,234	108,138	100,697	<b>32,307</b>	-6.9%
<b>Capacity Utilization</b> .....	87.5	87.0	80.9	<b>44.6</b>	--
<b>Mill Shipments</b> .....	109,502	106,430	97,846	<b>31,428</b>	-8.1%
<b>Exports</b> .....	9,728	11,154	13,476	<b>4,644</b>	20.8%
<b>Total Imports</b> .....	45,273	33,244	31,927	<b>9,615</b>	-4.0%
<b>Finished Imports</b> .....	35,953	26,588	25,956	<b>8,948</b>	-2.4%
<b>Apparent Steel Supply*</b> .....	135,727	121,864	110,326	<b>35,732</b>	-9.5%
<b>Imports as % of Supply*</b> .....	26.5	21.8	23.5	<b>25.0</b>	--
<b>Average Spot Price**</b> (\$/ton).....	<b>\$655</b>	<b>\$652</b>	<b>\$943</b>	<b>\$600</b>	<b>44.6%</b>
<b>Average Scrap Price#</b> (\$/ton)...	\$248	\$289	\$409	<b>\$212</b>	41.5%

\*Excludes semi-finished imports \*\*Composite price of 8 carbon steel products #Shredded bundles; August, 2009 prices

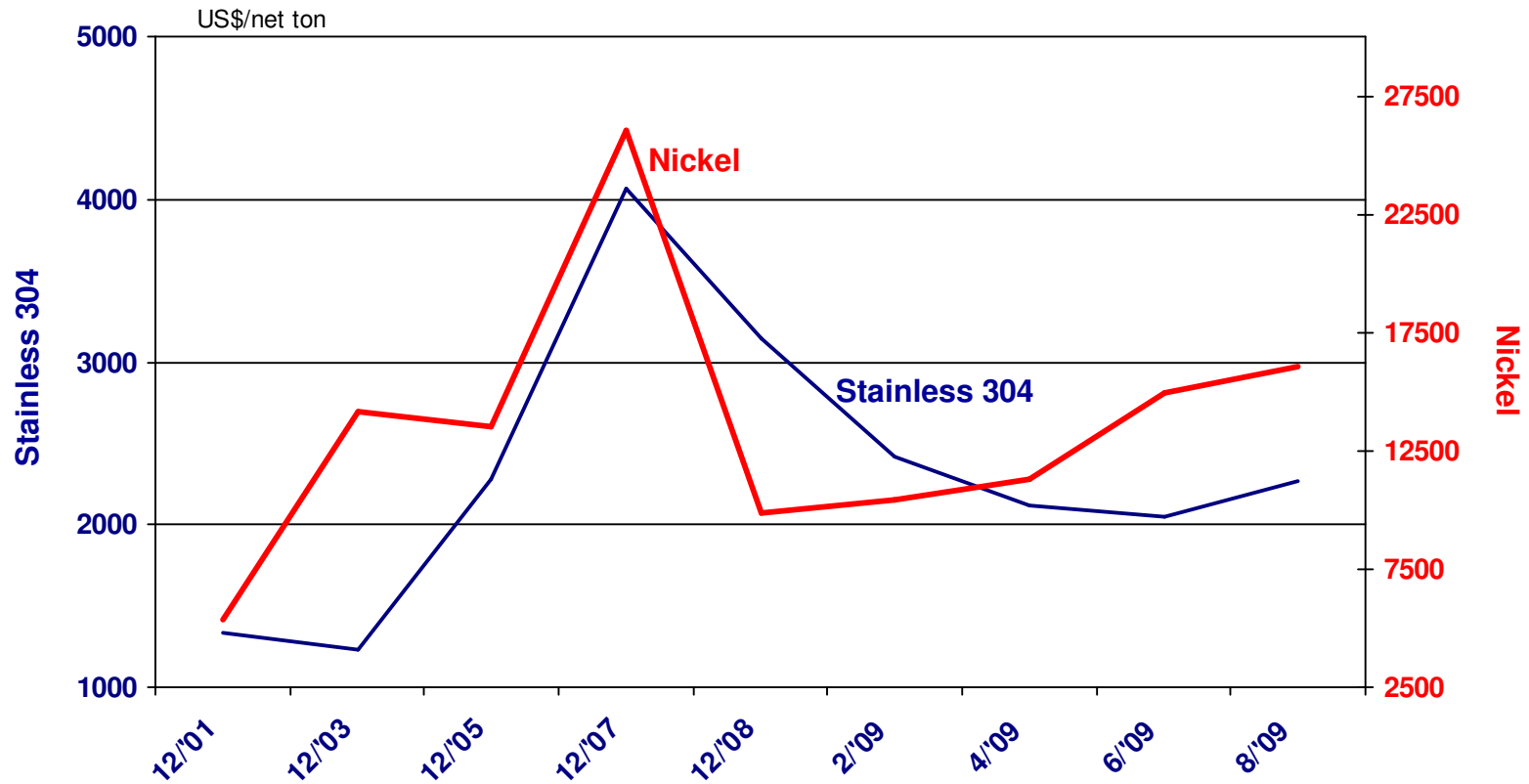
