

North American Steel Industry Recent Market Developments, Future Prospects and Key Challenges

OECD Steel Committee

June 8-9, 2009

Paris, France

*

American Iron and Steel Institute (AISI)
Steel Manufacturers Association (SMA)
Specialty Steel Industry of North America (SSINA)
Canadian Steel Producers Association (CSPA)
Mexican Steel Producers Association (CANACERO)

Presentation Summary

I. NAFTA Economic Conditions and Outlook

II. NAFTA Steel Market Conditions and Outlook

III. NAFTA Steel Trade Challenges and Concerns

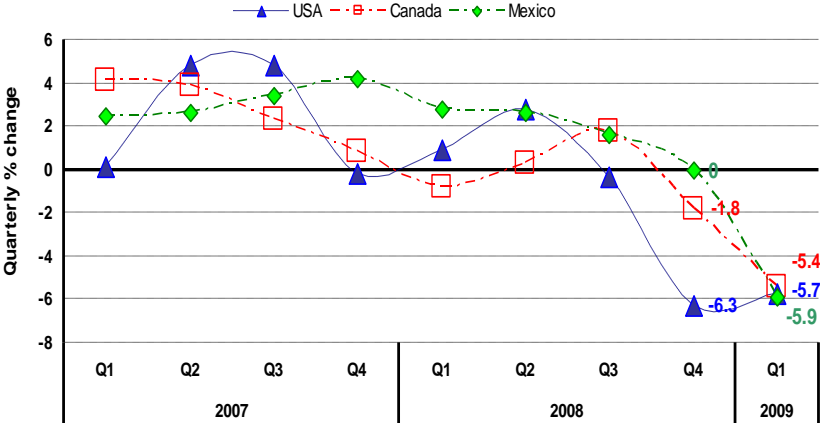


I. NAFTA Economic Conditions and Outlook



NAFTA Region Continues in Serious Recession

NAFTA Real GDP Since 2007



Sources: Bureau of Economic Analysis (US) , Statistics Canada, Canacero



Economic Analysis & Trends

United States

- GDP declines to continue through at least 2Q09. Negative GDP this year for 1st time since 1991.
- Rate of economic decline may be decelerating, but unemployment could hit double digits.
- Major drags on growth include financial system, business investment, consumer spending.
- Housing inventory overhang and automotive bankruptcies/uncertainties must be resolved.

Canada

- Deep economic problems of late 2008 have intensified in 2009.
- Severe job losses slightly reversed in April, but unemployment still at 8%.
- Business credit availability remains tight.
- 2009 budget deficit forecast at \$50 billion, including \$12 billion stimulus. Interest rates down sharply.

Mexico

- 1Q09 GDP plunged 8.2%. Industry activity shrank 9.9%.
- Outlook has worsened due to impact of H1N1 virus.
- Government response to global economic crisis includes several fiscal stimulus policies.
- Stimulus actions have yet to translate into real economy.

Sources: Bureau of Economic Analysis (US), CSSPA, Canacero

5



The U.S. Economy is Facing Its Worst Downturn Since the Great Depression

Length and Depth of Selected Post-World War II Recessions

Recession years	Length in months	Peak-to-Trough Percent Change		
		GDP	Private-sector employment	Manufacturing production
2008-09*	18*	-3.9	-3.9	-12.2
2001	9	-0.5	-2.7	-6.6
1990-91	8	-1.5	-1.9	-4.7
1981-82	16	-2.9	-3.5	-9.5
1973-75	16	-3.4	-4.2	-15.6
1957-58	8	-3.7	-5.3	-14.5

* Data covers thru June 2009; Full duration of 2008-9 recession not available at time of presentation.

