



The U.S. Steel Industry Outlook 2017-18: Challenges and Opportunities

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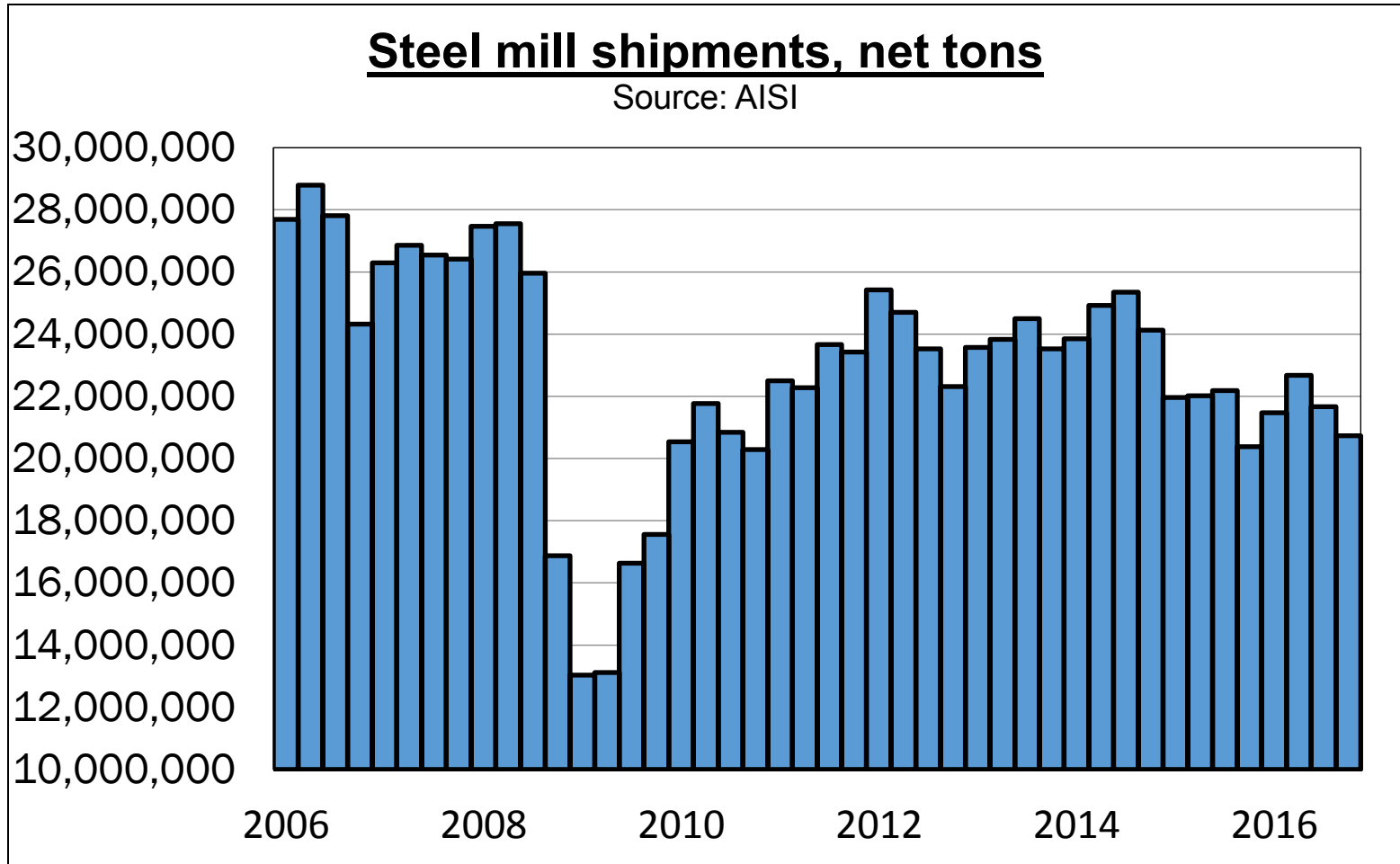
ACCCI 73rd Annual Meeting

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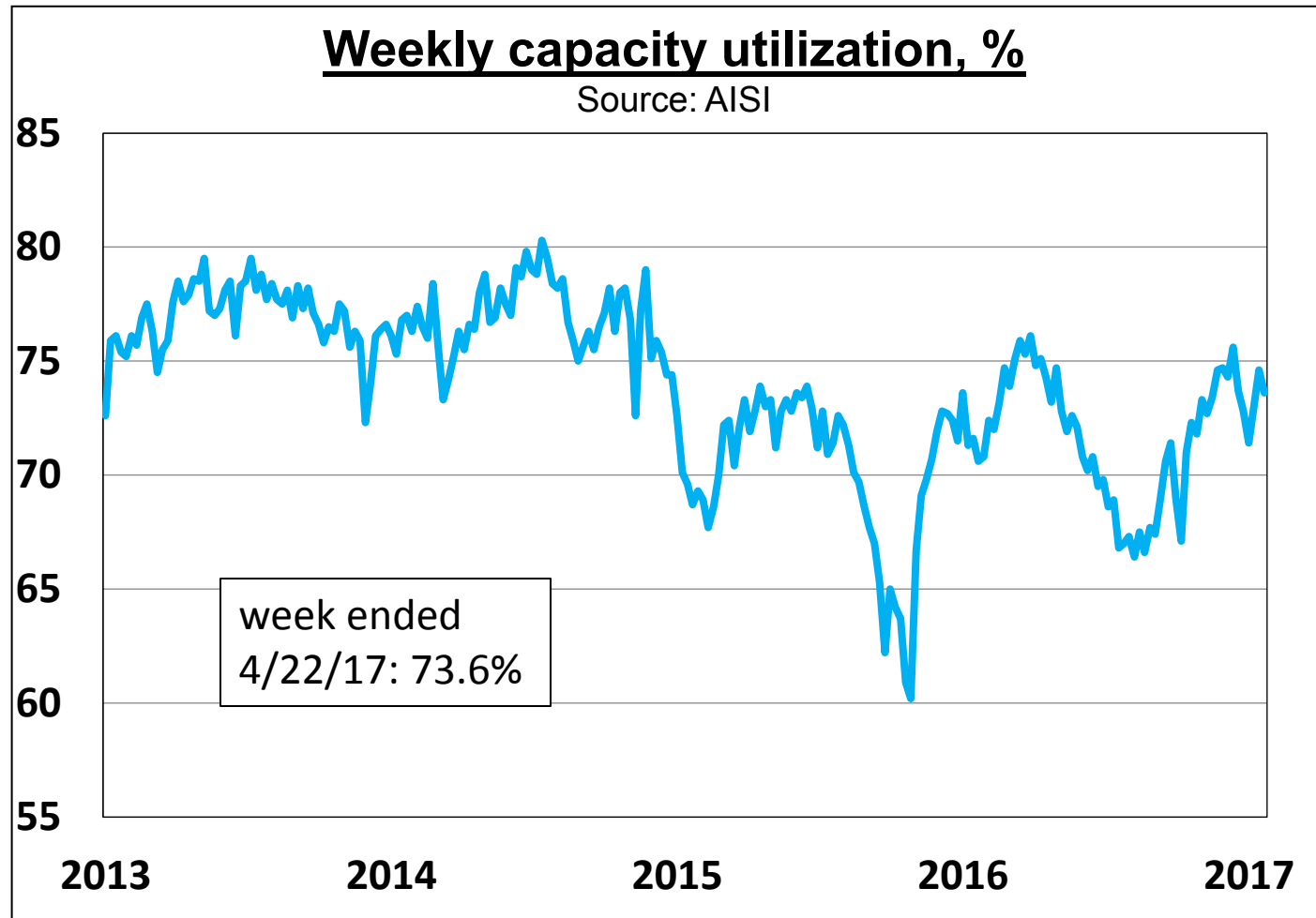
April 30, 2017



