Robert DiCianni, Marketing Manager
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Steel Industry Outlook
Federal Reserve Bank of Chicago

Friday, December 2, 2011

Robert J. DiCianni, Marketing Director
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Outline

- 2011 Steel Market
- 2012 USA Steel Market Outlook
- Global Steel Outlook & Raw Materials
- Summary
- Questions

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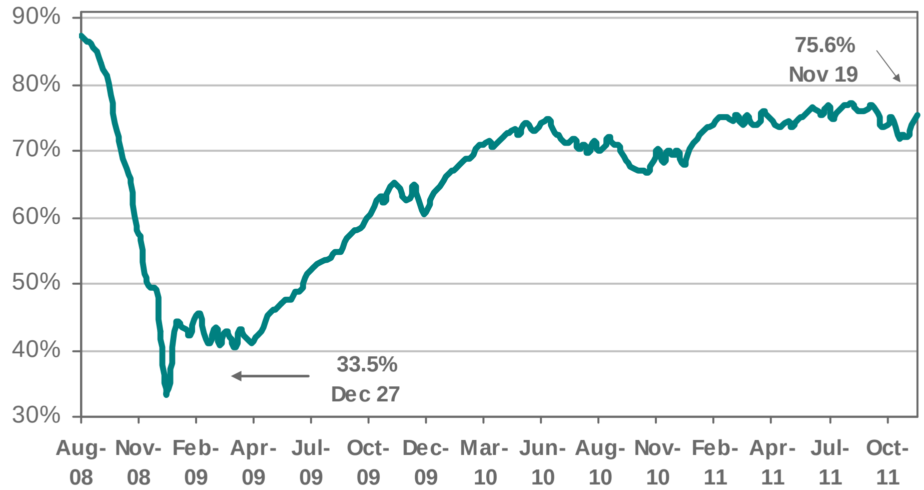
Weekly US Raw Steel Production Capacity Utilization (Capacity reduced as demand fell)



Source: American Iron & Steel Institute

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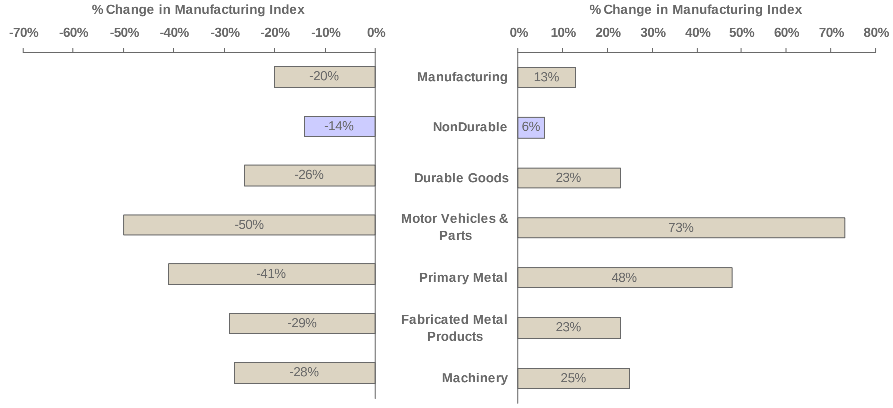
Changes in Output in the Manufacturing Sector

Recession Period (Dec '07-Jun '09) | Recovery Period (Jun '09-Aug'11)



The manufacturing sector was especially hard hit by the most recent recession but sectors which consume steel were even more disproportionately impacted. The recovery in the manufacturing sector is less than complete but some steel consuming sectors have outperformed total manufacturing growth. Business investment and exports of manufactured goods have led the way out of the recession.

Source: Federal Reserve

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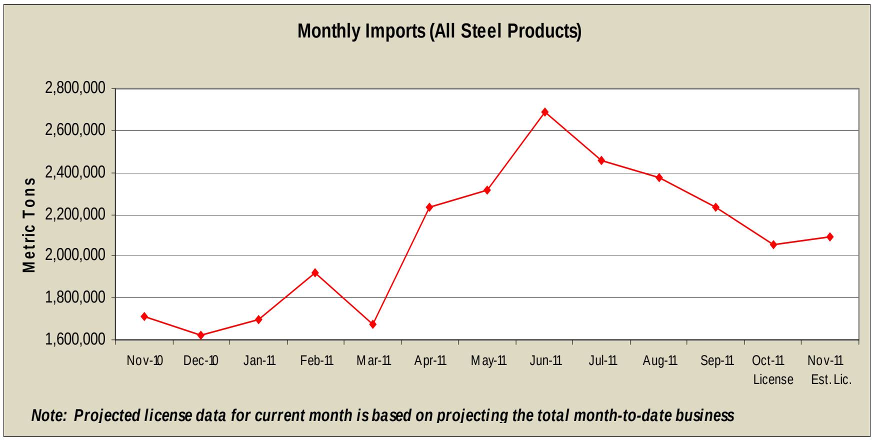
Steel Imports



Source: DOC

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2012 Steel Outlook

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Real GDP Growth: Recently Changed

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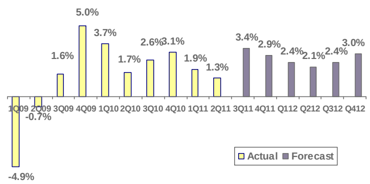
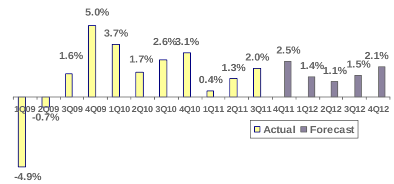
History and Forecast

July Outlook



November Outlook



- The outlook has weakened recently as the economy still faces strong headwinds. The view for the second half of 2011 and 2012 is now weaker but still positive.

Source: IHS Global Insight

Industrial Production Index

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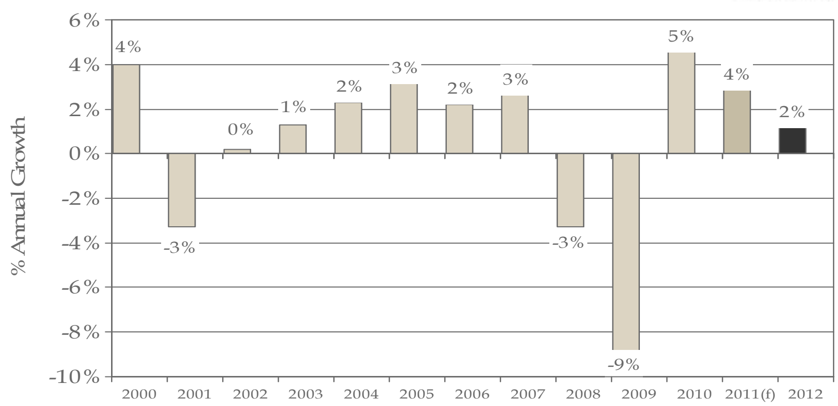
% Change from prior year



In the July outlook the IP index was expected to rise by 5% in 2011 and 4% in 2012. Given recent market turmoil the expectation for IP growth has softened for 2012. However, manufacturing continues to lead the economy out of the recession.