# Steel Product Prices; 16-year History

Higher peak and lower trough



# Stainless Steel 304 and Nickel Prices

Slow improvement



# Company Results – 1H09 vs 1H08

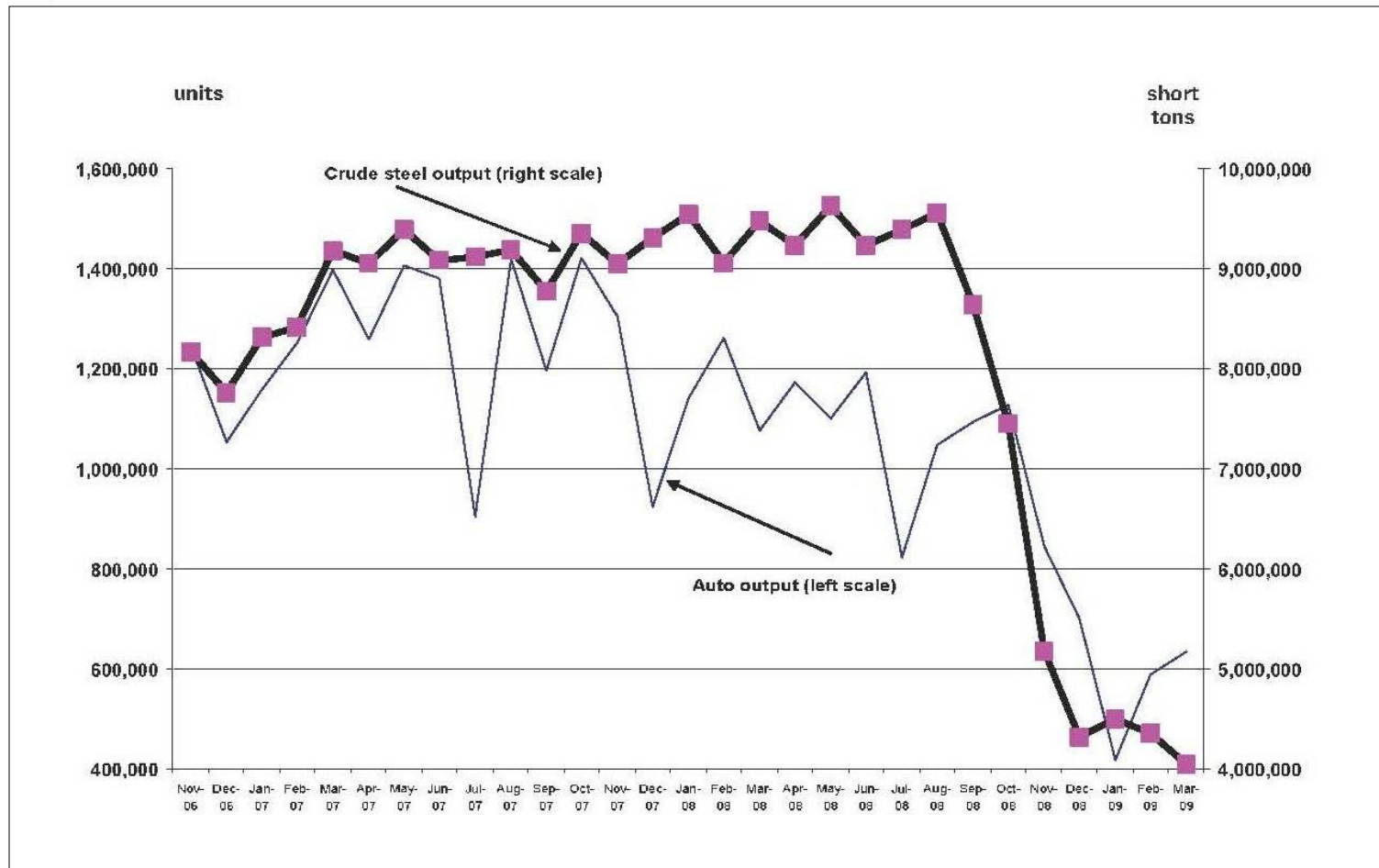
Dismal results, but no bankruptcies -- yet

Company	Shipments (thousand tons)		Sales (\$ millions)		EBITDA (\$ millions)	
	1H09	1H08	1H09	1H08	1H09	1H08
AK Steel	1,519	3,316	1,716	4,028	1,819	4,131
ArcelorMittal	32,900	59,000	30,298	67,649	2,104	13,090
Gerdau-Amsteel	2,526	4,879	2,074	4,578	113	909
Nucor	5,807	12,068	5,132	12,065	(140)	1,987
Severstal	4,022	2,874	5,648	10,719	(79)	2,924
Steel Dynamics	1,629	3,238	1,607	4,306	250	316
ThyssenKrupp*	na	na	27,779	39,701	(55)	3,706
U.S. Steel	6,169	13,817	4,877	11,940	(626)	1,535
<b>Total</b>	<b>48,403</b>	<b>85,375</b>	<b>46,475</b>	<b>103,344</b>	<b>3,818</b>	<b>23,041</b>

