



U.S. STEEL MONTHLY REPORT

FEBRUARY 2010

So Begins the Year of Contentious Negotiations. . .

Iron ore contract negotiations never fail to disappoint in providing a yearly dose of drama, and 2010 will be no different. Already, the negotiations have served up a sentencing for the Rio Tinto employees detained in China since last August, a possible joint venture between the two largest iron ore miners in Australia (BHP Billiton and Rio Tinto), closed-door meetings on neutral ground in Singapore, and rumors of a temporary price settlement. After cutting through all the distractions, however, this remains the first of many contentious negotiations to come for steel markets in 2010, as buyers and sellers hash out contracts throughout the year.

Disputes are expected in the coming months as buyers seek price cuts and sellers struggle with rising input costs. Despite increases in finished steel prices, markets will remain firmly in the grips of buyers. Some relief will come for sellers in the coming months when we expect a

\$70/long-ton decline in scrap prices in the United States, but the East Asian steel mills that are party to the annual iron ore contract negotiations will get no such assistance. In fact, we believe contract prices for iron ore will rise 30% in 2010 as prices adjust to new levels of demand. Spot prices for iron ore are already about 10% higher than current contract levels and are expected to continue to rise throughout 2010. The division between seaborne iron ore markets and American scrap markets highlights the difference in strength between the North American steel industry and the Asian steel industry. The Asian steelmakers have benefited from stronger end-markets there and will have a more difficult time negotiating lower iron ore prices as a result.

In the United States, markets are weaker and buyers have retained the upper hand. A number of steel mills have floated price increases only to have them swatted down soon

Interim Spot Price Forecast Update

(\$/Short ton unless specified otherwise)

	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4
Scrap - #1 Heavy Melt (\$/Long Ton)	184	170	240	244	272	224	241	241	231	230	257	250
%	17.9	-7.4	40.9	1.8	11.6	-17.6	7.5	0.2	-4.2	-0.4	11.5	-2.5
HR Sheet	493	397	480	514	558	530	539	551	538	543	564	567
%	-29.8	-19.4	20.8	7.2	8.5	-5.0	1.7	2.2	-2.4	1.0	3.8	0.5
CR Sheet	586	482	570	612	645	631	640	643	637	640	643	650
%	-27.0	-17.7	18.3	7.3	5.4	-2.2	1.4	0.5	-0.9	0.5	0.5	1.0
Galv Hot Dipped Sheet	658	564	588	621	670	651	659	661	657	659	670	680
%	-25.3	-14.3	4.3	5.6	7.9	-2.8	1.2	0.3	-0.6	0.3	1.7	1.4
Carbon Plate	778	526	537	552	589	600	634	678	751	769	788	823
%	-24.6	-32.3	2.1	2.7	6.7	1.9	5.7	6.9	10.8	2.4	2.5	4.3
SQ Bar - CF Grade 1018	822	766	816	751	714	691	682	693	690	688	699	712
%	-15.9	-6.8	6.4	-7.9	-4.9	-3.2	-1.3	1.6	-0.3	-0.4	1.6	1.9
Structurals	823	710	645	645	681	659	648	633	628	629	630	634
%	-13.3	-13.8	-9.2	0.1	5.6	-3.2	-1.7	-2.3	-0.8	0.2	0.2	0.6
Carbon Wire Rod	642	487	528	561	584	576	573	574	566	556	561	568
%	-26.0	-24.2	8.4	6.4	4.0	-1.4	-0.5	0.2	-1.4	-1.8	0.9	1.2
Merchant Bars - h.f.	820	695	717	700	642	591	556	568	557	551	565	569
%	-10.7	-15.2	3.1	-2.3	-8.3	-7.9	-5.9	2.2	-1.9	-1.1	2.6	0.6
Rebar	531	468	510	481	519	533	551	552	549	533	536	555
%	-22.7	-11.9	8.8	-5.6	7.8	2.7	3.4	0.2	-0.5	-2.9	0.6	3.5
Stainless CR Sheet - Grade 304	2452	2087	2265	2514	2596	2565	2293	2262	2365	2449	2480	2704
%	-31.7	-14.9	8.5	11.0	3.3	-1.2	-10.6	-1.4	4.6	3.5	1.2	9.0

thereafter. Certainly prices will increase throughout the year, but 2010 will remain a buyer's market for steel.

Summary

The steel industry registered another positive month in February, with production, demand, and prices all slowly increasing. International markets took a bit of a breather around the Chinese New Year, but activity has now resumed. Despite continued strengthening, the steel industry is still a buyer's market and will remain so for at least the next few months.

Supply

Total production rose 4.4% in February, continuing its streak of eight consecutive weekly production gains in 2010. The Midwest and Southern districts were the drivers of the increase, rising an impressive 11% and 7%, respectively. Nevertheless, we continue to look forward to March and April for large gains in production, with up to three more basic oxygen furnace (BOF) facilities back online, including ArcelorMittal's Chicago facility, U.S. Steel's Gary works, and Severstal's Warren facility all targeting March restarts. This pace of recovery is expected to continue in the near term as mills slowly move toward recovery. We continue to target early 2012 as the point when steel production will return to pre-recession levels.

Demand

Steel demand continued its slow and steady recovery in February, as the key end-markets show even greater diversity in the strength of their recovery. Construction is still the laggard, with the declines expected for nonresidential construction now stretching into 2011. The AIA Architecture Billings Index declined for another month, with its 42.49 reading in January the worst level since August of last year. The only upside for the industry appears to be a smaller-than-expected decline in the first quarter of this year. We now believe that nonresidential construction will fall 1.6% in the first quarter of 2010, rather than our previous forecast of a 5.2% decline. Nevertheless, it is difficult to get excited about a decline, however small it may be.

Energy markets have been slowly improving in recent weeks, with rig counts quietly climbing higher. Counts are now higher than year-earlier values, but of course that is a

sympathetic comparison. The reading at the end of February was up 5.6% versus last year and an impressive 26% versus the average count in 2009, but is still down 22% versus the value from two years earlier. Oil rigs continue to outpace natural gas rigs because of the higher associated fuel costs. Henry Hub prices have fallen back below \$5/million British thermal units, so the future is unlikely to hold anything different. IHS CERA maintains its weak outlook on natural gas prices, providing little impetus for new drilling. As a result, while we do expect continued growth in the energy sector, the pace will be tepid.

The automotive sector, which had been among the weakest markets a year earlier, continues to surprise to the upside. Even considering Toyota's recalls, we have increased our light-vehicle production forecast for 2010 from 10.3 million units produced in North America to 10.6 million. While the difference is not large, it is important to note that in 2009 there were a mere 8.6 million light vehicles produced in North America.

