MetalsOutlook™ February 1998

Welcome to Metals Outlook™ February 1998

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February 1998

I. COVER STORY

Let's start by pointing out that North American economists seem to have gone a bit gaga lately. Ask them about the regional economy, and just listen to the superlatives gush. They're delighted about steady growth in the U.S. and surging growth in Canada. They're ecstatic about burgeoning consumer confidence, and thrilled with flat-lined manufactured product inflation. "All the wheels are on, they're well-greased, and the truck is rolling," says Economist, Tim O'Neill at the Bank of Montreal. He notes that the overall Canadian economy is posting its strongest sustained growth of this decade. David Wyss, Chief Economist for Standard & Poors/DRI predicts, "The U.S. economy is forging ahead at a good, steady pace." After seven years of expansion, the rate of U.S. economic growth is slowing, but Wyss says, "There is no recession on the immediate horizon." Economist, Raymond Worseckof at the A.G. Edwards & Sons stock brokerage in St. Louis, points out that the manufacturing economy is continuing to expand with no sign of accelerating inflation. That will make it the longest peacetime expansion ever - surpassing the boom of the 1980's.

All this optimism stems from several key indicators, which show the North American economy is poised for continued moderate growth and stable inflation. New factory orders for durable goods in the U.S. and Canada are running at an annual rate of well over $400 billion. That's the highest year-end level in quite some time. Atop all that, the latest report card from the Organization for Economic Cooperation and Development (OECD) in Paris, gives the U.S. economy an "A" and the Canadian economy a strong "B+". More importantly, the OECD is predicting another couple of years of solid (if somewhat slower) regional economic expansion. The OECD believes the U.S. economy will slip slightly from a totally unexpected 3.5% or 3.6% growth this year to a more managable 2.6% or 2.7% growth rate in 1998. Looking at Canada, the OECD report suggests only minimal slippage next year from this year's 3.6% growth rate.

The OECD economists say, "The U.S. has enjoyed a year of exceptionally good economic performance," and suggest that, "Above trend growth will continue even though the inflation rate could increase to around 3% from its current level of just above 2%." Looking at Canada, the OECD economists see a continuation of the robust economic growth of this year. "Medium-term industrial economic prospects appear favorable," they say, but worry a bit that tighter monetary policy may be initiated as the year progresses to meet inflation-control targets. Despite their caution, the views of the OECD forecasts dovetail nicely with the latest outlook for North American manufacturing from a group of economists polled by MetalsWatch! In fact, looking ahead to 1998, these economists say a slightly slower rate of growth in the U.S. economy would be good news for a lot of metals and metalworking industries. That's because it would mean an ongoing, sustainable, and low-inflation U.S. expansion, and that would mean the Federal Reserve Board wouldn't need to raise interest rates.

"Not only would that be good news for the U.S.," says Josh Mendelsohn, Economist at the Canadian

Imperial Bank of Commerce, "It would also be beneficial for Canada." First, it would mean the Bank of Canada might leave interest rates alone. That would help the construction and consumer goods industries. Second, because the U.S. is Canada's largest export market, it would mean continuing U.S. demand for Canadian manufactured goods and components. And, remember, Canada is already enjoying a healthy trade surplus of more than $2 billion every month - and a lot of that is in steel-intensive automotive, machinery, and heavy equipment products. That's one reason Canada has been a very bright star this year, for steel demand, according to the economists.

Here's a view from Margaret Cornish-Kehoe at Scotia Capital Markets: "I'm known for being bullish. I had predicted growth, but even I never guessed the magnitude. I mean, if I had told you that Canada was going to have a 17% increase in steel consumption in 1997 over the previous year, you would have arrested me. But, that's what happened. I was right about growth happening and the reasons why. First, because of increased competitiveness of North American companies and, second, because the Canadian economy didn't recover as fast as the U.S. economy. That's why Canada is in the middle of a capital spending boom right now."

