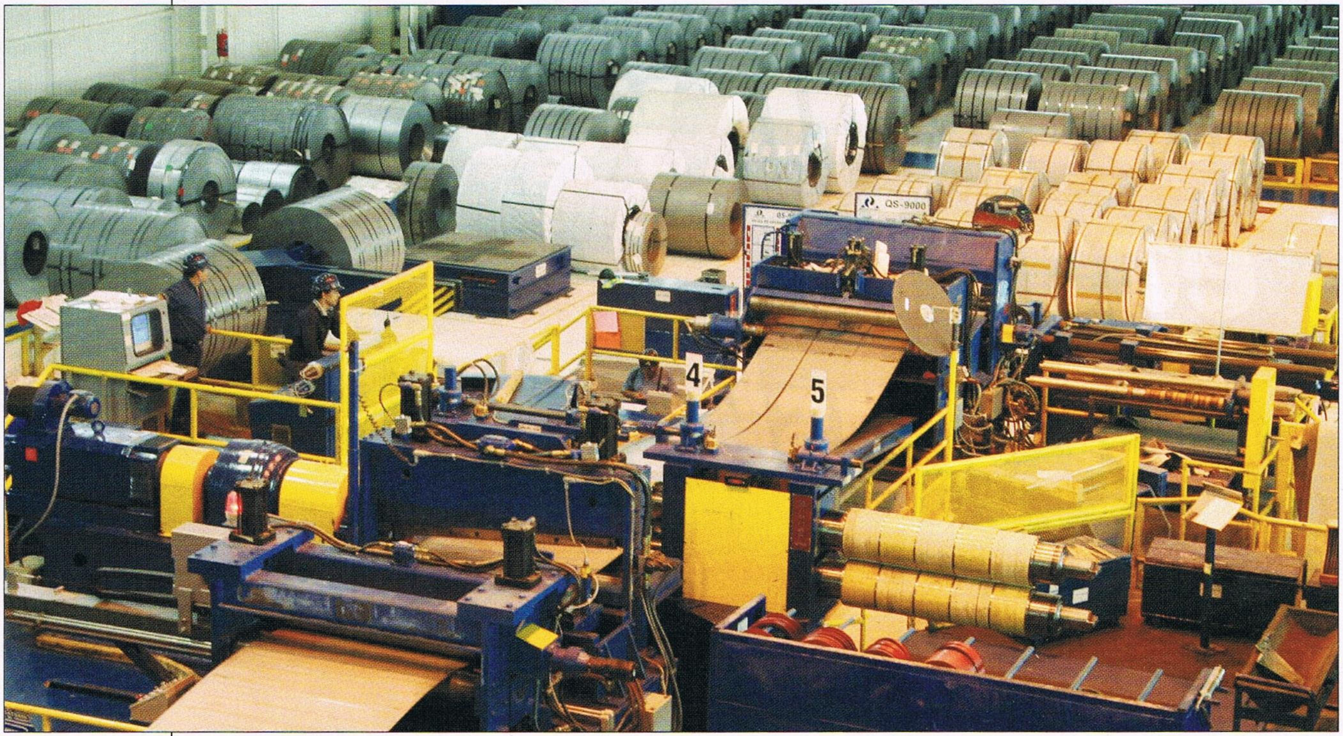
By **PHILIP BURGERT,** Contributing Editor



Acero Prime's modern service center facility in San Luis Patosi—a joint venture of Feralloy Corp., Mitsui Holdings Inc. and U.S. Steel Corp.—is a prime example of foreign investment in Mexico's growing economy.

Mexican Market: A Good Bet *for Metals*

While still highly dependent on the United States, the Mexican economy and metals markets are faring better than those to the north.

MEXICAN MILL AND SERVICE CENTER executives say they continue to see strong demand for steel. The Mexican economy is resisting a downturn similar to its U.S. trading partner's, despite the country's increasing integration with the rest of the North American market.

"The Mexican economy will be healthier than the U.S., not that much but a little bit," says analyst Rodrigo Vazquez, director of the steel department at Harbor Intelligence, based in Mexico's Garza Garcia, Nuevo León. "We are expecting to grow 2.7 percent this year vs. last year."

Service center and mill executives echo that forecast. "The demand for flat-rolled metals remains stable with modest growth, while structural steel and plate show high growth coming from construction," says Carlos M. Rodriguez Borjas, general director of Acero Prime S. de R.L. de C.V., San Luis Patosi, Mexico, a joint venture of Feralloy Corp., Mitsui Holdings Inc. and U.S. Steel Corp.