\*reported by company in Euros, translated at 1 Euro = 1.45 U.S. dollars

# NA Light Vehicle Production

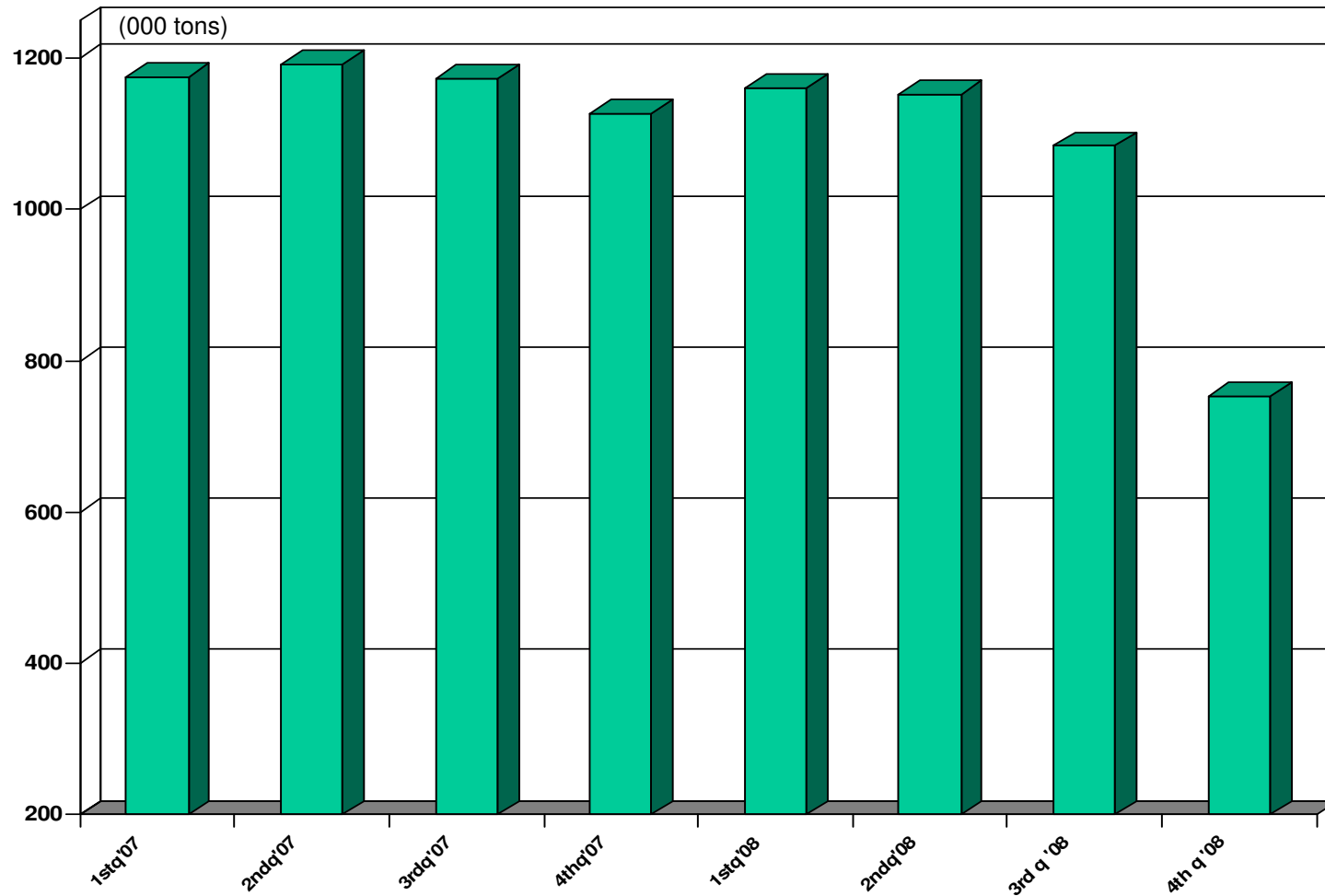
Auto and steel in sync, but with some delay



# Direct Auto Purchases From US Mills

## Shipments started falling in 4Q08

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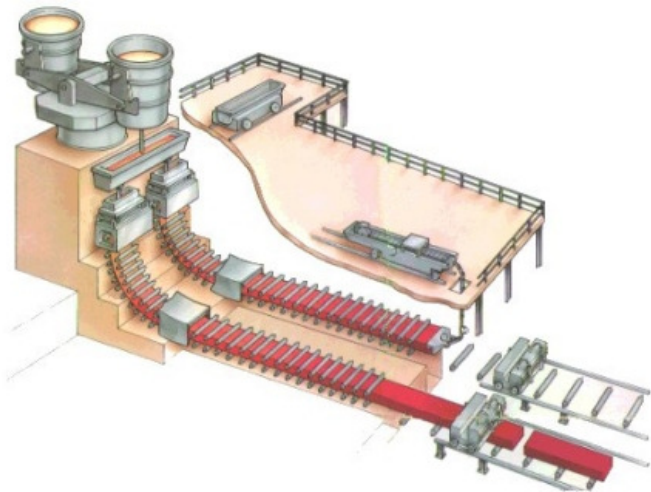
# Capacity Utilization Rates, 2009e-2010e

China dipped with quick recovery

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	Current	2009E	2010E
US	52%	65%	65%
EU27	57%	75%	77%
Russia	80%	90%	95%
China	91%	90%	90%+