Let's back up for a minute, and look at the overall North American manufacturing economy at year-end 1997. Demand for non-durable chemical products and durable metal products are fueling increased 4th quarter orders to the nation's factories, a sign North American manufacturing has enough vigor to withstand the recent fiscal disruption in Asian markets. In fact, U.S. orders alone continue to run around $335 billion a month. "Industrial production is just flat out strong," says Economist, Ian Shepherdson at HSBC Securities. That's why the North American metalworking industry is enjoying a record volume of production.

The closely scrutinized manufacturing survey by the National Association of Purchasing Management keeps indexes well above 50 for orders and production (remember, a reading of 50 or more in the index means manufacturing is expanding). A less closely watched indicator also shows that exports are strengthening even with the recent fiscal crisis in the Far East. According to Economist, Priscilla Trumbull of the WEFA Group, "Manufacturing, especially metalworking, has an awful lot of momentum." She doesn't expect industrial output to turn down in 1998. Even if 4th quarter order bookings crashed, which didn't happen, she contends it would have taken up to 6 months before a significant industrial slowdown would have become evident. But, since order rates for durable goods were known to be healthy into the start of this quarter, and steel and nonferrous metals shipments were very high, she reckons that, "The worst case scenario for 1998 will only be slower growth."

AN EARLY LOOK AT 1998

In short, the 1998 prospects for most metal-worked parts suppliers couldn't be much better. The economists reckon that just about all North American manufacturing sectors will see continued growth in 1998. In fact, Commerce Dept. economists think shipments by U.S. manufacturers will match the 5.5% growth rate of this year. The official forecast from Washington says, "The year-over-year pace of industrial production in 1998 is expected to accelerate modestly." The level of all transportation equipment, industrial machinery, instruments, computers, and various types of fabricated metal is anticipated to remain relatively high in 1998.

The automakers remain busy, and aircraft builders can't keep up with orders. Now, we learn that many industrial machinery makers, especially machine-tool suppliers, are heavily backlogged with orders. Much of this growth stems from the trend by manufacturers to do more outsourcing, the recent investment by the OEMs in new facilities, and the terrific demand for U.S. and Canadian-built product. Production of industrial machinery and electrical equipment has soared by almost 8% for the 2nd straight year. In fact, this 3 year surge in activity has been the strongest sustained period of production in almost a quarter century, according to Mark Ulmer at Standard & Poor's/DRI.

Agricultural equipment remained at strong levels this year due to favorable fundamentals in the farm economy. Increased acres planted and favorable weather conditions in major producing areas of North America resulted in historically high levels of production. And, as industry continues to retool worldwide, capital equipment buyers in 1997 still will source a substantial amount of new lathes, metal-cutting tools, cranes, industrial boilers, and all those other forms of machinery and capital equipment. Construction equipment demand rose 10% in 1997, a trend which should continue in 1998. Expenditures on highways and streets are anticipated to grow in 1998. So, look for another 7% to 8% growth in total heavy machinery production in 1998.

In fact, a highlight of manufacturing continues to be the astounding activity in the machine tool marketplace. As you know, metal-forming and metal-cutting machine tools are used to shape metal in making everything from golf clubs and small appliances to automobiles and aircraft. That's why, for many economists, the demand for these tools provide a key leading indicator of the future pace of manufacturing. Shipments of machine tools will be up this year by 20% to $5.5 billion. Industry insiders think 1998 will show yet another 8% to 10% growth. That would ring sales up $6 billion.

With strong orders for commercial airliners, the aerospace industry is expected to increase shipments by 17% to 17.5% again in 1998. And when you put space vehicles together with military and commercial aircraft, the economists are looking for another year of 19% to 21% growth in shipments. Motor vehicle shipments, which surprised the experts this year at 16.5 million units in the U.S. and Canada, now are seen rising another 2% or so next year - as the U.S. and Canadian love affair with light trucks and sports utility vehicles continues. Then there's demand for agricultural equipment, which remains very strong. Similarly, makers of industrial equipment are looking for continued healthy markets in 1998. While commercial and consumer equipment industry sales were somewhat slower this year than expected, a solid recovery is being forecasted for next year. And I don't have to tell you just how hardy computer and electronic equipment production has been, and is expected to remain.

