# STEEL MARKETS NORMALIZE

## Door and access industry benefits from lower prices, diverse sourcing

By Phillip M. Perry

After a period of dizzying ups and downs, steel prices are expected to settle at more manageable levels over the coming 12 months. While this will bring some relief for door manufacturers, dealers, and their customers, the low prices of 2020 are still nowhere in sight.

"Steel prices are returning toward sanity," said John Anton, Director of S&P Global Market Intelligence. "The metal is expensive by historical standards, but it's nowhere near the price levels buyers have had to face the past couple of years."

The cost of a metric ton of hot rolled steel spiked to an all-time high of $2,200 in the fall of 2021. That was triple the previous decade's average. The reason for the eye-popping rate? You guessed it: the pandemic. It wreaked havoc on supply chains, causing delivery delays and escalating labor costs.

As pandemic effects started to subside and production increased, the price tag of steel fell below $1,000 by early 2022. While that figure was more than twice the metal's going rate in the summer of 2020, it was still low enough to raise buyers' spirits.

However, the relief didn't last long. In February of 2022, the Russia-Ukraine war hit. Considering Russia's role as an important source for both steel and its raw materials, this crisis forced prices up to $1,600.

### Prices moderate

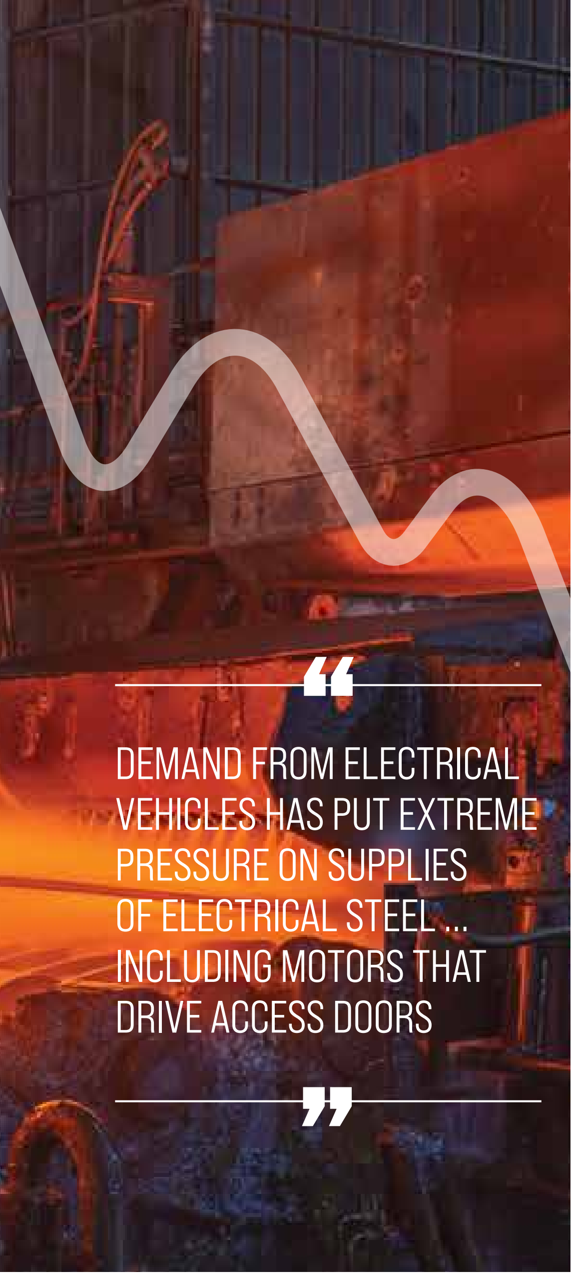
Fortunately, the war's influence proved temporary. As of August 2022, the price of steel settled to below $900 per metric ton in the United States (see chart on page 56). "The reason for the moderation is that most of the embargo activity against Russia has been against energy," said Anton. "The cut off of scrap, iron ore, and finished steel has been more modest." The result has been a high level of chaos in the energy markets – but not so much in metals.

The United States has been able to be weather the conflict well, since only 4% of its imported steel emanates from Russia. "Certainly, the Russia invasion of Ukraine has created some issues with exports of raw materials," said Tim Gill, chief economist at the American Iron and Steel Institute. However, over time, domestic steel companies have been able to find workarounds for most problems.

"While it's always hard to project what supply is going to look like, there's nothing out there that would suggest availability issues," said Gill.

The United States, the world's largest steel importer, sources its metal from nearly 80 countries, according to the U.S. Department of Commerce. Global access has helped keep steel prices under control.

