STEEL COMMITTEE

THE STEEL MARKET SITUATION IN OECD COUNTRIES

1. The general economic situation in the OECD area is improving in 1994 and growth of over 2 per cent in GDP is expected for the area as a whole, compared with the 1.1 per cent growth recorded in 1993. Steel demand for the OECD area as a whole declined in 1993 by 1.1 per cent, but significant differences appeared among Member countries, with the European Union and Japan recording the biggest declines. Due to strong demand for steel in the South-east Asian area (particularly from China), OECD crude steel production increased by some 1.8 per cent in 1993 compared to 1992. In 1994, steel demand for the whole of the OECD area is expected to increase by some 2.5 per cent, reflecting a pick up in activity in most countries and steel consuming sectors. However this recovery in steel demand will probably not offset the expected decline in exports and crude steel production may therefore decline slightly in 1994. Steel prices increased during 1993 and this trend is expected to continue through 1994. Higher prices together with higher operating rates reduced the operating losses in the steel industry.

2. Concerning the main steel market developments in individual countries, in Canada, the continued growth in real GDP in Canada and the strong growth of the US economy are expected to lead to increased demand for steel products in 1994. North American vehicle sales are expected to remain strong and grow by 8 per cent in 1994. Such sales growth will continue to boost Canadian vehicle production and exports. The demand for flat rolled products is expected to grow by about 5 per cent. Lower interest rates for mortgages and the expected economic growth should also boost housing starts, while the non-residential construction sector is expected to grow modestly after several years of decline. Imports are expected to increase, as is crude steel production, which may rise by some 3 per cent. Due to continued strong demand and improved operating levels, steel prices are expected to rise, at least for some products.
3. In the United States, the economy strengthened significantly in late 1993 and GDP growth for the year reached 3 per cent. Most steel-consuming sectors, such as electrical and industrial machinery and motor vehicles, experienced large increases in production, a trend that has continued in early 1994. The construction market has benefited from low interest rates and improved consumer confidence. In 1993, housing starts rose by 11 per cent from the 1992 level. Highway and utility construction is strengthening, although steel-intensive commercial building remains weak. In 1994, GDP growth is expected to range between 2.5 and 3 per cent, with private investment forecast to rise over 6 per cent. Consumer purchases of durable goods are also expected to increase by about 7 per cent. In the case of steel, industry shipments increased by 7.5 per cent in 1993, to 80.2 million tonnes, crude steel production rose by 3.4 per cent, to 87.2 million tonnes and capacity utilisation reached 87.4 per cent. Apparent consumption increased significantly. This positive trend is continuing in 1994 and during the first quarter, steel production was up by 3.8 per cent over the same period of 1993 as the operating rate rose to 90.1 per cent. The steel market should continue to expand through 1994 and domestic steel deliveries are expected to increase by 2 per cent over the year. Since January 1993, steel prices have risen steadily and, together with improved operating rates, they have allowed the steel industry to substantially reduce its losses.

4. The trade deficit in steel mill products continued to widen in 1993 due to a sharp rise in imports, which increased by 14.2 per cent to 17.7 million tonnes; the increase was particularly pronounced in the last quarter. Imports of semifinished products accounted for a large share of the increase. Among major suppliers, imports from the European Community increased by 50 per cent, to 6.2 million tonnes, and imports from Canada increased by 13 per cent. Imports from Japan fell by one third to 1.6 million tonnes. Import penetration rose to 18.8 per cent, from 18.0 per cent in 1992. In January 1994, steel imports totalled 2.0 million tonnes, the highest monthly level since September 1985, and import penetration rose to 24.7 per cent. Steel exports in 1993 declined by 7.4 per cent to 3.6 million tonnes. Exports to Mexico dropped by one-third, while those to Canada increased 19 per cent to 1.5 million tonnes. Taiwan became the third export market due to a fourfold increase in shipments to that country. In January 1994, steel exports dropped to 251,000 tonnes, the lowest level in more than 3 years.