The only cloud on the economic picture is the Far East, where a full-blown regional currency crisis is dealing a serious blow to the Asian miracle economies. The fear among economists is that the economic troubles in Asia might develop into something far worse, such as a global recession. They fear that currency devaluations and weak growth in Asia could reverse Canada's trade surplus and further increase the U.S. trade deficit.

While low prices for Asian exports would spur sales of their products in North America, Joel Naroff, Economist at the First Union Bank of Philadelphia, worries that flat Asian economies would create poor markets for more expensive U.S. and Canadian finished goods. However, Economist David Wyss, at Standard & Poor's/DRI, plays down the effects of Asian weakness on the overall U.S. performance, pointing out that Southeast Asia accounts for only 5% of U.S. exports. Declines in sales to that area will be offset by higher European sales with growth there stronger than expected, he says.

WHAT THE BUYERS THINK

Optimism abounds among the nation's purchasing executives. That's the word from the latest Semiannual Economic Forecast from the National Association of Purchasing Management. According to polled buyers, economic growth will be higher in 1998, and they expect a hearty 7.8% net increase in overall revenues. Norbert J. Ore, Chairman of the NAPM Business Survey Committee says, "Purchasing executives report a higher level of optimism for the coming year than they did a year ago with 88% of them expecting business in the first half of 1998 to be better than or the same as the second half of 1997."

Manufacturing production capacity is one of many indicators on an upslope, expected to increase 5.3% in 1998. Purchasers see capital expenditures climbing 14.9% in 1998 compared to 1997. On the manufacturing employment front, purchasers see an expanding work force in '98. The index reading of 62.5% is the highest since the NAPM included this prediction in December 1991.

The Director of Cahners Economics, Daryl Delano, detects symptoms of over-optimism, especially when considering the capital expenditure and employment readings from NAPM. "With capital expenditures and employment increasing at these rates, we'd see a spike in the GDP growth rate next year," says Delano. "This is contrary to the overwhelming consensus that the 1998 GDP growth rate will almost certainly decrease." He points out that a similar report from the National Association of Business Economics predicts only an 8.6% growth in capital expenditures. Prices will behave reasonably well next year. An overall increase of just 0.6% in material prices is expected for 1998. This extends the streak of year-to-year predictions made in 1995 and 1996 of less than 1% for the following year. The outlook for inventory-to-sales ratios is a favorable one as well. The sub-50% index reading (41.0%) is an indication that reductions are expected.

The import and export businesses are predicted to boom in 1998. The import index reading of 66.5% indicates a significant increase in business. Exports are expected to grow even more, with an index of 76%. Delano suspects these readings may be more evidence of "internal inconsistency" within the NAPM report. "Because of the strong dollar, we would likely get a surge in imports, so it's hard to imagine the trade gap not widening in 1998," says Delano. We can't have our cake and eat it too, according to Delano, who says, "To expect low inflation, rising exports, and higher employment is simply unrealistic."

When asked to identify their major economic concerns for 1998, purchasers cited rising labor and benefit costs atop their list. They plan on spending 3.1% more on labor and benefits next year. Directly beneath that was a weak economy, and tied for third were inflation and a strong dollar. Rising interest rates, occupying the number five spot, is also weighing on the minds of buyers.

II. METAL CHIPS: STEEL MARKET OUTLOOK

U.S. and Canadian apparent consumption of steel mill products is rising this year by almost 4.5% to 138 million tons. That's about twice the initial forecast of use for carbon, alloy, and tainless steel products. But, it's indicative of the underlying strength of demand in the U.S. and Canada.

That strength comes from almost 14% growth in production from the non-residential equipment, electrical machinery, and shipbuilding sectors. Then there's been an 8% demand growth from the business equipment, non-electrical machinery, trucks, fabricated metals, oil and gas-well drilling, and railroad products sectors. All that has more than compensated for only a 5% improvement in sales to the automotive, appliances, and construction products markets. Also note that there has been no significant evidence of excess inventory among end-user buyers, who are using whatever they order.

