One PGT Way
Monaca, PA 15061-0400

724-728-3500
www.pgttrucking.com

The Steel Industry in 2015 and 2016

By Larry Cox

The state of the steel industry is an important factor in the total freight available to the flatbed carrier community. Changes in total steel demand in the United States, as well as the distribution of who is producing steel to meet this demand, are key factors that we need to understand and exploit.

What's Going On?

In 2015 energy prices crashed, and as a result, oil exploration and production companies severely curtailed marginal drilling operations. In a very short period of time, demand for seamless tubular products evaporated. Additionally, many flat rolled coil operations which supply hot rolled feedstock to welded tube operations, likewise took a large hit. As the energy markets walked away from steel purchases, the flat rolled mills then aimed their production at other markets such as service centers, and as a result pricing has dropped in those outlets for steel. Tubular product producers have few alternatives to sell their product and so they simply shut down some operations.

The collapse in energy prices was global. As a result we see foreign tubular and flat rolled producers exporting their product to the United States, to take advantage of whatever demand still existed. This places more downward pricing pressure on the domestic producers and takes away demand. Steel prices in the USA traditionally are higher than global pricing, so we represent an attractive market for importers.

Overlaid on top of these dynamics is the introduction of new domestic capacity in the market. New steel mills built in the South over the past decade have added over 8 million tons of capacity to the market, and this ultimately depresses steel pricing. Some other companies increased their production capacity. Big River Steel will initially toss another 1.7 million tons into the pot. In a flat-to-declining market, all of this modern, low-cost capacity comes out of the hide of older, less economical mills that see lower pricing, shrinking market share, and suffer large financial losses.

The Recession Did Not End for Everybody

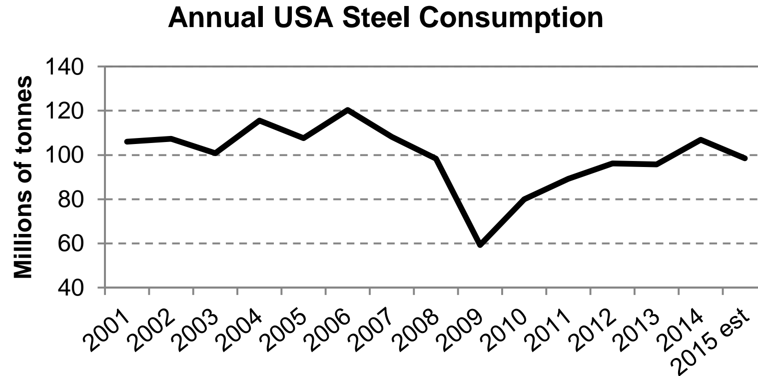
While the Great Recession is looked at by many as a thing of the past, one key outlet for steel products never fully recovered and this is the Metal Building segment, where shipments are still well below pre-recession levels.

Meanwhile, new entrants to the market have added construction hot dip galvanize and Galvalume® capabilities, adding new, low cost capacity to a saturated market. They do this because they can still make a buck at it, something that is difficult for the traditional producers. As a result, some galvanizing lines that normally would be running at full capacity during the summer months instead were running partial schedules, or they were shut down altogether.

Similarly, the tin mill products segment (products that largely go into food containers, which are increasingly produced with nonmetallic packaging) has seen no recovery since the Great Recession, as overall shipments are even lower today than they were in 2009.

This results in more melt capacity being pushed into alternative markets by the traditional producers of these products, which again places downward pressure on those alternative markets.

It's Not All Gloom and Doom
The chart below shows apparent steel consumption in the United States going back fifteen years



While the estimated demand in 2015 is down a tad, it does not represent a disaster to the trucking industry. What we are seeing in the market place is that some mills are seeing huge drop-offs in demand, while the "new capacity mills" and imports are taking up much of the slack.

- Whether steel is made domestically or imported, somebody has got to ship it.
- Whether a coil is made by a mini mill, new mill, or integrated mill, somebody has got to ship it.

So while the trucking industry does have to deal with some decline in overall steel demand, our real challenge is to not become too dependent upon mills that are losing market share and frequently posting huge financial losses. That is why it is imperative that we come up with ways to increase our penetration at mills whose market share is growing and whose financial results are profitable. It is also in our interest to have assets in place near the port facilities or key rail-unload points, to handle the volumes of imported steel coming in.

Of course to hedge our bets against an overall decline in steel consumption, we should ensure that we haul a lot more than 'just steel". Our recent successes in penetrating the nonmetallic building materials segment are a good example of just that. It gives us options and it gives us a "go to guy" when steel slumps, so long as we have solid relationships and an already standing book of business with the building materials customers.

About Larry:
Laurence Cox is the Process Improvement Manager at PGT Trucking. He is a longtime veteran of the steel and transportation industries, with senior leadership experience in steel operations, commercial and production planning management, external vendor management, and managerial roles in capital planning and industrial engineering. Mr. Cox holds a Bachelor's Degree in Mechanical Engineering from the Pennsylvania State University, and a Master of Business Administration degree from the University of Chicago.