



North American extrusions market

By Myra Pinkham*

The North American extrusions market, which has been seeing slow but steady growth for the past eight years, seems as if it will continue on a similar trajectory at least for the next year or so despite all of the political uncertainties that could potentially affect it.

Year over year growth for U.S. and Canadian aluminium extruded products demand has been relatively flat. According to the latest data from the Aluminum Association, reported first quarter direct mill shipments were up 1.7 percent from the first three months of 2016, which was identical to the rate of growth for full year 2016.

This flattish growth, however, is good news to extruders, according to Matt Aboud, president of Baltimore-based Hydro Aluminum Metals USA LLC, who notes that the level of North American extrusions production in 2016 was equivalent to that of 2006, which was the last peak year. "Also, going forward there are still some nice tailwinds helping some important extrusion end markets."

Aboud says that while the industry is now entering its ninth recovery year and that such a long expansion is almost unheard of, he believes there continues to be potential for growth. He explains, "It's been a slow growth recovery and some sectors still haven't regained all of their losses. Also the individual companies are stronger today than they had been during the last peak."

He notes that first of all the industry went through a rationalisation period following the financial crisis that has resulted in the surviving extruders running at higher press utilisation rates.

At the same time, they have less competition from imported extrusions with the anti-dumping and countervailing duties implemented in 2011 resulting in far less Chinese extrusions being shipped into the United States. "Also extruders' balance sheets are healthier vs. Ten years ago with much of the opportunistic private equity money leaving and with companies finding more permanent capital," he points out.

Recently Hydro announced its intention to acquire the 50 percent share of Sapa AS that it doesn't already own from Orkla, ASA, in a transaction that is expected to close later this year. It is uncertain what impact this merger will have. John Mothersole, director of research for the pricing and purchasing service of IHS Markit, notes that while it fills out Hydro's portfolio, it won't necessarily reduce competition. It is also still unknown if Hydro will be required to divest some of Sapa's operations to get the deal through.

On the trade front, in July, the U.S. extrusions market was handed another victory with the U.S. Department of Commerce, in its final determination in a circumvention case against China Zhongwang Holdings Ltd. and other exporters, ruled that regardless of producer, exporter or importer, heat-treated 5050 grade aluminium was now covered by the duties imposed against Chinese extrusions.

"It was believed that Chinese companies were getting creative, finding new ways to move extrusions," says Charlie Straface, business area president for Sapa Extrusion North America, including shipping extrusions disguised as pallets to get around the duties.

Jeffrey Henderson, president of the Aluminum Extruders Council, says that he is happy with the way that this trade case ultimately unfolded with these "fake pallets" or "fake semis" being covered by the 2011 trade case even though 5050 aluminium was originally excluded from such duties as there is no domestic demand for 5050 alloy. "The Aluminum Association doesn't even have a classification for it in their aluminium specifications.

The biggest upcoming threat, according to Jason Bachman, plant manager at Alexandria Industries, is the increase in imports from Vietnam, Malaysia and elsewhere in the Pacific Rim. "The big question is whether they are transshipments using Chinese material," he says. "It is something that the industry will have to watch very carefully."

