Record Steel Market in 2000 but the Outlook Becomes More Clouded

At its 57th meeting, the Steel Committee noted that global steel demand is reaching a record level in 2000. However, despite the strong increase in world consumption, prices remain low and trade tensions persist.

World steel demand in 2000 is expected to reach 738.5 million tonnes of finished products, a 8% increase compared to the 1999 level, and 6.5% above the previous record level reached before the steel crisis in 1997. At the same time, crude steel production should reach 846 million tonnes, a new record also.

For the OECD area, steel demand should increase by some 7.2% and crude steel production by 6.4% to 491 million tonnes. Steel imports are expected to jump 12.5% above their 1999 level, to pass the 100 million tonnes mark for the first time ever. Steel exports are also expected to grow by 8.8%. After the dramatic changes in traditional steel trade flows that occurred in 1998, it seems that trade flows continue to develop in an erratic and unforeseeable manner, in the OECD area.

Despite the general increase in steel demand and production, there were several areas where capacity utilisation rates remained quite low, below 70%. In spite of very strong demand and record steel production levels, prices for several steel products decreased and trade tensions and restrictions have increased. In light of this, the OECD Steel Committee plans to take a more active role in analysing the factors that have led to this weakening market situation, and there was considerable discussion on how to strengthen the role of the Committee.

More detailed information on steel market developments in individual countries is available in the attached statement from the OECD Steel Committee.

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STEEL MARKET DEVELOPMENTS IN 2000 AND PROSPECTS FOR 2001

Country developments

North and South America

In Brazil, in the first half of 2000, GDP increased 3.8% over the same period of 1999, driven by a 5.0% increase in industrial activity, a 6.5% increase in agriculture and a 3.0% rise in services. For the whole year, GDP is expected to grow by around 4%. Inflation has been maintained under control and the trade balance is improving thanks to better export flows and import substitution. In the first half of the year, Brazilian crude steel production increased 9.7% compared to the first half of 1999. Exports of steel decreased by 4.5% totalling 4.7 million tonnes while imports increased by 6.0% to 347 thousand tonnes. As a result, apparent steel consumption increased 12.2% in the first half of the year and, considering improvements in most steel consuming sectors; consumption is expected to increase by 12% for the whole year. For the year 2001, GDP growth is expected to reach 4% supported by important investments in infrastructure and a further improvement in trade balance. Thus, apparent steel consumption for next year is forecast to be 6.3% higher than in 2000, while crude steel production may decrease by 1.5%, mainly due to temporary stoppages for blast furnaces relining.

In Canada, economic growth is expected to reach 4.7% in 2000 and is forecast to continue to grow by 3.4% in 2001. Inflation remains under control and should not exceed 2.6% for the year 2000 and 1.8% in 2001 and the unemployment rate is continuing to decline to 6.9% in 2000 but may reach 7.1% in 2001. Interest rates have been increasing since October 1999 and may average 7.3% in 2000 and 7.5% in 2001. The steel market remained buoyant over the first eight months of 2000 compared to the same period of 1999. Apparent steel consumption increased by 17.9% but, while total shipments from the steel industry increased by 2.3%, domestic shipments declined by 1.2% and imports soared, up 67.1% to 5.9 million tonnes. If import volumes continue at their present rate, they could exceed 8.5 million tonnes for the year and set a new record. Imports from the US, the EU(15), Central and Eastern European countries and Asia are up significantly. While demand has been strong in the first three quarters of 2000, the inventory accumulation hanging over the market, the surge in imports and falling price levels mean that the outlook for the end of the year and for 2001 has become more clouded. Recently announced production shutdowns at auto plants in Canada and the United States are an early sign of a weaker market. Current expectations for 2001 are that steel demand will fall by 3.5% as key sectors of the Canadian economy slow down. While shipments and consumption should remain relatively strong, high import volumes, falling prices and inventory accumulation may have adverse effects on domestic producers.

In the United States, in the third quarter the economy slowed from the robust pace of the first half of 2000. The index of activity in manufacturing declined, and GDP growth was more moderate as a result of reduced government spending, and residential construction and slower business investment. Inventory building also continued during the third quarter, contrary to expectations. By contrast, consumer spending rebounded, due to continuing gains in real disposable income. In the area of steel consuming sectors, activity in the construction sector is expected to rise 2% in 2000, as a result of a 4% increase in non-residential construction owing to demand for offices and manufacturing facilities. Production of motor vehicles is easing and should be only 1.5% higher than in 1999. For 2001, the economy is expected to rise by 3.4%, the smallest increase since 1995. Lower consumer spending will affect motor vehicle production that may slip by about 6%. Housing too will be adversely affected as well as non-residential fixed investment that will suffer from slower growth in corporate profits.