Source: U.S. Federal Reserve Board (2010 data through December; base year for index 2007 – revised June '10) ; Global Insight

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Manufacturing

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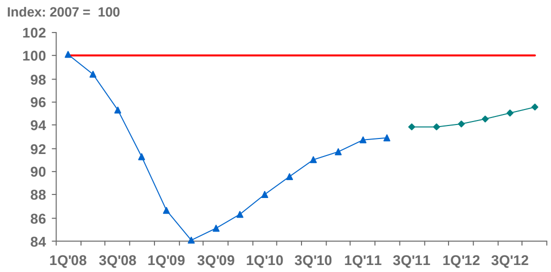
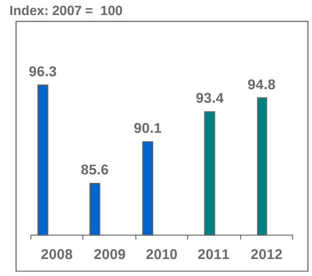
Quarterly and Annual Industrial Production Outlook



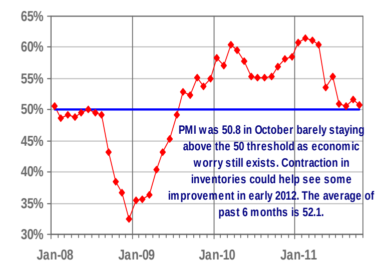


US manufacturing has seen much improvement since the slowing/end of inventory liquidation. Industrial production grew by 5.3% in 2010, but growth has slowed as 2011 and 2012 are forecast to grow by 3.6% and 1.6%, respectively. The values above are shown as an index (2007=100).

Although demand has not greatly improved, manufacturers will continue to benefit as demand must be met by new production rather than further reducing inventory. Export growth is also helping to boost manufacturing.

The ISM Purchasing Managers' Index has shown growth in the manufacturing sector since August 2009. However, the recovery in the US manufacturing sector has not been robust or steady; the 3Q average was just above the threshold at 51.0. Further expansion in 2012 will rely on the strength of consumer spending.

ISM Manufacturing Purchasing Managers' Index (PMI)



Source: Global Insight, October 2011, ISM

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Exports/Trade

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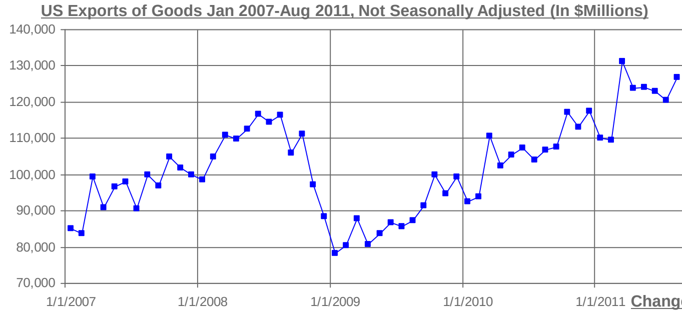
US Exports of Goods Jan 2007-Aug 2011, Not Seasonally Adjusted (In $Millions)



Exports fell by 33% from August 2008 to January 2009.

However, exports returned to peak 2008 levels by Q4'10.

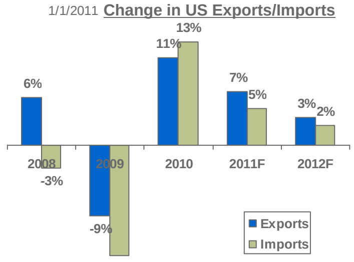
2011 exports have averaged $121 billion (Jan-Aug) compared to 2010 average of $107 billion.

Both the global economic recovery and weak US $ helped US exports return to peak 2008 levels in Q4'10.

Exports will remain a positive opportunity for US manufacturers next year but the slowdown in Europe will limit export potential by (1) reducing demand in Europe and (2) strengthening the US dollar vs Euro.

Exports are expected to grow by 7% this year and imports by 5%. In 2012, export growth will slow to just 3% (down from 6% last month) and imports are forecast to grow 2%.

Change in US Exports/Imports



Source: www.census.gov, Global Insight, October 2011

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Currency

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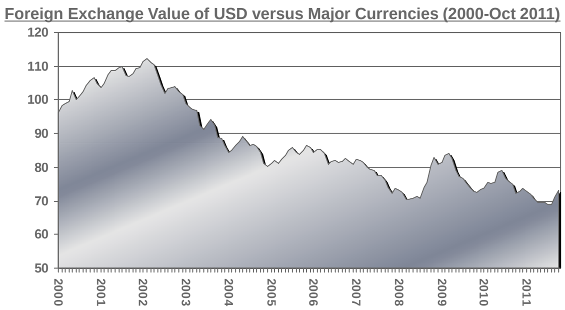
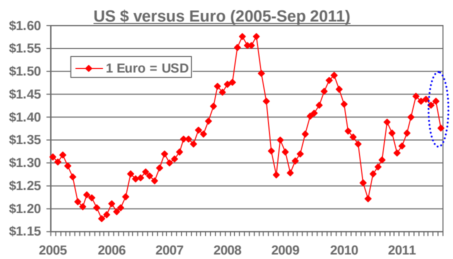
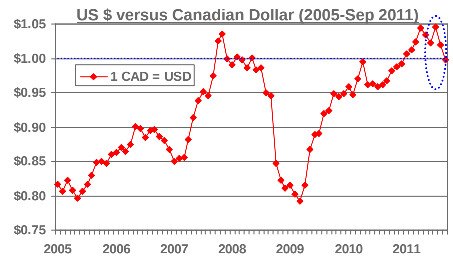


The situation is Europe has led to recent strengthening of the US dollar (as measured versus major currencies). However, compared to 2002 average, the current value is still over 30% lower.

Unlike the recent strengthening of the US dollar versus currencies such as the Euro and Canadian dollar, the US dollar is expected to weaken against emerging market currencies. The relatively weak US dollar will encourage export opportunities for US manufacturers and discourage some imports.





Source: Federal Reserve, www.x-rates.com

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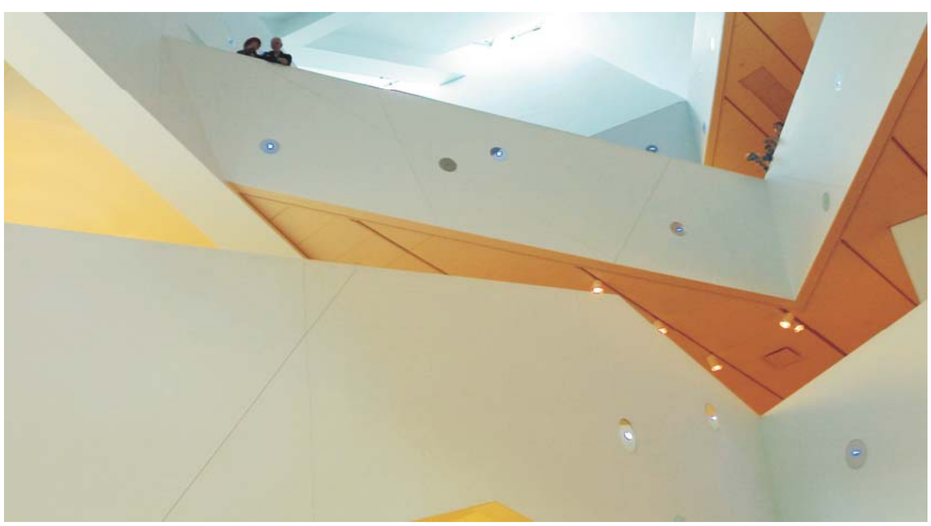
2012 Steel Markets



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Residential Construction

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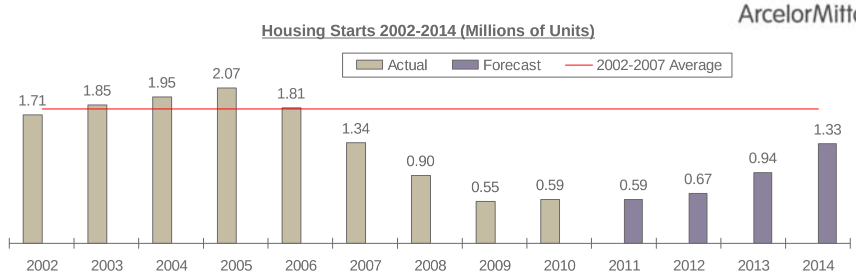
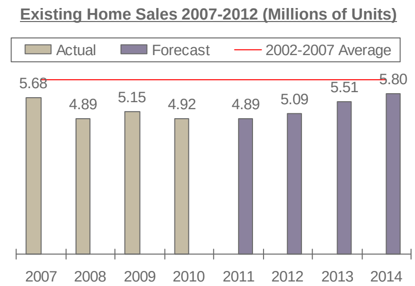


The residential construction market has not seen any real recovery since hitting bottom in 2009. In 2009, new housing starts fell to just 31% of average starts in 2002-2007. Housing starts, led by single-family units, have remained near that bottom in both 2010 and 2011. The forecast for 2012 has been downgraded to just +13% compared to 2011. 2012 starts will still be over 1 million units lower than the average in 2002-2007!

