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Our Sagging Infrastructure - -
How Bad Is It ?

After World War II, the United States sat atop the world economically. Our territory escaped the ravages that most other industrialized countries experienced, and we were able to parlay our relative wealth into unprecedented growth and prosperity. Over the twenty years after the war, we undertook the greatest construction project in history in building our interstate highway system. We built housing, schools and factories at a breakneck pace to meet the needs of our growing population and its growing demand for goods and services. One might say that it was the sweet spot of the American dream.

While all this was going on, some early cracks were developing. We in the steel industry are all too familiar with one of them: During the war, we expanded our steel-making capacity at a breathless pace. Of course, we built our plants with the latest technology, open hearth furnaces in particular. That capacity met the needs of the post-war world, but, as the years went by, new processes were developed that produced better quality steel at lower costs. Other countries, who were rebuilding their industries from the war devastation, used these advanced technologies to create cutting edge plants that could produce more steel than they needed at home. The outmoded state of the American industry was revealed when those countries began sending their steel to the U.S. in the late 1960s and increased their share of the market over the next decades. Playing catch-up was a painful, expensive and long process for the American industry.

Today, we find that many more cracks have appeared. The American Society of Civil Engineers has issued a “report card” on the status of our infrastructure in 2009. They found that, of fifteen areas of study, eleven were graded “D”; none of the others were above “C”. Some of their findings:

- Between 1980 and 2005, vehicle miles traveled on our roads increased by 94% for cars and 105% for trucks. During that time, highway lane miles increased only by 3.5%.

- Almost 30% of urbanized roads offer lower than “acceptable” ride quality.
- Congestion is expensive and dangerous. Fuel wasted due to congestion climbed by 70% between 1995 and 2005 – to 2.9 *billion* gallons.
- Ridership on public transportation is rising (up 25% between 1995 and 2005), but rail transit stations are in poor shape. Over 50% of stations are rated in substandard or worse condition.
- In 2008, about one quarter of rural bridges and one-third of urban bridges were categorized as “structurally deficient” or “functionally obsolete.”
- There is no definitive record of how many levees we have nor any assessment of their condition. A survey was begun after Katrina and Rita; so far, of those inspected, about 10% were expected to fail in a flood.
- There are about 85,000 dams in the U.S. Over 15,000 are considered to have “high hazard potential” for damage in case of failure, and over 4,000 of those are considered “deficient”. About 90% of dams are under state, rather than federal, regulation, but many states do not have adequate safety programs. Texas has seven inspectors for 7,400 dams; Alabama has none for 2,000.
- Comprehensive data on the physical status of public schools is simply not available; although efforts are now being made to get the numbers. One survey showed that 30% of public school students are in overcrowded facilities. Public school construction and maintenance funds have declined over the last five years and are expected to go down even further.

Similar findings were made for aviation, drinking water, energy, hazardous waste, solid waste and wastewater. What has gone wrong?

The easy answer is that we don’t spend enough money on upkeep, repair and modernization. But, accepting that funds are short, there may be a more fundamental cause: Our problem with our infrastructure may well be yet another manifestation of our demand for instant gratification, our reluctance to save, and our unwillingness to think of the future.

We have seen what can come of a desire to spend the equity we have in our houses. We have seen how leveraged buy-outs can leave companies with debt structures unsustainable in tight credit times. And we have seen how these kinds of problems can affect innocent by-standers – the neighbors whose houses are devalued by foreclosures in the neighborhood, the companies that must deal in a marketplace distorted by the practices of cash-strapped competitors who need to move product at any price.

Whatever the cause, we have an infrastructure problem. One can only hope that our present economic circumstances produce a frank and mature acknowledgement that we must address the problem.

Here are the cost data for this month:

- Scrap and Pig Iron Number 1 dealer bundles and #1 busheling (Chicago) were both up over 10% this month, to $430 and $440 per mt., respectively. This counters the trend for the last couple of months, but the present prices are within a relatively narrow range that has held for the last 12 months ($380-$460). The spot price for Brazilian pig iron (cif New Orleans) also increased, to $435 per mt. Again, we have seen prices over the last year within a band of $385-$465.

- Natural Gas After four months of decline, the Nymex contract price for natural gas spiked a dollar to $4.35 per mmBtu. That is an increase of almost 30%, but the new price is still well within the range for the last ten months and still relatively low compared with the last seven years.

- Ocean Freight The Baltic Capesize Index declined a third to 2676 this month. Again, we are seeing readings at the low end of the range during the past decade and within a fairly tight band over the last year.

- Exchange Rates The economic uncertainties in Ireland, Portugal and Spain have put the euro under serious pressure, with unusual value swings from day to day. At this writing, the euro is down four cents from last month to $1.31. This is a nine cent drop over the last two months. The pound also lost four cents, to $1.55, and the Canadian dollar picked up a penny to $0.98.

We hope that your holiday season will be peaceful, relaxing and full of warmth and that the New Year will bring you health, happiness and prosperity. We thank you for your support during 2010 and look forward to working with you in the coming year.

This letter and all our others can be found on our website, www.coreysteel.com and on the international site, www.steelonthenet.com.