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A Bit of Holiday Cheer

As we wind down 2007 and begin the holiday season, it doesn't hurt to take a look on the positive side of things. And, when we cast about for good news, one bright spot is somewhat unexpected – U.S. manufacturing.

For years, we have been legitimately concerned that our country was eroding our manufacturing base, endangering not only our economic health, but our national security. As millions of jobs were lost and imports exploded, some saw an inexorable decline to the vanishing point.

However, the statistics and some specific examples tell another story that perhaps portends a parting of the clouds:

- Manufacturing still accounts for about 12% of our GDP and grew by almost 17% between 2001 and 2006. *Two-thirds* of our exports are manufactures and should amount to close to a trillion dollars this year. We are still the world's number one exporter of manufactured products.

- While we have lost many, many workers in manufacturing, the sector still employs more than 14 million. The average hourly rate for production and non-supervisory personnel was up 3.8% for the year. (Average annual wages, including benefits, for all hourly and salaried employees in the sector were almost $69,000 in 2005, $12,000 more than the average national compensation for all sectors.)

- Manufacturing workers chalk up many more hours than the rest of the work force. The average workweek in November for production and non-supervisory employees was over 41 hours, compared with a total national average of less than 34 hours. Despite the falloff in the construction-related sector, manufacturing industries were operating at 80% of capacity. New orders were up four of the last five months. Unfilled orders have been up 23 of the last 30 months.

- The fall of the dollar has spurred U.S. exports generally. Last year's $1.445 trillion of exports was a record, but it will surely fall this year, as the ten months' figure was $1.338 trillion. Over the period 2004-2006, exports increased an average of 12.4% and are almost sure to do as well this year.

Anecdotal evidence adds to the optimism:

- Bucyrus International used to make its large mining shovels in China but recently decided to spend $150 million to upgrade its Milwaukee plant and equipment. It is doubling its work force and tripling production. Its January - September profits were almost twice last year's figure for the same period. Its major complaint? The company can't find enough workers. Bucyrus stock closed at $27.09 at the end of 2004; today, it trades at around $85.

- Another Milwaukee company, Harley Davidson, never made the detour abroad. It stuck it out in the U.S., relying on hometown workers and local suppliers. And it has thrived in the face of fierce foreign competition – in 1990, you could buy its stock for under $2 a share; today it goes for over $45.

The secret of these companies? Some would say they are enjoying a boom in their businesses and, in the case of Harley, the "cachet" element of a fashionable product. Probably true, but those factors do not explain how they can prosper as a U.S. based manufacturer, rather than moving abroad.

First of all, these companies and their workers appear to embrace a concept called by the experts "high skilled – high road". They distinguish themselves from companies competing on price alone. They believe, and the record suggests that they are right, that quality, reliability, attention to customer needs, and a productive work force can and will trump lower prices, at least often enough to permit profitable operation.

Another factor that has helped brighten the picture of the manufacturing sector is the growing awareness of the importance of the supply chain. China is a long ways away. If there is a production glitch there, you can't drive across the city or take a short hop on an airplane to go see what's the matter. If a shipment is lost or damaged, there is no near-by inventory to fall back upon. In short, there is a long distance cost factor that must be cranked into the pricing calculus, and more purchasers are taking it into account.

However these factors line up, there is plenty of evidence, statistical and otherwise, that American manufacturing can succeed. The gravy days may be over, and there still are many problems associated with international trade, but there is plenty of room for companies to prosper staying here at home.

Here are this month's specifics:

- Scrap and Pig Iron. Number 1 dealer bundles and #1 busheling (Chicago) took a jump this month to $335 and $340 per mt, respectively. These are levels more than $100 above those at the beginning of the year and reverse a downward trend since August. The spot price for Brazilian pig iron (cif New Orleans) reached a new high of $410 per mt. Next year should be interesting, as we confront the continued demand for commodities and raw materials.

- Natural Gas. After spiking in September, the Nymex contract price has hovered around the $7 per mcf level for three months. The current price is $7.20, up 32 cents from last month.

- Foreign Exchange. The dollar has strengthened some since last month. At this writing, the euro is at $1.44, off 4 cents, the pound is worth $2.01, down a nickel, and the Canadian dollar has declined 2 cents to $0.99.

We at Corey always remind ourselves of the gratitude that we owe our customers and other friends in the industry. We want to take this opportunity to express that gratitude to you and to send our best wishes for a warm and pleasant holiday season and a healthy and prosperous New Year.

As usual, we are posting this letter on our website, www.coreysteel.com and on the international site, www.steelonthenet.com.