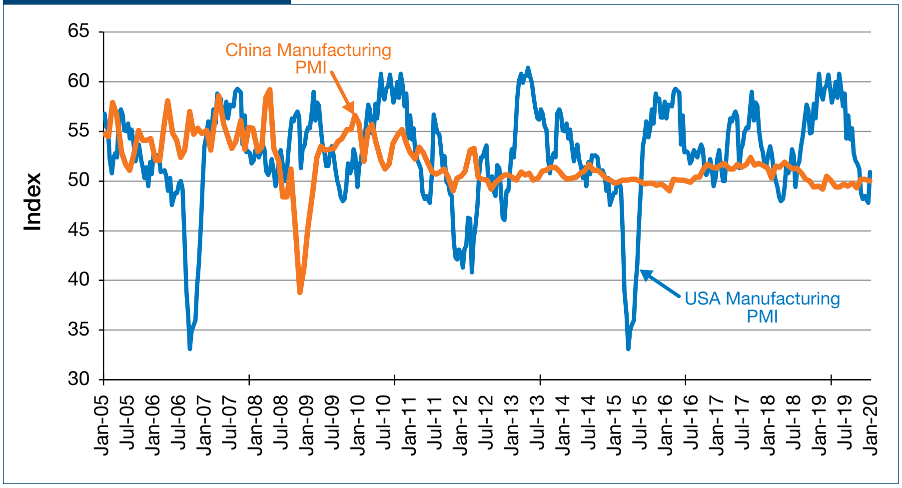
Global Manufacturers Facing More Competition: Steelmakers Not Exempt

The global business environment will become even more competitive

Figure 1



USA vs. China manufacturing Purchase Managers Index (PMI). Sources: Institute for Supply Management and Reuters.

The evolving structure of the global business environment will challenge international manufacturers, including steelmakers:

1. Manufacturers will be facing more price competition for their products.
   - The price will be commoditized for a rising number of specialty products.
   - International commerce is becoming ever more seamless.
   - Global trade in merchandise will remain robust. New trade routes will challenge established ones.
   - Online sales of merchandise will continue to surge, making it harder to create brand loyalty.
   - Price is "king" when it comes to online transactions.
2. Investment in developing world manufacturing facilities has become less attractive. The man-hour content at new manufacturing plants in advanced countries is so low that the bargain-basement wage costs in the developing world have less allure.
3. Capital is replacing labor. Gains in labor productivity will be sizable due to investments in digital technologies. Workers have lost their "pricing power." They are replaceable.
4. A sizable excess supply of money is circulating the globe looking for a home. Returns on manufacturing investment are so poor that in many cases, a rising proportion of these funds are placed in financial instruments — including U.S. 10-year Treasury notes (that only yield about 1.55%). China, Japan and

WSD WORLD STEEL DYNAMICS 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.

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

the EU are each holding roughly US$1.2 trillion of U.S. Treasury securities — versus USA GDP of about US$20 trillion per annum.

5. Monetary authorities in the advanced world have a reduced capability to stimulate their economies via interest rate cuts because the interest rates already are so low.
6. Foreign exchange rate swings will be sizable, unpredictable and destabilizing.
7. International manufacturing companies will cajole their governments to provide more protection from foreign goods. But, the benefits of these restraints, even when granted, over time will be less than expected.
8. Government officials by 2030 in more countries will be implementing far more stringent measures to combat air, water and CO_2 pollution. Unfortunately for the steel industry, it accounts for about 4–5% of man-made greenhouse gases.
9. National debt in many countries will rise further as a share of GDP — in part due to the expense of funding ever-rising entitlements for retired workers.
10. Global growth from 2022 to 2030 may be about 3% per annum — a figure that may be 0.5 percentage points higher than the consensus on this subject:
    - The non-Chinese global GDP growth averages about 3% per year compounded. The U.S. economy will be one of the best performing major economies reflecting its: (a) oil and gas surplus due to the shale revolution; (b) massive fertile farmlands; (c) widespread river transportation system; and (d) vast and highly liquid financial system.
    - The Chinese economy slows to a 4–5% GDP growth rate by 2030 reflecting, as a share of GDP, rising household spending and lessened fixed asset investment. This is a slowdown, not a collapse.
    - Developing world GDP expands only about 4% per annum growth, which is disappointing. As noted earlier, more countries become less-attractive outlets for foreign investments because low worker wages are no longer a prerequisite for success. The country risk factor is a problem for foreign investors.
11. More governments will seek to boost fixed asset investment as a share of GDP in order to create more jobs — of course, this action replicates the time-tested Chinese approach to promote the expansion of their economy.
12. The availability of global instant and reliable information about economic developments, financial conditions and individual industry supply/demand dynamics leads to more frequent individual country adjustments. In turn, these mini-corrections diffuse excesses and lay the foundation for less frequent global recessions.
13. Medical breakthroughs add further to life expectancy. The bad news is that, in many countries, municipalities will be even more burdened with monumental costs for retiree pensions and health care.
14. An “Age of Incivility” becomes “the norm” in even more countries. Governmental decision-making becomes more labored as the opposing political parties don’t cooperate with one another.
15. Global political instability may rise because the United States is no longer the policeman that assures global commerce. The U.S. is no longer dependent on Middle Eastern oil.
16. Global automotive production stagnates at about 95 million units including commercial units. The usage of automobiles in cities has peaked as: (a) more cities place a tax on automotive usage as they seek to reduce air pollution; and (b) Uber-type services rise so much in popularity that this reduces demand for individual car ownership.

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. ✦