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

OECD Steel Committee
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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 Trade Situation

III. Growing Concerns About NAFTA Manufacturing
I. NAFTA Economic Conditions And Outlook
NAFTA Production Declines More Than Other World Regions
Global Output Sharply Down, With Few Exceptions

Global Crude Steel Production
2009 YTD vs. 2008 % Change

<table>
<thead>
<tr>
<th>Region</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. America</td>
<td>-45.1</td>
</tr>
<tr>
<td>Canada</td>
<td>-51.9</td>
</tr>
<tr>
<td>U.S.</td>
<td>-47.0</td>
</tr>
<tr>
<td>Mexico</td>
<td>-29.5</td>
</tr>
<tr>
<td>EU27</td>
<td>-39.3</td>
</tr>
<tr>
<td>Turkey</td>
<td>-13.5</td>
</tr>
<tr>
<td>Russia</td>
<td>-26.8</td>
</tr>
<tr>
<td>Ukraine</td>
<td>-31.9</td>
</tr>
<tr>
<td>Asia</td>
<td>-2.2</td>
</tr>
<tr>
<td>Japan</td>
<td>-34.0</td>
</tr>
<tr>
<td>S. Korea</td>
<td>-14.9</td>
</tr>
<tr>
<td>China</td>
<td>+7.5</td>
</tr>
<tr>
<td>India</td>
<td>+1.6</td>
</tr>
<tr>
<td>Global Production</td>
<td>-16.4</td>
</tr>
<tr>
<td>Excluding China</td>
<td>-30.9</td>
</tr>
</tbody>
</table>

Source: Worldsteel
While NAFTA Production Has Risen Recently, Capacity Utilization Is 30% Below 2008 Levels

- Several NAFTA facilities have been restarted, after having been offline for close to a year. Some facilities have no future return date.
- The NAFTA economic recovery is still very fragile, and a return to pre-crisis steel production levels remains years away.
- The NAFTA and rest of world (ROW) utilization rates have stayed well below China’s rate.
The Great Recession of 2008-2009
Affected the Entire NAFTA Region

NAFTA Real GDP Since 2007

Sources: Bureau of Economic Analysis (US), Statistics Canada, Canacero
Steel Orders Collapsed After The Financial Meltdown And Still Have Not Recovered

NAFTA Demand for Steel, Aug 2008 – August 2008

• In the U.S., steel purchases were cut in half within 7 months (Aug. ’08 - Mar. ’09), and 50% of U.S. output was shuttered.

• In Canada, August 2009 shipments were 39% lower than a year earlier. A number of facilities remain idled or operating at reduced rates.

• In Mexico, ASC for 2009 (Jan – Sept) is 25% below 2008 levels. The September figure is 31% below the last peak (June 2008).

Source: World Steel Association, NAFTA Steel Trade Monitor
Since the statistical start of the Great Recession in December 2007, the U.S. Department of Commerce reported negative GDP for 5 of 6 Quarters (with 1Q '09 being the worst, at -6.4%). Due to government stimulus funds, “cash for clunkers” and a first-time home buyers’ tax credit, 3Q U.S. GDP grew 2.8%. But consumer spending fell 0.5% in September, and the unemployment rate now stands at 10.0%, in what many economists are calling a “jobless recovery.”

The “Great Recession” Has Technically Ended, But The U.S. Economy Still Faces Major Challenges

Quarterly Change in U.S. Gross Domestic Product, 1997-2009

Source: U.S. Department of Commerce, Bureau of Economic Analysis
From Q3 2007 to Q1 2009, U.S. Net Worth Fell by Over $13 Trillion, Or 20 percent

The U.S. Construction Market Is Still Weak

- The residential housing market has bottomed in the past 6 months – to 40-year lows.
- Home foreclosures are continuing to rise. Government incentives (e.g., a tax credit for first-time buyers) are helping, but limited. Tighter credit standards are reducing the pool of available new buyers.
- An uptick in the non-residential, commercial market is not expected until late next year.

Source: U.S. Department of Commerce.
The NAFTA Automotive Production Remains Deeply Depressed

While the “cash for clunkers” program has helped increase production and sales, “Detroit 3” production has declined by over 50% YTD vs. 2008.

