THE METAL PERSPECTIVE

A RYERSON CUSTOMER SURVEY

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What's driving your business today?

Over the past year, such themes as tariffs, trade embargoes, and government turbulence have shaped a market narrative around the idea of uncertainty. That uncertainty, coupled with ongoing business realities related to capacity, labor, and material cost, among others, has created a new business reality for companies today, one that emphasizes the need to expect the unexpected.

But what does that mean for business conditions moving forward? To gain a deeper understanding of how market factors impact business today, Ryerson surveyed customers on macro-economic and market-specific conditions.

The survey consisted of five questions and was distributed via email in late 2018 and early 2019. Respondents included manufacturers, fabricators, and machine shops, among others, from all regions of the United States and Canada.

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What did we learn? For starters, many anticipate a repeat in business conditions in 2019 as roughly 58 percent of respondents expect business levels to remain the same in 2019 as 2018. If that proves to be the case, it could present difficulties given the fact that labor shortages (49 percent) and ongoing uncertainty related to tariffs (48 percent) are the top two challenges facing respondents' businesses today.

Furthermore, if business levels do indeed remain the same in 2019, that means finding new ways to tackle challenges faced in 2018, such as:

- The ability to obtain cost-efficient material (68 percent)
- The ability to source material in a timely manner (30 percent)
- Impact on overall lead time and delivery to customers (28 percent)

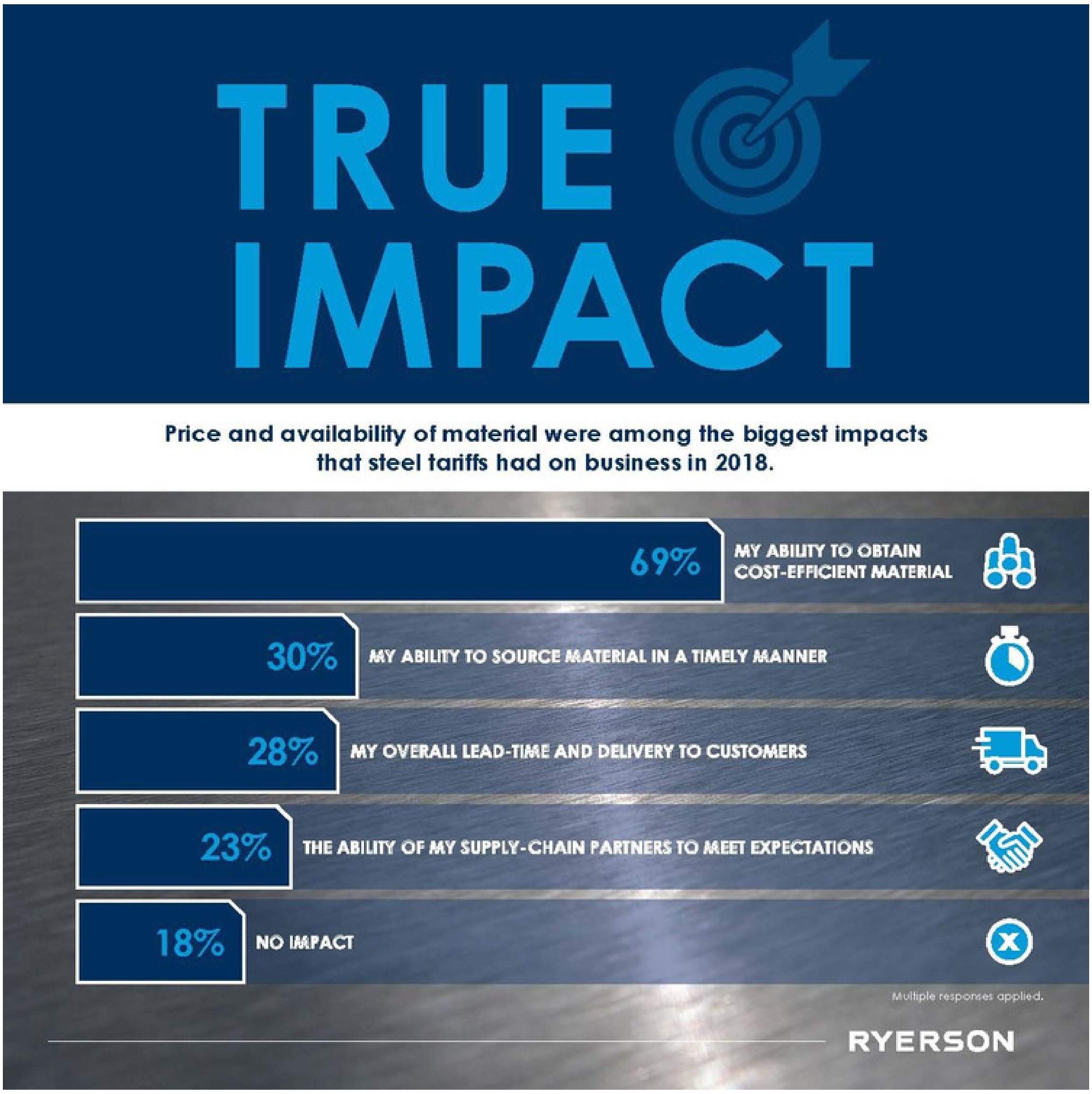
What comes next for many could be a history lesson, one that challenges businesses to examine macro-economic and market-specific trends from the past year in order to move forward. After all, amid uncertainty ahead in the market comes some assurance with knowing where you have been.

