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Steel Industry Outlook
Federal Reserve Bank of Chicago
December 4, 2009

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ArcelorMittal USA



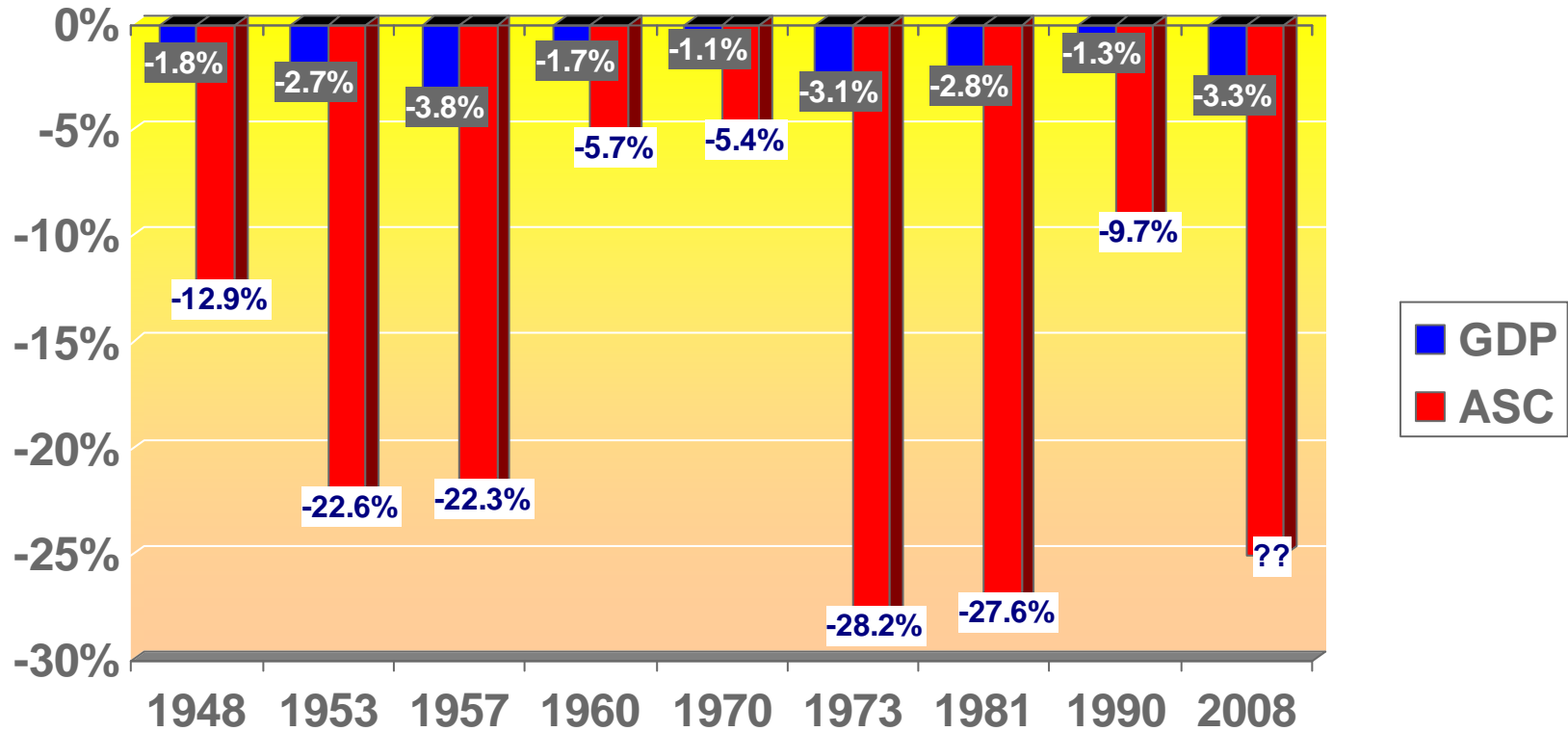
Outline

- 2009 Steel Market
- 2010 U.S. Outlook
- Global Steel Outlook/Costs/Risks
- Summary



Recessions

Peak to Trough GDP Change vs Steel ASC Change



The peak was actually November 1973. Given that late year peak, this analysis shows the delta between 1974 and 1975

AISI data, AM analysis

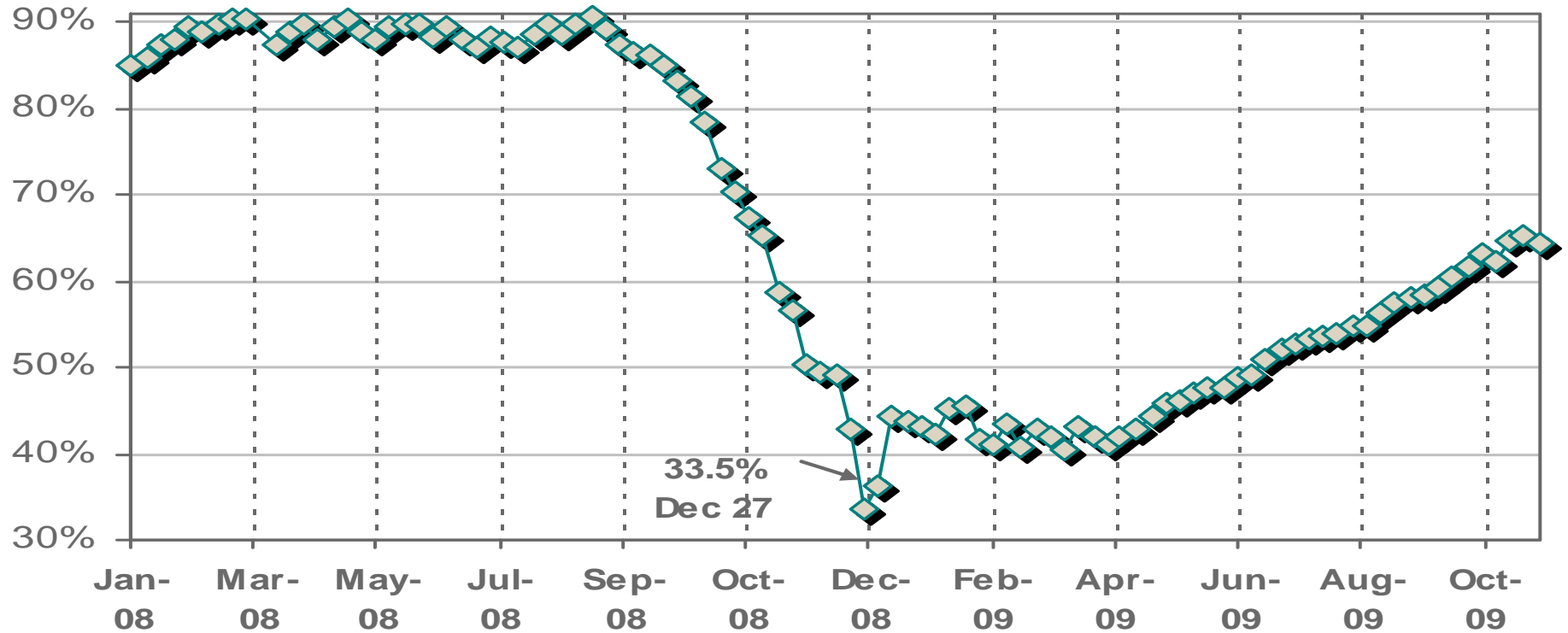
Weekly US Raw Steel Production Capacity



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Utilization (Capacity reduced as demand fell)

thru November 21



Source: American Iron & Steel Institute

Raw Steel Production 2008 and 2009

- 1st Quarter 2008: 27.5m tons, 2.1m tons / wk
- 2nd Quarter 2008: 27.6m tons 2.1m tons / wk
- 3rd Quarter 2008: 27.2m tons 2.0m tons / wk
- 4th Quarter 2008: 18.5m tons 1.5m tons / wk
- **2008 total: RSP 100.8; ASC 107**

- 1st Quarter 2009: 13.6m tons 1.03m tons / wk
- 2nd Quarter 2009: 13.8m tons 1.06 / wk
- 3rd Quarter 2009: 16.8m tons 1.3 / wk
- 4th Quarter 2009: 18.8m tons 1.4 / wk (est.)
- **2009 total: RSP 63; ASC 66 (est.)**