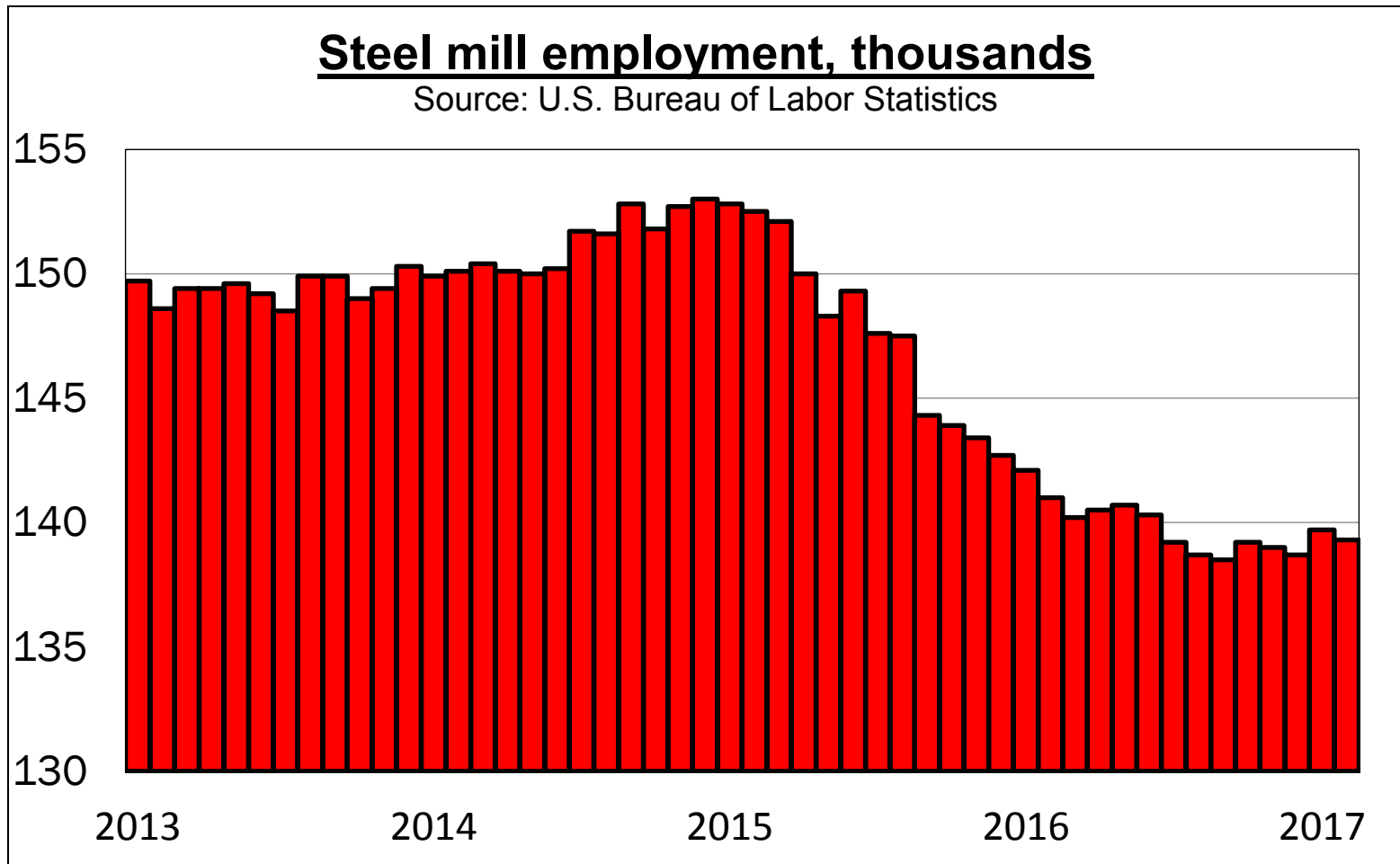
Domestic steel shipments stabilized in 2016 after double-digit decline in 2015



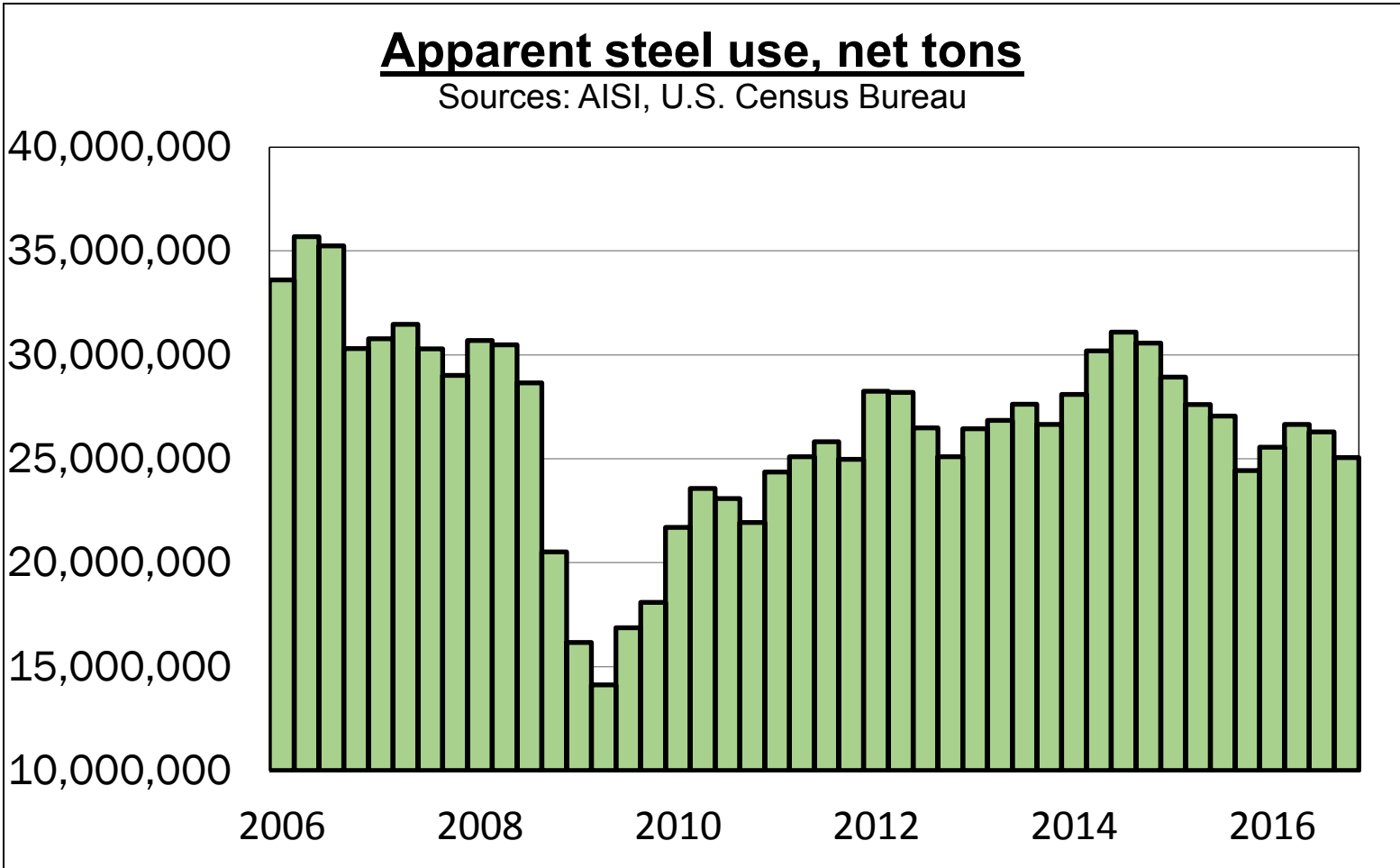
Capacity utilization has trended upward but remains historically low



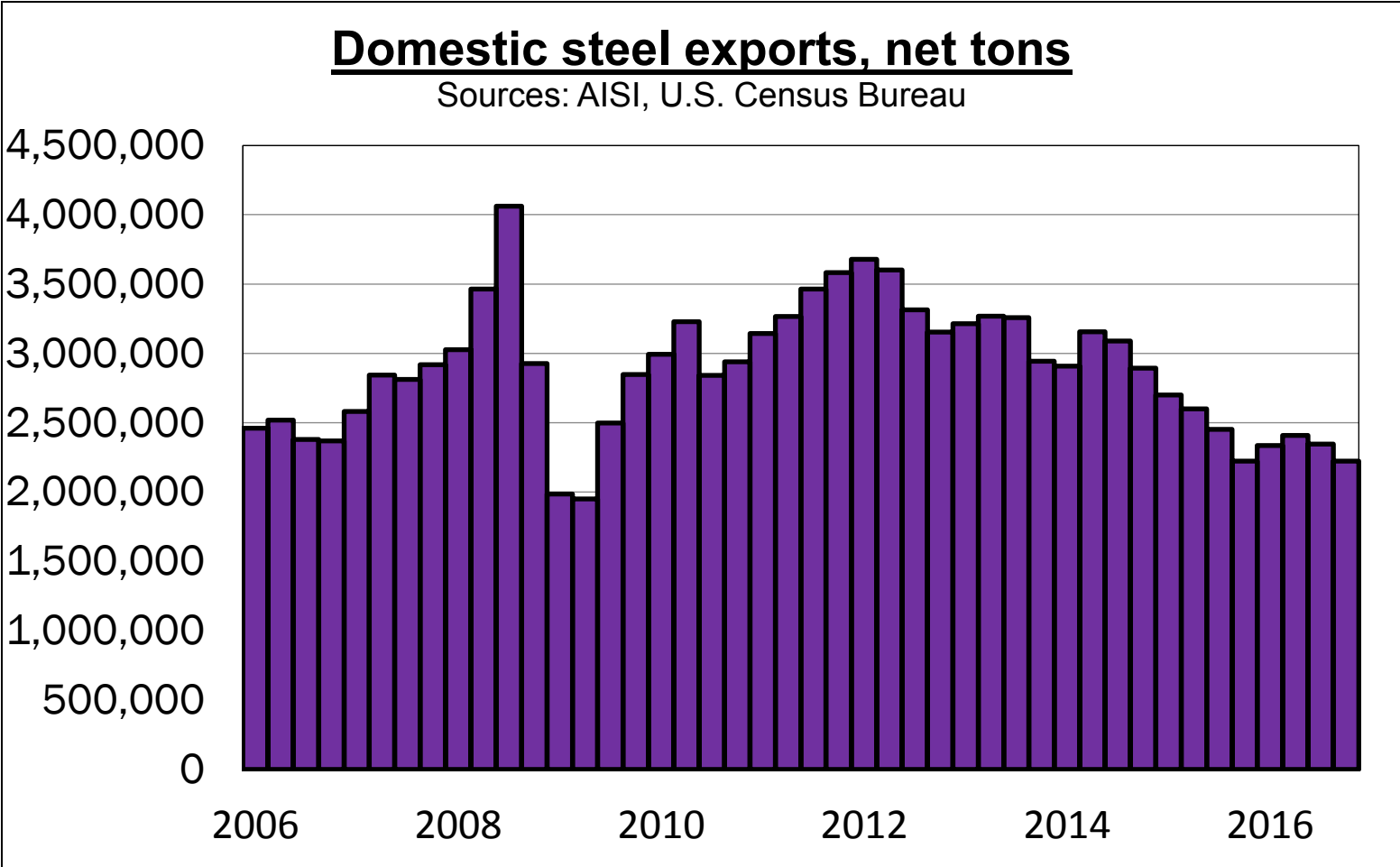
Steel mill employment nearly 14,000 lower than in late 2014



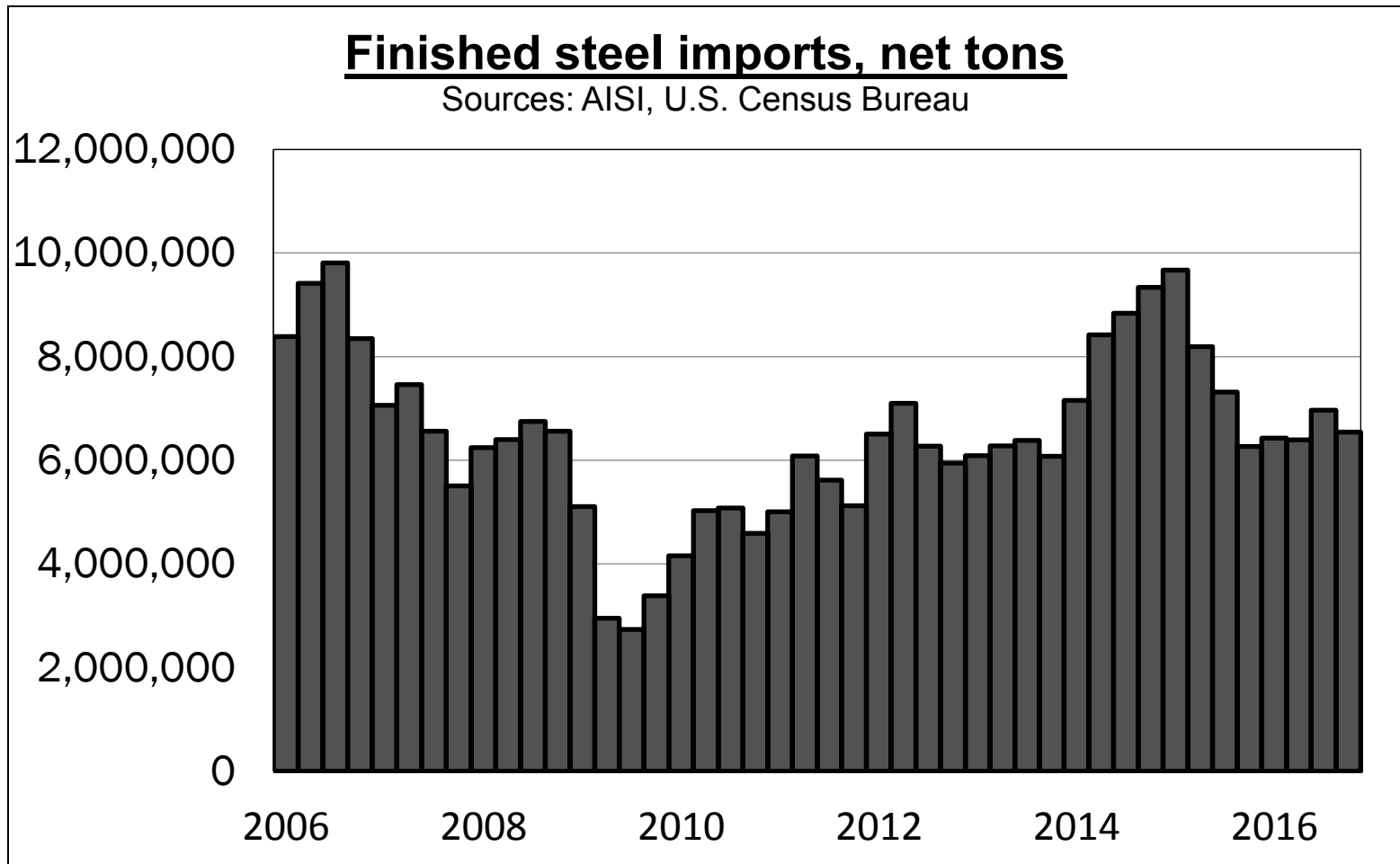
Domestic demand weakened in 2015 and 2016



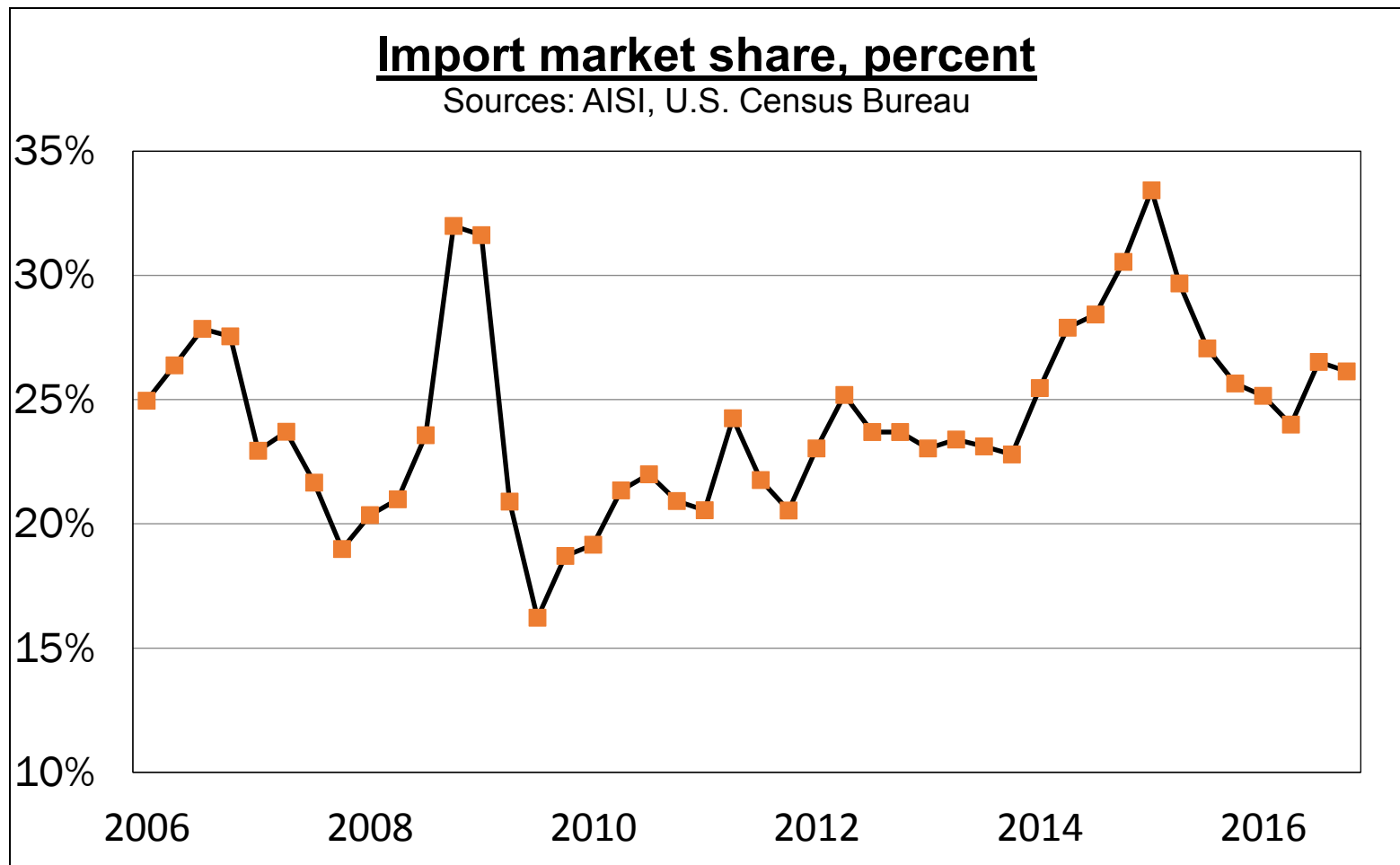
Export shipments have trended downward since 2012



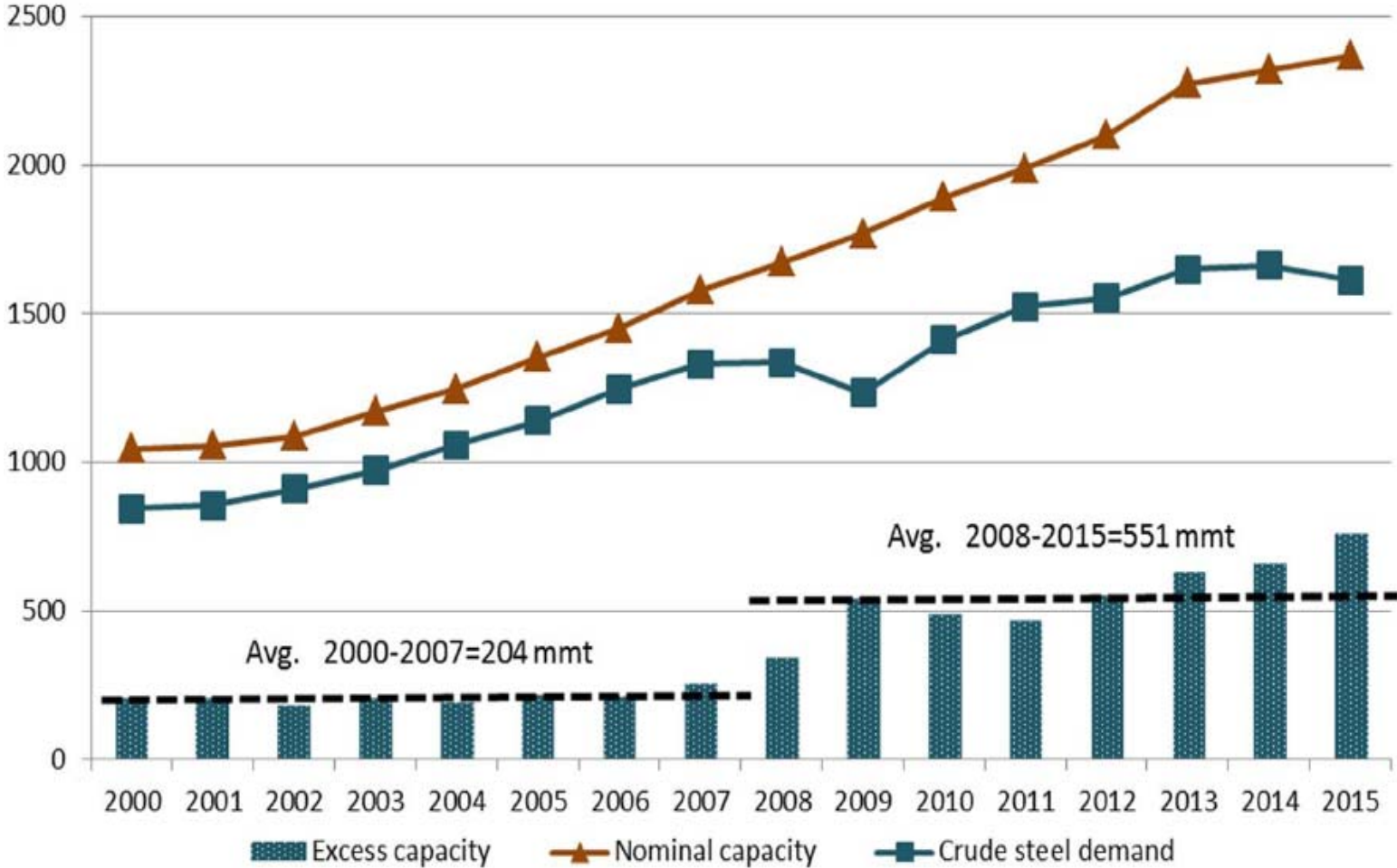
2014-15 surge is abating, but imports remain at a high level



2014-15 surge is abating, but imports remain at a high level



Global excess capacity reached 700 million metric tons in 2015



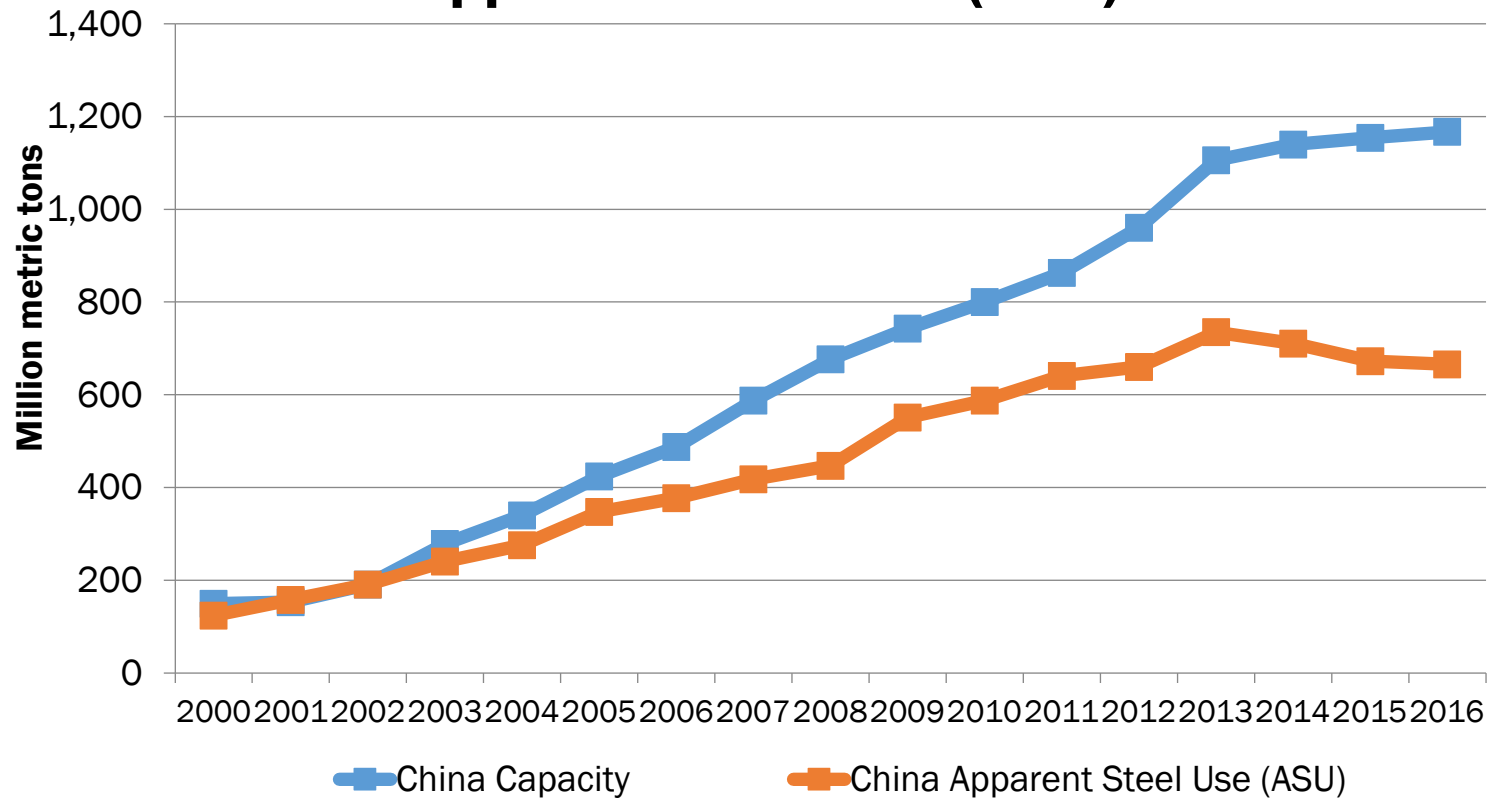
Million metric tons

Source: Worldsteel Association; OECD



As Chinese steel demand peaks, overcapacity soars...

