All Metals & Forge Group
OPEN DIE FORGINGS & SEAMLESS ROLLED RINGS

973-276-5000
f: 973-276-5050 toll free: 800-600-9290
Send Request for Quote

ISO9001:2008 & AS/EN 9100:2009 Rev.C
PERRY JOHNSON REGISTRARS, INC.
send to a colleague
contact us

MetalsOutlook™ July 2005

Welcome to Metals Outlook™ July 2005

Lewis A Weiss
Publisher
Comments to Publisher: publisher@steelforge.com

All Metals & Forge Group, LLC
330 Changebridge Road
Pine Brook, NJ 07058
USA

Phone: 1.973.276.5000
Fax: 1.973.276.5050
Toll Free: 1.800.600.9290
http://www.steelforge.com
E-mail: info@steelforge.com

printer friendly | email a colleague | send feedback | subscribe to MetalsWatch

July 2005

I. COVER STORY

This is Tom Stundza, executive editor of Purchasing Magazine. Welcome to the July 2005 edition of Metals Watch! The big summertime is whether the U.S. manufacturing sector is gaining momentum. That would be a sign that demand for U.S. products is growing�and signaling an imminent improvement in demand for steel and other production materials. However, different surveys of purchasing executives are producing differing soundings on the state of manufacturing. Some economists suggest an imminent increase in summer manufacturing activity due to growth in new orders in late spring. And now, a new pricing battle is revving up in Detroit�since the success of General Motors' "Employee Discount for Everyone" program has prompted similar consumer sales offers from Ford and Chrysler. And that has some analysts predicting a surge in motor vehicle assembly this autumn. However, while some government reports indicate orders for durable goods have turned north, the fact is that new-order bookings for core durable goods�that is, orders for everything but the highly erratic commercial aircraft sector�actually have remained depressed. In our Cover Story, then, we�ll look at the state of the manufacturing sector�and its impact on steel. Anecdotal information says the industrial sector has been expanding for just over two years, but market statistics in recent months that growth has been slowing. In fact, manufacturing appears to have taken the spring and summer off, according to economists and 60% of the buyers polled in June by Purchasing Magazine. So, it�s not so surprising that 72% of the steel buyers are delaying purchases because of the continued weakness in metalworking sectors Then, in our Metals Chips segment, we�ll discuss why spot-market prices for steel mill products continued to slide in June for the ninth straight month. Since fewer than half of the buyers polled in June reported any recent metalworking growth, only about half of the buyers expected to show active purchasing through the third quarter. And the vast majority of the buyers were anticipating even-lower pricing in the weeks ahead. An interesting note is that steel shipments into the U.S. from emerging markets have been rising even as domestic demand and prices have been slumping�which actually has increased downward pressure on market prices. It also has prompted U.S. steelmakers to cut production to hold on to whatever pricing power they still possess. More imports help U.S. manufacturers of everything from appliances to auto parts, which have been hurt by the high cost of steel and other raw materials. Now, some industry observers believe a projected further drop in U.S. steel prices could discourage the world's steelmakers from shipping even more mill products into the U.S. in coming months. But, for now, since imports typically lag behind price trends, the U.S. has become the market of choice again, as China becomes more self-sufficient and prices decline worldwide

Finally, in this editions� Purchasing Focus, we�ll discuss why executives the world over are recognizing that effective procurement strategies are the highroad to cost savings and competitiveness. An IBM global survey of three hundred senior executives--including 95 chief procurement officers, or CPOs--demonstrates the crucial and rapidly rising importance of procurement in the supply chain. In fact, 64% of the execs surveyed say enhancing procurement strategies would generate greater savings for their companies, while driving future growth and competitiveness.

