MetalsOutlook™ January-Febuary 2000

Publisher's Statement

Welcome to All Metals & Forge, LLC's MetalsWatch! and welcome back to reality!

The holidays are all but forgotten! Y2K was a big nothing. The Internet is a fact of life and is here to stay.The economy is on a rolling boil and interest rate hikes are scaring Wall Street.

And Tom Stundza (our executive editor of MetalsWatch!) is "high as a kite" on the US & Canadian economies. Let's read all about it and hope the bubble doesn't burst any time soon, even though Alan Greenspan raised the short term lending rate aggain on Feb. 2, 2000 by a quarter point.We'll just have to wait and see.

Welcome to Metals Outlook™ January-Febuary 2000

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January-Febuary 2000

I. THE U.S. EXPANSION

The nineties may be over, but the U.S. expansion isn't. America's gross domestic product has increased 58% since March 1991, and several economists now believe we have entered a virtuous circle that will keep spinning out good times for the foreseeable future. About six months ago, the U.S. Federal Reserve Board began raising interest rates to cool the economy. Today, there still are no concrete signs that the U.S. economy-with its consumer-powered demand and its drum-tight labor markets-is cooling off. Last year's rise in long-term rates had only a small negative impact on the housing demand-the economy's most interest-sensitive sector-and no discernible effect on the overall economy. "The economy is on fire," says Chris Rupkey, the Senior Financial Economist at Bank of Tokyo-Mitsubishi Ltd. in New York. And the latest evidence supports his opinion. The job market is tight. People still are building new and buying existing housing at a high rate. Carmakers say December sales were gangbusters, giving them a record sales year at almost 19 million units in the U.S. and Canada. And, early reports show that retailers, along with electronic-retailers, enjoyed one of the best Decembers of the decade. Also, the latest factory reports from the government and the nation's purchasing managers look strong. Plus, Y2K-related distortions, especially from manufactured product inventory gyrations, are now expected to impart little, if any, drag on first-quarter growth, even as foreign economies continue to shift into a higher gear.

In fact, one pleasant surprise for steel suppliers in 1999 was the big surge in auto production, to 16.1 million motor vehicles-including medium and heavy-duty trucks, in the U.S. and Canada, and 9.5% better than the previous all-time high of 14.7 million produced in 1997. That activity has kept steel mills rolling out high-quality product. Demand for sport-utility vehicles, in particular, has been so strong that some sheet-steel processing mills have been working at better than 100% of normal capacity. Automotive's steel demand is expected to cool because motor vehicle production is forecast to slip back toward 15.3 to 15.6 million units in 2000. Still, other steel using sectors, including office equipment, appliances, and construction materials, will continue to have a healthy appetite, as long as consumer confidence remains positive and durable-goods spending holds up.

So, it's not a surprise the North American steel market, especially the flat-rolled segment, is red-hot entering the new decade. New-order bookings are being reported at the highest level in more than two years. And that's allowing the mills to get higher sales prices on some key sheet products. In fact, the PURCHASING Magazine index that tracks steel buyers' three-month pricing expectations surged to 72.3% anticipating stable-to-higher prices in December and January, as compared with 44% for the previous 24 months. So, it's apparent that U.S. and Canadian steel producers are working hard to implement the series of price hikes they have been announcing. And, according to a new consensus forecast by a dozen metals market economists and analysts, buyers can expect these sheet steel prices to be higher as the second quarter moves along.

Some MetalsWatch! readers have chided me, gently, of course, that our economic outlook presentations have been a bit on the bullish side. Well, the fact is that the longest economic expansion in U.S. history lasted for 106 months, from February 1961 until December 1969. The current expansion, which began in March 1991, will match that record this month. And the latest report on the Index of Leading Economic Indicators, which showed a rise to a 40 year high in November, is a clear signal that the economy's expansion will continue this quarter - right into the record books. And there's been further recent evidence of the continued gains in household spending, including car buying and retail sales, which are resulting in a strong level of industrial activity.

