washingtonpost.com

Correction to This Article

A previous version of this article incorrectly said that Esmark Inc. runs a steel mill in West Virginia. The mill is in Ohio.

Steel, Forging a Comeback

Domestic Production Rebounds as Prices, Global Demand Soar

By Michael A. Fletcher, Washington Post Staff Writer

Wednesday, May 28, 2008

The U.S. steel industry is enjoying a new era of prosperity less than a decade after crippling production costs and lower-priced imports helped trigger a huge wave of bankruptcies that some thought would leave it permanently tarnished.

Buoyed by sharply reduced employee costs, soaring global demand, dramatic consolidation that has tamped down cutthroat competition and a weakened dollar that has made imports less attractive, steel prices have tripled in the past five years. For the first time in decades, companies operating in the United States have added capacity and workers.

German steelmaker ThyssenKrupp is building a $4 billion plant in Alabama that is expected to open in 2010 and employ 2,700 workers. Nucor has applied for permits to build a $2 billion plant in Louisiana that would manufacture iron to supply its processing plants. The Russian giant Severstal recently purchased the Sparrows Point steel plant outside Baltimore, promising to invest a half-billion dollars to update it and then run it at capacity. Severstal is also bidding against Essar Steel, an Indian firm, for control of Esmark, which runs a mill in West Virginia. In addition, the company is expanding its Severcorr plant in Mississippi. The facility is among about a half-dozen mills expanding across the country.

"There hasn't been this much building in 25 to 30 years," said Michael D. Locker, president of Locker Associates, a steel consulting firm. "We are in a new period here. I don't see us going back to the old period of high imports and low prices."

Steel companies have also become hot investments. As a group they have outperformed the overall stock market by wide margins in recent years. The American Stock Exchange's Steel Index, which is made up of steel stocks, increased an average of 49 percent a year from 2003 to 2007, while the Standard and Poor's 500-stock index had an average annual increase of just over 13 percent during that period. So far this year, the steel index has climbed 25 percent, and the S&P is down 5.6 percent.

"If you would have said that was going to happen back in 2002, it would have been thought of as unimaginable," said Christopher Plummer, managing director of Metal Strategies, a consulting firm. "What has happened in the industry in recent years is like night and day."

Less than a decade ago, the domestic steel industry seemed to be collapsing under a string of bankruptcies and a flood of imports that made steel a potent symbol of the failures of U.S. manufacturing in a global world.

The industry shed more than 400,000 jobs in the United States from the 1980s to the early part of the current decade. More than 40 companies tumbled into bankruptcy, leaving thousands of retirees without health coverage and with sharply reduced pensions. Many of the bankrupt companies were later snapped up by private-equity firms, which were able to restructure the mills into larger, more-efficient enterprises that in many cases found new investors. The new owners invested in technology, and freed of the pensions and other legacy costs that burdened previous owners, they were able to run the businesses more cheaply.

Now, steel prices are at historic highs, surging 70 percent in the past year alone, along with the prices of the iron ore, coke, scrap, gas and coal used to make steel. The escalating prices have not dampened demand even during the ongoing U.S. economic downturn, as much of the steel on the global market is being consumed in China, India and fast-developing areas of the Middle East.

"I have never seen anything like it, and I have been in the business 45 years," said Barry Rhody, president of E&E Corp., a steel consultancy. "There has been unprecedented demand for steel."

That demand, coupled with a weak dollar, spiraling shipping costs and the fact that many steel producers in the United States own mines that produce the raw materials that go into steel, insulating them from commodity price shocks, have made the domestic industry more competitive against imports.

The price of steel, while perhaps nearing a peak, is likely to remain high because of the consolidation that has taken place in the industry and because of overall global demand, which is expected to remain strong, analysts say.

In the past, large swings in the price of steel have been common, as companies were unable to adjust production to account for routine changes in the business cycle. Adding to the pressure on steelmakers, the industry was highly fragmented, fostering brutal price competition. But now three companies -- U.S. Steel, Nucor and AcelorMittal USA -- control nearly 70 percent of the country's production of sheet steel, which is used to make such products as automobiles, highway guardrails, storm doors and home appliances. That dominance allows the firms to better control price and production levels than in the past, when big buyers had more leverage in setting prices and mills found it more economical to run at full capacity, regardless of demand.

"Today you have fewer but much stronger companies that are able to manage across more volatile conditions more effectively," said Nancy Gravatt, vice president of communications for the American Iron and Steel Institute, an industry group.

Part of the credit for steel's rebirth goes to the pragmatism of the United Steelworkers. The union become a supporter of mill consolidations, agreed to more job flexibility in labor contracts and went along with a move to replace guaranteed pensions with defined-contribution plans. The union was able to extract agreements from owners to streamline companies' management ranks and set aside a share of profits to fund health-care and prescription drug plans for retirees and their families who had lost them in the wave of bankruptcies.

The union also mounted a sophisticated lobbying campaign that helped persuade President Bush to slap new tariffs on imported steel in 2002, a departure from the president's free-trade mantra.

The tariffs, which were lifted in late 2003, were in place long enough to give U.S. steelmakers some stability during a pivotal economic moment, union officials say. By then, the dizzying growth in China and other parts of the world was well underway and the dollar was weakening, altering the basic dynamic of the global steel business in favor of the domestic industry.

The mills themselves emerged much leaner and more technologically advanced, allowing many fewer workers to make roughly the same amount of steel.

Back in the 1970s, there were more than 500,000 steel workers in the United States, a number that has been reduced by more than two-thirds, even as the number of workers has edged up in recent years, according to the American Iron and Steel Institute. The amount of labor required to manufacture a ton of steel has gone from roughly 12 man-hours to about 1.2, analysts say. Steel workers continue to be well paid, union officials say, earning $65,000 a year or more, when incentive pay, profit sharing and a modest amount of overtime are included.

"Labor has become much less of a factor in the cost of steel," Rhody said. "That particular part of the equation has equalized, making domestic steel much more competitive."