Source: American Iron and Steel Institute data, AM USA analysis

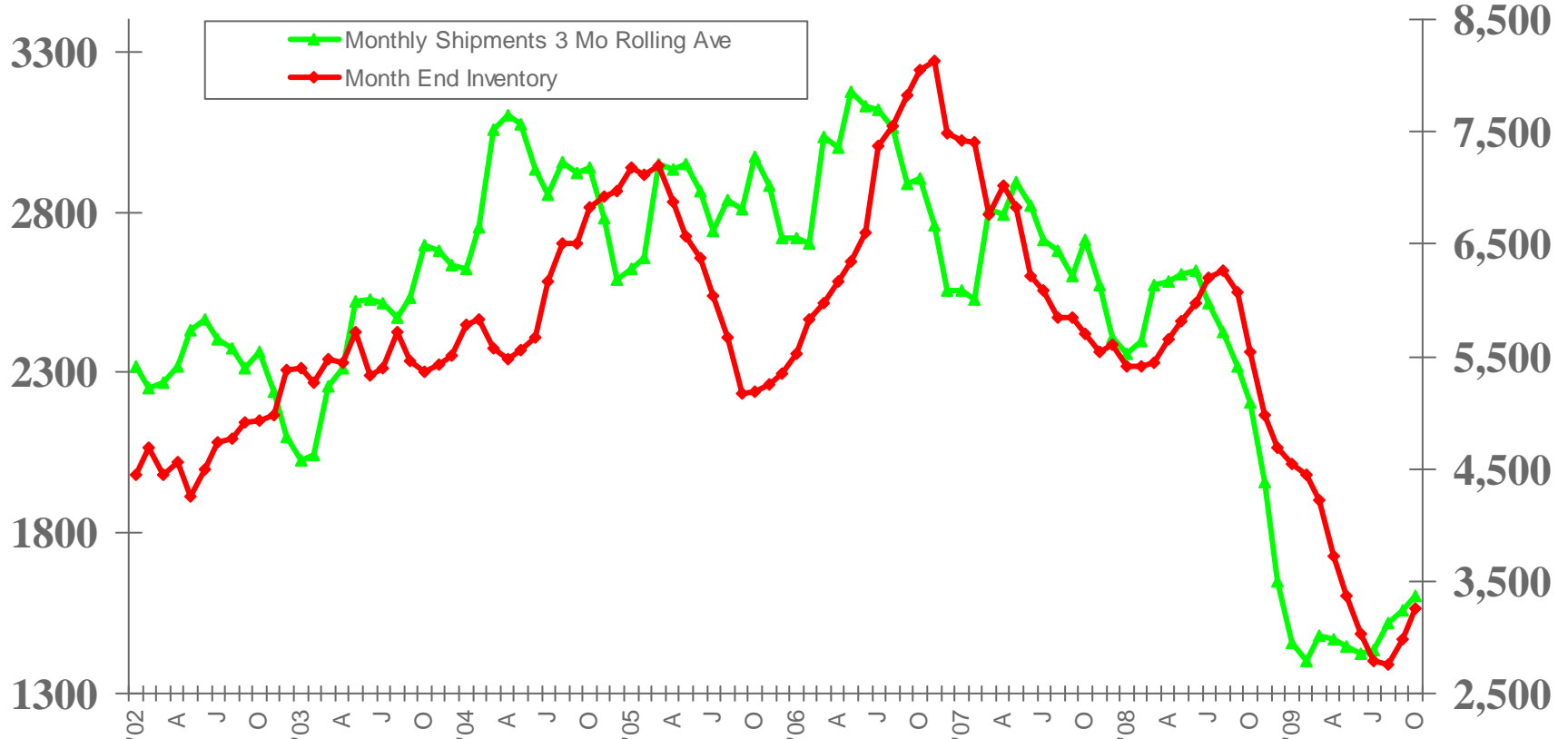


U. S. Steel Service Center Total Shipments & Inventories Carbon Flat Rolled

Source: MSCI; Based on a representative sample of the U.S. Service Center Industry

Monthly Shipments ,000 Tons

Ending Inventory ,000 Tons



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2010 Steel Outlook

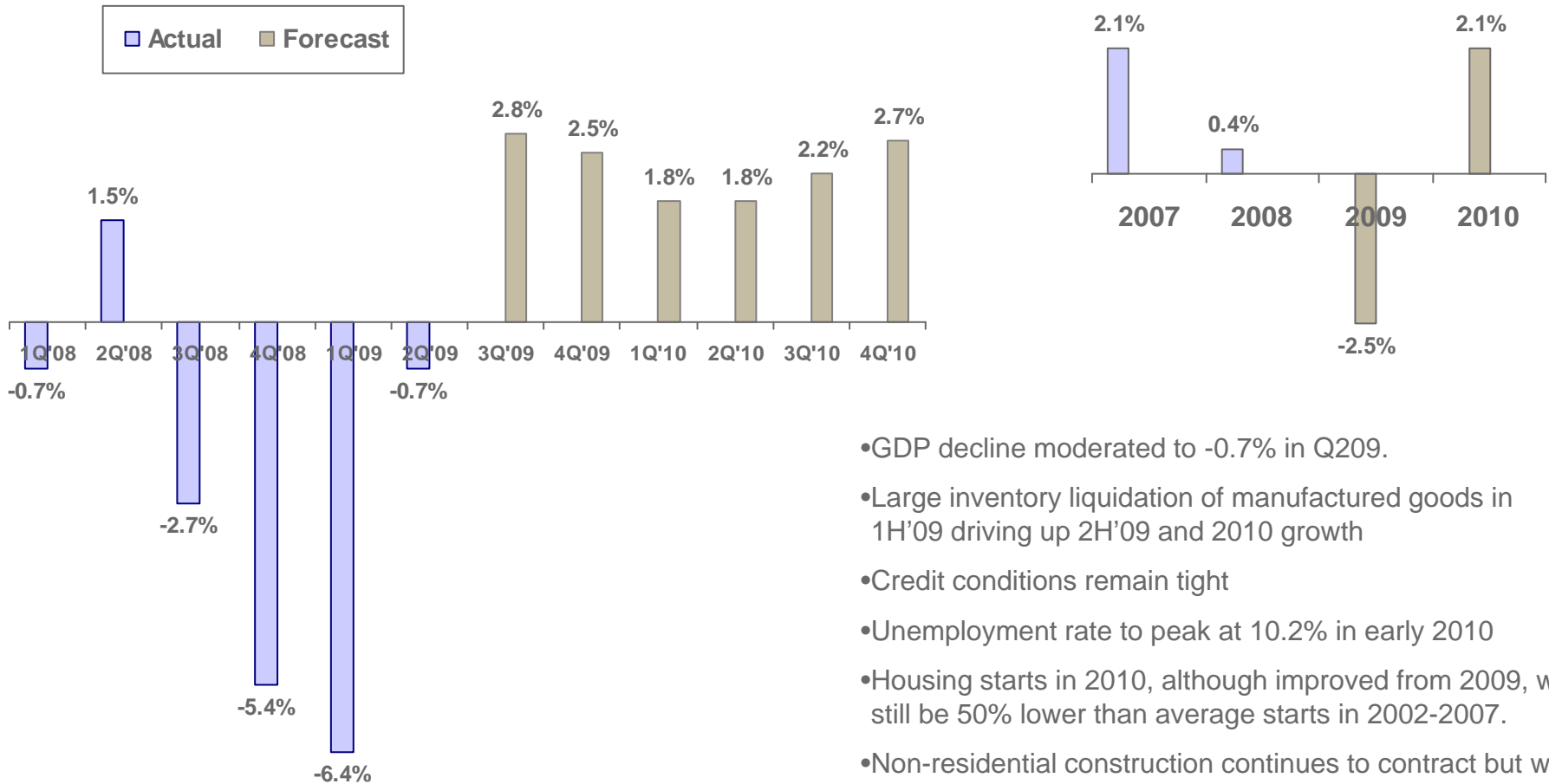


GDP Growth Forecast



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On the slow path to recovery...



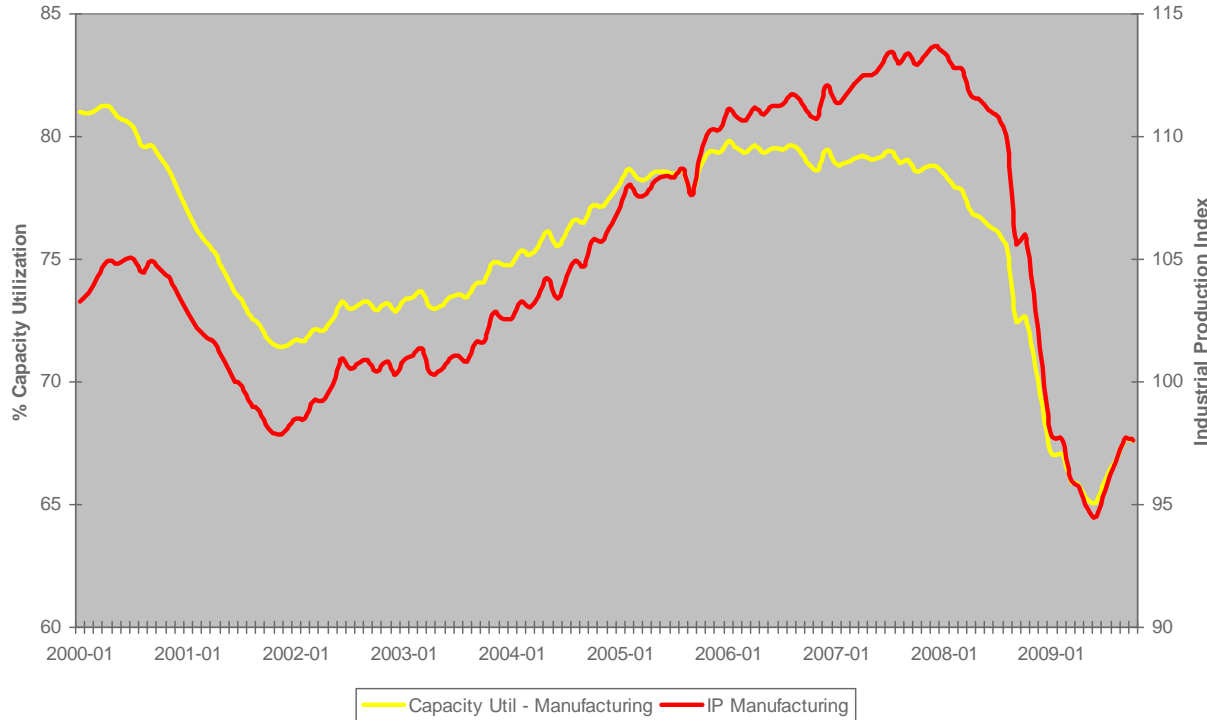
- GDP decline moderated to -0.7% in Q2'09.
- Large inventory liquidation of manufactured goods in 1H'09 driving up 2H'09 and 2010 growth
- Credit conditions remain tight
- Unemployment rate to peak at 10.2% in early 2010
- Housing starts in 2010, although improved from 2009, will still be 50% lower than average starts in 2002-2007.
- Non-residential construction continues to contract but will see some improvement in public works spending from stimulus funds.

