COMMODITIES

High Steel Prices Have Manufacturers Scrounging for Supplies

Companies hunt for metal and hire help to ind supplies; steel industry says 'we are producing as much as we can'

Steel production in China, which makes more than half the world's steel, is projected by analysts to decline in the months ahead.

PHOTO: QILAI SHEN/BLOOMBERG NEWS

By Austen Hufford

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Manufacturers are facing the highest steel and aluminum prices in years, another hurdle for U.S. companies already struggling to make enough cars, cans and other products.

Rapidly increasing metal costs are pushing manufacturers to take what steel they can get and hire more people to seek out available supplies, company executives said. The rising costs are flowing through to some producers of consumer goods: Campbell Soup Co. CPB -0.50% ▼ is paying more to get the cans it fills with tomato soup; Peloton Interactive Inc. PTON 1.63% ▲ is seeing prices rise for parts that go into its stationary bikes; and Steelcase Inc. SCS 0.16% ▲ is paying more to make metal desks and filing cabinets. Car makers like Ford Motor Co. F 3.20% ▲ and General Motors Co. are also dealing with rising metal prices.

"It's crazy for steel," said Brian Nelson, president of HCC Inc., which sells large metal accessories to tractor manufacturers. "I can't even get material at times."

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A Midwest steel index calculated by CRU Group estimated prices at $1,940 a ton at the start of September, up from around $560 in September for both 2019 and 2020. A U.S. government index tracking the price of steel and iron nearly doubled in August from the year before, the biggest relative increase since records began in the 1920s.

The higher costs are already hitting consumers, especially for products like cars and appliances. Household appliance prices rose by 6.8% in August, the highest year-over-year increase in a decade, according to Labor Department data.

The rising cost of steel, aluminum and other metals poses another challenge for the $5.9 trillion U.S. manufacturing sector, which has been struggling with a shortage in semiconductor chips, logistics problems and scarce labor.

Iron and steel producer-price index

Source: Labor Department via St. Louis Fed

Manufacturers and trade groups that represent them say steel prices are rising because of high demand for manufactured goods. Tariffs on imported steel that were implemented by the Trump administration, and continue under the Biden administration, are also contributing to the higher steel prices, said Kip Eideberg, the head of government relations for the Association of Equipment Manufacturers, which represents companies that make farming and construction equipment.

“They could remove the tariffs tomorrow if they wanted to,” Mr. Eideberg said. The Commerce Department didn’t respond to requests for comment.

To keep production running, factories are accepting nonstandard metal sizes, bulking up their supply-chain teams, increasing prices and turning to imports.

“We are having to be flexible to a level we have never been before,” said Richard Dix, the head of supply chain for corn-planter maker Kinze Manufacturing Inc. “If I prefer my steel in 10-foot chunks, I may have to buy it in 12-foot chunks and cut off two for scrap.”

HCC’s Mr. Nelson said he has so far been able to pass along much of the higher steel costs through monthly price increases that his biggest tractor-making customers are accepting. Even so, he worries that steel costs will keep going up while his customers hit a limit on what they are willing to pay, leaving him stuck between metal suppliers and big tractor producers.

‘We are having to be flexible to a level we have never been before.’

— Richard Dix of Kinze Manufacturing

Steel suppliers, especially ones with extra inventory, have benefited from increasing demand and higher prices. Al Rheinnecker, chairman of supplier American Piping Products Inc., said having a large inventory of pipes, from less than an inch in diameter to 5 feet, has made it easier to supply customers. Many are willing to pay higher prices to get the specific sizes of metal pipes they want, he said, and some are having to accept what is available.

“They may reluctantly agree to use something they consider a lesser brand,” he said. “They buy the grocery store version of the soda instead of Pepsi or Coke.”

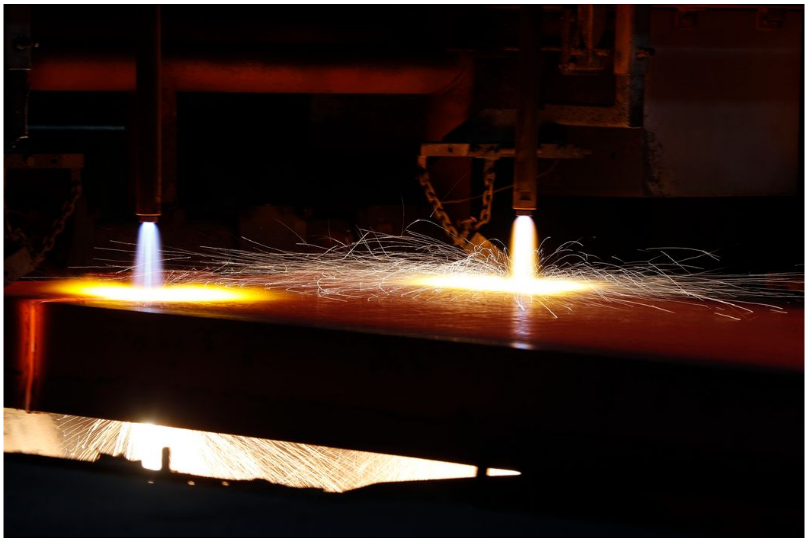
The pipe makers that American Piping Products buys from are taking orders for delivery in nine months, up from around five months normally, Mr. Rheinnecker said.

Steel production in China, which makes more than half the world’s steel, is projected by analysts to decline in the months ahead, partially because of that country’s efforts to cut carbon emissions. Steel buyers said U.S. producers could be doing more to boost production to meet the rising demand, such as restarting idled plants.

United States Steel Corp. said in late July that it had no plans to restart a second blast furnace at its Granite City, Ill., mill that stopped in the spring of 2020.

U.S. Steel and Cleveland-Cliffs Inc., CLF 1.05% ▲ another steelmaker, have taken about 7 million tons of steel production capacity out of service since the pandemic started last year, according to analysts’ calculations. That amounted to about 12% of domestic steel consumption in 2019.

U.S. Steel declined to comment on its current production capacity. Cleveland-Cliffs didn’t respond to requests for comment. The steelmaking capacity that remains idle is costly to restart and particularly vulnerable to new mills now under construction, steel industry analysts said.



U.S. Steel has said it has no plans to restart a second blast furnace at its Granite City, Ill., facility.
PHOTO: JEFF ROBERSON/ASSOCIATED PRESS

About 9 million tons of annual sheet-steel capacity is being added to the U.S. market over the next couple of years. That equates to about 15% of annual domestic sheet-steel consumption. The new, efficient mills are expected to push down steel prices with their lower operating costs, drawing customers away from older, high-cost mills that need higher steel prices to remain profitable.

The American Iron and Steel Institute said steelmakers are producing at the highest rate since before the financial crisis in 2008. Kevin Dempsey, the Washington, D.C.-based trade group's chief executive, said steel imports have risen this year, and steel production capacity is expected to increase as more mills come online.

Factories are expanding their supply-chain teams, betting that extra hands will help them get the metals and other products they need more affordably and on time.

Ben Harpenau, chief executive of axle maker Terra Drive Systems Inc., recently spent three hours online trying to find a specific type of bolt because the typical supply was delayed. His company, which normally places steel orders a few months in advance, is now putting in orders for delivery well into next year, trying to ensure a steady supply and locking in current prices to hedge against future increases.

Mr. Harpenau said he recently hired a fourth supply-chain employee to help track delayed orders, monitor price increases and other issues—a hire he said he should have made months ago, given the recent price increases and supply disruptions.

"We believed this was going to be more temporary in nature," he said.

—Bob Tita contributed to this article.

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