



is a leading steel information service in Englewood Cliffs, N.J., USA.

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. Housing Market: Rate Going Up, Recession Looming

Several increasingly potent forces are conspiring at present to turn 2023 into a very difficult year, from the viewpoint of global steel prices and profits, and perhaps even the worst year in most recent history since 2015–2016. From WSD's viewpoint, the following explains one of the key reasons why this might be the case.

The U.S. housing market remains historically tight, and housing costs (rents) have surged through most of 2022. Most pundits continue to underscore low inventories and slowing new housing construction, albeit prices and new/existing home sales have slowed in recent months in the face of rising mortgage rates (from 2–3% for a 30-year loan in late-2021 to about 6% at the time of this writing) (Fig. 1). Nevertheless, an "easy" solution to this "problem" of rising housing costs — a key component of inflation — appears to be a ways off, and will likely require addition rate increases. Ultimately, these can only address the demand side of the equation (as well as via higher unemployment) as housing demand would have to moderate substantially in the face of largely stagnant supply in order to reduce inflation. After all, higher interest rates, all other factors held equal,

are unlikely to increase housing supply as a means of inflationary relief.

In the fourth quarter of 2022, the average monthly mortgage payment for a new home purchase rose to about US\$1,000 compared to last year. The sharp spike in mortgage rates has made the affordability of houses deteriorate very rapidly. Mortgage applications to purchase a home fell 37% year over year according to the Mortgage Bankers Association.

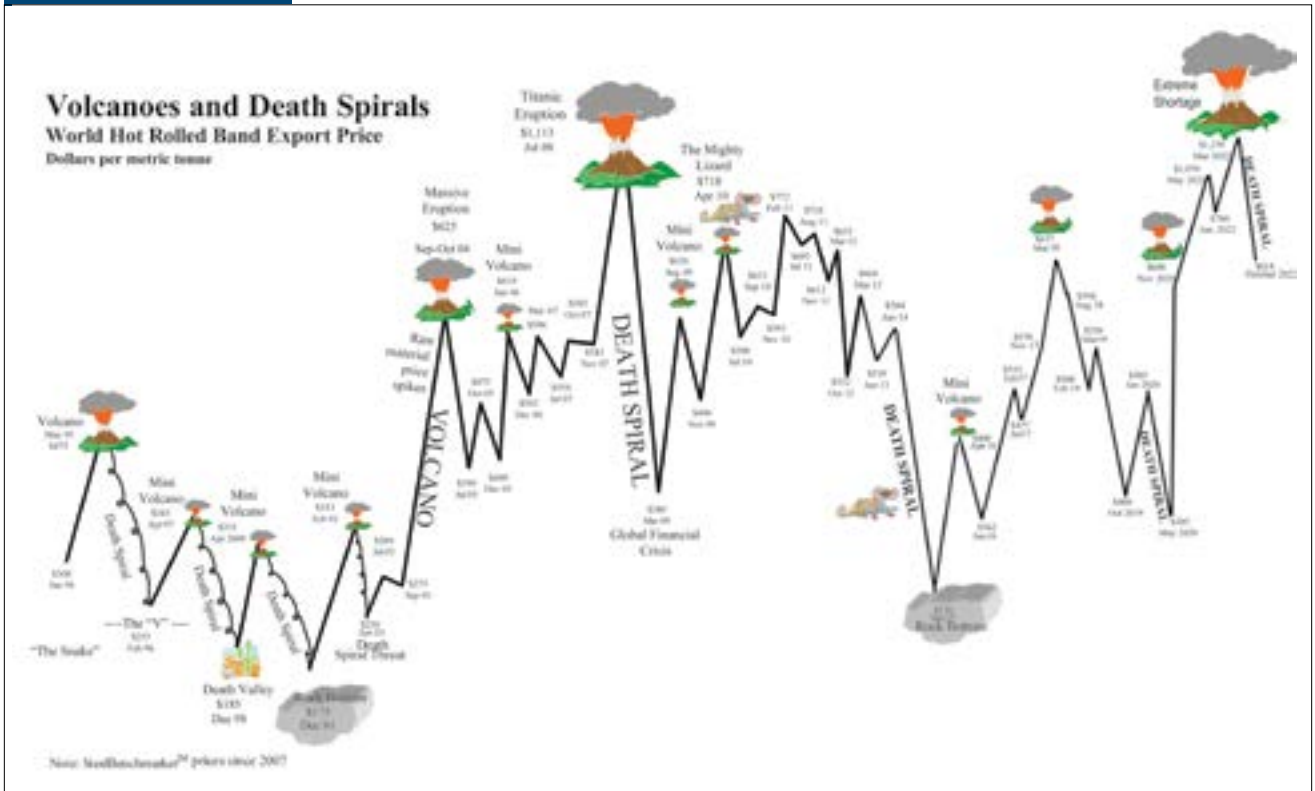
The looming recession, high interest rates and the current energy crisis brought about by skyrocketing oil and gas prices has contributed to a classic "death spiral" situation for global steel prices (Fig. 2). The price of hot-rolled band on the world export market, at about US\$618/metric ton as of Q4 2022, FOB port of export, has entered classic death spiral territory, down from a high of about US\$1,200 early in 2022. A virtually synchronized buyer "strike" has been in full effect, with the EU, Pacific Basin and other regions abstaining from placing orders and adding to inventories dating back to mid-May. The current inventory positions among distributors and end users remain at sufficient to elevated levels — especially considering the forward declining outlook

Figure 1



Sales fall for new and existing homes. Sources: National Association of Realtors®, U.S. Census Bureau and U.S. Department of Housing and Urban Development.

Figure 2



*Volcanoes and death spirals.*

for demand — in the EU, China and Latin America, according to WSD contacts. Buyers are sitting on high-priced inventories, which they would no doubt

prefer to reduce before replenishing with new material. Higher-cost credit lines are further exacerbating this phenomenon.

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. ◆

### Did You Know?

#### LIBERTY Steel Trials Coal Substitute

LIBERTY Steel UK has wrapped up a successful trial of a coal substitute in its electric steelmaking operation in Rotherham, England.

In a statement, the company said it tested a biofuel called ecoke, a briquette made from secondary biomass, at its Aldwade Cast Products (ACP) facility. The briquettes were used in place of anthracite coal, which had been the main carbon charge into the furnace.

“The success of LIBERTY’s ecoke trials is a major step forward for our GREENSTEEL strategy. The major reductions in CO<sub>2</sub> emissions ecoke enables, without any downside to the production process, can help to further decarbonize our production and the wider steel industry,” said Scott Jackson, LIBERTY Specialty Steel plant manager at ACP.