OECD STEEL COMMITTEE
THE STEEL MARKET SITUATION IN OECD COUNTRIES

1. The general economic situation remained weak in the OECD area during 1992 but is expected to improve in 1993, even at a slow rate. In 1992 steel demand for the OECD area as a whole declined by 3.7 per cent, i.e. 11.5 million tonnes and crude steel production declined by 3.1 per cent. Low prices for steel products together with the decline in production resulted in significant losses for the industry. In 1993 steel demand for the whole of the OECD area is expected to increase by some 2.5 per cent and crude steel production should pick up by some 1 per cent. However, this recovery will probably not apply to the European Communities where steel demand is likely to remain on a downward trend. Steel prices may stabilise and are expected to increase as from the second quarter of this year.

2. Concerning the main steel market developments in individual countries, in Canada, lower interest rates, a decline in the value of the Canadian dollar and expansion in the US economy have helped stimulate growth in Canada’s exports and the country’s housing market. Capital expenditures and construction activity, however, remain at low levels. These conditions are expected to result in slowly increasing demand for flat-rolled steel products; demand for structural shapes and plate, on the other hand, is expected to remain low, with significant improvement unlikely for another three to four quarters. Signs of improvement in the flat-rolled segment are already evident -- the order intake for these products has strengthened, for example, resulting in an increase in normal lead times of an additional four to six weeks. The improvement reflects growth in automotive production. The number of automotive units being produced was 19 per cent higher in the first quarter of 1993 as compared to the same period in 1992, and the production rate for the second quarter is expected to increase by about 7 per cent from the first quarter level.
3. In the (United States), general economic conditions are improving, albeit weakly. Reports from steel-consuming sectors underscore the spotty nature of the recovery. New orders for manufactured goods are rising. Total new construction, on the other hand is relatively flat, while the machine tool industry is considered weak, despite rising orders. In addition, while the housing market grew by 20 per cent in 1992, the level of activity remains relatively low. In the automotive market, the ten major auto producers have announced plans to increase production by 11 per cent in the second quarter to meet rising demand. In the case of steel, industry shipments increased by 4.3 per cent in 1992, to 74.7 million tonnes. A further increase, to 77-79 million tonnes is expected for 1993. At the same time, operating rates increased from 74.7 per cent in 1991 to 81.0 per cent in 1992; through the week ending April 10, 1993, the rate had risen to 85.9 per cent, reflecting a substantial decline in capacity. Despite increased shipments, the industry experienced relatively large operating losses in 1992, as prices were weak. The losses totalled $855 million in 1992; combined losses for 1991 and 1992 were nearly $3 billion.

4. In trade, steel imports increased by 7.8 per cent in 1992; their share of apparent consumption remained unchanged, however, at 17.9 per cent. Exports, on the other hand, continued to decline, falling by 32.4 per cent, to 3.9 million tonnes.

5. (Mexican) GNP, which grew by 2.6 per cent in 1992, is expected to grow moderately in 1993, with several industrial sectors experiencing difficulties as a result of growing imports and increasingly restricted international markets. In the steel sector, apparent consumption grew by 4.8 per cent to 9.45 million tonnes in 1992. Continued economic growth in 1993 is expected to contribute to an increase in crude steel production (which totalled 8.44 million tonnes in 1992). Growth in imports should slow, while steel exports will probably maintain their 1992 level.

6. Economic growth in the (European Community) was slightly higher than 1 per cent in 1992, with total industry operating at less than 80 per cent of the capacity, and investment declining. In the case of steel, conditions deteriorated during the year with crude steel production falling by nearly 4 per cent, to 132 million tonnes. On the demand side, declines in activity in auto production, construction and the tube and drawing industries contributed to a 1 per cent decline in real steel consumption during 1992, which fell to 126 million tonnes. The decline in apparent consumption was larger (i.e., 2 per cent), as a portion of steel requirements was met through a net reduction in inventories. The market downturn resulted in downward pressures on steel prices. Slight price increases recorded in the first two quarters of the year were offset by subsequent decreases that, by year-end, had sent prices to their lowest levels in many years. The net decline in prices over the past two years has totalled 15 to 20 per cent. The situation has been particularly severe in long products, where prices have fallen by 25 to more than 40. There are indications, however, that actions being taken by steel producers to address imbalances in steel supply and demand could result in price increases during the second half of 1993.
7. The outlook for 1993 is not optimistic. The official forecast for crude steel production indicates a three per cent decline, to 129 million tonnes; the forecast might not, however, sufficiently reflect the decline that is occurring in steel demand during the first half of the year. In the case of most steel products, orders for the second quarter have fallen by about 13 per cent. In the case of cold-rolled sheets and reinforcing bars, the decline totals 20 per cent. The situation could also be affected by the outcome of the trade cases being considered in the United States. Should countervailing or antidumping duties be imposed, EC exports could decline; at the same time EC steel imports from other countries affected by the cases could increase.

8. In trade, weak foreign demand in most areas (excepting the Far East) and a weak dollar contributed to a 0.5 million decline in extra-EC steel exports in 1992, as foreign shipments fell to about 22 million tonnes. On the other hand, increased imports from the countries of Central and Eastern Europe and the CIS were largely responsible for a 15 per cent rise in total steel imports in 1992.

9. In view of the situation in the steel industry, the EC Council examined and approved a series of measures to facilitate restructuring in the industry. The measures include actions that could be taken to address the social issues associated with restructuring, and actions to facilitate co-operative arrangements developed by the industry.