Existing home sales have also shown no improvement as demand remains poor and inventories high. Government tax rebates have not created additional demand, only temporarily pulled-ahead sales that were paid back in the months to follow.

The turn-around of the housing market is dependent on the jobs recovery. However, since so many of the jobs lost were tied to the construction industry, it is going to be a tough deficit to overcome.



Source: Global Insight, October 2011

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Nonresidential Construction

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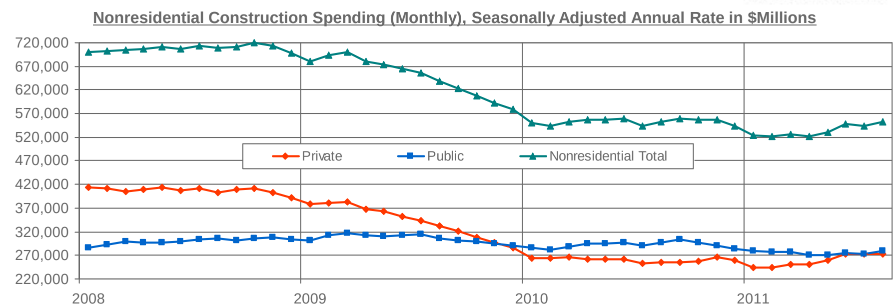
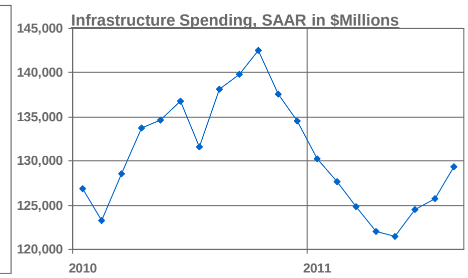


Nonresidential construction spending began to fall steeply in 2009, following several years of solid growth. Notwithstanding the stimulus bill, spending continued to decline in 2010 due to excess inventory and tight commercial credit. The nonresidential market is still weak, but signs of stabilization are visible in private sector. However, public construction is expected to continue to struggle into 2012.

Infrastructure spending has seen big declines since October 2010 but some pick-up was seen in the past 3 months. Funding is the big issue going forward.



Source: www.census.gov; Infrastructure categories = power, highway & street, sewage & waste disposal, water supply.

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Nonresidential Construction Outlook

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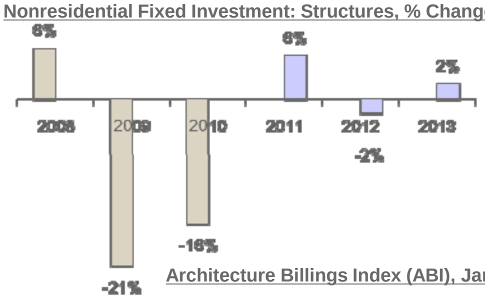
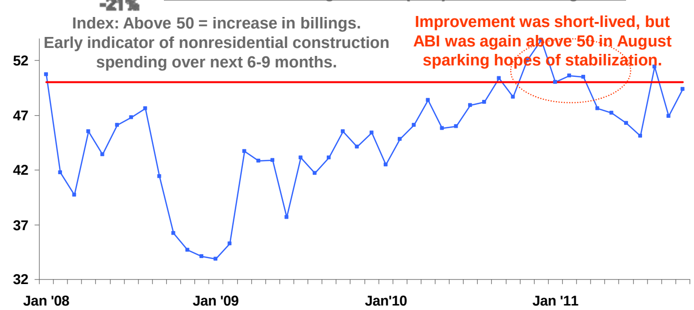
Nonresidential Fixed Investment: Structures, % Change



The nonresidential construction market will continue to experience losses through the 2nd half of 2012. Spending will contract by 2% in 2012, unable to continue the stabilization in 2011. The weakest segments have been Commercial and Manufacturing. Commercial construction declined by 31% in 2009 and 25% in 2010. Manufacturing construction declined by 32% in 2010 and 10% in 2011.

Architecture Billings Index (ABI), Jan 2008-Aug 2011



Architects have seen a decline in projects due to end of federal stimulus spending and lack of financing.

Overall nonresidential market will continue to see losses going into 2012, but private nonresidential market is expected to see some stabilization.

Source: Global Insight, October; AIA

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United States Auto Sales

History & Forecast

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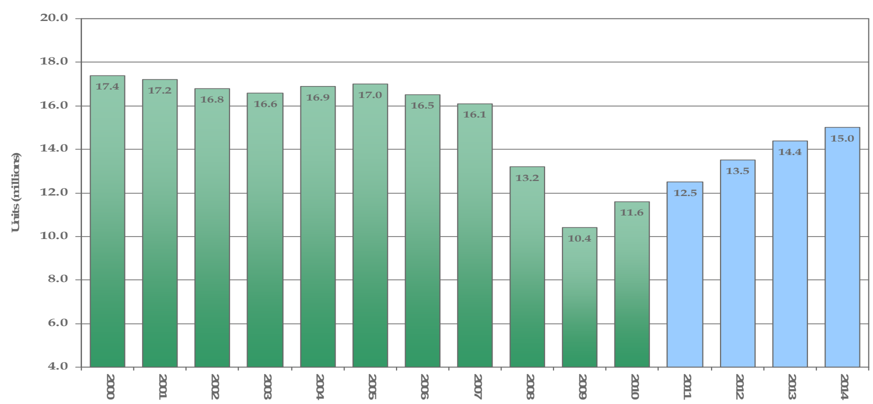

Light vehicle sales are expected to increase over the next 3 years. Although there is significant pent-up auto demand, average vehicle age is very high and scrappage rates have exceeded new vehicle registration for 2 years, high unemployment will keep vehicle sales below trend through 2014.

Source: CSM

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NAFTA Auto Production

History & Forecast

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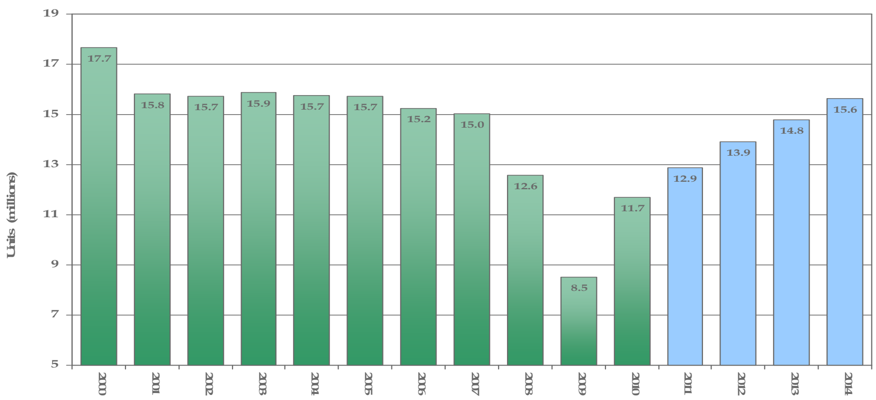

Vehicle production should increase each year for the next several years, although production levels remain below trend in the near term. GM, Ford and Chrysler have improved their competitiveness vs foreign manufacturers. The impact from the Japan disaster had a modest but noticeable affect on Q2 production. Lost production in Q2 will be made up in the second half of 2011 and into Q1 of 2012.

