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Steel-Price Rises Pressure Supply Chain

By ROBERT GUY MATTHEWS

The impact of escalating steel prices in the U.S. is starting to filter through supply chains, with companies that buy and process steel raising their own prices, stockpiling in advance of possibly more increases and boosting volume to offset rising costs.

Steelmakers have increased prices six times, for a total increase of 20% to 30%, since November on basic flat-rolled steel, used in everything from cars to toasters, to offset higher input costs of raw materials, such as iron ore and coal. Higher costs for steel, which are expected to continue well into this year, are hitting bottom lines of companies and prompting additional price increases.

Caterpillar Inc., the world's biggest maker of construction and mining equipment, expects higher sales volumes and possible price increases on its own products to offset higher steel costs. It also buys materials in advance when it expects prices to rise. "We are always looking ahead," said Chief Financial Officer Edward Rapp.

Appliance makers like Whirlpool Corp., too, are feeling the pinch and have announced price rises of 8% to 10%.

But for the most part, consumers of automobiles, appliances or utensils won't feel the brunt of steep steel increases. "We have seen these input prices going up sharply for a period of time, but there have been very little pass-through to final consumer markets," said IHS Global Insight Chief Financial Economist Brian Bethune.

Companies, he said, have been offsetting the increase in nonlabor costs with higher productivity, which he expects will have increased 4% in the fourth quarter. Moreover, only the most steel-intensive products would be affected, and few of those are consumer products.

Steel represents about 4% of the cost of a car, or $1,000 of a $25,000 car. A 20% to 30% rise in steel costs would add at least $200 in costs for the auto maker, which may choose to absorb that cost rather than lose budget-conscious consumers.

The biggest impact will be felt by companies whose sole business is buying steel directly from steelmakers and stamping, bending, coating and cutting that steel for other companies, such as car and equipment makers. Steel represents their biggest cost, and they have fewer options to spread higher costs across production.

Some of those companies have been adding to inventory since prices began rising in November in anticipation of further increases.

That can be a risky strategy if demand suddenly drops off and they are left with huge inventory, said Bill Hickey, of Lapham-Hickey Steel, a private steel distributor based in Chicago.

Jim Zawacki, owner of G R Spring & Stamping Inc., an Indiana-based supplier of auto parts with $80 million in sales, said about half of his contracts allow for an automatic pass-through of higher raw-material costs. He has to fight to pass on higher raw-material costs for the other half.

"We are putting on our shoulder pads on and our gloves," he said.

He has spent the last several weeks in tough talks with his U.S. customers—American, Japanese and German auto makers who receive parts from the company's plants—to justify increasing prices in line with higher steel costs.

—James R. Hagerty
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