

# Industry reacts to increasing steel prices

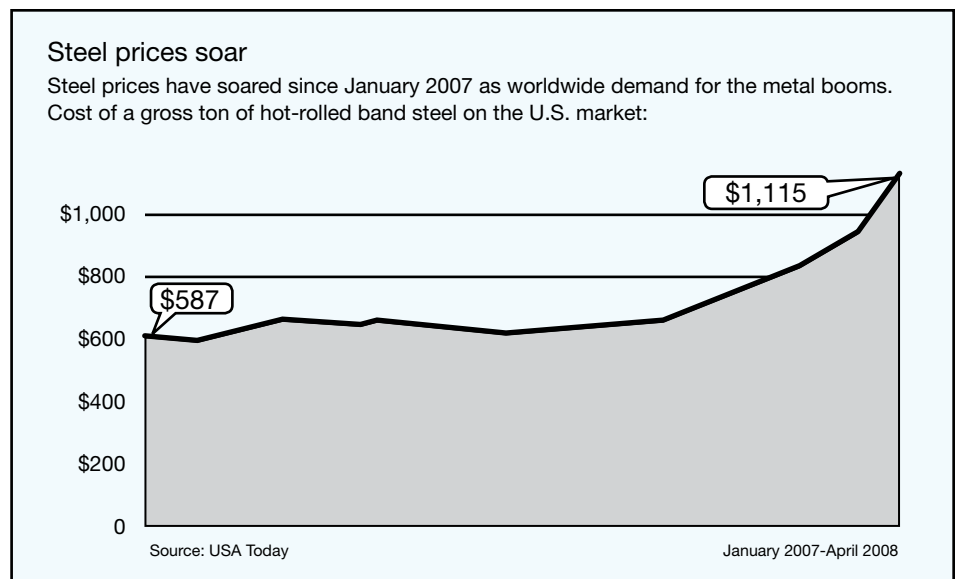
You can add steel to the list of commodities that have seen prices skyrocket in recent months. What does this mean to Valley irrigation customers?

“With steel prices more than doubling over the past six months, price increases on all types of ag equipment are inevitable,” said Jim Brown, Valmont Irrigation’s Vice-President, N.A. Sales & Marketing. **“One thing we will never do, however, is compromise on quality. High quality is not an option—it’s a requirement for the Valley brand. Nothing is being done that would jeopardize that.”**

## What is driving sharp increases in steel prices?

The sudden and significant rises in steel prices have made headlines around the world. During a 6-month period from December 2007 through May 2008, prices for hot-rolled steel have gone from \$560 to over \$1400 a gross ton — more than double and showing few signs of slowing. In fact, the previous record-high price was set in 2004 at \$780 so 2008 pricing could soon reach twice that.

The factors that have driven the price of steel higher are global in nature and range from higher input costs to a weak U.S. dollar, increasing energy



and transportation costs, chronic and severe labor shortages, as well as the key economic principles of short supply and growing demand. The end result is record raw materials costs, forcing manufacturing industries to cover ever-increasing costs of production.

