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## An **R** for Manufacturing

We have been talking about manufacturing in America, trying to get a fix on where we stand and how did we get there. Briefly, we don't stand on very solid ground, and a good many of our problems can be laid at the feet of imported products. So what can we do about it?

Some of the possible remedies to the loss of manufacturing jobs and enterprises are fairly familiar. Others will require some new thinking by workers, by companies and by the state and national governments. To review some of the possibilities:

- Enforce the Trade Laws. This step should be considered a no-brainer. After all, we have both domestic laws and international agreements that prohibit unfair trade practices like dumping and government subsidies. Yet, when domestic firms or workers seek to employ those rules to mitigate unfair trade, they are often called "protectionists." To take another example, when China became a member of the International Trade Organization, it accepted the possibility that its exports could disrupt other countries' markets, and it agreed that those countries could take measures to restrict China's disruptive imports. Yet, when the U.S. followed that agreement to address the injury being caused by China's tire exports, the cries of "protectionism" echoed across the globe.

Pasting a label on the opposition is a familiar tactic in our and other country's politics, but rarely has it been used so successfully as in the trade field. No matter how justified by the rules, whenever anyone seeks to curb unfair trade, they are called "protectionist," and altogether too many people believe it. So, it is not only the fact of unfair trade that needs to be changed but also the mindset that too often would give a pass to the perpetrators of that trade.

- End Currency Manipulation. The fact that China's currency is greatly undervalued is so well accepted world-wide that it has become boring to hear about it. Yet, think about its implications. By maintaining the unrealistic value of the yuan, China subsidizes every dollar of its exports by an estimated 25 to 40 per cent. Certainly American manufacturers would soon be out of the woods with that kind of support.

Recently, some observers have speculated that the Chinese will soon let the yuan rise by 5 to 10 per cent, particularly if their recent anti-inflation measures don't gain traction. That step would give some relief, but it would not cure the distorting effects of a major exporting country grossly manipulating the terms of its trade. The rest of the industrialized countries are with us on this issue, and our government should keep the pressure on for more action by the Chinese.

- End American Subsidies to Foreign Manufacturers. If it sickens you to see "earmark" seeking lobbyists and politicians at the trough in Washington, your digestion will be no better off watching what goes on in some state capitals as officials woo foreign companies to build in their state. Auto manufacturers, electronics makers, steel producers are wined, dined and, more to the point, treated to cheap loans, grants, tax breaks and anything else that will convince them to build in the "Great State" of whatever. Armed with those benefits, these foreign companies can kill their domestic competitors on price. The new jobs reaped by the bribing State will soon be lost elsewhere. The net result is increased government spending across the board – a burden on the taxpayers of the bribing state and loss of tax revenue where the competitors are situated. How does this make sense?
- Start Thinking More Clearly About Manufacturing. First and foremost, Americans should stop thinking about manufacturing as a collection of "has-been" industries. Those industries put out about 14 per cent of our gross domestic product. They are the principal users of sophisticated electronic machinery and equipment. They offer, still, the best paying jobs with the most attractive benefits. They are the bedrock of communities (and when they disappear, often the community does as well). The suggestion that all these advantages can be foregone as we turn to a service or information technology society is simply wishful thinking. Go tell that to the Chinese or Indians, who are placing manufacturing at the center of their efforts to become the preeminent industrialized countries of the 21st Century.

When the importance of the manufacturing sector is recognized, it becomes easy to see that we ought to shape our national policies with an eye to its health. Our tax policies should not encourage offshore production. Our efforts to revitalize the economy should focus on manufacturing things for our transportation, energy, health care and other critical industries. We should make sure that our young people have the opportunity to receive higher education to meet the demands of new and sophisticated manufacturing processes. We should devote our best minds in business and academia to seeking new approaches and policies to bolster manufacturing. With these steps, and others, we can reap benefits for the country that go well beyond the manufacturing sector.

Here are some of the input cost data for this month:

- Scrap and Pig Iron Number 1 dealer bundles and #1 busheling were up some again this month, to \$395 and \$400 per mt, respectively, or about 3%. Outside the “wild days” of the first half of 2008, these prices have only been exceeded once before, in mid-2004. The spot price for Brazilian pig iron (cif New Orleans) was also up, from \$375 to \$420 per mt, a 12% increase. These trends of increasing prices, which have lasted for the last four months, may signal firmer demand and pricing in the steel products markets. (The Institute for Supply Management reported stronger new orders and price increases in the January for the primary metals industries.)
- Natural Gas The Nymex contract price leveled off this month, to \$5.54 per mmBtu, a decline of 3 cents from last month. This relatively stable pricing is a good sign, given the recent focus on bringing new supplies to market. While not as low as the prices during the 2009 recession, the current level is at the lower end of other prices over the last seven years.
- Ocean Freight The Baltic Capesize Index dropped slightly, to 3486, this month. There were two spikes in the Index during 2009, but, otherwise, the current level is consistent with the last fourteen months.
- Exchange Rates The euro tumbled last month, to \$1.35 versus \$1.44 in January. Possible government insolvency in Greece and serious problems in other countries have raised questions about the Euro Area, and further declines are predicted by many experts. The pound also lost ground to \$1.55, down 8 cents. Slow recovery and questions concerning the banking sector still trouble the U.K. The Canadian dollar was off 2 cents to \$0.95.

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