

Statement of
Thomas A. Danjczek
President
Steel Manufacturers Association

at

United States International Trade Commission
Section 332 Hearing

on

Competitive Conditions in the Steel and
Steel Consuming Industries
During the First Fifteen Months of the
Administration's 201 Steel Safeguard Program

June 19, 2003

I am Thomas Danjczek, President of the Steel Manufacturers Association. The Association is the trade group representing the North American minimills, scrap based electric arc furnace (EAF) steel producers – companies that produced more than half of U.S. steel output in 2002. We have 39 company members with 119 North American steel-making plants, widely spread across the continent. Overall, U.S. raw steel production totaled 101.6 million tons in 2002. The EAF share of the U.S. steel production has risen extraordinarily, from about 15% thirty years ago to approximately 50.8% of U.S. raw steel production in 2002. Electric arc furnace steel producers now account for the preponderant share of U.S. steel production, and that share will continue to grow. The SMA represents nearly 100% of the electric furnace industry including structural producers, wire rod producers, rebar producers, minimill plate producers, minimill hot rolled producers, and a high percentage of special bar quality producers.

Reasons for Growth

We have continued to maintain our growth recently through performance. A significant number of our minimill plants now have the highest productivity (man-hours per ton of steel produced) in the world, some as low as under four tenths of a man-hour per ton. On average, minimill, scrap-based productivity is double that of ore-based integrated steel producers. Steel producers in almost all other countries seldom achieve average unit labor costs below those of U.S. minimills, due to the extraordinary productivity of U.S. minimills. Energy consumption per ton of steel produced in U.S. minimills is only about one third that of the integrated ore-based steel makers, across the world. Electric furnace steel production accomplishes the world's largest recycling achievement, the highest unit productivity, and lowest energy consumption per ton. It is clearly the most desirable form of world steel production.

Markets and Trade Issues

In year 2002, the U.S. steel market totaled approximately 117 million net tons of finished steel products. The U.S. steel industry shipped approximately 99.5 million tons of finished steel in 2002, including 6 million tons of exports, and incurred imports of finished steel products of 23.5 million tons. U.S. producers provided 80% of the steel consumed in U.S. markets in 2002, and finished steel imports accounted for 20.1%, very nearly comparable to the 20.3% share taken by imports in 2001, prior to implementation of the Administration's 201 safeguard program in 2002. Note from the data presented in Table I on the next page that finished steel imports have declined very little since the year 2000, measured by their share of the U.S. market. They have ranged between 20.1% and 22.3% of the market. So our industry would like to know where is the evidence alleged by some importers and consumers that the Section 201 program has dried up the supply of imports? Moreover, steel imports covered by the Section 201 tariffs were only about 5% of US apparent consumption in 2001.

Table I – Year 2000, 2001, & 2002 Selected Steel Industry Data
(in millions of net tons)

Production	2000	2001	2002
Pig Iron Production (000,000 N.T.)	52.8	46.4	44.2
Raw Steel (total) (000,000 N.T.)	112.2	99.3	101.6
Basic Oxygen Production Process	59.5	52.2	50.0
% of Total	53.0	52.6	49.2
Electric Arc Furnace Production	52.8	47.1	51.6
% of Total	47.0	47.4	50.8
Continuous cast (incl. above)	108.2	96.5	98.8
Rate of Capability Utilization (%)	86.1	79.2	86.0
Mill Shipments			
Total steel mill products (000,000 N.T.)	109.0	98.9	99.5
Carbon	101.5	92.3	92.6
Alloy	5.4	4.8	4.8
Stainless	2.1	1.8	1.9
Exports (000,000 N.T.)	6.5	6.1	6.0
Imports (000,000 N.T.)	40.0	30.0	32.5
Carbon	32.3	25.3	27.6
Alloy	4.5	3.9	4.8
Stainless	1.2	.9	.9
Trade in Steel Mill Products			
Imports excluding semi-finished	29.4	23.6	23.5
APPARENT STEEL SUPPLY EXCLUDING SEMI-FINISHED IMPORTS (000,000 N.T.)	131.9	116.4	117.0
Imports excluding semi-finished as % apparent supply	22.3	20.3	20.1

Data in the table above for the year 2002 were estimated for the full year, based on 11 months of actual data through November, 2002. Note that the U.S. market for steel (apparent steel supply) declined 11.3% in 2002 from the year 2000 level, while the steel imports' share of apparent consumption declined from 22.3% to 20.1% of the market, a 9.8% decline in the market share of imports, compared to the 11.3% decline in the market itself. The 201 program, therefore, has had little negative impact on the access of imports to the US market.