"Another thing that the industry is

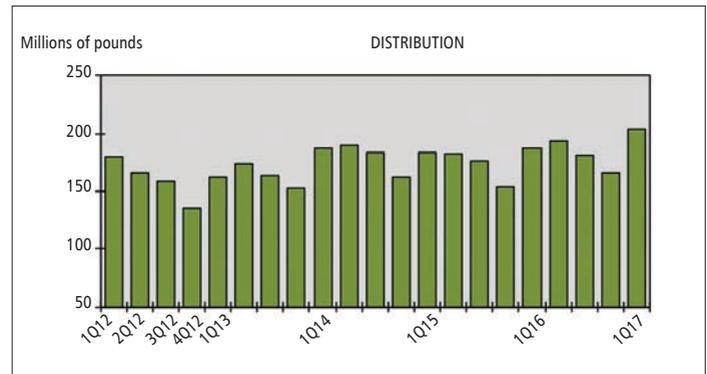
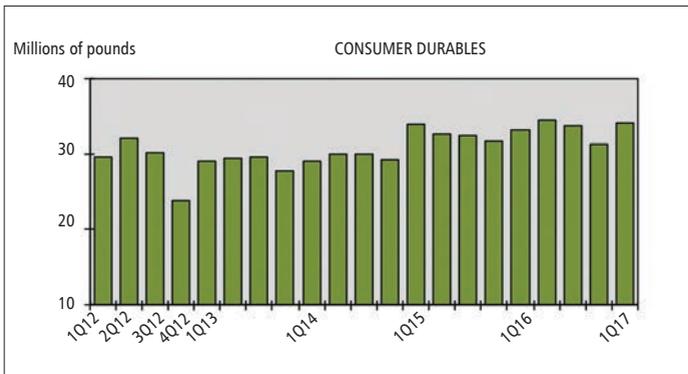
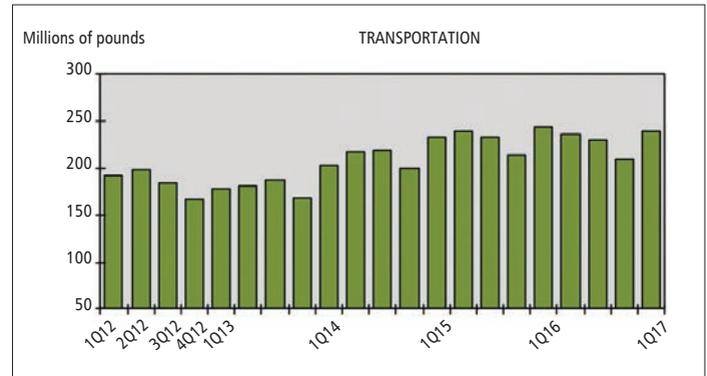
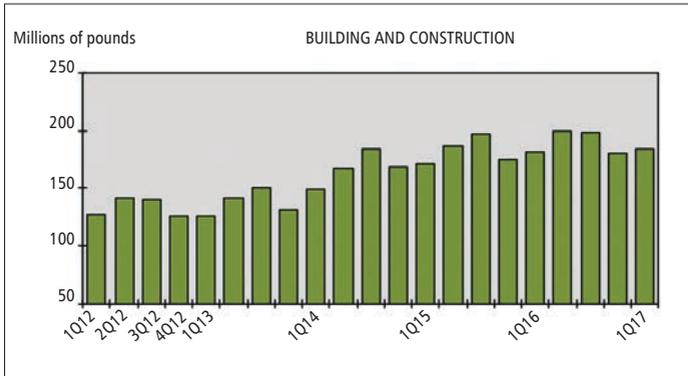
watching carefully is the aluminium Section 232 investigation, which we are regarding as somewhat of a Trojan horse," Mothersole says. He notes that so much is still unknown about what the ultimate impact will be either on the aluminium industry as a whole or the extrusions market with much depending on whether the Trump administration ultimately takes a narrow or broad approach both to their definition of national security and the solutions it imposes. The fact that the Commerce Department's Section 232 continues to be delayed, and now might not be put onto the president's desk until late this year, adds to the uncertainty, which was already very great given how much carte blanche President Trump has as far as the solutions he could put in place.

"I don't believe that the remedies available to President Trump will be effective in addressing the true underlying issue, which is overcapacity in the primary aluminium industry," declares Aboud, who testified to that effect during the June aluminium Section 232 Commerce Department hearing about the issue.

This was in sync with what others in the industry have stated. "We agree that we need to ensure that the United States has a strong aluminium industry, that doing so is necessary for our national security," Henderson says. Nevertheless in his testimony he told the Commerce Department that the AEC does not support the imposition of tariffs or other restrictions on imports on primary aluminium.

"That is because the problem in the aluminium industry is China and China doesn't export primary aluminium," Henderson says, adding that in a view that is aligned with that of the Aluminum Association the AEC believes that such tariffs would end up having an adverse impact upon extrusion producers and their customers. "Instead any action should be aimed at the aluminium content of finished goods with that content subject to strong duties," he says. "That would impact China head on."

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Heidi Brock, president and chief executive officer of the Aluminum Association, has been emphatic that China, and not countries such as Canada and the European Union, who have been trading aluminium fairly, should be the target of any Section 232 action.

"In our view it is Chinese overcapacity that is the fundamental issue impacting the industry today," she says, maintaining that Chinese efforts to address its overcapacity have been limited and ineffective to date and that absent reduction of overcapacity in China, growth and investment in the United States and elsewhere in the world will continue to suffer despite continued healthy demand.

She says that hopes that any action taken relating to the Section 232 will bring the industry closer to its ultimate goal of achieving a negotiated government to government capacity reduction agreement with China. "Section 232 is an important tool. We hope that it will incent China to come to the negotiation table."

It is more likely that any Section 232 will be aimed more at either primary aluminium or billets, notes Sandra Buchanan, an analyst with Metal Bulletin Research, as current extrusion imports after the 2011 trade case are somewhat negligible.

Currently there is plenty of billet availability, according to Mark Mantooth, Pennex Aluminum's president, but that could possibly tighten under the Section 232. Hydro's Aboud says that the domestic billet supply base has been eroding and that only four U.S. smelters are currently

producing billets – Century Aluminum in Mount Holly, and Sebree, and Alcoa Corp. in Massena, and Fenvale.

He says that even when you add in the Canadian smelters, North American primary producers have less than a 25 percent share of the market. "Because of that, we have become quite dependent on overseas imports, the majority of which comes from the Middle East and Russia." Right now, however, billet supply and demand remains fairly well in balance, Buchanan maintains.