5. Mexican economic growth slowed to 1.9 per cent in 1993 while inflation decreased to 9.5 per cent. However, the slowdown of inflation has been accompanied by reduced manufacturing output growth which in 1993 grew by only 1.5 per cent. In 1994, GDP is expected to grow by some 3.1 per cent; ratification of NAFTA and increased access to credit may provide a significant impetus to investment growth. Steel demand in 1993 increased by 5.9 per cent, while steel imports fell by 51.5 per cent and exports dropped by 80 per cent. Crude steel production increased by 8.6 per cent over the year. For 1994, a further increase by about 5.5 per cent is expected in steel production, and steel exports should recover, so that apparent steel consumption may remain close to the level reached in 1993.

6. After a drop by 0.6 per cent of GDP in the European Union in 1993, a modest recovery is foreseen for 1994. Some positive factors such as decreasing interest rates and economic measures taken by member states or at Community
level (such as investment in infrastructure) are improving the economic outlook for 1994, particularly in the second half of the year. GDP is expected to rise by about 1.2 per cent in 1994. All major steel consuming sectors have been hit by the recession in 1993, particularly the motor vehicle industry and the construction sector which showed a 3.4 per cent decline. However, the end of the downturn has been reached and some improvement has taken place thus far in 1994.

7. While internal steel demand dropped by some 8 per cent in 1993, the European Union improved its steel trade balance due particularly to an increase in steel exports of finished products, mainly to the Far East, and of semis to the U.S. producers. As a result, crude steel production maintained the level reached in 1992. Steel prices which had been declining for three consecutive years increased significantly from mid 1993. Prices for flat products increased by 10 per cent, while for some long products price increases reached 20 per cent. The outlook for 1994 remains uncertain for the steel market in the European Union. Internal steel demand may rise slightly during the second half of the year, and in case of a stabilisation of steel imports a modest increase in steel production may take place.

8. In Austria, real GDP declined by 0.5 per cent in 1993, but growth of some 1.5 per cent is expected in 1994; recovery in private consumption and investment are also expected. In 1993, crude steel production increased by 5.1 per cent to 4.15 million tonnes, imports declined by 14.1 per cent to 1.69 million tonnes and exports increased 2.5 per cent to 3.04 million tonnes. Austrian steel consumption declined by some 10 per cent, mainly due to production declines in the machinery and steel construction industries. Some improvement of domestic steel demand is expected in 1994. The level of steel prices is still very low and price increases are expected to be achieved step by step.

9. A slow upturn in the economy is beginning in Finland. GDP declined by 2.5 per cent in 1993, but the outlook for 1994 is better. Steel demand remained at a very low level in 1993 and, in spite of an increase of 7 per cent in apparent steel consumption, is still 30 per cent below the level reached in 1989. The reasons for the low level of steel usage are the continuing depression in the construction industry and the decline in investment. The output of manufactured goods and machinery has increased. The inflow of new orders continues and demand seems to be strengthening on the European market and remains good in South-east Asia. Crude steel production increased in 1993 by 5.8 per cent to 3.3 million tonnes, and steel exports and imports grew by 7 and 12 per cent, respectively. Import penetration reached 44 per cent of the market. Due to the slight recovery in the economy in 1994, steel demand is expected to increase by some 8 per cent, but will still remain far from customary levels.

10. Growth in the Norwegian economy is expected to increase from 2.5 per cent in 1993 to 3.2 per cent in 1994. Private consumption grew by 1.7 per cent in 1993, while public consumption increased by 2.2 per cent. Investment increased by 17.6 per cent, mainly due to investment in the offshore petroleum sector, and industrial production increased by 1.7 per cent. Crude steel production increased by 13 per cent in 1993, steel exports grew by 11 per cent.
and imports by 4 per cent; as a result, apparent steel consumption increased by 4 per cent. A decline in steel demand by 6 per cent is foreseen for 1994, mainly because the most steel intensive projects within the offshore sector were completed in 1993. The shipbuilding industry may see some increase in activity in 1994.