MARKET IMPACT: A LOOK BACK

Steel tariffs grabbed more than their fair share of market headlines in 2018. The 25 percent tariff on steel imports and 10 percent tariff on aluminum products put in place by the U.S. administration early in the year created many broad-based challenges for the market at large. However, the direct impact tended to vary based on who you ask.

For example, when asked to identify **the biggest impact that steel tariffs had on business in 2018**, 69 percent of respondents cited 'my ability to obtain cost-efficient material.' Breaking that number down, we see it that this impact was felt more acutely by manufacturers (42 percent) and fabricators (35 percent) than on machine shops (15 percent).

Manufacturers (42 percent) and fabricators (35 percent) experienced greater challenges with the 'ability to source material in a timely manner' than machine shops (14 percent). Likewise, more manufacturers and fabricators (38 percent and 31 percent, respectively) indicated an impact on overall lead times and delivery to customers than did machine shops (18 percent).



FACING FORWARD

Understanding that tariffs had a significant impact on business conditions in 2018, we asked participants to tell us **what impact, if any, they thought tariffs would have on business in 2019.** With seemingly no clear picture as to how long current tariffs will stay in place, respondents remain unclear about the overall impact.

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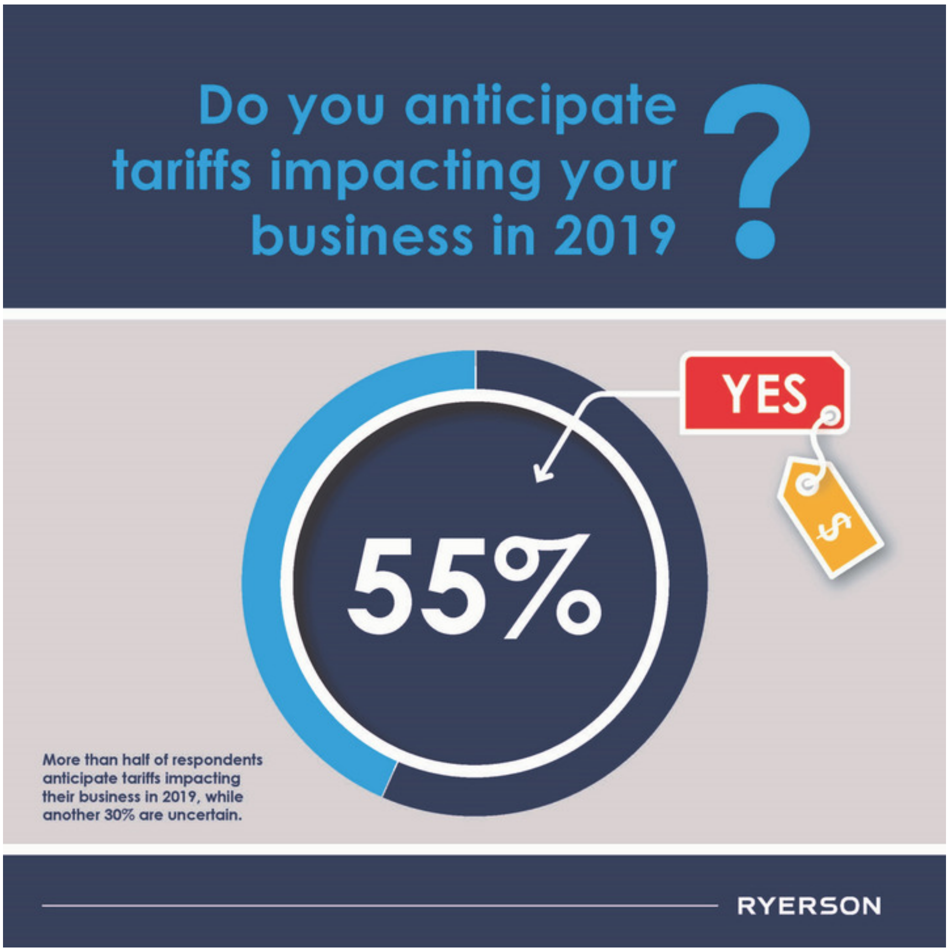
More than half of the respondents (55 percent) said they do anticipate tariffs having a direct impact on business going forward. In fact, this was cited as the second biggest challenge (48 percent) that respondents see facing their business overall in the year ahead (see page 6).

