China’s still driving the steel industry bus

In China, recent economic data suggests that the economy is slowing down. The manufacturers’ Purchasing Managers Index (PMI) reading was only 50.0 for November 2018, indicating that growth of China’s manufacturing sector has stalled. The lower Chinese stock market and worries about trade wars have reduced buying sentiment, with automotive sales down slightly year to year. Also, gains in the country’s fixed asset investment (FAI) are now rising at about a 5% year-to-year pace. There are also indications that new loan issuances are down.

Manufacturers’ capital spending, which accounts for about 50% of FAI, may not rise significantly given the worries about the profit outlook. The country’s medium- and large-sized steel mills are no longer generating a profit on their commodity-grade steel sheet sales due to the recent sharp price declines and relatively high costs for domestically produced iron ore and coking coal. Electricity rates have also risen.

WSD is counting on four developments that will stimulate the Chinese economy to be strong in the second quarter: (a) the government’s ongoing promotion of infrastructure spending and loans to manufacturers and those engaged in construction projects; (b) seasonal factors; (c) less fear of a trade war; and (d) economic activity can be more rapidly impacted by governmental actions than Western economies.

Authors

Peter Marcus (left)  
managing partner,  
World Steel Dynamics  
pmarcus@worldsteeldynamics.com  
+1.201.503.0902

John Villa (right)  
research strategist,  
World Steel Dynamics  
jvilla@worldsteeldynamics.com  
+1.201.503.0911

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors.