

Why You Shouldn't Predict Firm Metals Pricing for the Year Ahead

By Miles Free, Director of Industry Research and Technology, PMPA :: mfree@pmpa.org

This is the time of year when purchasing agents and buyers try to get us to agree to and commit to long-term, fixed pricing for parts, which are largely produced from various metals. Here are four reasons why you should not plan on an accurate pricing forecast for metals this year:

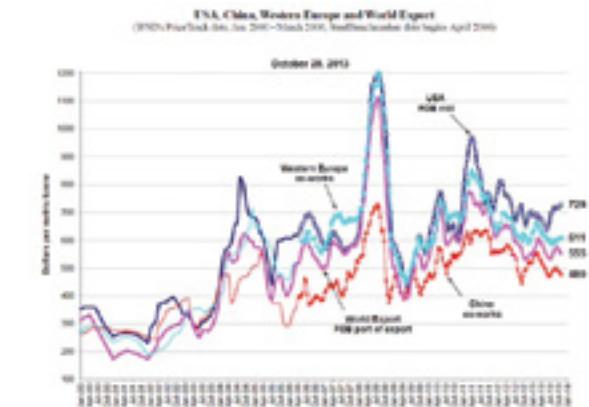
- Business Cycle
- Bias toward growth
- Volatility
- No knowledge of the determinants of demand

Business Cycle

The business cycle is best visualized as a sine wave with phases like AC current. At the time that I am writing this, the business cycle is in a softening phase, above the zero line,

“Our job as responsible, sustainable, competitive suppliers is to intelligently manage risk.”

but coming off of peaks in demand and pricing in the markets we serve. It is a downward slope. In this



phase, a savvy organization would typically be working to set budget reductions, avoid long-term purchase commitments, reduce inventory, cross-train employees and evaluate vendors for strength. Nothing in the business cycle at this time justifies firming up pricing in the face of falling demand.

Bias Toward Growth

Of course, everyone expects the prices of things to grow, especially for commodity raw materials. And if that always happened, we'd probably be paying a million dollars for breakfast, let alone the raw materials we buy for our shops. But prices do not trend inexorably upwards. Using the Steel Benchmark Chart for hot-rolled band as a proxy for raw materials prices globally, we can see that yes, U.S. hot-rolled band prices are just over double what they were in the first half of year 2000. However, the predominant trend since midyear 2011 has been downward from over \$950/\$975 per ton in July 2011, to \$730 per ton last month. While the overall trend has been downward since mid-year 2011, a look at the chart shows that there have been 5 (we're in what appears to be the sixth) upturns. Whether or not the prices tend to increase really depends on the starting point when you look at historical data.

IN THIS ISSUE

- Why You Shouldn't Predict Firm Metals Pricing for the Year Ahead
- Workshops for Warriors Helps Fill the Skills Gap
- Not Just Another Show in Las Vegas: Management Update to Deliver Tools You Can Use
- Craftsman's Cribsheet: Quality
- Listserve Topics
- PMPA Calendar

CONTINUES ON PAGE 3

CONTINUED FROM PAGE 1

Why You Shouldn't Predict Firm Metals Pricing for the Year Ahead

Volatility

Volatility is another aspect that can greatly influence price, and about which we have no clue. Just doing a “back of the envelope” calculation from the data on the Steel Benchmark Chart, the price differential (regardless of sign) for any calendar year ranges from a low of about 4.5 percent in 2012, to a high of 100 percent in 2008. For 12 of the 13 years shown, the percent of change was in the double digits range, and for 7 of those years, that double digit change was between 21 percent and 100 percent.

Determinants of Demand

We really have no knowledge of the determinants of demand and neither do our customers. Yet the supply and price are determined by demand. Demand is not just local to us here in North America. Increasingly prices and supply are determined by global demand. What is your forecast for demand in China? In India? In Germany? In the U.S.? A

“safe guess” would be that demand will follow GDP growth. For the U.S. that would have been under 4 percent for most of the last decade. How well does that play out against the changes we have seen in pricing over that same term?

According to World Bank, U.S. GDP growth for 2013 was estimated at 1.6 percent; China's was estimated to be 7.5 percent and world GDP was estimated to increase 2.9 percent. How do those numbers compare to the price changes shown on the Steel Benchmark Chart?

Customers seek pricing assurances in order to eliminate their risk. By just shoving the risk onto their suppliers, they do not eliminate the risk, they just change the ownership. Conceding fixed prices for the raw material portion of your parts price is a fool's errand based on the factors discussed above. Our job as responsible, sustainable, competitive suppliers is to intelligently manage risk. Locking in future prices without any degree of control of any of the factors, can only turn out badly.

CONTINUED FROM PAGE 2

Workshops for Warriors Helps Fill the Skills Gap

“There are machine shops in our country with machines that are not running due to the simple fact that there is no one to operate them. Students compete for time on our equipment because they are eager to show off what they can do or check out new technology,” Mr. Luis y Prado comments.

Looking Forward

The school's vision includes nationwide expansion that will ultimately strengthen the manufacturing sector.

“Companies need the skilled labor, and in the next five years, more than 1 million service men and women will be transitioning back into civilian life, and looking for employment,” Mr. Luis y Prado says. “They do not have transferable skills and will need training. Under the G. I. Bill, service men and women can have traditional, four-year college programs paid for. Those who are coming out of the military and want to go into machining, manufacturing or welding, can't get their training paid for under the G.I. Bill... at least not yet.”

Because Workshops for Warriors receives no state or federal funding and does not charge its students tuition, the valuable training that the school provides is funded through corporate and private donations.

“We would never have been able to train, certify and place more than 90 veterans and wounded warriors without the support that we have received from the manufacturing community,” Mr. Luis y Prado states. “Thanks to their efforts, Workshops for Warriors is able to not only train, but also help change the lives of these men and women who have already given so much for our country.”

Expanding the program in order to accept more students is a top priority for Workshops for Warriors with funding as the forefront need. Aside from donations, Workshops for Warriors is in need of political help in order to be eligible for coverage under the G.I. Bill. Other program expansion needs include new, adaptive machinery and access to the current generations of equipment in use.

“Our program has an easily replicated structure so more skill-building programs can be established. With coverage under the G.I. Bill, the program has more opportunity to grow,” Mr. Luis y Prado explains. “We need legislative help and we encourage everyone to talk to their senators and representatives as well as the media.”

To learn more about Workshops for Warriors, visit workshopsforwarriors.org.