



PACESETTER
OUR PEOPLE, YOUR ADVANTAGE

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YOUR **RELATIONSHIP** ADVANTAGE

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PACESETTER Contributor

Jake Otto, Credit Manager

YOUR RELATIONSHIP ADVANTAGE | 3.22.2016 - 3.28.2016

The Credit Relationship

One of the most rewarding things we are able to do as credit professionals is work with clients on the back end to make business relationships successful. Maintaining this successful relationship requires dedication from both sides.

For instance, I have found that when people get into a tough spot, or are having problems making payments because of any number of issues, credit professionals will work out arrangements to bring the account current and find a way to nurture the relationship back to a successful, mutually beneficial partnership. At the same time, a client must do their part to help the relationship prosper. Below you will learn the key components a client can bring to the credit relationship to ensure success for both parties.

The most vital component, communication, applies to all relationships: husbands and wives, parents and children, vendors and clients. Credit departments work with AP departments to be set up as a vendor, determine how invoices need to be delivered, work out credit policies, terms, and if necessary, payment plans. This means the communication typically starts even before a contract is signed.

Credit departments also help companies when their books are off and they need account reconciliations and when they are being audited. One of the best things you can do with any AP and AR team is to communicate up front and establish a set of ground rules.

For example, determine what standard collection practices are in place, how the payment procedures flow, how long it takes, and what to do if there are any discrepancies or disputes. If there are disputes, determine the manner in which they will be handled. If there is to be any deviation from the agreement, communication ahead of time is always a huge time saver for both sides.

Remember, saving time saves money.

Credit Departments are only the bad guys when we have no alternative. If anyone, in their personal lives, or in business, is not paying bills, there are consequences, and not communicating when not paying can lead to disaster.

Creditors then become collectors and make decisions that have negative impacts on both sides of the business relationship. There are always ways to mitigate risk, even with unstable clients. Finding ways to make it work for both sides is always the best outcome.

The other key component in a successful partnership is honesty. A famous quote goes something like 'you will know the truth, and the truth will set you free.'

If a person or business is honest when unable to meet a commitment, like paying an invoice for example, arrangements can be made to allow for an exception.

Telling the truth may have consequences, but dealing with those consequences is better than being caught in a lie and facing harsher consequences later on. I have dealt with customers who have had installment loans and ran into a tough situation. They had a death in the family and weren't able to make their car payment.

Almost all creditors will allow you to have an extension or deferral for a month or two if you are a good client. In this instance, I was able to take 2 months of their loan and move it to the end of the term. They did have to pay the interest but the burden of the monthly payment was gone so they could handle their family needs.

It pays as a client to always be honest and up front with a creditor; if they didn't advise me of the problem, I wouldn't have been able to help.

Two important life lessons for personal and professional relationships: Communicate and be honest, it will result in a happier life in the long run.

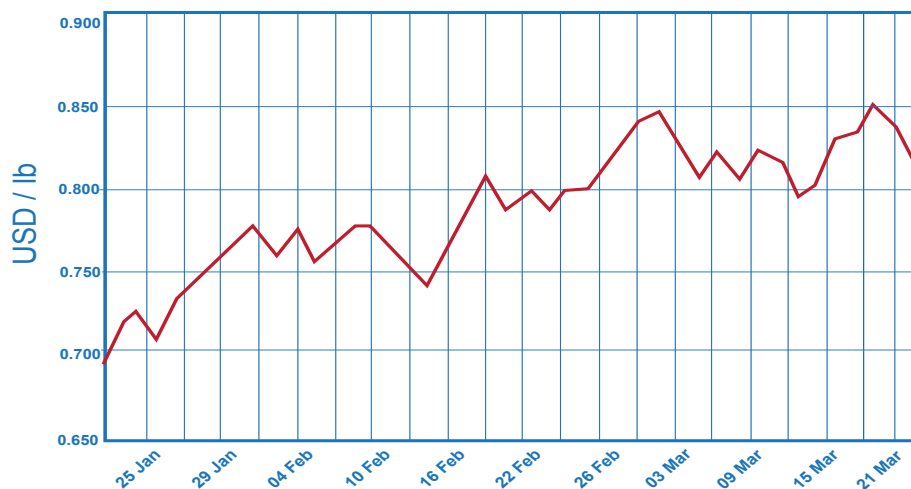


STEEL | 3.22.2016 - 3.28.2016

- #1 heavy melt scrap rose to \$185 per ton while #1 busheling scrap is steady at \$195 per ton.
- Raw steel production slipped to 71.3% of capacity.
- Iron ore FOB Chinese ports is steady at \$55 per dry metric ton.
- + Zinc prices might be moderating.