Source: CSM

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Heavy Duty Trucks

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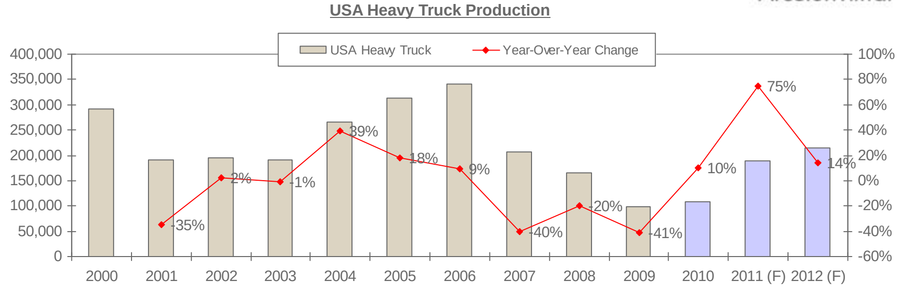
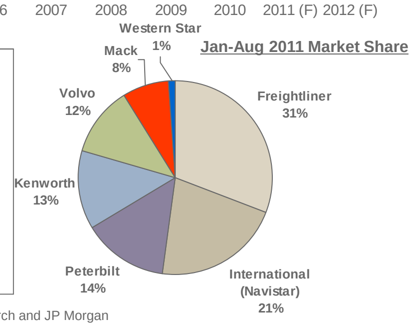


US truck sales were hard hit from 2007-2010 but sales in 2011 are strong. 1H 2011 class 8 truck sales are up 46% compared to 1H 2010 – and sales have been accelerating as the year progresses. As a result, truck production has ramped up with the 2011 heavy duty truck build forecast to be 75% higher than last year. The market will continue to recover in 2012 with production anticipated to be up 14%. 2012 production is still nearly 40% lower than 2006.

2012 flat roll steel consumption should be about 90K tons higher than 2011 based on this forecast.



Source: Ward's, Forecast prepared by AMUSA using data modified by ACT Research and JP Morgan

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Appliance Market

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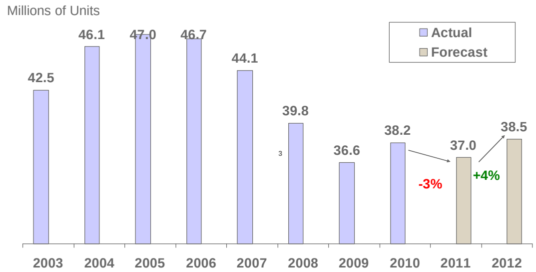
USA Core Appliance Shipments*



The appliance market has struggled throughout 2011 and shipments will be at least 3% lower than last year.

The appliance market has struggled with reduced housing starts and less remodeling projects. However, replacement sales account for approximately 75% of appliance sales which has helped to keep the appliance market above the housing market.

Delayed appliance replacements from 2008-2011 provide excellent future market potential but growth in the appliance market is dependent on the strength of the US economy.

In 2012, we expect to see improvement in the appliance market compared to this year. However, continued problems in the residential housing market and low consumer confidence will dampen growth potential. We forecast that US appliance shipments will grow by 4%. Positive influences in 2012 include:

1) 13% increase in new housing starts
2) 4% increase in existing home sales
3) 4% increase in residential fixed investment
4) Large pent-up demand from delayed replacements

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

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Source: AHAM, ArcelorMittal forecast, 2012 factors #1-3 from Global Insight, Oct, 2011

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HVAC and Water Heaters

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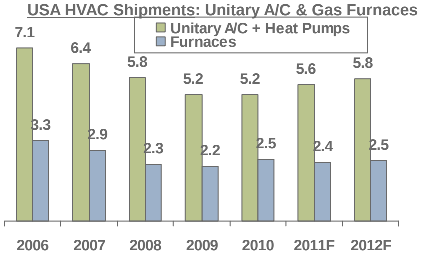
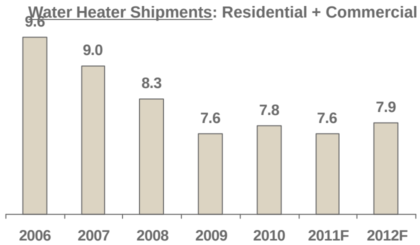
In millions of units

USA HVAC Shipments: Unitary A/C & Gas Furnaces



Water Heater Shipments: Residential + Commercial



	2011	2012
Unitary A/C + Heat Pumps	+8%	+4%
Furnaces	-2%	+4%
Water Heaters	-5%	+4%

- HVAC and water heater shipments grew in 2010 following 4 years of decline. Sales did receive a boost from consumer tax rebates.
- Unitary air conditioners and heat pumps will continue to see growth in 2011 but water heater and furnace shipments will again contract. We anticipate slow growth in 2012 for HVAC at 4%. The market needs consumers to replace old units for stronger growth.
- In the first 7 months of 2011, combined shipments of unitary air conditioners and heat pumps are up 11% compared to same period of 2010 (big jump in Feb). YTD, furnace shipments have struggled, down 8%. Water heater shipments are down 4%.
- Similar to the appliance market, the replacement market accounts for over 75% of HVAC and water heater sales which helped to buffer from severe downturn in new construction. Sales in 2012 should improve from 2011 as housing starts improve and consumers replace old units. As with the appliance market, delayed replacements provide excellent future market potential.

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Source: AHRI, ArcelorMittal forecast

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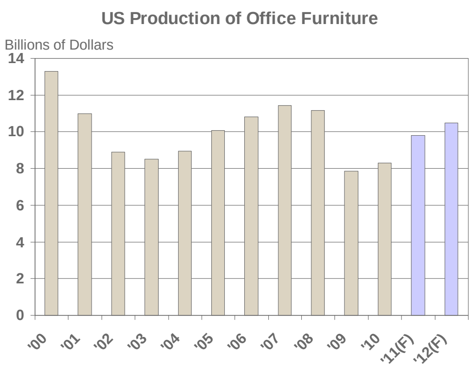
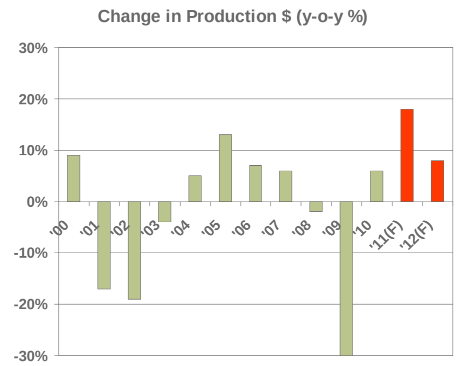
Office Furniture Production



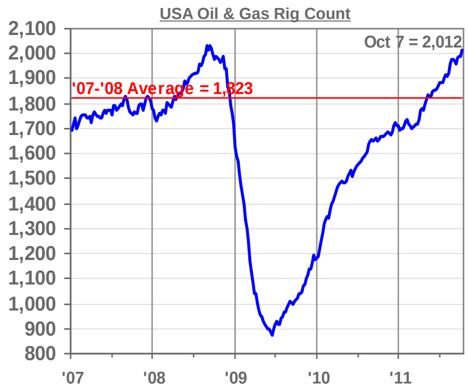


Growth is anticipated in the office furniture market as US consumption (measured in $) is forecast to grow by 9% in 2012 which should equate to about 8% increase in US production in 2012. Last year, imports represented about 26% of the market; import share has been growing steadily- just 10 years earlier, imports had 16% share of the US market.