II. COVER STORY: WHERE�S MANUFACTURING?

What has buyers confused is a recent barrage of economic commentary that U.S. steel demand is solid when there is acknowledged softness in the automotive sector, declining shipments to some commercial and consumer equipment and machinery sectors, and a four-year slump in nonresidential construction markets. Analysts such as Michael Gambardella at JP Morgan Securities in New York believe that first quarter gross domestic product data, which was revised upward slightly, indicates that demand for steel remains healthier than many believe. He adds that �there is no evidence to indicate that demand for steel is going to fall off a cliff any time soon.� However, even the steel industry now is acknowledging reduced shipments to steel service centers, automakers, machinery builders and appliance makers. New order momentum for fabricated and durable goods has declined in recent months, agrees Mark Parr, steel analyst for KeyBanc Capital Markets in Cleveland, who adds that �high oil prices, a strengthening dollar and rising interest rates do not bode well for a dramatic pickup in end demand.�

Near-term steel demand is weak, and so is the pricing environment, due to overbuilt inventories that could take as long as six months to eliminate, agrees steel analyst Parr. Inventory correction for flat-rolled steel has been slower to materialize than expected, he says, noting that mills and service centers remained well stocked heading into June, with mill inventories of sheet products actually looking higher year-to-date through April. Even analyst Gambardella admits that �high steel inventories remain a headwind in the near-term.� However, he�s a big fan of the so-called �new supply discipline� among steel producers that is expected to accelerate the drawdown of service center sheet inventories in coming months. What�s he�s talking about is that such large steel producers as Mittal Steel USA and U.S. Steel have announced substantial production cuts equaling 3 million in annualized output. Similar production-cutting actions have been taken globally by European steel giants Arcelor and Thyssen Krupp Stahl either by idling swing capacity or moving forward planned maintenances of blast furnaces.

Meanwhile, Commerce data shows that while total construction spending remains strong when compared with a year ago, it has been down recently. That�s why steel shipments to construction industries have been off lately. Sill, American manufacturers are boosting spending on new plants at the fastest pace in several years, an indication that the sector remains healthy enough to be adding new capacity�or, more likely, replacing aged and inefficient plants. During the 12-month period that ended in May, spending on construction in the manufacturing sector rose at a seasonally adjusted annual rate of 24%. The Census Bureau says the current spending on manufacturing construction is still far below the $40 billion annual record set in the mid-1990s. Yet, any non-residential construction rebound "is a hopeful sign," says economist Donald Norman at public-policy group Manufacturers Alliance/MAPI in Arlington, Va. "There is a lot of investment in companies abroad, but we are still alive and kicking" here in the U.S. That�s why David Huether, the chief economist at the National Association of Manufacturers, says the construction spending means "the recovery in manufacturing has gone on long enough for companies to start expanding capacity." In addition, Huether says the pressure on companies to increase productivity also is driving construction. Simply put, manufacturers have to invest to be competitive.

All this activity soon may help boost fourth quarter demand�and firm up late-2005 pricing�for plate and structural steel products. At least that�s the view of analysts such as Brett Hoselton at KeyBanc Capital Markets, who says the Big Three's move to employee-discounting programs significantly improves the outlook for U.S. light-vehicle sales in the third quarter and North America production and automotive-sector steel demand in the final quarter.

III. Metal Chips: IMPORTS & PRICING

JP Morgan analyst Gambardella suggests that lower levels of imports combined with production-reduction actions by U.S. steel producers will allow the North American steel market��in particular the sheet products arena��to come back into balance by the fourth quarter of 2005. That should set the stage for a rebound in sheet steel prices sometime later this year, he says, when excess service center inventories have been worked off. Other analysts disagree: Chris Olin of Longbow Research in Cleveland, for example, says the production cutbacks have yet to gain traction and are too little, too late in a climate of "eroding domestic steel fundamentals." Gambardella�s belief that imports will fall quickly also looks to be a minority view. "Our market is not as protected as it was," agrees steel analyst Timna Tanners at UBS Investment Research in New York. "It's all well and good if certain producers in the U.S. decide to be more disciplined," she says. "But, ultimately,� she adds, �if our prices stay higher than the rest of the world because of the discipline, we will attract imports."

Actually, four-month steel imports into the U.S. are 23%higher than a year earlier. So, a one-month decrease in imports in May probably won�t moderate price volatility for most steel products. Steel analyst John Novak at CIBC World Markets in Toronto also believes an increase in imports remains the single biggest risk factor for the domestic steel industry, particularly given that anecdotal reports have suggested that the domestic steel market is the highest priced globally. The recent growth of imports is likely a reflection of higher U.S. 2004 steel prices, according to Michelle Applebaum, a steel-industry consultant based in Chicago. That would explain the big surges coming from Russia, China and Brazil for all kinds of steel products�including the semi-finished steel ingots and billets that are turned into final products in U.S. steel mills.