Source: Global Insight, October 2009

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Industrial Production & Capacity Utilization Manufacturing Component 2000 – October 2009



“V” Shaped recovery?

The consensus estimate sees this as very unlikely.

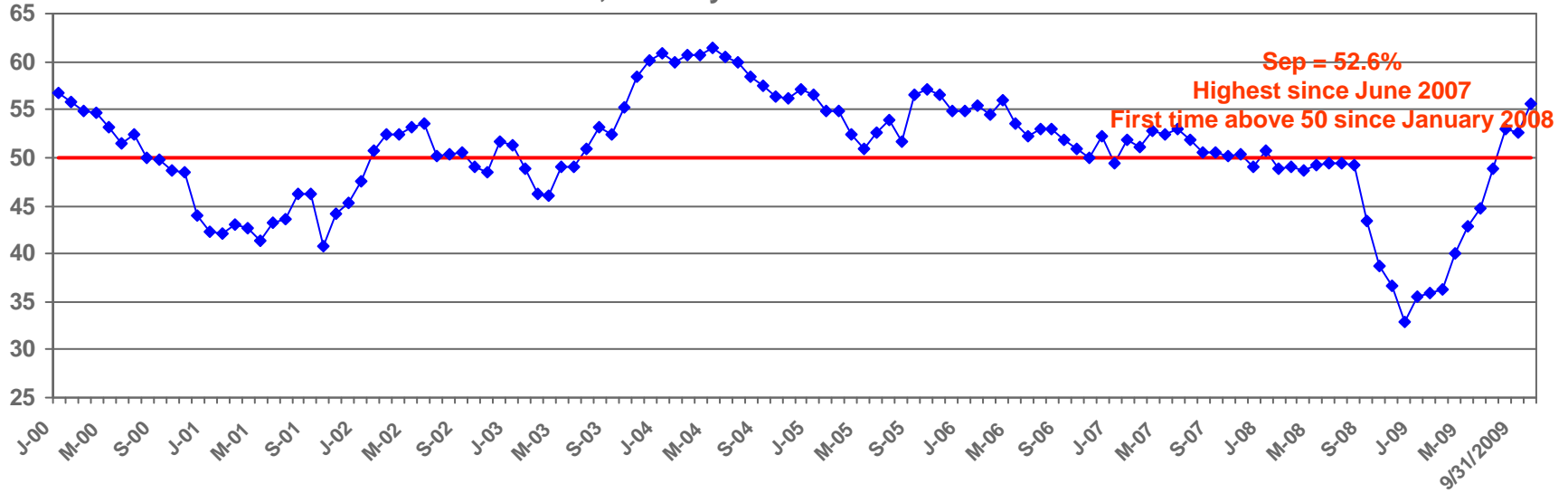
“The U.S. economy has fallen off a cliff” – Warren Buffett

Source: U.S. Federal Reserve Bank Statistical Release November, 2009

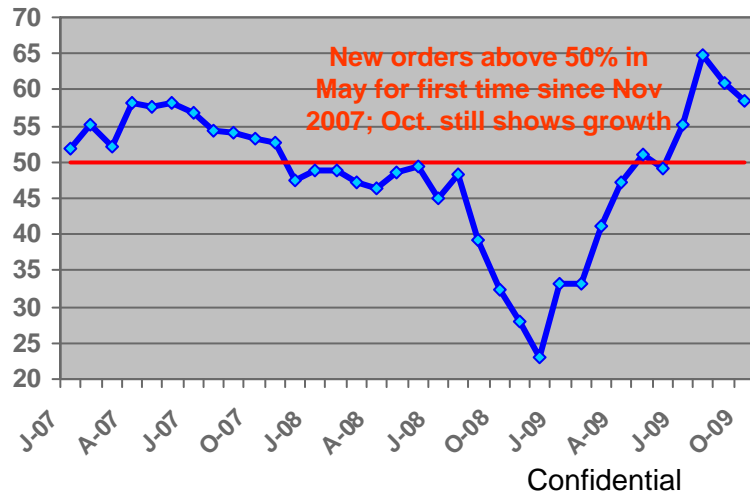
ISM Manufacturing Purchasing Managers Index (PMI)



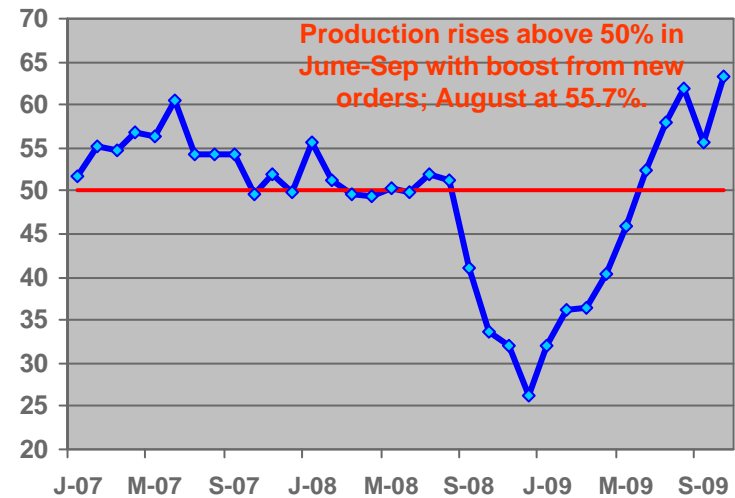
PMI, January 2000-October 2009



New Orders Index, Jan 2007- Oct 2009



Production Index, Jan 2007- Oct 2009



Steel Markets



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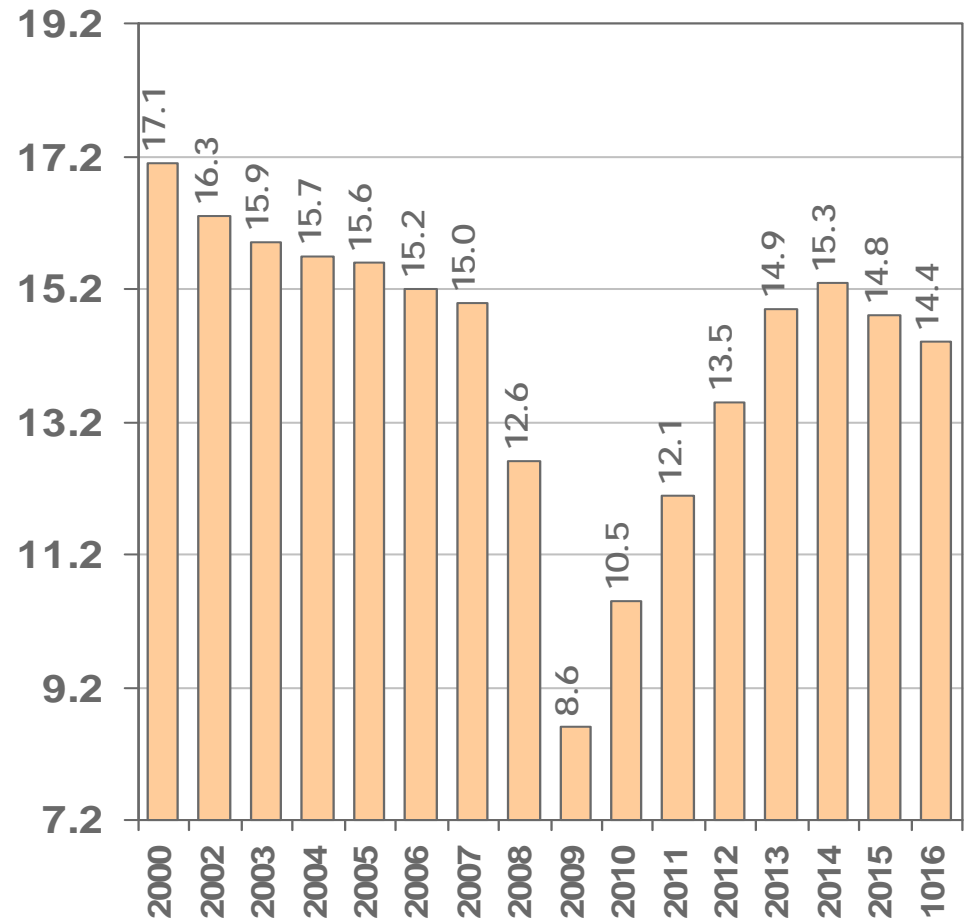




Automotive Production

- 2009 forecast is the lowest production total since the early 1980's.
- 2009 capacity utilization rate is 51%. 2014 rate will be 81%.
- Detroit 3 account for 56% of production in 2009, down from 63% in 2007 & 58% in 2008. Detroit 3 will account for 53% in 2014.
- U.S imports dropped in 2008, 3.4 million, but gain in share, 26% vs 23% in 2007. Imports are forecast to stay near trend,

