Conditions in the steel industry have improved over the last year, but firms and workers still feel the effects of the 1998 downturn triggered by economic collapse in Asia and Russia. However, because of the recovery of foreign economies and continued robust economic growth in the U.S., the sector appears to have turned the corner.

From 1992 through the beginning of 1998, the good times rolled in the steel industry as strong demand led foreign and domestic producers to expand capacity. By mid-1996, firms' shipments could not keep up with their order books, and the level of unfilled orders soared. But with the onset of the Asian and Russian economic crises, the demand for steel—and other products—fell worldwide.

It is interesting that inventories have been fairly stable, suggesting that firms have managed to avoid costly buildups. Instead of inventories fluctuating, prices and capacity utilization have adjusted to balance supply with demand. Prices slumped more than 10% from late 1997 to early 1999. As of February they had risen about 4% from the trough. Capacity utilization had averaged over 90%, a historically high level. Tracking prices very closely, it plunged to 76% at the trough and has recovered to over 86%.

Firms' earnings, of course, have also taken a hit, but not so severe as during the last recession. After six solid years in the mid-1990s, earnings were almost nonexistent in 1999. While the performance was disheartening to shareholders, it was less devastating than that of the last recession, when the industry suffered large losses in both 1991 and 1992.

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Employment in the industry fell 6% from December 1997 to October 1999. Workers’ real average weekly earnings fell 7% over this period. In contrast, the 1990-91 recession cost 15% of steel jobs and earnings. As a result of productivity growth, the industry has been shedding jobs fairly consistently since the early 1980s, albeit with relatively flat real wages.

Imports were clearly a source of pressure on the U.S. steel industry. In 1998, world demand fell as some foreign economies tanked and many others slowed. Domestic demand remained robust, however, and imports surged 33% in 1998 as prices fell 20%. Steel imports decreased 14% in 1999, but remain about 24% higher than the average rate for 1994–97. Currently, the biggest exporters of steel to the U.S. are Brazil, Canada, Mexico, Korea, Japan, and Taiwan. The European Union as a whole constitutes the second-largest exporter and the countries of Eastern Europe constitute the fourth-largest.

Domestic steel producers, quick to identify foreign producers as a major cause of their troubles, initiated many anti-dumping actions. These actions’ direct effect was slight, for they hit only a small share of imports. However, their deterrent effect may still have been significant in at least slowing the flood of imports.

No one seems satisfied with the anti-dumping process. Domestic producers complain that it takes too long to impose countervailing duties and that they must specify the products and producers they allege to be in violation. Importers claim that the process used to determine “fair” prices is biased against them. Duties usually can be avoided if the foreign country involved negotiates some

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“voluntary” import restrictions, which typically take the form of self-imposed quotas or minimum prices.

Although it plays a smaller role than formerly, steel continues to be a key sector in the Fourth District. Weekly production is reported for various U.S. regions, three of which fall within Fourth District states. In the Pittsburgh–Youngstown region, production dropped more than 25% as a result of events in 1998. But production in the Lake Erie and Midwest regions declined only about 10% and has now recovered in both areas.

Although production has been largely restored in plants located in the District, steel employment in Ohio and Pennsylvania has fallen since 1989. More than one-third of the jobs in Pennsylvania have been cut, whereas Ohio has lost about one-fifth (data for West Virginia and Kentucky were not available). Pennsylvania has been losing jobs fairly steadily since 1989, whereas in Ohio the job losses over this period have been more moderate.

In both states, hours of work declined about 10% in 1998, yet continued to exceed 40 hours per week. The gap in weekly hours between Ohio and Pennsylvania that existed in the early 1990s has closed over the last couple of years. Weekly hours is one of the few steel statistics to recover fully from the international shocks of 1998. Real average weekly wages also appear to have rebounded completely. Because the industry is highly unionized, wages are not very free to adjust in the short run. Consequently, real wages hardly slipped in 1998 and had very little ground to make up. In the early 1990s, the weekly hours gap between Ohio and Pennsylvania was mirrored by a wage gap between the two states, which has closed in the last couple of years as well.