

## The Sulfuric Acid Market

### The Economy - U, V or W Revisited

In the NorFalco Newsletter sent out a year ago we described the US economy as poised for recovery after the worst of the recession appeared to have passed. We then went on to summarize the three prevailing views on the 'shape' of the recovery:

- U – A sluggish recovery
- V – Quick bottoming out & lasting rebound
- W – Rebound, then decline before recovery

At the time, we said that a V-shaped recovery seemed likely, based on prior recessions where sharp declines were followed by swift recoveries. Moreover, there were prior examples of 'jobless' recoveries before, which were not held back by high or rising unemployment rates. Further support was expected from the need to replenish depleted business inventories, the arrival of more stimulus spending and the boost to exports from a weaker US Dollar.

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## Message from the President: Paul Shaw, NorFalco Inc.

Following the economic collapse of 2009 and related decline in demand for our various products we all wonder what the future might bring. In the last issue of our newsletter, I discussed a marked improvement in the vessel market related to demand from fertilizer and copper leaching sectors. Since then we have also seen a slow but steady improvement in demand across all sectors of the industrial market coupled with various supply constraints leading to significant tightening of the supply/demand fundamentals.

Year-to-date, NorFalco has seen demand across all industrial sectors improve by approximately 13% over 2009 levels. While we are seeing growth in demand in all sectors Pulp & Paper, Metals, Food & Drug, and Industrial products have been a few where we have experienced some of the strongest growth. This recovery has not brought us back to historic levels, nor even remotely approached the high demand of 2008, but is positive news nonetheless.

The big question in everyone's mind is "Where do we go from here?" I do not have a crystal ball that will give us perfect answers, but as you will see in the economic review provided in this newsletter most economic indicators lead us to believe the recovery should continue at a slow pace. Slow growth in consumer spending and continued high unemployment levels are two areas that cause concern and we will need to watch these closely for signs of changes in the trends.

Rest assured that NorFalco will be here to continue to provide you with a reliable supply of sulfuric acid well into the future. Thank you for choosing NorFalco as your supplier.

## NorFalco Customer Satisfaction Survey

Beginning August 30<sup>th</sup> continuing through September 17<sup>th</sup>, NorFalco will run our fourth annual Customer Satisfaction Survey. An invitation to this application was sent by e-mail the week of August 16<sup>th</sup> to identify participants and clean up old/changed e-mail addresses. If you are a user of our acid and would like to participate please feel free to contact me or your NorFalco representative and we will add you to our list.

The information received in the survey helps us identify areas of improvement in addition to identifying customer awareness of our many value added services we provide which promotes our message of being "More than H<sub>2</sub>SO<sub>4</sub>".

We look forward to hearing from you!

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## Product Stewardship - Delivering More than H<sub>2</sub>SO<sub>4</sub>

As part of our Product Stewardship program, the NorFalco Safety Seminar was held in Chattanooga, Tennessee at the Conference & Convention Center on Thursday, June 3<sup>rd</sup>. The turnout was tremendous, with 95 participants joining NorFalco. The seminar was offered free of charge. Participants came from a wide range of customers, carriers, and terminals, with personnel from all levels and departments including management, operations, sales, purchasing, maintenance, HSE and ER and others.

The complimentary one-day session is a key part of “Delivering More than H<sub>2</sub>SO<sub>4</sub>”. The live presentations were interactive with lots of Q & A allowing opportunity to provide extra value.

A wide range of topics were covered, including acid market trends, acid properties and behavior, first aid, emergency response, tank design/repair, offloading design/safety, tank cars, trucks, equipment and materials of construction. In addition, a number of vendors also participated including, personal protective equipment supplier, gasket supplier as well as trans-loading equipment manufacturer.

The information also helped provide compliance with OSHA and DOT training requirements. Personalized Training Certificates were provided to those registering in advance.

Presentations were also made to NorFalco road carriers, which met criteria to receive our Motor Carrier Safety Award. This year’s winners included, Volume Tank Transport, Vertex Chemical Corp. and Regional Enterprises Inc.