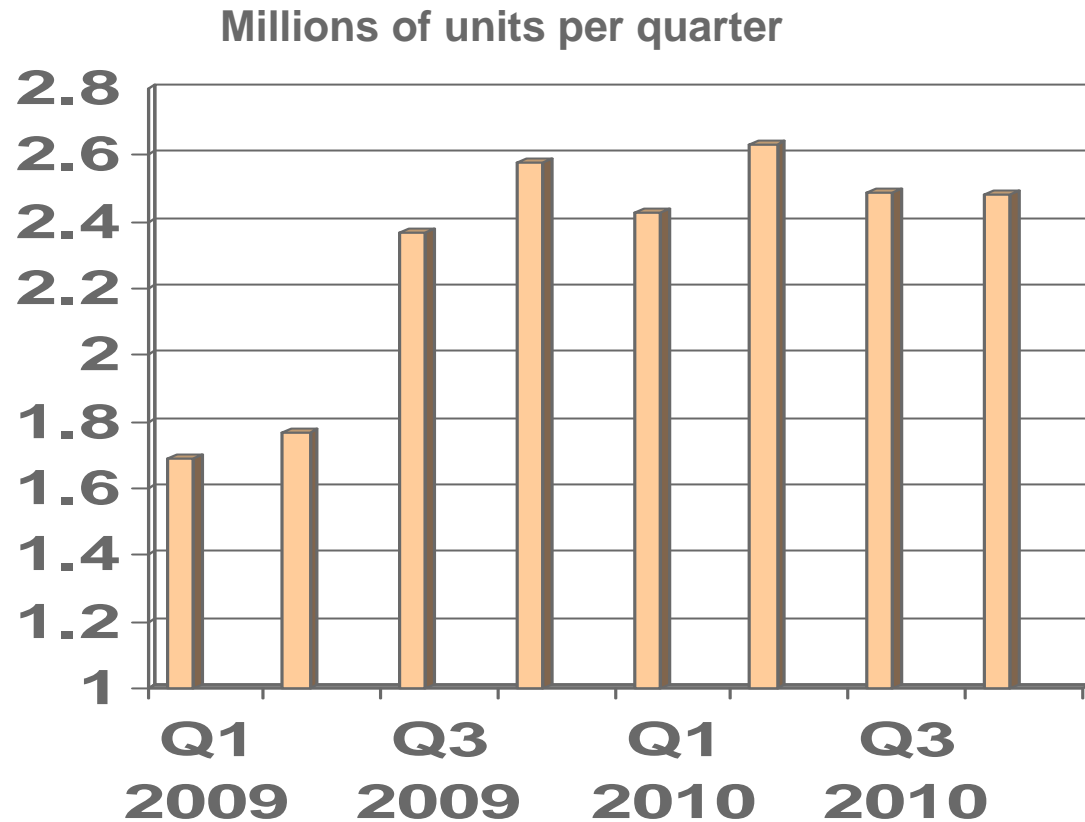
NA production
(millions of units)





Where will steel demand come from Auto Production

- 2009 auto production will be the lowest production total since the early 1980's.
- 2009 capacity utilization rate is 51%.
- Detroit 3 account for 55% of production in 2009, down from 63% in 2007 & 58% in 2008.
- Auto production is beginning a gradual increase starting in the third quarter of 2009.



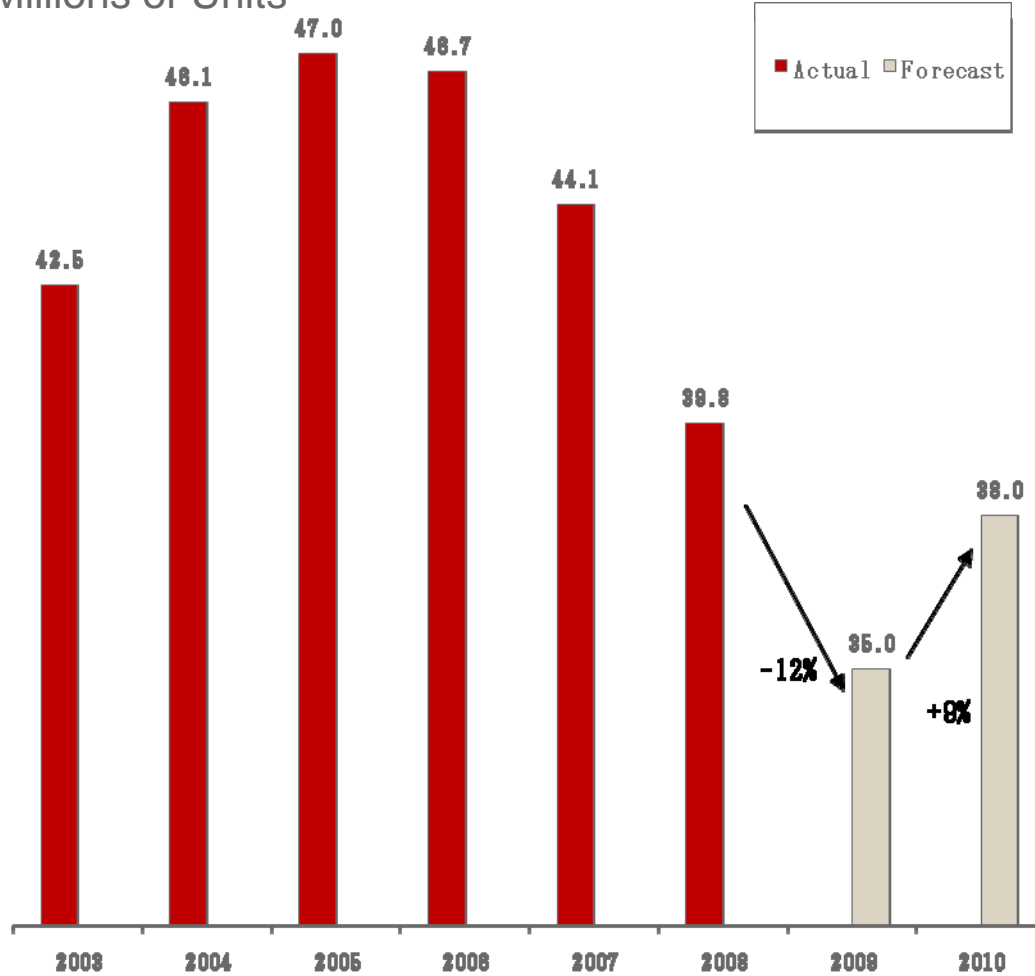
Appliance Market



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USA Core Appliance Shipments*

Millions of Units



Appliance sales have been hurt by the housing market but the replacement market kept appliance sales above the drop in housing starts. Rapid de-stocking by the industry occurred in January 2009.

Appliance shipments in 2009 are down 12% September YTD vs. the same period in 2008. As inventory liquidation occurred early in the year, we expect that shipments will improve slightly and that the year will end at -10% to -12%. Consumer rebates from Stimulus Plan for new Energy Star appliance purchases should spur appliance sales late this year or early 2010.

Appliance shipments will improve in 2010 from improvement in housing starts and the increasing replacement base.

Delayed appliance replacements from 2008-2010 provide excellent future market potential.

*Core appliances = washers, dryers, refrigerators, ranges, dishwashers, and freezers

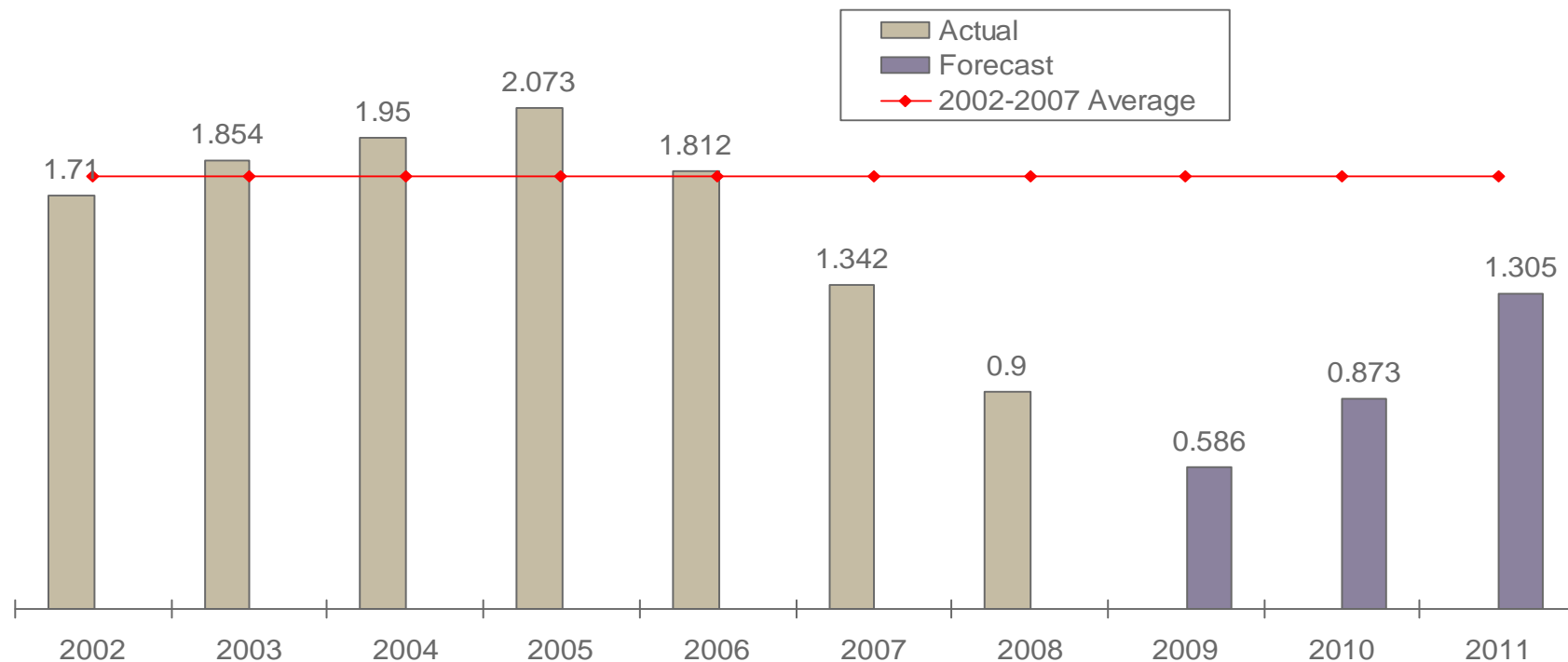
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Housing Starts



