

Material Market Update

Can springmakers expect relief in 2005?

By Rita Schauer, editor

In 2004, a number of factors converged to make the material market a difficult one for springmakers. These included a shaky U.S. steel industry; the hampering of steel imports by a weak dollar and antidumping orders on eight countries; plus increased world steel consumption, particularly by China due to its rapid growth. These factors were discussed in-depth in the April 2004 issue (“Material Market Shakeup,” p. 43) and the July 2004 issue (“Spring Material Market Pressures, p. 61). For this issue of “Greatest Hits,” *Springs* explores the current material situation and offers a forecast of what springmakers might expect during 2005.

The Prognosis

“Through 2004, the price situation kept going up and never came down. There were price increases every month,” says David Merrills, vice president of national customer service at Industrial Steel and Wire, Bristol, CT. “Now we’re seeing longer periods of price stability.”

“Last year, ordering material from the mills had to be done as far as 10-12 weeks in advance,” he continues. “Now mills can fulfill orders in four to five weeks. Wire mills put on their quotes ‘subject to availability of rod.’ Fortunately, we haven’t seen a mill run into a situation where they haven’t got any rod. Still, they put that on orders ‘just in case.’”

Distributors, too, exercise such precautions, says Merrills: “We accepted blanket orders from springmakers last year, but the rider was ‘price in effect at time of shipment.’ We’re still putting that rider on blanket orders, but we’re not seeing the month-to-month price increases that we did last year.”

“The outlook for steel availability for the second half of this year is optimistic,” says Tim Selhorst, president/CEO of American Spring Wire Corp., Bedford Heights, OH.

One factor that has helped improve the domestic steel supply has been the reintroduction of Georgetown Steel in South Carolina. “When Georgetown went down in ’03, it put a crimp in the steel supply situation,” Selhorst says. “The domestic supply shortage was compounded by the global issue of increased demand, especially in China.”

“Another reason material was less available last year was the crazy dollar exchange rate situation,” says Merrills. “Now, because the exchange rate is more balanced, there are additional imports of wire and wire rod.”

“Because they had difficulty getting wire rod last year, a lot of wire companies had increased their commitments from domestic rod sources and increased their foreign



Figure 1: U.S. Dollar Against the Euro.

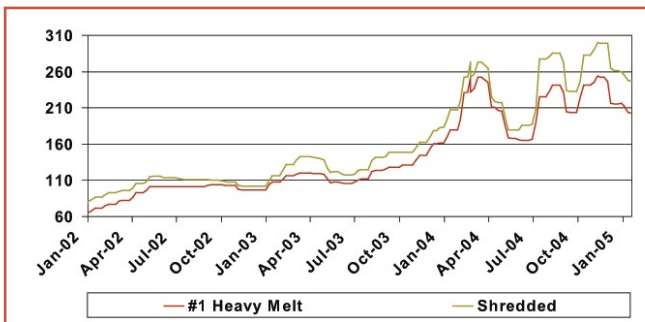


Figure 2: American Metal Market (AMM) Scrap Composites.

Charts in this article courtesy of the American Wire Producers Association.

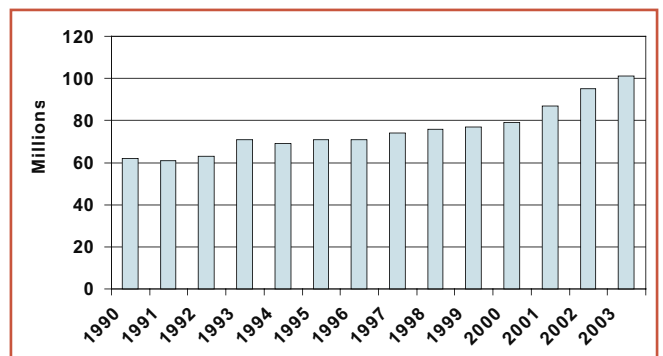


Figure 3: World wire rod consumption.

