2022: Synchronized Economic Expansion. Rising Fixed Asset Investment.

2022 Boom Year for Steel

The global economy is probably in the midst of a multi-year recovery — as was the case after the late-2008 global financial crisis.

WSD expects the global economy next year to be stronger than in 2021, especially from the perspective of the steel industry that's a "late-in-cycle" industry (given its tie-in to fixed asset investment that normally gets stronger the longer the economic recovery). Some other positives for steel demand may include:

- Many industrial companies outside of China will have fully resumed their capital spending programs. In 2020, capital spending in many cases was scaled back due to much reduced profits, some weakening of their balance sheets, tougher-minded banks when it comes to obtaining loans, and less confidence in the supply/demand balance for their products. In 2021, capital spending by industrial companies may lag that in 2020, when many projects were deferred — it often takes at least six months for these to be rekindled.
- Governments will have more funds available in 2022 for infrastructure spending as their deficits are lessening, fewer funds are transferred to needy citizens, and sales and income tax revenues are rising. In 2021, persistent government deficits and high transfer payments to the unemployed and less fortunate will probably be "crowding out" outlays for infrastructure spending.
- Consumers will have more optimism granted that the COVID-19 pandemic is no longer pulling down the global economy — reflecting the benefit of widespread vaccinations. (Note: WSD presumes that non-vaccinable new variants of COVID-19 won't appear and that there will be few issues with the effectiveness of the currently available vaccines.)
- The oil price could rebound to US$60–65/barrel, reflecting rising demand and Organization of the Petroleum Exporting Countries (OPEC) production restraints. If so, this would probably stimulate some increase in oil well drilling activity and the restart of infrastructure projects in the Middle East. (Note: Of course, the oil price outlook is always a "wild card.")
- Inflation rates may remain low in many countries, despite persisting government deficits, due to "competitive" pricing in many industries and still moderate wage boosts.
- Interest rates on government bonds will likely remain quite low. One reason, perhaps, is the excess supply of money circulating the world looking for better returns. Until these better returns are found, a sizable portion of these funds may remain "parked" in highly liquid governmental bonds — including the USA's 10-year treasury bond that currently yields about 1%.
- China's policymakers may be: (a) less fearful of a housing price bubble; (b) not as worried about the excess debt held by municipalities — a good portion of which will be

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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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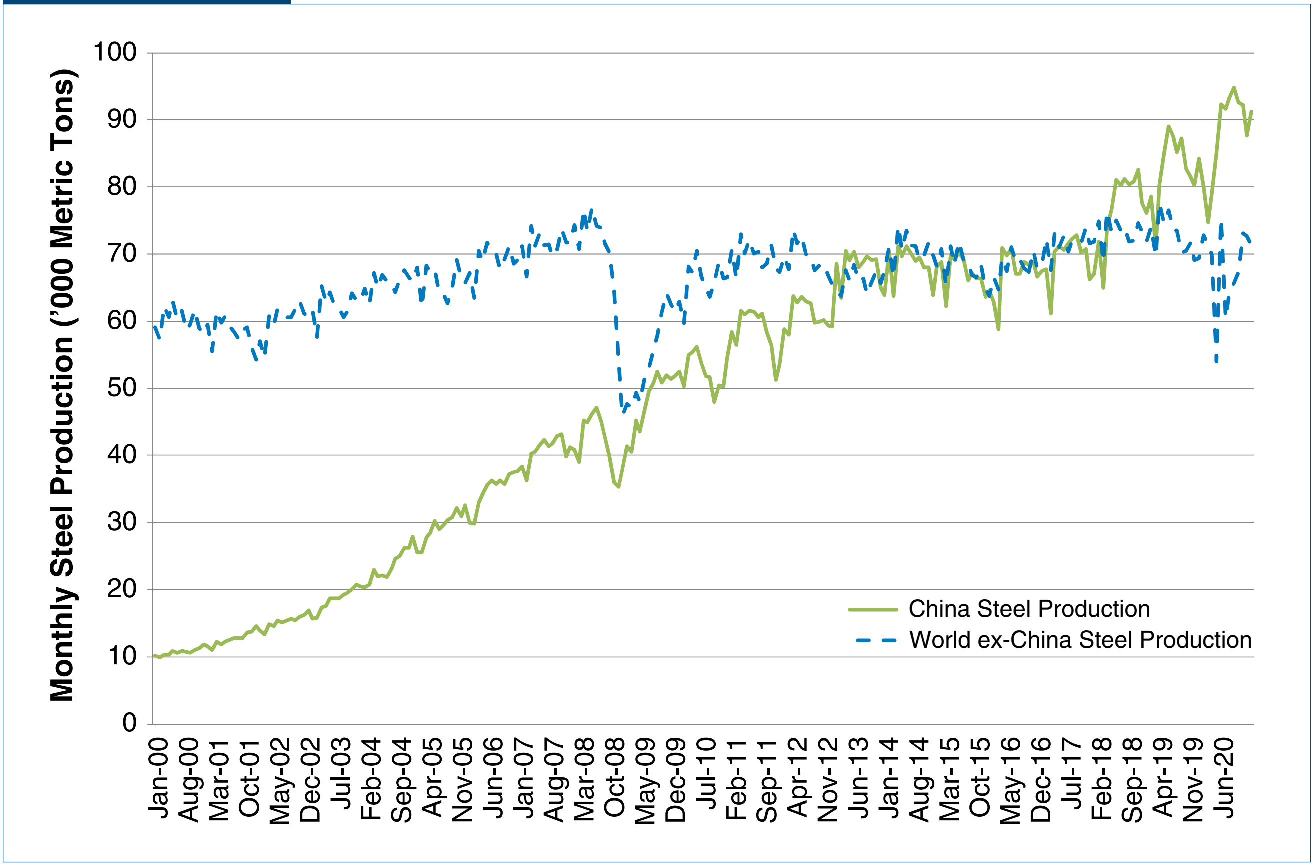
Figure 1



China vs. world ex-China monthly steel production. Source: World Steel Association, WSD estimates.

refinanced in 2021; and (c) confident that the country's merchandise exports will continue to boom. In November and December of 2020, the country's net trade surplus amounted to about 6% of GDP.

In 2022, given a 4% rise in non-Chinese apparent steel demand, little change in Chinese steel demand, China's net steel exports at about 30 million metric tons (versus 33 million metric tons in 2020) and Chinese steel production restricted by its government to 2020's level of 1.05 billion metric tons, non-Chinese steel production would need to rise to about 960 million metric tons (versus 870 million metric tons in 2019, 802 million metric tons in 2020 and about 920 million metric tons in 2021; Fig. 1 shows China versus world ex-China monthly steel production over the last 20 years). A rise in production in 2022 to this level would probably be sufficient for many steel mills to have enough "pricing power" to more than pass on their costs.

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