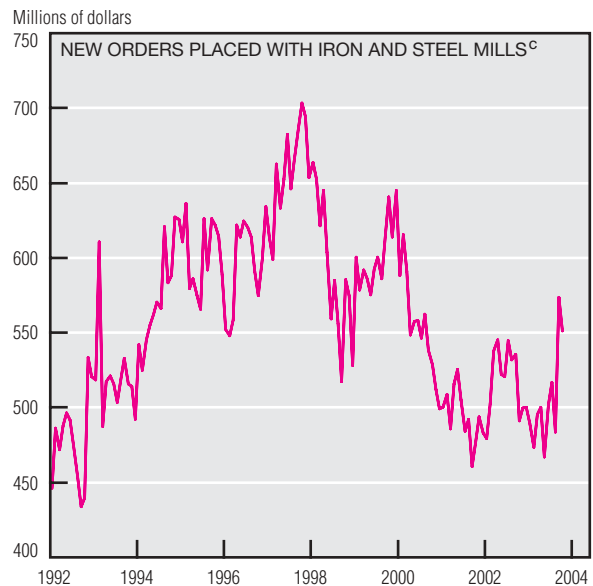
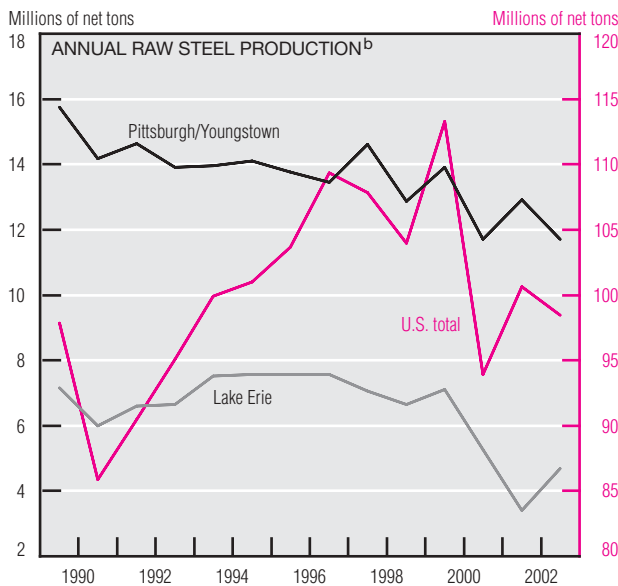
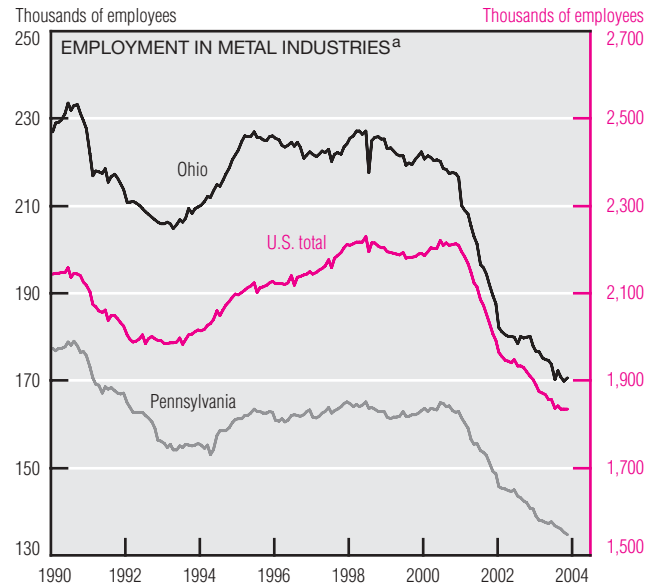
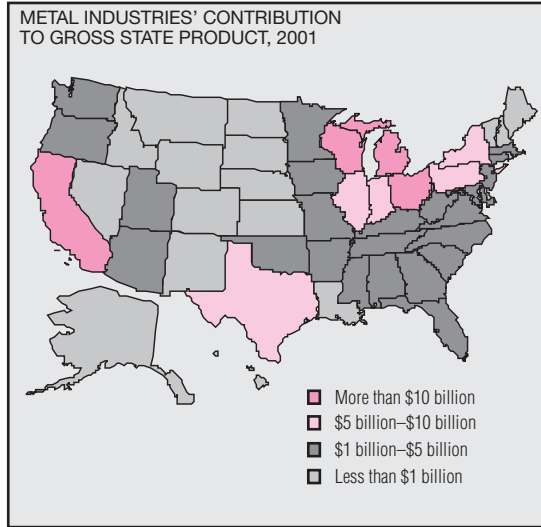


The Domestic Steel Industry



NOTE: Metal industries are those classified under primary metal and fabricated metal product manufacturing.

a. Not seasonally adjusted.

b. The American Iron and Steel Institute's raw steel production regions are Northeast Coast, Pittsburgh/Youngstown, Lake Erie, Detroit, Indiana/Chicago, Midwest, Western, and Southern.

c. Seasonally adjusted.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis and Bureau of the Census; U.S. Department of Labor, Bureau of Labor Statistics; and American Iron and Steel Institute.

President Bush's December decision to eliminate the Section 201 steel tariffs on various carbon and alloy steel products refocused national interest on the domestic steel industry. Over the past three years, more than 30 U.S. steel companies have filed for bankruptcy and many more have consolidated significantly. Steel production directly affects the economy of our region, which is home to the nation's three largest integrated domestic steel producers: ISG (the former LTV Steel Corporation), U.S. Steel, and AK Steel.