Phil Michalisko of Volume Tank receiving award from NorFalco



From left to right Mike Moisio (Vertex) , Geoff Cowell, Cheryl Champion, Aaron Venters (Vertex), Hal McCloud (Vertex), Paul Shaw and Tom Hobbs



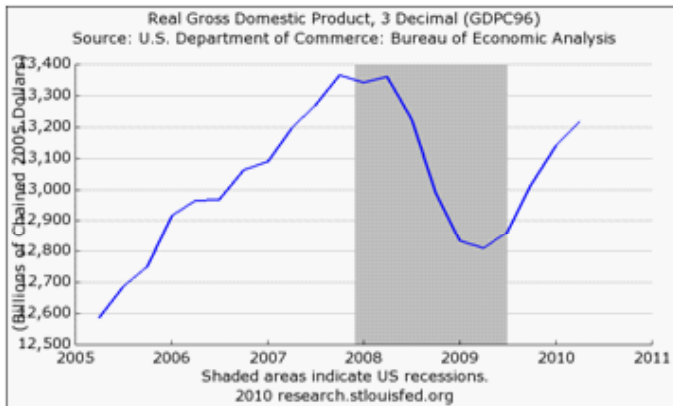
**Responsible Care<sup>®</sup>**  
Our commitment to sustainability.

## The Economy - U, V or W Revisited

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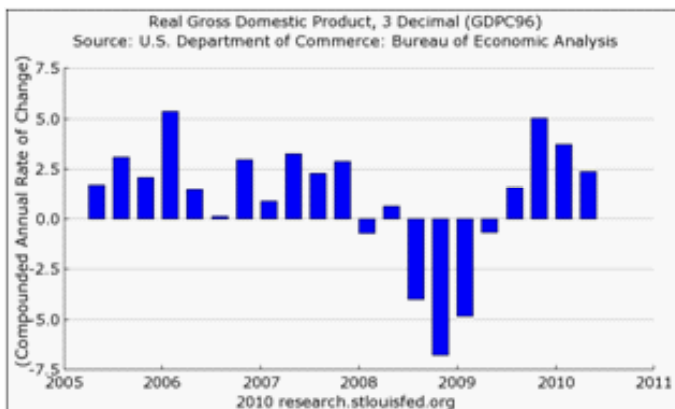
The most recent GDP data indicates that the economy began growing in the second half of 2009 and has continued through the second quarter of this year. So far it has looked like a 'V', though in the most recent quarter the rate of growth has not been as steep.

### US Economy Has Been Growing since Mid-2009



Looking at the quarterly growth rates, it is easier to see that they have been slowing since the fourth quarter of last year. This has led to growing concern that the recovery is at risk of not only flattening into a 'U', it could reverse into a 'double-dip' and the economy could shrink before growth resumes – i.e. the 'W'-shaped recovery.

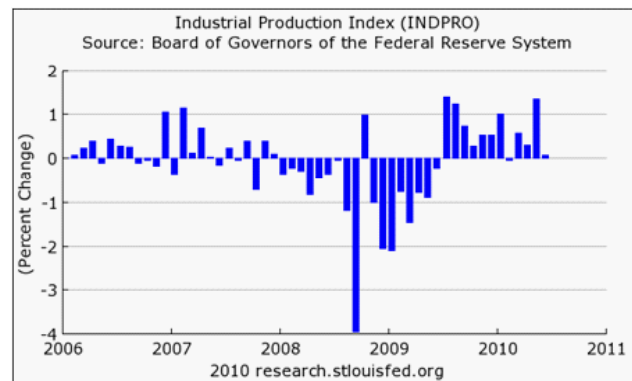
### Growth Rate Has Been Slowing Since Fourth Quarter



### Why Has Growth Been Slowing?

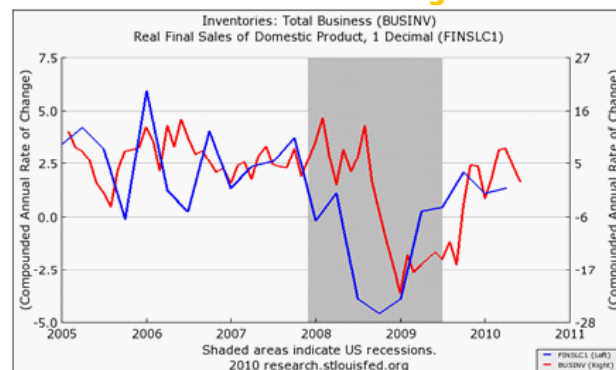
In the last Newsletter we described how manufacturing was leading economic growth. Operating rates in manufacturing have risen from a low of 65% of capacity last year to over 70% in recent months. The Industrial Production Index has increased every month since June 2009, with the exception of February (when weather issues led to a small decline). NorFalco has seen steady monthly growth in orders for acid from industrial consumers since late in 2009.

### Industrial Production Index Growth Slowed in June



Much of the early vigor in the recovery was driven by inventory rebuilding. Tightening credit forced businesses to shrink their inventories by over \$200 billion when sales and demand plummeted early in the recession. Later, as sales stabilized and began to recover, production had to grow to cover new orders as well as to rebuild stocks to levels needed to sustain sales.

