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(Last updated August, 2011)

SUMMARY

For the first time in several years nearly all markets are looking up. Those few that are not looking up are flat, a real improvement when the biggest question was how far down. Automotive, the leading casting market, is on a holding pattern after a solid upturn. Markets trending up are heavy truck, construction equipment, agricultural equipment, mining equipment, electronics, pumps and compressors. Rail is flat but car mileage is up so as the surplus is absorbed, building will resume. Housing starts are low and flat to down with no near term uptick in sight. We have not seen any general forecasts for the economy that are downward. The consensus is an up market. Indicators of an improving economy include:

- Unemployment applications at the end of June increased. U.S. companies are still hiring but at a slower rate than in the beginning of the year.
- Consumer confidence in May dropped from 66.0 in April to 60.8. This is a positive sign but a weak one. A consumer confidence level in excess of 90 indicates a strong economy. An index above 100 indicates a strong, growing economy. Consumer spending makes up two thirds of the nation's economy.
- Manufacturing sector productivity grew 4.2 percent in the first quarter of 2011, as output and hours worked increased 7.7 percent and 3.3 percent, respectively.
- Nonfarm payroll employment changed little (+54,000) in May, and the unemployment rate was essentially unchanged at 9.1 percent, the U.S. Bureau of Labor Statistics reported today. Job gains continued in professional and business services, health care, and mining. Employment levels in other major private-sector industries were little changed, and local government employment continued to decline.

Automotive/Light Truck

Major casting markets impacted – very high volume iron, aluminum, zinc and magnesium casting. Lead indicators: automobile/light truck sales.

The North American fleet of light vehicles is around 280 million. At the peak, sales were 17 million per year

implying an average fleet age of 16.5 years. With the slowdown in the economy, production dropped to 8.6 million vehicles. If that rate were maintained the average age of the fleet would gradually climb to 32.6 years. Despite the increasing reliability of vehicles, that age is not realistic. In 2010, the North American build increased to 11.9 million vehicles. While still well below the peak it represented an increase of 38.3%. Growth through May, 2011 was 13.9% to an annual rate of 12.6 million light vehicles. Most companies selling light vehicles in North America are reporting steady sales increases with only Toyota, among major producers, down by .6% from the same period in the prior year. We believe this will continue but could even be limited by parts availability. We are hearing of capacity issues in both iron castings and aluminum die castings. Look for light vehicles to push 13 million plus this year.

CLASS 8 TRUCK

Major casting markets impacted – high volume steel and iron. Lead indicators: UPS/FedEx delivery volumes. Truck freight volumes. If volume is up, carriers buy trucks.

Heavy truck demand is picking up with one forecasting service predicting demand will double by 2013. Truck makers produced about 151,000 Class 8 trucks in 2010 which is a 27% increase over 2009, one of the worst years on record for truck manufacturers. Older trucks are being replaced and the price of used trucks is climbing making new trucks more attractive. Current production and sales are below historic replacement demand indicating an aging fleet. This is a further indication that demand will continue to increase. An improving economy will put additional demand on the trucking industry further speeding up their return. A preliminary report shows heavy truck orders rose 320% in January, 2011 over January, 2010. January was the highest truck order month since May, 2006. Over the three months ending January, orders have been booked at the rate of 320,000 units. However, it appears the build rate may be limited to about 250,000 units due to the availability of components, primarily engines. This will level out the production to some extent.

Housing and Infrastructure

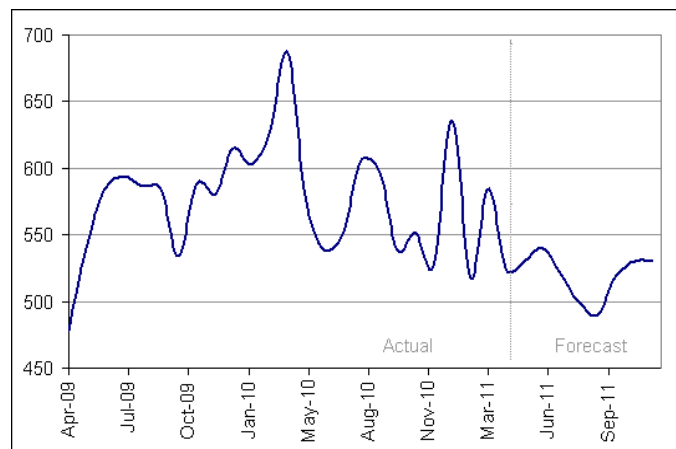
Major casting markets impacted – brass/bronze, iron and aluminum.