First, amid very strong December sales, domestic and imported cars and trucks posted the highest yearly total on record: nearly 19 million vehicles. That tops the 1998 total of almost 17 million, which was the best performance since 1986, when sales surged temporarily in response to tax-law changes and heavy dealer incentives.

Second, holiday buying in December 1999, was exceptionally robust. Based on its check-clearing data, TeleCheck Services says that its measure of same-store sales from Dec. 1 through Dec. 31 rose 5.8% from the year earlier. That gain was down only slightly from the four weeks ended Dec. 24, suggesting that buying remained strong past Christmas. Indeed, the weekly retail survey by LJR Redbook Research shows that seasonally adjusted sales in the five fiscal weeks of December rose a sizable 1.8% compared with all of November, and sales strengthened after the final week's data was included. Canadian retailers also gleefully added up huge receipts after a banner Christmas shopping season that broke records. Growing consumer confidence coupled with a strong economy and low unemployment prompted more Canadians to fork over cash during the holiday season.

Atop all that, North American consumer confidence soared to a 31 year high in December, reflecting good feelings over the robust economy. So, with consumer demand so strong and foreign demand increasing, it's little wonder that the industrial sector continues to gear up. Although the National Association of Purchasing Management's December index of industrial activity dipped to 55.5%, from 56.2% in November, the decline was small, and the index for the entire fourth quarter averaged 56.1%. That was the best quarterly showing in five years.

While the purchasers said that orders and inventory growth slowed, they also reported that production and employment picked up. In fact, the U.S. employment index hit an 11 year high. Moreover, the index of prices paid also rose and delivery times slowed. Deliveries in December were the slowest since 1995, a sign that rising demand is starting to crimp the flow of goods through distribution channels. That has often been a precursor to rising pressure on prices.

NAPM also supplied further evidence that companies were not doing much last quarter in the way of precautionary inventory building for Y2K-related reasons. The purchasers' inventory index fell in December to a level indicating that stockpiles were actually falling. Also, NAPM said that many companies began to believe that Y2K, apparently, was going to be a nonevent. As a result, the feared first-quarter liquidation of heavy fourth-quarter inventories won't happen, removing a possible drag on economic growth.

In fact, government data now shows that factory inventory growth did pick up a bit in both October and November, rising 0.3% in each month. But that's still far slower than shipments. In the six months ended in November, factory shipments grew nearly four times faster than stock level, suggesting that further additions to inventories will be necessary in the first quarter.

Manufacturers of construction related goods are especially benefiting from the strong building sector. Construction outlays jumped 2.4% in November after price adjustment, with gains in both homebuilding and commercial construction. Housing activity ended 1999 at a high level. In fact, the National Association of Realtors now expects existing-home sales for 1999 to total a record 5.18 million units this year, which would be 4.4% higher the previous record, set in 1998, of 4.97 million units.

The Fed made it clear after its Dec. 21 meeting that after any Y2K worries had passed, a lack of any sign that demand was cooling off to a sustainable pace would very likely elicit further action on interest rates. Well, Y2K was a bust, and the economy is still red hot.

Note that the U.S. jobless rate held at a 29 year low of 4.1% as job growth and wages accelerated more than expected in December. Also note that government figures show that the economy added 315,000 jobs in December, the largest gain since July. The Canadian economy capped off a torrid year in December as it added another 43,000 jobs and managed to hold on to November's 18 year low unemployment rate of 6.9%. Atop that, the Labor Department says average U.S. hourly earnings rose 0.4% in December, more than 0.1% increase in November. The pool of available labor shrank in December as the percentage of population holding jobs rose to a record high. For all of last year, companies added 2.7 million workers to their payrolls after adding 2.9 million in 1998. Upshot: The number of people not in the labor force but desiring a job, and those Americans unemployed and actively seeking a job, fell to 9.3 million in December. That's lower than 9.8 million in December 1998. So, the percentage of the U.S. population holding jobs rose to 64.4% in December. Now, it's true that most of the new jobs created in December were in services, as retailers added workers for the holidays. However, construction employment also rose. Manufacturing jobs fell, but productivity in manufacturing rose.

