BUSINESS FORWARD

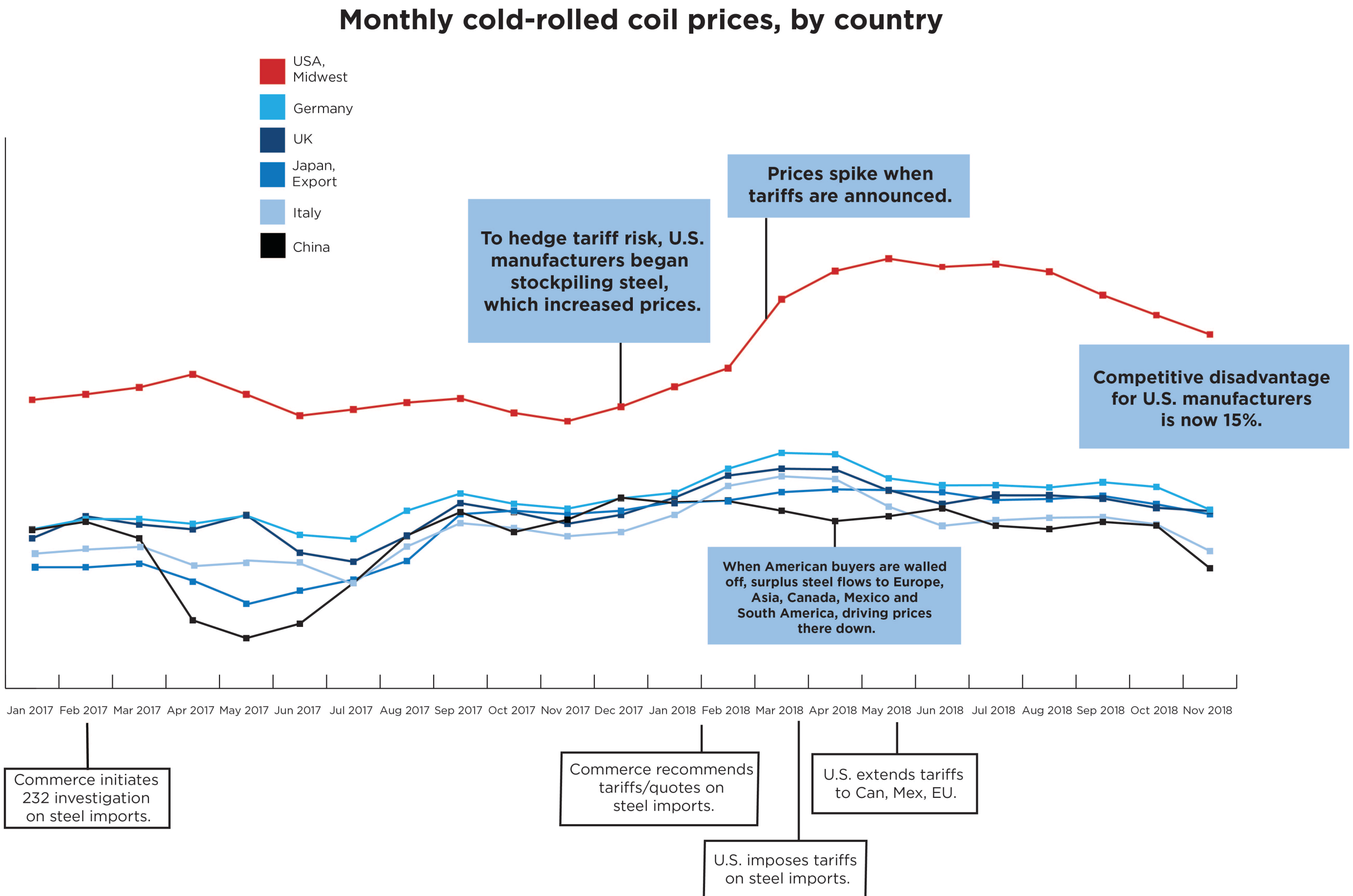
AMERICAN STEEL INDEX – UPDATE

December 11, 2018

TOP LINE

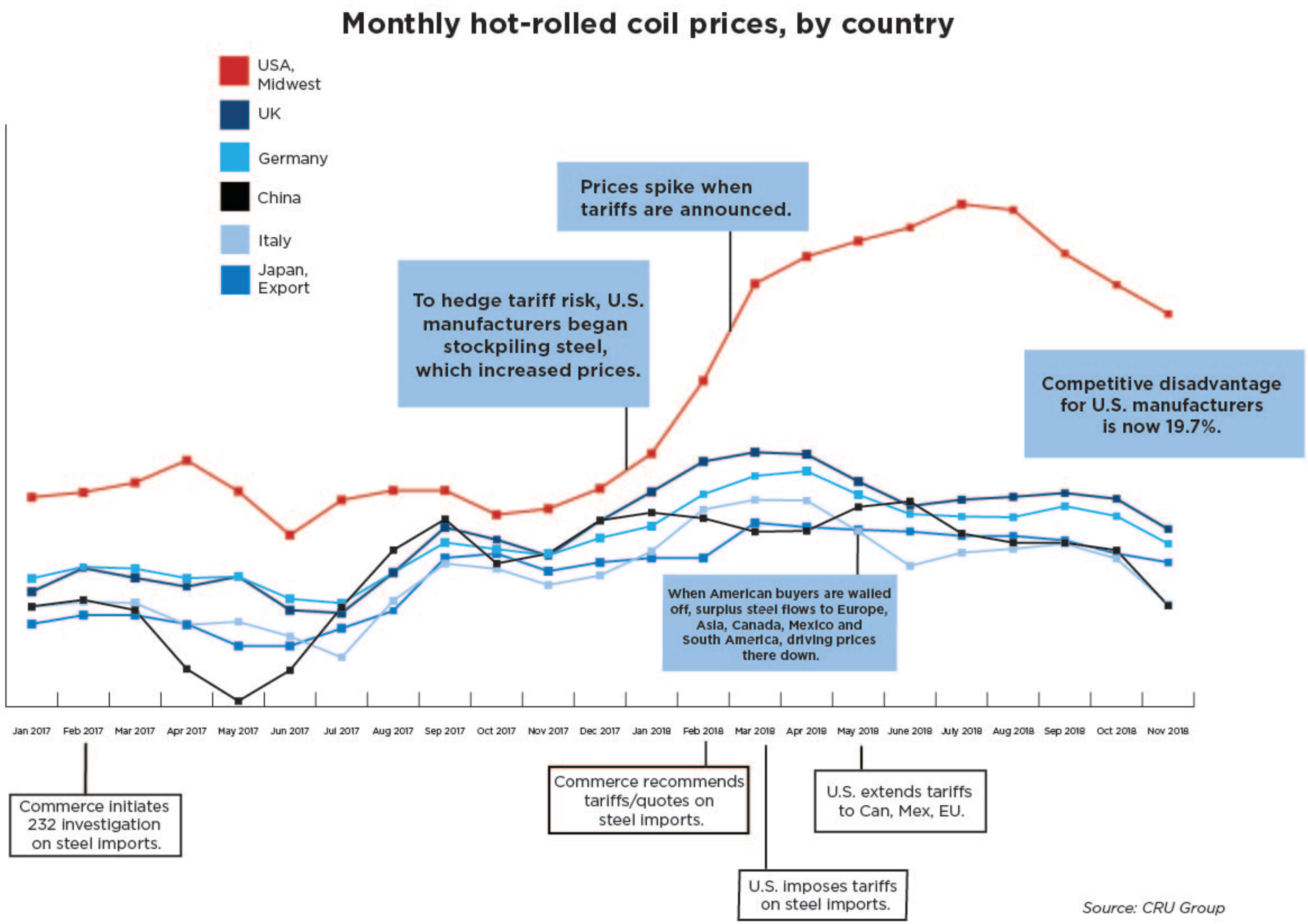
- U.S. steel prices have risen 7.4% since February, while competitors' prices have fallen 9.8%: American manufacturers are paying 17.2% more than their foreign competitors for hot- and cold-rolled steel
- The difference between U.S. and competitors' prices is 1.8 times larger since February
- Putting steelmakers ahead of manufacturers is backfiring, because companies that <u>buy</u> steel employ 46 times more workers across the U.S. than companies that <u>produce</u> steel
- Months of higher steel prices have caused U.S. manufacturers to switch strategies: They are importing more finished products and manufacture less here in the U.S. Experts call this "demand destruction."