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Millions of units



Source: Global Insight, Oct 2009

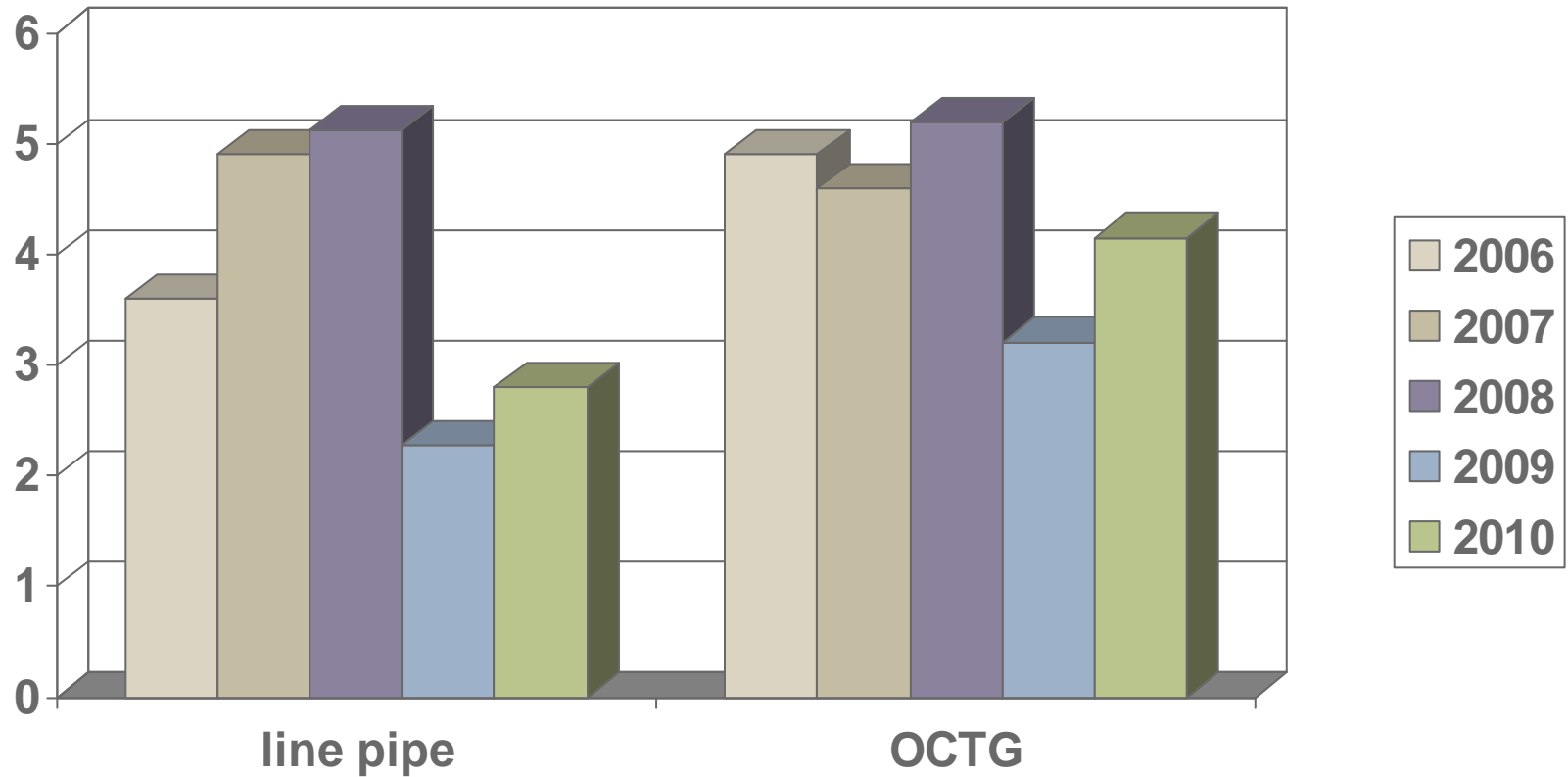
As the inventory of new homes has finally subsided, we begin to see recovery in housing starts from Q2'09 bottom. The annual rate of starts in Q4'10 forecast to be nearly double Q2'09 rate.

	Q2'09	Q3'09	Q4'09	Q1'10	Q2'10	Q3'10	Q4'10
Starts (in millions, SAAR)	0.540	0.601	0.677	0.764	0.824	0.899	1.005

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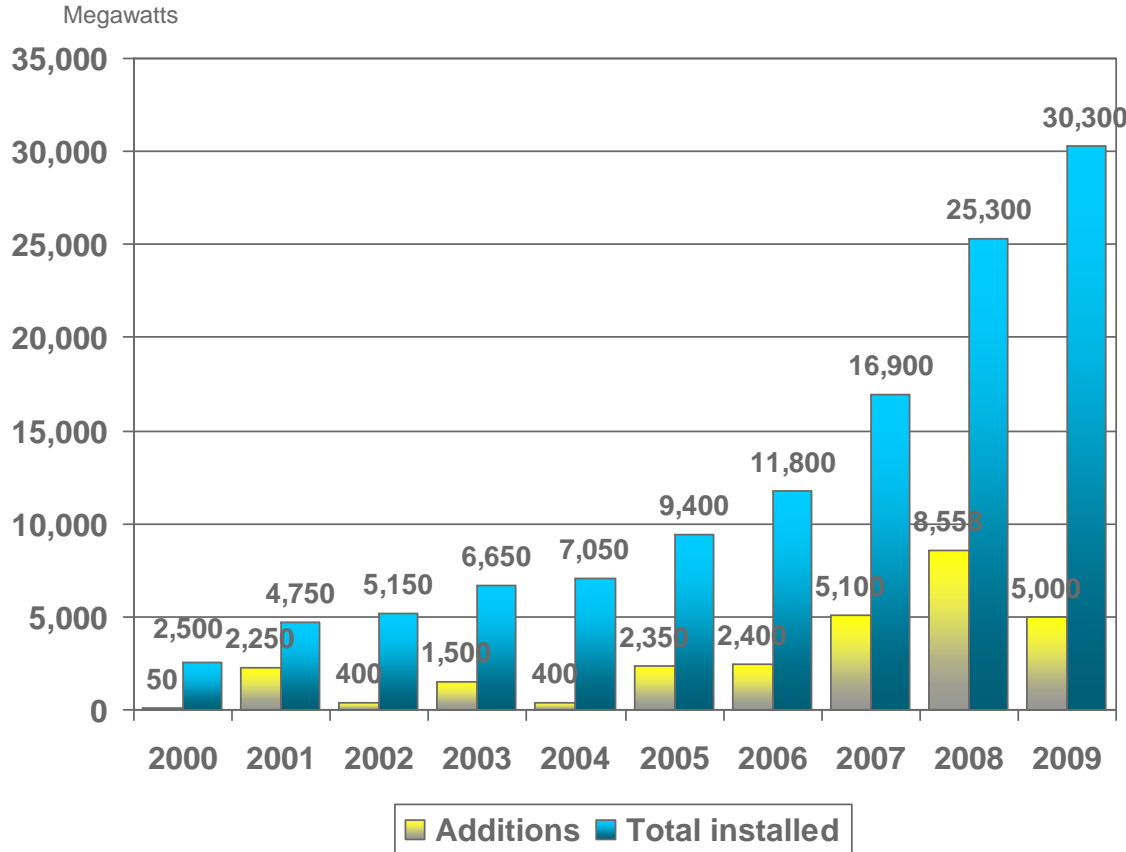
USA Energy Market Steel Demand million of tons



Source: History and forecast, Preston Pipe & Tube Report, November 2009



Wind Energy Growth



State government renewables target along with a reauthorization of wind generated electricity subsidies from the Federal Government will continue to drive wind energy projects. Financing and right of way for transmission have constrained 2009 additions.

Over 8,500 megawatts installed in 2008. Renewable energy incentives will drive wind, solar and bio-fuel manufacture.

Source: American Wind Energy Association

Non-Residential Construction



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Architecture Billings Index (ABI) *Source: AIA*

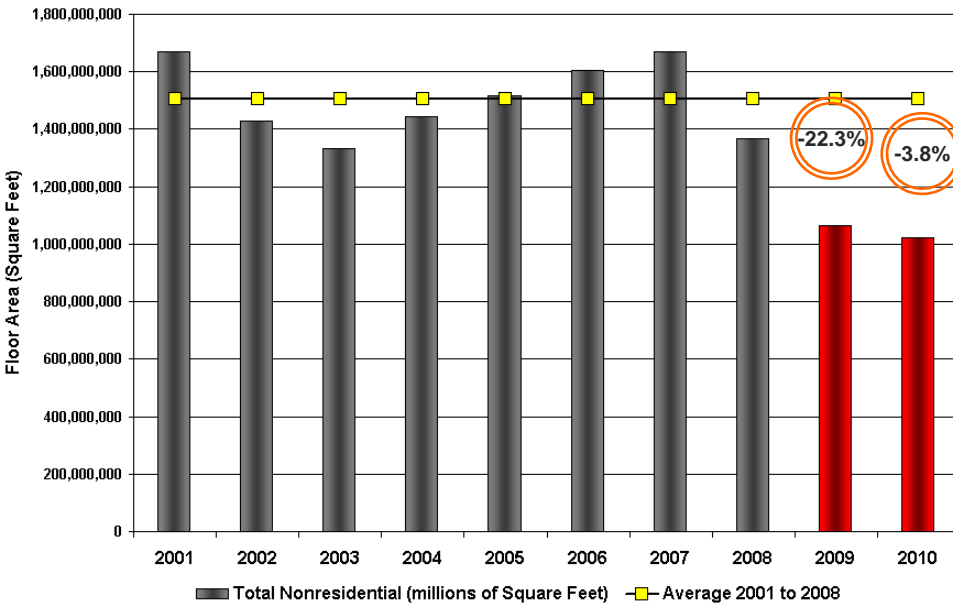
A score above 50 indicates an increase in billings, and it is a leading indicator for nonresidential construction spending over the next six to nine months



ABI was 43.1 in September, up from August. Based on the index, the nonresidential construction market will be suffering into at least mid 2010. The Inquiries index has been above 50 for 6 straight months, but it is reported that this only because customers are shopping around more and most don't end in realized projects.