11. The Swedish economy is now clearly emerging from the deepest recession in 50 years. Spurred by a strong expansion in exports, GNP should increase by about 2 per cent in 1994, in spite of continuing declines in building activities and in the public sector. Crude steel production in 1993 increased by 5.3 per cent to 4.59 million tonnes, 89 per cent of which was continuously cast. For the second consecutive year, production of stainless steel rose considerably and reached a new record level of 553,000 tonnes. Steel exports increased by some 3 per cent to 3.3 million tonnes and steel imports increased by 4 per cent to 1.9 million tonnes, with imports from Finland increasing by 23 per cent. Due to a strong upturn in the engineering industry, which accounts for slightly more than 70 per cent of Swedish consumption, steel demand increased by 7.7 per cent in 1993, and a growth rate of the same magnitude is expected for 1994.

12. In Switzerland, crude steel production in 1993 slightly increased by 1.8 per cent, to 1.26 million tonnes, and capacities were fully utilised. However, the steel industry continues to report financial losses. The trend observed in recent years in steel trade continued; steel imports declined by 7.2 per cent to 1.58 million tonnes and steel exports increased by 4 per cent to 1.12 million tonnes. Apparent consumption declined by 7.7 per cent in 1993 and domestic demand for steel products remained weak, particularly from the construction sector. The outlook for 1994 does not show any sign for a clear improvement and steel demand should remain at the 1993 level. Foreign orders are expected to decline and domestic orders, mainly from the construction sector, are expected to increase somewhat. Efforts in restructuring the Swiss steel industry will continue and, by the end of 1994, a mini-mill will be closed down in order to concentrate and rationalise steel production.

13. In Turkey, crude steelmaking capacity in 1993 was 12.3 mtpy, of which 10.3 mtpy was for long products. Crude steel production in 1993 increased by 11.3 per cent to 11.4 million tonnes. Steel imports showed an increase of 101.8 per cent and totalled 5.5 million tonnes, while steel exports increased by 28.1 per cent and totalled 6.4 million tonnes, 93 per cent of which were exported to non-OECD countries. For 1994, steelmaking capacity should reach 12.5 mtpy and an increase by 2.6 per cent is expected in steel production to 11.7 million tonnes. Domestic steel demand in 1994 is expected to increase by 5 per cent.

14. In Japan, as a result of a sharp rise in exports to China, crude steel production in 1993 increased by 1.5 per cent to 99.62 million tonnes, despite a continued fall in domestic demand. In the first six months of 1994, crude steel production is expected to drop by 12.6 per cent compared to the same period in 1993, because exports to China will decline while domestic demand continues to fall. Steel demand in 1993 decreased from all steel consuming sectors due to the recession and the yen’s sharp appreciation, this despite support from public works projects financed by a large-scale package of economic measures. Steel consumption in the construction sector dropped by
10.6 per cent and that in the manufacturing sector fell by 9.7 per cent. Overall consumption fell for the third consecutive year and was down by 10.1 per cent. In the first half of 1994, steel consumption will be propped up by public-works spending from a large package of economic measures; demand is, however, expected to remain weak as demand from the construction and manufacturing sectors is expected to continue to decline.

15. In trade, Japanese steel exports in 1993 totalled 23.51 million tonnes, a 23.8 per cent jump from the previous year. By region, export to China amounted to 6.91 million tonnes, a 2.9-fold expansion over the previous year, and accounted for about 30 per cent of total Japanese exports. Exports to South-east Asia expanded at a firm rate, with those to Taiwan increasing by 19 per cent to 2.91 million tonnes. Exports to the CIS also jumped 4.9-fold to 0.59 million tonnes (mainly in tubular products). In 1994 steel exports are expected to fall, as they will be affected by the strong yen and by a decline in exports to China. Despite a significant decline in domestic steel demand, steel imports in 1993 increased by 3.6 per cent. By region, imports from the Republic of Korea, the largest steel supplier to Japan, declined by 1.6 per cent to 2.93 million tonnes, while imports from Taiwan increased by 16.9 per cent to 0.86 million tonnes.

