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## **“Confidence – The Missing Factor”**

For many years, economists have recognized that psychology plays a big role in shaping the recovery from a recession. FDR’s challenge to the nation – “The only thing we have to fear ... is fear itself!” – made the point most vividly. The pundits who observe that we can’t get growth until unemployment comes down and we can’t reduce unemployment until we have growth, are saying essentially the same thing – without confidence in the future, there may not be one.

Today, there are strong reasons to have confidence. For one, we can see that this is not a resource-starved recession. Most of our banks hold adequate capital and have funds available for lending. Businesses are said to have almost two trillion dollars in funds available for expanding production and acquiring new plant and equipment. Manufacturing has grown for some eight months now. The technology sector appears to be on a rebound.

Yet recovery has been very sluggish. Banks are reportedly stingy with their lending, averting risks that, just a few years ago, they considered trivial. As a result, many potential job-creating investments remain unfunded. Companies that do have the wherewithal to ramp up their operations are instead hoarding their funds against more rainy days. So nothing seems to be moving in the right direction.

We all know that downturns present opportunities as well as challenges. The Warren Buffets of this world have shown how successfully those opportunities can be exploited. Many of our leading companies have structured themselves to be able to grow in lean times in order to make the best of economic recovery. These are instances where people have confidence in themselves and in the future of our country.

Why do we seem to lack this confidence today?

Some would argue that the situation is more serious today. We have had nothing like this experience since the Great Depression. But this argument is somewhat suspect. The Depression was far worse in every way – people out of work, the assets available to promote recovery, our understanding of the economic forces at work – than the present crisis. Unemployment is high now, but not close to the numbers (upwards of 20%) that occurred in the 1930s, and it is even below the rates of 1982-83, which got close to 11%.

Others suggest that we are out of resources available for a government-led recovery. We have spent and borrowed every cent reasonably available to stimulate the economy, and we just don't have any ammunition left. Whatever the truth of that point, it ignores the huge funds available to the banks and companies that are apparently being unspent.

Some suggest that the unwillingness of companies to invest is just good, old-fashioned, hard-headed business sense. People don't want to make more products or be able to provide more services until they see a market. Consumers won't loosen their purse-strings until they feel more secure that they won't be losing their jobs. None of this behavior is irrational, but it does show a maximization of concern for risk and a lack of interest in the opportunities that are out there. These attitudes may be different from the experiences in previous downturns, and those who argue that the slowness of the recovery is due to a sensible reaction to conditions are really only making the point that there is, today, a wide-spread lack of confidence.

One is tempted to wonder whether there are other, 2010-specific, causes for this lack of confidence. One of those causes may be our current skepticism about many of our country's institutions. Take our banks, for example. During the Depression, bankers were not a loved lot, but there wasn't a widespread belief that their actions were a prime cause of our problems. And, once the government had shored up and regulated the banks, their customers began again to rely on their soundness. Today, the banks (and the bankers) are mostly in good shape financially, but they are widely suspect for looking out for themselves rather than their customers.

Another failure of confidence relates to our political institutions. Congress has never won any popularity contests, even though many constituents like their own representatives just fine. Today, however, there is a disgust with what goes on in Congress – a sense of disconnect between the posturing for political advantage and what ought to be done to address the problems we have. Beyond that, there is widespread belief that the voters have become so fractious that we can expect more of the same in the future.

Even without our current economic travails, our country would be facing enormous challenges: two wars, competition with newly emerging powers, energy shortfalls, huge budget deficits, failing domestic infrastructure and a host of social problems. In seeking to meet these challenges, our economic weakness ties one arm behind our backs. Our crippled institutions may tie our other arm.

Here are some of the specifics on costs for this month:

- Scrap and Pig Iron The prices for #1 dealer bundles and #1 busheling (Chicago) remained unchanged this month, at \$400 and \$410, respectively. The spot price for Brazilian pig iron (cif New Orleans) was down \$10 to \$440 per mt.
- Natural Gas The Nymex contract price for natural gas was up 31 cents, to \$4.77 per mmBtu. Gas prices have been steady, and low, for several months now.
- Ocean Freight The Baltic Capesize Index increased by some 600 points to 2485. This figure continues the implication that demand for bulk carriage, like iron ore, is not too strong.
- Exchange Rates As of this writing, the dollar has strengthened a bit against the euro, which declined two cents to \$1.27. The pound was up three cents to \$1.56, and the Canadian dollar was unchanged at 95 cents.

As you know, we always welcome your comments and suggestions. This letter will be posted on our website, [www.coreysteel.com](http://www.coreysteel.com) and on the international site, [www.steelonthenet.com](http://www.steelonthenet.com).