Despite the relative strength of the U.S. economy in the third quarter, the steel market weakened dramatically. A surge of low-priced imports and a record inventory build from the first half of the year are weighing heavily on the market. New orders have fallen in the last few months, capacity utilisation rates are dropping and some mills have been idled or permanently closed. Particularly disturbing also is the sharp erosion in prices. A number of integrated mills sustained large losses during the third quarter and are projecting wider losses for the fourth quarter. While apparent consumption has risen 11.3% through August 2000, the inventory
liquidation at steel service centres and apparent weakness in some markets are discouraging buyers. New orders have dropped and crude steel production has fallen off sharply. Capacity utilisation in recent weeks has averaged 78.6% while it was over 90% for the first six months of the year. Reflecting the strength of the market during the first half of the year, domestic steel shipments through August increased 10.7%. By product, deliveries of hot rolled and cold rolled sheet rose 19.1% and 14.8% respectively and OCTG, benefiting from a recovery of drilling, jumped 130%. By contrast, light bars fell 29%.

Imports of semi-finished and finished products are again surging. Through September they increased 14.3% from the same period of 1999 to 27.6 million tonnes. Imports from Japan have declined but imports from non-traditional suppliers such as China, Chinese Taipei, India and Ukraine have increased by large volumes. Exports rose by nearly one-third through August and NAFTA countries accounted for 88% of total exports. While the US economy is expected to continue to grow at a moderate rate, demand in some important steel markets, including motor vehicles, appliances and construction is expected to soften. Excess inventories will weigh on the market well into 2001. As the dollar remains strong against the currencies of major steel exporting countries, imports are likely to remain high.

Europe

During the first half of 2000, the economy of the European Union showed stronger growth than expected as a result of increasing net exports, and strong domestic demand. GDP growth is expected to reach 3.4% in 2000, and may reach 3.1% in 2001. Most steel consuming sectors are benefiting of the improvement in the economy and, as a result, apparent steel consumption in the EU is expected to grow by some 4% in 2000. Activity in the construction sector is expected to grow by some 3% in 2000, but due to increasing interest rates this growth rate may decline to only 1.5% in 2001. Activity in the automotive sector remained quite strong during the first half of the year but declined in the third quarter. For the whole of the year the automotive market may remain 0.5% higher than in 1999. For 2001 a stabilisation of new cars sales is foreseen that may decline by 1 to 2%.

Crude steel production in the EU is expected to increase by 4% for the whole of 2000 and may then reach a new record level at 162 million tonnes. For the year 2001, both steel consumption and production are expected to remain close to the 2000 level. Steel imports jumped 37% in the first half of 2000, compared to the same period of 1999, as a result of the very strong demand in the Union together with attractive domestic prices. For the year 2001, steel imports in the EU are expected to stabilise or even decline somewhat. Over the first half of the year steel exports from the EU, helped by the weakness of the Euro compared to the dollar, increased by 15%. For the year 2001, a further positive development is expected for EU steel exports.

In the Czech Republic, the economy started recovering during the second half of 1999, and improved in 2000. GDP growth is expected to reach 2.6% this year and a further 3.0% in 2001. Industrial production increased by 5.8% over the first nine months of 2000. The most dynamic sectors are transport equipment and electrical appliances (+13%) and machinery and equipment (+10%). The activity in the construction sector stopped declining and increased by 2.8% over the first three quarters of this year. The unemployment rate remained stable at 8.9%. As a result, of the improved economic situation, apparent steel consumption increased rapidly. In the first three quarters of this year, crude steel production increased by 13.2% compared to the same period of 1999, and is expected to reach some 6.2 million tonnes for the year (+11%). The share of continuous casting should reach 88%. Over the first half of the year, steel exports increased by 5.5% to 1.9 million tonnes, while steel imports increased by 23% and reached 1.3 million tonnes.

In Norway, GNP is estimated to grow by 2.7% in 2000. Gross fixed investments is expected to fall by a further 21.6% after a 14% decline in 1999. Private and public consumption are expected to grow by 2.7% and 2% respectively. Apparent steel consumption, excluding heavy tubes, increased by 9.9% during the first nine months of 2000. This is mainly the result of some increase in investment within the offshore sector, higher activity in the shipbuilding industry and somewhat better export conditions for the main steel consuming industries. However, capital investments within the housing and construction sector have been reduced. Crude steel production over the first ten months increased by 7%, steel imports increased by 9% and exports by 6%.
2001, apparent steel consumption is expected to increase by 6%. This would be the result of increased activity in the housing and construction sector and growing activity in the shipbuilding and offshore industries.