Prices

Prices were on the rise throughout January and February as higher input costs give steel makers justification for higher finished steel prices. There is further support for prices coming from the ongoing restocking cycle among service centers as they reluctantly replenish inventories. Nevertheless, while we do expect demand to continue to increase, we still believe that prices are rising faster than demand fundamentals. Finished-steel prices are struggling to make headway because buyers and steel mills will soon find their margins crunched if steel raw materials continue to rise. We expect a healthy correction to \$225/long ton for Number 1 Heavy Melt in the coming months before prices resume their upward trend.

The strength in automotive end-markets was reflected in February pricing data for galvanized sheet. Galvanized sheet was the fastest-growing product in the month, rising 11.5% from \$655/short ton to \$730/short ton. Plate was the laggard on weakness in machinery markets, with prices only managing a 2.7% increase from \$550/short ton to \$565/short ton. New machinery orders are struggling and remain at multiyear lows, but as the economy recovers, especially in developing economies, the outlook for machinery and plate will rapidly improve.

TABLE 1
STEEL INDUSTRY SUMMARY
(Mil Short Tons unless otherwise noted)

	Month Shown if not DEC	Dec-09				Percent Change				
		Current Month	Month Ago	Year Ago	Year to Date	12 Month Total	Month Ago	Year Ago	Year to Date	12 Month Total
STEEL DEMAND & TRADE										
Apparent Consumption		6.5	5.9	6.0	67.1	67.1	11.0	9.2	-42.3	-42.3
Imports For Conversion		0.3	0.4	0.2	2.0	2.0	-24.3	28.6	-65.9	-65.9
Imports Semi-Finished		0.3	0.4	0.2	2.0	2.0	-24.3	28.6	-65.9	-65.9
App. Cons. Finished		6.2	5.5	5.7	65.1	65.1	13.3	8.5	-41.0	-41.0
Imports Finished		1.1	1.0	1.9	14.0	14.0	12.1	-38.8	-46.1	-46.1
Exports		0.9	0.9	0.7	9.3	9.3	-0.7	29.8	-31.1	-31.1
Shipments		6.0	5.4	4.6	60.3	60.3	11.1	30.8	-38.3	-38.3
Imports Total		1.4	1.4	2.1	16.0	16.0	2.4	-31.8	-49.8	-49.8
% of App. Cons. Tot. Imp.		21.6	23.5	34.7	23.8	23.8	-7.7	-37.5	-15.2	-15.2
% of App. Cons. Fin. Imp.		17.4	17.2	31.0	21.0	21.0	1.0	-44.0	-9.1	-9.1
RAW STEEL										
Total Production		6.5	6.3	4.3	64.2	64.2	2.6	49.6	-36.3	-36.3
BOF & OH		2.7	2.5	1.9	24.3	24.3	7.5	42.1	-42.4	-42.4
Electric		3.8	3.8	2.5	39.8	39.8	-0.5	55.3	-31.9	-31.9
Total Capability		10.6	10.3	10.6	124.3	124.3	3.5	0.5	-0.3	-0.3
Utilization (%)		60.9	61.4	40.9	51.5	51.5	-0.8	48.9	-36.2	-36.2
Shpts/Prodn (%)		93.4	86.2	106.8	94.6	94.6	8.3	-12.6	-3.2	-3.2
STEEL PRICES & COST (% CH)										
Price - Blast Furnace Products										
(PPI - June 1982=1.0)	JAN	154.8	151.7	159.1	154.8	147.0	2.0	-2.7	-2.7	-27.0
Labor Costs (Average Hourly Earnings - \$/hour)		25.7	25.8	24.7	24.9	24.9	-0.5	3.9	-2.2	-2.2
Price - Coal (PPI - 1982=1.0)	JAN	184.1	180.5	179.3	184.1	182.9	2.0	2.7	2.7	10.8
Price - Natural Gas (PPI - 1982=1.0)	JAN	241.3	192.3	229.4	241.3	160.0	25.5	5.2	5.2	-52.7
Price - Industrial Electric Power (PPI - 1982=1.0)	JAN	188.1	187.1	190.3	188.1	190.6	0.5	-1.2	-1.2	0.4
Price - Ind. Materials ex. Energy (PPI - 1982=1.0)	JAN	1.8	1.8	1.8	1.8	1.8	0.7	1.8	1.8	-2.5
Carbon Spot Price (\$/Ton)	JAN	622.0	578.0	691.0	622.0	589.0	7.6	-10.1	-10.1	-38.0
Scrap - #1 Heavy Melt (\$/Ton)	JAN	285.4	273.3	200.2	285.4	216.4	4.4	42.6	42.6	-36.9

TABLE 2
Product Apparent Consumption & Shipments

(Thousands of Net Tons)

