Ask WORLD STEEL DYNAMICS

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. ***To submit your questions for WSD, e-mail WSD@aist.org.***

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Q: Has WSD altered its long-term outlook on the global economy since the predictions made in 2009? If so, what is the latest view?

A: WSD thinks that the global economic outlook may turn fundamentally positive in 2011 rather than our prior expectation of 2012. A plus in the current situation, unlike that in the early 1970s, is that interest rates and inflation are low. In 1972–1975, surging inflation and high interest rates damaged the growth of the global economy for the next 20 years.

The economic environment forecast for 2011–2020 is consistent with what WSD calls its "Global Investment and Income Shift Paradigm Theory" (GIISP). In this environment, we expect:

- Global economic activity is stimulated significantly by the Information Revolution, which we view as an accelerator of the Industrial Revolution. It promotes a more rapid allocation of resources, holds down inflation by stimulating new cost-cutting technologies, improves product quality, stimulates trade and discovers pockets of unused capacity.
- Rising fixed asset investment as a share of GDP in many countries. It's increasingly recognized as the foundation of growth in fixed asset investment.
- Relatively low inflation rates due to more price competition and more capacity (the consequence of the higher fixed asset investment).
- Relatively low interest rates. High levels of fixed asset investment are basically deflationary because they add to capacity and reduce costs.
- Synchronized governmental policies to prevent financial bubbles and unacceptable financial risk.
- Promotion of fixed asset investment globally due to the shift of income to the Developing World — which we call the Income Shift Paradigm — because of the inherently higher savings rate and fixed asset investment rate as a share of GDP than that in the Advanced Countries.
- The Chinese economic growth rate slows because fixed asset investment, adjusted based on gross domestic capital formation figures, is already close to 50% of GDP. However, GDP growth rates pick up in Russia, the Middle East and the Far East.
- Global GDP growth of perhaps 3.5–4.0% per annum.
- Rising fixed asset investment as a share of GDP. (Note: This is the only prescription for good global long-term growth.)

The global economy in 2009, and also in 2010, has been and will be impacted by cyclical and temporary factors including:

- Financial de-leveraging actions by households, enterprises and financial institutions.
- Swings in inventory, including the major reductions earlier in 2009 caused by the severe "cash is king" environment.
- Restricted bank loans for mid-sized companies.
- Sharply reduced global trade in manufactured goods.

The global financial crisis that began in mid-2008, and its aftermath, have precipitated severe stock market swings.

However, beginning probably in 2011, or 2012 at the latest, WSD expects the global economy to rise for an extended period — due principally to rising fixed asset investment as a share of real GDP. The global economy in 2011–2020 will expand at a slower rate than in 2002–2008 because of more subdued growth for the Chinese economy. Fixed asset investment no longer will be sharply outpacing overall Chinese GDP growth because, in 2010, it may rise to more than 50% of GDP — which seems to be close to an upper limit. ✦

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"Most Likely" WSD Scenario 2009–2013

	China			Rest of world		
Year	Steel apparent demand	Steel inventory change	RMB per U.S. dollar	Steel apparent demand	Steel inventory change	U.S. dollars/ Euro*
2009	+ 19%	Up moderately	6.80	–24%	Down sharply	1.48
2010	+ 7%	Down moderately	6.50	+ 23%	Up significantly	1.48
2011	+ 4%	Down moderately	6.20	+ 5%	Up moderately	1.48
2012	+ 4%	Flat	5.90	+ 7%	Flat moderately	1.48
2013	+ 4%	Up moderately	5.70	–3%	Down sharply	1.48

*The more the dollars per Euro, the weaker the U.S. dollar.