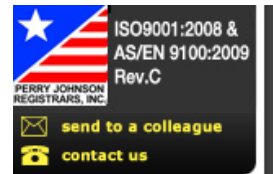




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## MetalsOutlook™ January 1995

### Welcome to Metals Outlook™ January 1995

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### January 1995

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### **I. COVER STORY**

To put it simply, steel use is flourishing worldwide. This was somewhat surprising - and caught many analysts off guard. They hadn't foreseen a boom '94. That's because while North American steel use had been strong in '93, global steel-use had been lousy.

Steel use last year actually rose 5% to 640 million metric tons. This year, global steel use will expand another 3.5% to 660 million tons. These numbers are new - and stronger than forecasts issued just three months ago. That's because fourth quarter '94 steel use, and new orders for '95 deliveries, are much higher than projected. Lenhard Holschuh, who heads the International Iron and Steel Institute in Brussels, confirms this bullish outlook for '95. He's adamant that the picture is clear and bright - a portrait of booming steel demand, increasing prices, and rising profits.

According to an analysis by the International Iron and Steel Institute, strong steel demand will continue this year in the Americas and Western Europe. Use will improve throughout Asia, and Holschuh now says steel use may not slip as much as first suggested in the restructuring economies of Russia and Eastern Europe. Holschuh explains that "steel demand is taking an upturn" because of new marketing initiatives pushing more steel into products made for the automotive, appliance, construction, and packaging industries in developed countries. In other words, there are new sources for steel demand in what once were thought to be mature and stagnant markets.

In truth, the engine of the '94 recovery in global steel use was the industrial metalworking production explosion in the U.S. and Canada. That's why prices rose here first, and fastest.

The automotive, appliance, construction, and heavy machinery sectors drove last year's overall net steel consumption in the U.S. and Canada to at least 115 million metric tons or so. That compares with 102 million metric tons in '93.

Now, of last year's total volume, a huge amount of that steel was sourced from other countries. U.S. and Canadian buyers may have bought as much as 30 million metric tons last year when all steel trade data is finalized. That would be an 18% increase over '93, and the largest tonnage of semi-finished steel and mill products ever bought from foreign mills and traders.

There now is some concern about the strength of North American steel use later this year. Analyst Chuck Bradford at UBS Securities believes "recent spectacular growth rates probably can't be sustained without interruption." That might deflect supply problems for some buyers because it's assured now there will be less foreign-made steel available for North American buyers in '95.

But, at present, industrial conditions favorable to steel use continue in the U.S. and Canada. Forecasts key on more growth in North America's industrial manufacturing. So, even if there is a slight moderation in U.S. and Canadian steel use this year, it still will be around 115 million metric tons.

Then, again, this might be too bearish an estimate if the construction market begins its long awaited resurgence.

Then there's Western Europe, which is in the midst of a "firm upturn in industrial activity." That's the word from my market sources at the European Steel Review in Sheffield, England.

Steel use rose last year by 4% to 290 million metric tons. At least another 4% growth is forecast for '95. Use might be stronger, but supply is a concern. Firms are operating on minimum inventories already, and extra supplies of steel products are unavailable from local mills.

The Japanese economy is exhibiting an anemic recovery, led by a pick-up in consumer spending and some growth in public investment. However, the high value of the yen and international pressure to open home markets to imports continues to discourage investment in domestic industry. Thus, steel use this year will remain stuck in the 73-million to 75-million metric ton range.

However, due to the recent earthquake in Kobe and Osaka, Japanese steel production may go thru the roof. Looking at the developing nations, Holschuh of the International Iron and Steel Institute, sees expanded infrastructure building strengthening use in '95.

While double-digit rates of growth in steel use are evident in Argentina and Brazil, economic and political problems have stalled growth last year in Mexico and Venezuela, the other Latin American economies. With manufacturing improving in Latin America this year, expect steel use in these four nations to rise by anywhere from 6% to 10%.

Chinese steel use crashed last year because of monetary belt-tightening to slow inflation and reduce imports. With credit being loosened this year, China's metalworking industries again should use 100 million metric tons - if not more. The other Asian, Indian, and Middle Eastern economies were somewhat healthy steel users last year. Evidence suggests even more growth in demand this year.

### ***IF YOU THINK STEEL IS HOT...WHAT ABOUT FORGINGS!***

In an interview with Charles Hageman, President of the Forging Industry Association in Cleveland, Ohio, he states that "based on an eleven month year, both open and closed die forgers are having an excellent year", based upon the reduction in the number of forgers in recent years and a very strong business climate, particularly in auto, truck, power generation, as well as others. "Aerospace seems to have bottomed and is looking better for '95", especially with the prognosis of increases in defense spending related industries if the republicans have anything to do with it!

Mr. Hagemans' best guess for '95: "forging numbers are basically in line with other steel gurus: A strong demand across a wide band of markets" . However caution is the rule in the later part of the year. This is the general belief by most of the metal professionals and financial pundits.