Source: National Bureau of Economic Research, Bureau of Economic Analysis, Bureau of Labor Statistics, Federal Reserve Board and Manufacturers Alliance/MAPI

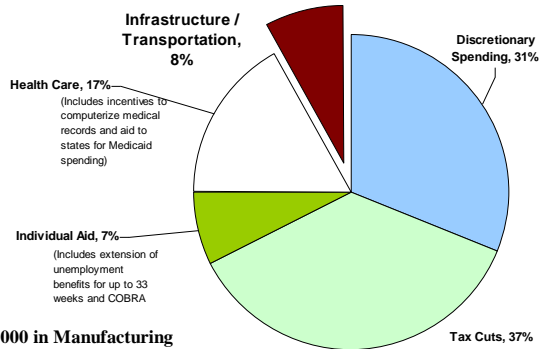
6



Despite Stimulus, U.S. Recovery Will Be Slow and Uncertain: Manufacturing Hit Hard

\$787 Billion Federal Stimulus Program Not Yet Boosting Steel Demand

- Stimulus will have greater effect in 2010.
- Very little spent on infrastructure projects so far.
 - Chief Economist for AGCA says “2009 non-residential spending could fall by as much as 9%, even with stimulus funds.”



U.S. Lost 539,000 Jobs in April, Including 149,000 in Manufacturing

- Lost 488,000 manufacturing jobs so far in 2009; nearly 5 million since 2001.
- Manufacturing employment, 12.2 million, at lowest level since June 1941 (population half of 2009).

Uncertainty on When the Economy Will Return to “Normal” -- Or If We Will See a “New Normal”

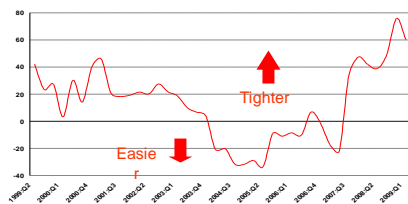
- Some surveys show increases in consumer, housing and investor confidence, but “hard data” remains disappointing.
- Global Insight does not expect U.S. GDP to return to 2008 level until 2011.

Sources: Various Media Articles

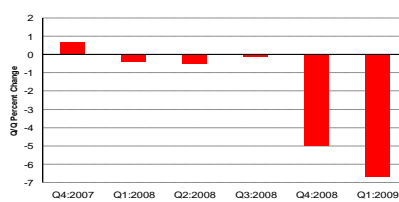


Canada: Economic Downturn Intensifies

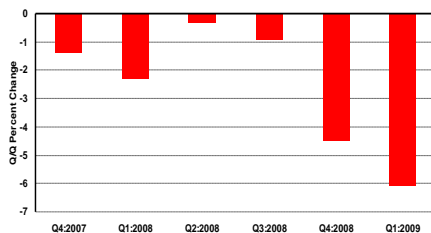
Credit Availability: Loan Officer Surveys Since 2000



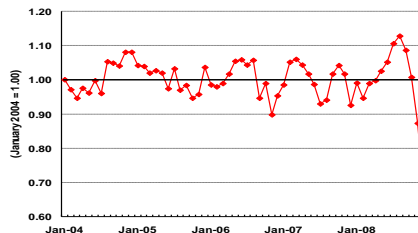
Non-Gov Construction Expenditures - Quarterly



Manufacturing Production Growth - Quarterly
(Chained 2002 Dollars)



Steel Manufacturing Relative GDP Share



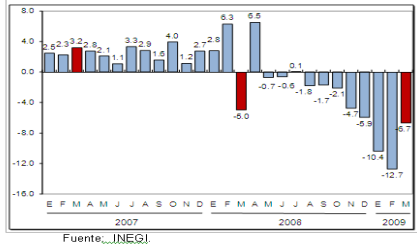
Sources: Bank of Canada, Statistics Canada



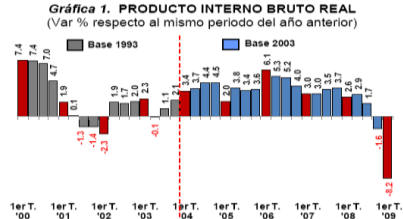
Mexico: Economic and Financial Update

Strongly Linked To U.S. Economy, Macro Indicators Turn Sharply Negative

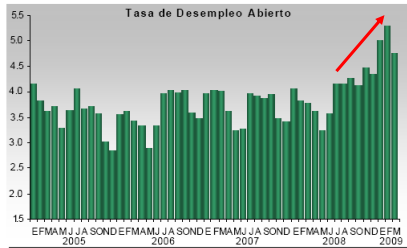
Mexico: Industrial Production I - 09 (%)