China's government is trying to encourage consolidation and prevent overcapacity in certain markets, such as automotive. Such moves have helped soften Chinese steel prices and caused more steel to be sent to the U.S., especially as ocean-freight rates have receded from the highs of last year. John Surma, chief executive of U.S. Steel Corp. and chairman of the American Iron and Steel Institute, says the recent surge of imports means Washington trade authorities need to monitor a situation that poses a threat to "this industry and the entire U.S. manufacturing base." The AISI is lobbying for continued tariffs on imports, government subsidies and restrictions on exports of key raw materials, as well as lobbying against what it considers "unfair tax rules." But the Precision Metalforming Association, a trade group of manufacturers that make steel-related products, said members want more imports of hot-rolled and cold-rolled steel and are lobbying against trade protections. "There are dozens of unnecessary import duties on steel products in places that continue to distort the U.S. market for steel," says Bill Gaskin, president of the Cleveland-based group. However, he complains that the U.S. steel industry again was granted protection in June when the government�s Trade Commission voted to retain stainless steel duties on imports from six countries. �Steel-consuming companies employ approximately sixty times as many Americans compared to those employed by the steel industry,� he says, �yet the consuming industries continue to face U.S. trade policies that put them at a disadvantage against their overseas competitors.�

IV. PURCHASING FOCUS

When we come back, in Purchasing Focus, we�ll discuss a new survey that finds procurement has grown in prominence much faster than many other functions and learn why worldwide sourcing of direct materials now tops the list of procurement strategies.

Welcome back to the July edition of Metals Watch, and our Purchasing Focus on why the role of procurement personnel is also undergoing a very fundamental change -- from buyers to negotiators, and from transactional order placers to strategic business managers. According to the new IBM study, as technology enables global and often borderless commerce, worldwide sourcing of direct materials now tops the list of procurement strategies. Sixty per cent of survey respondents cited China as their number one destination for supplies, and said they are planning to increase procurement volumes and upgrade sourcing capabilities in that country. Eastern Europe and South Asia ranked second and third, respectively. To respond to the new procurement dynamic, CPOs must equip their staff with needed skills and expertise and "must do so in record time," the IBM study suggests.

Significantly, CPOs surveyed ranked staff improvement initiatives highest among their strategies to enhance procurement performance. The top three strategies were all people-focused -- management and retention of talent, upgrading people skills, and training staff to improve core procurement skills. One aspect of such skills upgrade is capability sourcing, the study says. It said instead of merely negotiating the price of a particular transaction, "procurement personnel must understand nuances of the capability in question, and have the ability to assess a broader variety of factors." Capability sourcing means being able to apply a holistic business perspective when choosing vendors, looking at the long-term implications of supplier partnerships, the IBM study says.

While outsourcing procurement may bring key benefits to an organization, certain factors need to be considered before embarking on such initiative, according to Joanne Friedman, CEO of Toronto-based business technology management firm ConneKted Minds Inc. She says companies looking to outsource supply chains should "not lose control" over their relationship with their suppliers. "While they may be outsourcing their supply chains, they have to remember that not all trading partners are created equal,� she says. In effect, there are large suppliers and smaller suppliers. So, even with new procurement technology in place, what hasn�t changed is that supplier partnerships have to accommodate the needs of the many suppliers and not just the few large ones, she adds.

Well, that's all for this edition of Metals Watch. This is Tom Stundza, executive editor of Purchasing Magazine. Good day.

All content ©2013 All Metals & Forge Group, Inc.

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.

To Send a Request for Quote, please Click Here, call 973.276.5000, or fax (973) 276 - 5050

Copyright © 1994-2013 L.A. Weiss All Rights Reserved Site Map

All Metals & Forge Group, LLC.
75 Lane Road
Fairfield, NJ 07004 USA

Toll Free: 800-600-9290 Fax: (973) 276 - 5050