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Steel Committee
The Steel Market Situation in OECD Countries

1. At its meeting in Paris on 18-19 October, the OECD Steel Committee welcomed Mexico as a full participant in the Committee. This event marked the first occasion on which a non-OECD country had been a full participant in the OECD Steel Committee, and followed the successful operation, since February 1982, of a Liaison Group between the Committee and Mexico.

2. The overall steel market in the OECD area declined only slightly into the second half of 1990, but developing uncertainties are causing concern for the medium term outlook. This was the picture that emerged from discussions on the current market situation at the meeting of the OECD Steel Committee.

3. The slowdown in economic growth being experienced in a number of OECD countries is depressing the outlook for steel demand. In some countries high interest rates and unfavourable exchange rates, together with soft steel prices and reduced returns to the industry, are reinforcing this general macroeconomic concern. In addition, developments in the Arabian Gulf have clouded an already uncertain steel demand outlook. Key steel-consuming sectors are indicating mixed prospects across the OECD area, with weakening in some instances in the automotive and construction sectors pointing to reduced levels of steel demand. Market conditions are by no means universal however, with some countries enjoying sustained growth in demand.

4. Concerning the main steel market developments in individual OECD areas and countries, in the USA the steel industry continued to operate at relatively healthy levels into the third quarter of 1990 despite the recent slowdown the country's economy, and weakness developing in some steel intensive sectors. This strength in the market has largely resulted from exports of steel products, including in the capital goods sector, together with a lower than expected level of imports. The outlook is less positive, with weakening conditions in the economy generally, and in particular, for example, in the automotive and residential housing sectors. Shipments of steel to the automotive sector were down 13.8 per cent in the first six months of 1990 compared to the same period in 1989. In 1990, soft steel prices and increased costs have substantially reduced the level of firms' incomes in the sector.

5. In Canada, the weakening of steel demand that began in mid-1989 has continued through to the second half of 1990. Steel demand declined 7.2\per cent in the first seven months of 1990 compared with the same period the previous year, a trend that is expected to continue or worsen in the period to the end of 1990. High interest rates, unfavourable exchange rates and generally weak macroeconomic conditions are depressing steel demand, with non-residential

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building starts for example down 25 per cent in the first eight months of 1990 on year earlier levels. Similar weak levels of steel demand are expected in 1991.

6. In the European Community, crude steel production in the year to date has remained at a high level but is expected to be 2.2 per cent lower in 1990 overall than in 1989. The weakening trend in the second half of the year, in a number of EC Member countries, is due to a generalised normalisation of stocks rather than to a decline in real steel consumption. Whilst the construction sector is expected to remain strong this year, the mechanical construction and automotive sectors show some signs of weakening in a number of countries. European Community steel exports will decline in 1990 by 4 to 5 per cent from 1989 levels due mainly to the combination of reduced demand from the major consuming markets, the decline in prices, and fluctuations in exchange rates. Imports will remain high but slightly lower than in 1989. Prices of flat rolled products have declined by 10 to 18 per cent while prices for long products have remained relatively stable. A decline in apparent steel consumption is expected in 1991 although the extent is uncertain.

7. Japan has continued to enjoy strong market conditions since its remarkable recovery in the second half of 1987, with production in the first half of 1990 up 0.8 per cent on the same period a year earlier, reflecting strong demand in both construction and manufacturing sectors. As strong conditions are expected to continue in the second half of 1990, supported by stable personal consumption and private capital investment, the consumption of ordinary rolled steel products in 1990 will reach 78.3 million tonnes, the highest level ever. Japanese steel exports have continued to decline and decreased 20.3 per cent in the first eight months of 1990 on the same period a year earlier, with a sharp drop in exports to China and the U.S.S.R., while imports of iron and steel increased 7.9 per cent in the same period.

8. Demand developments elsewhere in the OECD area vary considerably. Demand is expected to decline, in Sweden by 3.5 per cent during 1990 as a whole, and it has declined by 8.4 per cent in Switzerland in the first six months of the year, but with a stabilisation expected in 1991. Demand is expected to decline by 15 per cent in Australia as a result of the slowdown in the economy. Apparent steel consumption has remained stable in 1990 in Finland and Austria, with some weakening expected in Austria in 1991, whilst Norway is expecting a small increase of about 1.4 per cent in steel demand in 1990 as a whole.

9. During the first half of this year, the Mexican steel industry performed better than in previous years and apparent steel consumption is expected to reach 8.3 million tonnes in 1990, an increase of 9.9 per cent over 1989. This year exports are expected to be 3.5 per cent higher than in 1989, and an increase of some 17.4 per cent is also expected in imports, reducing net exports from Mexico to 275 000 tonnes. Crude steel production is expected to reach 8.6 million tonnes in 1990, an increase of 9.7 per cent from its 1989 level, and the rate of capacity utilisation is expected to increase to 86.3 per cent, the highest level achieved in the last five years.

10. Employment levels continue to decline in the steel industry in the OECD area, in the USA and the EC by 3 per cent and 4 per cent respectively in 1990 over 1989 levels, indicating the ongoing restructuring taking place within the industry.

END-OF-TEXT