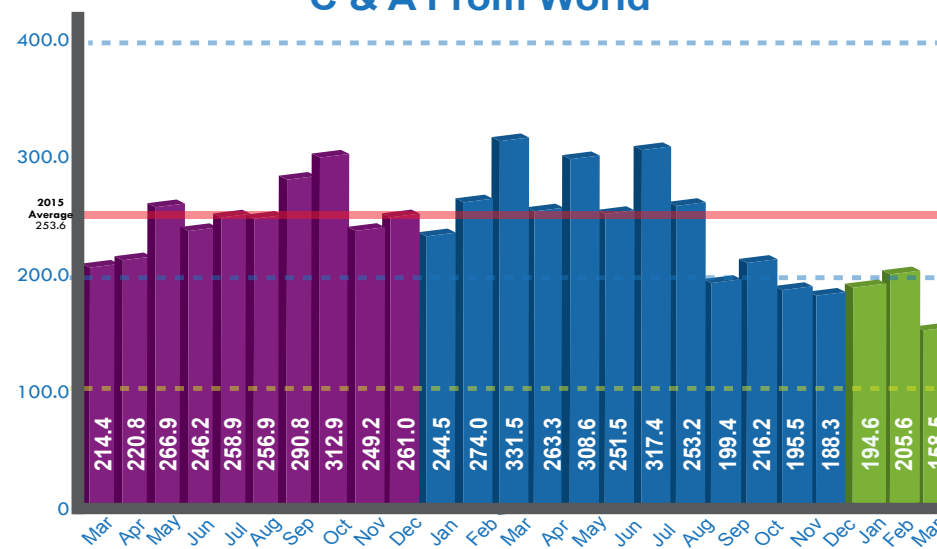
60 Day Zinc Spot

Source: www.kitco.com



- Galvanized imports look like they will be a little weak in March.

U.S. Imports of Sheets & Strip Galv Hot Dipped C & A From World



Source: US Department of Commerce, Enforcement and Compliance | Graph last modified on: March 23, 2016
with Licensing Data collected through March 23, 2016. Commerce license data use for the last month appears in a different color
Data extracted from the import licenses are not official Census data



STEEL | 3.22.2016 - 3.28.2016

- US Steel is going to idle their tube mills in Alabama, Texas, and Ohio due to lack of demand. Declining sales of OTCG contributed to US Steel's \$1.5 billion loss in 2015. Worker layoffs begin next week.

+ AK Steel announced a \$30 per ton price increase for all carbon flat rolled products.

- The port of Houston reported that they only handled 471,000 tons of steel in the first two months of this year, down 62.3% from last year's 1.2 million tons. This report does not identify which tons were import or export.

+ Trade cases against China from all regions of the world, combined with supply manipulation from China, is boosting import prices. Prices are escalating at an amazing rate and lead times have pushed out to October in some cases.

- Reuters reported that the downsizing of China's steel sector might have yet another problem..... \$1.5 trillion of debt. The sector might run full speed ahead, hoping to find a way to make enough profit to pay debts. If not, China's banks will have a big problem. Between this and the social implications of almost 2 million Chinese steel workers losing their jobs to downsizing, the "China factor" might linger for quite a while longer in the global steel market.

- Indian banks are worried about their steel making customers as well. The Times of India reports the banks there are worried about \$7 billion worth of loans to steel mills.



AUTOMOTIVE | 3.22.2016 - 3.28.2016

- Daimler Trucks unveiled a truck platooning system which has already been approved in Germany. It is an electronic follow the leader system that allows trucks to be connected electronically to the lead truck and be driven autonomously. The drafting effect from the closely driven trucks saves fuel costs. Each truck can have a driver in the cab. There are sensors in the driver's seat that let the truck know if a human is behind the wheel and if so, will let the driver take over navigation if needed.