*US 2010 estimate seems low*

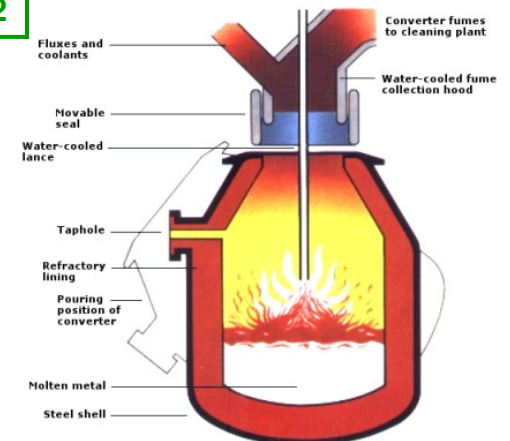


# World Crude Steel Output, 2008-2013

## China continues to dominate

Region	2008	2009F	2013F	% Chg '08-'13
Europe	229.8	189.3	238.0	3.6
CIS	114.1	91.0	125.0	9.6
<b>NAFTA</b>	<b>124.5</b>	<b>97.5</b>	<b>128.0</b>	<b>2.8</b>
South America	47.5	39.3	53.5	12.6
Africa/Middle East	33.7	30.7	40.5	20.2
<b>PR of China</b>	<b>500.5</b>	<b>508.0</b>	<b>589.0</b>	<b>17.7</b>
Japan	118.7	99.8	114.0	-4.0
Other Asia	148.8	137.7	178.5	20.0
Oceania	8.4	6.8	8.5	1.2
<b>World</b>	<b>1,326.1</b>	<b>1,200.0</b>	<b>1,475.0</b>	<b>11.2</b>

(in million tonnes)



# Recent Blast Furnace Restarts

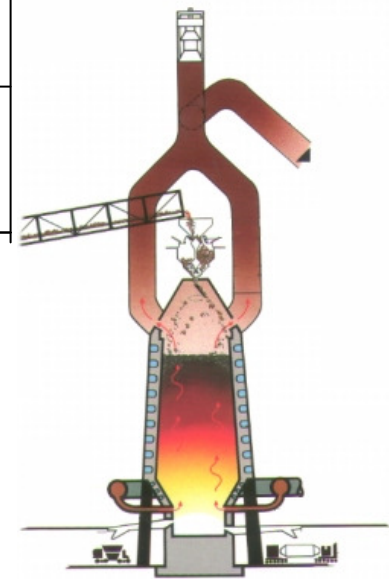
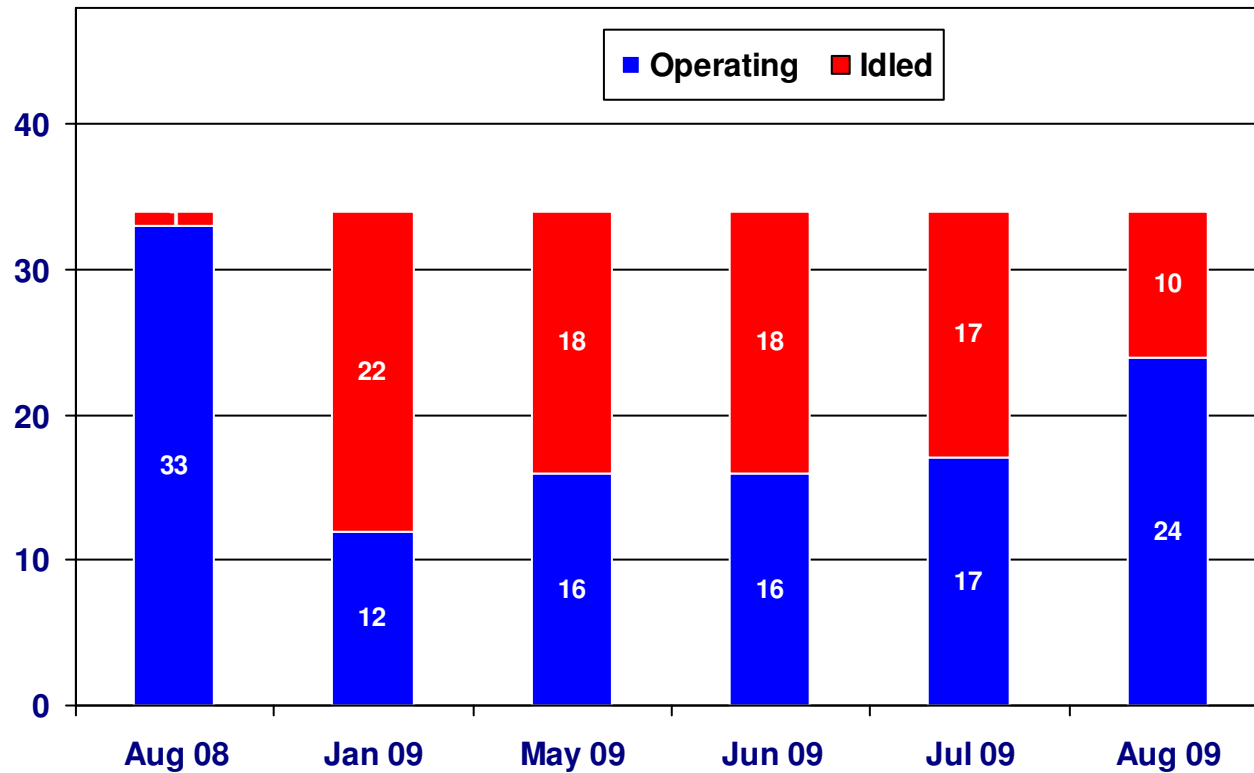
## Worldwide recovery is underway

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Location	Date	Company	Location
North America	June, Sept	US Steel	Granite, Hamilton
	June, Sept	ArcelorMittal	Indiana Harbor, Cleveland
Latin America	July 18	Usiminas	Ipatinga
	June 26	ArcelorMittal	Tubarao
	June 24	Gerdau	Acominas
	June 20	CSN	Volta Redonda
Asia	July 17	BlueScope	Kembla
	July 16	Sumitomo	Wakayama
	July 15	Nippon	Oita
	June 22	POSCO	Pohang
CIS	July 18	Severstal	Cherpovets
	July 6	ArcelorMittal	Kriviy Rih
	June 24	Evrast	ZapSib
	May 5	NLMK	Lipetsk
EU	--	ArcelorMittal	Florange
	--	ArcelorMittal	Ghent
	--	ArcelorMittal	Gijon
	--	ArcelorMittal	Dabrowa Gornicza
	--	Corus	IJmuiden