COLD-ROLLED STEEL



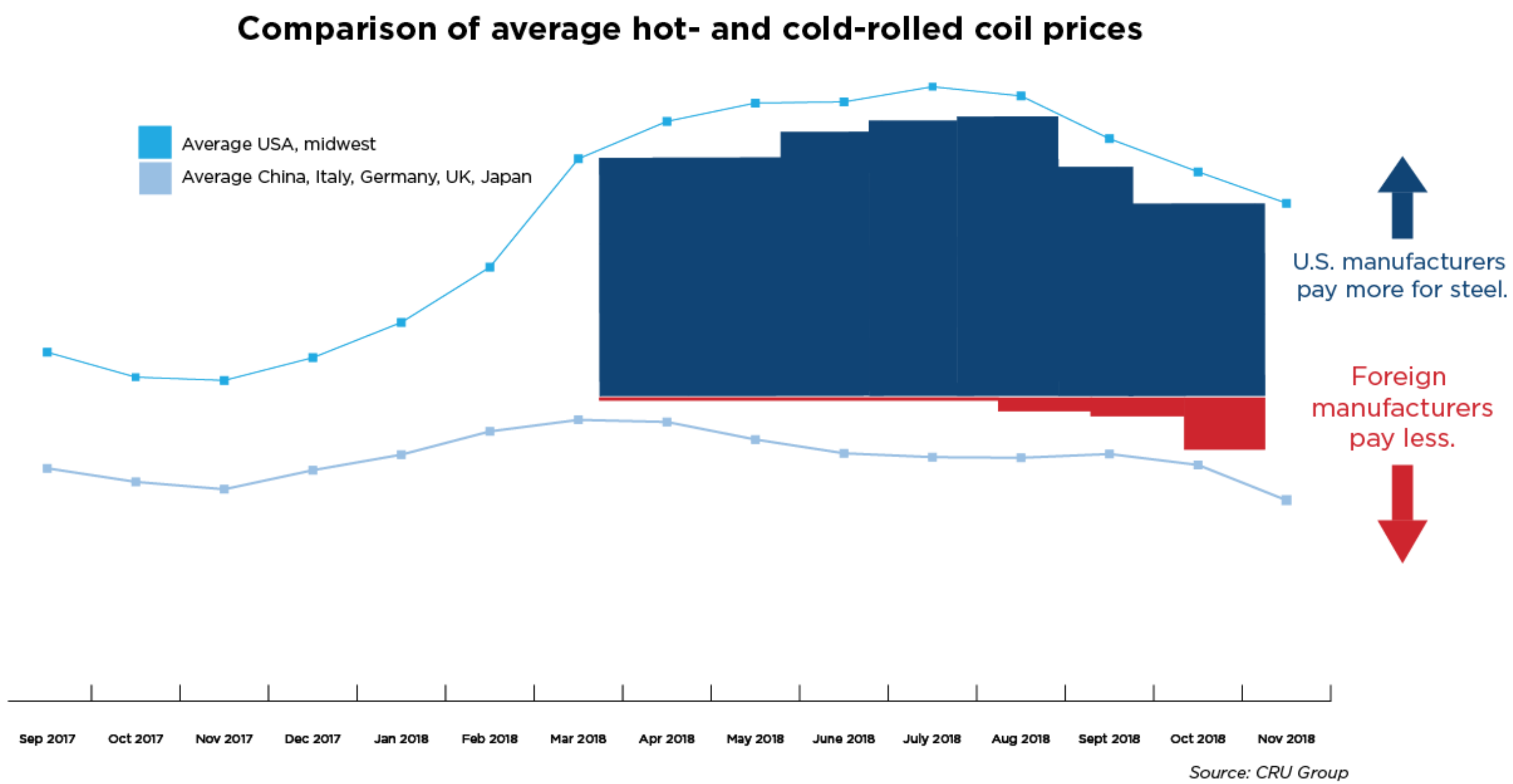
Source: CRU Group

HOT-ROLLED STEEL



CONTINUED PRICE GAP

Prices in the U.S. rose 7.4% from February to October, on average, while prices in the UK, Italy, China, Germany, and Japan dropped 9.8%, on average. The difference between prices here and in those markets almost doubled since February (181%).



DEMAND DESTRUCTION

CRU, a leading steel industry research firm, provides market analysis and forecasts, market-leading price assessments and comprehensive cost services.

CRU's principal steel analyst predicts further drop in demand as U.S. manufacturers choose to import finished goods rather than import steel and make those goods here.

What comes about next? Demand destruction as multiple US manufacturers (that are able to) are planning to shift production elsewhere and import a good with steel rather than manufacture stuff in the U.S.