AUTOMOTIVE | 3.22.2016 - 3.28.2016

+ Say hello to Honda #1. Serial number N600-1000001. It should have been crushed. When Honda's first fleet of 50 prototype N600s finished winter testing in the U.S. Midwest in 1967, they were sold for scrap to a junkyard down the road from the company's California office. A few days later a Honda employee saw one driving down the road. The enterprising scrapyard owner decided to make a little money on the side as America's first bootleg Honda dealer. Honda made sure the remaining 47 cars were crushed, but three N600s had already escaped into the wild. Powered at first by a 45 hp, two-cylinder engine (later detuned to 36 hp due to a tendency to blow up on U.S. interstates), it's best thought of as a sort of Japanese Mini Cooper. Tackling the US market with such a tiny cricket of a car was audacious, particularly in the age of big engines and behemoth American cars. Honda is commissioning the restoration of this car and expects its completion in September.



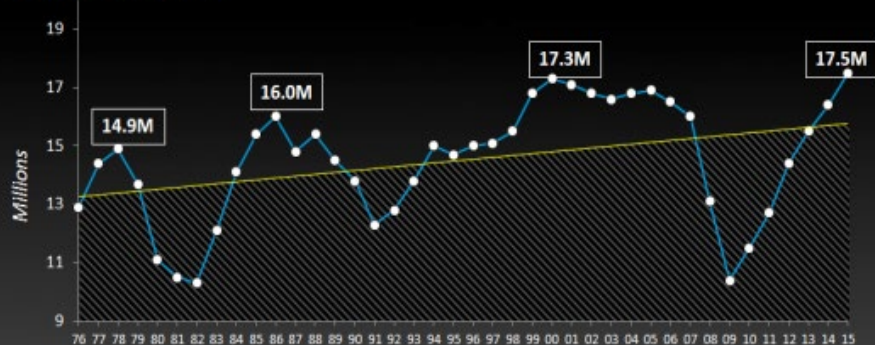
AUTOMOTIVE | 3.22.2016 - 3.28.2016

- Is the auto industry overdue for a downturn? This graph might lead us to believe so. There are other forces acting against the market. Almost 1/3 of all outstanding car loans are in negative equity, meaning the cars are not worth what the owners are paying for them. This is a byproduct of the long term car loans that have been popular lately. 72 month loans represent 34% of new car sales now. Risky subprime loans (to people who don't qualify for normal loans) are almost 20% of the market. Fleet sales are up too. All of these are signs that the auto industry is pushing too hard to keep sales volume up.

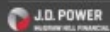
+ Subaru has decided to invest \$500 million to double the capacity of their Lafayette, Indiana plant to 400,000 vehicles annually. Only a few years ago, Subaru shared this facility with Toyota. The plant was almost shut down due to lack of interest. My, how things can change. Subaru has big plans to gain market share in the US.

Industry Cyclicalty Has Not Gone Away...

US LV Sales and Growth



Source: Federal Reserve Economic Data; Standard and Poor's



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GENERAL | 3.22.2016 - 3.28.2016

+ New Home Sales rose 2% in February, driven by a surge in western states. The average price of a new home jumped to \$301,400. The supply of unsold new homes grew to a 7 year high of 240,000 properties nationwide, representing 5.6 months' worth.

- Existing Home Sales fell 7.1% in February. The average price of a used home fell to \$210,800. The supply of unsold used houses is 4.4 months' worth.

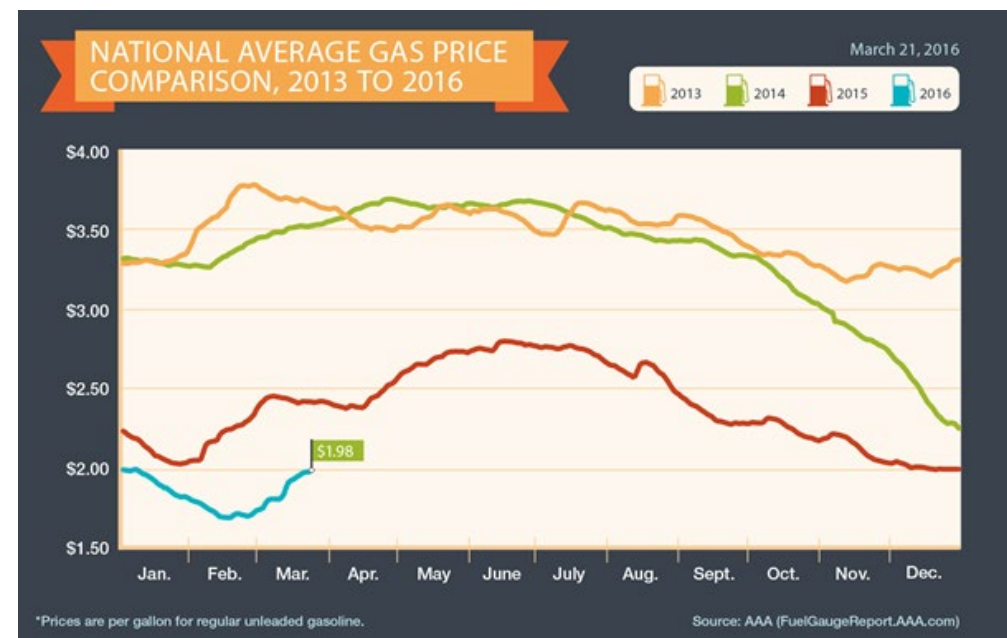
- 26% of Americans have \$1000 or less in savings. That's not good, but it is actually better than the 36% recorded in 2014.