An additional 30 percent of respondents were unsure whether steel tariffs would have an impact on their business in 2019, leaving only 15 percent saying that they do not anticipate an impact.



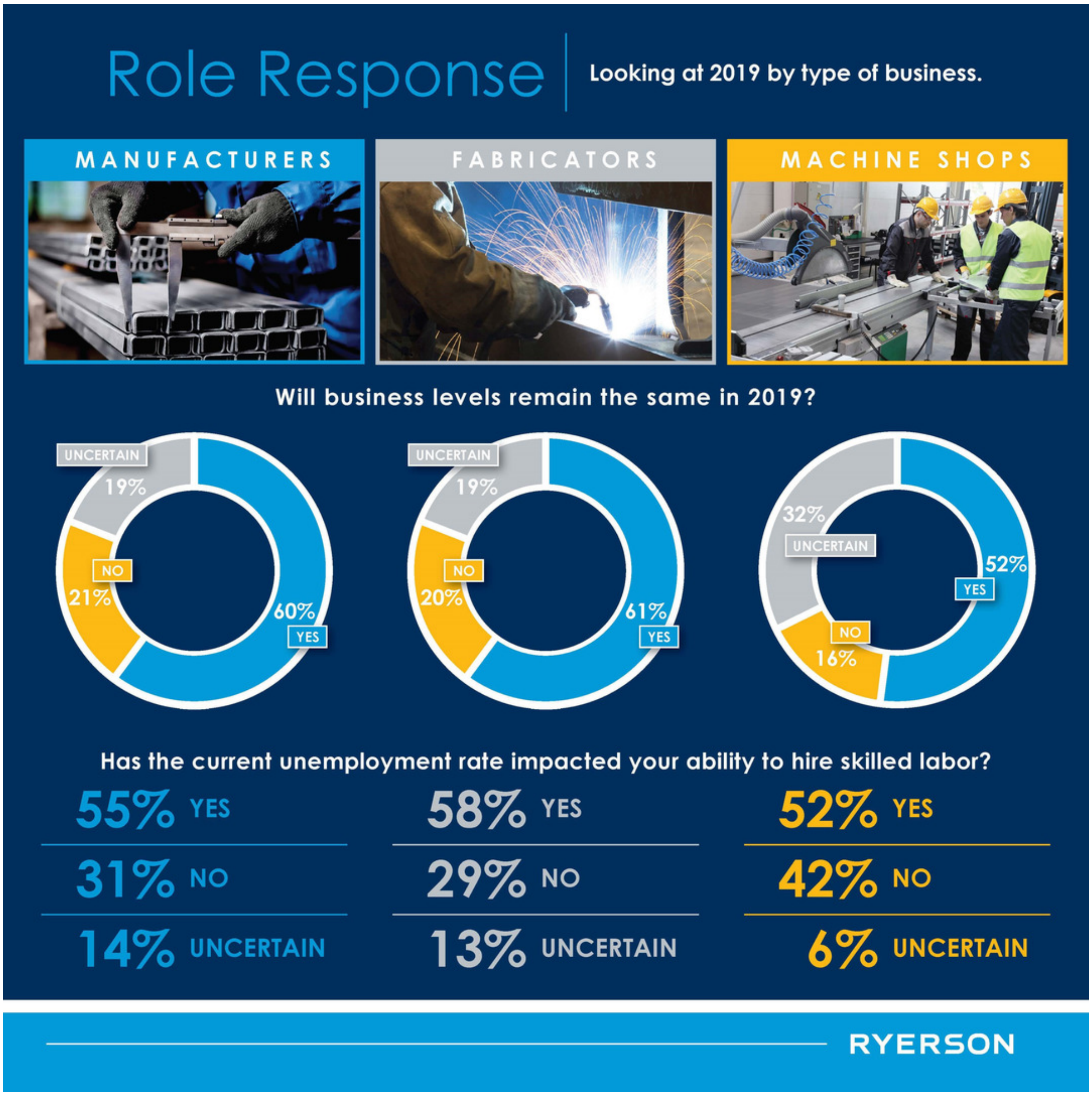
Regionally, the Midwest (58 percent of respondents) and West (52 percent) ranked highest, followed by the South (44 percent). Drilling a bit deeper into the South shows more respondents in the Southwest (54 percent) are concerned about the anticipated impact of tariffs than in the Southeast (40 percent).