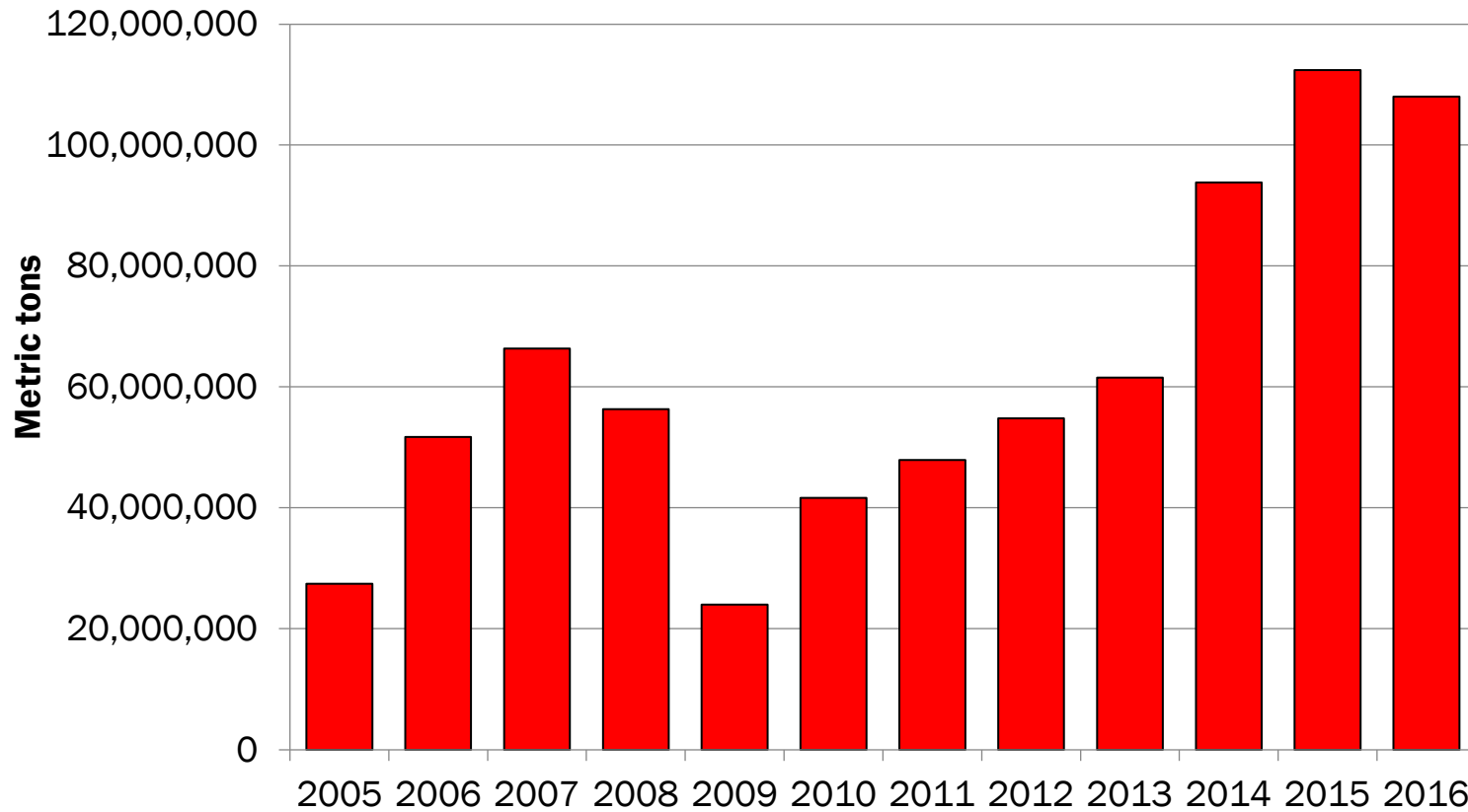
Chinese Steelmaking Capacity and Apparent Steel Use (ASU)



Source: Worldsteel Association

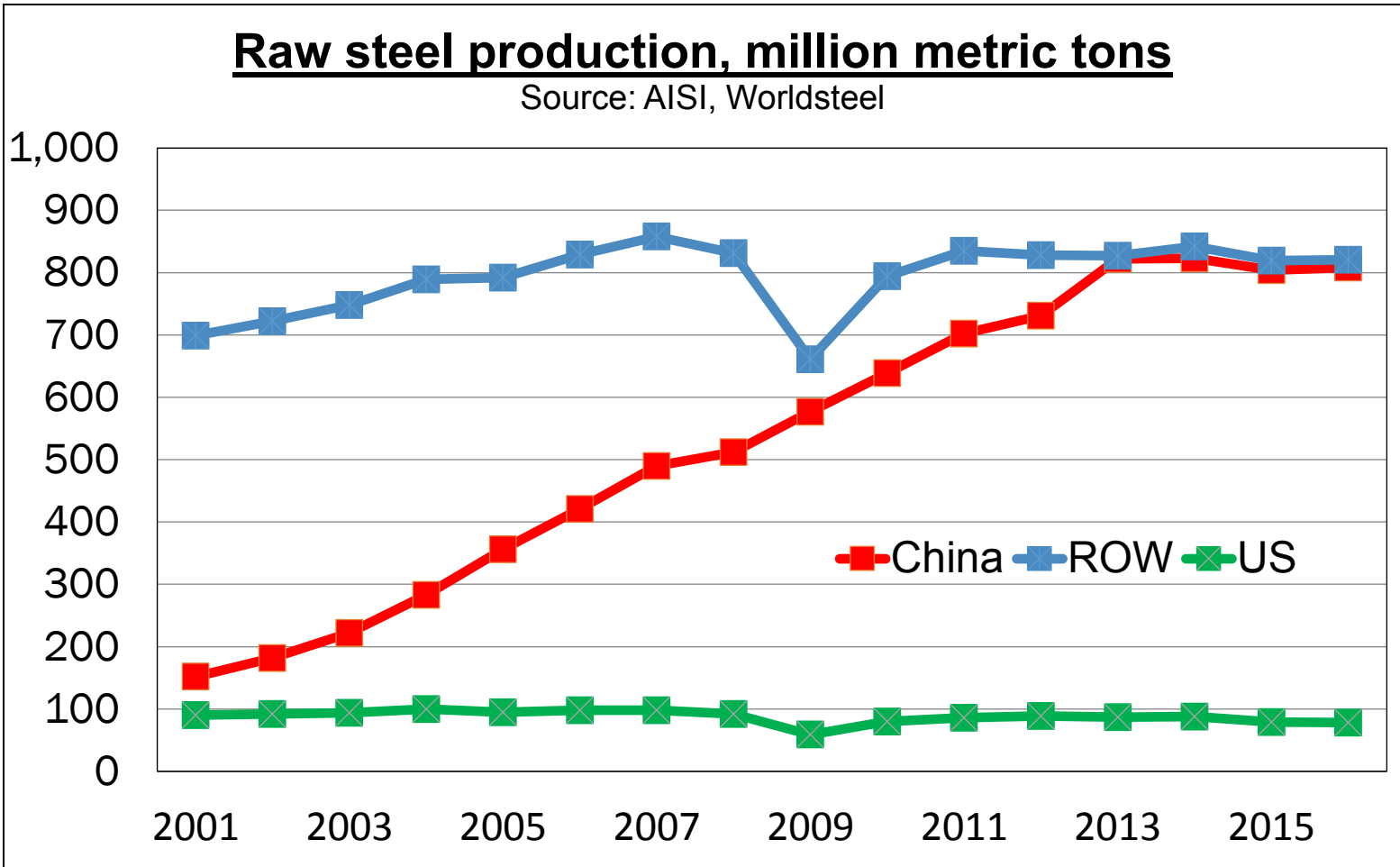
... and Chinese steel exports surge

Chinese Steel Exports

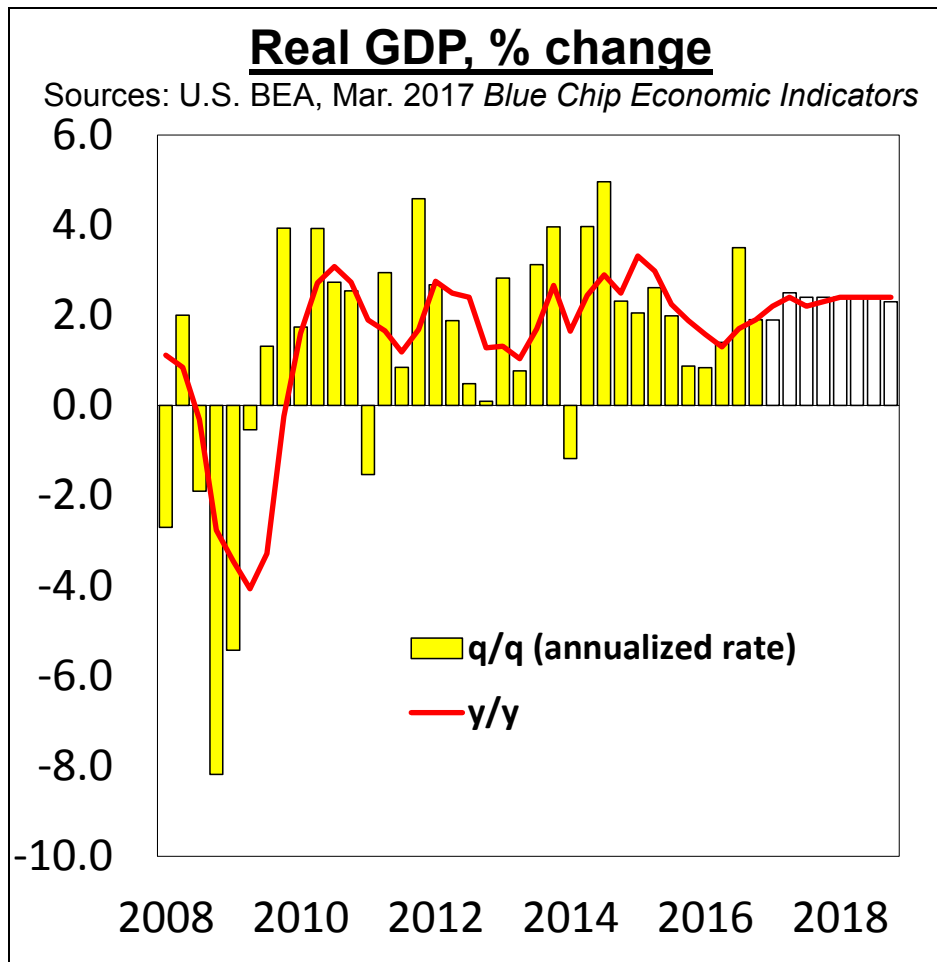


Source: Government of China

Chinese steel production has exploded



U.S. real GDP growth is expected to accelerate in 2016 and 2017



- Real GDP growth was a weak 1.6% in 2016, but was stronger in the second half of the year than in the first half.
- The March 2017 Blue Chip consensus calls for 2.3% growth in 2017 and 2.4% growth in 2018, both of which would be higher than the post-Great Recession average of approximately 2%

In your baseline forecast, when do you assume each of the following policies will be enacted?