10. In Austria, real GDP, after growing by 1.5 per cent in 1992, is expected to remain unchanged in 1993. The relatively low growth rate contributed to a 1.8 per cent decline in apparent steel consumption, which fell to 3.20 million tonnes in 1992; an additional decline of 3.1 per cent is expected for 1993. Reflecting the weakening market, crude steel production fell by 5.6 per cent in 1992, to 3.95 million tonnes. In trade, low-priced imports from the economies in transition have put downward pressures on steel prices in the Austrian market. Imports increased by 2.0 per cent (to 1.92 million tonnes) during 1992, while exports declined by 0.3 per cent (to 2.97 million tonnes).

11. Crude steel production in Finland grew by 6.5 per cent in 1992, to 3.1 million tonnes. Apparent consumption, however, remained 40 per cent below its 1989 level, at 1.3 million tonnes. Real consumption in 1992 was somewhat lower as steel inventories increased. Both imports and exports increased in 1992, with exports rising by 13 per cent, to 2.1 million tonnes, while imports rose by 10 per cent, to 541 000 tonnes.

12. Growth in the Norwegian economy is expected to decline from 2.9 per cent in 1992, to an estimated 0.9 per cent in 1993. With regard to 1992, considerable growth in the mechanical engineering industry, linked mainly to the increase in offshore investment, is of particular note in the context of steel. While crude steel production increased by only 2 per cent in 1992, apparent consumption rose by 21 per cent, due largely to development in the offshore activities. A small decrease in consumption is expected to occur in 1993, reflecting the completion of a number of offshore projects, reduced activity in shipbuilding, and only limited growth in construction. In trade, steel exports grew by 3 per cent in 1992, while imports rose by 19 per cent.
13. General economic conditions in {Sweden} are unfavourable as the country is in the midst of its deepest recession in many decades. GDP fell by 1.4 per cent in 1992, and is expected to fall by approximately 1 per cent in 1993. Conditions in the steel market are, however, somewhat better. Apparent steel consumption was about the same in 1992 as in 1991, as increased activity in the auto sector and a rebuilding of inventories offset declines in other segments. Consumption is expected to increase both in 1993 (due to further stockbuilding) and in 1994. Crude steel production, which increased by 2.5 per cent in 1992 to 4.36 million tonnes, is expected to increase by a few per cent in 1993. In trade, Swedish exports increased by 7 per cent in 1992 to 3.25 million tonnes, while imports increased by 5 per cent to 1.80 million tonnes.

14. Despite increases in efficiency and high capacity utilisation, {Swiss} steelmakers recorded losses in 1992, as competition from Eastern European countries put downward pressures on prices. Crude steel production increased by 11.3 per cent during the year, to 1.24 million tonnes. On the demand side, falling interest rates have not yet affected steel consumption, which fell by 4.1 per cent in 1992, to 1.86 million tonnes. In trade, imports continued to decline in 1992, falling by 7.6 per cent to 1.70 million tonnes; exports continued to increase, rising by 6.4 per cent to 1.08 million tonnes. The outlook for 1993 is for continued difficulties as a number of steel-using industries continue to adjust to competition from Eastern Europe. The watch and textile industries are, however, expected to experience a slight increase in activity, as will the construction sector (towards the end of the year).

15. In {Turkey}, crude steel production increased by 9.8 per cent in 1992 to 10.3 million tonnes; imports increased by 13.7 per cent to 2.73 million tonnes, while exports rose by 25 per cent to 4.95 million tonnes.

16. In {Japan}, decreased steel demand and downward adjustments in steel inventories contributed to a 10.5 per cent reduction in crude steel production, which fell to 98.13 million tonnes in 1992. A 2.8 per cent improvement is, however, expected during the first half of 1993 (as compared to the same period in 1992), as increased exports to China will likely more than offset continued declines in domestic demand. On the demand side, the consumption of ordinary steel products decreased by an estimated 5.7 per cent in 1992, to 74.01 million tonnes. In addition to inventory adjustments, the decline reflected a levelling off of personal consumption and a decrease in private capital investment. Shipbuilding was the only major sector in which an increase in demand for steel occurred. A further decrease in consumption is foreseen for the first half of 1993, with declines expected in almost all steel-consuming sectors. One exception will be public civil engineering, where stimulative economic measures are expected to result in increased steel consumption.
17. In trade, increased shipments of steel to certain Asian markets (particularly China and Taiwan) and the Middle East more than offset declines to the United States, South Korea and the Newly Independent States of the former USSR (NIS), resulting in a 5.3 per cent increase in Japan’s steel exports, which totalled 18.98 million tonnes in 1992. Imports of iron and steel products (which include pig iron and ferroalloys), on the other hand, decreased by 35.9 per cent, to 8.87 million tonnes. The largest declines (in relative terms) occurred in pig iron and semifinished steel, which are supplied largely by the NIS and Brazil.

18. In Australia though business investment is weak, a moderate economic recovery continues from 1992 into early 1993. Consumption in Financial Year 1993/94 should slightly increase to 5.3 million tonnes from 5.0 million tonnes in FY 1992/93. Crude steel production is expected to rise to 7.2 million tonnes from 6.9 million tonnes in 1992. There should be no significant changes in either import or export levels; imports should remain at 0.8 million tonnes and exports could rise slightly to 2.8 million tonnes from 2.7 million tonnes in FY 1992/93. Asia continues to be the largest export market, accounting for 70 per cent of all exports.

Employment

19. During 1992, employment in the steel industry in the OECD area continued to decline by 4 per cent and another 5 per cent decrease are expected in 1993 for the area as a whole. In the EC, restructuring and cyclical factors have resulted in a 6 per cent decline in industry employment. In the United States, steel industry employment continued its long term decline, as the number of workers fell by 3.9 per cent in 1992, to 253,500. By March 1993, employment had fallen further, to 242,900. In Switzerland, restructuring resulted in a 1.2 per cent decline in industry employment in 1992, to 2151 workers, while in Mexico employment fell by 15 per cent in 1992, to 43 100 workers.