According to a Mexico City-based spokesman for ArcelorMittal Americas, steel exports from Mexico this year have grown almost 12 percent when compared to the first half of 2007. Mexican producers are exploring new markets, such as Europe, to take advantage of the Mexican peso's general link to the weakened U.S. dollar.

The overall outlook for steel in Mexico this year looks very good, Vazquez says, noting that total Mexican steel consumption is forecast to increase around 6 percent.

"They continue to be a very

cost competitive part of the world," says Thomas A. Danjczek, president of the Washington, D.C.-based Steel Manufacturers Association. "There is no question they have a labor advantage."

The Mexican steel industry trade group Cámara Nacional de la Industria del Hierro y del Acero (Canacero) forecasts that steel production in Mexico will reach 18.3 million tons this year, which would represent 4.2 percent growth from 2007. The group also forecasts a 3.1 percent rise in internal steel demand to 25.5 million tons.

The Mexican steel industry's goal is to nearly double annual steel production to 32 million tons by 2020 through a series of short and medium-term strategies, reports Mexico City-based Canacero. "This vision of industry will bring important benefits to our country: an investment of $19 billion [and] the creation of 30,000 additional jobs directly related, that could grow to 300,000 indirectly related jobs," a spokeswoman says.

Ron Maciejowski, executive vice president of Worthington Steel, Columbus, Ohio, says his company sees the Mexican outlook as "obviously good, with a lot of business moving that direction." He notes that a number of Worthington's customers have been moving operations to Mexico, "and we want to make sure we maintain those customers in a relationship." Business volume growth rates in Mexico are about double those seen in the United States, he adds.

In the past year, Worthington has replaced a former joint venture partnership with Ternium Hylsa in Acerex S.A. de C.V., San Nicolas de los Garza, Nuevo León, with a new joint venture partnership with privately held Serviacero Planos S.A. de C.V., León, Guanajuato. It also announced plans to add a third steel processing plant in Monterrey to two previously operated by Serviacero Planos in central Mexico's León and Querétaro.

The new 60,000-square-foot plant will initially house a slitter, but will eventually be expanded for blanking and pickling lines, Maciejowski says. "It just depends on how fast that business comes. We're prepared to move pretty quickly. We have a fairly large plot of land, so we can have upwards of a 400,000-square-foot facility."

While Worthington operates blanking and pickling lines in the United States, the 120,000-square-foot plant in León and the 50,000-square-foot plant in Querétaro currently only offer slitting, cut-to-length and multiblanking services, he notes.

The Serviacero Worthington expansion is one of several steel processing industry expansions currently under way in Mexico. The one raising the most eyebrows is the plan by minimill steel producer Nucor Corp., Charlotte, N.C., to build a new sheet and coiled plate processing center somewhere in the country. South Korea's Pohang Iron & Steel Co. (Posco) plans to start up a 400,000-ton-per-year galvanized steel plant next year at the port of Altamira in the state of Tamaulipas. Mexican steel producer Altos Hornos de México S.A. de C.V. (Ahmsa) also will complete an expansion next year at its Monclova, Coahuila, facility, doubling its annual plate production capacity to 1 million tons.

"Basically, all of the local mills are doing some kind of investment right now, trying to take some of the market from the strong imports we currently see in Mexico in flat steel," says Vazquez.

A spokesman for Nucor says the company saw a growing opportunity in Mexico as customers moved there and expressed interest in having the steel producer support their new operations. "We just think it is a good market, a good developing region, and there is going to be growing steel demand there," he says. "With our plants and locations, it's a good fit for Nucor."

Nucor has said it expects the new sheet and plate processing plant to have an annual capacity of more than 500,000 tons. Costing $115 million to $125 million, it will have pickling, slitting, cut-to-length and blanking capabilities. The company is expected to announce the site for the new plant by the end of 2008.

Marmon/Keystone Corp., Butler, Pa., a leading pipe and tube distributor, is also looking at further expansion in Mexico with the addition of a third location. The

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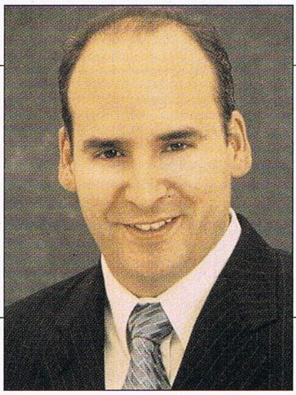
company opened its first facility a decade ago in Monterrey and a second warehouse five years ago in Mexico City.