Mexico: Gross Domestic Product I - 09 (%)



Mexico: Unemployment I - 09 (Var %)



**Estimated 2009 Fall in NAFTA Apparent Steel Use (-32.2%)
More Than Twice World Average (-14.9%) and Greatest Among All Regions**

United States*			Canada			Mexico		
2009	Million MT	% Change	2009	Million MT	% Change	2009	Million MT	% Change
Crude Steel Use	70.3	-35.6 %	Crude Steel Use	13.8	-21.6%	Crude Steel Use	19.8	-16.5 %
Finished Steel Use	61.8	-35.7 %	Finished Steel Use	11.6	-22.4 %	Finished Steel Use	14.6	-15.5 %
Exports	7.3	-40.2%	Exports	6.0	-27.3%	Exports	3.1	-32.3 %
Imports	16.8	-28.6 %	Imports	5.2	-31.6%	Imports	1.6	-25.9 %

* Annualizing from 1Q '09, finished steel use would be 58.6 million MT (shipments of 47.3 million MT + 18.5 million MT of finished imports - 7.2 million MT of exports).

**Survey of the Short Range Outlook
Spring 2009 NAFTA Region**

Apparent Steel Use

(mil. MT)	2004	2005	2006	2007	2008	2009 f
Finished Steel	149.0	138.3	155.7	141.2	129.7	88.0

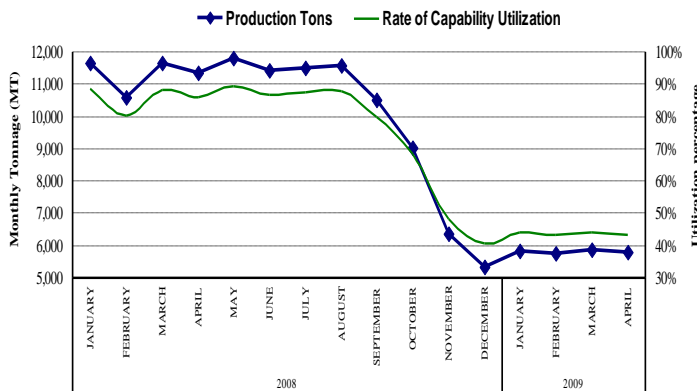


“Improvement in steel consumption for the second half of 2009 will depend on the effects of government stimulation packages, the continued stabilization of financial systems and a return of some consumer confidence” - *Daniel Novegil, Chairman, Worldsteel Economic Committee, 26/4/09*



**NAFTA Steel Production Has Been Below 50% of Capability for Half a Year –
2009 Production Will Be the Lowest in 30 Years**

NAFTA Raw Steel Production - 2009 vs. 2008

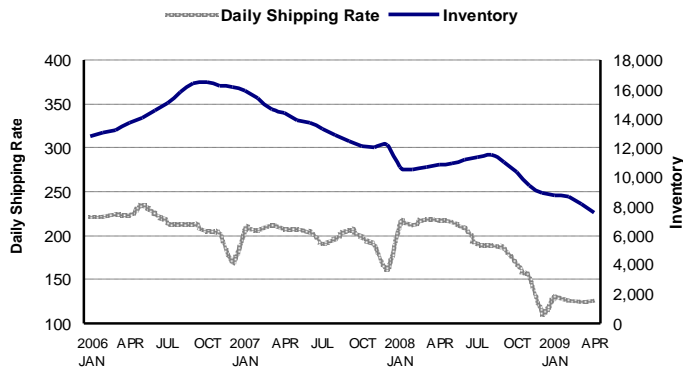


Yet another effect of the economic crisis has been that NAFTA producers have deferred or cancelled over 5 million MT of previously announced short range (2009-11) steel capacity additions, according to Worldsteel estimates based on public announcements.



NAFTA Service Center Inventories are at the Lowest Levels in Many Years, But Reduced Demand is Keeping Restocking from Taking Place

MSCI Average Daily Shipments & Inventory For United States and Canada Metric Tonnes (000)



Service Center Demand Has Fallen in Line with Overall Steel Demand

- U.S./Canadian service center shipments are off 42% vs. 1 year ago.