With the end of this incentive program and with unemployment likely to stay high for several years, automotive production and sales are unlikely to return to pre-crisis levels for the medium term.

Source: Ward’s Automotive. * 2009 Annualized based on September year-to-date.
NAFTA Service Center Inventories At Multi-Year Lows, But Reduced Demand Delaying Restocking

- Service center demand has fallen in line with overall steel demand.
- NAFTA service center shipments are off 30% vs. 1 year ago.
- As of October 2009, U.S. and Canadian service center inventories (2.3 months each) are at 5-year lows, but a lack of consumer confidence and low end-use demand are preventing restocking.
Canada: Economic Indicators Moderating From Extremely Low Levels

Bank Of Canada Senior Loan Officer Survey: 3Q 2009

Ivey Canadian Purchasing Managers Index Since January 2007

Canada: Manufacturing Inventories Through August 2009

Canada: Manufacturing Sales Through August 2009

Sources: Bank of Canada, Richard Ivey School of Business, Statistics Canada
Mexico Economic Indicators: Worst In Latin America

Mexico: Gross Domestic Product (Index Oct. 2009 (%))

2Q (09): -10.1%  
(The worst since 1930)  
3Q(09): -6.2%

Mexico: Gross Fixed Investment (July 2009 / Var %)

-14%

Mexico: Credit to consumers (June 2009 / Var %)

-29%

Non-Oil Exports (September 2009 / Var % (annual))

<table>
<thead>
<tr>
<th>TOTAL EXPORTS</th>
<th>January – September 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>To United States</td>
<td>-23.4%</td>
</tr>
<tr>
<td>- Autos</td>
<td>-32.3%</td>
</tr>
<tr>
<td>To Rest of the World</td>
<td>-23.7%</td>
</tr>
</tbody>
</table>
Mexico Economic Indicators: Strongly Related To U.S. Economy

**Mexico: Remittances**
(July 2009 Var %)

- 15%

Very sensible

**Rate of growth Mexican Exports vs US Imports**
(July 2009 Var %)

Source: Oxford Economic & CAPEM and INEGI
# 2009-2010 NAFTA Region Steel Use
## Expected To Remain Far Below 2004-2008 Levels

### United States

<table>
<thead>
<tr>
<th></th>
<th>Forecast Million MT</th>
<th>2009</th>
<th>2010</th>
<th>% Ch. '09/10</th>
<th>% Ch. vs.1982*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td></td>
<td>67.7</td>
<td>79.9</td>
<td>18.0%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Finished Steel Use</td>
<td></td>
<td>60.3</td>
<td>71.7</td>
<td>18.8%</td>
<td>3.7%</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td>8.8</td>
<td>9.9</td>
<td>12.5%</td>
<td>492%</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td>12.9</td>
<td>15.5</td>
<td>20.2%</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

### Canada

<table>
<thead>
<tr>
<th></th>
<th>Forecast Million MT</th>
<th>2009</th>
<th>2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td></td>
<td>12.2</td>
<td>13.7</td>
<td>12.8%</td>
</tr>
<tr>
<td>Finished Steel Use</td>
<td></td>
<td>10.3</td>
<td>11.7</td>
<td>13.6%</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td>4.7</td>
<td>6.4</td>
<td>36.2%</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td>6.1</td>
<td>6.6</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

### Mexico

<table>
<thead>
<tr>
<th></th>
<th>Forecast Million MT</th>
<th>2009</th>
<th>2010</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude Steel Use</td>
<td></td>
<td>17.5</td>
<td>19.7</td>
<td>12.7%</td>
</tr>
<tr>
<td>Finished Steel Use</td>
<td></td>
<td>12.1</td>
<td>13.6</td>
<td>12.3%</td>
</tr>
<tr>
<td>Exports</td>
<td></td>
<td>1.7</td>
<td>1.3</td>
<td>-23.6%</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td>2.5</td>
<td>3.8</td>
<td>52.0%</td>
</tr>
</tbody>
</table>

* The lowest annual steel demand in the U.S. in the post-WWII period was recorded in 1982, at 68.6 million MT.

