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Who Makes What We Use?

We in the steel industry have long known that our country no longer produces enough product to satisfy our needs. Over the years, we have watched as aggregate imports of steel products reached 25 to 30 percent of the domestic market. And, due to plant closings over that period, we no longer even have the capacity to become more self-sufficient, even if the economies of production were to permit it.

Steel is not the only product for which our country must depend on production elsewhere. Textiles have been a favored market for developing countries (including Japan for 20 years after World War II). Now, China is the textile behemoth, and few American companies survive on their production here. (We make less than 10% of the men's shirts we wear.) Other industries, notably television, toys, cameras and other electronic devices have seen domestic production wither.

Perhaps we have become so inured to this process that we have overlooked just how much we have come to rely on production elsewhere for a broad variety of products essential to our economy. These go far beyond the industries that are particularly suited to exploitation by developing countries, like textiles and toys. They now encompass precision items requiring demanding production techniques and sophisticated equipment.

For example, we now produce only about 70% of the ball bearings we consume.[*] We do make large quantities of this critical product, but a good portion is exported and, therefore, not available for our use. One could argue that the nation's production capability is nearly adequate, if, in an emergency, we were willing to take the drastic step of halting ball bearing exports. But, the same could not be said for many other products, like valves, where imports are almost as large as our domestic production and have become necessary to meet our domestic needs.

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[*] This datum, and the others that appear in this letter, are based on 2006 government statistics, which are the latest that permit a comparison between imports and domestic consumption. The data is value based and, therefore, will not provide quantity comparisons. Since dollar values of imports are generally lower than domestic shipment values, the numbers here probably understate the percentages of import market penetration on a volume basis.

But beyond the issue of availability of critical products, there is the question of the overall landscape of domestic production of basic items that any industrialized economy needs. Taking a random selection of these products, we can see that for a number there is very substantial reliance on foreign suppliers. We only produce about two-thirds of the lime and cement we use (products where imports are disadvantaged by the relatively high transportation costs beyond the coastal and border areas). We make only about 75% of the cooking appliances we use, less than half of the plywood we buy, about 60% of the printing machinery that is sold here and about half of the rubber tires. Given the pioneering that has been done by U.S. manufacturers of medical and surgical instruments, it is surprising to find that we rely on imports for some 30% of these products.

What does all this mean? As a start, one should not view these observations as a call for protectionism. International trade is here to stay and these trends will not be reversed by new restrictions on imports unless we are willing to endanger the entire world economy (as happened during the Great Depression). Some would argue that our greater reliance on imports is the sign of a mature, sophisticated economy, where we sell our brainpower to the rest of the world in return for their goods. The problem with that scenario is that it looks like so much wishful thinking – what kind of brain power led us into the subprime mortgage fiasco and who wants to buy it?

Perhaps what we are seeing will stimulate some of the calls for new policies on manufacturing. We have stated before our belief that much could be done to shape national and state initiatives to better promote the health of our manufacturing enterprises, to thwart unfair trade practices where they occur and to educate our young to operate those enterprises more effectively. Unless those changes occur, we can expect to see a continuing ebbing of our production, more and more reliance on foreign products and greater dependence on the vaporous conceit that we are smarter than the rest of the world.

Here are some of the cost data for this month:

- Scrap and Pig Iron The prices for #1 dealer bundles and #1 busheling (Chicago) dipped a bit this month, to $300 and $310 per mt, respectively. For the last four months, the prices for scrap have been drifting around the $300 mark, suggesting little life in those markets. Similarly, the spot price for Brazilian pig iron (cif New Orleans) has bumped up and down around the $325 level, this month at $330 per mt.

- Natural Gas After slowly but steadily declining for more than a year, the Nymex contract price jumped up this month by over 40% to $392 per mcf. While part of this increase may be due to the coming heating season, we did not see a similar upturn last year at this time.

- Ocean Freight The Baltic Capesize Index was virtually unchanged this month at 3528. It appears that commodity carriage is relatively quiet, after showing some signs of life during the summer.

- Exchange Rates Changes in the dollar's value were mixed this month. At this writing, the euro is at $1.49, up a penny after reaching $1.51 earlier. The pound is at $1.63, off a penny, and the Canadian dollar stands at 92¢, off two cents.

As usual, we welcome and solicit your comments. This letter and all of our others will appear on our website, and on the international site www.steelonthenet.com.

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