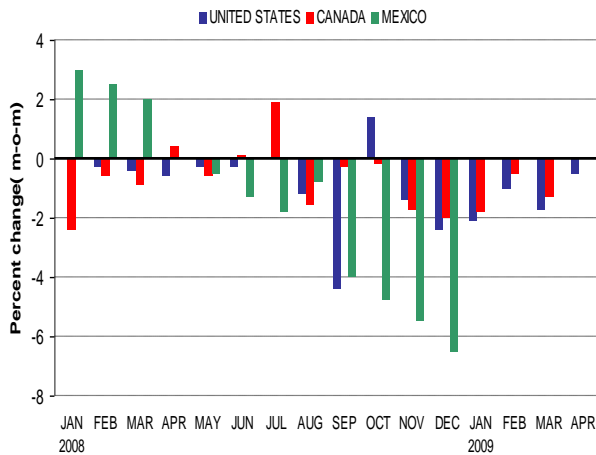
- Inventories are down 35% vs. August 2008, but reduced market demand has made current inventories large enough to last 3 months (vs. a 2-month normal supply).

Source: Metals Service Center Institute



NAFTA Industrial Production Continues to Decline in 2009

NAFTA Industrial Production 2008-2009



• Industrial production in the NAFTA region has fallen steeply during this recession which, for the U.S., began in December 2007.

• The cumulative effect has been that operating rates at NAFTA factories producing steel-containing goods are some of the lowest on record.

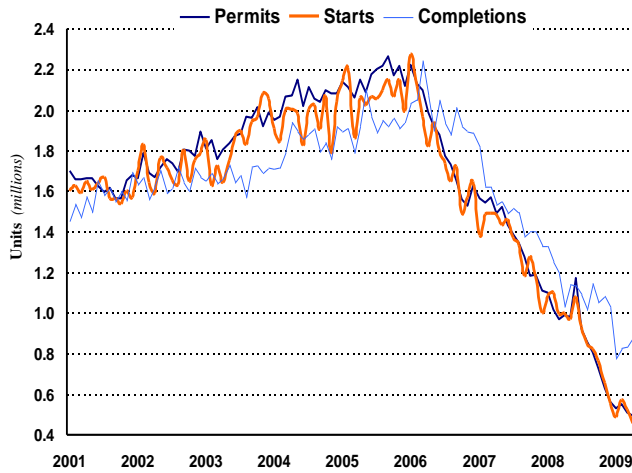
• While the latest Institute for Supply Management data suggest that that the U.S. manufacturing slump may be easing, the U.S. manufacturing unemployment rate stood at 12.4% through April 2009, which was 3.5% higher than the overall unemployment rate of 8.9%. 1.6 million U.S. manufacturing jobs have been lost since December 2007 alone.

Source: Federal Reserve Board (US), Statistics Canada, Canacero



The U.S. Housing Market Struggles to Rebound

U.S. Residential Construction Market



- There are 40-year lows for permits, starts and completions. Housing stock is at all-time highs. Vacancy rates remain above normal.
- It is still not clear that the market has hit bottom. 10% of mortgages are now in arrears or foreclosure. Economists expect 2 million more foreclosures this year.
- For those who can get loans, mortgage rates are low. While existing home sales rose 2.9% in April, home values are still declining -- down 19.1% 1Q09 vs. 1Q08.