U.S. Steelmaking Capacity

It should be noted that U.S. steel making capability is in a clear downward trend due to the vast reconfiguration of the domestic industry taking place. Here are the domestic raw steel production capability figures:

Year	2000	2001	2002
U.S. Steelmaking Capacity (millions of net tons)	130.4	125.4	114.0

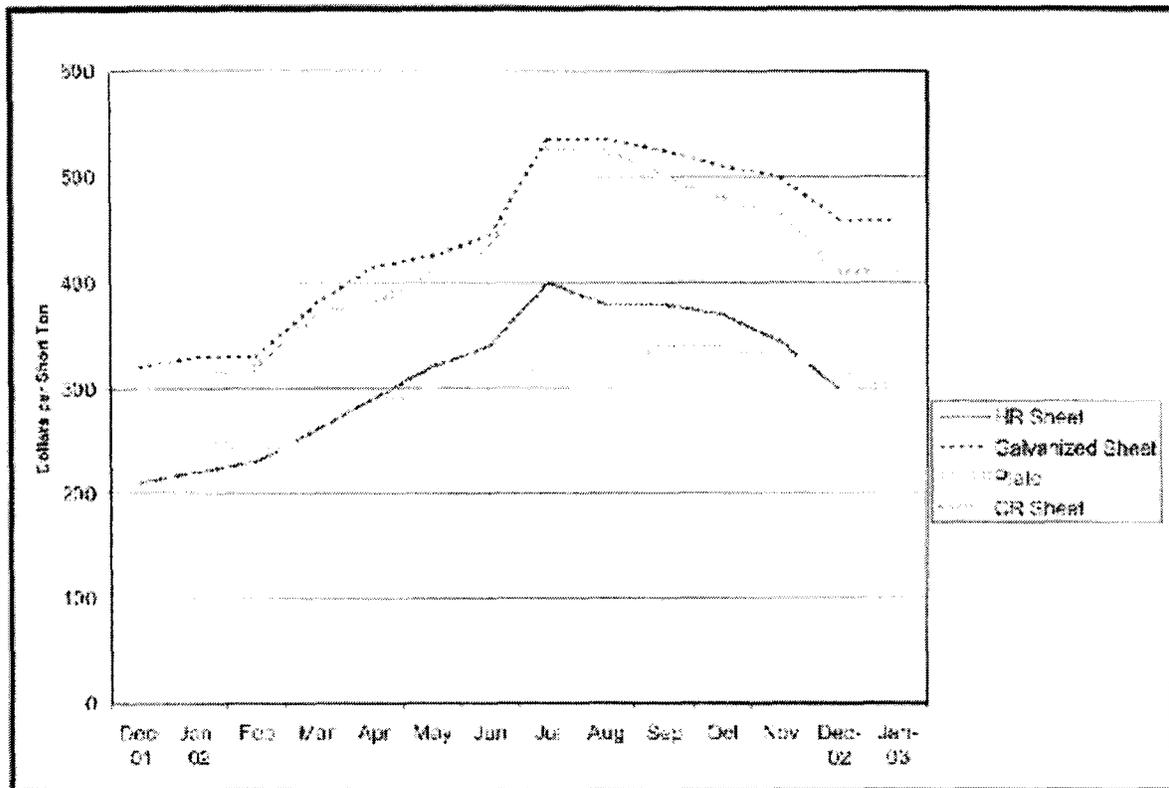
The data show a 12% drop in U.S. raw steel production capability from year 2000 to year 2002. Some of this capacity is returning to production as some of the more efficient plants come back on line with far less capitalization per ton and greater productivity enhancing labor agreements. This was not the case before they were reorganized. We do not wish to include bankrupt steel plants resuscitated with U.S. government subsidies on the list of the more efficient plants returning to service. We have urged the Administration to reject loans or guarantees to such steel companies with a record of failure, asserting that such loans most likely will never be repaid, and will only prolong the drift to inevitable permanent shutdown. We reiterate that the permanent retirement of inefficient obsolescent plants has been a primary objective of the U.S. Government during the 201 adjustment period both in the U.S and abroad. Preservation of such plants through U.S. government subsidies is a policy anomaly that should be corrected. Their prolongation of subsidized production will benefit neither the US economy, steel producers, nor steel consumers.

Steel Demand and Prices

Included as Appendix A^a to this submission are independent press report on steel markets and prices issued by *Purchasing Magazine* in March, April or May 2003. These reports confirm the low levels and weakness in US steel prices currently, under the 201 program. Unquestionably any temporary increases in such prices after the 201 tariffs were imposed were due to the multiple tenuousness of production operations by domestic steel companies, mainly resulting from historically high import world disruption. Approximately 15 million tons of flat-rolled capacity (20% of the existing domestic capacity base at the start of 2000) was closed in the 18 months from September 2000 to December 2001. This was the major cause of any diminution in supply and the temporary price increases which occurred in flat rolled prices after March 2002, after the 201 safeguard program was implemented. Due to restructuring and consolidations, we expect three quarters of this lost supply will be back on line by the middle of 2003. Moreover, as the chart below (*Chart I*) demonstrates, flat rolled product prices have declined 20% to 26% from their temporary surge level in mid-2002, caused by domestic capacity shutdowns, not as we have said, due to lack of access to imports.

^a Appendix A – Steel Flash Reports: Markets, prices stagnant. *Purchasing Magazine*. March 31, 2003; April 30, 2003; and May 31, 2003.

