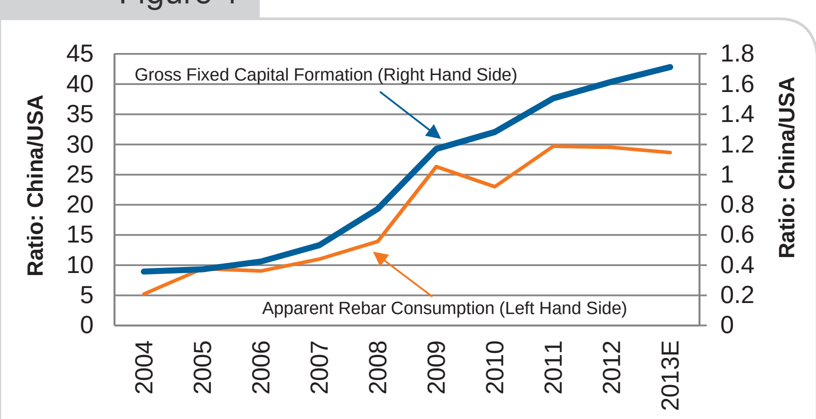
Chinese Steel Demand Hitting the Great Wall

What's the likelihood that the surge of Chinese steel demand in 2013 may be the last increase for quite a while? WSD thinks this is a good possibility. Consider these points:

- Adjusted fixed asset investment (gross fixed capital formation) in China is so large that it's straining the country's financial systems.
- The pace of new apartment construction is both staggering and, WSD believes, unsustainable.
- The country's export prospects seem to be diminishing — and, especially so if governments in advanced countries turn mercantilistic because of their desire to boost manufacturing employment at home.
- The Chinese RMB stays strong versus the Japanese yen.
- If adjusted fixed asset investment were to decline as a share of gross domestic product and household consumption rose, this would not be not good for steel demand, since steel consumption per trillion RMB of fixed asset investment is about seven times more steel-intensive than household spending.

One way to judge whether or not Chinese steel demand may have risen to unsustainable levels is to consider rebar consumption in China versus the U.S. (Figure 1) — with the figures for 2012 at 175 and 6 million tonnes, respectively. Chinese gross fixed capital formation is about 1.6 times that in the U.S.; yet its rebar consumption is about 30 times higher.

Figure 1



China vs. U.S. rebar consumption and gross fixed capital formation ratios. Source: WSD estimates.

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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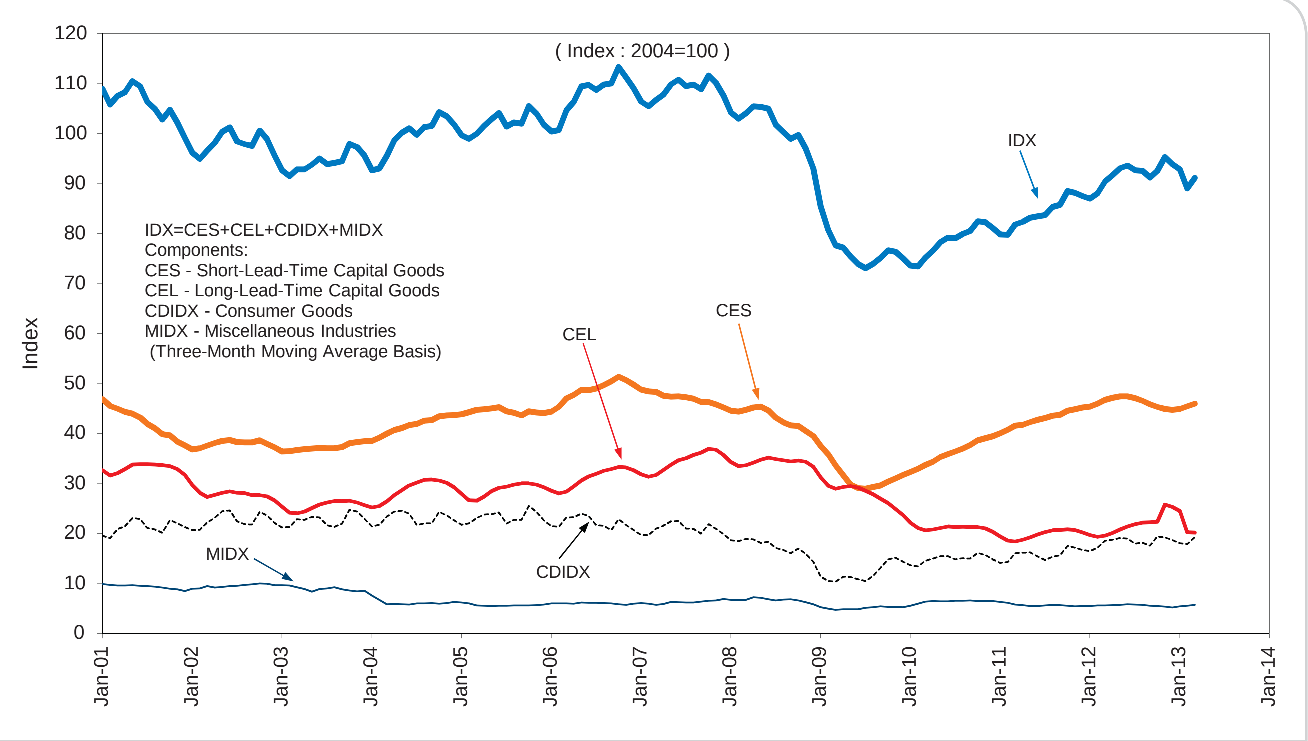
U.S. Steel Activity Indices Have Stagnated

WSD's weighted Index of Steel Activity (IDX) for the United States, which measures activity levels in 15 steel-consuming industries, is well down from the year-to-year growth rates that were experienced in the spring of 2012. The IDX is made up of four major segments: short-lead-time capital equipment, long-lead-time capital equipment, consumer goods and miscellaneous (agriculture and defense) (Figure 2). In April 2012, the IDX was up 13% year-on-year, and apparent steel demand was up 16% over the same period. However, in March 2013, the IDX was up, albeit marginally, at 0.1% year-on-year, while apparent steel demand was down 9.5%. In April 2013, the IDX was up 3.2% year-on-year.

The reasons for the major decline in apparent steel demand versus the IDX may include: (a) steel buyer inventory liquidations and (b) a decline in steel intensity. When an economy expands at a fast rate, steel-intensive sectors usually account for a larger amount of the expansion. However, when an economy is experiencing growth at a slow pace, the rise in services may be the prime driver of growth.

The strongest component of IDX in April 2013 was consumer goods, up 13.1% year-on-year; included is residential housing, up 16.1% year-on-year; automobiles, up 15.7% year-on-year; and household appliances, up 0.9% year-on-year. The short-lead-time capital goods index was down 0.5%, and the long-lead-time capital goods index was up 2.2%. ✦

Figure 2



Components of WSD Index of Steel Activity.