Non-residential building construction will continue to be a challenge in 2010. Public works projects will show year-over-year increases.

Non-Residential Floor Area (Square Footage)



*McGraw-Hill

Stimulus Bill Steel Consumption Potential

- **Highway Construction**
 - Bridges – Plate & Rebar – 400,000 tons
 - Roads – Rebar 800,000 tons
 - Crash Barriers – 55,000 tons
- **Electricity Grid**
 - Pylons – 250,000 tons
 - Steel Wire - 100,000 tons
- **Renewable / Clean Energy**
 - Wind Towers – plate and hot rolled - 500,000 tons
 - Solar Installation – sheets 190,000 tons
- **Federal Infrastructure**
 - Green Buildings – various products 200,000 tons
- **Clean Water**
 - Steel Pipes (Standard Pipe) 300,000 tons
- **Education Modernization – various products 200,000 tons**

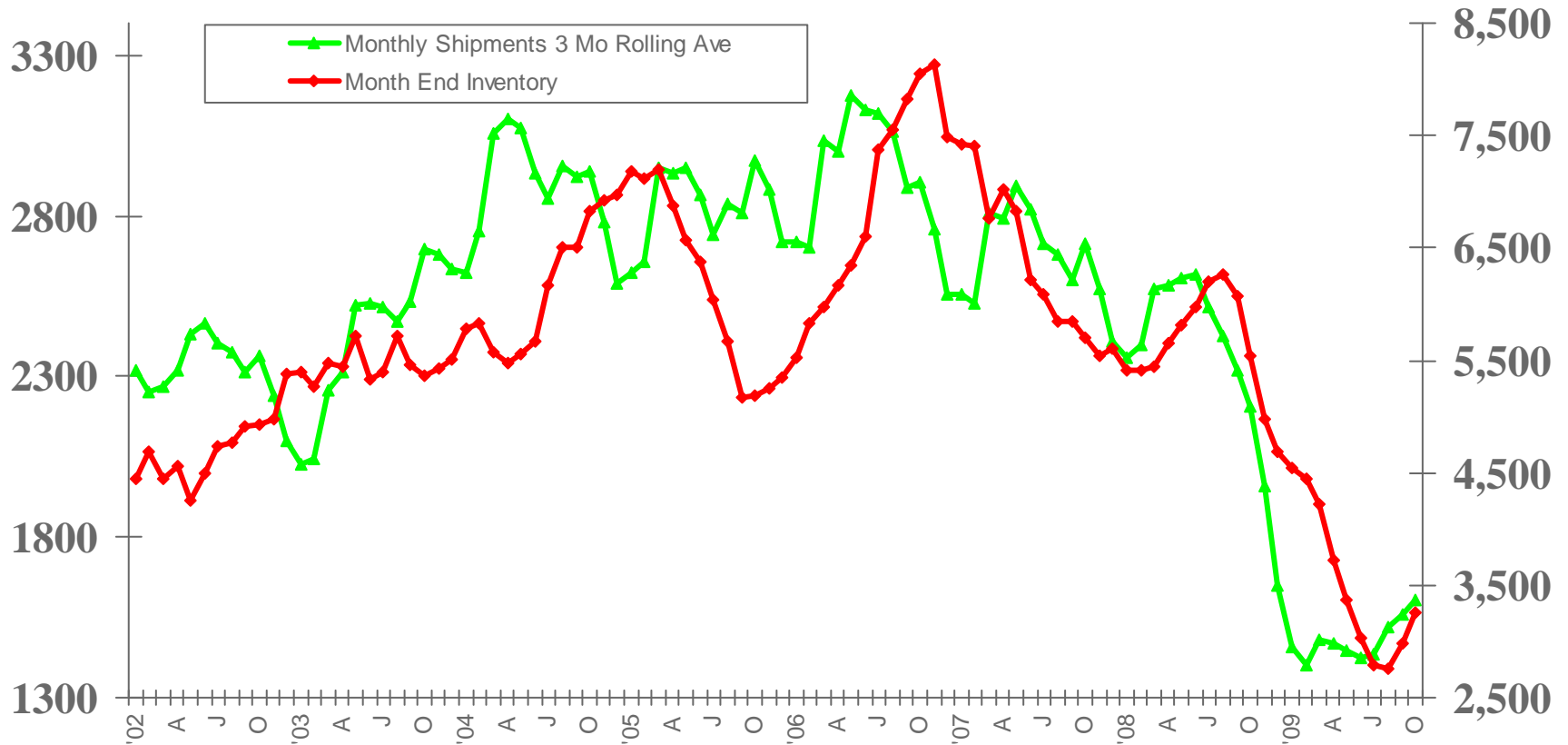


U. S. Steel Service Center Total Shipments & Inventories Carbon Flat Rolled

Based on a representative sample of the U.S. Service Center Industry

Monthly Shipments ,000 Tons

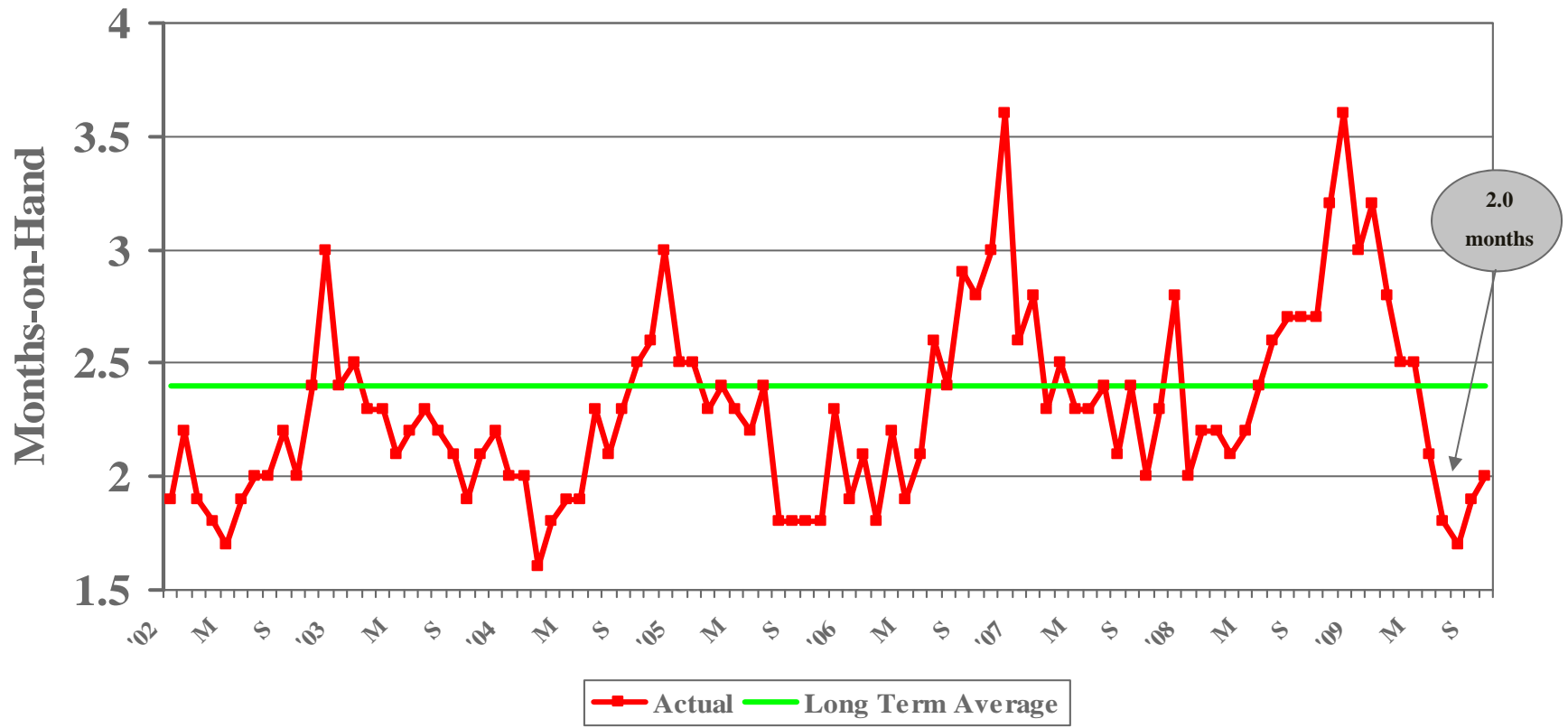
Ending Inventory ,000 Tons



U. S. Steel Service Center
Number of Months Shipments on Hand
 Based on a representative sample of the U.S. Service Center Industry
Carbon Flat Rolled