These "rosy end of 1999" economic reports won't do much to ease the apprehension among Federal Reserve and Bank of Canada policymakers about inflation. So far, increased worker productivity has allowed companies to refrain from raising prices. So, the central bankers have been balancing a desire to allow the productivity gains to flow through to increased economic activity. To date, the economy has reduced the risk that the outsized demand strength and the resulting drop in the unemployment rate will engender higher inflation. Since labor represents about two-thirds of the cost of doing business, there's the possibility that companies will have to offer more pay or greater bonuses to attract workers. If that happens, buyers can expect companies to try to raise prices to offset those higher labor costs.

In fact, prices for one important raw materials group, steel sheet, are already rising. The reasons? Inventory drawdown among metalworking firms, a recent seasonal upswing in domestic orders, increases in world demand, plus a spate of trade cases that have reduced foreign imports to the U.S. and Canada. Higher scrap steel prices and new labor contracts are also pushing up costs for the steelmakers, and prices for buyers. The upshot is that steel mills already are lobbying for additional second-quarter increases on flat-rolled products.

II. THE STEEL DEMAND

The booming North American economy has pushed up demand for the steel used to make cars and trucks, appliances, construction products, and a myriad of industrial, commercial, and consumer products. In fact, more steel has been used annually in the U.S. over the past three years than ever before in peacetime. And at the same time that government-imposed tariffs have slowed the inflow of unfairly traded foreign imports, North American steel suppliers are expecting key end-use markets for hot-rolled, cold-rolled, galvanized, and painted to remain strong again this year.

Their optimism is based both on recent new-order bookings from distributors and end users, and such indicators as the Dun & Bradstreet's Industrial Sentiment Index. The latest D&B index shows that current conditions for production and orders in the North American manufacturing sector have been on an upward climb for four straight months since the summer ended. David Kresge, the Chief Economist for Dun &Bradstreet, tells MetalsWatch! that manufacturers, in fact, reported October through December to be the strongest quarter for growth in the past two years. He says D&B's indexes for current production, new orders, and unfilled orders have been moving up persistently throughout the year, and now stand substantially above their levels at the start of 1999.

Also note that the National Association for Business Economics now predicts the economy will slow a little next year but not enough to discourage a pickup in inflation. The economy will grow by 3.2% in 2000, down from an estimated 3.9% for last year. The survey of top economic forecasters also shows them forecasting inflation at the consumer level increasing at a still modest 2.5% next year, compared with an estimated 2.2% this year.

Now, having been blindsided by last year's red-hot auto market, these forecasters are skittish about making concrete predictions for 2000. But here's the middle lane: After increasing in 1999 to a record 16.1 million vehicles, auto sales are likely to ease 3% to 5% to between 15.3 and 15.6 million units this year. The actual numbers from economists and auto analysts range widely, between 15 million and 16.5 million vehicles. But even 15.3 million still would equal the second-best sales year in automotive history. Atop that, 2000 is expected to be the first full year that trucks - a category that includes minivans, sports utility vehicles and pickups, outsell passenger cars. And that's good news for steel suppliers, since SUVs, pickups, minivans, etc. use more steel per-vehicle than sedans.

Additional good news for steel use comes from the National Association of Appliance Manufacturers. A lot of people are building new homes, renting new condos and apartments, and rehabilitating existing dwellings. So, major appliance sales also have been a surprise. Instead of dropping 2% last year, as was expected by many economists, NAAM now says shipments actually rose by 8% to a record high 61.1 million units. And even the small slippage expected for this year, should keep shipments high at 60.9 million cooking, home laundry, home comfort and refrigeration units.