On the demand side of the equation, the largest extrusions end market is building and construction, which, according to Mothersole isn't doing badly, but it isn't nearly as strong as had been expected. He says a lot of that is tied to the fact that expectations for an aggressive infrastructure spending plan is yet to materialise making even the possibility of additional infrastructure investment in fiscal 2018 somewhat remote. Henderson also points out that some expected projects had been delayed due to the tight availability of construction laborers.

The Aluminum Association reports that extrusion shipments were up 1.5 percent year on year in the first quarter, down from a 4.0 percent growth rate for the full year of 2016.

The housing market has, however, been growing incrementally this year, rising 8.3 percent month on month to a seasonally adjusted annual rate of 1.22 million units, which, while below previous peak levels – which many argue were artificially inflated

by the sub-prime mortgage industry – continue to grow gradually in line with industry forecasts, according to Robert Dietz, chief economist with the National Association of Home Builders.

"Additionally the commercial/non-residential construction market has been quite good and is a nice balance to the residential side," Aboud says, although it is also still recovering from the downturn. "Unlike residential construction, non-residential projects aren't as volatile, they are longer in nature and have more visible pipelines."

While it ebbs and flows, Sapa's Straface says that non-residential construction is currently seeing slow to moderate growth in the 3 to 5 percent range. While the Dodge Momentum Index, leading non-residential building indicator, fell 3.3 percent month on month in July it remains 6.9 percent higher than a year earlier, indicating that there could be further moderate gains in construction activity throughout the year.

Pennex's Mantooth says that the extrusions end market that has been showing the greatest increase is automotive. While North American build rates for passenger cars and light trucks are expected to edge down slightly to somewhere between 16.8-17.1 million this year from a record 17.7 million vehicles last year, the impact upon extrusion consumption is being countered by a combination of the fact that 60-plus percent of those vehicles are light trucks, which use more extrusions than passenger

cars due to their larger size, and that each vehicle are increasingly containing more extrusions as the auto OEMs seek to lighten the weight of their vehicles to increase fuel efficiency and lower greenhouse gas emissions.

According to a new Ducker Worldwide survey on the aluminium content of North American light vehicles that was commissioned by the Aluminum Association's Aluminum Transportation Group, from 2015 to 2020 total extruded product content per average light vehicle, including extruded shapes, tube, rod and bar, will increase 36 percent to 49 pounds per vehicle with aluminium extrusions for cash management parts expected to increase by six pounds per vehicle, up 65 percent, and extruded body in white components to double to 4.4 pounds per vehicle. Bumper beam penetration is expected to increase from 33 percent in 2015 to 54 percent in 2020.

Extrusion use is expected to increase even further from 2020 to 2028 although the amount is still uncertain depending upon the results of the mid-term review. Should automakers look to reduce vehicle weight another 4.5 percent then extrusions will likely account for 10 percent of its aluminium content in 2028,

but if they seek to reduce its weight by 7 percent extrusions could account for 22 percent of the aluminium content.

Bachman says that no matter what happens with federal fuel efficiency standards there is good opportunity for extrusions growth in the automotive sector as more engineers are learn about the advantages to using more extrusions in cars.

Another factor that is expected to affect future use of extrusions in the auto sector is gains being made in electric vehicles. For example, Volvo recently announced that it was phasing out internal combustion engine vehicles with all car models launched after 2019 being either an electric vehicle or hybrid.

Straface observes that to compensate for the weight of the battery electric vehicles tend to be more aluminium intensive than other autos and not only use extrusions in crash systems, the instrument panel and anti-lock brake systems, but also in the battery frame and the thermal monitoring systems that keep the battery cool.

He says that about 10-15 presses have been added in North America, most of which are geared toward the automotive market. Even with this capacity being added there continues to be nice utilisation

rates – about 70 percent or so.

The largest end market for aluminium, including aluminium extrusions, in the transportation sector, however, is for truck trailers, which tends to be a very volatile market. Aboud says that while it has been weak in the last few years, it appears as if it has bottomed out and will improve going forward.

Straface says that extrusions use for solar energy, both for massive solar fields and for panels for buildings hasn't been very strong, especially with today's low natural gas prices and issues relating to energy storage. "If there was more storage solar would become a more viable choice."

Political uncertainty also hasn't helped, according to MBR's Buchanan, is it is unknown if the Trump administration will keep the current investment tax credits in place. "Right now while on-going projects are continuing to go ahead, not a lot of new contracts are being signed," she says.

"I expect that 2017 will be another good year for aluminium extrusions, but a lot depends on what happens politically both in the United States and elsewhere in the world," Buchanan says.

"We expect that next year will be similar to this year but that depends on a lot of yet unknown factors." ■

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