U.S. Steel Industry In Slow Recession Recovery

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Recovery in the U.S. steel industry still has a ways to go.

Steel makers, particularly United States Steel Corp., bounced back in the first quarter from a slump in the last three months of 2011. But shipments and sales continue to lag pre-recession levels.

The uneven industry recovery reflects conditions in the global economy. European business remains a drag on results. A slowdown in China could have a ripple effect that hurts steel demand in other countries. In the U.S., autos and energy customers are ordering more steel, but the construction industry is still in a slump.

U.S. Steel on Tuesday reported higher first-quarter prices for products sold to oil drillers and manufacturers of automobiles, heavy equipment and general products. But overall shipments declined because shipments from its European operations fell nearly 28 percent. The Pittsburgh manufacturing giant doesn't expect much improvement in the second quarter, which typically is a strong quarter for steel makers.

AK Steel Holdings Corp., a smaller steel maker based in West Chester, Ohio, lost $11.8 million, or 11 cents per share, in the first quarter. That's an improvement from a nearly $200 million loss in the fourth quarter. But revenue fell 4.6 percent from a year earlier to $1.51 billion as steel shipments dropped 6.8 percent. The company expects to post a profit for the second quarter as shipments increase.

Steel makers are still battling back from a slump that began when the economy faltered in 2008 and customers cut back on steel purchases. Each step forward seems to be countered by a step back. For instance, last year the industry was reporting profits until demand for steel dropped in the second half as Europe's debt crisis escalated and economic growth slowed in the U.S. and Asia. U.S. Steel lost more than $200 million in the fourth quarter.

The companies also are coping with high raw materials costs and ample inventories because of imports and higher production by domestic mills.

Investors aren't happy. Shares of U.S. Steel and AK Steel fell slightly Tuesday are well below their 52-week highs.

"This is a case of everyone wants to see a rapid recovery and it's just not there," Morningstar Inc. analyst Bridget Freas said. She expects 2012 "is only going to look slightly better" than 2011.

"It's just taking a very long time to get back to shipping volumes that we saw back in 2007, 2008," she said.

U.S. Steel posted a first-quarter loss of $219 million, or $1.52 per share, largely from a $399 million charge on the sale of its Serbian operations. It lost $86 million, or 60 cents per share, a year earlier. Revenue rose 6.3 percent to $5.17 billion.

Excluding any items, U.S. Steel earned 67 cents per share, better than analysts' estimate of 44 cents per share.

Shipments of flat-rolled steel, which is used in products such as appliances and vehicles, totaled 4.1 million net tons, the highest level since the third quarter of 2008. U.S. auto sales are at their best pace in five years. Shipments of tubular steel, which is used for pipes, increased 24.5 percent because of strong demand from energy companies drilling for oil.

Looking ahead, Chairman and CEO John P. Surma expects second-quarter results to be comparable to the first three months of the year.

He pointed to one industry in particular that's crimping results in North America. "I think the biggest missing link there is in construction," he said. "Most other markets have come back fairly well."

Argus Research analyst Bill Selesky said that investors remain worried about Europe. "Although they're kind of predicting break-even levels, I think the problem is that it could go negative in a heartbeat and I think that's got people scared," he said.

Shares of U.S. Steel fell 57 cents to $27.65. AK Steel slipped 14 cents to $7.20.