Latest outlook from World Steel Dynamics now expects U.S. steel industry shipments to rise almost 3% to 103.5 million net tons this year from an (industry-adjusted) 100.9 million tons in 1996. After adjusting for imports, exports, and stockpile modifications, it now appears that total end-use consumption will surpass the 120 million tons initially predicted by world Steel Dynamics.

Through September, for example, orders averaged a seasonally adjusted annual rate (SAAR) of 108 million tons. In the third quarter, orders boomed at a SAAR of 114 million tons. World Steel Dynamics' index of activity for 15 U.S. steel-consuming industries rose 6.7% between January and July. There is no significant evidence of excess inventory. End-users are consuming what they order and, through August, service center inventories averaged 7.1 million tons, or less than three months of supply.

Underlying steel demand is very strong in the U.S. In July, the short-leadtime capital goods component of the steel-consuming activity index stood 7.3% higher than a year-ago. This component is important because it commands a 42% share of the total index. It includes business equipment, non-electrical machinery, trucks, fabricated metals, oil and gas-well drilling, and railroad materials. Also note that long-leadtime capital goods (non-residential equipment, electrical equipment, and ship/boat building) comprise 26% of the index. That component had gained 13.8% its year-ago level. The remaining 22% of the index, based on consumer goods (automotive, appliances, and residential housing) declined a modest 4.2%.

Still, to put the steel market into perspective, we talked to Charley Bradford of Smith Barney, a long-time Steel Analyst with a distinctly conservative view. For example, we asked him what the market is like right now and he said:

"Clearly, most steel prices are lower. But, I say most, because I think some of the light bars, rebar, and heavy beams are still pretty strong. But, I wouldn't want to be a producer of any flat-rolled products these days, or even plate. I think it's not going to get better. It's going to get worse. It's not that demand is so bad, it's that there is excess supply. And that excess supply gets especially difficult in 1998 and 1999 in cold-rolled and coated; probably just 1998 as far as hot-rolled. There's some new hot-rolled capacity in 1999, but the real impact of the plants that started up this year and late last year will be felt in 1998 - as far as the new mini-mill hot-rolled producers.

"So, we asked Charley if North American steel demand was holding up?"

"Generally speaking, it is. There were some indications of weakness in the October order survey that we do. Nobody booked as much as capacity that quarter. They had been running well above capacity for more than a year. That's seasonally a bad month, so it's hard to draw conclusions. I've also looked at new service center data, which shows that inventories as of November 1 came down a little bit - 20,000 tons, not a lot - but that service center shipments were very, very high. And those purchases from the mills in October should have been pretty good. There are 23 shipping days in October and that implies a lot of tonnage by the service centers. Normal shipping days are more like 21 or 22. So, business isn't bad. But every time I turn around I hear that some automobile company or other is offering a new incentive."

"There are clear signs of problems - I mean, not just signs - clear problems in Asia. And those are going to back up on us. It's not that the Southeast produces much steel, because they clearly don't, but boy, they're a big importer. They're like 22% of Japanese exports for the first nine months...of 1997. Korea had also been a customer of some higher-grade products from Japan. They're going through some substantial difficulties, and that could all send steel into our markets. Europe remains pretty decent. Brazil, is another one however, that's blown up, and they had been a decent sized supplier to the U.S.. Because of the impact on currency and their attempts at defending their currency, they've raised interest rates very sharply. It sounds like the domestic economy is going to be hurt very badly. That becomes a real issue. They are a major supplier of steel to the U.S.. It doesn't look too pretty."

"Now the one thing that I think that is positive, is that the U.S. mills, especially the integrated mills, can cut back on their purchases of slabs, which last year amounted to 8 million tons. The slab price, for any of a couple reasons, remains so high that it doesn't pay to buy slabs to make hot bands - especially with the hot band price weak. So I think you'll see a lot less slabs imported into the U.S. and that will relieve some of the pressure on supply."