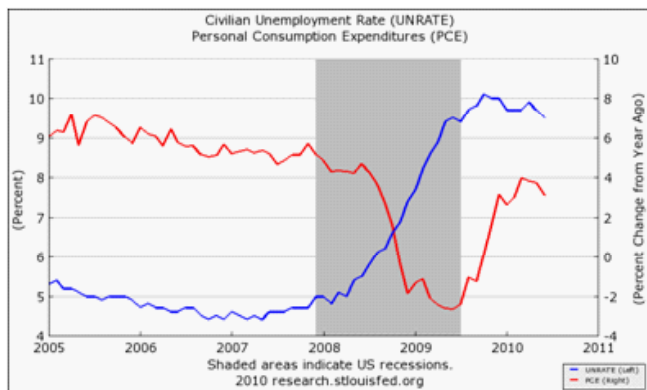
### Recovery in Sales Led to Inventory Building, Which Drove Manufacturing Growth



However, in recent months sales have been growing more slowly than in the fourth quarter of last year when they grew over 2% per year. In turn, businesses have slowed their rate of inventory building, by scaling back on production growth: the increase in the Industrial Production Index in June was only 0.1% from May. Businesses are reluctant to make products they cannot sell quickly to gain cash in a tight credit environment.

Sales growth has slowed largely because consumer spending growth has been constrained by sustained high unemployment, aggravated by tight credit, high rates of mortgage foreclosures and increased consumer savings rates. Stimulus incentives such as the cash-for-clunkers auto program and home purchase tax credits provided brief boosts to sales but largely appeared to steal demand from future months. Although Federal stimulus spending for infrastructure projects is still underway, state budgets have been hit with tax losses from the housing collapse, weak retail sales and job losses, resulting in layoffs and spending cutbacks.

### High Unemployment Has Restrained Growth in Consumer Spending



Unemployment is seen as the biggest drag on growth in consumer spending and, since personal consumption expenditures represent about 70% of GDP, on the rate of economic recovery. While unemployment rates have begun to ease, this is not due to strength in job growth. Instead, the labor force has been shrinking faster than the number of people employed, as discouraged unemployed workers leave the work force when they stop searching for work after continued lack of success. The average duration of unemployment since the start of the recession at the end of 2007 has risen from 16.5 weeks to over 35 weeks in June before dropping to 34.2 weeks in July, 13 weeks longer than the previous post-war peak set in 1983. The headline unemployment rate fell from 9.9% in April to 9.5% for June and July, but in the same period the labor force shrank by over 1.1 million people while the number of employed actually fell

by almost 500,000. Net growth in government jobs was flat due to the hiring and termination of temporary workers for the US Census, but private sector jobs rose by almost 400,000 in the four month period, with manufacturing comprising about one third of the total added jobs.

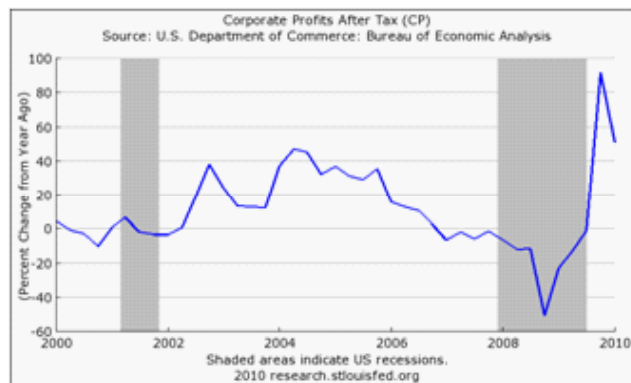
### Despite Slowing Growth , a 'W' is Unlikely

As signs have emerged that the inventory-boosted growth rates of the second half of 2009 were not carrying into 2010, some began to speculate that the economy could go into another recession: i.e. a 'double-dip' decline before recovery resumes - the W-shaped recovery.

Many have focused on the continued weakness in the housing market as a reason why the economy could slip back into negative growth. Housing has led the USA out of prior recessions, but it has not happened this time. New home sales in May were the lowest since 1963, before rebounding 24% to stand 17% below year-ago levels. While housing is very weak, its rate of decline has flattened out compared to the start of the recession. Moreover, its impact on the economy is now much less than before: residential investment use to represent over 6% of GDP as late as 2005, but has slid steadily since to only 2.5% currently. So any further weakness in housing will not be able to drag down overall growth significantly.