Chart I – Flat Product Spot Prices, December 2001 – January 2003

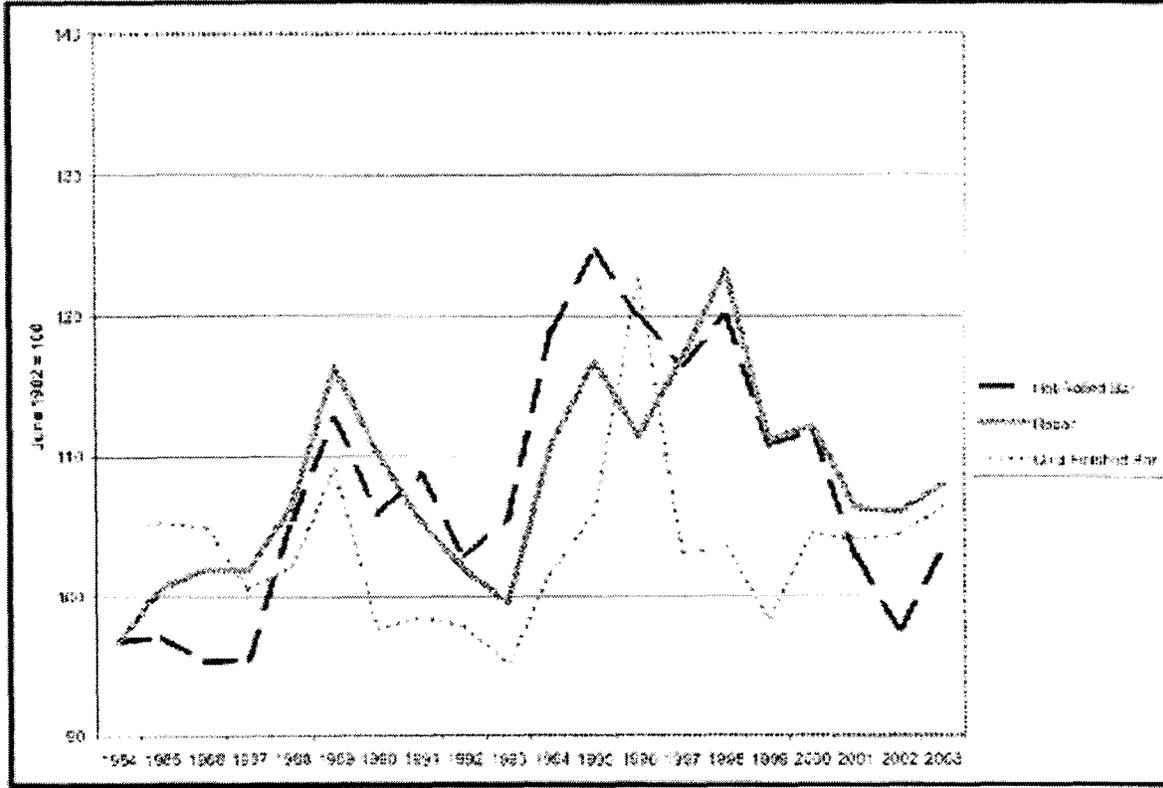


Source: *Steel Flash Reports*, *PURCHASING MAGAZINE*.

On the long products side, almost all of which are products supplied by the electric furnace minimills, there have been significant capacity closures on order of eight million tons of melting and rolling facilities. A significant number of these mills have been purchased, and with new streamlined financial structures and more competitive labor agreements, are coming back on line. In addition, there have been significant acquisitions of long product companies by other minimills, as the drive toward consolidation under the 201 program continues. Accordingly, even in the most efficient sector of the U.S. industry, significant adjustment has already occurred.

However, as the following chart shows (*Chart II*), Department of Labor, Bureau of Labor Statistics data on the long products covered by the 201 import duties affirm that very little price relief accrued to the benefit of long product producers on these long products.

Chart II – Long Product PPIs, January 1984 – 2003



Source: Bureau of Labor Statistics, U.S. Department of Labor, *Producer Price Index Revision – Current Series*, PCU3312 # 422, 425, 8, Blast furnaces and steel mills (2003).

What the Steel Industry Is Doing to Adjust Under 201

Here is a brief compendium of what is now occurring across the entire spectrum of the U.S. steel industry, and in particular, the minimills, to adjust to the challenges of a global steel market, and to the deep and persistent swings in the business cycle.

- We are making more efficient use of inputs including manpower, energy and raw materials;
- We are streamlining our business organizations to make them leaner and unlayered;
- We are providing meaningful financial production incentives to our workers to increase productivity;
- We are making more effective use of available capital to ensure better returns per investment, and to maintain debt ratios that are viable in a cyclical industry;
- We are developing new technologies for on-line in-plant applications, to the extent capital availability permits;
- We are avoiding, and indeed opposing, the provision of government subsidies, whether in the form of loans, loan guarantees, debt bailouts, or more indirect forms of subsidy;

- We are structuring to achieve high variable cost/low fixed cost ratios to attain maximum flexibility in steel markets of high market cyclicalilty.

The Steel Industry is Moving in the Right Direction

The industry is going through massive structural changes, including major shutdowns, as well as mergers and acquisitions of historic economic significance, all of which are on the public record, and thus, need not be reviewed here.