In order to have great manufacturing, a country or region must have cheap or affordable materials and energy. The U.S. has energy, but steel is not cheap.

You also will see substitution and once that comes, it is challenging for a switch back.

Josh Spoores
Principal Analyst

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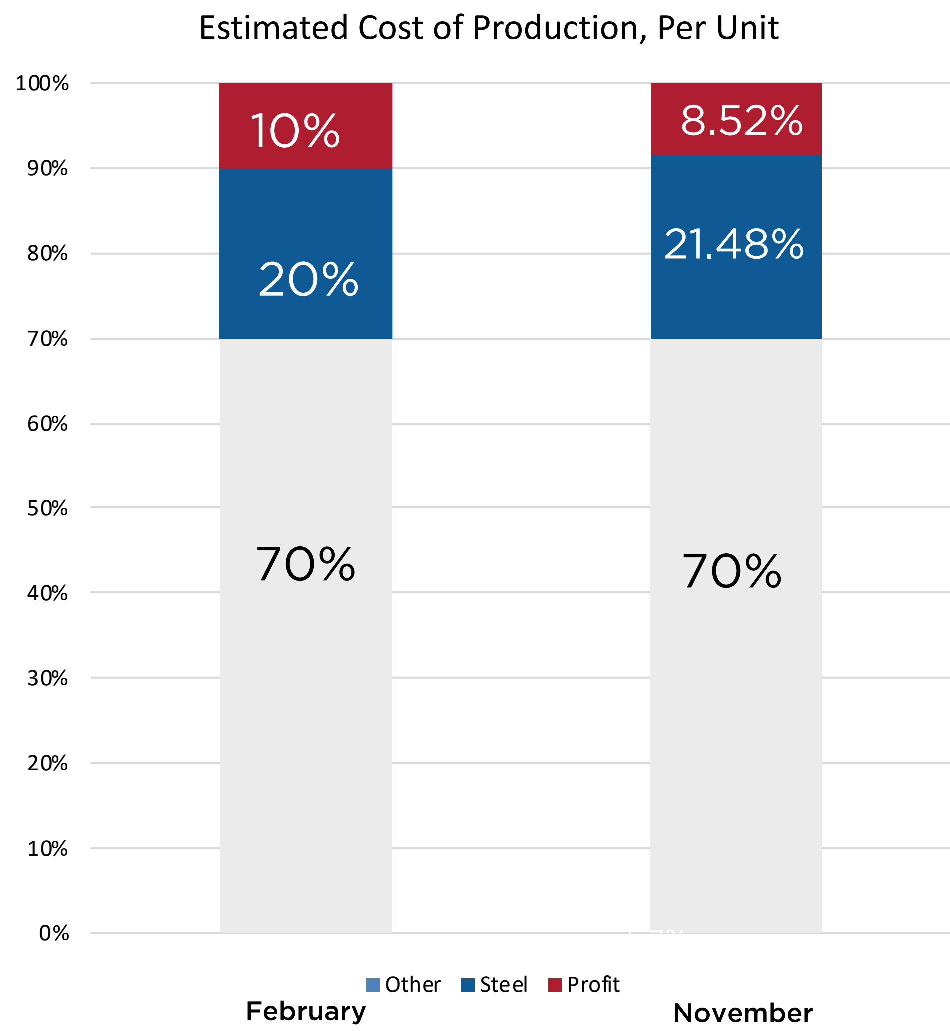
IMPACT ON PROFITS

Trump Administration officials defend their tariffs by comparing price increases for steel with finished product prices. They should compare price increases with a manufacturer's profit margin.

Since February, U.S. steel prices have increased 7.4%, on average.

If steel represented 20% of your cost of production in February, and your profit margin was 10%, these price increases wiped out 15% of your profit.



With the help of more than 60 of America's most respected companies, Business Forward is making it easier for more than 100,000 business leaders from across America to advise Washington on how to create jobs and accelerate our economy. Business Forward is active in over 125 cities and has worked with more than 600 mayors, governors, members of Congress, and senior Administration officials.

Business leaders who have participated in our briefings have seen their suggestions implemented in the Affordable Care Act, the JOBS Act, the Clean Power Plan, the Toxic Substances Control Act, three trade agreements, and the President's budgets. Many have also shared their recommendations with their representatives in Congress and through phone calls, op-eds, and interviews with local media. Ninety-eight out of 100 business leaders who have participated in a Business Forward briefing would be interested in participating in another one.

For more information, please contact:
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