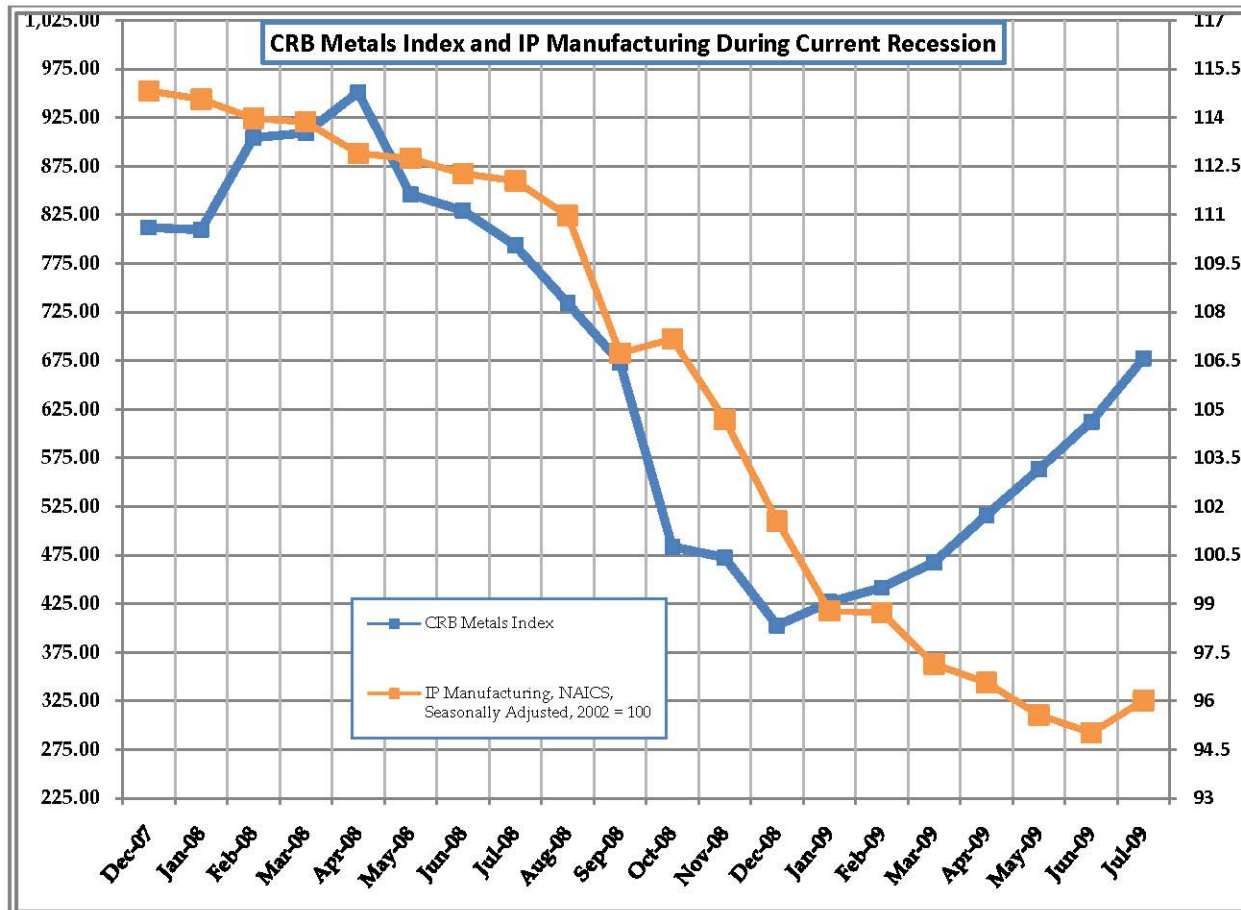
# Idled vs Operating Blast Furnaces

Some will never come back



# Metal Prices vs Manufacturing Activity

## Metals leads the way



CRB metals – Commodity Research Bureau Metals index include the price of No. 2 copper, lead scrap, No. 1 HMS steel scrap, tin and PW zinc