	Current Month	December-2009				12 Month Total	Percent Change			
		Month Ago	Year Ago	Year to Date	Month Ago		Year Ago	Year To D	12 Mo Total	
APPARENT CONSUMPTION BY PRODUCTS (AIS-10)										
1. Semi-Finished	201	285	283	2270	2270	-29.6	-29.0	-68.1	-68.1	
2. Wire Rod	227	167	169	2197	2197	35.5	33.9	-36.2	-36.2	
3. Struct. & Piling	367	293	318	3975	3975	25.0	15.2	-40.6	-40.6	
4. Plate	635	561	465	6407	6407	13.3	36.6	-41.3	-41.3	
5. Rails	81	55	109	935	935	47.7	-25.7	-17.7	-17.7	
6. Rail Related Prod.	16	15	14	201	201	6.0	15.2	5.0	5.0	
7. HR Bar & Light Struct.	487	402	456	4806	4806	21.0	6.6	-47.1	-47.1	
8. Rebar	472	393	326	5076	5076	20.2	44.8	-33.2	-33.2	
9. CF Bar	98	87	94	1018	1018	13.0	5.0	-40.8	-40.8	
10. Tool Steel	5	3	11	49	49	79.6	-55.1	-69.2	-69.2	
11. Standard Pipe	87	86	158	1104	1104	0.8	-45.0	-44.3	-44.3	
12. OCTG	166	116	619	2329	2329	43.3	-73.2	-60.4	-60.4	
13. Line Pipe	115	108	233	1565	1565	5.7	-50.9	-53.1	-53.1	
14. Mech Tubing	49	51	104	754	754	-4.8	-53.0	-48.3	-48.3	
15. Press Tubing	7	6	14	91	91	12.1	-47.4	-53.0	-53.0	
16. Structural Pipe	-30	-23	-9	-214	-214	30.5	226.0	79.4	79.4	
17. Stain. P&T	6	5	8	66	66	23.9	-22.7	-37.1	-37.1	
18. Wire & Wire Prod.	51	52	42	646	646	-1.8	20.7	-29.1	-29.1	
19. Tin Mill Prod.	211	206	233	2412	2412	2.7	-9.2	-20.4	-20.4	
20. HR Sheet & Strip	1474	1272	950	13312	13312	15.9	55.1	-32.7	-32.7	
21. CR Sheet	728	696	486	7440	7440	4.6	49.7	-39.2	-39.2	
22. Galv. Sheet & Strip	939	889	721	9233	9233	5.6	30.3	-42.6	-42.6	
23. Other Coated Sheet & Strip	85	83	56	827	827	2.0	51.1	-45.8	-45.8	
24. Electrical Sheet & Strip	12	15	27	199	199	-20.2	-54.0	-42.5	-42.5	
25. CR Strip	32	45	62	538	538	-30.4	-48.7	-54.1	-54.1	
	Current Month	Month Ago	Year Ago	Year to Date	12 Month Total	Month Ago	Year Ago	Year To D	12 Mo Total	
SHIPMENTS BY PRODUCTS (AIS-10)										
1. Semi-Finished	55	47	95	883	883	17.4	-42.1	-48.8	-48.8	
2. Wire Rod	143	123	75	1646	1646	15.6	89.5	-30.5	-30.5	
3. Struct. & Piling	396	325	328	4148	4148	22.0	20.9	-42.1	-42.1	
4. Plate	721	655	453	6854	6854	10.1	59.2	-38.1	-38.1	
5. Rails	63	56	85	785	785	10.9	-26.2	-16.6	-16.6	
6. Rail Related Prod.	16	16	16	209	209	-0.8	0.1	-14.4	-14.4	
7. HR Bar & Light Struct.	442	383	411	4585	4585	15.2	7.5	-45.4	-45.4	
8. Rebar	480	412	336	5087	5087	16.6	42.8	-30.5	-30.5	
9. CF Bar	93	83	83	941	941	12.6	12.4	-40.9	-40.9	
10. Tool Steel	0	1	1	8	8	-100.0	-100.0	-54.5	-54.5	
11. Standard Pipe	43	51	73	590	590	-15.0	-40.3	-41.8	-41.8	
12. OCTG	130	96	201	1042	1042	35.4	-35.2	-56.3	-56.3	
13. Line Pipe	19	11	34	186	186	67.8	-43.6	-61.7	-61.7	
14. Mech Tubing	31	36	53	427	427	-13.0	-40.9	-52.8	-52.8	
15. Press Tubing	1	2	3	24	24	-23.9	-55.7	-53.9	-53.9	
16. Structural Pipe	7	8	10	68	68	-21.1	-37.7	-47.8	-47.8	
17. Stain. P&T	1	1	1	10	10	-4.9	-18.5	-31.5	-31.5	
18. Wire & Wire Prod.	18	19	18	317	317	-5.5	-2.8	-24.6	-24.6	
19. Tin Mill Prod.	182	180	218	2222	2222	1.3	-16.7	-22.8	-22.8	
20. HR Sheet & Strip	1418	1180	849	12526	12526	20.2	67.0	-32.7	-32.7	
21. CR Sheet	682	665	468	6944	6944	2.5	45.7	-40.4	-40.4	
22. Galv. Sheet & Strip	973	934	645	9226	9226	4.2	50.9	-40.0	-40.0	
23. Other Coated Sheet & Strip	72	76	52	721	721	-4.8	38.5	-46.6	-46.6	
24. Electrical Sheet & Strip	27	30	45	359	359	-9.7	-39.2	-32.2	-32.2	
25. CR Strip	30	48	61	539	539	-36.3	-50.0	-54.3	-54.3	

TABLE 3
Import and Exports of Steel Products
(Thousands of Net Tons)

	Current Month	December-2009				Percent Change			
		Month Ago	Year Ago	Year to Date	12 Month Total	Month Ago	Year Ago	Year To Date	12 Mo Total
IMPORTS BY PRODUCT									
1. Semi-Finished	278	367	216	2036	2036	-24.3	28.6	-65.9	-65.9
2. Wire Rod	97	60	104	710	710	62.2	-6.4	-42.3	-42.3
3. Struct. & Piling	29	22	50	427	427	32.1	-41.6	-48.3	-48.3
4. Plate	82	73	136	1226	1226	12.3	-39.2	-50.0	-50.0
5. Rails	22	3	36	279	279	626.0	-37.6	-14.1	-14.1
6. Rail Related Prod.	0	0	2	7	7	39.6	-85.6	-43.1	-43.1
7. HR Bar & Light Struct.	91	65	91	743	743	41.1	0.3	-54.1	-54.1
8. Rebar	22	8	14	419	419	168.0	57.8	-56.8	-56.8
9. CF Bar	15	16	22	206	206	-1.8	-31.2	-40.6	-40.6
10. Tool Steel	6	4	12	56	56	66.4	-45.9	-65.6	-65.6
11. Standard Pipe	48	39	102	595	595	21.5	-53.4	-49.6	-49.6
12. OCTG	56	41	460	1539	1539	34.5	-87.9	-60.6	-60.6
13. Line Pipe	112	111	227	1577	1577	0.6	-50.5	-51.0	-51.0
14. Mech Tubing	20	18	56	367	367	8.8	-64.1	-39.5	-39.5
15. Press Tubing	6	5	10	67	67	26.3	-45.0	-52.6	-52.6
16. Structural Pipe	22	19	25	285	285	20.8	-8.8	-45.5	-45.5
17. Stain. P&T	8	7	11	90	90	10.9	-27.3	-36.1	-36.1
18. Wire & Wire Prod.	45	47	38	486	486	-3.1	18.5	-31.4	-31.4
19. Tin Mill Prod.	45	42	33	450	450	6.1	34.7	0.0	0.0
20. HR Sheet & Strip	164	205	159	1810	1810	-20.3	3.1	-36.8	-36.8
21. CR Sheet	108	97	77	1138	1138	11.6	40.1	-20.9	-20.9
22. Galv. Sheet & Strip	86	79	136	1126	1126	9.0	-36.5	-43.9	-43.9
23. Other Coated Sheet & Strip	27	23	20	298	298	16.8	33.3	-40.6	-40.6
24. Electrical Sheet & Strip	5	4	10	66	66	39.6	-50.1	-45.7	-45.7
25. CR Strip	9	10	9	97	97	-13.0	1.6	-24.4	-24.4
EXPORTS BY PRODUCT									
1. Semi-Finished	132	129	28	649	649	2.3	377.0	13.9	13.9
2. Wire Rod	13	16	10	159	159	-18.5	33.0	3.5	3.5
3. Struct. & Piling	59	54	59	601	601	9.6	-1.0	-54.0	-54.0
4. Plate	168	167	123	1673	1673	0.5	36.4	-35.7	-35.7
5. Rails	3	4	11	129	129	-21.5	-68.0	-0.3	-0.3
6. Rail Related Prod.	0	1	4	16	16	-85.1	-95.7	-76.1	-76.1
7. HR Bar & Light Struct.	46	46	45	523	523	0.8	2.0	-44.2	-44.2
8. Rebar	30	27	24	430	430	9.6	23.5	-38.1	-38.1
9. CF Bar	10	11	11	129	129	-10.5	-11.9	-40.9	-40.9
10. Tool Steel	1	2	1	15	15	-26.6	3.3	-28.4	-28.4
11. Standard Pipe	4	4	17	81	81	1.6	-76.1	-61.9	-61.9
12. OCTG	20	22	42	252	252	-8.6	-53.2	-37.2	-37.2
13. Line Pipe	17	14	27	198	198	16.1	-38.7	-46.8	-46.8
14. Mech Tubing	3	3	5	40	40	-19.2	-50.4	-25.3	-25.3
15. Press Tubing	0	0	0	0	0	#N/A	#N/A	#N/A	#N/A
16. Structural Pipe	59	49	44	568	568	18.3	32.6	-26.6	-26.6
17. Stain. P&T	2	3	4	33	33	-16.7	-35.1	-32.6	-32.6
18. Wire & Wire Prod.	12	14	14	158	158	-11.3	-15.2	-28.1	-28.1
19. Tin Mill Prod.	15	16	19	261	261	-4.3	-18.4	-12.7	-12.7
20. HR Sheet & Strip	108	114	43	1024	1024	-5.1	150.0	-24.6	-24.6
21. CR Sheet	62	66	59	641	641	-6.3	5.2	-26.3	-26.3
22. Galv. Sheet & Strip	120	124	60	1119	1119	-2.8	101.0	-13.6	-13.6
23. Other Coated Sheet & Strip	14	16	16	192	192	-9.1	-12.0	-41.0	-41.0
24. Electrical Sheet & Strip	20	18	28	226	226	9.0	-28.7	-26.0	-26.0
25. CR Strip	7	12	8	98	98	-39.3	-2.6	-27.5	-27.5