J.T. "Tim" Spatafore, executive vice president, says the company's Marmon/Keystone de México S.A de C.V. unit is currently seeking a site for that new plant. "We'll probably put a new location down there next year," he says. "We haven't picked the city yet."

Spatafore says Marmon/Keystone has seen U.S. and Canadian customers open manufacturing facilities in Mexico. Some business has come from manufacturers that have pulled back operations from Asia and established Mexican locations in an effort to shorten supply lines.

> The Mexican economy is currently showing a decoupling from the U.S. economy that has not previously been seen. Carlos M. Rodriguez Borjas, Acero Prime

Another Mexican steel executive, asking not to be named because of pending trade case issues, says that until recently the Mexican market was "a little bit forgotten by most of the U.S. mills." But in the last five years, the number of U.S. mills and service centers opening plants in Mexico has been on the rise, he adds, noting that the country's population of almost 110 million people provides a large market for exports from the United States.

This executive and others say recent weakening of the U.S. dollar has had little effect on Mexican metals demand. "The exchange between the U.S. dollar and the peso has been trading in a very normal range since the beginning of the year. It's not like the difference between the euro and the dollar. The peso goes very much with the dollar."

Mexico's peso is more or less tied to the U.S. dollar, concurs Donald J. Goodwin, president of Tracon Consultants Ltd., Ottawa, Ontario, Canada. "So Mexican exports [to the United States] are going to be OK, but right now most of Mexico's steel doesn't get beyond the U.S. border."

Goodwin and others note that in purchasing steel for manufacturing, Mexican companies are facing the same price challenges seen elsewhere in North America and around the world. "Steel prices are going up. If it's happening in the U.S. and Canada, it's got to be happening in Mexico. Mexican companies have to compete in purchasing steel, so their cost is going up," Goodwin says.

Acero Prime's Rodríguez Borjas partly attributes high steel prices to the Mexican steel industry's concentration, with just two domestic producers responsible for most of Mexico's flat-rolled steel production "Mexican consumers are starting to import steel to reduce their exposure to the Mexican mills," he says.

Worthington's Maciejowski notes that Mexico is very open to imports from China, Europe, South Korea and elsewhere. "It's much more open than in the U.S. where we have some trade cases," he says. Canacero reports that Mexico imported 2.8 million tons of metal products in the first four months of 2008, an increase of 11 percent vs. 2007.

The Mexican economy is currently showing a decoupling from the U.S. economy that has not previously been seen, says Rodriguez Borjas. "The Mexican government has had fiscal discipline with a zero percent budget deficit," he says. This is accompanied by record Mexican foreign reserves equivalent to $80 billion. "These conditions give flexibility to the government to promote the internal economy through investments in infrastructure."

Vazquez, at Harbor Intelligence, says these factors and others contribute to a very positive outlook for mills and service centers in Mexico. "The natural demand for steel looks very healthy because of the structural demand and demographics. We feel comfortable that the investments the mills are making will be recovered very soon."

Mexico is currently seeing accelerating demand from construction, among other end-use markets, he adds. "We are expecting construction to increase 4.7 percent this year." Also contributing to strong steel demand will be a planned 15 percent increase in public spending by Mexico's government.

In contrast with the United States, residential construction is faring well, as credit is readily available to Mexican homebuyers. "In the next six years, we will double the [mortgages] in Mexico available to consumers. That's how much housing would be expected to increase in the coming years," Vazquez says.

Expansion of the housing loan market will come from a mixture of government financing and local bank loans. Based on Mexican demographics, the median age for a homebuyer is about 26.

"That's around the same time that young people in Mexico usually get married," Vazquez says. "So in the next six years, we are going to see a lot of new families coming together and needing

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houses, cars and domestic appliances." Harbor Intelligence forecasts Mexican appliance production to increase 4.3 percent this year and automotive production to increase 10 percent.

Mexico continues to see strong investment in the auto industry, Vazquez notes. "In the U.S., we have seen the closing of plants and less volume in production. In Mexico, we are seeing quite the opposite."

Ford Motor Co recently announced plans for a new plant in Mexico that will attract $3 billion in investment from Ford and its suppliers over the next four years. General Motors Corp. has also announced plans to open a new transmission plant and expand an existing engine plant in Mexico.

Clearly, investors around the world view Mexico as a good bet for the future. Last year was the second best ever recorded for foreign direct investment into Mexico, increasing by 20.8 percent vs. 2006. "The majority of this investment went to the industrial manufacturing sector," Vazquez says. "Direct investment from foreigners last year in Mexico totaled $23.2 billion, 47.3 percent from the U.S. and the rest mainly from European countries." ■