Individual income tax cuts

Percent of Respondents	Timeframe
0.0%	1H 2017
52.1%	2H 2017
27.1%	2018
4.2%	2019-2020
6.3%	Won't be enacted in current presidential term
10.4%	Don't know / no opinion / NA

Corporate tax reform

Percent of Respondents	Timeframe
2.1%	1H 2017
61.7%	2H 2017
19.1%	2018
4.3%	2019-2020
4.3%	Won't be enacted in current presidential term
8.5%	Don't know / no opinion / NA

Infrastructure spending program:

Percent of Respondents	Timeframe
4.2%	1H 2017
33.3%	2H 2017
39.6%	2018
4.2%	2019-2020
6.3%	Won't be enacted in current presidential term
12.5%	Don't know / no opinion / NA

How much do you forecast an infrastructure spending program will add to real GDP? (Billions of chained 2009 dollars)

2017		2018	
Amount	Percent of Respondents	Amount	Percent of Respondents
\$0	55.9%	\$0	16.2%
\$1 - 50	29.4%	\$1 - 50	40.5%
\$51 - 100	2.9%	\$51 - 100	24.3%
\$101 - 200	8.8%	\$101 - 200	5.4%
> \$200	2.9%	\$201 - 300	5.4%
		> \$300	8.1%

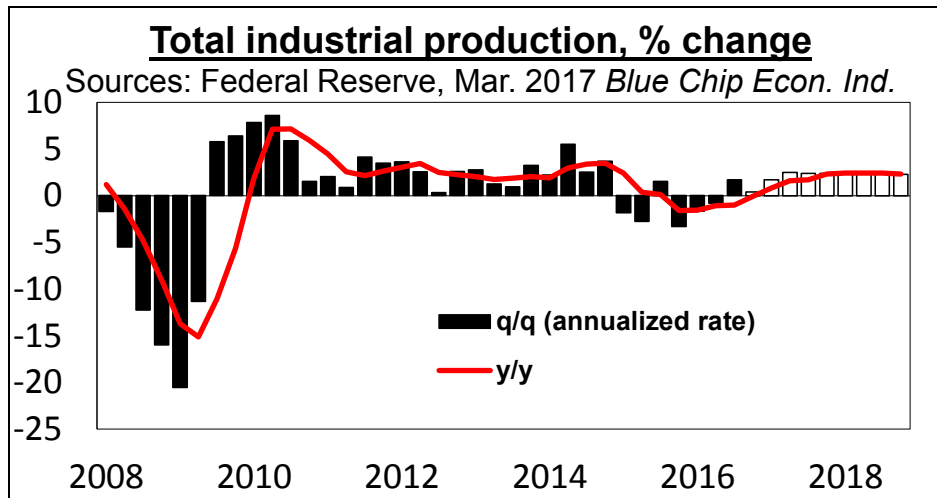
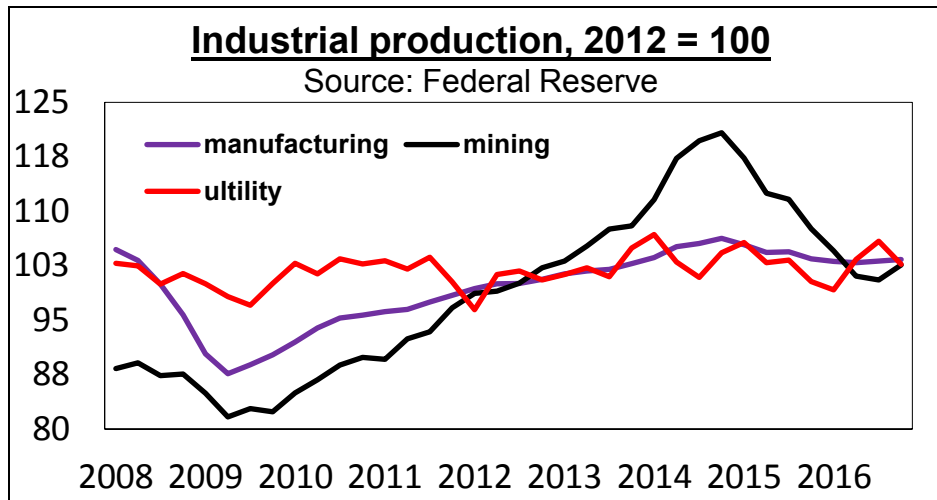
Source: NABE Outlook, March 2017

Is the balance of risks to the economy through 2018 weighted to the upside or downside?

Percent of Respondents	
57.1%	Upside
36.7%	Downside
6.1%	Don't know / no opinion / NA

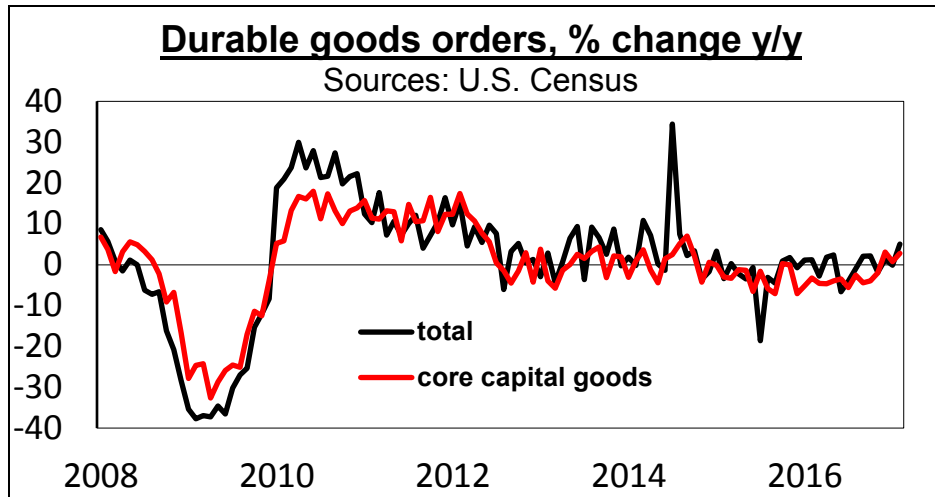
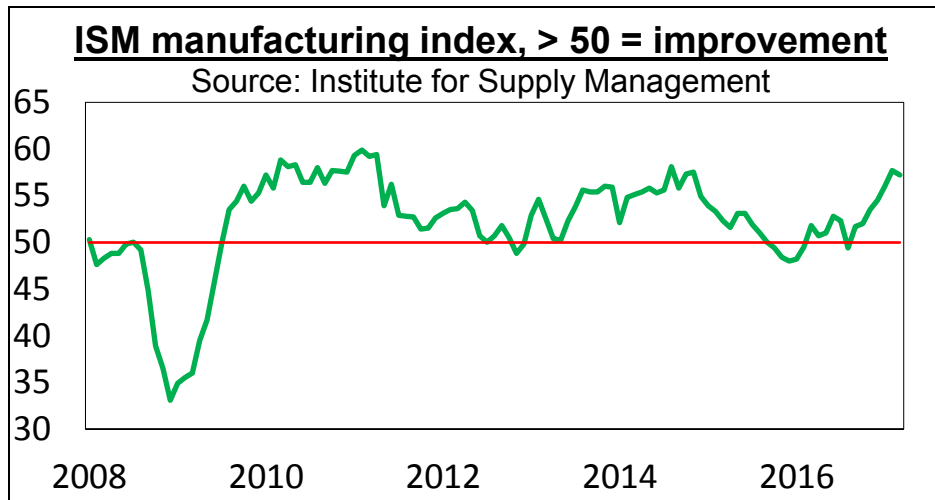
Source: NABE Outlook, March 2017