Iron Ore

Summary

Iron ore is benefiting from continued improvement in steel markets, although the rise in demand in China is outstripping demand in America. Steel markets have now reached a sufficient level of demand to support greater blast furnace production in the United States. Demand will return to pre-recession levels by the end of 2011 or the start of 2012.

Iron ore production by the Big Three miners is still below its 2008 peak, but Rio Tinto and BHP Billiton are producing at record levels. Short-term supply will not be a problem, but long-term structural issues could still rear their ugly head.

Prices

Spot iron ore prices (62% Fe content; import into China) have settled around \$120/dry metric tonne CFR, about 20% below contract settlement prices for 2009 (once freight costs are included). For 2010, we expect contract prices, if they are settled, to rise 30% to about 10% below contract levels from 2008. Spot prices will start below that level, as China attempts to drive down prices during negotiations, but will move above the contract level in the second half of the year as steel production around the world picks up again.

In the longer term, we still expect an iron ore price spike in the 2014-16 range, but the magnitude has been decreased on higher future supply expectations. Iron ore prices will exceed the spike seen in 2008 by over 20%, but the increased role of spot prices means this is not an apples-to-apples comparison. Spot prices will bring greater volatility, which means that the peaks will be higher and the troughs will be lower, granting credence to the view that the future price spike will exceed the past one.

Supply

Iron ore production by the Big Three miners (Vale, Rio Tinto, and BHP Billiton) has been on the rise since the second quarter of 2009. Vale took the deepest cuts at the start of the downturn, since it previously focused primarily on the hard-hit European markets. While it is shifting greater attention to China, Vale still lags the other miners in the recovery on account of its weaker end-markets, as seen in its fourth-quarter 2009 production decline. The two

Australian miners are more hitched to Asian markets and were able to cut less and have seen a much stronger upturn. Both are already producing at all-time-high levels.

The long-term viability of the world's iron ore supply is being decided now, as companies outline their capital-expenditure plans. Vale, under pressure from the Brazilian government, is looking to ramp up iron ore production in coming years. The question remains how much of the planned expenditures will go through and if they will be matched by other companies. IHS Global Insight tempered its price spike for the 2014-16 range after these mine expansions were announced. We now believe that the supply shortage will not be as drastic as previous cycles, but there is still substantial risk that miners will not follow through with expansion plans.

Demand

Iron ore demand in the United States continues to recover, as basic oxygen furnace steel production (BOF) comes off its bottom from the first half of 2009. BOF market share had stabilized around 42% of the American market for much of 2007 and 2008, but the inefficiency of basic oxygen furnaces at lower quantities meant that they suffered disproportionately in the downturn and market share fell below 34%. Now, with the steel industry getting back on its feet, BOF market share has returned to levels above 40%.

Looking forward, we expect BOF production to regain pre-crisis levels by the end of 2011 or early 2012, with annualized production expected to be safely above 40 million short tons by the middle of 2011. With a rough conversion of two short tons of iron ore for each short ton of steel production, iron ore demand in the United States should steadily increase from annualized demand levels of 50,000 short tons at the end of 2009 to 80,000-short-ton levels by the middle of 2011.

In China, iron ore apparent consumption continues to impress. Higher iron ore prices have brought a greater percentage of domestic iron ore back into the mix. After falling to 47 million metric tonnes in January 2009, Chinese iron ore production has rallied 87% to 88 million metric tonnes in December 2009. Iron ore imports continued their volatility in January 2010, but the four-month moving average has been safely above 50 million metric tonnes since March 2009.

TABLE 4
HISTORICAL PRICING DATA

Spot and PPI, By Product

	Month Shown if not JAN	Jan-10				Percent Change				
		Current Month	Month Ago	Year Ago	Year to Date	12 Month Total	Month Ago	Year Ago	Year to Date	12 Month Total
DOMESTIC SPOT (Dollars per ton)										
(All spot prices include surcharges)										
CARBON										
HR Sheet		541	500	509	541	474	8.2	6.3	6.3	-43.4
CR Sheet		644	598	607	644	566	7.7	6.1	6.1	-39.0
Galv Hot Dipped Sheet		655	606	679	655	606	8.1	-3.5	-3.5	-39.0
Carbon Plate		550	515	848	550	574	6.8	-35.1	-35.1	-43.6
Flat products composite		623	578	669	623	574	7.8	-6.8	-6.8	-41.2
Light Structurals		675	639	844	675	692	5.6	-20.0	-20.0	-28.4
Merchant bars - h.f.		688	652	853	688	719	5.5	-19.3	-19.3	-21.1
Rebar		505	456	569	505	492	10.7	-11.2	-11.2	-37.2
SQ Bar - CF Grade 1018		734	733	837	734	780	0.1	-12.3	-12.3	-31.6
Carbon Wire Rod		590	536	685	590	547	10.1	-13.9	-13.9	-37.9
Long products composite		618	578	743	618	625	6.9	-16.8	-16.8	-30.2
CARBON COMPOSITE		622	578	691	622	589	7.6	-10.1	-10.1	-38.0
Stainless CR Sheet - Grade 304		2578	2468	2565	2578	2331	4.5	0.5	0.5	-40.6

