STEEL COMMITTEE OF THE OECD

Outlook for the OECD steel market in 1994

After having fallen for four years running, crude steel production in the OECD area may have started to recover slightly in 1993, exceeding the 1992 level by about 1.9 per cent. This upward trend is expected to continue in 1994 but at a slower pace, probably between 0.5 and 1 per cent, according to the estimates of the governments participating in the OECD Steel Committee.

Steel demand in the OECD area, measured in final-product equivalents, continued to decline in 1993, by about 4 per cent, reflecting the difficult economic climate in some Member countries. However, the situation varied widely across countries, with some registering a marked pick-up in the demand for steel while others continued to see demand decline. In 1994, most of the countries hit by recession are likely to see a recovery, as a result of which steel demand for the total OECD area could rise by around 1.5 per cent.

The probable recovery in the steel market in 1994 would be partly explained by an increase in GNP growth in the OECD area, which should exceed 2 per cent over the year. Together with this improvement, there might be a significant pick-up in non-residential private investment, which declined from 1991 to 1993. Residential investment is also expected to grow in 1994, whereas private consumption, likely to be affected by high unemployment in some countries, will grow at a much slower pace. A pick-up is also expected in industrial production, and inflation should again be contained. These factors will affect steel demand in the various Member countries of the Steel Committee in different ways.

After a period of recession in 1993 which hit the main steel-consuming sectors very hard, the European Community is expected to register moderate economic growth (under 1.5 per cent) in 1994, which should strengthen from the middle of the year. Activity in these sectors, which could remain depressed during the first half of 1994, may therefore pick up during the latter half of the year. Similarly, steel demand in Japan declined in all consuming sectors throughout 1993, and the outlook for 1994 remains uncertain. In other Member countries of the OECD Steel Committee, the recovery now under way or beginning...
to get under way should gather strength, enabling a revival or an acceleration of activity in the main steel-consuming sectors. This applies to the automobile sector in the United States, Canada and Korea, and residential construction. Non-residential construction and the infrastructure sector are also expected to register higher activity, particularly in North America owing to substantial investment. Activity in the engineering sector is expected to pick up, particularly in Sweden, where depreciation of the Krona and productivity gains have made the industry significantly more competitive. In Norway, activity in the off-shore oil industry could slow down.

Steel stocks declined in the European Community, Canada and Norway but increased in the United States, Mexico and Japan. Stock levels are generally considered to be normal to low, except in Mexico where they are high. In 1994, relatively slight changes are expected in steel stocks, either downwards as in the European Community and Mexico or upwards as in the United States and Norway.

As far as the evolution of steel trade is concerned, trade flows have been affected by high demand in some areas, particularly China (even if it declines by mid-year) and the South-East Asia markets and, to a lesser extent, by the recovery in the United States in the second half of the year. Exports to the European Community fell steeply, reflecting a general decline in the market in that area. EC exports to China remained stable, while exports of some steel products, mainly semi-finished products increased, in particular towards the end of the year. As the market recovered, net imports in the United States (imports - exports) increased by some 8 per cent. In Canada, imports from Europe accelerated. In Australia, imports rose early in the year, offsetting a momentary fall in output at the Pt. Kembla plant. In Japan, exports to China continued to rise, and there was a recovery in exports to Russia. Trade with central and eastern European countries levelled out, indicating that steel demand was starting to pick up in some of these markets. In Turkey, a buoyant market generated an increase in imports, mainly from central and eastern Europe, and there was a simultaneous increase in steel exports to Asia. In Mexico, the recovery in production slowed down imports, and exports to North America increased significantly. In Korea, exports benefited from the buoyant Asian market.

For 1994, as demand picks up in a growing number of Member countries trade should flatten-off somewhat, while activity in China and a number of other countries in South East Asia should slow down. Steel imports to the European Community are expected to remain at their 1993 level, whereas exports may decrease by 10 per cent or even more. In the United States, where the recovery is expected to continue, steel imports, particularly of semi-finished products, should accelerate. In Canada, net steel trade is expected to remain at the 1993 level. The 1993 trend should continue in other OECD countries, and in Mexico. Korea is expected to see a decrease in exports and, because of strong domestic demand, a sharp rise in imports, mainly of semi-finished products.

As for the central and eastern European countries in transition, 1993 marked the end of a decline in steel demand in Hungary, Poland and Romania. All three countries participate as observers in the work of the Steel...
The recovery strengthened in Poland in 1993, while in Hungary, after a downward trend in the first quarter, economic activity stabilized and began to pick up. In Romania, industrial production revived, but this country still suffers from the blocus against Serbia and Montenegro which affect its trade with other countries situated upstream on the Danube. In 1993, there was an upturn in the steel market in all three countries for the first time in seven years. Crude steel production also rose and trade in steel products tended to level out. In 1994, the economic situation is expected to improve but in varying degrees from one country to another, and growth will remain weak. In 1994, crude steel production should continue to rise, with some industrial sectors generating increased demand for steel products, although this will vary from one country to another, with the recovery in the steel market still fragile.

As in 1992, crude steelmaking capacity in the OECD area registered little change in 1993 (down by 0.4 per cent). The average capacity utilisation rate for the OECD area was 73 per cent. In 1994, structural adjustment is expected to accelerate, particularly in the European Community, resulting in more significant decreases in capacity.

Employment in the OECD steel industry, which had been decreasing at a rather moderate pace in recent years, registered a more significant decline in 1993, reflecting the impact of the recession on the sector. Job losses ranged from 5 to 10 per cent of the workforce, depending on the country. In 1994, there will be further and even more significant cuts in the workforce, as overcapacity is still a problem.

After the decline in steel demand and production recorded in 1991, 1992 and 1993 in the OECD area as a whole, a recovery, even if modest, is expected in 1994. This pick-up, already visible in many Member countries, should accelerate in others and become more marked in the second half of the year. Widespread growth in investment during the second half of the year and the anticipated recovery in production in the main steel-consuming sectors should be the driving forces behind a recovery in steel demand, which is expected to increase in 1995.