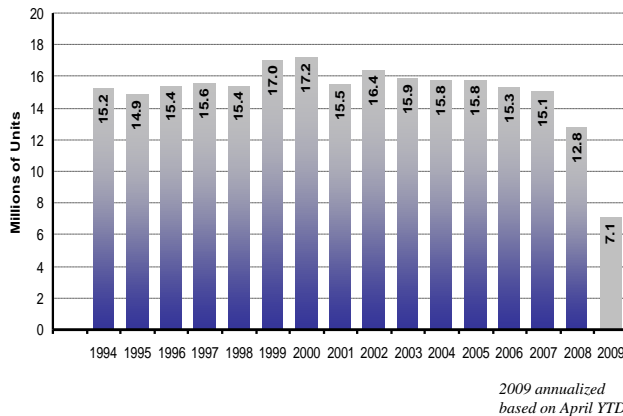
Source: U.S. Department of Commerce

15

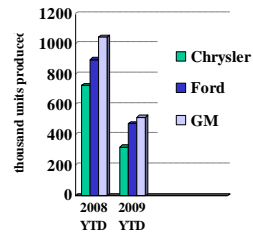


NAFTA Automotive Market Remains In Crisis

NAFTA Light Vehicle Production 1994-2009



Detroit 3 Production Jan-April 2009 vs. 2008



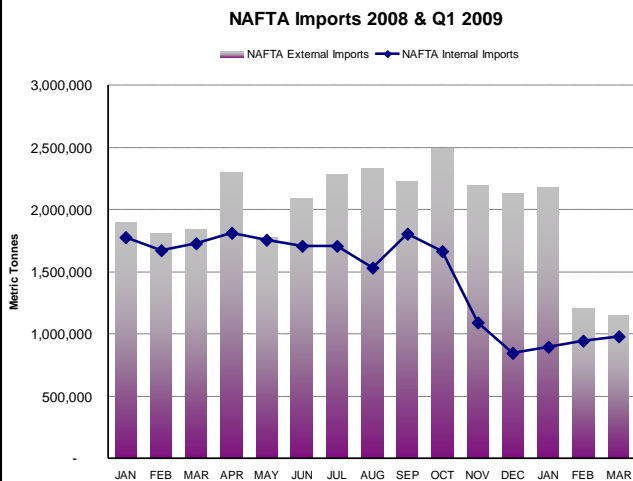
The financial crisis and deep recession have hit the "Detroit 3" the hardest. Chrysler and GM have declared bankruptcy, and both have cancelled vehicle production for the next 60-90 days to reorganize financial matters and reduce inventory to match much lower demand.

Source: Ward's Automotive

16



NAFTA Imports During Crisis Period



NAFTA imports from other regions exceed intra-NAFTA steel trade.

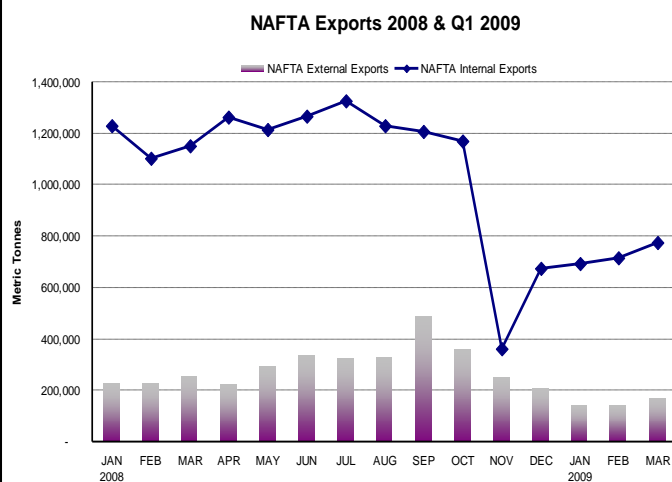
Non-NAFTA imports in 4Q 2008 continued at the same level as earlier in the year – this, at a time when NAFTA domestic production and shipments were in a steep decline.

Source: NAFTA Steel Trade Monitor, US Department of Commerce, Canacero and World Trade Atlas.

17



NAFTA Exports During Crisis Period



NAFTA producers send only a small portion (usually 5% or less) of steel outside the region.

During 4Q 2008, intra-NAFTA steel trade declined sharply, more or less in line with the steep decline in NAFTA market demand.