Source: Purchasing Magazine

	Month Shown if not JAN	Jan-10				Percent Change				
		Current Month	Month Ago	Year Ago	Year to Date	12 Month Total	Month Ago	Year Ago	Year to Date	12 Month Total
PRODUCER PRICE INDEXES										
All indexes are based to June 1982=100 unless otherwise noted.										
Blast furnaces and steel mills (Aggregate Total)		154.8	151.7	159.1	154.8	147.0	2.0	-2.7	-2.7	-27.0
Steel ingots and semifinished shapes and forms (Predominantly rods)		236.5	228.4	264.0	236.5	233.4	3.5	-10.4	-10.4	-26.7
HR sheet and strip (including coated)		126.4	126.8	125.6	126.4	119.2	-0.3	0.6	0.6	-35.5
HR bars plate and structural shapes		175.8	167.8	189.3	175.8	169.7	4.8	-7.1	-7.1	-25.5
Steel pipe and tubes from purchased steel		243.4	237.7	261.4	243.4	234.2	2.4	-6.9	-6.9	-21.1
CR sheets and strip (excl coated)	AUG	175.1	172.3	213.7	147.2	152.9	1.6	-18.1	-33.7	-30.8
Cold finished bars		139.2	133.6	144.8	139.2	132.7	4.2	-3.9	-3.9	-23.2
Steel wire and related products		185.3	189.1	204.0	185.3	189.2	-2.0	-9.2	-9.2	-13.4

INTERIM SPOT PRICE FORECAST UPDATE (\$/Short ton unless specified otherwise)

	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2010:3	2010:4	2011:1	2011:2	2011:3	2011:4
Scrap - #1 Heavy Melt (\$/Long Ton)	184	170	240	244	272	224	241	241	231	230	257	250
%	17.9	-7.4	40.9	1.8	11.6	-17.6	7.5	0.2	-4.2	-0.4	11.5	-2.5
HR Sheet	493	397	480	514	558	530	539	551	538	543	564	567
%	-29.8	-19.4	20.8	7.2	8.5	-5.0	1.7	2.2	-2.4	1.0	3.8	0.5
CR Sheet	586	482	570	612	645	631	640	643	637	640	643	650
%	-27.0	-17.7	18.3	7.3	5.4	-2.2	1.4	0.5	-0.9	0.5	0.5	1.0
Galv Hot Dipped Sheet	658	564	588	621	670	651	659	661	657	659	670	680
%	-25.3	-14.3	4.3	5.6	7.9	-2.8	1.2	0.3	-0.6	0.3	1.7	1.4
Carbon Plate	778	526	537	552	589	600	634	678	751	769	788	823
%	-24.6	-32.3	2.1	2.7	6.7	1.9	5.7	6.9	10.8	2.4	2.5	4.3
SQ Bar - CF Grade 1018	822	766	816	751	714	691	682	693	690	688	699	712
%	-15.9	-6.8	6.4	-7.9	-4.9	-3.2	-1.3	1.6	-0.3	-0.4	1.6	1.9
Structurals	823	710	645	645	681	659	648	633	628	629	630	634
%	-13.3	-13.8	-9.2	0.1	5.6	-3.2	-1.7	-2.3	-0.8	0.2	0.2	0.6
Carbon Wire Rod	642	487	528	561	584	576	573	574	566	556	561	568
%	-26.0	-24.2	8.4	6.4	4.0	-1.4	-0.5	0.2	-1.4	-1.8	0.9	1.2
Merchant Bars - h.f.	820	695	717	700	642	591	556	568	557	551	565	569
%	-10.7	-15.2	3.1	-2.3	-8.3	-7.9	-5.9	2.2	-1.9	-1.1	2.6	0.6
Rebar	531	468	510	481	519	533	551	552	549	533	536	555
%	-22.7	-11.9	8.8	-5.6	7.8	2.7	3.4	0.2	-0.5	-2.9	0.6	3.5
Stainless CR Sheet - Grade 304	2452	2087	2265	2514	2596	2565	2293	2262	2365	2449	2480	2704
%	-31.7	-14.9	8.5	11.0	3.3	-1.2	-10.6	-1.4	4.6	3.5	1.2	9.0

Steel Demand

The Forecast in Brief

The U.S. economy finished 2009 on a very strong note. Fourth-quarter growth came in at 5.7%, although more than 3 percentage points of this came from a dramatic slowing in the rate of inventory decumulation. Final sales growth also improved, though, from 1.5% to 2.2%. There was positive evidence in strong export growth and a revival in business equipment spending. There is more help to come from the inventory cycle in coming quarters, but not another 3-percentage-point bump. And the supportive impact of fiscal stimulus on growth will fade the deeper we go into 2010. We still expect the credit-constrained recovery to prove a subpar one, and we anticipate that GDP growth will ease to 3.0% in the first quarter. For 2010 overall, though, we now expect 3.0% growth, better than last month's 2.6% projection.

The **inventory cycle** has become a strong plus for growth, and it is turning more quickly than anticipated. We have noted before that inventories were still being cut sharply in the third quarter, and that just a flattening out of inventories would contribute 1% to the level of GDP (4% annualized if it all came in one quarter). In the event, inventories almost flattened out in the fourth quarter—adding 3.4 percentage points to the growth rate.

Excluding new vehicles, **consumer spending** rose 2.7% in the fourth quarter, better than the 1.6% pace in the third, and we anticipate a similar 2.5% growth rate in the first quarter. Vehicle sales are also gradually improving, despite the shock waves from Toyota's recall problems, and we have raised our **light-vehicle sales** forecast for 2010 to 11.8-million units (previously 11.5 million).

The picture is still gloomy in the **multi-family housing** market, where credit restrictions are biting (and where some renters are becoming first-time buyers). Nevertheless, the upturn in the single-family home market will dominate. Multi-family housing starts have fallen so far that there is literally very little further room for decline.

Business investment is beginning to stabilize, at least for equipment. Fourth-quarter **equipment spending** rose 13.3%. High-tech equipment and vehicles were the big gainers. Capital goods orders are also beginning to turn

around more convincingly. With utilization so low, capacity expansion is not needed, but businesses are flush with cash, and increased spending on replacement investment should pull equipment purchases higher. For 2010 overall, we foresee a 9.8% increase in equipment spending.

On the **business structures** side, the outlook remains poor. The trend for commercial construction such as retail developments, offices, and hotels is still downward. The decline in structures spending—aside from drilling activity—hit a roughly 30% annualized rate in the third and fourth quarters. We see further declines (but of diminishing severity) through the end of 2010. Drilling activity in the energy sector fell steeply during the first half of 2009, but with energy prices bottoming out, it rose sharply in the fourth quarter and another big increase is on the way in the first quarter.

