

Industry Update

March 2011

It is not unusual to see prices increase just after the Chinese New Year, but this year many of the increases preceded it. There was general expectation that prices would be going up as steel continues to get more expensive. This steel increase was caused by several events. The floods in Australia and South America have interrupted the normal flow of iron ore from the mines to the seaports. Especially in Australia, where the flooded area is more than double the size of Texas. Flooded rail lines are preventing the ore from reaching the ports. Flooded roads have hampered workers getting to their jobs. Australia is also a major source of coke and coal, needed for the production of steel. Most of the normally huge stock piles of ore have been shipped and have resulted in additional price increases.

Domestic steel mills have increased their prices 6 times since November, 2010, for a total increase of 20-30%. Much of this increase has been in sheet steel, but wire rod follows closely. Steel is steel and when one segment goes up, all segments follow. There has been some significant steel mill mergers or talks of mergers. In Japan, Nippon Steel and Sumitomo Metals Industries have merged. This merger has created the #2 steel producer in the world, second only to ArcelorMittal of Luxemburg. Number 3 is Baosteel in China and number 4 is POSCO in Korea. China Steel in Taiwan ranks about # 11-12. In addition to steel plant mergers, the coal industry is seeing some of the same action. Recently Alpha Natural Resources and Massey Energy have merged making them the #3 world producer of metallurgical coal used by steel makers.

We have seen the low carbon C1008 steel in China increase almost monthly since July 2010, for a combined increase of 26%. Taiwan steel has increased but not at the same rate. Taiwan has a different problem and it is with the US dollar. Importers buy in dollars, so as the dollar gets weaker against world currencies, the result is prices go up. In recent months the US \$ has gotten about 8% weaker against the TN \$ in Taiwan. That causes factories to receive 8% less for their products. There is speculation that the US \$ might continue to weaken another 5-7%. China has had ongoing problems with electricity in some geographic areas. Several of our suppliers have had to reduce their production 1-2 days a week to conserve electricity. It has not gotten bad, but has affected the on-time delivery of some of our parts. Labor costs in China are rising at a fast rate, especially near the urban factories. That's why we are seeing some factory migration to Vietnam.