# Forecast 2009-2011

Probably too pessimistic given current outlook

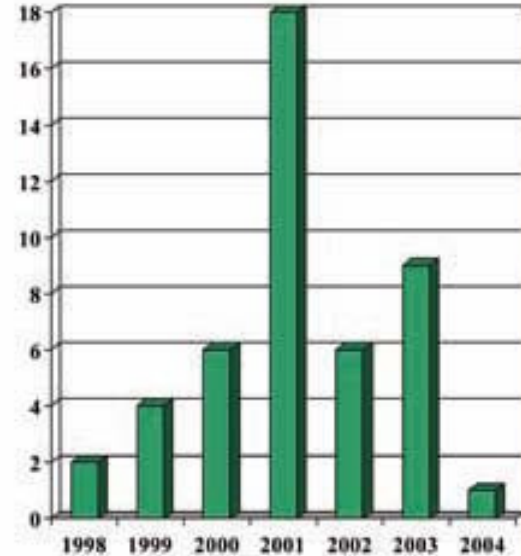
US Steel Consumption and Shipment Actual and Forecast: World Steel Dynamics					
(million short ton)	2007	2008	2009e	2010e	2011e
First quarter	26.3	27.5	13.0	16.0	18.0
Second quarter	26.5	27.5	12.0	17.0	18.0
Third quarter	27.1	26.0	16.5	17.0	19.0
Fourth quarter	26.5	16.8	15.0	18.0	20.0
<b>Shipments</b>	<b>106.4</b>	<b>97.8</b>	<b>56.5</b>	<b>68.0</b>	<b>75.0</b>
Plus Imports	33.2	31.9	15.0	22.0	26.0
Less: Semi finished imports	6.6	5.9	1.5	3.0	4.0
Less: Exports	11.2	13.5	8.5	9.5	10.0
<b>Apparent steel demand</b>	<b>121.9</b>	<b>110.3</b>	<b>61.5</b>	<b>77.5</b>	<b>87.0</b>
Less: Est. user/buyer inventory build	-2.5	-4.0	-10.0	2.0	4.0
<b>Equals: Actual steel consumption</b>	<b>124.4</b>	<b>114.3</b>	<b>71.5</b>	<b>75.5</b>	<b>83.0</b>
% change	-3.7%	-8.1%	-37.5%	5.6%	9.9%

# Steel Company Bankruptcies, 1998-2004

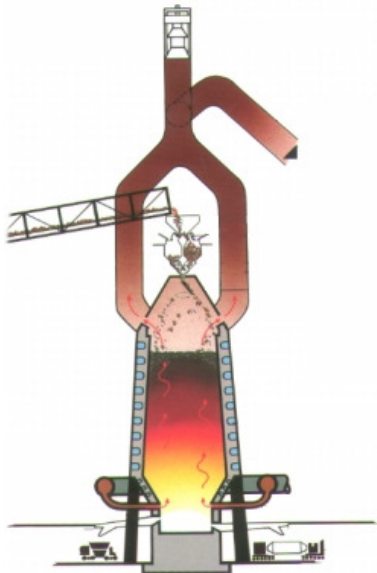
But no Chapter 11 during the current crisis

Over 40 American steel companies declared bankruptcy between 1998 and 2004, including:

- Bethlehem Steel
- LTV Corp.
- National Steel
- Rouge Industries, Inc.
- Weirton Steel
- Geneva Steel Co.
- Birmingham Steel
- Trico Steel
- Northwestern Steel & Wire
- Wheeling-Pittsburgh Steel Corp.
- Republic Engineered Products
- GS Industries
- WCI Steel
- Acme Metal
- Gulf States Steel