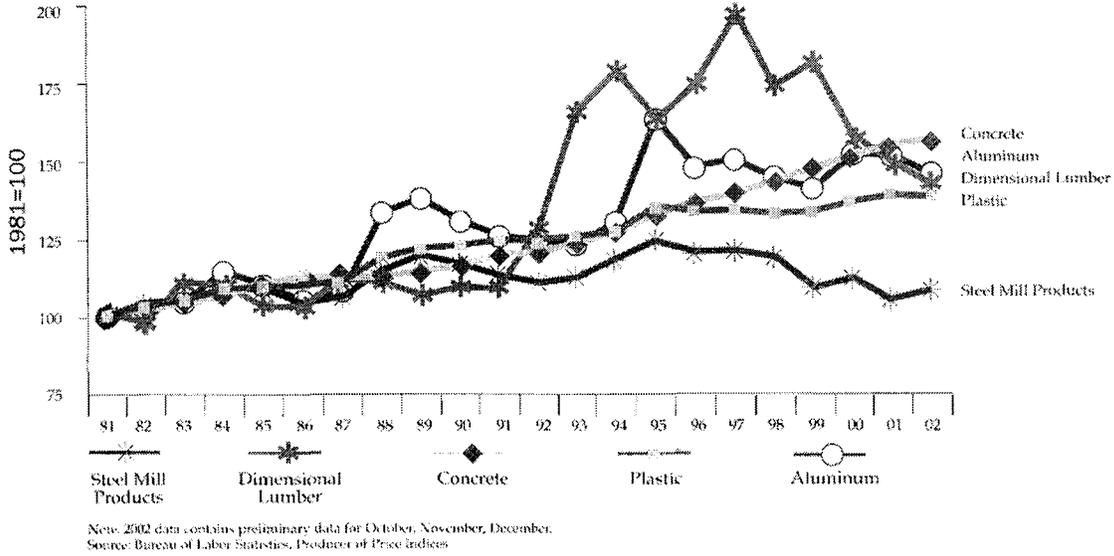
The result has been a much more favorable balance between supply and demand in the United States. While this balance varies from product to product, the aggregate demand versus capacity figures show a modest inadequacy in domestic supply particularly during periods of peak market demand. Insofar as the U.S. and world steel industry are concerned, this is a healthy supply/demand balance. In fact, North America is the only major steel market in the world with capacity and demand in balance, yet we have the largest national negative trade balance in steel. We are not the cause of the world overcapacity in steelmaking, but the target for getting rid of world excess supply, in an attempt to solve the excess capacity mistakes of other countries.

As a key component of these massive changes, electric furnace steel producers are moving in the right direction with respect to cost reduction, service to consumers, efficiency, environmental stewardship and many other measures. Yet, the reverse has occurred regarding the most important measure of success: return on invested capital. Despite some financial success of a few companies in the industry, the U.S. steel industry, like its counterparts around the world, is not earning its cost of capital. As a result, the market value of all steel companies, relative to cash flow and book value, is depressed. Accordingly, despite all it has done and continues to do, the industry is still in jeopardy, having lost much of its access to capital.

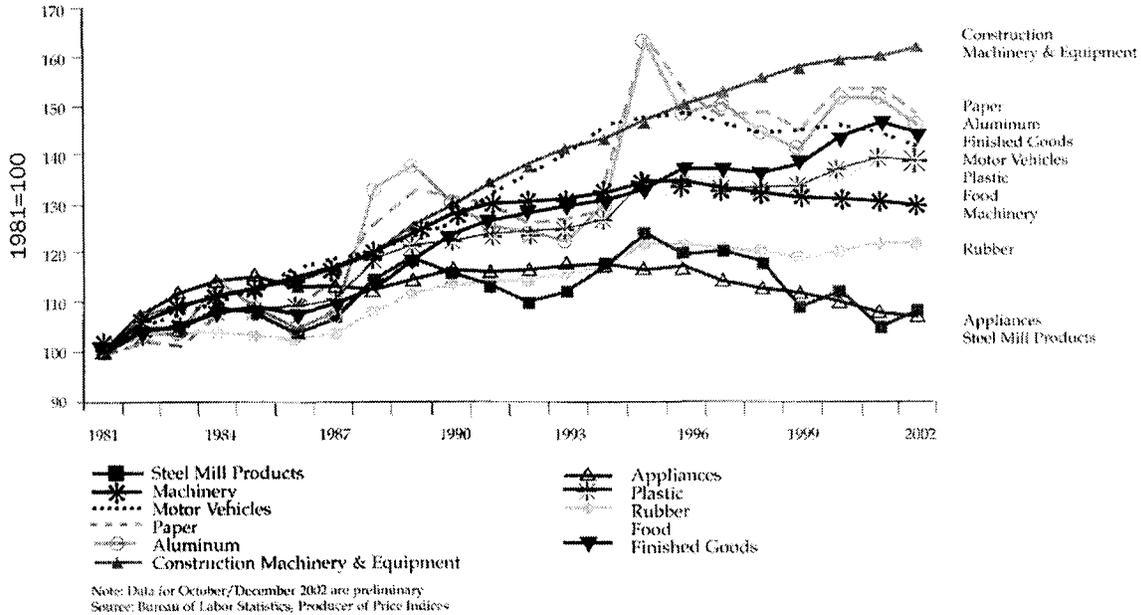
What About the Allegations of Some Steel Consumers That the Section 201 Program Has Adversely Affected Their Competitive Position?