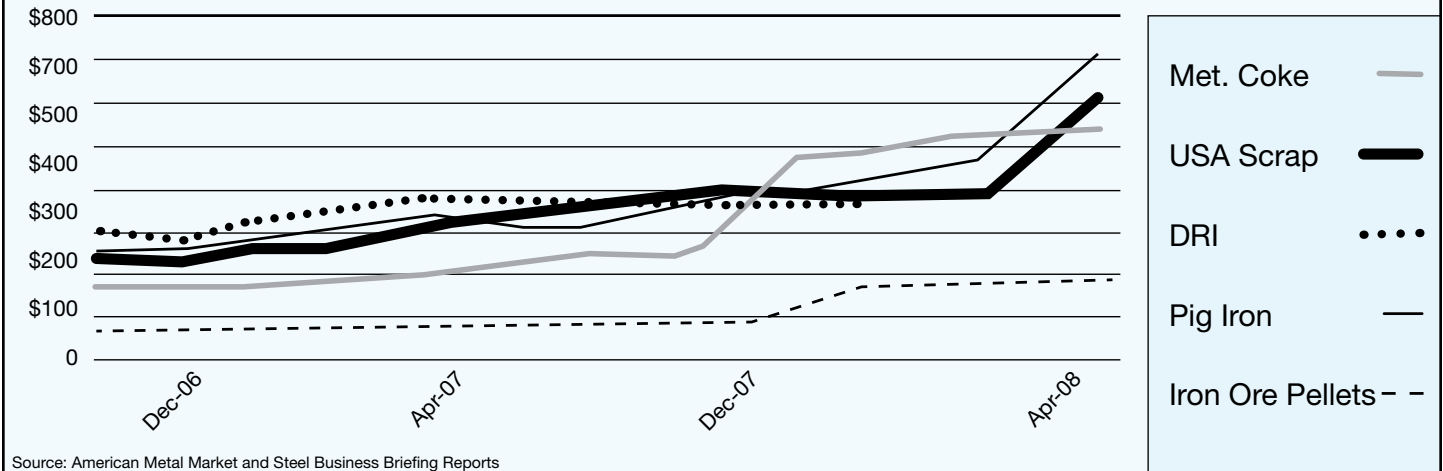
“Inflation is pretty well rampant across the commodity board,” said Walter Pasko, Valmont Irrigation’s Vice-President of Corporate Purchasing & Transportation. “All metallurgical components used in steelmaking have gone up considerably. The challenge has been to keep pace with of all these rapid increases. And it’s not just on steel, it’s on copper, aluminum and various other products that are

impacted by either metals costs or oil and petrochemical costs.”

A new growing concern on the horizon involves a labor issue with two major domestic mills that jointly control more than 50% of U.S. steel production capacity, according to Pasko. Set to expire September 1, 2008, the current contract was negotiated prior to the industry’s 2004 growth, so it can be expected that the new era of profitability in steelmaking could become a factor in renegotiation.

Should a labor-related strike cause a shutdown in U.S. steel production, he estimates the situation could become more severe as availability further shrinks and prices escalate.

## Raw Material Pricing \$/Ton



### Valley Machines—always a smart investment

It is a fact that since the first of the year material costs have driven the machine prices for September delivery up by 30 to 35% . However, for irrigators who need to purchase an irrigation machine this year, a Valley pivot is still the best choice they can make, according to Jim Brown.

“We stress the five Valley values—reliability, durability, precision, ease-of-use and responsiveness,” said Brown. “Those are values that will never be compromised.”

Brown points out that in good water conditions, Valley pivots typically last about 30 years. “We have upgrade packages for technology improvements and drive-train enhancements on anything we’ve ever sold,” he says. “Our focus on technology leadership is helping us to provide other cost-management tools to help producers reduce the cost of irrigation, whether it’s labor, time or fuel to better manage their Valley pivots,” he adds.

Brown said Valley will intensify its focus on current users of Valley equipment. “We want to make sure

that priority is given for aftermarket service, parts and repairs, as well as storm damage, so that we are able to keep Valley customers irrigating,” Brown said. “That’s being accomplished through the irrigation industry’s only set of five Distribution Centers. We’re looking after current irrigators as we go into the summer irrigation season.”

Valmont is also making significant investments in productivity enhancements at its factories to increase capacity and efficiency, according to Brown.

While it may be small consolation, Brown says there is one positive aspect to the steel price increases. “When producers take in an old machine for trade, resale or to the scrap yard, they will be pleasantly surprised as used machines are a premium right now,” informs Brown. “If you figure there is 20,000 pounds of steel in a pivot and scrap is worth \$700/ton these days, that’s a pretty good return after 30 years — just in scrap!”

“We are certain that an investment in a Valley pivot still provides the highest return on investment of any capital purchase a producer can make,” concludes Brown.

### Check your insurance

Due to escalating pivot prices, it is highly likely that your irrigation equipment is under insured.

That warning comes from Diversified Agrisure Company, the nation’s largest insurer of irrigation equipment and a Valley Authorized Provider of irrigation property damage insurance protection for Valley customers.

We encourage you to contact your insurance agent to review your coverage. Before making that call, talk to your Valley dealer to determine the current replacement cost of your equipment.

*Valmont Irrigation is committed to communicating with its dealers and customers about the global steel issue impacting us all. We will keep you informed of the situation as it further develops. As always, your first resource is your local Valley dealer.*

You can also visit us at : [www.valmont.com/irrigation](http://www.valmont.com/irrigation)



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