WORLD STEEL DYNAMICS

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# China Steel Market Situation: China's Steel Bus Hitting Bumps in the Road?

## China Still Driving the Steel Industry "Bus": Off-Road Edition

As has been the case for the better part of the past two decades, the economic and steel industry–specific situation in China continues to drive the global industry outlook in a number of respects. Historically, WSD has referred to this phenomenon as China "driving the steel industry 'bus'" — in the latest instance, the Chinese bus has taken a detour off-road, with the key question looming: "For how long and how bumpy of a ride?".

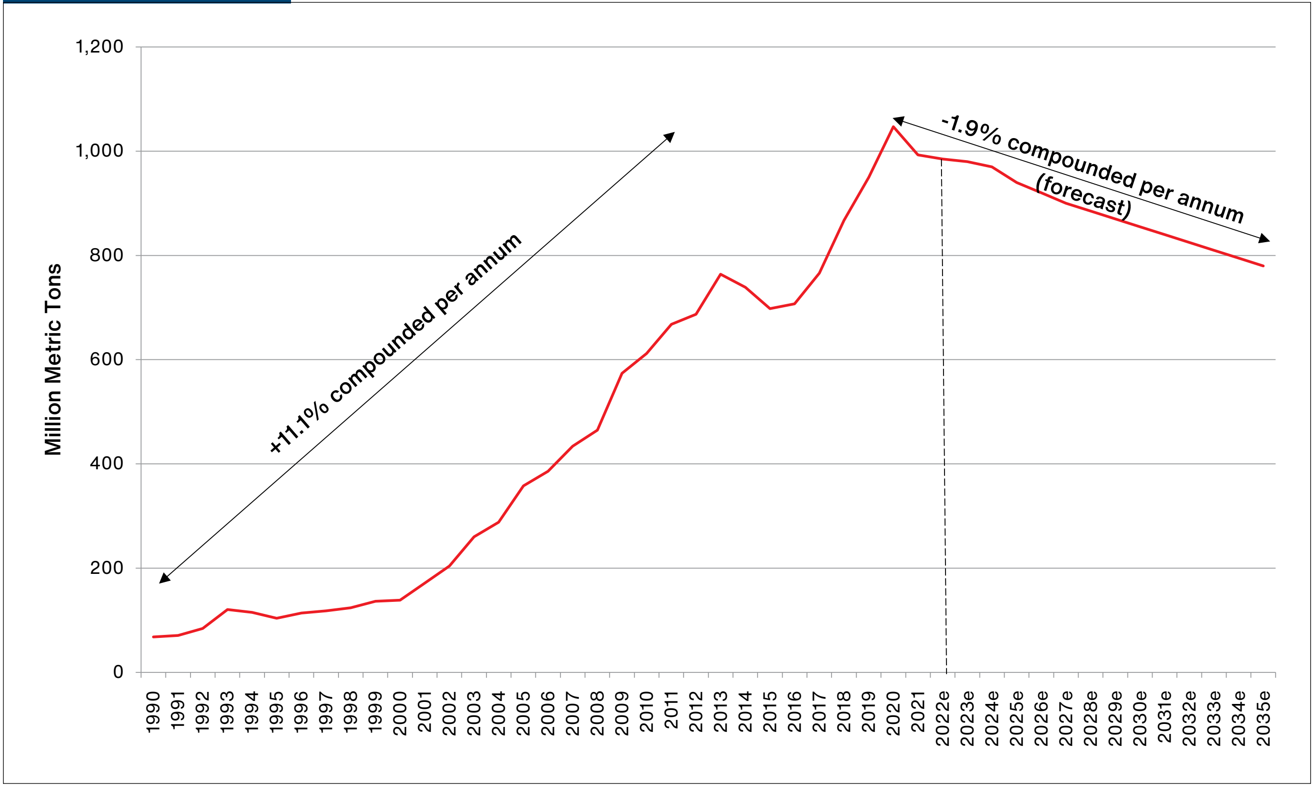
From January to April 2022 and dating back to late-summer 2021, the ride has been one of the "bumpiest" since the 2014–2016 period from the viewpoint of steel demand, prices and industry profitability. Consider:

- In 2015, Chinese apparent steel consumption fell for the first time in at least 5 years on a year-to-year basis from 727 million metric tons in 2014 to 692 million metric tons — a 4.8% decline — with a corresponding decline in the domestic price of hot-rolled band from US$443/metric ton in 2014 to US$301/metric ton in 2015, a 32% decline year to year (Fig. 1).
- During the second half of 2021, Chinese apparent steel consumption fell to about 917 million metric tons annualized, or nearly 10%, versus the full-year 2020 figure of 1.02 billion metric tons.
- Based on January to April data, Chinese apparent consumption remains depressed at about 994 million metric tons annualized, roughly 9.8% below the H1 2021 figure of 1.1 billion metric tons.

The latest bout of Chinese economic and steel demand–related anemia is largely attributed to the near-complete "COVID lockdowns" of the population and accompanying economic activity in a number of major Chinese cities aimed at preventing the spread of the disease, with Shanghai among the highest-profile targets of this tactic. The economic impact has been astounding, with the prevailing expectation that GDP during the second calendar quarter could outright decline on a year-over-year basis, following a lower-than-hoped figure of only 4.4% growth during the first quarter. A slew of economic indicators in April are flashing "bright red" on a year-over-year basis:

- Retail sales saw a decline of 11%, following a ~4% decline in March.
- Property sales were down 40%.
- Vehicle purchases were down more than 30%.
- New housing starts were down nearly 45% after a 22% decline in March.
- Industrial production was down 3% after rising 5% in March.
- Fixed asset investment growth plummeted to only 2.3% versus 7.1% in March, with infrastructure investment slowing to 4.3% growth from nearly 12% in March.
- Export growth moderated to ~4% down from almost 15% in March.
- Meanwhile, the Producer Price Index remained at about 8% (versus 8.3% in March) and the Consumer Price Index increased to 2.1% in April from 1.5% in March.

Figure 1




*China apparent crude steel consumption. Sources: WSD estimates, NBS.*

This calamitous situation is unfolding against the backdrop of a government target of 5.0–5.5% full-year GDP growth in 2022 with the high-profile National Party Congress looming in October or November of this year — a potentially monumental event as current President Xi is widely expected to remain for a third term in "office," a break from tradition of no more than two office terms observed since the Mao era. The symbolic importance of this upcoming event cannot be understated and the economic performance to date in 2022 is certainly weighing on Chinese policymakers, as evidenced by the recent spate of announcements aimed at loosening financial conditions, as well as not-so-subtle encouragement for business to "resuscitate" at all costs.

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