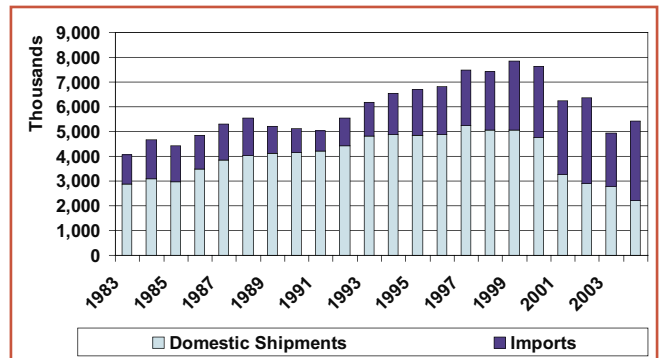


Figure 4: Apparent U.S. wire rod consumption.

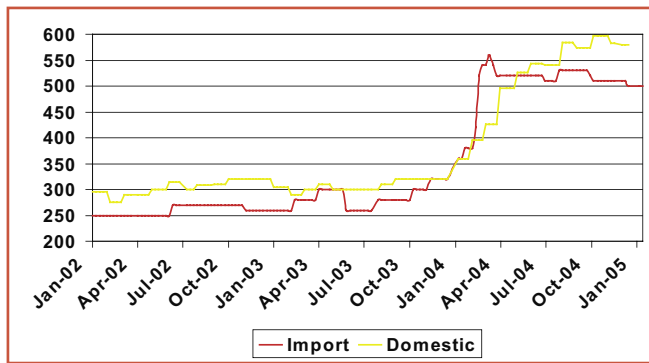


Figure 5: Import vs. domestic wire rod pricing.

imports,” says Selhorst. “As a result, wire mills may have some inventory right now, which has helped stabilize availability and pricing for the beginning of ’05. Also, this is a typical seasonal slowdown period.”

“The inventory situation and the seasonal slowdown have created open capacity for wire rod mills,” Selhorst continues. “Yet the mills aren’t out there pursuing contracts. This tells me that the rod mills are being patient and they’re confident that stronger market demand is coming in the near future.”

For Canada, the difficulties aren’t over. Last year, the steel antidumping suit combined with an unfavorable currency situation created financial hardships for Canadian steel producers. “We saw a significant change in production capacity in Canada,” says Bill Snyder, vice president commercial, American Spring Wire. “Stelco stopped operating its wire mill and will not come back on-line. It has been difficult for some Canadian wiremakers to get material. All factors have converged on them to make availability tight. It’s hard to envision a lot of relief for Canada as we head into 2005. Certainly the continued devaluation of the U.S. dollar relative to the Canadian dollar does not favor Canadian raw material companies.”

Future Pricing

“For 2005, I don’t foresee any price increases of the magnitude of what we saw in 2004,” says Merrills. “I don’t see price increases for wire much before June of this year.”

“Domestically, pricing has stabilized over the last couple of months,” says Snyder. “Pricing will be stable through the first half, but beyond that there’s no certainty, though I have gotten some hints that wire rod prices might go up. Time will tell.”

Nevertheless, the current period of stability doesn’t mean that springmakers should hope for an eventual return to pre-’04 prices. “Going back two years, the wire mills were financially having a hard time,” says Merrills. “In light of what’s happened in 2004, wire prices have gone up to a level that is more livable for them; therefore, I don’t see them giving back and reducing their margins.”

“The conditions that existed in ’04 continue to exist in ’05,” explains Snyder. “Blast-furnace steel producers are in the process of negotiating their iron ore contracts during the

first two months of 2005. The steel producers’ costs are going up because the prices of iron ore units are going up. The demand on existing mines has gone up due to the increase in worldwide steel production, so that drives prices up. The price of coke, another raw material, has also gone up.”