Source: BIFMA History and Forecast (8/26/11)

Energy Market

The USA oil & gas rig count has steadily improved since hitting bottom in June 2009. In May 2011, the rig count surpassed the '07-'08 average. In October 2011, the rig count rose above 2K for the first time since September 2008.



Overview

- Slow but steady growth is expected in the oil and gas markets as energy demand recovers from the 2009 recession.
- Improving credit markets support renewed energy projects.
- EIA forecasts WTI at $93/bl for 2011, up from $79/bl in 2010. For 2012 the forecast is down to $88/bl as global growth slows.
- Gas prices for US consumers will be $3.52/gal in 2011, up from $2.78/gal in 2010. For 2012 the forecast is $3.43gal.
- Natural gas will average $11.05/mcf in 2011, up from $11.18 in 2010. The forecast for 2012 is $11.53/mcf.

Line pipe Consumption

- New domestic spiral capacity will reduce imported line pipe.
- LSAW line pipe is expected to continue to lose market share steadily vs. spiral product produced domestically.
- LSAW line pipe is expected to become a niche product segment where higher strengths/safety are required. It is expected to retain a larger share thick (>0.65") line pipe product segment, as well as high strength (70, 80ksi) product segment.

Source: Baker Hughes, EIA Short Term Outlook 10/12/11

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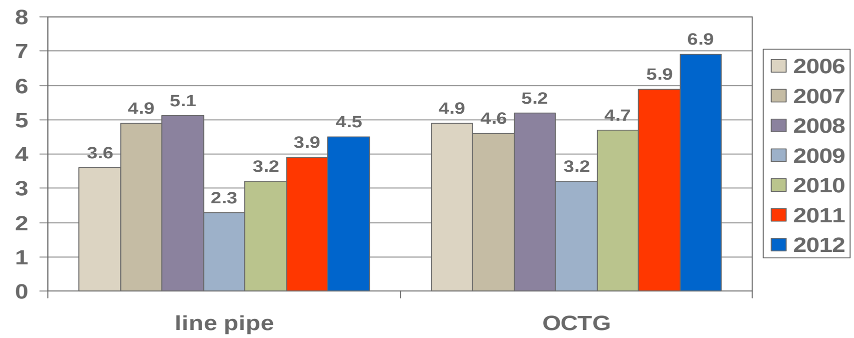
USA Energy Market Steel Demand (millions of tons)

Demand for OCTG moves with drilling activity while line pipe demand lags by approximately 18 months



Source: History and forecast, Preston Pipe & Tube Report, November 2011

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Wind Energy Market

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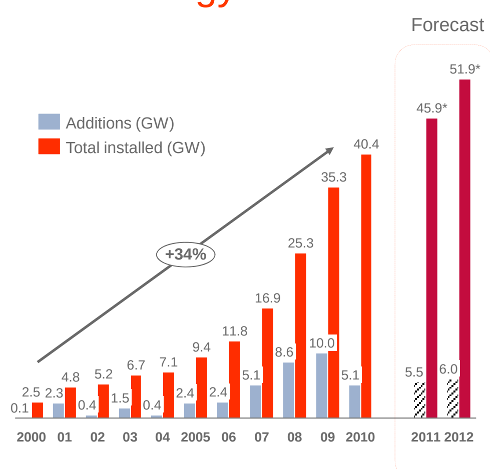

*2012 Forecast based on internal estimates

New Developments/Drivers: Taller & Newer Design Towers, Alternative materials. Offshore will be a driver for thick and heavy steel if projects take off. Imports still strong and negatively effect domestic steel production.

- •Prior to 2010, wind energy grew at an astounding 34% CAGR. In 2010, incremental growth in wind energy suffered its first drop, declining ~50%.
- •Several factors contributed such as weakened US power demand and new supply of natural gas at low price levels.
- •The economic argument to build wind has eroded and made it difficult to secure PPA's (power purchase agreements), in spite of many states pushing to adopt RES and adopting a pro-wind policy.
- •Financing is still complicated. Along with rising commodity pricing, increased shale gas production and weak economic conditions, it is anticipated that wind installations will continue to stagnate or grow slowly for the near future.
- •After 2012, wind growth will hinge on the renewal of the PTC, demand, and gas pricing
- •Offshore wind is regaining some momentum, but once again there are regulatory (environmental) and financing hurdles in the way.

Source: AWEA, ArcelorMittal USA Marketing Estimate

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Mining & Machinery

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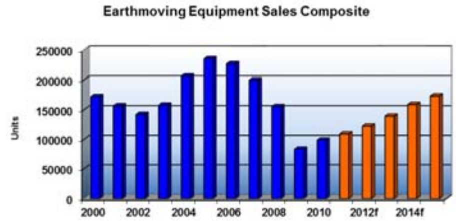
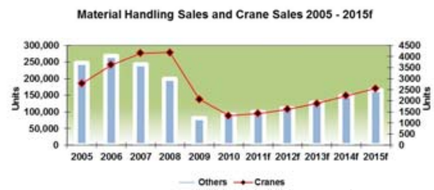
- Mining and Metals projects are the two sectors showing the most activity in the last two years – these include mining and steel manufacturing.
- The NA Industrial project spending index data shows that project activity has increased >32% from 2010 to 2012.
- This segment covers Earthmoving and Material Handling and is based on estimated unit sales and production for NA off highway machinery markets.
- There is continued optimism in the sector especially with key industry players like CAT and John Deere showing strong sales and growth both domestically and internationally based on international construction and infrastructure growth, raw material and mining growth. CAT, in 2011 is estimated to increase its steel procurement ~50% over 2010.
- There is a wave of consolidation taking place (e.g. CAT buy of Bucyrus, Joy Global buy of LaTourneau etc). Another strong indicator of improved optimism in the sector is announcement of more investment in this area (e.g. Volvo , CAT etc).
- **Overall plate needs in the sectors is upwards of 1.5 million tons (>25% of plate market), with most of the buys being domestic mills.**



Earthmoving Equipment:Backhoe Loaders, Crawlers, Track Loaders, Haulers, Skid Steer Loaders, Motor Graders, Excavators etc.
Material Handling: Scissor and Boom Lifts, All Terrain Cranes, Lattice Boom Cranes, Industrial Cranes, Lift Trucks etc.
Agricultural Equipment: Tractors, Combines, Drills, Pavers, Harvestors, Trenchers etc.



Data: Yengst Associates, Machinery Market Research 2011

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Agriculture Equipment Market (US & Canada)

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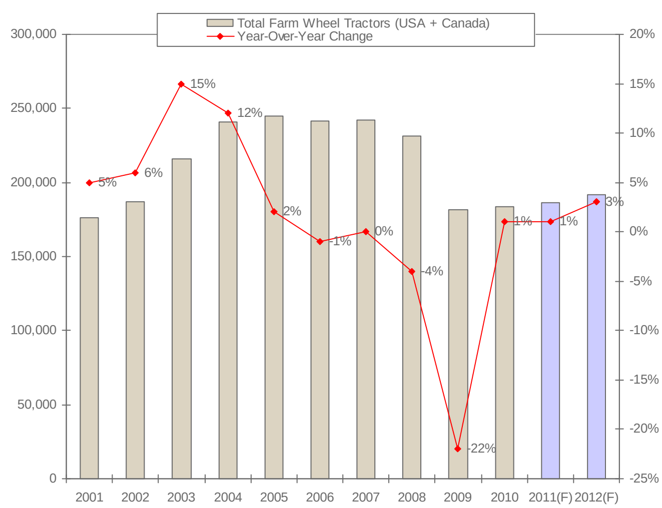
USA & Canada Annual Tractor Retail Sales



Tractor sales stabilized in 2010 following 2009 in which sales fell by over 20%. However, tractor sales have seen little recovery and remain near 2009 levels – increasing by about 1% in both 2010 and 2011. We anticipate slow recovery continuing into 2012 with sales up 3%.