### ***IISI apparent steel product use (million metric tons)***

	1993	1994 (est)	1995 (forecast)
<b>AMERICAS</b>	128.4	143.5	144.4
United States	90.4	101.9	101.0
Canada	11.0	12.9	13.2
Latin Amer	27.0	28.7	30.2
<b>EUROPE</b>	185.0	188.9	194.0
Euro Comm	93.7	99.7	103.9
Oth. West. Eur.	19.3	21.4	21.7
Eastern Europe	13.0	13.8	15.4
Former USSR	59.0	54.0	53.0
<b>ASIA</b>	273.7	278.2	285.9
P.R.O.C.	103.5	100.2	101.0
Japan	75.0	73.8	74.6
Other Asia	95.2	104.2	110.3
<b>OTHER</b>	28.2	29.4	30.1
Australia,			
New Zealand	5.7	6.0	6.0
Africa	13.4	13.7	14.0
MiddleEast	9.1	9.7	10.1
<b>WORLD TOTAL</b>	615.3	640.0	650.8

World Steel Use (million metric tons)	continued forecast	
	1996	670.3
	1997	690.4
	1998	710.9
	1999	732.2
	2000	748.0

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## II. METAL CHIPS

### ***Why is it getting tougher for buyers to source additional tonnages of high-end stainless steel grades?***

The simple answer is that, these days, the U.S. is the busiest stainless steel market worldwide. Sales of these corrosion-resistant grades are literally exploding. In just the past two years, industrial purchasing of the stainless steels here has erupted by 30%. In fact, the U.S. now accounts for more than a fifth of the global market.

Stainless steel is, essentially, a low-carbon steel that contains chromium and sometimes nickel, molybdenum, and columbium. It's the most high-tech and high cost of all carbon-based steels. Stainless and other specialty steel grades cost 2 to 5 times more than competing materials at the initial buy. But, life-cycle cost analyses often prove that stainless is a more economical long-term buy, even with the current volatility of the nickel, cobalt and moly markets.

That's important for stainless. People want the things they buy to last a long time. They want the products they buy to be durable. "Consumers are demanding longer-lasting cars, appliances and other products", agrees market analyst Chuck Bradford.

While U.S. per-capita consumption still is less than in Japan and Europe, analyst Bradford believes "there's plenty of room for continued growth in the use of long-lasting stainless steel." He points out that, so far in the 90's, the annual average use of stainless steel has been 2.1 million tons. In the 1980's, annual average use was only 1.4 million tons.

And that's opened the door to importers. Domestic mills are highly efficient, make great stainless, and are very profitable. But they simply haven't been able to meet demand. That's why imports now control 32% of supply. In recent months, large shipments of stainless have come to the U.S. from Spain, Japan, Mexico, France, Italy, and Korea.

Stainless steel is made highly resistant to corrosion and able to tolerate high temperatures by being alloyed with chromium. Chrome-bearing stainless already is used extensively in automotive exhaust systems, jet airliner parts, and the pipes and tubes required by the process industries. Now, there's more being used to make fuel lines, airbag canisters, and brake lines.

Because the metal's surface can be highly polished, it's also finding more uses in architectural decorations and such building uses as elevator doors.

High-grade stainless steels contain nickel as well, which improves their metalworking properties. Such other metals as molybdenum and columbium are added sometimes for special end-use applications.

Lately, there have been many new uses for stainless steels as replacements for high-carbon, low-alloy, and galvanized steels. New acid-resistant stainless grades are going into machinery and parts for pulp and paper production and processing.

New construction uses for water-resistant stainless grades include concrete reinforcements, fasteners, hooks, wall ties, and even bridge parts. There also have been new uses found for food processing, heavy-duty modular cooking equipment, and catering equipment. New types of pumps, drilling, and waterjet-cutting machinery can be found bearing stainless steel as well.

Looking at this year...it's unlikely that another year of purchasing growth will occur. Sales are expected to scale back to 5% growth this year. That's more in line with industry projections of annual demand growth of 4% to 6%.

Distributors closed '94 holding almost 4 months' of supply, and prices are being raised by surcharges for the alloying metals - which have just awakened from extensive slumber.

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## III. PURCHASING FOCUS

### ***Why the search for quality suppliers is becoming somewhat frantic.***

Just a few weeks ago, the chief steel buyer for a large consumer goods company described his job to me as "chasing after the lowest prices".

Quality he told me, has cooled off as a strategic purchasing issue at his company. The only message from the boardroom these days, he said, was "to cut costs and help management reengineer the corporation."

This shocked me at first. But, after a little research, I discovered this company is in deep trouble.

At a time when North American manufacturing again is leading the globe in competitiveness, this company is selling problem-riddled merchandise. It is losing money and market share.

According to my Wall Street sources, this company is headed for collapse - and soon. Making quality products from quality materials could have saved this firm. Simply cutting costs won't do the job. My point is this: Quality has NOT cooled off as a strategic purchasing issue in well-managed globally competitive manufacturing firms.

