Publisher's Statement

What an exciting first half of the year this has been, Wow!

Steel prices going through the roof! Steel storages in all metal families!

Mill lead time going from 6-8 weeks out to 25-30 weeks, and not getting better!

Almost panic buying from the manufacturing world. And what about the manufacturing sector, everyone has a smile on their faces. If you’re not smiling you’re doing something wrong! These are almost like the good ole days, you better get with it before interest rates start going up by the 3rd quarter of this year.

Now read why business seems to on a rolling boil! Could it be CHINA!?!?!?

And now for MetalsWatch....

Welcome to Metals Outlook™ June 2004

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Tom Stundza's Comments

This is Tom Stundza, executive editor of Purchasing Magazine. Welcome to the June 2004 edition of Metals Watch - a newsletter that will key on an economy almost 7,000 miles away. That's because the recovery and expansion of the world's manufacturing economy isn't the story of metals this year. Instead, metals marketplaces worldwide are reacting to the supply and price gyrations that have been caused by China. First came China's seemingly insatiable need for industrial and construction raw materials. Then came the global shortages of steel, scrap, coal and iron ore. Now comes the Chinese government's attempt to cool the red-hot economy. All of these events have had or could have important global implications, economists say, on metals and other raw materials. U.S. Federal Reserve Chairman Alan Greenspan suggests that commodity prices in the U.S. are most likely to fall as China's growth slows, which will help restrain inflation throughout the western world. "Clearly, if the Chinese rate of growth slows down, we are going to see a backing up of some of those commodity prices," Greenspan tells Congress. John Surma, U.S. Steel's chief operating officer, agrees that a slowing of China's economic growth could make raw materials such as scrap for electric furnaces and iron ore and coke for blast furnaces more available to the global market. A shortage of these materials, caused in part by China's purchasing excesses, has depressed U.S. mill output, caused delivery delays and boosted prices to 30-year highs.

With imports down and demand up in the U.S., what's left of the U.S. steelmaking industry is, basically, operating at full capacity and, once again, is solidly in the black. That's because steel prices have jumped by as much as 60% since December, affecting everything from bridge girders to hinges. Contractors and
I. Cover Story: The Economy and China

Let’s start this month’s economic commentary by explaining how economic events in China have become so important to the U.S. metals marketplace? China’s economy expanded by 9.1-percent in 2003. That made the world’s sixth-largest economy a powerful-and disruptive-influence on such world commodities as iron ore, scrap, metallurgical coal, coke, alumina, nonferrous metals, alloying metals, cotton, plastic resins, chemicals, cement and lumber-among other materials. With even-stronger economic growth in the first quarter of this year, the double-digit price increases for scrap and metallic raw materials, carbon and stainless steel mill products, nonferrous metals and alloying materials again have been laid at China’s doorstep. Worried about the overheating national economy, China’s leadership team of President Hu Jintao and Premier Wen Jiabao this spring decided to pursue more sustainable economic development. So, the State Council has demanded a nationwide examination of such construction projects as automotive plants, commercial offices and shopping malls. And, there are plans to impose price controls on local governments in an attempt to curb inflation. These actions already have caused scrap metals prices to slide, and are expected to force some slippage in prices of world metal products in coming weeks. “A slowdown in China is going to have an effect on the entire global economy,” says economist Tim Condon, head of Asian financial markets research at ING Group in Hong Kong, “and that’s why there’s heightened interest in the possibility of a sharp slowdown.”

Premier Wen acknowledged recently that China’s booming economy was at risk of overheating, but stressed his government was taking action to ensure a “soft landing.” However, in a sign of the growing economic importance of China, a chorus of warnings is coming from U.S. economic experts about the impact of the impending slowdown in the Asian economic powerhouse. “China represented only a modest four percent of world gross domestic product last year, yet it accounted for fully 13 percent of the world’s growth,” note Lehman Brothers economists Rob Subbaraman and John Llewellyn. “And China’s importance is even greater: increasing world industrial output is even greater in importance. China consumes between 20 percent and 40 percent of many major raw materials.” So, Morgan Stanley’s chief economist Stephen Roach says, “The global impacts of the coming slowdown in China cannot be taken lightly. When today’s Chinese economy sneezes, Asia and possibly even the rest of the world could well catch a cold.”

