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OVERALL CASTING MARKET

In 2010, every metal increased over 2009. Every metal is forecasted to increase again in 2011 from 2010 but still below the peaks of 2007/2008. Even though the metals have not recovered to prior levels, there was so much capacity liquidated during the recession there are shortages of capacity in certain areas. We have not seen any forecasts that are anything but up. However, this is a slow recovery. There are no drivers such as technology or housing to drive the economy up quickly. In each of the metals it is important to recognize that the increase in volume has created a disproportionate increase in capacity utilization due to the loss of capacity.

The Bureau of Labor Statistics reported under NAICS code 331 – Primary Metal Manufacturing - that import prices in May 2011 were 17.1% higher than May 2010 and that export prices were 20.7% higher than the same month in the prior year. A portion of this was due to higher scrap prices but it is interesting to note that export prices climbed faster than import prices. That supports one report we read saying that Chinese foundries are absorbing cost increases rather than pass them along to customers. Foundries are consistently telling us that demands from customers for pricing are easing. Customers are more concerned about availability.

Foundry backlogs are reported to be increasing but this needs to be taken with a grain of salt. When buyers hear that lead times are being pushed out they tend to order early adding an artificial level to backlogs.

IRON

Major markets for iron castings include automobiles, cast iron pipe, municipal castings, agriculture, gas engines, pumps and compressors, construction machinery and heavy trucks.

Iron lost over 1 million tons of U.S. capacity during the recession. However, there are numerous expansion projects that have started. We're not sure how much capacity will be added, but it is significant.

Iron is up and strong. Almost all sectors except those serving housing are up, some very strongly. Automotive is driving high volume Disa foundries to capacity. At least one of the largest automotive suppliers is out of Disa capacity. Even though iron has not fully recovered, those foundries that survived the recession are in better shape than they have been in the last two years. Buyers

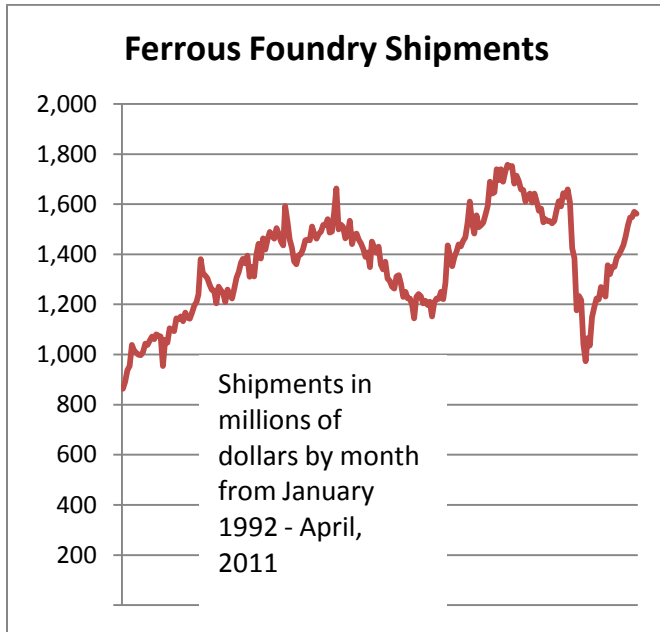
are less concerned about pricing. There appears to be a trend of some castings coming back from China but there are also indications that work in China for the U.S. is moving to India and Mexico. Automotive has not recovered to the 16 million build level but is at 13 million and still growing. There is some question whether it will reach 16 million but most analysts expect it to trend up through 2011 at least before stabilizing.

Mid-size iron castings are picking up in volume. Heavy trucks, agriculture, pumps and valves are up. Heavy trucks will have a strong year. With crop prices at record levels, farms will be putting more land in service and spending on equipment. Construction equipment is up as well.

While very large castings are up, there is substantial capacity available. There are three major new iron foundries planned for wind energy. They are in Michigan, Iowa and Arizona. All are linked to wind energy machining/assembly plants. However, some of the enthusiasm for wind energy has cooled. Electricity generated by wind is still expensive and the support for subsidies is weakening. Once these plants are up and running, they will start to look for other large castings to supplement the wind energy requirements. This market will have excess capacity with the newest foundries being the lowest cost. Look for some shakeout in 2012/2013 when these foundries come on-line.

Municipal and infrastructure related foundries (cast iron pipe, man-hole covers, etc.) are still off and will not recover for another year or more. Pipe foundries are very specific and dedicated so they will be slow for a while yet. Other iron foundries that are more flexible will be able to add work from other industries if they can meet the quality and cost requirements.

There are capacity shortages in certain segments of smaller iron castings. All segments of iron are up but other than small castings (under 50 pounds) there is capacity available.



ALUMINUM

Major markets for aluminum castings include engine components, instruments, automobiles and aerospace.

Aluminum is dominated by automotive more than any of the other metals. The recovery of automotive manufacturing is driving this metal, especially die casting. The North American Die Casting Association estimates that the die casting industry went from 7,500 die casting machines in service in 2006 to 5,000 machines in 2010, a loss of one third of capacity. While NADCA also says there is a lot of capacity available, we're not so sure. We know that die casters who are involved in automotive are stretched for capacity. Projections are for automobile production to be up about 7% in 2011 to 12.8 million units. Die casters are adding capacity as fast as they can get machines. Look for the capacity shortages to be relieved in late 2011 or early 2012.

Non-automotive areas are recovering at a slower rate but are definitely up. The only area that remains down with no upturn in sight are housing related (appliances, electrical components, etc.).

There are capacity shortages in certain segments of aluminum.

The 2011 issue of AFS Forecasts and Trends predicts a compound growth rate of 10.6% per year for the next six years. This would double the 2011 forecast. We believe this is too aggressive. We do see aluminum growing faster than other metals. They predict the growth in agriculture, electro-medical equipment and aircraft. We do see the growth in aircraft as fabrications are converted to castings. In the other areas, the growth is not as obvious. NADCA reports that 2010 sales were

41% ahead of 2009. They are still increasing but at a much slower rate.

STEEL

Major markets for steel castings include valves, construction equipment, mining equipment, oil and gas production, fans and blowers and railroad equipment.

Steel is mixed. Alloy steels are seeing a recovery in line with the recovery of the economy. Carbon steels are seeing a strong up-turn in heavy trucks but not in rail cars. Rail traffic is increasing and the surplus of cars is being absorbed but don't look for the railroad market to start moving to any extent until 2012. The recovery of steel in general is lagging other metals. Plant closings were more limited in steel.

Several of the rail focused foundries that were mothballed are either now reopened or in the planning stage to reopen.

ZINC & LEAD

Major markets for zinc and lead castings include electrical (non-current carrying), automobiles and sporting goods.

Zinc is down primarily due to the drop in automotive castings. This market has been weak for some time now due to offshore competition. Zinc seems to be coming back in line with automotive recovery. However, high alloy costs have blunted some of the recovery.

BRASS/BRONZE

Major markets for copper based alloys include automobile, valves, plumbing components and gears and drives.

The brass and bronze foundries have been suffering for the last ten years. The conversion to plastic in the housing market caused a lot of consolidation and left substantial excess capacity. Further consolidation does not appear to be happening but these foundries have learned to operate in a depressed market for some time now.

INVESTMENT CASTING

Investment casting appears to be holding its own. The markets they serve, except for automotive, are steady. Investment casting suffered greatly from exports due to the higher labor content in making castings. The dynamics of the market have changed such that work is coming back to the U.S. from China and India and work is being moved to the U.S. from Europe.