Foreign trade flows are bouncing back sharply. A turnaround in Asian economies (spurred by China) and tentative signs of improvement in Europe are helping the outlook for **exports**, while an improving U.S. economy is pulling in more **imports**. Both exports and imports jumped at strong double-digit annualized rates during the fourth quarter, for the second time in a row. Surprisingly, exports outpaced imports, so that trade was a positive contributor to GDP growth. With the U.S. inventory cycle turning so quickly, we would have expected imports to bounce up more than exports; we now expect to see that pattern emerge during the first quarter.

Infrastructure Market Outlook

The greatest barriers for infrastructure construction are state and local budget crises. Tax revenues have fallen tremendously, as people have lost their jobs and companies have gone out of business. The decline in public sector revenue comes at a time when many bridge, highway, and transportation infrastructure deficiencies are being brought to light. The fiscal situation is unlikely to improve until the general economy does, and budget constraints will lead to infrastructure spending contractions until mid-2011. After managing real growth of 1.7% in 2009, total infrastructure spending falls 7.0% and 5.4% in 2010 and 2011, respectively.

Highways and Streets

As of December 4, 2009, the Federal Highway Administration (FHWA) has obligated \$21.0 billion of the

\$26.8 billion American Recovery and Reinvestment Act (ARRA) funding. Nonetheless, some construction companies already feel that the impact of the extra money on their project pipelines is quickly diminishing. Year-over-year, construction spending on highways and streets gains 6.3% in the fourth quarter of 2009; for the year, real spending in the segment is estimated to slide 0.5%. Stimulus spending from 2009 will carry over into 2010 and bolster real construction spending on highways and streets. IHS Global Insight projects real spending growth in the segment to be 5.6% in 2010 and 2.4% in 2011; expenditure advancement after 2011 will be more subdued as federal stimulus aid expires.

Traditional funding for the major highway system has come from the Highway Trust Fund, which is financed by tax revenues generated from gasoline consumption and sales of new trucks. The oil price spike in 2008 intensified a movement toward fuel efficiency; consumer preferences for vehicles shifted from the spacious to the compact, and their requirement for miles per gallon increased. Meanwhile, the gas tax has remained stationary. Thus, even though total vehicle miles traveled for the first seven months of 2009—as reported by the FHWA—is roughly equivalent to that during the same period in 2008, net tax receipts for the Highway Trust Fund in fiscal year 2009 (October 2008-September 2009) are down 7% compared with fiscal 2008.

The Highway Trust Fund remains in critical condition, despite the \$7.2 billion emergency injection passed in August. Transportation Secretary Ray LaHood recently discussed raising the gas tax or finding an alternative way to generate funds. The stimulus has provided a much needed buffer and prevented the fund from being exhausted. The federal government will have to reassess to come up with a long-term funding solution.

Power

The Environmental Protection Agency (EPA) has been adamant regarding the need to find alternatives to petroleum, and have stated that they would impose environmental regulations to address the health risks associated with greenhouse gases if Congress does not act. In early December, the federal government devoted almost \$1 billion of ARRA stimulus funds towards developing carbon

capture and scrubbing technology at three coal-burning power plants around the country. Other clean power projects, such as the Cape Wind project—a \$900 million, 130-turbine wind farm off the coast of Massachusetts—will also receive private funding.

Because of its technological availability and potential capacity, nuclear power is a viable alternative to petroleum. Compared with Europe, the United States has lagged behind in nuclear power construction. The United States is considering expanding nuclear power generation to meet future demand needs. The Clean Energy Act of 2009, recently introduced in Congress, has an aggressive nuclear component, seeking to double the share of nuclear power on the domestic grid in 20 years. Much of the projected growth will be driven by regulation, policy decisions, and tax incentives.

Slower demand growth and excess capacity will dampen power construction going forward. Total power construction spending grows 8.8% in 2009, as major refinery and pipeline projects are completed. Major correction in the power sector will come in 2010 and 2011, when power construction spending falls 27.7% and 24.0%, respectively.

Transportation

Transportation construction spending is typically large in scale and long in duration. Because of the political nature of the funding and support behind these projects, trends are generally slower moving and less volatile, which means that growth in the segment will not occur overnight. Real spending growth in transportation construction is expected to struggle for the next several years as federal, state, and local budgets are strained. Over the next five years or so, construction spending in the segment will be sustained by the promotion and construction of a high-speed rail system and port renovations induced by the expansion of the Panama Canal. Transportation construction rose slightly in 2009 and recover with healthy 5.2% growth in 2010. Beyond 2010, transportation construction spending in real terms will be relatively flat.

Rail is gaining momentum as a preferred mode of transportation. Shippers are looking to combat rising fuel costs by switching to a more efficient alternative to trucking, and governments are hoping to alleviate roadway congestion by improving transit systems. Investment in rail, including an

\$8-billion down payment on the development of a high-speed rail system, will provide support for transportation infrastructure construction over the medium- to long-term. Grants for individual rail segments could be distributed as early as late January or February of 2010. Project proposals

that involve multiple states or that have alternative sources of financing are more likely to receive federal stimulus funding, as they are deemed to have a greater chance of success. Thus far, projects in the Midwest and in California appear to be the forerunners.

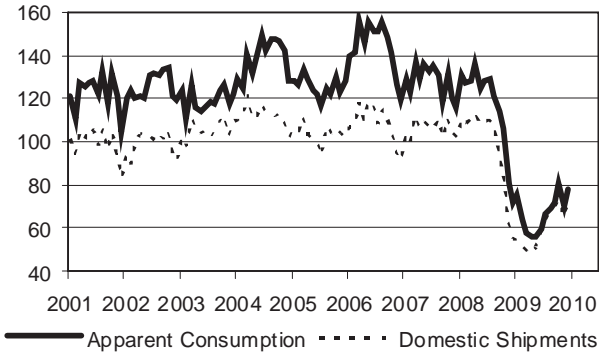
TABLE 5
GENERAL ECONOMY FORECASTS
(Annual Rates of Change)