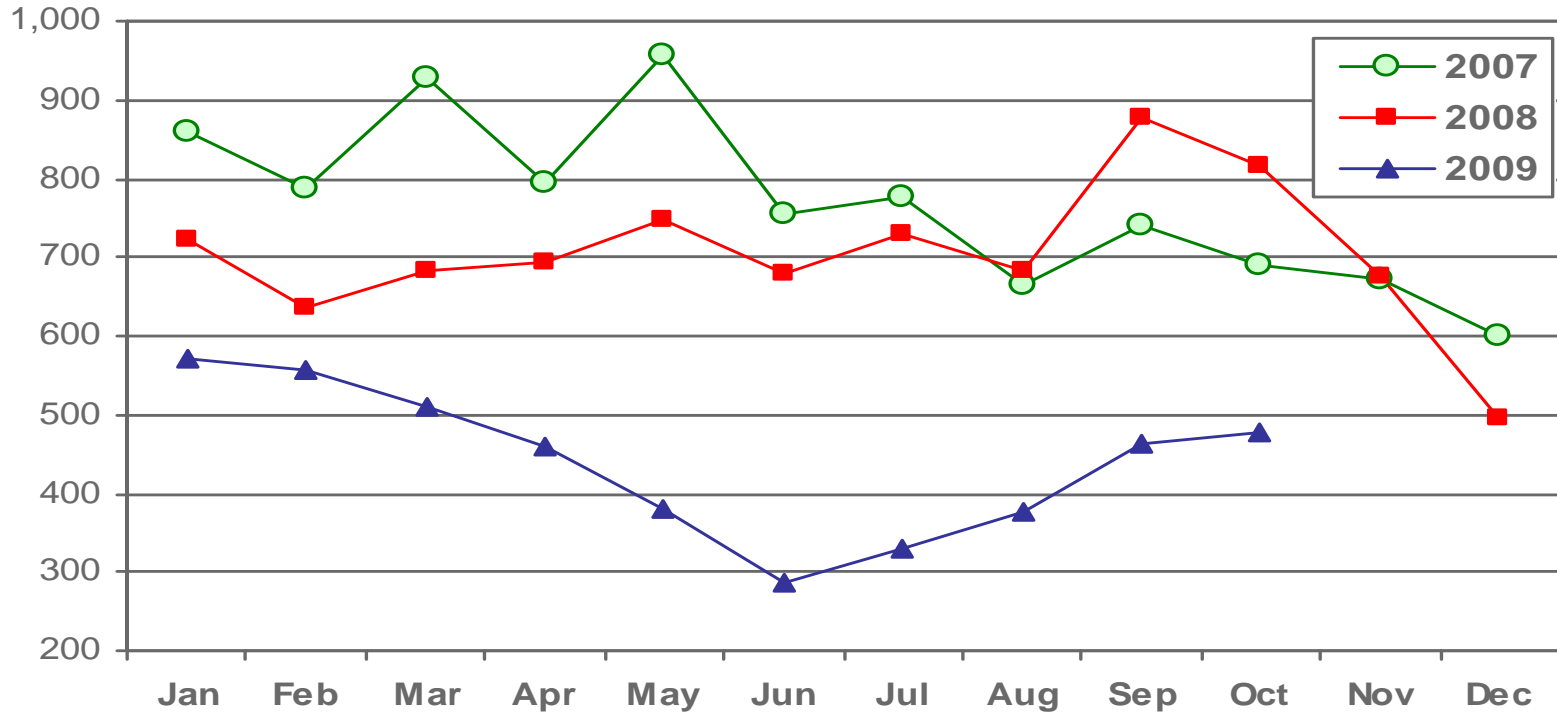


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Flat Roll Monthly Imports (,000) mt



Flat roll import licenses are up in October for 4th straight month.

Source: AISI and DOC data

Steel demand change - 2010

Auto	
Residential Construction	
Non-residential Construction	
Machinery	
Agriculture	
Electric motors	
Infrastructure	
Renewable Energy	
Pipe & Tube*	

* Pipe & tube demand will be improved by the capacity additions of a number of new spiral pipe mills in the USA as well as a drop in imported pipe.

Source: AMUSA analysis



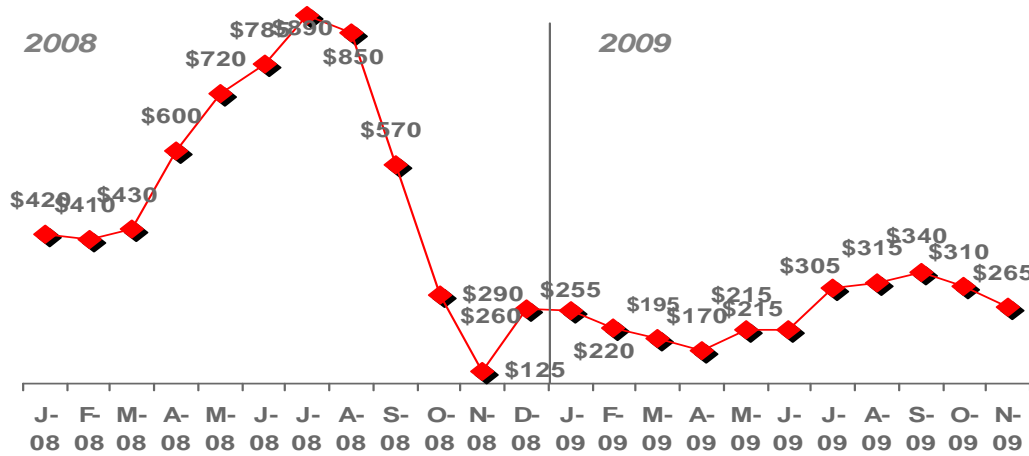
Global Markets

- 2008 Steel Consumption 1.3b tons
- 2009 Steel Consumption 1.2b tons (est)
- 2010 Steel Consumption 1.3b tons (est)
- China
 - Domestic demand has been strong
 - Production has outpace demand
 - Producers have cut production by 3% from August highs.
 - Inventory will take months to work off
 - Excess steel will continue to be exported
- Europe
 - Return to growth in Q3
 - Real demand muted by consumers, tight credit, strong euro
 - Q4 demand rate expected through first half of 2010
- CIS
 - domestic market situation is still-weak
 - seasonal slow-down in the construction market
 - sector is concerned about Chinese exports.
- Brazil
 - Industrial production rising
 - rising real demand will continue to improve
 - underpin the attractiveness of the Brazilian market for major exporters.



Steelmaking input costs

Scrap: #1 Busheling-Chicago

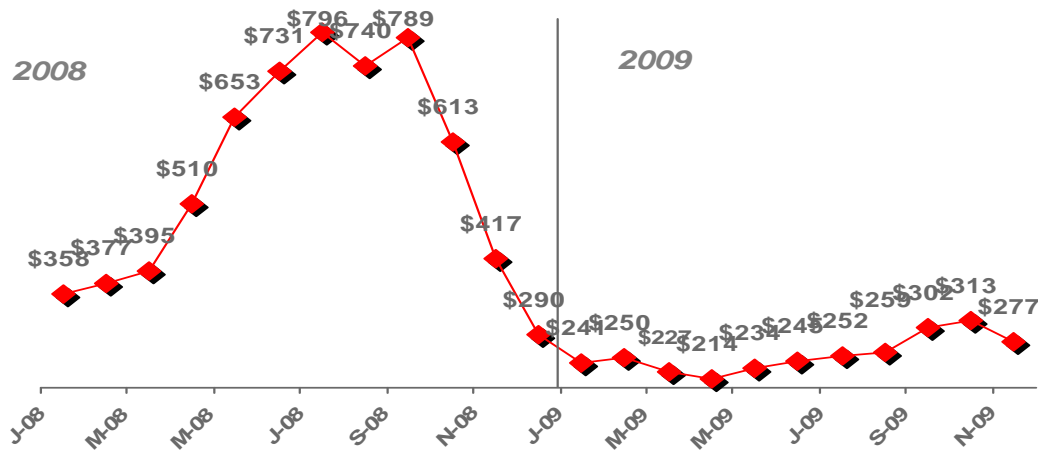


- Scrap has declined by \$75 in the past 2 months. December price increase expected.

• Source: AMM

- Pig iron prices weaken with scrap market - producers are focusing on higher priced domestic market in Brazil.

• Source SBB



Pig Iron: Brazil\$/s.ton, Brazil export FOB Ponta da Madeira

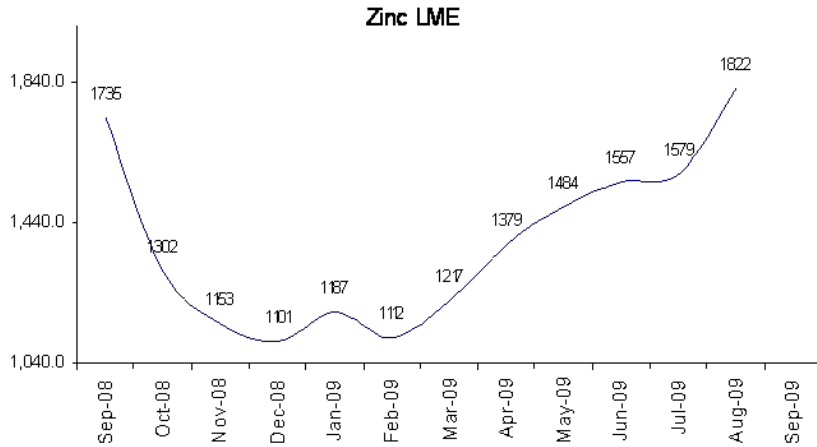
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Evolution of Zinc Market Indicators



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Zinc monthly prices
LME cash \$/T