Lead indicators: Housing starts & building permits.

Castings in housing include plumbing fixtures, appliances, HVAC and door hardware. The privately-owned housing starts in December, 2010 were at a seasonally adjusted rate of 529,000. This is 8.2% below the December 2009 rate. There is still excess housing on the market. In addition, the purchase of second homes has dropped significantly impacting markets in Florida and Nevada. No one expects this market to improve anytime soon. Most heavily impacted are foundries and companies dedicated to the infrastructure market – cast iron pipe and municipal castings.

The bulk of infrastructure spending follows new housing. As housing developments are opened, water lines, gas lines, sewer lines and septic lines go hand-in-hand. This market closely tracks new housing starts. There was some hope from the planned infrastructure spending planned to stimulate the economy. However, cash strapped municipalities chose to spend the stimulus funds on projects with more visibility. There are some replacement needs that can't be met otherwise. The older cities in the Northeast have water and sewer lines that have been in place for over 100 years. In some cases, replacement has been forestalled by the use of new innovative methods of repairing the lines in place

New housing starts through May, 2011 are 9.1% lower than the same period in 2010. Since there is surplus housing available with a trend shifting from owning to renting, we don't see this market segment returning for another couple years.



U.S. New Housing Starts
Source: The Financial Forecast Center

PUMPS AND VALVES

Major casting markets impacted – low to medium volume iron, carbon steel and alloy steel. Lead indicators: general economy. Pumps and valves are used in many industries and have a large replacement volume. The general economy may be about the best.

Pumps and valves appear to be trending up. There is a trend to manufacturing coming back to the U.S. that we are seeing across most of the metal casting industry that is helping. This market tends to track the general economy.

AGRICULTURE

Major casting markets impacted – low to medium volume iron. Lead indicators: grain prices. If grain is up, farmers buy equipment.

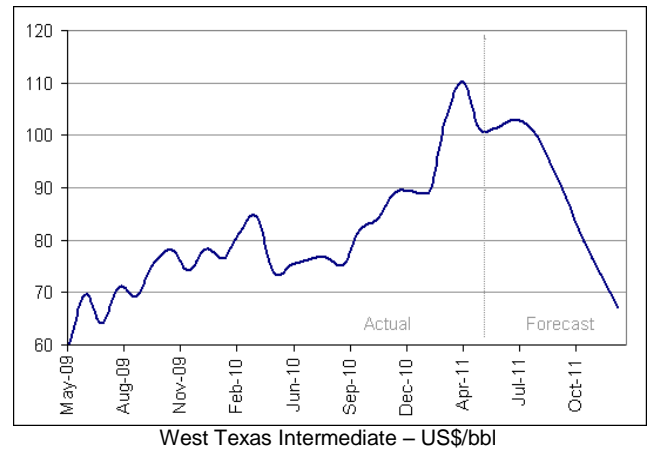
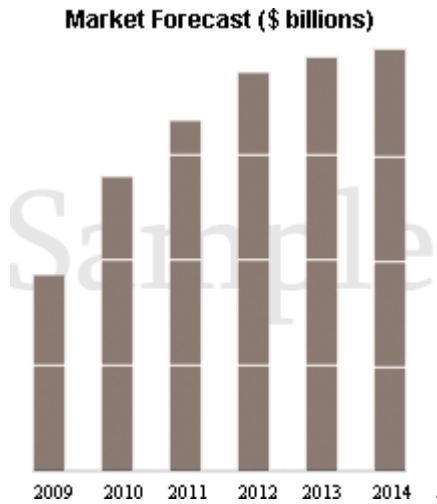
Agriculture tends to follow grain prices. When prices are higher, farmers have capital available for investment in equipment. Due to droughts in South America and China, grain prices are at record levels. Very high cotton prices are leading forecasters to predict cotton taking acreage from corn, soybean and wheat. However, high prices in those grains indicate that more acreage will be put into service in 2011. Look for a good year in agriculture markets. However, some negative impacts are pending. There is beginning to be a backlash against subsidies for ethanol. This could lead to a drop in ethanol production and drop in grain used in ethanol production. Also, farm subsidies are on the cutting block in the budget struggles.

