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Uncertainties and Opportunities

"A stitch in time saves nine."

"Haste makes waste."

At first blush, these two old proverbs seem contradictory, one urging prompt action and the other suggesting more caution. Of course, we have recently witnessed how both sayings can have something to say in describing the same situation. Last fall's "troubled asset" legislation threw hundreds of billions of dollars at the financial industry to prevent a freeze up (melt down?) of the world-wide banking system, thereby "saving nine." But many think that a great many of those dollars went to undeserving recipients without significantly changing the widespread credit shortfalls; in short, a classic case of haste making waste.

A more fundamental inconsistency presented by our present economic situation lies in how we get back to normal. In uncertain times, people can be expected to hunker down, to conserve their pennies, to put off replacing cars and appliances that still have some life left in them. This is rational behavior and probably would have stood the country in good stead had it gone on more during recent boom times. But it is just what the overall economy does not need now. What we require is that Americans build back demand for goods and services.

The best way to get people to spend money is to give them employment – more secure jobs for those now working and new jobs for those who aren't. This is, of course, the objective of the various stimulus packages now under consideration, and the test of their worth will be how efficacious they are in promoting employment and spending. But here comes another paradox: To the extent that we spend billions and trillions on recovery, we are mortgaging our future to the unhappy consequences of huge deficits that will curb our ability to spend later on. This is why decisions on the stimulus packages must be made with the greatest care – spend not enough and we may rest in recession for years; spend too much and we could sink our future under immobilizing debt. (We used to talk about "mountains" of debt, but we had those before the current crisis. Should we now use "continents" of debt?)

One way to mitigate this problem is to invest our stimulus money, not just spend it. If we build a new road or repair an aging bridge, we not only provide employment, but we have something to show for it. One way or another, those infrastructure expenditures will have to be made some day, yet we have neglected making too many of them for years. Now, we can kill two birds with one stone – jobs and public works. The same analysis may be valid with increased spending on developing sources of alternative energy, on using existing technology to improve the efficiency of our health care system and on other programs that will show tangible rewards for the dollars that go into them. Looked at another way, those expenditures present less of the dilemma of future deficits because they would also reduce future demands on our state and national budgets.

In this light, the bailout of the U.S. auto producers could also make sense. Of course, their continued viability would protect millions of jobs throughout the economy. But we should receive an added bonus – as a price for Uncle Sam's largesse, the companies will build more efficient cars, they should be freer of expensive and unfulfillable labor and legacy costs and their plans for the future should be more rational. Considering the relatively small amounts that are likely to go into this effort (probably a small fraction of what the banking industry will get), it seems well worth the gamble.

Viewed in this light, one has to have questions about trying to stimulate the economy by new rounds of tax cuts. It is not that people won't welcome having more money in their pockets or that they won't spend it on consumer goods (although there is some doubt about the latter). The real problem is that the contribution that tax cuts will make to future deficits will not be offset by tangible benefits that will reduce those deficits. A million more iPods or ten million more pairs of sneakers in the hands of our citizenry won't be much comfort to those wrestling with budget issues five years hence.

As we have said before, the key factor will be a return of confidence in the economy by lenders, by employers and by spenders. How fast that confidence comes back will depend in great part on our collective feeling that the people in charge of our governments, our companies and our employee organizations know what they are doing. A huge element of that judgment will be based on what happens with the stimulus plans and how the money is actually spent.

Turning towards the specific cost data, here are some numbers for this month:

- Scrap and Pig Iron. Number 1 dealer bundles and #1 busheling (Chicago) continued at about last month's levels, $240 and $255 per mt, respectively and about twice the prices of two months ago. The spot price (cif New Orleans) for Brazilian pig iron remained at $375 per mt, but, reportedly, few sales take place at that level because the cost of production is higher.

- Natural Gas. The Nymex price climbed modestly (16 cents) to $5.89 per mcf, still less than half the July, 2008 level and well under the intervening months until December.

- Ocean Freight. The Baltic Capesize Index declined slightly to 1406, continuing a better than 90% drop off since last summer. Bulk goods are simply not moving enough to cause prices to increase.

- Exchange Rates. Yo-yoing of exchange rates has continued. The euro, which had increased in value by 16 cents last month, lost a dime in January and, as of this writing stands at $1.33. The pound lost 7 cents and now is worth $1.47. The Canadian dollar lost 3 cents to 80 cents.

These are "interesting" times, and we would like to know what you think about them. Let us hope that 2009 brings some easing of the many cares our country now faces. As usual, we are posting this letter on our website, www.coreysteel.com, and on the international site www.steelonthenet.com.

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