



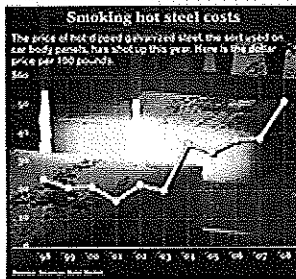
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Financial Week

Surging steel prices galvanize auto industry

Pressured by rising commodity prices, steelmakers are demanding immediate price hikes; car makers may have a hard time refusing

By Robert Sherefkin
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Sharp increases in steel prices—up as much as \$500 per vehicle since January—have left automakers and suppliers reeling.

Tensions are rising as steelmakers tear up contracts and demand immediate price increases. Steel and automotive executives say ArcelorMittal—the world's largest steelmaker—and other steel mills notified the Big Three automakers last month that they will impose surcharges as high as \$250 a ton.

That would amount to a price increase of 20% to 40% over most contractual prices. "I've never seen anything quite like it in my career," said Dana Holding Corp. chairman John Devine, a former CFO at Ford Motor and General Motors.

The benchmark for automotive steel prices is hot-rolled carbon sheet steel, which is used to make bumpers, wheels and frames. In the fourth quarter of 2007, the spot market price was \$535 a ton. Today, the spot price—which is somewhat higher than contract prices—has almost doubled, to \$1,035.

Steel prices are up roughly \$500 per vehicle since January, said analyst John Hoffecker of AlixPartners. According to the American Iron and Steel Institute, the average car contained 2,400 pounds of steel last year, while the average pickup or SUV used nearly 3,000 pounds.

To cover the rising cost of raw materials, some suppliers are demanding price increases from the automakers. ArvinMeritor chief executive Chip McClure has announced plans to pass higher steel prices along to his customers as a surcharge starting June 1.

Can Mr. McClure make his price increase stick? An ArvinMeritor spokeswoman said only, "We are having those discussions."

Asked whether Dana would follow ArvinMeritor's example and raise prices, Mr. Devine said he has no choice: "The size of the steel increase is so unprecedented that we have to go after pricing relief—and we are."

Steel is part of a wider trend of rising raw material costs. The price of platinum, used in catalytic converters, is up more than 70%. Aluminum prices have jumped to \$2,750 a ton, up \$500 over the past year or so.

"The automakers are between a rock and a hard place," said Pete Peterson, a steel industry consultant and former director of automotive marketing with U.S. Steel.

Steelmakers are raising prices because their own raw materials have grown more expensive, Mr. Peterson said. Big mining companies around the world have raised spot prices for coal, iron ore, manganese and other key steel-making ingredients.

Strong global steel demand is contributing to the price surge. So is a lack of competition from foreign producers, which are disinclined to export to the United States because of the weak dollar.

Overseas car makers are not immune. Herbert Diess, BMW's purchasing chief, is proposing a cost-sharing approach to ease the burden of higher steel prices.

In Japan, Toyota Motor accepted price increases last month of more than 35% for steel sheet used on exterior panels, according to the trade publication *Steel Business Briefing*.

And on May 29, Honda Motor CEO Takeo Fukui confirmed that a U.S. steelmaker had demanded a substantial price increase. He declined to identify the company but said the auto industry as a whole is in a bind.

"We are in a weak position," he told reporters in Tokyo.

In North America, steel contract prices are a closely guarded secret. But steelmakers appear ready to demand increases of 20% or more, said one steel industry insider.

Even GM—which has traditionally played steel suppliers against one another—appears vulnerable. GM used to negotiate with nine steelmakers. Now it bargains with just four major integrated steel mills.

The stakes are especially high for GM because it buys steel for its suppliers too. The car maker resells to suppliers much of its annual purchase of 7 million tons. Half of GM's North American suppliers who use steel participate in the resale program.

GM insists that it won't accept surcharges. "We expect suppliers to honor their contracts," commented GM spokeswoman Deborah Silverman.

Ford Motor and Chrysler declined to discuss their steel purchases.

What if automakers refuse to pay the surcharge?

The steel manufacturers are talking tough. "We will not be in a position to assure continuity of supply," said one steel industry insider. "Why should I sell to GM at a lower price when I can sell steel to the energy market and other strong markets?" —*Automotive News*

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