So what is the anticipated impact for those in Canada? Roughly 72 percent of respondents north of the border anticipate that tariffs will pose a challenge to their business in the year ahead, a slight majority of which were located in Eastern Canada.

We asked participants to assess **whether business levels will remain the same in 2019.** Nearly six in 10 respondents (58 percent) anticipated business levels would remain the same for their company in 2019. This response was fairly even across manufacturers, fabricators, and machine shops.

In addition, when asked **if the current unemployment rate** *(4.0 percent through January 2019, according to the Bureau of Labor Statistics)* **has impacted the ability to hire skilled labor**, 56 percent said yes. Of those respondents, manufacturers (55 percent), fabricators (58 percent), and machine shops (52 percent) all see this as having a great impact. Regionally, respondents in the Midwest (67 percent) and South (60 percent) are seeing the biggest impact on this front.

Couple the anticipation that business conditions will remain somewhat similar to last year with the fact that many are struggling to find skilled labor, and what you could see is the need for more strategic planning around how to complete more with less in 2019.



Looking at the bigger picture, participants were asked to **rank the greatest business challenges they anticipated in 2019.** After tariffs and labor shortages, material availability (35 percent), overall economic conditions (24 percent), and capacity utilization (23 percent) ranked highest among respondents.

Of those who cited concerns related to material availability, manufacturers (46 percent) were most prevalent, followed by fabricators (26 percent). Roughly 35 percent of respondents in the West, 34 percent in the Midwest, and 31 percent in the South cited concerns about the availability of material in the year ahead. In Canada, the western region (52 percent) had a greater concern on this front than their counterparts in the eastern part of Canada (33 percent).

Overall, 23 percent of respondents cited capacity utilization as a concern. Of that percentage, 38 percent were fabricators and 37 percent manufacturers, with machine shops accounting for 20 percent. Regionally, the East (27 percent of respondents) and Midwest (26 percent) ranked highest on this front.

No matter the business type or region, the market collectively faces a set of big challenges ahead. Developing a strategy that helps best prepare for these challenges will certainly be on the agenda for all.

Information contained in this report is the result of an email customer survey conducted by Ryerson during late 2018 to early 2019 and aimed at collecting information related to customer opinions on current market conditions. It is the collated responses of 449 respondents during this period and not the opinion of Ryerson, its employees/officers/directors, or affiliates.

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