First of all, approximately 79% of the US steel imports are not subject to the 201 tariffs. Secondly, we believe that the two charts set forth below based upon US Government data rebut the allegations of some importers and consumers that they are being abused by the effects of the steel safeguard arrangement:

Steel Prices Have Increased Much Less Than Substitute Products Over the Past Two Decades



Prices of Steel-Consuming and Other Goods Have Increased While Steel Prices Have Either Declined or Remained Constant



Implications For Public Policy

All US manufacturers have a legitimate complaint about the negative effect so their competitive capability of an overvalued dollar. But, if domestic steel users promote public policies that

continue to decimate their on-shore steel supply, they will rue the day they made a public outcry about a legitimate safeguard arrangement designed to resuscitate the industry.

The European Union (EU), Japan, and Korea still have steel-making capacity substantially in excess of domestic requirements. Eastern Europe has gross over-capacity. In South America capacity is far in excess of domestic requirements. During the years 1998-2000, the average percentage of imports to U.S. consumption was approximately 30%, a level that helped to bankrupt 32 U.S. steel companies.

During a period of economic downturn in the U.S., and with massive foreign steel-making capacity far in excess of world steel demand still depressing the world steel industry, this is not the time to change course on U.S. national steel policy. The Section 201 safeguard program should remain in place for the full three-year period originally announced. Anticipated recovery of the U.S. economy will result in higher U.S. steel capacity utilization, creating further capital investment to implement needed cost reductions, to improve quality and expand U.S. steel markets. Alternatively, early termination of the 201 program most likely will trigger sharp increases of imports at marginal cost prices from the usual world sources of excess supply . . . and a replay of the destructive 1998-2001 steel industry disruption scenario will reemerge, fully negating the benefits emanating from the 201 program. We wish to avoid this result, which could irreparably damage the industry's adjustment as well as the US steel supply. We hope, and believe that the US International Trade Commission concurs.

Appendix A:

May 30, 2003

Steel Flash Report: Markets, prices stagnant

Tom Stundza, Executive Editor, Purchasing Magazine

Buyers report that market prices for flat-rolled steel retracted in May in the face of weak demand strong supply. Price tags were especially weak for hot-rolled sheet in coils--which averaged \$260/net ton in the Midwest. That's \$20/ton less than the April average and the lowest monthly price since March 2002, the month that President Bush imposed hefty Section 201 tariffs on numerous types of imported steel. End-user buyers reported cold-rolled sheet in coil at \$380/ton, also a \$20 decline from the previous month. And, the spot-market price for hot-dipped galvanized sheet dipped \$10/ton to an average \$410. As a market basket, these sheet steel products cost 10.25% less in May than they did in January.

More than one service center buyer reported that hot-rolled coil "is down to \$240/ton, FOB the mill," which prompted market analyst Charles Bradford to comment: "It is pretty evident that the increase in deliveries came at the expense of price cutting." That's because latest-available data from the American Iron and Steel Institute shows that first quarter steel shipments of 26.04 million net tons represented an 8.8% increase from the 23.94 million tons shipped during the same period in 2002. And it probably was tonnage the marketplace didn't need—especially of hot-rolled coils, since shipments were particularly strong, up 35% in the quarter.

Actually, in the month of March, domestic mill steel shipments surged to 9.12 million net tons—as compared with 8.3 million tons in the year-ago month. "This 9.7% increase clearly reflects the restarting of capacity by International Steel Group and Nucor," says Bradford, the head of Bradford Research Inc. "Some steel mills seem to finally reacting in (April and May)--with International Steel Group reducing output at its Cleveland plant, says Bradford, who adds: "But this isn't enough, in our opinion, to bolster prices anytime soon" That's because Metal Service Center Institute preliminary data says that flat-rolled inventory averaged 3.9 million tons in the first quarter, equal to 4.5 month's worth of demand. That's the same amount stockpiled as in the final quarter of 2002; in fact, the inventory is higher than it has been in recent years because shipments in the six months since last October have failed to attain the volume of January-September, 2002.

Sheet mills have low order backlogs—especially from the automotive sector, which is adjusting assembly because of large light vehicle inventories at the dealerships. Steel service center executives confirm that mini-mills can deliver hot-rolled sheet in two weeks, and the major mills can do it in three weeks. PURCHASING has confirmed what Peter Marcus of World Steel Dynamics has been reporting: Spot sheet prices are under heavy downward pressure for sales to mid-sized steel service centers. While quotes for June-July deliveries do vary widely, the mills' price to service centers is about \$250-260/ton for hot-rolled band--with special lower deals for very large orders; down to the \$340-360 range for cold-rolled coil, and only \$20/ton above cold-rolled coil for galvanized coil, with the "extras" discounted by about 50% in some cases.