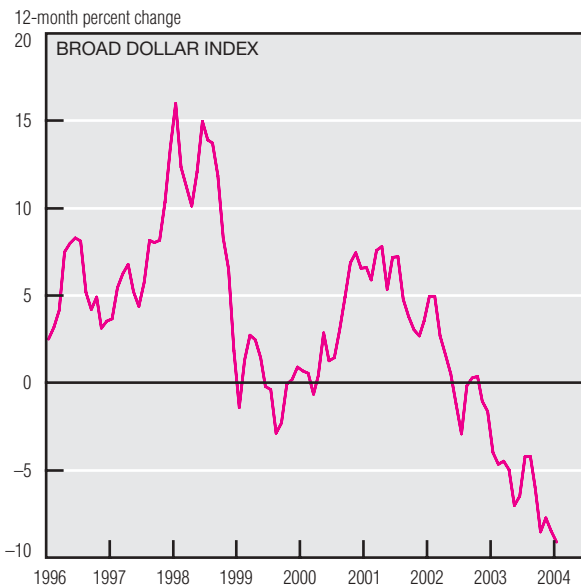
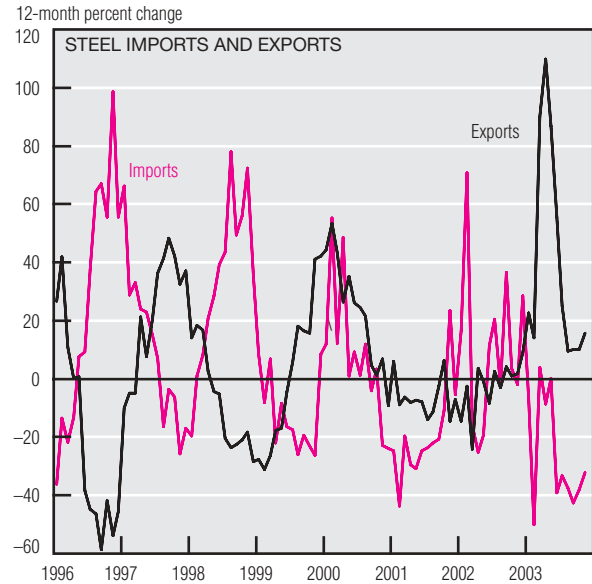
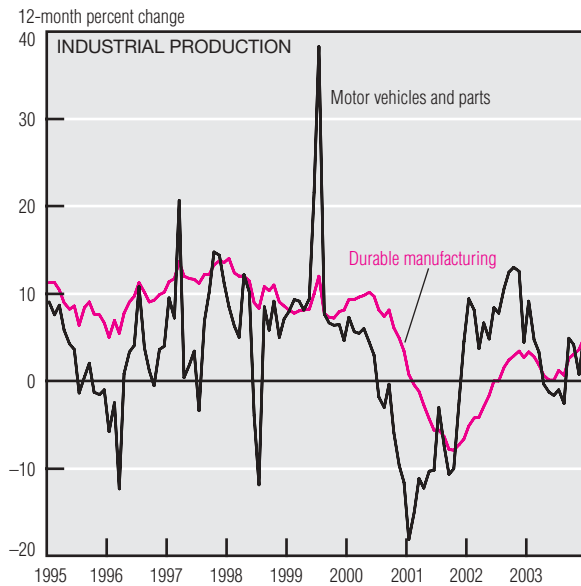
Within the U.S., nine states derived more than \$5 billion of gross state product from the primary metal and fabricated metal industries in 2001. Two of the nine, Ohio and Pennsylvania, fall within the Fourth Federal Reserve District, with significant earnings from these industries concentrated in northeast Ohio and western Pennsylvania.

Both of these states have experienced declines in employment throughout the primary metal and fabricated metal manufacturing industries, like the U.S. as a whole. The

accelerated employment decline in the region's metal industries over the past three years results partly from surging steel company bankruptcies since 2000 and ongoing consolidation of steel production and distribution channels.

Nationally, total raw steel production, about one-fifth of which originates in the Fourth District, remains significantly below 2000 production levels. Although raw steel production in the Lake Erie region increased slightly in 2003, the Fourth District as a whole is still below its production levels. *(continued on next page)*

The Domestic Steel Industry (cont.)



SOURCES: U.S. Department of Labor, Bureau of Labor Statistics; Board of Governors of the Federal Reserve System, "Industrial Production and Capacity Utilization," *Federal Reserve Statistical Releases*, G.17 and "Foreign Exchange Rates," *Federal Reserve Statistical Releases*, H.10; and American Iron and Steel Institute.

levels of the 1990s and early 2000. However, activity in the domestic steel industry has recently increased somewhat. New orders placed with iron and steel mills are at the highest level since early 2000, probably because of increased manufacturing activity and decreased imports into the domestic market.

The Institute for Supply Management's Production Index has signaled an expanding manufacturing economy for the past eight months, and durable goods manufacturing was up 4.9% in December on a year-over-year basis. Demand from the automotive

industry, which accounts for 16% of domestic steel shipments, is strong and expected to remain so.

Many industry observers note that lifting Section 201 tariffs on steel imports will not affect the domestic steel industry immediately. Although the tariffs were still effective in November—when steel imports to the U.S. were 30% less than the year before—many analysts assert that the current low levels of steel imports to the U.S. have resulted largely from increased demand in steel markets overseas and the depreciation of the U.S. dollar. The price of imported steel rises as

the dollar depreciates, making imported steel relatively less attractive to domestic consumers. The Broad Dollar Index, a trade-weighted average of the dollar's foreign exchange value against the currencies of our major trading partners, has fallen since 2002. Reduced import competition and increased domestic demand are also partly responsible for the recent upward trend in steel prices. Flat-rolled steel products, largely used in industrial, automotive, and appliance applications, have posted significant price spot market increases, rising approximately 20% since June 2003.