Morgan Stanley economist Richard Berner in New York believes fears for the U.S. economy may be overblown. “A slowdown in China’s economy would have important implications for the U.S. economy and financial markets,” according to Berner. But, contrary to fears that a significant slowdown in Chinese growth will trigger economic and financial turmoil, he see only limited U.S. fallout. “Unless it is truly a hard landing,” he says, “a Chinese slowdown would only nick U.S. economic growth.” Nonetheless, some economists are saying the U.S. should be prepared for the worst if China were to suffer a hard economic landing. "Should China’s economy falter, the rest of the world would suffer,” says Sung Won Sohn at All Metals & Forge - Steel Forging Center, Alloy Information, Stainless Steel, and News of the Metals Industry
Sixth, supplier quality improvements tracked as reduced parts-per-million defects in key commodity groups. They are components, printed circuit boards, metal, chassis, cables and software and print.

Because of its importance in the manufacture of stainless steel, nickel often is seen as leading the metals complex at key turning points. It has, in fact, fulfilled that role during the current cycle. Nickel led the metals complex during the rally from 2001 and prior to that, in the first extract price then nickel prices have declined by more than 40 percent. Nickel has a healthy demand-driven outlook, because of expected increases in stainless steel consumption in the U.S. and Europe. So, relatively low inventories may mean market deficits and higher prices through 2005.

II. Purchasing Focus: One Company’s Story

National Instruments is a $400 million global provider of virtual instrumentation, a concept that leverages the personal computer and related technologies through software and modular hardware for data acquisition, instrument control and machine vision. The firm has manufacturing sites in Texas, Ireland and Hungary. Last year's annual purchasing tab of $110 million is about $10 million less than in 2002 due to the metrics dashboard generated through the company's Oracle E-Business Suite 11i software system. All purchasing transactions for both direct and indirect materials pass through the system. To help ensure integrity of the data, Mirelez and his team conduct buyer audits twice a year. The metrics, particularly those related to price and inventory levels, are closely aligned to goals of the company's manufacturing operation. In turn, they are tied to procurement performance. They also relate back to supplier performance, which procurement regularly grades via scorecards.

There are 28 metrics National Instruments on the performance dashboard. The company's commodity managers keep the closest eye each week on six. They are:

First, worldwide average leadtimes for 25,000 part numbers at the manufacturing locations in Texas, Hungary and Ireland. Over a two-year period, the firm has been able to reduce leadtimes by 15 percent to 15 days. Mirelez credits this success to procurement's use of the dashboard, which provides commodity managers with increased visibility of the numbers. With the data, the team has consolidated the supplier base, moving some part numbers to better performing suppliers. They renegotiated contracts and introduced supplier-managed inventory for some items. They increased minimum order quantities and purchased parts in bigger sized lots. The firm also now uses such third-party market research reports as Purchasingdata.com's Leadtime Index.

Second, global inventory days, which is a measure that encompasses inventory turns, days on hand and dollar levels for raw materials, finished goods and work in process. In November of 2002, turns took 147 days. By the end of last year, procurement had worked to reduce the metric by 12 percent to 128 days.

Third, worldwide supply shortages of part shortages in the various plants. “Although demand for our products has continued to increase, this metric is holding steady in what we think are supply-tightening times,” says Mirelez.

Fourth, there's the supplier count. National Instruments has a base of 3,200 suppliers (of direct and indirect materials and services) worldwide, which is down 21% from a year earlier. Increased visibility has helped procurement determine which suppliers the company actively does business with; commodity managers weeded out inactive suppliers. To help reduce the number of new suppliers, procurement created a ramp up process, which requires commodity manager sign off to add a new supplier.

Fifth, worldwide price and cost reductions, even in the face of rising commodity prices. Not only does procurement negotiate annual contracts against corporate milestones for price reductions for production materials, it also has cost avoidance goals for its indirect spend, which the team easily met. For 2004, its Worldwide Price Goal is set at $4 million. Cost avoidance is $2.5 million. The plan is to work closely with engineering to find alternative cost-savings materials or design new parts for existing products.

Sixth, supplier quality improvements tracked as reduced parts-per-million defects in key commodity groups. They are components, printed circuit boards, metal, chassis, cables and software and print.

Thanks for your time and hope that you have enjoyed reading MetalsOutlook™. Don't forget to subscribe so that you won't miss an issue.