III. WHAT MAKES A SUCCESSFUL SUPPLY CHAIN STRATEGY?

In the first decade of the 20th Century, purchasing departments often accounted for barely 20% of corporate expenditures. As we begin the first decade of the 21st Century, procurement operations have responsibility for 50% to 70% of corporate expenditures. And one particularly important area of thinking directly affects the business of these purchasing departments. Essentially, it is an effort to win economic advantage by expert deployment of sourcing resources. In simplest terms, an integrated supply chain is a connected series of organizations, resources, and activities involved in the creation and delivery of value in the form of both finished products and services to end customers. Management of a supply chain involves the integration of all decisions that affect the design and flow of purchased items/materials/services into and through a corporate entity to finished products. Under supply chain management, internal and external materials decisions become part of a single sourcing strategy aimed at winning customers and increasing competitiveness.

Supply chain management deals with the integration of the processes required to deliver value to the external customer. Integration of processes involves linking the many steps along the way from determination of the product or service that the customer wants and needs to the creation of that new product or service. It does that through the use of a new product development process, which is linked to an order fulfillment process that assures delivery of that product or service anywhere in the world. Will integrated supply chain management actually be a significant driving force in North American industry? The answer to that question rests on the achievement of these seven essentials that every successful supply chain strategy must have:

1st - INFORMATION EXCHANGE
Flow of information that formerly was held secret needs to be formalized and used in strategies rather than used in sets of micro-decisions. Typically, questions such as these need to be asked in developing

the information exchange capabilities of the supply strategy: "If we have resources in our suppliers, do we need duplicate resources in our facilities? Or, is it possible to add value by combining some manufacturing operations?"

2nd - PARITY
In order to have organizations work together, all parties to the strategy need to be operating at similar knowledge and skill levels. In dealing with suppliers, it's impossible to have one firm working at a very high level of know-how and expect it to pass off work to another firm that is not at a comparable level of technical or business development.

3rd - SELF ASSESSMENT
Ability to do strategic self assessment internally and with key customers and suppliers needs to be provided for early in development of the strategy. These self assessments need to point up where the members of the supply chain are poor as well as strong. Self assessment has to be focused on strategy and practice, but also on objective performance indicators. Self assessment provides a platform for driving change in the organization, and as a result, it must be done as part of a continuous development and change program.

4th - MEASUREMENT
A major key to success in supply chain management involves development of common metrics related to effectiveness. Measures need to be aligned around effectiveness keys to gaining customers. In other words, measurements must be aimed at achieving what it takes to win customers. Instead of merely recording defective parts and missed deliveries, measurements need to be developed that measure such things as product development time, removal of cost, responsiveness/flexibility, quality.

5th - COST MANAGEMENT
The people in the supply chain need to know continually where the cost drivers are up and down the chain. Under supply chain management, there is no advantage to allowing managers to shift cost within a chain.

6th - INFORMATION SYSTEMS TECHNOLOGY
There is a great need for strategic information not normally associated with the traditional way data is collected, stored, and used. Firms that are not pushing ahead at a fast rate on information systems will plateau. They will reach a point where they will no longer be able to make significant breakthroughs in their integrated supply chains.

7th - LOGISTICS
This is a key competitive process in supply chain integration. In addition, a good flow of logistics information-especially demand/pull information-is vital. Competition in this area will require companies to have a combination of logistics capabilities that enables them to position inventory, move items direct to points of consumption at faster rates, and effectively use postponement strategies. Successful logistics processes will be those that globalize the function, minimize inventory on any kind of investment, and maximize the flexibility to respond to changing demand patterns.

Perhaps the most important thing that can be said about the whole subject of supply chain management is that the concept is complex and lends itself to the nostrums of bureaucrats and technocrats. Among those companies that appear to be well on the way to successfully implementing effective strategies, success seems to lie in combining a strategic overall plan with achievement of specific objectives.

IV. DESIGNER ALLOYS (tm) TAKES OFF...!

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After the melt, we can take the air or vacuum melted cast ingot or slab and further process your material to manufacture almost any mill form with certain size restrictions.

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• Forged Products - Bar - Shafts - Step Shafts - Blocks - Hubs - Rings (Seamless or Welded - Contoured or Conventional)
• Extrusions - Bar - Shapes - Tube - Pipe

• Wire

From Flat Cast Slab:
• Plate
• Sheet
• Strip
• Flat Bar

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