The recession forced businesses to cut payrolls and slash costs. As the economy has recovered, payrolls have only grown slowly, as businesses have been cautious to hire employees (one of the key reasons why unemployment has persisted so high for so long). As production has risen while costs and payrolls have been under control, productivity has risen and earnings for businesses have improved dramatically: first quarter 2010 corporate profits were up over 40% from a year earlier. Corporate cash flows have risen strongly, and by the first quarter they represented 14% of GDP, double the level of the 1980's.

### Strong Corporate Earnings Growth Provides Upwards Economic Potential



This growth in business earnings and cash flow is an important source of strength for the economy, especially when consumers and governments are in a weak position to increase spending. Manufacturers have been investing their earnings in the future, spending on new or upgraded equipment, software and buildings. In the first half of this year, investments in equipment and software by businesses grew by over 20% per year. These investments contributed over 1.3% to overall GDP growth of 2.4% in the second quarter, compared to 1.2% coming from personal consumption expenditures. Strong second-quarter earnings reports from many companies announced recently, suggest that businesses continue to have the cash flow to sustain economic growth through investment.

Orders for manufacturers, which drive production, are still growing, although at a slower rate, helped by the growth in investment spending. The New Orders Index for manufacturing from the Institute for Supply Management, based on monthly surveys of purchasing managers, indicates growth in new orders for manufacturers if it is 50% or higher. July's index registered 53.5%, the 13<sup>th</sup> consecutive month of growth.

### New Orders Index Indicates Continued Industrial Production Growth



The other key growth support for the recovery is interest rate policy. Short-term interest rates remain low relative to long-term rates, again supporting economic growth by reducing borrowing costs for investment. The Federal Reserve Bank is continuing to keep its target short term rate at 0 to 0.25% in order to support economic growth, because there has been little risk of rising inflation due to high levels of unemployment and idle capacity. Although the spread between long- and short-term rates has narrowed since April's European economic turmoil,

the Cleveland Federal Reserve Bank says that recent levels are still consistent with continued, modest growth over the next 12 months, and the risk of falling back into recession is still low.

### Short Term Interest Rates Are Still Low



The combination of low interest rates, strong spending by cash-rich businesses and continued new orders for manufacturers should provide underlying support to avoid negative economic growth. Over time they should lead to more job creation and rising personal consumption expenditures to produce sustained economic growth – a U-shaped recovery.

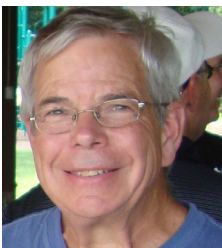
Kim Ross, Director of Marketing

## Retirement Announcements

NorFalco would like to thank Phil Bauer, Bob Berner, Darryl Willis and Guy Desgagnes for their many years of service with NorFalco as they all retire this summer. We've provided a little background about each gentleman along with some little known facts about themselves and how they plan to spend their retirement:



**Phil Bauer**, Director of Sales, has been with NorFalco and its parent companies for 24 years, and will officially retire February, 2011. As a former Marine, Phil continues his passion in assisting with the Toys for Tots program. He is active with his community and plans to continue his hobbies of fishing, golfing, visiting vineyards and gardening. Phil's personal goal is to visit every state in the United States with only Oregon and North Dakota remaining.



**Darryl Willis**, Account Manager, has worked in the chemical industry for 43 years and has been with NorFalco for nine years coming to us from DuPont. An interesting fact about Darryl is that along with a chemical degree and an MBA, he has a degree in entomology. Along with writing several scientific papers he continues to be involved in work with Catocala moths. He and his wife plan to split their time between their home in Holliston, Ma., condo in Destin, Fl., and travelling.



**Bob Berner**, Account Manager, has been with NorFalco for nine years and comes from a long line of chemical companies. Bob has just completed his master's degree this year from Loyola and plans to spend his retirement teaching, travelling and staying close to the family and grandkids. A little known fact about Bob is that prior to his career in the chemical industry, he was a demonstrator pilot for Beech Aircraft.



**Guy Desgagnes**, Technical Representative, has worked for NorFalco since its start in 2001 and has been an employee of the parent company since 1975. Guy enjoys travelling around the world with his wife and their next trip planned will be to a safari in South Africa. Other activities he plans to enjoy while in retirement are golfing, skiing and a lot of bike riding to stay in shape.



NorFalco Inc. is one of the largest merchant marketers of sulfuric acid in North America, selling and distributing over two million tons per year. NorFalco's extensive multi-modal distribution network, supplied by the metallurgical facilities of parent company Xstrata, serves customers from a wide variety of industries.