	2008:3	2008:4	2009:1	2009:2	2009:3	2009:4	2010:1	2010:2	2008	2009	2010
Global Insight Steel Demand Comp.	-5.5	-17.6	-44.6	-18.3	12.1	1.3	-0.5	-6.6	-1.8	-19.6	-1.6
COMPONENTS OF REAL GDP (2005\$)											
GDP	-2.7	-5.4	-6.4	-0.7	2.2	5.7	3.0	2.4	0.4	-2.4	3
Final Sales	-2.9	-4.7	-4.1	0.7	1.5	2.2	1.8	2.1	0.8	-1.7	1.9
Consumption	-3.5	-3.1	0.6	-0.9	2.8	2.0	2.6	2.7	-0.2	-0.6	2.4
Business Fixed Investment	-6.1	-19.4	-39.2	-9.6	-5.9	2.9	5.8	1.8	1.6	-17.9	1.5
Equipment	-9.4	-25.9	-36.4	-4.9	1.5	13.3	11.9	12.5	-2.6	-16.9	9.8
Excl. Computers	10.3	-24.9	-31.0	-29.8	-10.4	-6.1	3.3	6.0	-2.1	-19.7	-0.8
Priv. Nonres. Construction	-0.1	-7.2	-43.6	-17.3	-18.4	-15.4	-6.4	-19.3	10.3	-19.7	-14.6
Exports	-3.6	-19.5	-29.9	-4.1	17.8	18.1	8.1	8.0	5.4	-9.9	9.7
Imports	-2.2	-16.7	-36.4	-14.7	21.3	10.5	11.9	11.6	-3.2	-14.2	10.3
Federal Government	13.2	6.5	-4.3	11.4	8.0	0.1	4.4	5.5	7.7	5.2	3.8
PRICES & INTEREST RATES											
Implicit GDP Deflator (Ch. Wt.)	4.0	0.1	1.9	0.0	0.4	0.6	2.4	0.7	2.1	1.2	1.1
CPI - Urban	6.2	-8.3	-2.4	1.3	3.6	3.4	1.9	-0.2	3.8	-0.3	1.9
PPI - All Commodities	12.2	-35.5	-17.2	-2.7	9.3	11.2	7.4	-7.4	9.8	-8.7	3.5
PPI - Finished Goods	9.7	-19.0	-6.2	1.8	4.4	7.6	6.5	-4.7	6.4	-2.4	2.8
PPI - Ind. Materials ex. Energy	12.2	-11.0	-9.0	-5.1	5.2	5.4	4.9	0.3	6	-2.5	2.8
Compensation per Hour	4.5	2.9	-4.7	6.9	5.5	1.5	2.0	2.6	2.8	2	2.9
Prime Interest Rate (%)	5.0	4.1	3.3	3.3	3.3	3.3	3.3	3.3	5.1	3.3	3.3
Federal Funds Rate (%)	1.9	0.5	0.2	0.2	0.2	0.1	0.1	0.1	1.9	0.2	0.2
New AA Corp. Utility Rate (%)	6.1	6.6	6.1	6.2	5.4	5.4	5.6	5.6	6.2	5.8	5.6
OTHER DOMESTIC INDICATORS											
Oil and Gas Extraction Industrial Prod.	-13.2	11.7	16.8	-3.5	6.6	4.8	-12.6	-12.2	-0.1	-0.1	-0.2
Manufacturing Industrial Production	-9.3	-18.4	-21.7	-8.1	9.5	6.1	7.3	6.9	-3.1	-11	6
Furniture & Related Products	-14.7	-29.3	-23.6	-24.3	-9.8	-0.8	1.5	5.5	-10.5	-20.3	-0.8
Fabricated Metal Products	-6.9	-15.5	-33.4	-26.3	-1.7	2.4	3.9	1.6	-1.8	-18.5	0.1
Machinery	-7.1	-19.0	-34.4	-32.9	-3.9	6.6	6.8	4.6	-6	-21.1	2
Electrical Equipment Appliance And Component	-3.7	-11.8	-22.3	-18.0	-1.4	1.7	-0.1	2.3	2.1	2.3	2.8
Motor Vehicles & Parts	-9.9	-37.4	-69.5	-12.2	123.2	22.9	5.4	-1.0	-14.5	-28	15.2
Mfg. Capacity Utilization (%)	74.6	70.9	66.7	65.4	67.1	68.3	69.8	71.2	75.1	66.9	71.5
Real Disposable Income (96\$)	-8.5	3.4	0.2	6.2	-1.4	2.1	1.2	4.2	0.5	1.3	2.1
Unemployment Rate (%)	6.0	7.0	8.2	9.3	9.6	10.0	9.9	9.9	5.8	9.3	9.9
Automotive (Mil. Ann. Rate)											
Light Vehicle Sales	12.9	10.5	9.5	9.6	11.5	10.8	11.1	11.5	13.2	10.3	11.8
Retail Car Sales	6.7	5.4	4.8	4.9	6.4	5.7	5.8	6.2	6.8	5.4	6.3
Dealer Truck Deliveries	6.5	5.4	4.9	4.9	5.3	5.4	5.5	5.6	6.7	5.1	5.7
Light	6.2	5.1	4.7	4.7	5.1	5.2	5.3	5.4	6.4	4.9	5.5
Heavy	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.2
Housing Starts (Mil. Ann. Rate)	0.87	0.66	0.53	0.54	0.59	0.55	0.6	0.69	0.9	0.55	0.75
Oil & Gas Drill. Rigs Active	1981	1886	1315	930	975	1114	#N/A	#N/A	1876	1083	#N/A
Federal Budget Surplus (NIA Bil. \$)	-665.7	-674.1	-969.1	-1268.9	-1327.0	-1314.4	-1273.9	-1309.6	-642.6	-1219.9	-1288.1
Defense Spending (Bil. \$)	763.6	758.9	750.7	776.2	795.8	793.8	812.6	820.3	737.9	779.1	823.8
INTERNATIONAL INDICATORS											
US \$ Exchange Rate (1996=1.0)	0.878	0.971	0.987	0.948	0.901	0.879	0.908	0.923	0.889	0.929	0.916
Current Account Balance of Payments (NIA billion \$)	-736.7	-619.5	-417.8	-391.9	-432.1	-486.5	-515.8	-539.2	-706.1	-432.1	-552.2
Rest of World Real GDP	-0.2	-2.1	-6.3	-2.2	0.2	2.7	4.9	2.7	1.7	-2.2	2.7

Forecast at a Glance

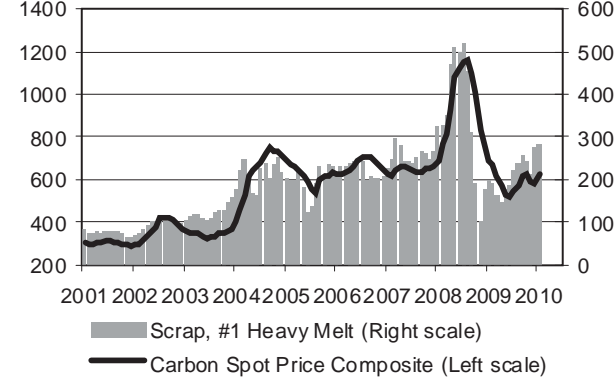
U.S. Supply of Steel

(Millions of short tons, annual rate)



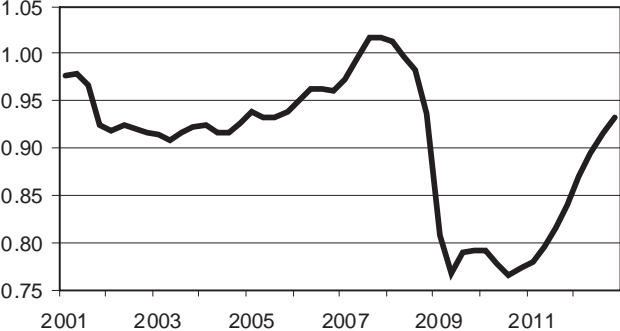
Key Prices

(Dollars per ton)