16. The pace of recovery in economic activity in Australia has increased in the past six months and GDP is expected to grow by 3.5 per cent during 1993/1994 and by a further 4 per cent during 1994/1995. Rising business and consumer confidence is consolidating the recovery. Growth to date has been largely sustained by private consumption expenditures and an upturn in dwelling construction. The domestic steel market has strengthened but the rate of improvement has been slow. Steel demand has improved from the dwelling, automotive and white goods sectors, while the steel-intensive non-residential building market remains flat. Crude steel production increased in 1993 by 13 per cent to 7.8 million tonnes and a further increase by 2.5 per cent is expected in 1994. Apparent steel consumption grew by some 13.5 per cent in 1993 and a further increase by 2 per cent may take place in 1994.

17. Steel consumption in Korea increased by 15.5 per cent in 1993 in response to the high growth of the major steel consuming sectors, including the automobile, shipbuilding, machinery and construction industries. In 1994 steel demand is expected to continue to increase by 2.9 per cent. Crude steel production has steadily increased to meet strong domestic demand and in 1993 it totalled 33.03 million tonnes, a 17.8 per cent increase over 1992. In 1994, crude steel production is expected to reach 34 million tonnes, a relatively small increase of 3 per cent over 1993. Steel exports in 1993 increased by 6.1 per cent to 10.84 million tonnes and are expected to decline by 3.2 per cent in 1994 to 10.50 million tonnes. Exports to the USA continued to decrease, dropping by 42.6 per cent in 1993 to 0.89 million tonnes, while exports to China and South-east Asian countries grew by 39.4 and 34.8 per cent, respectively. Steel imports in 1993 dropped by 12.7 per cent to 5.29 million tonnes, due to the continued increase of steel production. In 1994, however, steel imports are expected to increase by 8.7 per cent to 5.76 million tonnes.

18. A sustained recovery of the Polish economy began in 1992 and strengthened in 1993 with a 4 per cent growth in GDP. The positive trends in the economy gave impetus to the domestic steel market. Steel demand in 1993
increased by some 10 per cent, but the Polish steel industry did not benefit as crude steel production just picked-up by 1 per cent. Steel imports increased by 50 per cent, while exports declined by some 6 per cent. In 1994, further recovery of the Polish economy and in industrial production will lead to a continuing increase in steel demand. Net steel exports will continue to decline while steel production is expected to increase substantially in 1994.

19. The Romanian economy is slowly emerging from the deep recession caused by the transition process, and preliminary national calculations indicate that GDP may have increased slightly, by some 1 per cent, in 1993, a positive result after the 13.6 per cent fall recorded in 1992. However, the situation remains difficult, with high inflation and financial problems. The economic restructuring process is slow as is the privatisation process. Industrial production picked up by 1.3 per cent in 1993, with the steel industry and the transportation and electrical and industrial machinery sectors obtaining the best results. The level of stocks within all industries remains very high. The volume of investment is still very low and did not improve compared to 1992. The steel industry has suffered from the general economic situation. Steel deliveries to the domestic market declined by 4.5 per cent in 1993, while crude steel production increased by 1.5 per cent to 5.45 million tonnes (62 per cent less than in 1989), and is expected to increase by some 10 per cent in 1994. The capacity utilisation rate was 44 per cent. Steel exports increased significantly to 2.22 million tonnes, while steel imports -- mainly specialty semi-finished steels -- increased by 3 per cent to 0.25 million tonnes. Employment in the steel industry declined by 10 per cent during 1993.

20. During 1993, employment in the steel industry in the OECD area declined by 6.2 per cent, and a further decline is expected for 1994. In the EU, the restructuring process continued in 1993 and employment in the steel industry was reduced by 10 per cent. In the United States, despite higher production and shipments, employment continued to slide in 1993 by 4.7 per cent, and the total number of employees in the steel industry was 238,300, down from 250,100 in 1992. Process workers in 1993 declined by 3.7 per cent to 181,700. In Canada too, employment declined in 1993 by some 4.2 per cent, from 34,840 to 33,370 employees. A further decline by 4.1 per cent is expected in 1994. In Switzerland also due to continuing restructuring, employment in the steel industry dropped by 11.5 per cent in 1993, while process workers declined even more, by 12.4 per cent. In the other European member countries, employment in the steel industry declined by 9.2 per cent in 1993. In Mexico, after a fall in employment by 15 per cent in 1992, employment seems to have increased significantly in 1993.