Agriculture equipment sales have been weighted more towards the used market which has hurt new equipment sales.

Opportunities in the developing world will be great source of growth for manufacturers.

Source: Assoc of Equipment Manufacturers, Deere Fact Book (Historical), Forecast by ArcelorMittal USA (based on 1H 2011 sales data and AEM Annual Outlook, Jan 2011)

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Transportation

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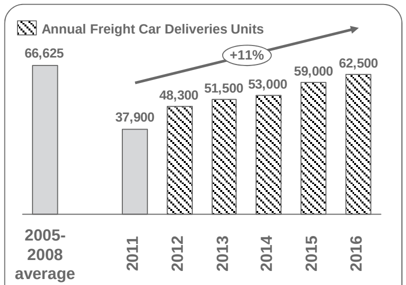
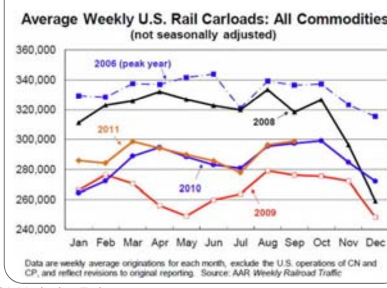
- 2011 freight rail car deliveries have been very optimistic and driven by the sharp rebound in rail traffic with the improvement of the economy
- Economic Planning Associates (EPA) has projected 37,900 deliveries in 2011. Orders and backlogs in steel plate-intensive freight rail cars were at levels not seen since the 1990s.
- The 2016 projections will bring the freight rail car market back in line with the robust period from 2005-08 when 66,625 cars were being delivered annually.
- **Economic Factors:**
- The first six months of 2011 showed a 2.7% gain over 2010 for US Car loads that is a indicator for increase in freight deliveries and rebound of the economy. Coal makes up >40% of rail loads.
- However, long term, there is optimism that continued expansion of customer market activities will keep demand on an upward trend. Recently, there has been some troubling signs that the economy shows signs of weakening, but intermodal rail continues to ship near 2006 peak levels.





Source: Economic Planning Associates, AAR Weekly Railroad Traffic, ArcelorMittal USA Marketing Estimates

U. S. Steel Service Center
Total Shipments & Inventories

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

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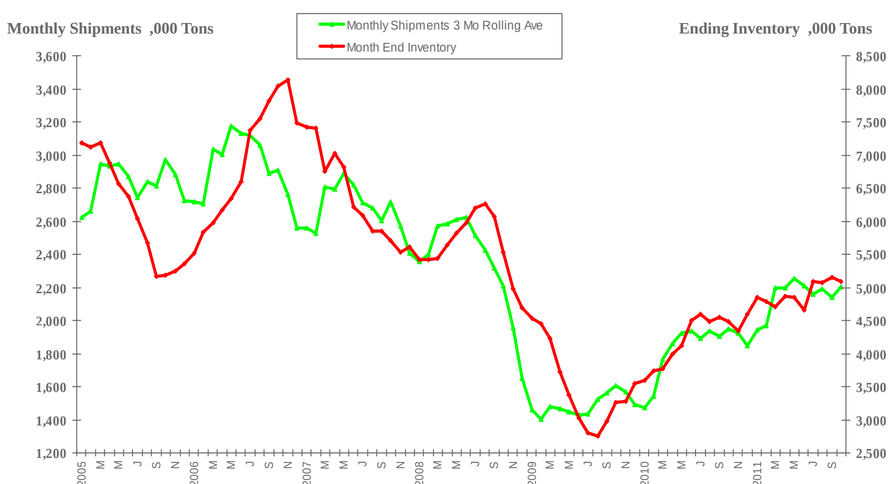
CARBON FLAT ROLLED



Source: MSCI

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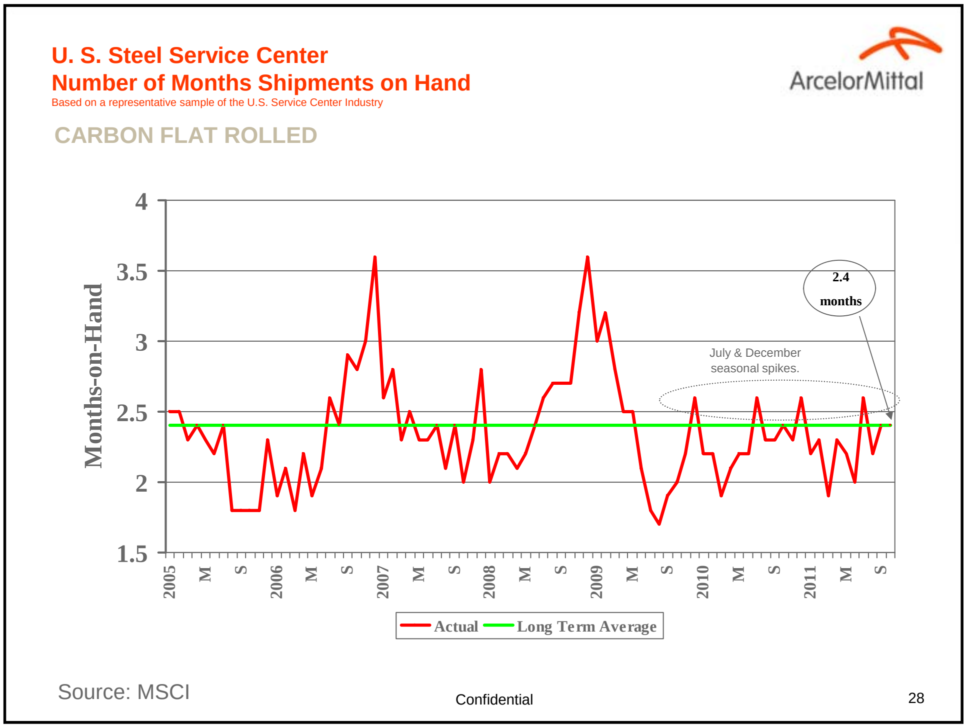