Total savings and investments, excluding primary residence and employer-paid pension:

	2011	2012	2013	2014	2015	2016
Less than \$1,000	29%	30%	28%	36%	28%	26%
\$1,000-\$9,999	17%	18%	18%	16%	17%	16%
\$10,000-\$24,999	10%	12%	11%	8%	12%	12%
\$25,000-\$49,999	11%	10%	9%	9%	9%	10%
\$50,000-\$99,999	9%	10%	10%	9%	10%	10%
\$100,000-\$249,999	14%	11%	12%	11%	10%	12%
\$250,000 or more	10%	10%	12%	11%	14%	14%

- Durable Goods Orders fell 2.8% in February. Shipments and unfilled orders were down.

- Gasoline prices are trending up, just in time for the spring break driving season. \$2.00 per gallon gasoline will be here soon.



+ The Petroleum Status report shows crude oil inventory grew 9.4 million barrels to a new record (again) of 532.5 million barrels. Refinery output slowed to 88.4% of capacity. Gasoline inventory fell 4.6 million barrels and distillates rose .9 million barrels.

+ What is Reshoring?

Over the past few decades, factories—and the manufacturing jobs that go with them—have been moving abroad to countries in Asia, Latin America, and Africa, where labor and materials were cheaper. In the past ten years, however, this trend has been reversing as companies are building new factories in the U.S. or updating and reopening existing factories. The movement of manufacturing out of the U.S. was called off-shoring, which is the basis for the terms re-shoring and on-shoring to describe the current phenomenon.

Why are companies Reshoring?

When American companies began to produce goods abroad, they did so because the costs of materials and labor were lower, allowing them to produce goods for less money and leaving more room for competitive prices and profits. However, the reality of the situation has changed due to changes in the global marketplace, unforeseen issues, and the difficulties of doing business from a great distance away. Some of the reasons companies have chosen to re-shore include increased costs, inconveniences associated with distance, and financial incentives.

Increased costs of offshore production

As the economic climate has changed over the past decade, it has become more expensive to produce goods abroad than it was when companies first decided to do so.

Increased prices

Prices have increased in almost every facet of manufacturing, including raw materials. Foreign countries used lower prices to encourage established international companies to set up facilities—but once the companies built those facilities, the prices for those materials steadily increased.

Increased labor costs

Workers (such as those in China) have demanded higher wages, adding costs to production abroad.

Increased shipping costs

As shippers saw greater potential for profits, they increased their prices. In addition, rising fuel costs have made this process more expensive.

Long-distance complications

Another issue that plagues foreign production is the difficulty of doing business with a facility that is so far away. For local companies producing components abroad, the obstacles are numerous:

- Time differences that make communication challenging
- International trips to meet with producers
- Issues with intellectual property protection, which can be harder to enforce abroad
- Delayed product delivery



BILL'S ROUND-UP | 3.22.2016 - 3.28.2016

"Home sales are waffling along. Hopefully the warmer weather will stimulate sales. 42% of Americans have less than \$10,000 in savings, which doesn't give much room for discretionary spending. Durable goods orders fell. Gasoline prices will soon rise to over \$2.00 per gallon. The re-shoring of American manufacturing continues to gain speed, but there is a shortage of skilled workers to fill the positions. Technical schools are getting more attention. Steel scrap prices are up and mill production is down this week. Steel imports are slow and prices are rising quickly. US Steel is idling their tube mills. There has been a recent flurry of domestic mill price increases. The auto industry is maintaining their high sales rates for now. How long will it last?"

PARTING SHOT:

"The way to get things done is to not mind who gets the credit for doing them."
– Benjamin Jowett (1817 to 1893)



Bill Feier, World Sourcing Manager



'TIL NEXT TIME | 4.5.2016



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