And, finally, when we asked Charley for his views on the attitude of end-users, he said:

"We're hearing about alot of people wanting to reduce their inventory before the end of the year because they're expecting lower prices. But next year seems to be very mixed. We're getting very good indications from construction. I'm not talking about single-family homes, but high-rise residential, office buildings are beginning to look a little better. Big question mark on the highway bill since it's tied up in Congress. Construction looks OK, automotive looks flat to down."

Still, a year ago, I spoke at the Steel Service Center Institute's forecasting conference and that's what everybody was saying then, too - flat to down. I'm not so sure how good the forecasts are. I mean, my forecast was definitely overly pessimistic initially for this year - it turned out to be a much better year."

III. FORGING NEWS: MARKET UPDATE - SUPERALLOYS

Superalloys use has exploded. U.S. demand for superalloys should bust earlier forecasts as latest estimates suggest double-digit growth for a second consecutive year. Indeed, business would be even stronger if superalloys metal processors were not already operating at full capacity. As it is, suppliers are having trouble keeping up with demand from airplane manufacturers.

Earlier this year, industry insiders cautiously predicted 6% growth in use of nickel-based, titanium-based, and other aerospace-grade superalloys to 160 million lbs. The guarded outlook for 1997 followed a 17% demand expansion in 1996. Updated insider outlook however, puts demand growth at 11% (to 168 million lbs.) in 1997.

"Demand is still quite strong," says Scott Wilczynski, Manager of Market Research at Wyman-Gordon Forgings Inc. in North Grafton, Mass. "The market is still hot." Tom MacDonald, VP/sales at Special Metals Corp. in New Hartford, N.Y., agrees that business is booming. He says that, "Between the new builds and the need for spare parts, things look really good for this year, and next."

Roger R. Threlfall, an Analyst with J.P. Morgan Securities in New York, describes the demand surge as "meteoric," noting that "Demand has gone from trough to peak in just five or six quarters." Early 1998 outlook from mill executives places growth in the 6% - 8% range (possibly hitting 179 million lb.).

IV. PURCHASING FOCUS: THE OUTLOOK FOR WORLD STEEL TRADE

Dramatic macroeconomic forces are boosting world steel demand, changing the structure of the global steel industry, and adding new supply of steel mill products. Steel economists caution, however, that too much new capacity, especially in developing countries, could disrupt the recent tranquility in international steel trade. And that, they say, could rekindle protectionism in developed nations such as the U.S.

"We have a good idea of what the supply side will be like over the next several years," says Ambassador Hans Colliander, Chairman of the Steel Committee at the Organization for Economic Cooperation and Development (OECD) in Paris. "The real challenge will be determining how overall and regional steel demand will evolve. Miscalculations about actual future needs now could lead to renewed trade wars later." According to Steel Analyst, Karlis M. Kirsis, "There are better steel demand prospects because the global economy is growing," spurred on by "reduced interest and inflation rates and the increased size of the developing world's economy."

Kirsis, Director of the World Steel Dynamics research unit at PaineWebber Inc. in New York, explains: "The increased transferability of technology is promoting capital spending on a worldwide basis. Also, steel intensity is rising due to factors such as more usage of steel in construction, pent up needs to build infrastructure, higher capital spending, and the warding off of threats from aluminum and plastic in the automotive sector."

The global steel trade topic remains important, according to Kirsis and other metals analysts, because it has been known to generate substantial heat in steel-buying circles in the past. The needs of buyers for competitively priced quality metal, no matter what the source, have been known to clash with the desires of local mills to protect home markets. "And there's no reason to think it can't happen again," Kirsis says.

Horst Buelte, President of the American Institute for International Steel in New York, says, "Steel imports get attacked by the U.S. mills whenever the integrated mills attempt to maintain their share of the market in the face of growing electric-arc furnace capacity." He also cautions that, "Just because the global steel trade arena has been relatively peaceful for the past four years doesn't mean there can't be a sudden explosion of activity that will disrupt existing steel-buying patterns."

