

## Steel Industry Would be Hurt if US Automakers Fell

By Steve James

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**NEW YORK**, (Reuters) The steel industry, already reeling from an economic slowdown that has forced production cutbacks, would suffer a devastating blow if the Big Three U.S. auto companies declared bankruptcy or went out of business altogether, analysts said on Friday.

"If the auto companies go, there will be a cascading effect," said steel industry analyst Charles Bradford of Bradford Research/Soleil. "A lot of parts makers and other companies owe a good deal of money. That's where the exposure of the steel industry is."

**Michael Locker of Locker Associates**, a New York-based steel industry consultancy, noted about 30 percent of U.S.-produced steel shipments go to the auto industry, either directly or indirectly to parts makers.

"It will have a significant impact in bar and sheet steel production," **he said** of a collapse in U.S. auto manufacturing. "It would mean a contraction of the steel industry."

Their comments came after U.S. Senate negotiations over a \$14 billion package to extend emergency loans to Detroit broke down late on Thursday.

U.S. auto sales fell a whopping 36.7 percent in November as consumers tightened their belts, and most analysts expect the downturn in auto sales to deepen in 2009 under the financial crisis. U.S. auto production for the year to Nov. 15 slid a steep 16.7 percent from last year to the lowest build rate in 15 years.

General Motors Corp and Chrysler LLC are staring at possible bankruptcies and have sought billions in loans to continue operating into 2009, while Ford Motor Co has asked for a line of credit it could tap if its finances worsened.

Bradford said that a demise of the Big Three U.S. carmakers might not be a crushing blow to steelmakers. "The steel industry depends on how many cars are made, not whether GM is bankrupt. If Toyota and the others make the same cars here as the American makers, then it doesn't make much difference."

But new energy efficiency standards are already yielding smaller cars, using less steel and more lighter metals like aluminum, he said. "It will mostly hurt the integrated companies, like U.S. Steel (Corp), AK Steel (Holding Corp) and ArcelorMittal."

"Cars are going to shrink, whatever, and that's a big negative for steel," said Bradford. A spokesman for U.S. Steel declined to speculate on the potential impact of auto companies going bankrupt, saying the company did not comment on customer relationships.

But in October, Chief Executive Officer John Surma said he hoped to see the U.S. auto industry emerge from the current "mess and morass" as healthy. "What really matters is how many cars or vehicles are manufactured in North America. We just want to see them making as many automobiles as they can."

**Locker said** a demise of U.S. auto manufacturers could trigger more consolidation in steelmaking. "It's possible, but there are not many companies left. AK Steel is the last medium-size manufacturer that feeds the auto industry. There is a large auto market here and somebody will want to buy those assets, probably a foreign operator."

**He noted** Ford said it would halve the number of its suppliers. "There will be a tremendous squeezing out of steel capacity, with less cars being produced in the next few years and less steel in cars as they become lighter and more efficient."

"But the industry will survive," **said Locker.** (Editing by Gerald E. McCormick)