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SPECIALTY STEEL

21. Conditions in the specialty steel markets of OECD countries were mixed in 1993. Markets in the United States, Canada, Korea, and Sweden strengthened during the year while those in Japan and the European Union (taken as a whole) declined. Improvement is expected in most areas in 1994, with the exception of Japan where there are no signs of recovery.
North America

22. In the United States, apparent consumption of specialty steel reached a record level in 1993, as demand increased in many sectors, including, most importantly, the automotive sector. The growth was accompanied by a significant rise in imports, which accounted for a rising share of consumption in all product lines. The first several months of 1994 have been encouraging as general economic conditions in the United States remain good and there are expectations that demand from the industry producing pollution control equipment will continue to grow. The US specialty steel industry is continuing to position itself to compete successfully in an increasingly global market by forming alliances with foreign producers and investing in facilities. Companies are, however, only cautiously optimistic about the outlook in the light of rising import competition.

23. In Canada, growth in demand for specialty steel long products was modest in 1993, while increases in the consumption of flat products exceeded the country’s 3 per cent growth in GDP. Imports of flat products rose by 30 per cent, with much of the increase coming from European countries; on the other hand, imports of long products from the United States fell, while those from offshore sources rose. Attempts by North American producers to raise prices were reportedly unsuccessful as they were undercut by import offerings. The outlook for 1994 is for continued improvement in the domestic market; the industry is also expected to benefit from increased exports to the United States.

Europe

24. In the European Union as a whole, the specialty steel market was weak in 1993, reflecting poor conditions in the automotive market and low levels of capital investment. While conditions improved during the year, the outcome for the whole period was 15 per cent below that of 1992. The outlook for 1994 is for continued improvement as stocks are being rebuilt and export opportunities particularly to the US market, are good. The strength of the recovery is, however, in doubt as increases in real consumption in the EU are awaited. In Sweden, apparent consumption of specialty steel increased by 15 per cent in 1993 due in large part to a strong upturn in the engineering sector and stock rebuilding. The improvement was accompanied by increases in prices. As regards trade, exports of stainless steel increased by 37 per cent due mainly to intra-company transfers of one of Sweden’s multinational steel companies. Exports of other alloy steels increased by 2 per cent, while imports of stainless steel fell by 15 per cent. Imports of other alloy steels increased by 19 per cent.

Asia

25. In Japan, domestic demand for specialty steel declined by about 3 per cent in 1993 due in large part to weakness in the automotive sector. Exports and imports both rose, by 16.4 and 27.7 per cent, respectively, during the year. For 1994, domestic demand is expected to change relatively little, while the competitiveness of Japan’s exports is likely to be dampened by the strong yen and uncertainty in the export environment. In Korea, domestic consumption of specialty steel increased by 23.6 per cent in 1993, reflecting the effects
of the economic recovery policy pursued by the Government. Exports increased by 3.2 per cent while imports decreased by 11.6 per cent from their respective 1992 levels.

**OIL COUNTRY TUBULAR GOODS**

26. In the **United States**, the market for OCTG is experiencing difficulty. Inventory building in 1993 and the salvaging and re-use of pipe from an increasing number of abandoned wells are expected to have a depressing effect on the market in 1994. In **Canada**, on the other hand, a combination of royalty incentives and a buoyant natural gas market resulted in increased demand for OCTG in 1993. Shipments, mostly domestic, reached their highest level since 1988, a year in which exports were significant. Imports also rose, increasing their share of the Canadian market. The outlook for 1994 is clouded somewhat, as firms are reportedly putting expansion plans on hold in light of low prices for crude oil.

27. In **Norway**, exploration and drilling activity declined in 1993, leading to a decline in demand for OCTG; no substantial changes are expected in 1994.

28. In **Japan**, exports of OCTG increased by 7.6 per cent in 1993 as a result of higher shipments to the CIS and the United States; exports to the Middle East, on the other hand, decreased sharply. Exports in 1994 are expected to maintain their 1993 level on the strength of increased demand from China. In **Korea**, exports of OCTG more than doubled in 1993, rising to 248 000 tons.