Historically, the U.S. steel market has been subjected to trade disruptions whenever it was under attack by market-distorting trade practices, says Andrew Sharkey, President of the American Iron and Steel Institute in Washington. He cites a mix of foreign government ownership, enormous foreign government subsidies, high tariffs, and otherwise closed foreign markets as "Well-known anti-competitive practices", that sapped the strength of domestic mills. The dumping of foreign steel here in the 1970s and 1980s was real, he insists, adding, "There is no certainty that subsidized foreign steel won't be sold below cost here again if global supply gets away from demand."

Since new global trade agreements earlier this decade have eliminated most steel trade cartels and completely protected domestic markets, free-trade proponents, such as Buelte, scoff at what has become known as "AISI's trade paranoia." The spokesman for the steel importers says "Steel industry lobbying has transformed existing trade law into an instrument for industry protection that often winds up hurting domestic buyers more than the importers."

When U.S. demand rises, so do imports, still the U.S. mills have some valid concerns. In recent years, the thriving North American metalworking economy has been a haven for steel made in other nations where demand hasn't been as robust. In the first half of this decade, imports of steel mill products into the U.S. and Canada averaged just about 18.5 million tons/year. That was 17% of average annual consumption of 109 million tons between 1990 and 1994. However, as North American demand has risen by about 18% in the 1995-1997 time frame, imports have risen by 40%. So far in the second half of the '90s, imports are averaging less than 31 million annual tons. That's been equal to 24% of apparent average annual consumption of 129 million tons.

"That's why there's continued suspicion among many North American producers that foreign steel firms still are selling here at less than real costs, and having their losses subsidized by their governments," says Analyst, Thomas Abrams at First Boston.

As Sharkey of the AISI puts it: "There is concern about the steel products flooding the entire North American Free Trade Agreement-region from such 'nonmarket economies' as the Commonwealth of Independent States (CIS) countries and the People's Republic of China. If unchecked, this sharp increase in dumped and subsidized product will have a destructive effect on the domestic industries of the U.S., Canada, and Mexico." Note that Russia has been the largest steel exporting country since 1995, yet its capacity utilization rate is only 67%. If Russia and the Ukraine get the money to buy needed spare parts to repair existing plants, they could quickly add 30 million metric tons to annual world supply.

Domestic steel buyers source almost a fifth of their needs from foreign mills. They buy that much, they report, usually because some offshore commodity grades are cheaper or local supply of some products is tight. Gone are the days when the quality of foreign steel was better. Also generally gone are the days when offshore mills targeted the U.S. to unload huge tonnages of state-subsidized steel not needed in home markets. "Still, foreign mills have a foothold in the U.S. market that they're not about to abandon," suggests trade expert, Charles H. Blum, President of International Advisory Services Group in Washington.

By and large, steel trade has been a muted marketplace reality since the summer of 1973, when domestic mills failed to convince government trade officials products from offshore sheet mills were harming them. Except for a few flashpoints, such as carbon steel plate and stainless steel rods and bars, few new complaints have been filed with government trade officials. Yet, some domestic mill execs still contend that foreign-made steel is a lurking threat to the profitability of their firms. And some world trade officials now fear a revival of the "global steel wars" that buffeted the marketplace in the late 1970s and early 1980s.

That's because the world steel market is being confronted by a large expansion of new crude steel-making capacity in North America and Asia, and an overhang of overcapacity in the Russian Federation and the Ukraine. "The world steel market is fragile and threatened by concerns about oversupply in the future," says staff economist Akio Noguchi at the UN Economic Commission for Europe. Already, such new global players as Russia and China are developing North America and Western Europe as export markets.

Remember, not everybody plays by the same rules. While 18% of the U.S. steel mill products marketplace is supplied by foreign mills in an average year, this still isn't the case elsewhere. Only 7.5% of the huge European and Japanese steel markets are supplied by foreign mills. Brazil, the engine of the South American economy, allows only a 3% market share to outsiders. And China, which is competing with the U.S. to become the world's biggest steel market, slashed imports by 18% last year to boost its domestic steel industry.