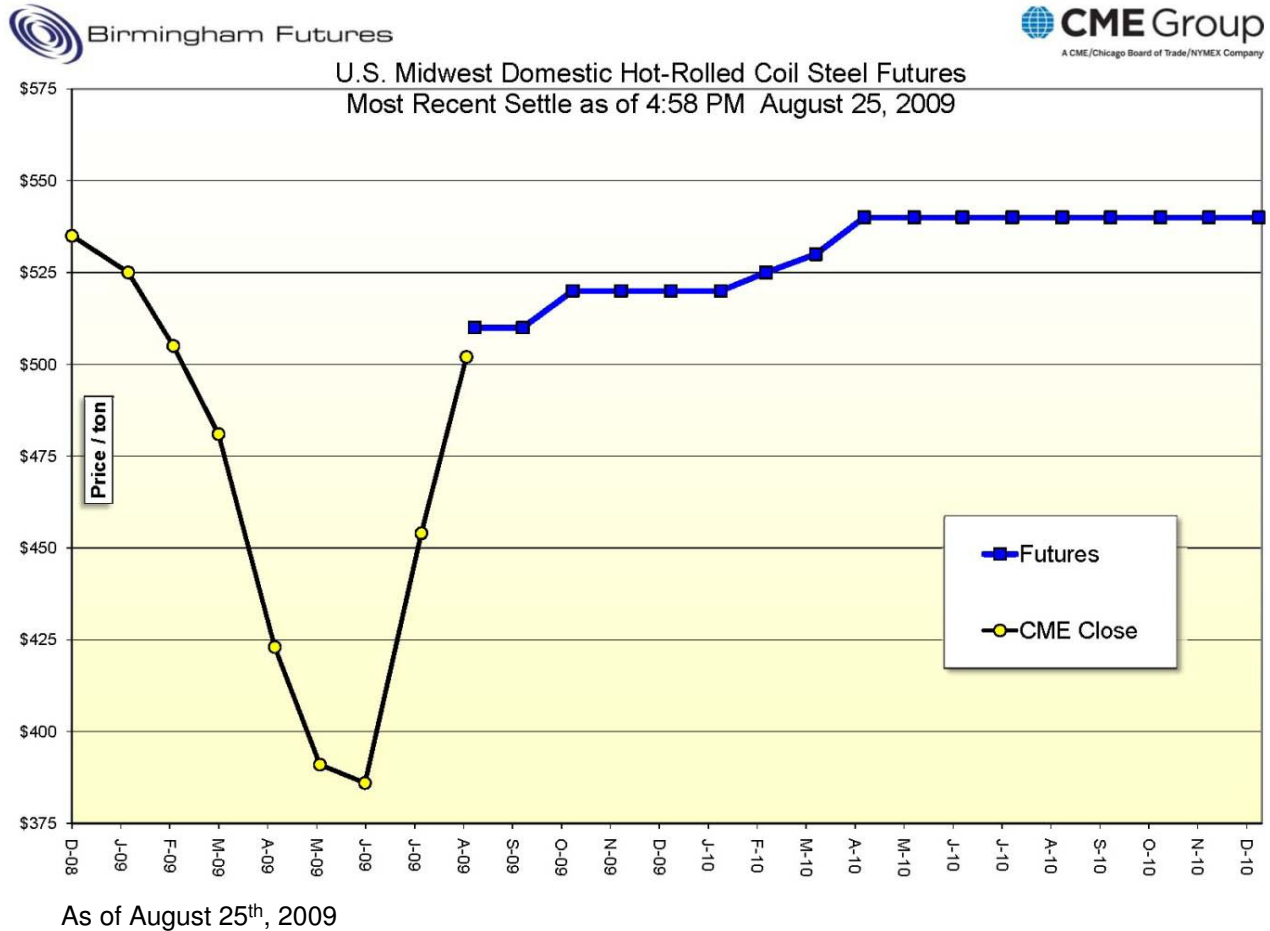


Bankruptcies Filed



# Hot-rolled Coil Steel Futures

Looks too pessimistic; LA expects \$600 in 2010



# ***Steel Prices – Actual and Forecast***

Recovery is here

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(\$/ton)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>HR steel sheet</b>	420	392	380	430	475	510	540	560
<b>CR steel sheet</b>	502	477	467	517	568	595	625	660
<b>HD galvanized sheet</b>	596	564	532	555	580	609	634	675
<b>Coiled steel plate</b>	604	494	481	506	525	567	588	609
<b>HR plate</b>	693	605	579	604	613	657	678	700
<b>Structural beam</b>	763	687	679	661	640	706	772	850
<b>Merchant steel bar</b>	711	679	695	707	714	757	779	800
<b>Concrete bar</b>	459	462	484	495	517	553	588	660
<b>Wire rod</b>	449	509	502	520	531	563	596	628
<b>Stainless sheet (304)</b>	<b>2,118</b>	<b>2,098</b>	<b>2,045</b>	<b>2,188</b>	<b>2,272</b>	<b>2,360</b>	<b>2,399</b>	<b>2,447</b>

# ***Clunker Program Helps Boost Production***

## **Badly needed stimulus**

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(in 000 units)	<b>Aug'09</b>	<b>Aug'08</b>	<b>% Chg</b>	<b>YTD'09</b>	<b>YTD'08</b>	<b>% Chg</b>
<b>General Motors</b>	<b>246</b>	<b>309</b>	<b>-20.2%</b>	<b>1,390</b>	<b>2,149</b>	<b>-35.3%</b>
Toyota	225	212	6.4%	1,170	1,649	-29.0%
<b>Ford</b>	<b>182</b>	<b>156</b>	<b>17.0%</b>	<b>1,123</b>	<b>1,472</b>	<b>-23.7%</b>
Honda	161	147	9.9%	807	1,084	-25.6%
<b>Chrysler</b>	<b>93</b>	<b>110</b>	<b>-15.4%</b>	<b>653</b>	<b>1,076</b>	<b>-39.3%</b>
Nissan	105	108	-2.9%	525	726	-27.7%
Hyundai	60	41	47.0%	311	313	-0.7%