"There will be no quick turnaround in the goods-producing part of the economy," suggests economist Thomas Duesterberg at the Manufacturers Alliance/MAPI business

research group. The metalworking economy still is mired in a period of reduced demand for steel-fabricated products. That's a continued drag on a manufacturing segment mired in such structural problems as overcapacity and weak corporate profits that make reinvestment difficult. Also not good news is the latest purchasing managers' metals business index of 54.9, which continues to inch closer to that 50.0 barrier that separates growth from contraction. That's also why exactly 90% of the sheet buyers polled in May expect to see flat or weaker pricing in June.

The magazine's online Business Survey also finds buyers' 90-day price expectations shifting into bullish. Reason: While supply pipelines continue to be lean, the demand-outlook survey shows anticipated demand for steel commodities dropping in the summertime months ahead. Leadtimes—the average delivery speeds for commodities—also appear to be reversing trend from rapid stretching a few months back to moderate shrinking, which indicates that supply growth rates are starting to outpace demand growth rates. That's a classic recipe for lower prices.

Hand-to-mouth buying continues in the steel plate marketplace by buyers who don't fear supply shortages anytime soon. That's because to-date 2003 demand for products fabricated from plate has been weaker than expected. In fact, carbon, alloy and stainless steel plate purchasing is on a pace to drop 10% from the annual consumption average of the past two years to the lowest annual buying volume since 1993. Analysts suggest there is little chance of a purchasing recovery in the foreseeable future. And several steel plate executives now admit that earlier forecasts of renewed sales growth have been pushed into next year. Reason: Only about a third of the steel buyers polled by PURCHASING in May plan to increase monthly bookings of plate through summer. May's coiled plate price dropped to \$280/ton from a downwardly revised \$300 in April. And barely 5% of the buyers polled in May expect any price inflation in the weeks ahead.

Domestic suppliers of wide-flange beams continue to press buyers for price increases to offset high energy and scrap costs, but demand for the structural steel goods is down. First quarter supply is up, because of increased shipments from domestic mills and slightly higher imports. But, overall purchasing is down, so beam inventories have risen at the distribution link of the supply chain. At the current low levels of non-residential construction, U.S. capacity to make structural steel exceeds demand for the product. As a result, domestic producers of structural steel products are operating at less than full capacity. Imports of structural products have declined from a year ago as the dollar has weakened against major currencies, but actions by U.S. producers to maintain market share versus imports, combined with overall demand and supply conditions, created intense competitive pressures on structural steel prices.

This year's prices for structural steel products were just above \$300/ton through April. Recent price increases for structural products instituted to offset higher scrap and energy costs appear to be holding though, so structural product was \$325 in May. That's probably a peak, -- and could soften as energy/scrap prices slide. Note: Beam prices averaged \$347 in 2002, and the analyst David Wright at BMO Nesbitt Burns says the chances of beams getting back up to that level this year are nil. Also, just 9% of the metals buyers polled in May believed higher prices would be in effect through the whole summer

Items:	2002						2003					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Hot-rolled steel sheet (Midwest, \$/ton)	340	400	380	380	370	345	300	300	280	280	280	260
Cold-rolled steel sheet (Midwest, \$/ton)	435	525	525	500	480	465	410	410	400	400	400	380
HD galvanized steel sheet (Midwest, \$/ton)	445	535	535	525	510	500	460	460	440	440	420	410
Coiled steel plate (Midwest, \$/ton)	320	320	320	340	340	330	320	300	310	310	300	280
CF steel bar (grade 1018 carbon, \$/ton)	460	480	470	482	497	490	460	460	475	475	465	490
Structural beams (A36 W8 wide-flange, \$/ton)	350	340	340	345	345	340	320	305	300	300	300	325
Low-carbon wire rod (Midwest, \$/ton)	315	300	308	310	320	320	320	305	290	300	310	320
Concrete reinforcing bar (#6, Midwest, \$/ton)	307	304	300	300	306	300	290	280	270	280	300	310
Stainless steel sheet (Type 304, \$/cwt)	62.05	62.05	62.05	62.05	63.65	62.30	62.30	60.40	61.45	61.45	61.45	59.23
Steel scrap (auto bundles)	122	128	135	138	135	125	120.5	129	139	142	142	142
Steel scrap (#1 heavy melt, Chicago, \$/ton)	85	87	85	85	90	90	95	95	99	103	105	102

****DATA UPDATED 05/30/03****

April 30, 2003

Steel Flash Report: Markets, prices stagnant

Tom Stundza, Executive Editor, Purchasing Magazine

Steel prices in the U.S. weakened slightly in April because of feeble demand from construction and manufacturing segments at a time when supply was being expanded by restarts of idled capacity. Steel distributors anticipate further slippage in coming weeks, and so do buyers.

The recovery in the North American steel economy continues to be deferred. Optimists had their fingers crossed, hoping that the rapid end to the war in Iraq would herald a full-fledged economic expansion after over two years of mediocre growth. However, various gauges of manufacturing conditions have continued to sink this spring, dashing hopes for a swift postwar industrial recovery. That's because the overall economy still is mired in such structural problems as overcapacity, high consumer debt, and weak corporate profits that make reinvestment difficult. That's why the latest survey of purchasing managers' metals business index slipped of 55.7 in April--very close to that 50.0 barrier that separates growth from contraction.

