STEEL COMMITTEE OF THE OECD

OUTLOOK FOR THE OECD STEEL MARKET IN 1992

1. According to the estimates of the governments participating in the OECD Steel Committee, the 1991 decline in crude steel production in the OECD area is likely to slow in 1992 to between 0.5 and 1 per cent. Following the slight fall in crude steel production recorded in 1990 (-0.8 per cent), 1991 saw a much steeper fall, in the region of 4 per cent.

2. The main reason for the reduction in steel production in the OECD countries is lower domestic steel demand in most Member countries. In 1991, only Austria, Canada, Japan and Mexico showed an increase in total steel demand, while in the OECD area as a whole demand fell by some 5 per cent. In 1992, the decline in steel demand in the area should slow and could be about 1 per cent down on 1991.

3. The relative improvement expected in the steel market in 1992 may be explained, first of all, by an increase in GNP growth in the OECD area. From 1.1 per cent in 1991, this growth could rise to around 2.2 per cent in 1992. Also, the rate of growth of private non-residential investment could climb to some 3.3 per cent in 1992, after falling from 5 per cent in 1990 to only 0.1 per cent in 1991. Industrial output is also expected to pick up, while inflation should slow. These factors will affect steel demand in the Member countries of the Steel Committee to differing degrees, with demand in the European Community and the United States expected to rise in 1992.

4. Alongside the resumption of economic growth, activity is also expected to pick up in some of the major steel-consuming sectors in the OECD countries, especially as of the second half of 1992. After its favourable showing in most countries in 1991, demand in shipbuilding and the oil industry should increase overall in 1992. In the automotive sector, demand should begin to revive in the United States and the European Community, whereas it could flag in Japan. Activity in non-residential construction can be expected to slacken in Japan and in the United States and stagnate in Finland, Norway and Switzerland, whereas in residential construction demand should grow strongly in Canada -- from the very depressed level of 1991 -- and to a lesser degree in the European Community.
Community, but continue to decline in Japan and in Switzerland. In the machinery and machine tools sector, activity will probably continue to stagnate in 1992, with the slowdown being more marked in the non-electrical machinery and machine tools sector. While steel demand for the fabrication of consumer durables and domestic appliances is expected to pick up a little, demand in the other steel-consuming sectors will probably remain sluggish.

5. Steel stocks rose to high levels in Australia, Austria and Japan in 1991, but are expected to fall in 1992 in two of these countries -- Australia and Austria -- and in Norway. In other countries steel stocks fell last year to levels generally regarded as low, and should begin to expand again in 1992.

6. In Japan, real demand for steel will probably continue to diminish in 1992 on forecasts deriving from the present economic adjustments. The latter, which relate to the expected fall in steel stocks accumulated in 1991, result in a forecast decline in apparent steel consumption of some 6.4 per cent. In Mexico, where real domestic demand continued to grow briskly -- by some 7 per cent in 1991 -- the fall in crude steel production attributable to changes in plant and equipment and technical problems was offset by a reduction in stocks, a decline in exports and a substantial increase in imports, which more than doubled. As a result of the modernisation of Mexico's steel industry and continuing economic growth, steel production can be expected to rise in 1992, while exports should pick up and imports fall appreciably.

7. As regards developments in the international steel trade in 1991, the slowdown in steel demand in the European Community resulted in a decline in imports, while exports remained sluggish because of the unfavourable conditions on traditional markets and the low level of steel prices. In the United States, exports rose by 51 per cent, the improvement being particularly marked in the case of exports to Canada, South Korea, Japan and Mexico; this was indicative of the enhanced competitiveness of the United States steel industry. Imports fell by 7 per cent, with sharp drops from such major suppliers as the European Community and Japan; the share of imports in steel consumption increased however, because of the depressed state of demand, from 17.4 per cent in 1990 to 18.1 per cent for the first nine months of 1991. Japanese steel imports rose by 34 per cent, mainly from the other Asian countries, but also from Brazil and the United States. Exports also increased, by 7 per cent, but only to the Asian countries. The share of imports on the Japanese market rose from 7.8 per cent in 1990 to about 9 per cent in 1991. Turning to other Member countries, steel exports fell in Austria, Canada, Norway and Mexico in 1991, but rose appreciably in all the other countries.

8. Developments in steel trade in 1992 will be notable for the expected upturn in steel demand in a number of countries, and especially in the United States and the Middle East, and also for a degree of stabilisation on the markets of central and eastern Europe. In the United States, therefore, it is anticipated that imports will pick up and exports fall, while in the European Community exports could rise and imports should remain stable.
9. Crude steelmaking capacity in the OECD area diminished by about 1 per cent in 1991. Despite this, the decline in steel production caused the average capacity utilisation rate to fall from 78 per cent in 1990 to 76 per cent in 1991. In Mexico, capacity utilisation remained high, at nearly 87 per cent, as a result of the closing of the AHMSA open-hearth furnaces.

10. Employment in the OECD area steel industry continued to fall at a relatively moderate pace in 1991, the decline being put at about 2.5 per cent. In Mexico, restructuring prior to the privatisation of the steel industry, which was completed in November 1991, resulted in a reduction in employment of some 10 per cent in 1991.

11. The growth of demand having slowed in 1990, the following year saw an appreciable downturn in steel production and demand throughout the OECD area. The upturn in economic growth and particularly investment in 1992, coupled with the albeit slower pickup in activity in some of the main steel-consuming sectors, should first slow the fall in steel demand and then prompt an upturn in growth which could become apparent in the second half of 1992.