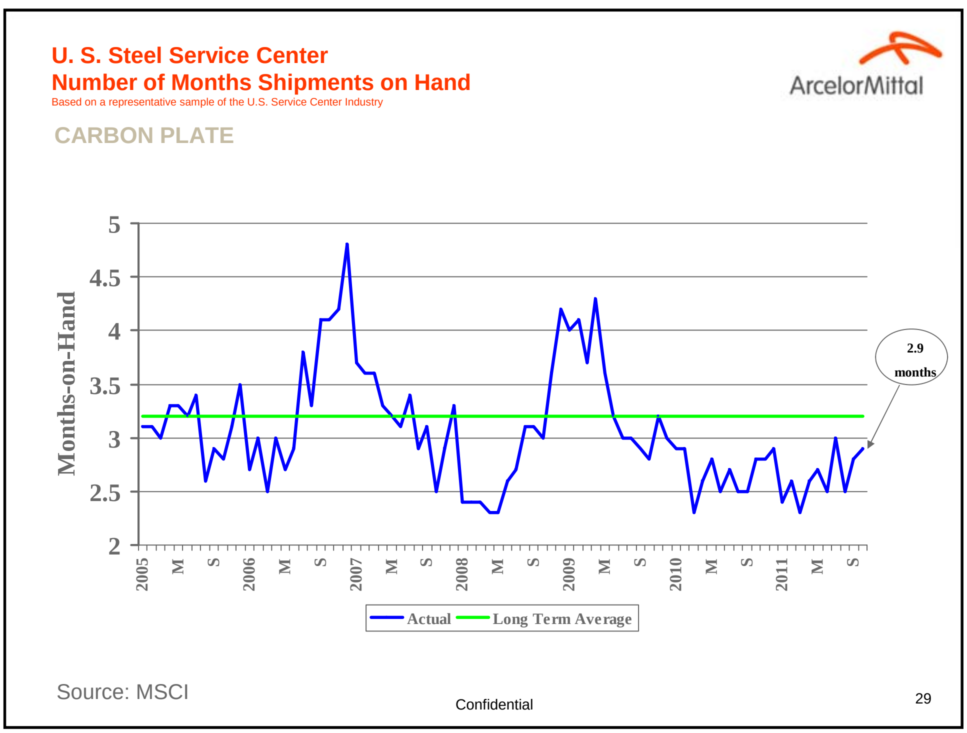

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U. S. Steel Service Center
Number of Months Shipments on Hand

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

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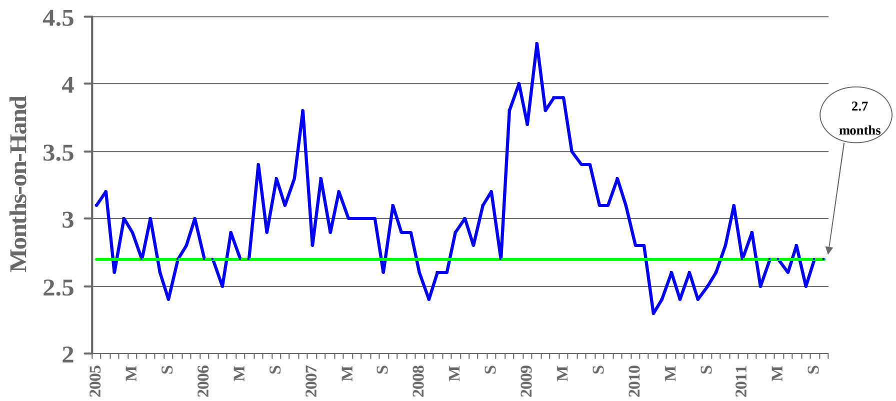
CARBON PIPE & TUBING



Source: MSCI

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Steel demand change 2011 - 2012

Auto	↑
Residential Construction	→
Non-residential Construction	→
Machinery	↑
Agriculture	↑
Electric motors	↑
Infrastructure	→
Energy	↑
Steel Inventories	↑

Most major steel consuming markets will continue to recover over the next 18 months. However the pace of recovery for the US economy is still very slow. Therefore, there is no expectation that we will see robust growth any time soon. Steel inventories remain well controlled for most major product categories and a weaker dollar will help US exporters while steel imports will also continue to be low.

Note: SBQ bars will be in short supply throughout the year.

Source: AMUSA analysis

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Steel Consumption Forecast Summary 2011 and 2012

Finished Steel (mmt)	2010	2011	Δ YOY	2012	Δ YOY
Imports	17.1	20.2	+18%	18.8	-7%
Exports	11.0	11.7	+6%	12.2	+4%
Apparent Steel Consumption	78.7	89.2	+13%	93.8	+5%

Source: AISI Commercial Research Committee

short tons
2010 = 86.6
2011 = 98.1
2012 = 103.2

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Risks for 2012

- Public Policy Mistakes
  - Tax increases
  - Austerity programs going too far.
  - Cap and trade
  - A currency war that leads to increasing protectionism.
- European economic collapse.

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Global Markets/Raw Materials

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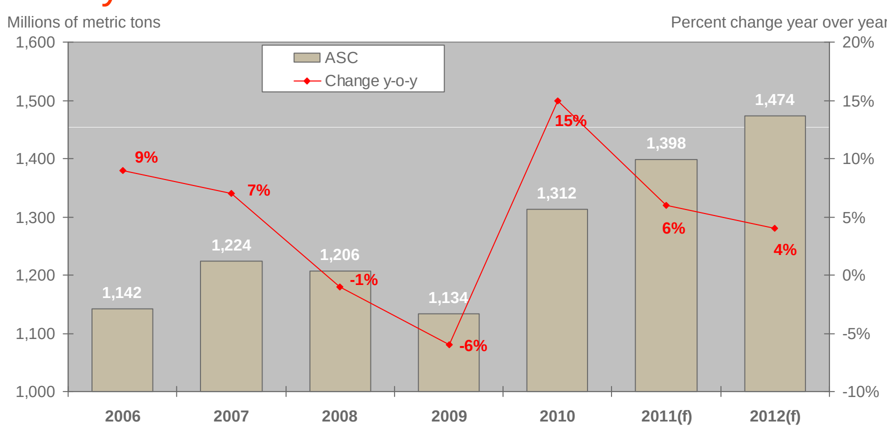
Global Steel Consumption

History and Forecast



Whereas U.S. steel consumption levels are improving but are far from pre-recession levels, record world steel consumption occurred in 2010 and another record will be set in 2011. 2011 consumption will be over 250 million tons more than was consumed as recently as 2006. This swift global increase in steel production is driving up steel making raw material costs. There are increased concerns regarding potential national efforts to artificially limit raw material exports. China will consume about 46% of all steel consumed in the world in 2011 while NAFTA will consume about 9%.

Source: World Steel Association - 2011 World Steel in Figures, October 2011 short range outlook

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Table: Apparent steel use (ASU)

Short range outlook for apparent steel use, finished steel products (2010-2012)

Regions	ASU, mmt			Growth Rates, %		
	2010	2011 (f)	2012 (f)	2010	2011 (f)	2012 (f)
European Union (27)	144.9	155.0	158.9	21.1	7.0	2.5
Other Europe	29.6	33.0	34.8	24.0	11.3	5.7
CIS	48.6	55.6	59.8	34.5	14.4	7.5
NAFTA	110.9	120.9	126.8	32.8	9.0	4.9
Central & South America	45.6	47.8	52.4	35.2	4.7	9.8
Africa	24.5	21.4	23.8	-8.9	-12.7	11.0
Middle East	47.6	50.0	53.9	14.6	5.0	7.9
Asia & Oceania	860.6	914.0	963.1	11.1	6.2	5.4
World	1 312.4	1 397.5	1 473.6	15.1	6.5	5.4
Developed Economies	372.7	392.9	403.0	24.4	5.4	2.6
Emerging & Developing Economies	939.6	1004.6	1 070.6	11.8	6.9	6.6
China	598.1	643.2	681.6	8.5	7.5	6.0
BRIC	725.0	777.4	827.1	11.1	7.2	6.4
MENA	61.5	61.0	66.3	5.5	-0.9	8.7
World excl. China	714.3	754.3	792.0	21.3	5.6	5.0

Source: WSA

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Steelmaking Raw Material Input Costs