Industrial production expected to rebound from 2016 contraction



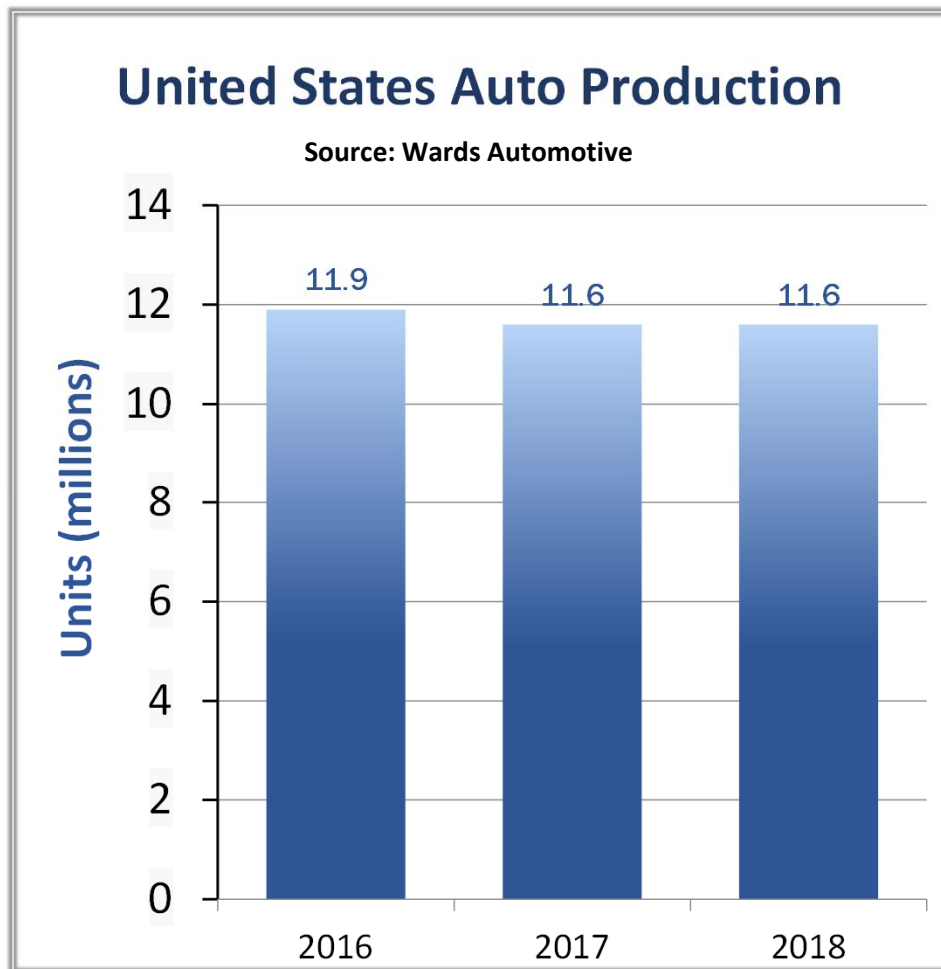
- Industrial production (IP) declined by 1.0% in 2016, weighed down by declines in mining (which includes crude oil and natural gas production) and manufacturing output.
- Both mining and manufacturing, though, firmed in the second half of the year.
- IP is forecasted to rebound to 1.6% growth in 2017 and 2.4% growth in 2018 as headwinds slowly continue to dissipate for the manufacturing and upstream energy sectors.

Manufacturing sector conditions are firming



- The ISM manufacturing index measured 57.2 in March 2017, signaling expansionary conditions in the manufacturing sector.
- The index has increased in six of the last seven months.
- Durable goods orders have increased 2.5% on average during the first two months of the year compared to the same period last year.

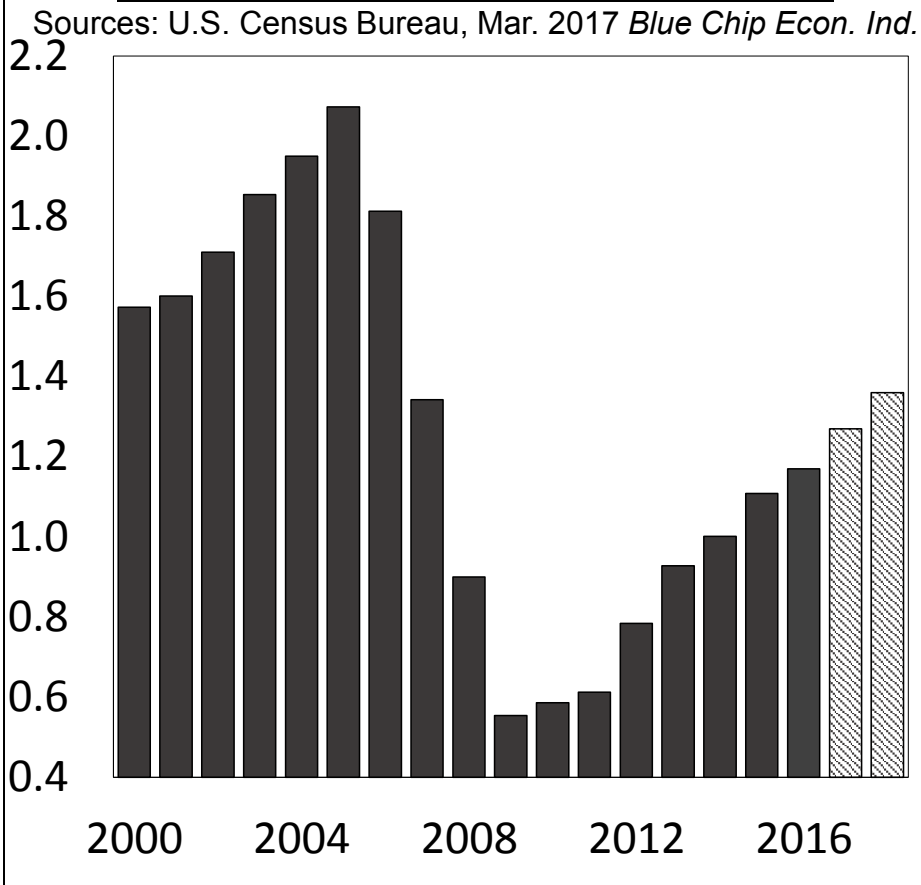
U.S. light vehicle production expected to downshift in 2017 and 2018



- U.S. light vehicle production measured 11.9 million units in 2016, and are expected to decline to 11.6 million units in 2017 and 2018.
- Vehicle sales likely reached a near-term peak in 2016 due to market saturation, rising interest rates and vehicle transaction prices, among other factors.
- Mexico is expected to increase production, offsetting declines in the United States and Canada.

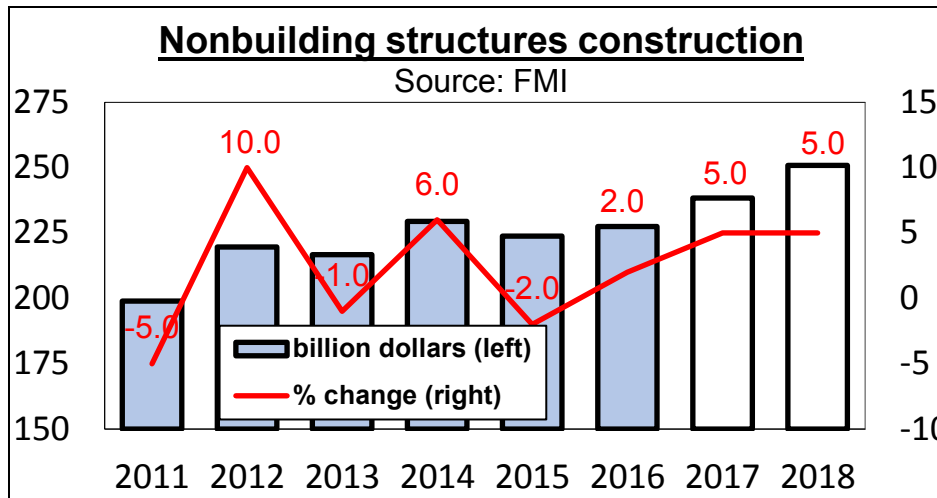
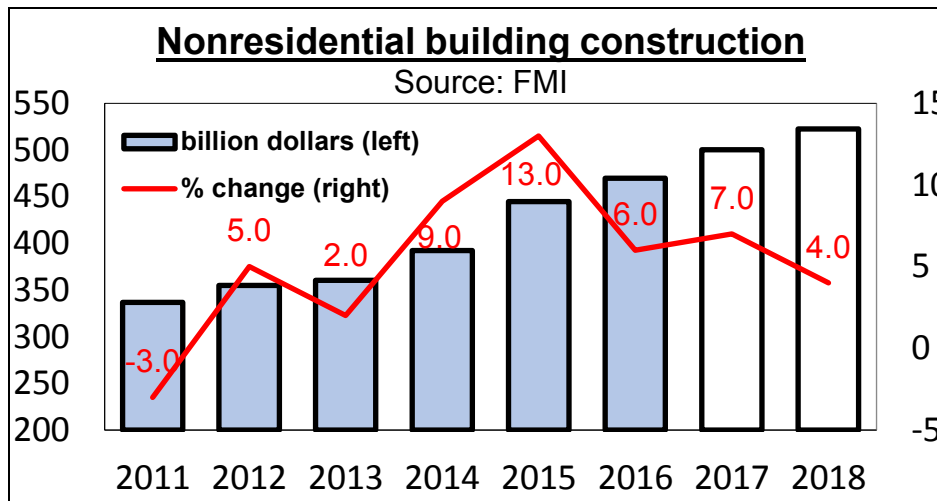
Healthy pace of job growth helping sustain the homebuilding recovery

Housing starts, million units



- New housing starts increased to 1.17 million units in 2016 from 1.1 million units in 2015 -- and are expected to further increase to 1.27 million units in 2017 and 1.36 million in 2018.
- That would leave housing starts 145% higher than their recessionary low, but 34% below their unsustainably high peak in 2008.
- Growth in single-unit starts is expected to outpace growth in multi-unit starts.