That's also why nearly 90% of the sheet buyers polled in April expected to see flat or weaker pricing through July. In fact, all flat-rolled steel mill products were conspicuously missing from April's month's price risk list--PURCHASING's list of commodities for which sellers wield greatest pricing power. That's probably because even some steelmakers now expect the second quarter to be "equally challenging" to the first, where price increases flopped and stockpiled steel rose. Buyers suggest there's no surprise that steel industry earnings remain depressed in an environment of declining spot sheet selling prices, weak demand trends, and relatively high energy costs.

Metal buyers overall generally agree that metalworking factory activity isn't quite ready to rebound. For the second consecutive month, less than half of the buyers polled still expect to increase metals orders during the next three months while only 15% endorsed a growth strategy in April for metals inventory through mid-summer.

Hot-rolled sheet in coils sold to end-user buyers averaged \$280/net ton for the third straight month. It's bound to slide in May, though, since service center buyers pegged hot-rolled band in a range of \$265 to \$270 per net ton, F.O.B. the mill, for May deliveries. Some market reports put May and June deliveries of distressed (secondary quality) sheet and big buyer sales as low as \$250-260/ton. End-user buyers reported cold-rolled sheet in coil at \$400/ton for the third month, but buyers at processing distributors reported sales at \$380-390/ton. As the slowdown in automotive assembly went into gear in April, the spot-market price for hot-dipped galvanized sheet dipped \$20/ton to \$420.

Nucor's chief executive, Dan DiMicco, admitted to analysts that softer flat-rolled steel prices will continue to be "definitely a negative" for the Charlotte-based steelmaker and its supply peers in coming weeks. Steel demand is soft and growth will be slow in both the U.S. and Canada. This is becoming a year where steel prices and demand haven't met earlier expectations of improvement in North American markets.

Markets that suffered the most in recent years—generally related to business investment—have bottomed out. Markets that remained strong in the face of a manufacturing slowdown—consumer markets such as autos and appliances—have run out of gas, and will suffer modest declines in 2003. Another factor impacting price is the fact that the Sudden Acute Respiratory Syndrome (SARS) epidemic in Asia is crushing demand—and pricing—in the world’s largest regional steel market. That is increasing supply—and downward pricing pressure—on flat-rolled products in Europe and North America.

Earlier, there were a spate of price increases being announced for flat-rolled products, with virtually all U.S. and Canadian mills announcing increases of \$20-to-\$30 per net (short) ton. It has been the same in Europe, with several mills announcing an increase of £10 per metric ton on all strip products after April 1. However, the speculative buying bubble burst in China. So, with trading activity in Mainland China very low, traders say North America is looking increasingly attractive as an alternative market. That’s because demand in Europe remains too weak to accept much tonnage or a price hike. In the U.S., prices benefited only briefly from the Chinese buying boom and it is apparent that announced increases in sheet prices of \$20-30/ton have been unsuccessful.

Nonresidential construction and durable equipment spending will stay near current, depressed levels for most of 2003, then turn upward sometime in 2004. Structural, rebar, and other long products should be the primary beneficiaries. However, steel buyers generally rejected DiMicco’s contention that improving prices for steel bars and beams would occur soon, if not already. He and other mill executives suggest that beams are up \$30/ton since January.

Service center buyers say beam prices were increased by another \$15/ton across the board on all sizes in April. However, construction industry buyers didn’t pay any more in April (\$300/ton) than in February or March, and only 15% of the buyers of light and heavy structurals foresee higher salestags through July.

Similarly, only 19% of the carbon, alloy and stainless bar buyers see inflation in their future. Cold finished steel buyers say sales prices slipped \$10/ton in April to an average \$465. Reinforcing bar did increase slightly (\$5/ton) to an average \$285, but nowhere near the \$320-325 per net ton, F.O.B., including extras, being reported by some mill sales forces. Wire rod remained at \$300/ton, on average, although it was pricier in the Chicago area (\$310) than in the Detroit-Pittsburgh belt, the East Coast and Mid-Atlantic region (\$290). Market sources say the Midwest price could settle at \$310 for May deliveries, but East Coast prices remain depressed at \$290-300/ton.

Items:	2002							2003				
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Cold-rolled steel sheet (Midwest, \$/ton)	410	435	525	525	500	480	465	410	410	400	400	400
HD galvanized steel sheet (Midwest, \$/ton)	425	445	535	535	525	510	500	460	460	440	440	420
Coiled steel plate (Midwest, \$/ton)	300	320	320	320	340	340	330	320	300	310	310	305
CF steel bar (grade 1018 carbon, \$/ton)	440	460	480	470	482	497	490	490	460	475	475	465
Structural beams (A36 W8 wide-flange, \$/ton)	350	350	340	340	345	345	340	320	305	300	300	300
Low-carbon wire rod (Midwest, \$/ton)	300	315	300	308	310	320	320	320	305	290	300	300
Concrete reinforcing bar (#6, Midwest, \$/ton)	289	307	304	300	300	306	300	290	280	270	280	285
Stainless steel sheet (Type 304, \$/cwt)	62.05	62.05	62.05	62.05	62.05	63.65	62.30	62.30	60.40	61.45	61.45	62.12
Steel scrap (auto bundles)	117	122	128	135	138	135	125	120.5	129	139	142	142
Steel scrap (#1 heavy melt, Chicago, \$/ton)	85	85	87	85	85	90	90	95	95	99	103	106