“China has been consuming all the raw material, so it’s been hard for U.S. producers to get enough,” says Snyder. “Five years ago, China used to have the same steel production capacity as the U.S. Today, it is 2.5 times larger than the U.S. capacity, and they have plans to triple or quadruple our domestic capacity in the near future. To even put further strain on the worldwide steel supply picture, it is anticipated that in 10 years the population in India will exceed that of China. The steel capacity of India is 30 million tons, compared with China’s 250 million tons. Even if the Chinese steel market stabilizes its steel supply and demand needs, India’s appetite for steel will likely follow trends similar to those we have seen in China for the last two years. There is such great demand for raw material in the Far East. It has influence on the U.S. because it means that they’re not going to be coming here to sell low-cost imports.”

“Rod cost and steel price drive wire pricing,” says Selhorst. “In 2005, it looks as though there’s going to be plenty of demand for scrap, iron ore pellets and coke, so the opportunity for downward pricing pressure is pretty low.”

“Last year, the steel mills were rolling the scrap surcharge into their base prices,” says Snyder. “Scrap prices have come down some in early 2005, but it doesn’t mean that a drop in material prices is forthcoming. Many rod mills are expanding their margins as scrap prices drop.”

Stainless Surcharges

When purchasing stainless material, springmakers have met with constantly increasing alloy surcharges on top of the material base price. “The ‘alloy’ or ‘nickel’ surcharge actually comprises more than nickel,” explains Merrills. “For 302 stainless, the current surcharge is 52 cents/lb., which includes 32 cents for nickel, 6 cents for chromium and 10 cents for iron.”

To illustrate just how dramatically these surcharges have increased, Merrills offers an example: For 302/304 stainless wire, the surcharge in January 2004 was 40 cents/lb. In January 2005, it is 52 cents/lb. Going back even further to January/February 2003, the surcharge was 3 cents/lb. So, in just 24 months, the alloy surcharge increased 1,700 percent.

“For 316, another stainless spring material grade that isn’t as widely used as 302, the surcharge has increased even more dramatically,” says Merrills. In January 2003, the surcharge was 5 cents/lb. In January 2004, it was 33 cents/lb. In January 2005, it is \$1.20 lb. “This happened because 316 contains molybdenum,” he explains. “Back in 2003, there was no surcharge for that material and now it has a surcharge of 63 cents/lb.” The rest of the surcharge on 316 consists of nickel, chromium and iron costs.

“Type 316 has really thrown me a curve,” he says. “I couldn’t even begin to guess what is going to happen in the future. For type 302, I would predict that the surcharge will remain somewhere around 50 cents/lb. As far as stainless material base prices are concerned, the mills have held them steady for the last three years. In 2005, I expect that the mills will increase their base prices about five to seven percent, and the surcharges will be what the surcharges will be. Of course, I can’t speak for the mills, but this is what I surmise will happen this year.”

“For finer grades of small-diameter music and stainless wire, which are imported from Korea and Japan, future pricing will depend, of course, on currency exchange rates, which I cannot predict,” he says.

Final Remarks

“It’s very important that springmakers have a conduit of knowing what’s going on downstream because it ultimately affects them, and should influence their pricing and the way they deal with customers,” says Snyder. “Domestic wire producers have stepped up to the plate and supported the spring industry in a tight demand situation. We’re going to continue to support springmakers’ supply needs. We’ve increased capacity and manpower, and are committed to meet their needs for the long run.”

“We’ve seen some evidence that the set-in-stone mindset of constantly dropping spring and part prices has started to change,” says Selhorst. “We hope so, and we believe that may help to pass on these substantially higher material costs. It’s got to happen for everyone’s well-being.”

“The demand for spring wire has been high,” says Merrills. “Despite chaotic pricing, springmakers are buying wire and making products. Throughout 2005, we don’t see a drop in demand. What we do see is quicker availability. Instead of 12 weeks, material will be available in about five weeks. Overall, I think springmakers will enjoy more stability in prices this year.”

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