2007-2011 YTD Average and Oct/Nov 2011

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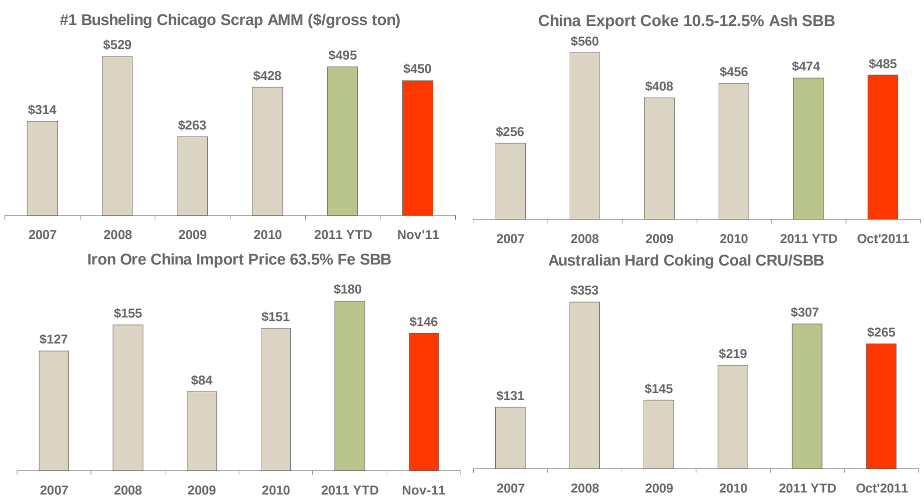
All charts in $ per metric ton except for Scrap



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Scrap Exports

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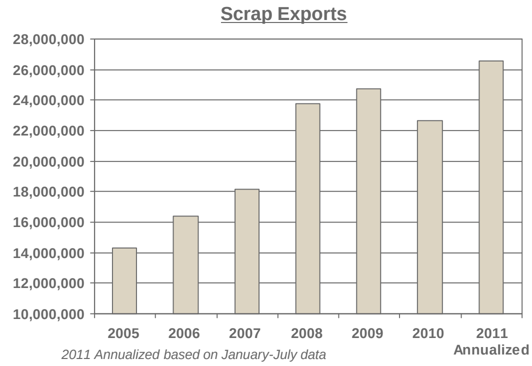

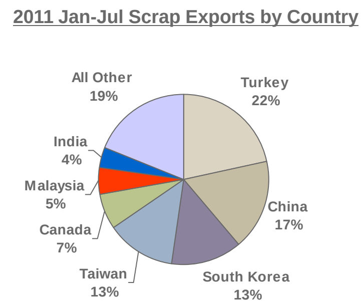

US exports of steel scrap have been strong in 2011. Based on the January-July rate, scrap exports in 2011 would be 17% higher than 2010.

The demand for scrap exports has helped to keep domestic scrap prices high.

Source: SteelFacts

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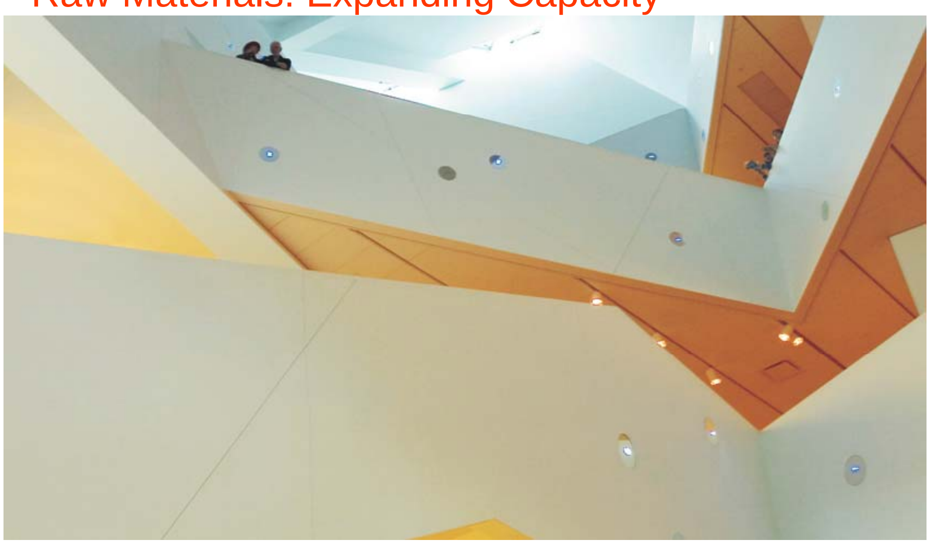
Raw Materials: Expanding Capacity



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ArcelorMittal Mines Canada

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ArcelorMittal Mines Liberia

- A multi billion–dollar investment in Liberia that started in 2006.
- A Greenfield project in difficult circumstances.
  - 20 years of civil war had ended
  - No infrastructure; roads, railroads (240 km), electricity grid, ports
- The project was carried out consistent with the ArcelorMittal principals of environmental stewardship; ensuring minimum impact to the environment, and developing a local population better trained to manage future challenges.
- Liberia was the first African country to comply with the Extractive Industries Transparency Initiative (EITI). As a part of this program ArcelorMittal signed a Mining Development Agreement with the Government, ensuring that the company would:

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ArcelorMittal Mines Liberia

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- Provide the Government with financial reports on the quantity of iron ore produced and sold every calendar quarter
- Report on all operations and activities at the end of the each financial year
- Construct, maintain and operate health facilities in the Concession Area with modern equipment and procedures that follow international standards
- Construct, maintain and operate schools in the Concession Area
- Provide training for Liberian citizens in skilled, technical, administrative and managerial disciplines
- Provide an annual social contribution of US $3 million, to be managed and disbursed for the benefit of local communities

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Finally

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- **Launch of iron ore operations in Liberia**
- On September 27, 2011 ArcelorMittal officially started production at its mining operations in Liberia with a special launch event in Buchanan and a long list of prestigious guests.
- Our Company aims to ship 4 million tonnes of iron ore from Liberia per year by 2012.

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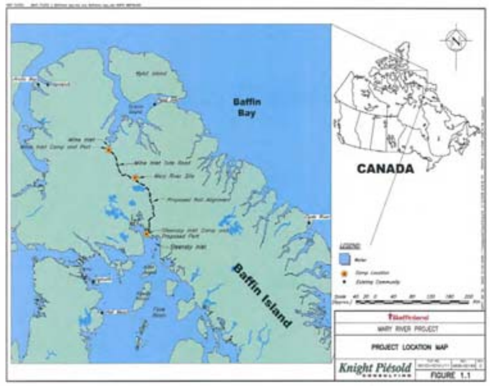
Corporate actions: Baffinland acquisition

ArcelorMittal

- In partnership with Nunavut, ArcelorMittal has acquired a controlling interest in Baffinland. The second-step going-private transaction will result in ArcelorMittal and Nunavut holding respectively interests of 70% and 30% in Baffinland
- Baffinland owns the Mary River project, a tier-1 iron ore resource in northern Canada.
- In-situ Fe grades of 64.7%, high-quality product, significant and scalable resource. While the project has development and operational challenges, ArcelorMittal is well placed to overcome them.
- Exploration is ongoing and feasibility studies will be updated ahead of a project scope decision.
- The acquisition of Baffinland is in line with ArcelorMittal's strategy of building a world-class mining business. Baffinland is not part of our 100Mt target.
- ArcelorMittal already has a significant iron ore presence in Canada through ArcelorMittal Mines Canada operating 2 iron ore mining operations, concentrator and pellet plant.



Nunavut is located in Northern Canada and covers ~2Mkm2 of land. The territory includes part of the mainland, most of the Arctic Archipelago, and all of the islands in Hudson Bay, James Bay, and Ungava Bay which belonged to the NW Territories.

Acquisition of Baffinland demonstrates commitment to building a world-class mining business

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Summary

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- The US economy will continue its slow gradual recovery. No explosive growth is expected. Steel markets will also continue to recover gradually.
- Auto, energy, machinery and mining are leading the recovery
- Steel markets in the developing world will continue to grow strongly, although the rate of growth is slowing.
- Raw materials and scrap will continue to be in tight supply despite recent softness.
- Policy mistakes continue to be the most serious domestic risk.
- European recession is likely, but what else?

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Questions

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