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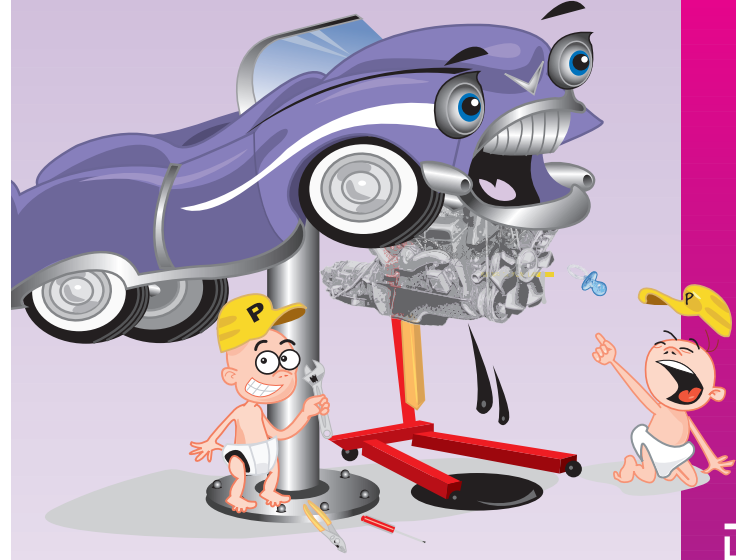
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IS STEEL'S REVIVAL A MODEL FOR DETROIT?

By Jim Stavis

It was just a few years ago that the steel industry was in the exact spot as today's auto industry. If the steel mills were forced into bankruptcy, the consequences would have rippled through the economy at a cost too high to bear. The Detroit automakers are using the same argument today as they seek a multi-billion-dollar bailout from the

(continued inside)

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(continued from front)

government. Last month the government provided a band-aid to General Motors and Chrysler, but the money will last only until our new president is sworn in.

The government tried to help the steel industry for 30 years before finally letting it fend for itself. The Carter Administration provided loan guarantees of \$300 million; the Reagan Administration sought import quotas to restrict competition; and then the Clinton Administration guaranteed \$1 billion in loans. In the end, it was a case of throwing good money after bad. By 2001, with the steel companies reeling, the industry sought protection from cheaper imports by pressuring other countries to reduce production, and requested billions of taxpayer dollars to relieve it of the burden of its employees' retirement costs.

There certainly are similarities between the two industries. Both industries are capital-intensive enterprises that peaked more than a half century ago and have been embattled ever since. Both secured peace with their unions by vastly expanding benefits. This ultimately became a ball and chain

around both of their necks. Both had entrenched layers of management that believed, in spite of all the facts, that they could wish away change.

There are, however, key differences between the two. Steel is essentially a straightforward commodity industry; thus, companies compete on price. Auto companies are competing on consumer preference because there are perceivable differences between each model car. This has been Detroit's problem for a number of years as consumers have steered away from GM and Ford towards Toyota and Honda. And with the movement towards better fuel economy and green, less polluting cars, the domestic automakers have been slow to react.

Ultimately, the steel industry had to take its medicine to get healthy again. Many of the steelmakers filed bankruptcy, which unloaded billions of dollars of debt and pension obligations to the government's Pension Guaranty Corporation. The steel companies were reconstructed in such a way that they could compete with the world again, ensuring their viability. Can the automakers do this? It would be painful, but ultimately, I believe the answer is why not?



Will the Auto Bailout have an Effect on Steel?

The auto industry is the largest user of steel in the United States today, so to think that this will not have an effect on steel tonnage levels would be naïve. Certainly many steel manufacturers and distributors, most of which are in the Midwest and East, would suffer. The labor markets that support these companies would also suffer. Whether or not the ripple effect would impact the West Coast markets is questionable, but there would probably be a glut of additional steel on the market, which could cause prices to recede. It is difficult to assess. There are many factors that can influence the steel market. For example, if the government steps up the amount of infrastructure projects it is recommending, then the void of steel consumption created by the automakers could be fully offset. Only time will tell.

Steel Forecast 2009

In past years, we have provided a forecast for the coming year on the steel and related markets. This year, we direct you to the following link from CNBC, which gives "The Street's" view on steel: www.cnbc.com/id/15840232?video=975777302.



Quote of the Month

What's right about America is that although we have a mess of problems, we have great capacity—intellect and resources—to do some thing about them.—Henry Ford II
(Let's hope so...)