In the Slovak Republic, economic growth in 2000 is slowing down to 1.6%, due to the high unemployment rate that reached 19%. Inflation rate increased to 12.0%. Over the first three quarters of this year, crude steel production increased by 8.0% to 2.6 million tonnes, and both imports and exports increased by 12.9% and 24.6% respectively. As a result, apparent steel consumption for the year is expected to decline.

In Switzerland, crude steel production between May and September 2000 reached 475 thousand tonnes, a level 9% higher than that of the corresponding period of 1999. During that period, steel imports and exports increased by 11.8% and 4.3%, respectively. The structure of steel trade did not change, as almost 96% of this trade is conducted with EU countries.

Asia-Pacific

The Japanese economy is sustaining moderate growth, primarily in the corporate sector, as the effects of a series of economic stimulus packages are becoming felt, and as Japan has also benefited from the recovery in the Asian economies. The labour market, nevertheless, remains severe despite the economic recovery, and private consumption remains stagnant. The government, aiming at establishing self-sustainable economic recovery lead by private consumption, is embarking on the structural reform of the economy. To this end, the government introduced on 19 October “A Policy Package for New Economic Development toward the Rebirth of Japan” and decided to go ahead with the Package, which prescribes policy measures to materialise the rebirth of Japanese economy.

Crude steel production is forecast to amount to 106 million tonnes in 2000, up by about 10% from the previous year, reaching the 100 million tonnes level for the first time since 1997. This is attained by a recovery both in domestic demand, sustained by increased capital investment particularly in IT-related industries, and in exports, driven by increased demand from the Asian region. As regards 2001, while domestic demand is expected to increase thanks to self-sustainable recovery of the Japanese economy, export environment is anticipated to worsen, which makes it unlikely that crude steel production in 2001 will exceed the level reached in 2000. Total steel exports to all destinations for the first 9 months of this year increased by 7.8% compared to the same period of 1999. From October onwards, steel exports are expected to decrease, due to the adjustment of inventories in Asia, and the effects of antidumping measures against the imports of hot-rolled sheets from 11 countries, which have recently been filed by the US industry. By destination, exports to Asia increased by 12.6%; while those to the United States decreased by 22.9%. By main product category, exports of hot-rolled sheets increased by 94.2%, galvanised sheets by 21.3% and cold-rolled sheets by 16.6%. Exports of semi-finished products, in contrast, decreased by 35.2%, pipes and tubes by 28.2% and tin plate by 8.7%. Over the same period, imports of total steel products in 2000 increased by 23.5%, and by countries of origin, imports from Korea increased by 7.1% and those from Chinese Taipei by 10%. Due to the recovery in the Japanese economy, it is expected that the increase in imports will continue.

During the first half of 2000, the Korean economy realised a higher-than-expected GDP growth rate of 11.1% compared to the same period of 1999, thanks to the continued increase in investment, private consumption, import and export. Industrial production increased by 20.8% driven by strong activity in sectors like shipbuilding, automobiles and machinery. In the 2nd half of this year, the economy appears to be slowing down and GDP growth is expected to be around 6%. For the whole of the year GDP growth is forecast to reach 9%. And a further growth by about 6% is forecast for the year 2001. Activity is expected to grow this year by 13.2% in the construction sector, the automobile industry may produce more than 3.1 million cars (+10.8%), a 24.9% growth in the activity is expected for the shipbuilding industry and in the machinery industry, production is expected to rise by 23.8%. As a result of the brisk activity in the steel consuming industries, apparent consumption of steel mill products is expected to increase by 14.9% in 2000 to 39.1 million tonnes. Production of steel mill products may increase this year by 11.0% to 49.7 million tonnes. Imports of steel mill products are expected to increase by 28.8% to 8 million tonnes, in order to meet the demand for hot rolled coils, medium and
heavy plates and wire rod. Thanks to increased demand in overseas markets, steel exports are expected to increase by 4.2% to 13.7 million tonnes.

**Observers**

In **India**, apparent steel consumption increased by 6.5% in 1999 and a further increase of 7% is expected in 2000. Activity in steel consuming sectors like consumer durable goods, automobile and industrial machinery are growing at rates between 11.5 and 13.6% this year, while activity in the construction sector, which is the single largest consumer of all steel products, is expected to grow by 7%. Crude steel production that increased by 10.8% in 1999 should continue to grow another 10% in 2000. Steel exports should increase by 15%, and total steel imports are expected to increase by 10%.