John Deere is the bell-weather of this market and they are having a great year. Every time agricultural product prices go up, look for this market to follow.

CONSTRUCTION MACHINERY

Major casting markets impacted – low to medium volume iron. Lead indicators: Housing starts, building permits, industrial construction levels, infrastructure spending.

Construction machinery rebounded strongly in 2010 and is projected to continue to increase in 2011 and 2012.



The market will continue to be helped by the economic recovery and the aging fleet.

MINING

Major casting markets impacted – low to medium volume iron, steel and alloy irons. Lead indicators: mineral prices, iron ore mining levels. Coal mining and oil sand are still relatively strong. Mineral mining is seeing an increase due, in part, to demands from China and India for raw materials. As commodity prices increase, more mines are opened and those opened are worked harder. This market looks good for the next year.

OIL FIELD

Major casting markets impacted – cast steel pipe, carbon steel and alloy steel. Lead indicators: Oil prices. When prices are high, drilling and exploration go up.

Oil prices have stabilized and are down slightly. Higher prices drive increased exploration and production. The biggest impact on U.S. foundries occurs in the Southwest. Look for a strong year. There is a danger of very high prices being a drag on the economy.

HVAC

Major casting markets impacted – medium to high volume aluminum. Lead indicators: housing starts, building permits.

The replacement market will continue steady and the growth will follow housing starts. Industrial and commercial will hold with some decline as new commercial construction has slowed. It won't fully rebound until housing rebounds.

ELECTRICAL EQUIPMENT/ELECTRONIC

Major casting markets impacted – medium to high volume brass/bronze and aluminum. Lead indicators: Tough one. These are used in so many markets. General economy may be the best.

This market has rebounded for personal and business computers. Unfortunately, this is not a major market for most metal casters.

HOUSEHOLD APPLIANCES

Major casting markets impacted – medium to high volume aluminum. Lead indicators: housing starts, building permits. Replacement market is relatively stable.

Household appliances will start edging up as new housing starts increase. The replacement market is holding up relatively well with a more limited decline. Green appliances may spur some increased sales.

RAILROAD

Major casting markets impacted – medium volume carbon steel and some iron. Lead indicators: Rail freight volumes.

At the end of last year, the Association of American Railroads estimated there were still 318,000 surplus rail cars or about 20% of the fleet. Do not look for rail car building to return in any significant numbers in 2011. At the peak of the recession, fully one third of rail cars were idle. On the bright side, tonnage and mileage are increasing. Look for this market to start returning in 2012. Historically, this market has seen tremendous swings.

AEROSPACE

Major casting markets impacted – investment casting, low volume aluminum. Lead indicators: Military spending and passenger miles.

Aerospace has weakened but not as greatly as other markets. Airlines are seeing recovering profits and increased passenger miles. As fuel prices increase, newer and more fuel efficient jets become more attractive. Also, some parts have FAA mandated life cycles that determine replacement cycles. Boeing and Airbus are increasing production but at a very slow, controlled rate. We did see that Boeing is missing some delivery dates due to problems getting offshore components. Since they sell world-wide, their attempt was to get 30% offshore components. Executive aircraft are seeing drops in the 50% plus range. A glut of executive jets on the market will hold new production down. Military aircraft spending is strong.

WIND ENERGY

Major casting markets impacted – larger iron castings. Lead indicators: Energy costs and green initiatives.

Wind energy was one of the last markets to drop and looks to stay down for a while longer. There are a number of wind farms in planning stages but funding has been reduced dramatically. Wind energy has grown enough that power companies are finding it difficult to absorb the erratic generating pattern from larger farms. A recent study showed that linking farms over a 100 mile area can provide a more stable supply. Also, the proposed locations are coming under greater attack for aesthetic reasons. Wind still needs a \$.02/kWh subsidy to be competitive. While you can find contradicting data, the Department of Energy lists wind and solar as the two most expensive sources of energy. The lowest? Coal and nuclear. Nuclear was looking to be the long term growth source of electricity until the earthquakes and tsunamis in Japan. All countries are now rethinking nuclear safety issues.