Latin American Steel Market:
Opportunities and challenges ahead

Despite the current volatility and uncertainties regarding the global scenario, Latin America has had relatively good economic results and a growing steel demand.

Nonetheless, this regional growth is not free of risks and there are some structural unbalances beneath this growth that could limit the economic development in the future.

This paper will describe the main developments in the Latin American economy, the risks for the regional economy and, for the steel industry, show the situation of the steel market and finally will focus on the opportunities for Latin America.

Economic outlook

During the global crisis, Latin America showed an unusual resilience to external shocks, and the recession was only -1.8%, thanks to good economic fundamentals and the counter-cyclical policies many governments deployed with success.

In 2010 the recovery was over 6% and the growth rate is expected to stabilize between 3% and 4% in the upcoming years. Given the volatile international outlook, this could be considered as a “back to normal” situation if you compare with the boom period 2004-2008, when the region was growing between 5% and 6%.

[Graph showing Latin America GDP from 2000 to 2013]

Source: ECLAC
However, the current growth could be limited by several structural issues that have been growing as well:

The first issue is the appreciation of many Latin American currencies since 2010, which remains an important challenge for international competitiveness and represents one of the main causes of inflationary pressures, as well as an emerging risk of the Dutch disease among many countries.

The second issue is the over-dependence of the region on raw material exports, due to an abnormal international demand. This makes Latin America vulnerable to international turbulences and pushes the economies towards a basic production structure that do not add value to the goods and therefore affects the growth potential and development path in the long term.

The trend that pushes into mining and raw materials activities has already provoked an impact on the manufacturing sector. Since 2009 there has been little, if at all, progress in industrial production. Those figures have been stagnating and alerting the sector about a worrying deindustrialization process.

Latin America and the Caribbean: Extra-regional real effective exchange rates (2008-2011)
(average 1990-2009=100)

[Graph showing real effective exchange rates]

Latin America and the Caribbean: Structure of worldwide goods exports, by value, since the early 1980s (Percentages of the total)

[Graph showing structure of goods exports]

Industrial production appears to be stagnating

[Graph showing industrial production]

Note: Index: Jan-08=100
Source: Barclays

Source: Economic Commission for Latin America (ECLAC), on the basis of United Nations Commodity Trade Data Base (COMTRADE)
Steel markets developments

Thanks to the good economic outlook, the region foresees a growing steel demand until 2013, with a consumption expanding 6.3% this year and 6% next year, reaching over 60 million tons, an all times record for the region.

After construction, most of the demand came from metallic products and mechanical machinery, two sectors closely related to raw materials activities and food production.

Steel Consumption Forecasts: +6.3% in 2012, +6% in 2013

Nonetheless, this increase in demand has not been supplied by local production the last couple of years. Latin America has the capability to meet the regional needs, and used to do so in the past, as can be observed when comparing the production levels of 2007-2008 with the post crisis levels.

The global unbalances and unfair trade practices have distorted the international scenario, affecting the Latin American steel market structure, that was relatively well equilibrated from 2005-2008, but has been persistently unbalanced after the global crisis and import penetration rate on consumption has become a major issue in many countries of the region.
Risks for the regional steel industry

Part of the current market unbalance is due to currency appreciations in the region and the consequent loss of competitiveness. However, most part of this new steel market structure is due to subsidized and unfair imports from China.

This Asiatic country represents currently around 20% of the Latin American steel imports and accounts for a growing proportion of indirect steel trade too, growing almost 28% last year, and affecting all the regional steel value chain. This represents a serious threat for the downstream manufacturers and is certainly contributing to the deindustrialization process the region is enduring.
Opportunities in Latin America

The Latin American steel market has many opportunities within the region. The consumption potential is still at the beginning of the steel intensity curve. This means our emerging middle class is set to increase its steel consumption due to higher incomes in many countries.

Until now, the Latin American steel intensity curve has been relatively flat and has not “taken off” yet, especially when comparing its evolution with industrialized countries such as United States or Japan, for instance.

One fact that can be observed is the apparent steel use per capita. The evolution in Latin America has been practically flat the last six years. The GDP per capita in the region is comparable with some other regions in the world, such as India or China, but as it can be seen in the following graph, the steel consumption per inhabitant is one of the lowest in the world, around 100 kg per capita.

![Apparent Steel Use per Capita](image)

Source: Alacero

**Key messages**

The Latin American economy is growing, but this growth is accompanied by increasing structural unbalances that must be addressed in order to guarantee a sustainable economic growth in the long term.

The economic potential of the region depends on a strong development of the industrial sector and consistent infrastructure investments to promote new projects.

The steel demand has been growing lately and the trend is expected to continue in the upcoming years, but the current consumption is increasingly supplied by imports rather than local production, affecting negatively the Latin American steel industry.

There are two sources of threat for the regional steel industry. One is the Chinese growing presence in steel and in steel containing goods imports. The other main challenge is the current deindustrialization process that is affecting the Latin American countries.