Fads come and fads go in the vocabulary of business. But, quality still is an integral part of business - especially the purchasing side of business.

Who says so? The readers of PURCHASING Magazine, that's who.

The editors recently surveyed hundreds of your buying and materials management colleagues. We weren't all that surprised to hear that they still are deeply involved in guaranteeing the quality of the goods and services they buy.

But, we were surprised to learn just how closely purchasing managers and supply management strategists are beginning to track quality's relationship to the new manufacturing techniques coming on the scene.

Many answering our survey, in fact, volunteered that they're only now beginning to deal with quality issues on a critical level. In the past, most of their quality efforts were aimed at solving internal quality problems and establishing their own standards of quality. Today, a growing number of purchasing and supply managers are looking at ways to help their companies move up into a world-class level of competitiveness. To get there will require mastery of such disciplines as agile manufacturing and synchronized supply chain management.

There's no doubt about it! These and other advanced techniques have proven effective in achieving competitiveness. They also require degrees of quality performance that few purchasing departments can achieve on their own.

In plain terms, a growing number of supply managers are discovering their firms cannot compete without increasingly better quality. And that means increasingly better suppliers.

Without significant alliances with world class suppliers, they can't do the job today - or plan how to do the job better in the future.

In a world where describing a quality supplier is becoming easier than finding one, the search is becoming even more frantic.

Buyers and supply managers will have to search for those few quality suppliers that will make a difference. Therefore, your mission, in the weeks and months ahead, will be to spot and nurture suppliers with those special quality characteristics.

## **WHAT ISO 9000 MEANS TO U.S. COMPANIES**

ISO 9000 is the global answer to quality and profit issues. What started out to be the European answer to quality for their continents' flow of product from country to country, is becoming much more than anticipated for the U.S.

In the U.S., the ISO quality philosophy started out as a mere buzz word and in some quarters was resented by business people and workers alike, in that they felt "why should America be governed by European standards?" However, the truth is that it is a GOOD program of standards. When implemented properly to a company's needs, it will create profits by improving systems, products, efficiency, and most of all will improve customer relations, which ultimately converts to more business.

In the U.S., CEO's, upper management and bean counters are beginning to buy into the program by witnessing first hand, the improvements in products and profits. Rank and file personnel as yet appear to only perceive more paperwork and pressure and more stringent work procedures.

Marketing personnel see ISO as a major boon to doing more business and creating a significant competitive edge against non-ISO competitors. However, this competitive edge is a short run scenario, since ISO registration is growing at a guesstimated rate of 15% per month.

Other parts of the world (ie: South America and the Pacific Rim) who are also vying for U.S. and European business, are also being introduced to ISO standards and are becoming more accepting of this philosophy.

The long term effect is that in the globalized economy, if you're not "ISO Registered" you won't be doing business.

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### **IV. ONE FINAL NOTE...**

#### ***Steel Imports are Zooming***

The still-expanding metalworking economy continues to rely heavily on imported steel. In fact, quarterly imports since mid '93 have been the highest recorded this decade. Just revised nine-month statistics show booming business in hot-rolled and cold-rolled sheet, and for semi-finished products for downstream rolling by U.S. firms into mill products. The U.S. mills are globally competitive steelmakers again, but they simply can't meet the demand.

Imports are high for two reasons:

#1: Uncertainty about supply among OEM buyers has them sourcing sheet metal from foreigners despite a recent rise in world export tags to U.S. market levels.

#2: Cost-conscious domestic mills, who razed aging equipment earlier, now will operate only efficient raw steel capability.

Note: Even with the mills' midyear operating level at 89% of effective steelmaking capacity, there's not

enough locally poured raw steel to support this year's demand for mill products. Blast furnace relines and melt shop maintenance also spurred the need for more slabs and ingots.

Upshot: More foreign made steel in the U.S. in nine months than any other nine month period this decade - with no signs of a letup anytime soon. "Imports since '91 are up at a rate of 12 - 13 million tons/year.," says analyst Karlis Kirsis at Paine Webber's World Steel Dynamics unit in New York. "But, remember, domestic steel demand is up 17 - 18 million tons/year in the same period." Kirsis also notes that domestic demand for sheet steel is so strong that even expanded imports have done nothing to alleviate tight supply.

Outlook: A total of 25.2 million tons of imports in '94, then 22.2 million tons in '95 (11.2 million tons in the first half and 11 million tons in the second half). Of the total tonnage this year, semi-finished steel imports will be a record 6.9 million tons, or 38% more than the 5 million tons imported in '93. Next year, semi-finished will drop 30% to 4.8 million tons.

That's because stronger offshore demand will keep some tonnage at home, notes analyst John Jacobson at the WEFA Group in Bala Cynwyd, Pa. Also, rehabilitated blast furnaces in the U.S., and new domestic sheet capacity from the mini-mills, will further depress the level of imports needed to meet demand.

That's all for this edition of MetalsWatch!

## **In our next edition, COVER STORY will present the '95 Metals Service Center Report.**

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