## Survey of the Short Range Outlook
### Fall 2009 NAFTA Region

**Apparent Steel Use (ASU)**

<table>
<thead>
<tr>
<th></th>
<th>(mil. MT)</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009 f</th>
<th>2010 f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Steel</td>
<td></td>
<td>149.0</td>
<td>138.3</td>
<td>155.7</td>
<td>141.2</td>
<td>129.7</td>
<td>82.7</td>
<td>97.0</td>
</tr>
</tbody>
</table>

While Global Insight is forecasting that U.S. ASU will return to pre-crisis levels by 2012, key metrics in the U.S. economy -- including unemployment levels and manufacturing production -- leave doubt that steel demand in the United States will recover fully to pre-crisis levels even in 3 years’ time.

Source: Worldsteel Association Economic Studies Committee
...While World Capacity Continues to Grow

World Crude Steel Capacity 2000-2011

Source: Worldsteel Association
NAFTA capacity growth slows due to reduced demand during economic crisis
75 million tons of underutilized capacity in 2009

... And NAFTA Capacity Additions Are on Hold

Source: World Steel Association
II. NAFTA Steel Trade Situation
NAFTA Steel Mill Products Trade Balance: A Fundamentally Different Situation For The Medium Term

- The NAFTA market is open to fairly traded steel, and the NAFTA region has historically been a net steel importing region.
- YTD in 2009 -- given the depressed market conditions and the low capacity utilization rate -- the NAFTA steel trade deficit is the lowest it has been for many years.
- For the medium term, the NAFTA steel industry has more than ample capacity to meet the needs of both domestic and offshore customers.

Source: NASTA Monitor, US Dept. of Commerce, Global Trade Atlas

* 2009 Annualized based on 8 months.
NAFTA Imports During Crisis Period

**NAFTA Imports 2008 & 2009 - Monthly**

- Steel imports from other regions exceeded intra-NAFTA steel trade when the market collapsed.
- Non-NAFTA imports at first surged, and then declined but have maintained a relatively high market share.
- Imports from China peaked in October 2008.

NAFTA Exports During Crisis Period

- NAFTA producers send only a small portion of steel produced outside the region.
- During 4Q ‘08, intra-NAFTA steel trade declined sharply, more or less in line with the steep decline in market demand.

Source: US Department of Commerce and World Trade Atlas
III. Growing Concerns About NAFTA Manufacturing
NAFTA Manufacturing Capacity Utilization Remains Significantly Below Pre-Crisis Levels

Canada & U.S. Manufacturing Utilization

- US Manufacturing Utilization
- Canada Manufacturing Utilization

Source: U.S. Federal Reserve Board, Statistics Canada
Nearly 3 Million More Lost NAFTA Manufacturing Jobs During the Economic Crisis (2007-2009)

Mexico Manufacturing: 13 Months With Negative Growth

México: Industrial Activity Index
(August 2009 / Annual % rate of growth)

México: Manufacturing Activity Index
(August 2009 / Annual % rate of growth)

México: Manufacturing Employment Index
(August 2009 / Index: 2003 = 100)

-10.8%

Main affected sectors:
- Transport equipment: -23.8%
- Machinery: -16.3%
- Furniture: -14.5%
- Metal products: -13.1%
- Steel: -7.7%

Source: US Department of Commerce
China Accounts For A Growing Share
Of The U.S. Manufacturing Trade Deficit

While the U.S. manufacturing trade deficit has declined during the 2008-09 recession, China’s share has increased and, through the 1st 6 months of 2009, China accounted for 78% of this deficit.

Source: US Department of Commerce
NAFTA Indirect Steel Trade Deficit Down But Remains Significant Area of Concern

NAFTA Indirect Steel Trade Balance With The Rest Of The World (excluding intra-NAFTA trade) 2000 - 2009

Source: AISI estimates (2009 annualized), based on U.S. Department of Commerce and Global Trade Atlas value data
Key Policy Messages

Given the fundamental changes that have occurred in the NAFTA and global economies, North America’s steel producers support:

• Restoring a policy commitment to North American manufacturing as a foundation for renewed economic growth and sustainable employment in the near and longer term

• Expanding trade based on internationally accepted rules and comparative advantage – not government-supported mercantilism

• Ensuring strong and effective trade laws throughout the NAFTA region to deal with market-distorting practices

• Addressing currency misalignments that create artificial competitive advantages

• Ensuring that climate change policies are both environmentally and economically effective, and do not generate new trade and investment distortions due to regulatory differences