Pace of nonresidential building seen as steady after 2016 slowdown



- After slowing to 6% growth in 2016, nonresidential building construction is projected to increase 7% in 2017 and 4% in 2018.
- Construction of nonbuilding structures, returned to growth in 2016 following a decline in 2015. Increases of 5% are expected in 2017 and 2018.

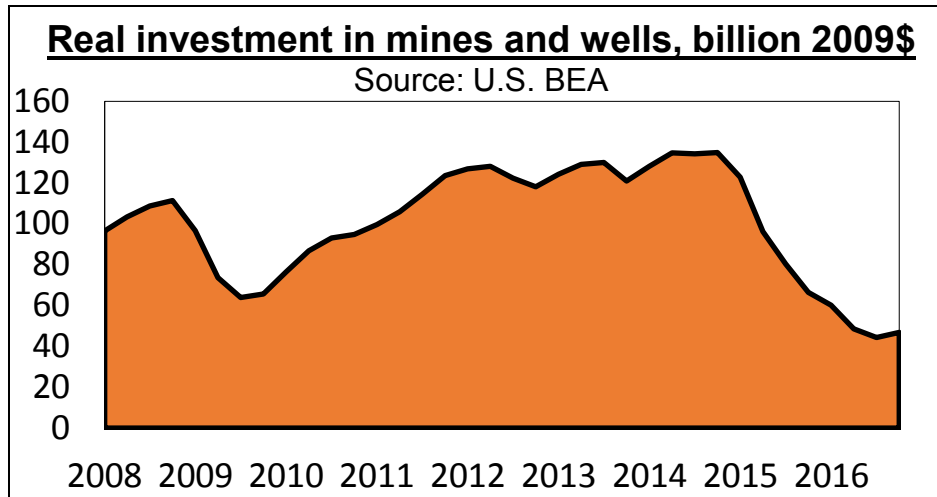
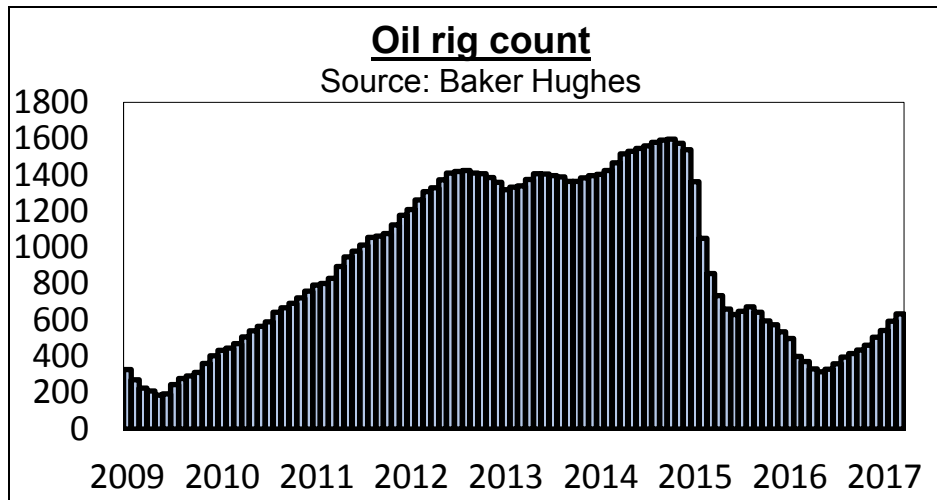


Pace of nonresidential building seen as steady after 2016 slowdown

- Lodging – Positive growth but slowing as large supply of rooms coming on line is putting downward pressure on revenue per room and occupancy rates
- Office – Heretofore strong growth amid strong labor market is now putting pressure on occupancy rates and rents
- Commercial – Swift away from brisk-and-mortar retail will limit growth
- Health Care – Fewer large projects in the works amid shift to outpatient care; direction of health care policy raises question marks
- Education – Demographics a positive but federal and state funding a question mark
- Manufacturing – Wave of petrochemical plant construction 2011-15 has passed
- Communications – Technological improvement will drive demand for data centers, cell towers, other comms infrastructure




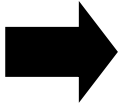
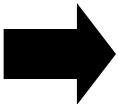

Source: FMI, Author

Recovery in upstream oil and gas sector is underway



- After dropping from 1,596 in October 2014 to 316 in May 2016, the number of active U.S. oil drilling rigs has rebounded modestly to 634 in March.
- Investment in mines and wells recorded its first increase in two years in the fourth quarter of 2016.
- Although the oil market appears to have stabilized, it appears unlikely investment will rebound sharply over the next several quarters.

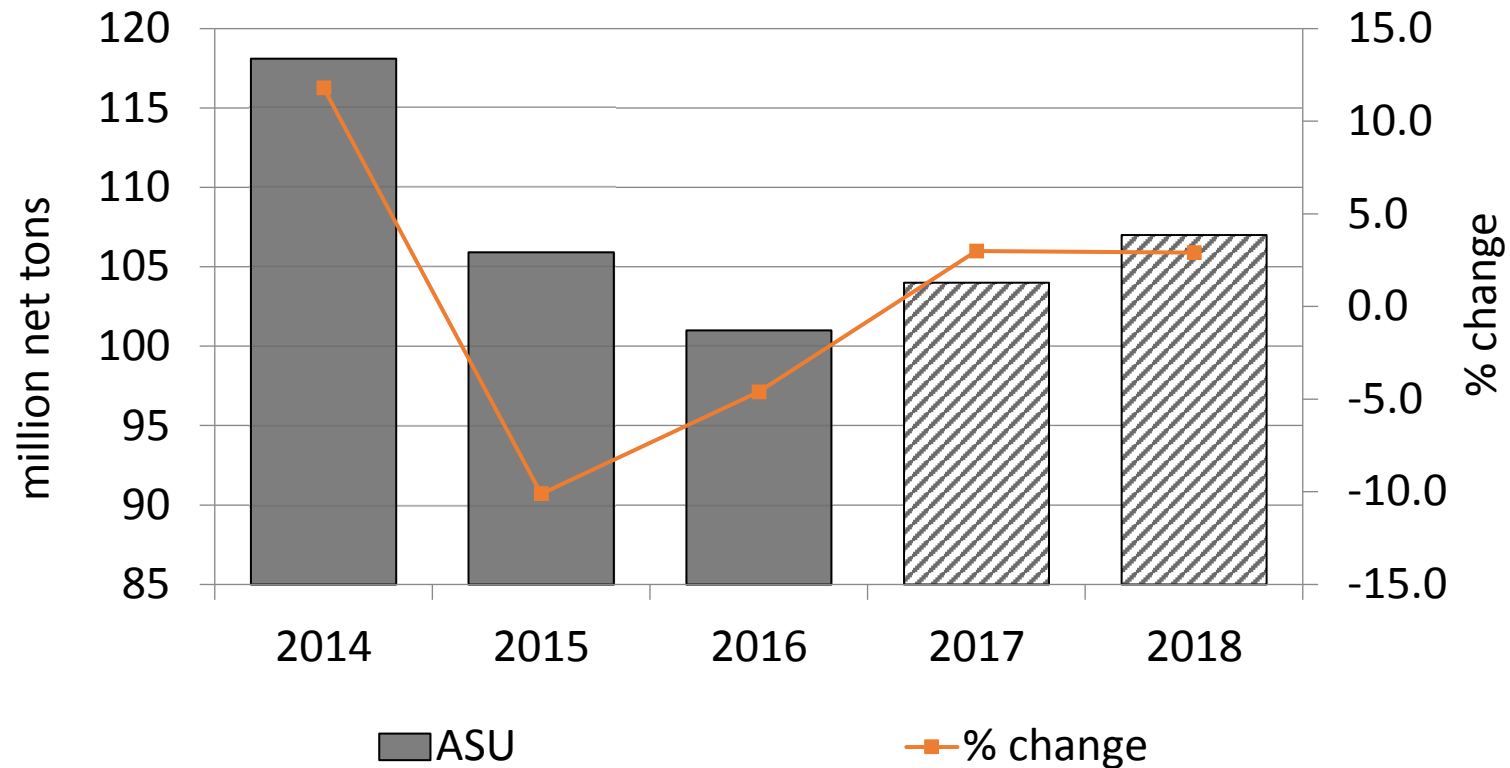
U.S. Market Driver Outlook: 2017-2018

Market	Forecast trend	Explanation
Automotive		U.S. production softens slightly as light vehicle sales plateau, but remains at high level. NAFTA-wide production sees incremental growth.
Non-Residential Construction		Moderate growth in 2017 and 2018 for most segments.
Residential Construction		Recovery continues in residential construction, but balance of growth shifting to single unit construction and away from multi-unit
Machinery		Largely flat in 2017 with recovery emerging in 2018. Renewed dollar appreciation remains a risk.
Infrastructure		Baseline is for stable 2017. However a substantial long-term infrastructure program could provide a material boost to demand, particularly beginning in 2018.
Energy		Investment slowly returning to oil and gas exploration and production sector as prices stabilize at higher levels than in 2016.

Steel demand projected to turn positive in 2017

Apparent Steel Use (ASU)

Source: AISI



ASU = Shipments + finished imports - adjustments - exports



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