

## Q. What will be some of the new key developments for the global steel industry in 2013?

**A.** WSD often ponders the question of what new factors may be impacting the global steel industry, and how conditions may vary in the “rutted road” and “open road” paths to the future. Here are some of WSD’s latest perspectives:

- Perhaps 15% of the steel plants in the world, outside of China, are not well positioned to cope with today’s changed steel industry environment. A number of these plants will be offered for sale at bargain-basement prices.
- The next few years may prove to be especially difficult for multi-plant steel companies. A number of older steel plants, for which modernization efforts have lagged in recent years, are increasingly non-viable for reasons that may include high costs, only average product quality and tough competition in their region.
- No international steelmaker is going to emerge as the next major industry consolidator. Not a single company seems poised to challenge ArcelorMittal for supremacy in the global industry.
- U.S. steel demand in the next decade will surprise on the upside. The reasons will include: (a) rising steel demand due to increased investment in energy sources and distribution of energy reflecting the abundant and low-cost supply of natural gas; (b) more badly needed infrastructure spending; (c) a recovery in residential and retail construction spending; (d) growing construction of new factories by domestic and offshore companies; and (e) the normal rise in activity in steel-consuming industries.
- Chinese steel demand may surprise on the downside. While WSD’s official forecast calls for growth of about 2–3% per annum in the next decade, that view could prove to be too optimistic, reflecting: (a) much lessened steel intensity for household spending than fixed asset spending, with household spending’s share of GDP rising sharply and fixed asset investment’s share falling substantially; (b) less of a boom in high-priced apartment construction; and (c) reduced growth of new factory construction as manufacturers site more of their new plants elsewhere.
- The Information Revolution, which WSD defines as the amplifier of the Industrial Revolution, is now benefitting manufacturing companies in the advanced countries perhaps as much as, if not more than in some cases, those in the developing world, including China. Because of the high labor productivity, low employment costs per worker may no longer be the key to success when producing a “widget” (a manufactured item).
- The United States is the best place in the world, and by a substantial margin, to build a new factory. It has: (a) low energy costs; (b) available workers; (c) good transportation systems; (d) huge and high-end markets; (e) no country risk; (f) sizable subsidies offered at the state and municipal levels when new factories are planned to be built; and (g) no disadvantage when it comes to global sourcing.

**World Steel Dynamics (WSD)** is a leading steel information service in Englewood Cliffs, N.J.



WSD’s steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the “pricing power” of steel companies the world over will be impacted by changes in the steel industry’s structure.

The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

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- The U.S. is likely to go “mercantilistic.” Re-elected President Obama and other government policymakers, in WSD’s opinion, will take far stronger and partisan actions to promote manufacturing industry. New measures will make it more difficult for offshore companies to export goods to the United States. Government policymakers will take this step in part because jobs in manufacturing now account for only about 9% of total employment in the U.S. A boost in manufacturing activity is one of the easier ways to create jobs, especially when job growth in the government sector is non-existent.
- The hot rolled band export market has grown even more competitive. More of the world’s steel mills, including a number of the leading ones, have become quite aggressive in the past few months, when they think it’s the time to unload their product.
- WSD has “pulled forward” by one year in thinking the steel industry’s rutted road path to the future will end — i.e., perhaps in 2016 rather than 2017. The factors restraining global steel demand growth may be purged more rapidly than previously assumed. Why? The invisible hand (i.e., price allocates resource) operates at warp speed nowadays.

**Q.** If it took the global economy, and steel demand, 20 years to recover from the impact of huge global inflation in the mid-1970s, why might it take only 8 years for the industry to recover from the 2008 U.S. financial crisis and the 2011 eurozone sovereign debt crisis?

**A.** WSD’s answer is: (a) high debt-to-GDP ratios in the advanced countries is far less of a problem than huge inflation; (b) the Information Revolution has stimulated the invisible hand (i.e., price allocates resource) to operate at warp speed; (c) the developing world, which over time grows at a faster rate than the advanced countries, now amounts to about 50% of global GDP on a purchasing-power-parity basis versus only about 30% in 1980.

For the three major regions of the world, consider current constraints and why they may be overcome by around 2016:

- The advanced countries — particularly Japan, Western Europe and the U.S. — are presently stymied by: (a) far too much debt as a share of GDP; (b) high entitlement obligations for retirees, the sick and the unemployed; and (c) political systems in which the different parties are apparently unable to work with one another — which means that economic policy responses to current conditions may be inadequate. (Note: In the developing world, India is an example where the elected officials are at a stalemate with one another.)

Nevertheless, it seems likely to WSD that governments will find ways to reduce debt as a share of GDP, in part by spending less, and, at the same time, find more ways to promote the growth of the private economy. As noted earlier, the ever-more-potent technological revolution, which is the consequence of the expanding influence of the Information Revolution, may now be benefitting the prospect for new manufacturing plants in the advanced countries, perhaps even more than is the case in China.

WSD speculates that the U.S.’s trade deficit, which in September was \$41.5 billion or about \$500 billion annualized, or about 3% of projected 2012 GDP of \$15 trillion, might be balanced as soon as 2017, reflecting: (a) the benefits of low natural gas prices (which promotes the consumption of natural gas instead of imported oil); (b) more U.S. manufacturing activity, including a slew of new factories, that somewhat slows the growth of imported manufactured goods; and, perhaps, (c) a weaker U.S. dollar.

- The Chinese economy is currently encountering the “boomerang effect” from the massive over-investment in 2008–2011. It’s facing a stagnating, if not declining, housing sector because apartment prices are too high for households and enterprises to embark on a new buying binge. Household spending as a share of GDP may rise to 49% in 2020 from 37% at present, and fixed asset spending as a share of GDP may fall back to perhaps 39% from 50%, with rising government spending making up the difference. This change for the Chinese economy is a major negative for steel demand because household spending is only about one-tenth as steel-intensive as fixed asset investment (FAI) — when measured in million tonnes of steel consumed per trillion of GDP.

Chinese GDP in the next decade will probably still be rising at a good pace — 6% per annum — and FAI, although falling as a share of GDP, will also be increasing because it’s already such a large portion of GDP. Hence, WSD assumes that steel demand in China will grow at a moderate rate in the future rather than decline. (Note: In the U.S., gross fixed capital formation is only about 13% of GDP versus about 50% in China.) ◆