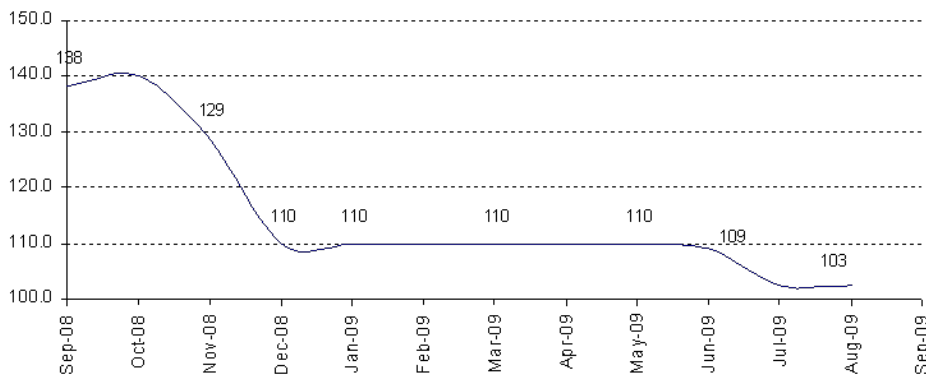


Market Indicator Evolution:
LME cash \$/T

Weekly Evolution	W37	1,932.8	4.41%
Monthly Evolution	August '09	1,821.7	15%
% Day on Day			1.6%
2009 Year High			1,967
2009 Year Low			1,060

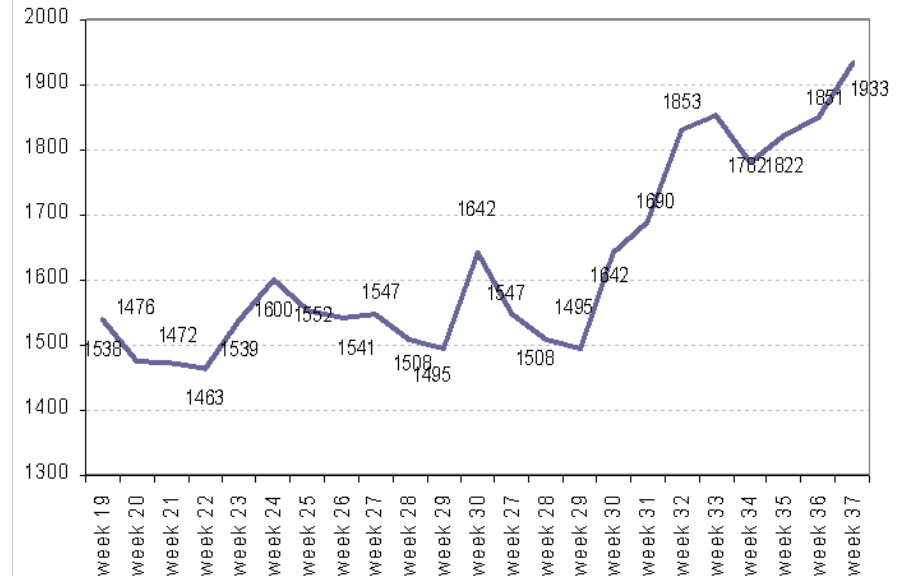
Source: Purchasing based on LME

Zinc Monthly Premium \$/Mt



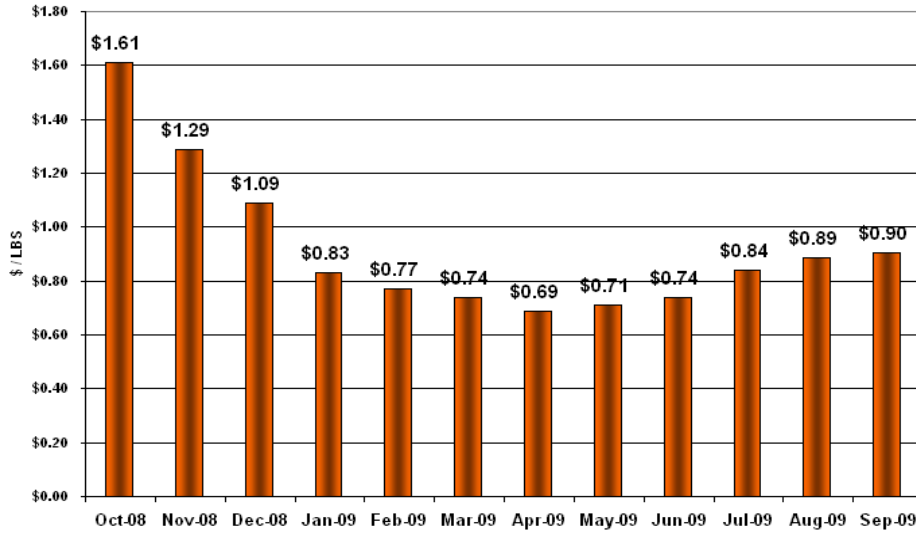
Zinc Metal MB EU Special High Grade for Rotterdam
\$ per ton; Source: Metal Bulletin

Zinc LME cash \$/T (weekly)

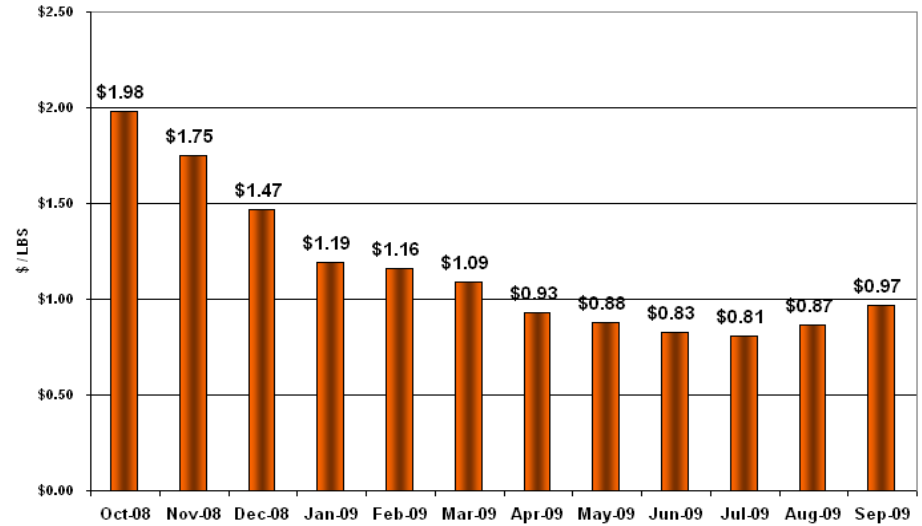


Steelmaking raw materials costs

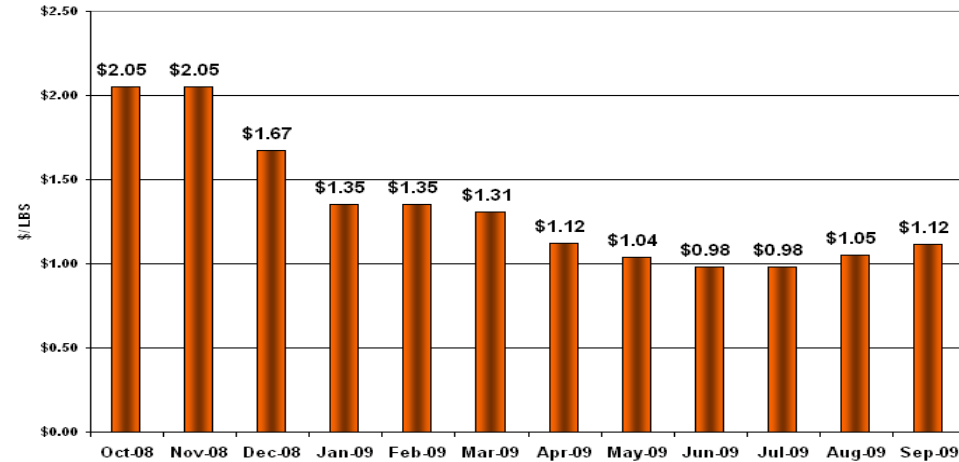
Fe-Cr



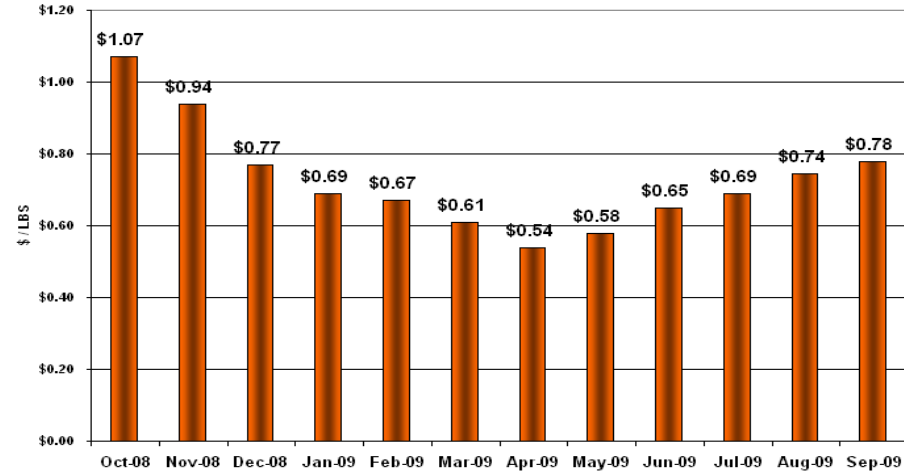
MC Fe-Mn



LC Fe-Mn



Fe-Si





Risks

- Credit markets stall
- Unemployment higher than anticipated
- Double Dip Recession
- Quickly increasing energy prices restrain growth
- Steel imports greater than expected
- Cap and trade
- Wars



Summary

- Inventory liquidation in 1H 2009 greatly depressed manufacturing activity and steel consumption.
- A real demand bottom has now been seen. Steel demand in second of 2009 and the first half of 2010 will have to equal end use consumption.
- Slow GDP growth is now expected in NAFTA
- Global growth in steel consumption is now evident.
- Global steel production is increasing.

Questions



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