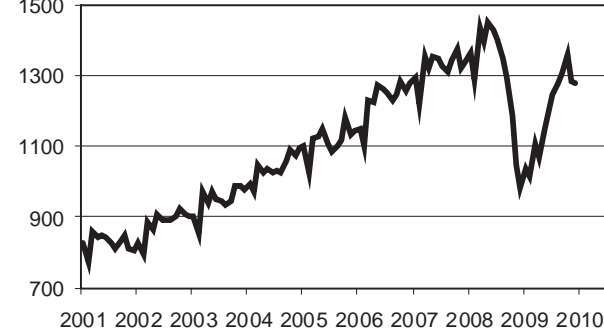
Steel Endmarket Activity Composite Index

(1997=1.000)



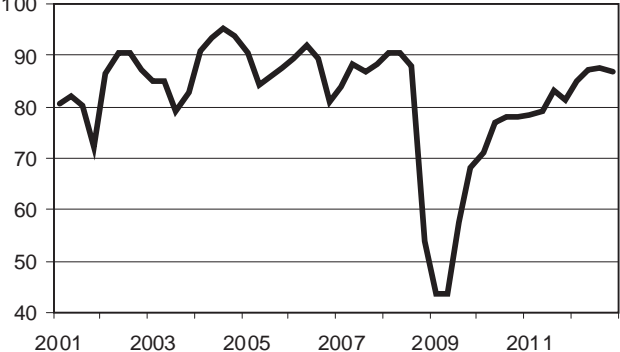
World Raw Steel Production

(Millions of metric tonnes, annual rate)



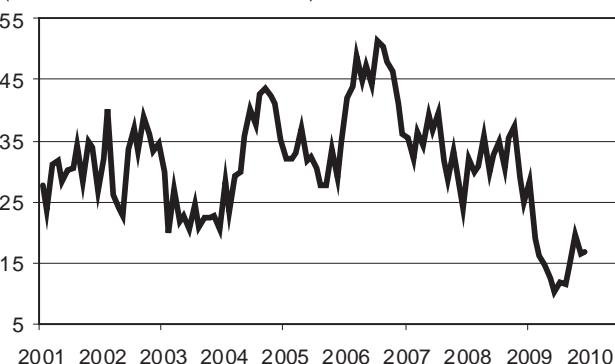
Steel Capability Utilization

(Percent)



Imports of Steel

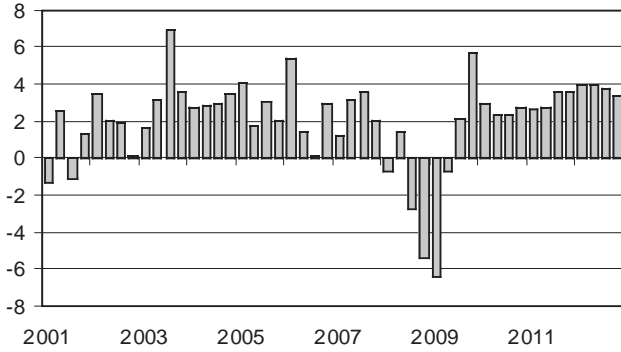
(Millions of net tons, annual rate)



Forecast at a Glance

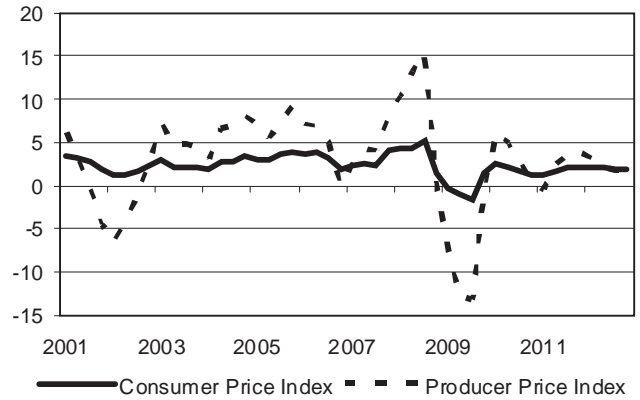
Real GDP

(Annual rate of change)

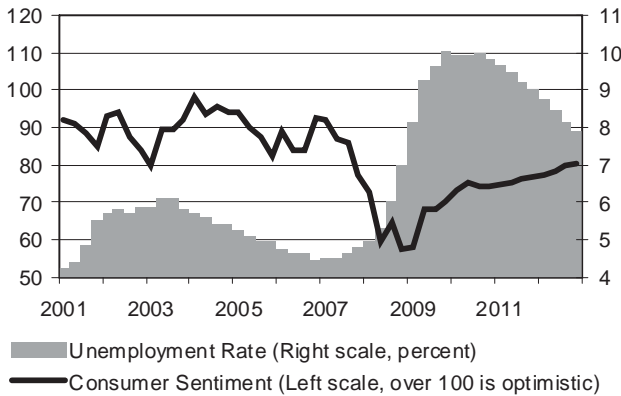


Inflation Rates

(Percent change from a year earlier)

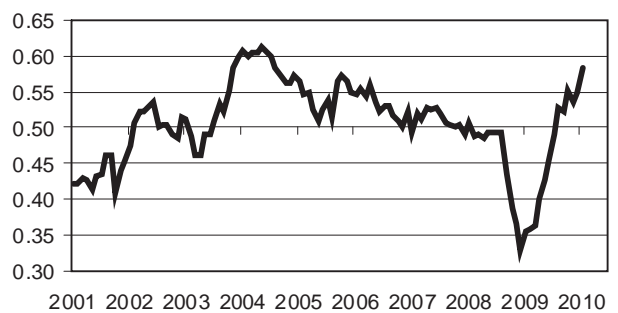


Consumer Confidence



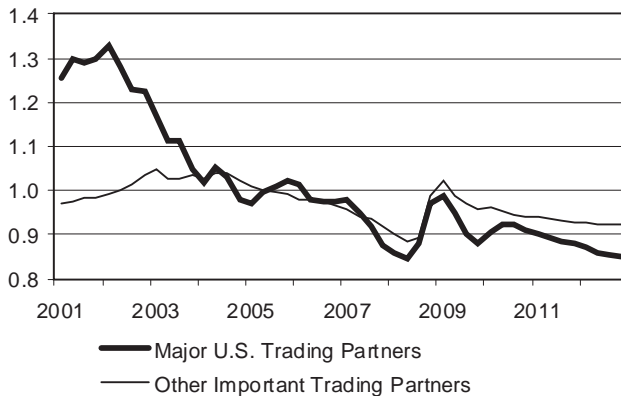
Purchasing Managers' Index

(Under 0.50 is pessimistic)



Dollar Exchange Rate Indexes

(2000=1.000)



Key Interest Rates

