OECD Steel Committee sees market outlook bright but slower demand expected in 2007

The global steel market is enjoying its fifth consecutive year of strong output and demand growth. The outlook for 2007 is expected to remain relatively bright, but a less vibrant world economy should slow demand and production growth, according to industry and government officials at the OECD’s Steel Committee meeting in Paris on 7-8 November 2006.

Statement from Mr. Risaburo Nezu (Japan), Chairman of the OECD Steel Committee

The situation in world steel markets remains strong. Continued capacity expansions observed in various parts of the world could, however, endanger positive market developments.

World steel production

Crude steel production is on track to grow by around 90 million tonnes in 2006, i.e. by 8%, to reach 1.22 billion tonnes as a result of synchronized production growth in most regions of the world.

- China continues to drive world production developments. In the first nine months of 2006, Chinese steel production reached 339 million tonnes, up 23% from one year earlier. Elsewhere in Asia, Japan and South Korea continued to register only modest growth. Steel deliveries in Japan are nevertheless expected to rise by 1.9% to 100.6 million tonnes thanks to brisk demand from the manufacturing sector.

- The European Union is seeing steel production rebound strongly, reflecting improvements in the economic situation and steel demand. Steel output is expected to rise by 9 million tonnes to 197 million tonnes in 2006.

- In the CIS countries, steelmaking activity has re-accelerated, led by Russia, where crude steel production is expected to increase by 4 million tonnes this year to reach 70.2 million tonnes supported by capacity expansions in electric-arc furnace steelmaking.

- In North America, steel production in the U.S. and Canada is rebounding following last year’s steep declines. Reflecting strong demand, steel production in the United States should increase by around 9% to 102 million tonnes in 2006.

South American steel output continued to slump in the first half of 2006. Production in Brazil, the largest producer in the region, fell by 1.4 million tonnes, or 9.1%, partly due to a five-month blast furnace outage, but for the year as a whole should reach the same level recorded in 2005.

World demand for steel

Global demand growth has accelerated in 2006, in line with the strengthening pace of world economic activity and buoyant infrastructure and other investment in rapidly growing developing economies.

JT03217555
Chinese steel consumption reached 287 million tonnes in the first nine months of the year, up 28.75 million tonnes or 10% from a year earlier. Indian consumption is also increasing swiftly, though from a much lower level of 38 million tonnes. The shipbuilding, auto, and industrial machinery industries are boosting steel use in Japan and South Korea.

In the European Union, robust export demand and recovering domestic demand for goods manufactured in key steel-using industries will raise apparent steel consumption by 9.3% to 198.5 million tonnes. Within the CIS, Russian consumption is being bolstered by strong growth in mechanical engineering, construction, and railroad transport.

In North America, apparent consumption in the United States should reach 121 million tonnes, up 10% from 2005. In Canada and Mexico consumption is also expected to rise strongly.

Steel trade

Steel trade has been stimulated by the buoyancy in global demand. Developments have been dominated by China becoming the world’s largest exporter of steel products in the first half of the year, surpassing Japan, Russia, and the European Union. Steel import growth has been particularly pronounced in the European Union and North America, where inventories have increased significantly. Furthermore, such imports have already forced, or will force steel mills in these economies to reduce production.

In the first nine months of 2006, China’s exports of steel products reached 28.6 million tonnes, up 81% from a year earlier, supported by firm demand and higher prices in international markets. Despite its widening net export position, China remains a net importer of many high value-added products. In Japan, steel exports should recover, rising by 3% to 26 million tonnes.

In the European Union, imports are expected to rise by 24% this year to 32.5 million tonnes. In the CIS, Russian exports have been weak, but imports have increased to support rapid growth in apparent consumption.

In the United States, imports may reach 39 million tonnes in 2006, surpassing the previous record of 37.6 million tonnes in 1998. Exports are also expected to reach a new high of 9 million tonnes, supported by trade with Canada and Mexico.

Steel prices

After declining through much of 2005, steel prices recovered during the first half of this year. In some markets such as China, however, prices have remained soft this year reflecting local oversupply of steel. More recently, prices have started to recede in some markets in response to high inventory levels.

Long-term issues

Consolidation in the industry has accelerated, highlighted by the recent Arcelor/Mittal and envisaged Tata/Corus mergers. Arcelor-Mittal will account for around 10 per cent of world steel production. Though consolidation will strengthen steel companies’ influence in world markets, the industry remains very fragmented as compared to the concentrated iron ore industry for example. Concern was expressed that steel producers in various parts of the world have increased capacity significantly or intend to do so in the years to come by extending existing capacities and/or creating new capacities, whilst most forecasts for demand over the years to come suggest that worldwide steel capacities are largely sufficient to satisfy demand requirements in the future. Governments of Member economies of the Steel Committee should ensure that their steel industries be aware of the concern over world-wide increases in steel making capacities and their responsibility for the longer-term health of the world’s steel market.

For further information about the OECD’s work on steel industry policy, journalists should visit the OECD website at www.oecd.org/sti/steel, or contact the OECD’s Media Division (tel: + 33 14524 9700 or mailto:news.contact@oecd.org).