Tough Labor Talks at US Steel Firms

The push by U.S. manufacturers to cut labor costs, especially for health care, is deepening the divide between three of the biggest U.S. steel companies and their main union. Contract talks, which are usually resolved by November, have dragged on months after their summer deadlines.

Premium-free health-care packages are one of the last big perks awarded by the top tier of American manufacturers, including auto and steelmakers. But now, slowing demand for base materials, along with the rising cost of health care, is weeding out these packages for all but a few companies.

The U.S. steel belt, stretching from Northern Indiana to Pittsburgh, is suffering through its worst market since 2009, brought on by rising Asian imports and the collapse of oil and gas markets, which has damped demand for pipes and tubes. Steel prices are down by more than 40% this year, causing around a billion dollars in losses at U.S. Steel Corp. ,Allegheny Technologies Inc., and the U.S. operations of global giant ArcelorMittal.

U.S. Steel announced a tentative agreement with workers. However, it won't be finalized until late January, at the earliest. At the other two firms, negotiations which were all supposed to end this summer are now certain to go on even longer.

"The bargaining will go on as long as it has to go on," Rich Harshman, CEO of Pittsburgh-based specialty steel producer ATI, said.

Pittsburgh-based ATI, which locked out its employees during the summer, is running some of its plants with replacement workers, contractors, and white-collar staff, and has idled others. Steelworkers at ArcelorMittal and U.S. Steel are still laboring, temporarily, under their previous contracts. All three firms have idled plants to cope with the sluggish market.

When ATI first sat down with the union this summer, it demanded that workers contribute to health-care costs that it is allowed to replace retiring workers with contractors instead of blue-collar unionized workers, and that new hires open 401(k) plans instead of receiving pensions.

Workers at ATI, which makes titanium and nickel alloys for the aerospace industry and metallic powders for 3-D printing, are among the best paid in the metals industry, making over $94,000 a year, including overtime, and receive full pension and health-care benefits. ATI lost $144.6 million on revenue of $832.7 million in the third quarter.

Health-care costs, which have been consistently rising around 5% a year, faster than inflation, are the biggest issue in the stalled talks, say ATI executives.

Brace for Steel Industry Reckoning : Deutsche Bank

Even after a horrible year for commodities, Deutsche Bank is predicting continued pressure on the space in the year ahead. In a 2016 outlook note entitled "the hour of reckoning," Deutsche research analyst Jorge Beristain forecasts lower steel prices, and consequently cuts his ratings on US Steel, AK Steel and Cliffs Natural Resources to "sell."

"There's an emerging market slowdown underway. And basically, the steel and iron ore sector in the U.S. is on the receiving end of that," Beristain explained. "The mining sector, in hindsight, has massively overshot in terms of their expected delivery for iron ore into China in the next few years."

"And to add insult to injury, China has turned into a big exporter of steel in the last 18 months, which was an unexpected U-turn," Beristain continued. "And that flood of product, whether its steel or aluminum, is looking for a home globally driving down world prices for those commodities."

Due to expectations that prices will continue to be under pressure, Beristain has seriously reduced his expectations for the companies exposed. For AK Steel and US Steel, he cut his 2016 earnings estimates by 74 percent and 62 percent respectively; he then cut his price target on AK to $1 from $3, and on US Steel to $5 from $13. This after each stock has fallen more than 70 percent in 2015.

When it comes to Cliffs, which is mainly an iron ore company rather than a direct steel company, Beristain cut his price target to $1.50 from $3, given strained balance sheet position and a scenario of constrained cash flows given ongoing weakness in iron or market.

"AK Steel, US Steel and Cliffs Natural Resources slid 6.9 percent, 10.7 percent, and 7.6 percent on, respectively. Overall, Beristain is markedly bearishness on the industry he covers.

He warns that demand will continue to slow, making "deep supply cuts immediately necessary."

However, he believes that these cuts will be slower than they need to be, because of several factors including new projects still in the works, cheaper energy and labor costs due to the commodity slowdown, resistance to laying off workers early than necessary, and pressures to continue production on the part of creditors.