# NA Light Vehicle Production Inputs

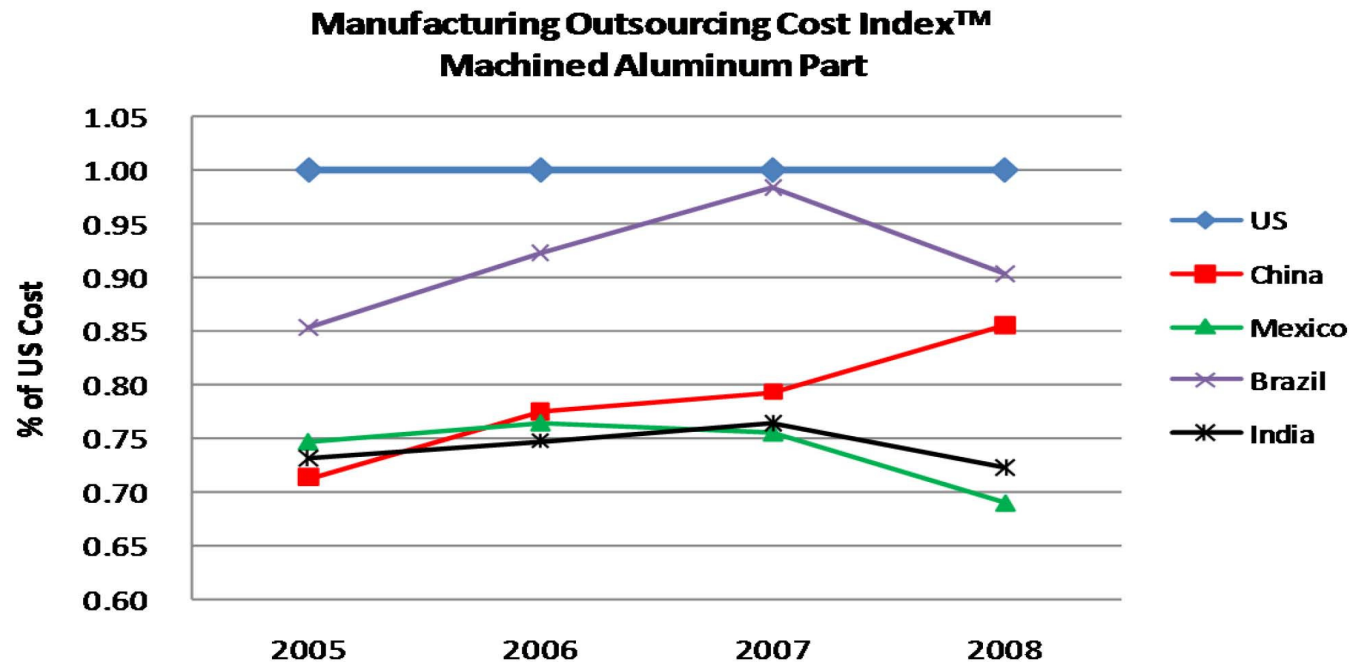
Not encouraging trends

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<b>Material</b> (000 tons)	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009f</b>	<b>08-09</b>
<b>Carbon steel</b>	<b>16,174</b>	<b>15,940</b>	<b>13,351</b>	<b>9,690</b>	<b>-3,662</b>
<b>Stainless &amp; other steel</b>	<b>816</b>	<b>804</b>	<b>673</b>	<b>489</b>	<b>-185</b>
<b>Iron casting</b>	<b>2,523</b>	<b>2,486</b>	<b>2,083</b>	<b>1,511</b>	<b>-571</b>
<b>Aluminum</b>	<b>2,462</b>	<b>2,426</b>	<b>2,032</b>	<b>1,475</b>	<b>-557</b>
Fluids and lubricants	1,608	1,585	1,328	963	-364
Rubber	1,326	1,307	1,095	795	-300
Glass	800	789	661	479	-181
Plastic (polypropylene)	617	608	510	370	-140

# Manufacturing Outsourcing Cost Index

## US becomes more competitive vis-à-vis China

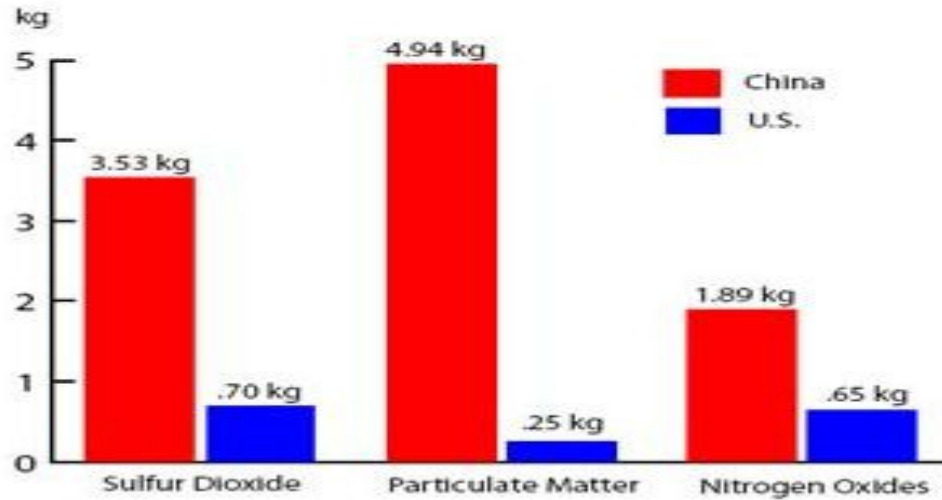


Country (US\$)	2005	2008	% Chg
China	\$17	\$25	47.1%
Mexico	\$18	\$20	11.1%
<b>US</b>	<b>\$24</b>	<b>\$29</b>	<b>20.8%</b>

# Pollution Comparison

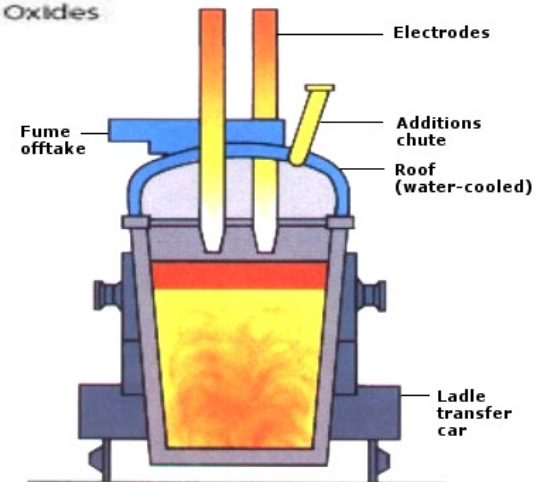
China vs US; steel vs other industrial products

**Pollution per Ton of Steel Produced**



**CO<sub>2</sub> Emissions Comparison**

Product	Primary Process	Recycling Process	Reduction
Aluminum	10.6	0.7	9.9
Copper	5.5	2.0	3.5
Steel	1.5	0.7	0.9
Paper	0.2	0.1	0.1



# ***Recommendations***

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- Workers and their unions need to find new ways to control the economic forces that directly impact their lives by:
  - building a strong government-led industrial policy to renew manufacturing
  - overseeing corporate policies, especially investment and compensation
  - constructing a political party truly representing their long-term interests
  - building working coalitions with other mass organizations, including the environmental movement
  - demanding free education/training, health care and secure retirement benefits
  - leveraging their power by forming international coordinated bargaining groups focused on multinational corporations and practical solidarity (supply chain)
  - better educating their members
  - organizing new members around the world