Source: US Department of Commerce and World Trade Atlas

18



III. NAFTA Steel Trade Challenges and Concerns



Major Trade Concerns During Economic Crisis

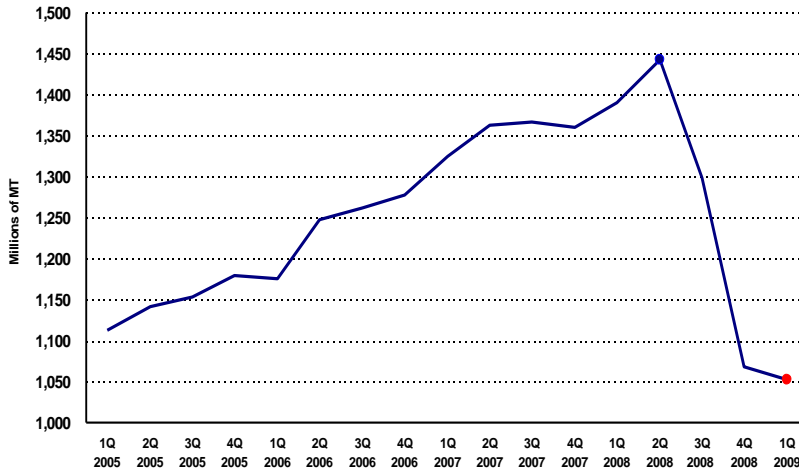
NAFTA steel producers' key concerns include:

- Increased import market share, at a time when low-cost, efficient NAFTA steel producers have ample capacity to meet reduced domestic demand
- Threat of further surges of unfairly traded steel and manufactured goods imports into North America
- Subsidized capacity expansions offshore in the face of declining demand
- VAT rebate increases to promote direct and indirect steel exports
- Higher import tariffs unrelated to trade cases
- Steel quotas and more restrictive steel import licensing systems
- Increases in government transportation and energy subsidies
- Manipulation by governments of raw material markets
- Massive government interventions to keep currencies undervalued



Global Steel Consumption Is Declining...

Global Apparent Steel Consumption (Annualized)



Source: World Steel Dynamics

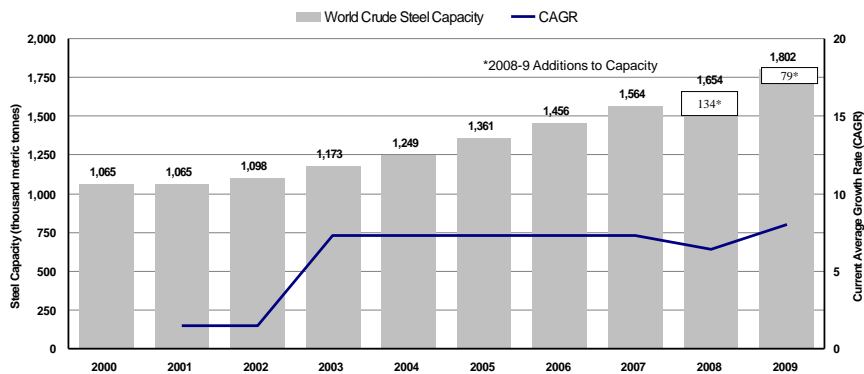
21



... While Global Steel Capacity Continues to Increase

World Steel Capacity Continues to Grow, Even as Economic Crisis Has Delayed 64 Million MT Scheduled for 2009-10

World Crude Steel Capacity 2000-2009

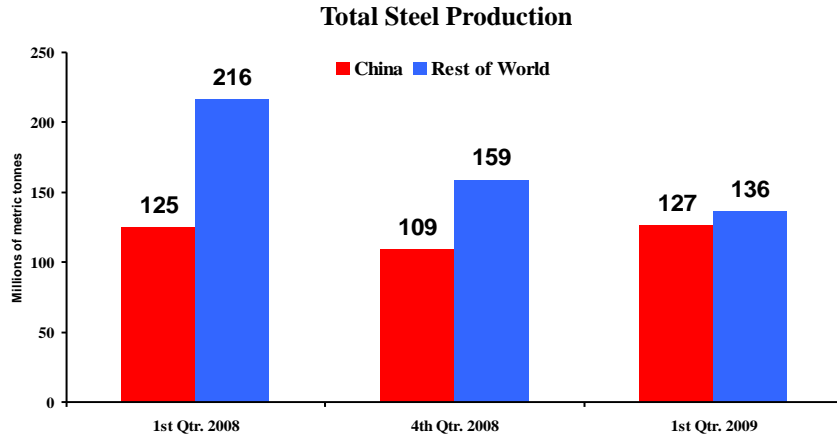


Source: World Steel Association

22



Steel Production Outside of China is Falling Dramatically, While Steel Production in China is Actually Increasing