****DATA UPDATED 04/29/03 ****

March 31, 2003

Steel Flash Report: Markets, prices stagnant

Tom Stundza, Executive Editor, Purchasing Magazine

Prices for flat-rolled steel are stagnating in the face of increased supply, dormant end-user demand and high stock levels. With carbon steel sheet prices stuck in March at February levels there are fresh doubts on attempts by producers to boost prices by \$30/ton for second-quarter shipments. Purchasing's buyer survey for March put Midwest hot-rolled sheet at \$280; cold-rolled sheet at \$400, and hot-dipped galvanized sheet at \$440. Coiled plate at \$310 also was the same spot-sales price as in February.

Buyers indicated that late first quarter prices for hot-rolled sheet have been in a range of \$270-\$290/ton, and even Keith Busse, CEO of Steel Dynamics Inc., sees the early second quarter price range no higher than \$280-\$300. With capital spending paralyzed by the war with Iraq and manufacturing showing continued weakness, steel demand is simply not there to support a price increase anywhere near \$30/ton. Competition is fierce for the business that does exist.

This supports the views of steel buyers, who have been telling Purchasing for weeks now that demand was so weak that no substantial spot price increases should be expected in the second quarter. "Raw materials can't be going up when prices for end products are declining," says the sourcing manager for an electrical products firm in St. Louis, Mo. In a nutshell: Distribution-level customers still have excessive high priced inventories, end-user consumption remains soft and total inventories aren't being adjusted downward fast enough.

Metal buyers continue to indicate concern that metalworking factory activity isn't quite ready to rebound. For the second consecutive month, only 43% of the buyers polled expect to increase metals orders during the next three months while only 17% endorsed a growth strategy in March for metals inventory through June. This fits with the views of some analysts that--without a widespread economic recovery--steel prices will likely remain weak until the traditionally stronger fourth quarter.

Market analysts now suggest the steelmakers may have helped undermine their own effort to raise prices by restarting mills that had been shut earlier when several firms declared bankruptcy--thus, boosting supply in a tepid market. Steel mill operating rates peaked at 96% of capacity last autumn and have averaged 86% in the 26 weeks since.

(A key reason steel prices rose by an average 15% in 2002 was that close to 12 million annual tons of capacity was taken out of circulation. However, almost all the capacity that was shuttered in 2001 have been purchased and restarted, including the former LTV operations in Ohio and Indiana and the Acme Steel plant in Illinois bought by International Steel Group, and Trico Steel and Birmingham Steel, both of Alabama, bought by Nucor Corp.) Note that Charles Bradford of New York-based Bradford Research told the trade sub-committee of the U.S. House Ways and Means Committee on March 26 that the higher capacity utilization has led to today's lower prices.

The industrial economy isn't faring very well, according to 63% of the buyers polled in March. Buyers report that new orders for metalworked durable goods, those products meant to

last three years or more, fell again. Capital spending also continued to struggle. So, the manufacturing economy, which slumped in February, apparently weakened further in March, and the steel economy has slowed to a crawl. Note that production of factories is up just 1.7% in the past 12 months. So far this year, capacity utilization of the nation's industrial facilities is under 76%, which is far below the 81.3% averaged in the past 30 years.

Items:	2002									2003		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Hot-rolled steel sheet (Midwest, \$/ton)	290	320	340	400	380	380	370	345	300	300	280	280
Cold-rolled steel sheet (Midwest, \$/ton)	380	410	435	525	525	500	480	465	410	410	400	400
HD galvanized steel sheet (Midwest, \$/ton)	415	425	445	535	535	525	510	500	460	460	440	440
Coiled steel plate (Midwest, \$/ton)	285	300	320	320	320	340	340	330	320	300	310	310
CF steel bar (grade 1018 carbon, \$/ton)	440	440	460	480	470	482	497	490	490	460	475	475
Structural beams (A36 W8 wide-flange, \$/ton)	355	350	350	340	340	345	345	340	320	305	300	300
Low-carbon wire rod (Midwest, \$/ton)	290	300	315	300	308	310	320	320	320	305	290	300
Concrete reinforcing bar (#6, Midwest, \$/ton)	280	289	307	304	300	300	306	300	290	280	270	280
Stainless steel sheet (Type 304, \$/cwt)	62.05	62.05	62.05	62.05	62.05	62.05	63.65	62.30	62.30	60.40	61.45	61.45
Steel scrap (auto bundles)	105	117	122	128	135	138	135	125	120.5	129	139	142
Steel scrap (#1 heavy melt, Chicago, \$/ton)	82	85	85	87	85	85	90	90	95	95	99	103

****DATA UPDATED 03/31/03 ****