This has made U.S. trade officials look at steel again for the first time in four years. "Sustaining a healthy economy requires a persistent effort to ensure that America's goods get fair access to markets abroad," warns U.S. Trade Representative Charlene Barshefsky. "Thanks to costly self-help efforts by the producers, the U.S. steel industry again is a world leader," says Sharkey of the AISI. "However, this progress could be quickly undone unless the U.S. maintains strong trade laws and continues to enforce them vigorously." That's why, he says, the domestic steel industry continues to lobby for a combination of international trade discipline and more effective U.S. trade laws.

World steel trade annually has amounted to an average 224 million tonnes for the past 3 years. That means that steel made in one country and shipped into other countries accounted for a bit more than a third of the average 650 million tonnes consumed in 1974-1976. This year, steel trade is rising by a solid 5%. "This kind of commerce qualifies international steel trade as one of the most important, yet least understood, topics in business," contends Metals Analyst, Thomas Abrams at Credit Suisse First Boston in New York.

In fact, a majority of steel buyers surveyed this summer feel the domestic mills and global economists are worrying about an inactive issue. Not so, says Wolfgang Hubner, Head of the Sectoral Issues Division at the Organization or Economic Cooperation and Development (OECD) in Paris. "In coming months, steel buyers should pay very close attention to global steel production, consumption, and trade trends," suggests Hubner. "Worldwide steel capacity may rise at a faster rate than consumption over the next several years, meaning that trade issues again will challenge the world marketplace."

Similarly concerned is Akio Noguchi, the Trade Division Official at the United Nations Economic Commission for Europe in Brussels, who says, "The world steel market is fragile and threatened by concerns about oversupply, which could bedevil attempts to negotiate new regional and global free-trade steel agreements." He points out that seven years of talks have yet to develop and implement a Multilateral Steel Agreement (MSA) that would end such government practices as trade-distorting subsidies, tariffs, and non-tariff barriers. Also fruitless have been talks between U.S. and European specialty steel producers toward a Multilateral Specialty Steel Agreement (MSSA).

So, looking ahead, market analysts suggest that buyers pay attention to these marketplace realities:

* The global steel industry is producing at a high rate of capacity; yet, outside North America, demand recovery has not been significant. The metalworking economy within the European Community is improved but not booming; the Japanese economic recovery may have stalled; and steel demand has suddenly slipped in Korea, Taiwan, and the smaller nations of Southeast Asia.

* Foreign steel deliveries to the U.S. are up sharply, and are threatening to bring down the pricing structure in the U.S. market. Russian and Ukrainian steel makers export to obtain cash to pay their workers.

* The world steel market is looking stronger for 1998, and world steel production is poised to rise significantly. Led by Mexico's recent 7% economic growth, and sustained improvements in other South American and European nations, investment capital is now available worldwide to build new metalworking and metal-supplying plants.

In fact, based on separate reports from the UN and OECD steel committees and the International Iron and Steel Institute in Brussels, PURCHASING now calculates that world steel demand will rise by 3% to 695 million tonnes in 1998 from 675 million tonnes this year. At the same time, production may jump as high as 804 million tonnes next year from the 1997 expected total of 781 million tonnes.

Happy New Year!

It looks like it's been Happy, Happy Holidays for North American manufacturing. Industrial North America has done well all year, and 1997 steel demand is beating the forecasts. When the economists look at 1998, they're planning a Happy, Happy New Year. In fact, next year's steel demand may just be the biggest ever. First, in this edition's expanded three-part Cover Story, we'll put the 1997 North American manufacturing economy under the magnifying glass. Then, we'll forecast metalworking activity in 1998. And, finally, we'll discuss the views of buyers polled by Cahners Economics. In the Metals Chips segment, we'll discuss the 1998 outlook for steel...and the reasons why, with Metals Analyst, Chuck Bradford of the Smith Barney brokerage house. And, in this special holiday edition, we'll add Market Update on the earlier forecasts for the use of superalloys in 1997 and 1998. We'll close out this edition with a Special Report on the outlook for world steel trade.

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