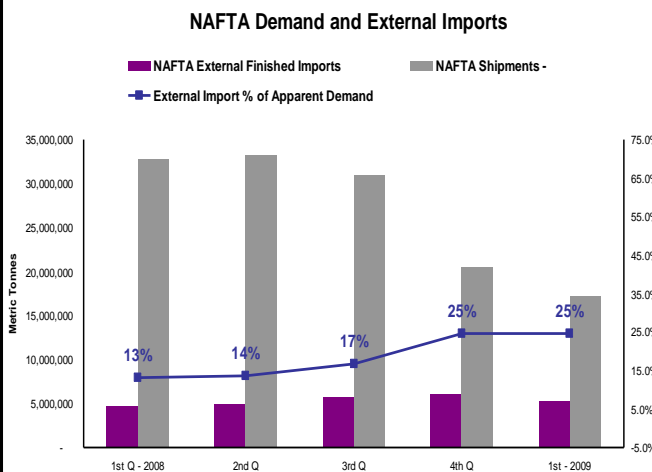
- While steel production has declined steeply in North America, South America, Europe and Japan, China's production has increased in recent months
 - Chinese global market share increased to **49%** at the end of 1Q 2009

Source: World Steel Association

23



NAFTA Import Market Share Has Increased During Crisis Period



NAFTA steel demand and domestic shipments have fallen by 48% and 40%, respectively since peak levels in mid-2008.

Non-NAFTA import market share has increased over the last two quarters.

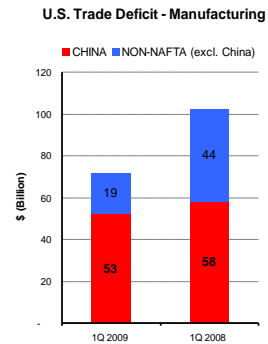
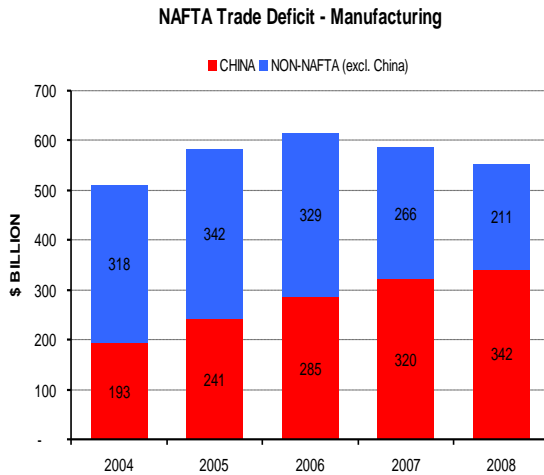
NAFTA steel producers have more than adequate capacity to meet home market demand in 2009.

Source: AISI, World Steel Association

24



NAFTA Manufacturing (Not Just Steel) is in Crisis – Huge Trade Deficits With the Rest of the World Threaten to Retard Recovery



The U.S. (non-NAFTA) manufacturing trade deficit declined in 1Q '09 vs. 1Q '08, but China's share of this 1Q '09 deficit increased to 70%.

Source: US Department of Commerce, Statistics Canada, Banco de Mexico

25



Key Policy Messages

When a meaningful recovery begins, the globally competitive, environmentally responsible NAFTA steel industry is "poised to compete." Key policy messages are these:

- Regarding stimulus:
 - Economic stimulus is good, but it should be driven towards promoting domestic demand and not targeted at increasing exports
 - NAFTA stimulus programs should create strong opportunities for North America's manufacturers, including steel producers
- Regarding trade:
 - WTO-consistent use of laws against unfair trade to counter dumped and subsidized imports is market-correcting -- not "protectionism"
 - Unfairly traded imports in NAFTA markets are particularly insupportable at this time of exceptionally low domestic capacity utilization and massive layoffs in North America
 - NAFTA trade laws must be strongly and effectively enforced
 - Existing trade remedy laws must not be undermined through international negotiations or WTO litigation

26