"About 25% of the steel used in the U.S. came from foreign sources in the first four months of the year," said Gill. "That was a bit higher than in recent years and has actually



> DEMAND FROM ELECTRICAL VEHICLES HAS PUT EXTREME PRESSURE ON SUPPLIES OF ELECTRICAL STEEL ... INCLUDING MOTORS THAT DRIVE ACCESS DOORS

been rising since the beginning of the pandemic."

## What's the biggest factor?

When steel production and sourcing are flexible, the price is driven less by supply and more by production costs. "The steel makers are mainly concerned about margins," said Dan Smith, an analyst with Fastmarkets, a commodity price reporting agency. "Whenever the price of iron ore or scrap goes up, they need to push up their own steel prices, and vice versa."

## Who uses steel the most?

The construction industry is the biggest customer for steel products, and as a result, businesses like door and access companies feel it most when availability is low. "There is not a sense that demand is easing from contractors who use our material," said Larry W. Williams, executive director at the Steel Framing Industry Association.

Williams attributes a decline in manufacturing activity earlier this year to a natural plateauing after a period of robust production. Through it all, he added, steel mills have managed to maintain capacity utilization percentages in the low 80s. "This is a level that keeps their rolling mills busy but still allows enough slack time to enable the maintenance and servicing of equipment."

Construction, of course, is not the only sector using steel. Others include automobiles, mining equipment, appliances, and infrastructure. The latter is expected to exert rapidly increasing demand for steel stemming from the $3.5 billion federal Infrastructure Investment and Jobs Act.

## "Steeling" clean energy

Perhaps the most dramatic future shift in the steel market will be driven by the world's rapidly accelerating clean energy initiative, which has been boosted from certain incentives in the Inflation Reduction Act (IRA) passed this summer.

"All of the pathways to get to a more sustainable economy are going to require steel," said Gill. "It will constitute the panel frames and support structures required for solar power and the towers needed for wind."

Electric vehicles, too. The newer varieties of lightweight steel that have long allowed auto makers to meet mileage targets are expected to play a role in producing the next generation of automobiles and trucks. The battery packs that are major components of EVs will also need strong supporting steel compartments. "Further down the road, steel will be needed for the tanks and pipelines necessary for a hydrogen economy, carbon capture, utilization, and storage," said Gill.

Will there be enough metals to go around? While analysts typically focus on special commodities such as copper, aluminum, and lithium, there is also some understandable concern about steel.

## Competing for metal

"The drive toward clean energy should not affect steel availability in the short term," said Anton. "In the long term, more plate supply will be needed for wind towers, but mills already seem to be preparing for that. So I don't think there will be a scarcity." Plus, new technology geared toward greener steel is anticipated later in this decade or into the following.

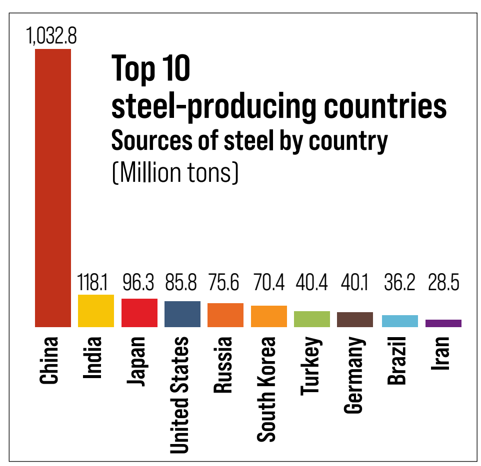
There is one exception to this generally rosy picture. "Demand from electrical vehicles has put extreme pressure on supplies of electrical steel, which is used in products that have current flowing through them, including motors that drive access doors," said Anton.

Lead times for electric motors range from 50 to 80 weeks. That gloomy outlook probably will not improve as more and more electric vehicles are built over the next decade. "We're adding electric vehicles faster than we're adding capacity to make this particular type of steel," said Anton.

## Pricing outlook for steel

Steel's current price levels are settling into more manageable territory, a place where they are likely to stay for the foreseeable future. All eyes are turned to China, where pandemic lockdowns have had an impact on both the manufacturing and demand sides for the metal.

As the world's largest steel producer, China's moves have outsized ramifications (see chart). Consequently, fears over China's slowing property sector — a major part of the nation's economy — have served to dampen steel prices as manufacturers prudently reduced production.




China produces almost twice as much steel than the other top 10 nations combined.
*Source: World Steel Association. 2021 figures.*

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Regardless, steel prices are not likely to go much lower than they are right now, thanks to continuing supply chain disruptions and attendant spikes in labor and shipping costs. "We're not quite at the pricing bottom for hot rolled steel, but we're awfully close," said Anton.

## Linked metals

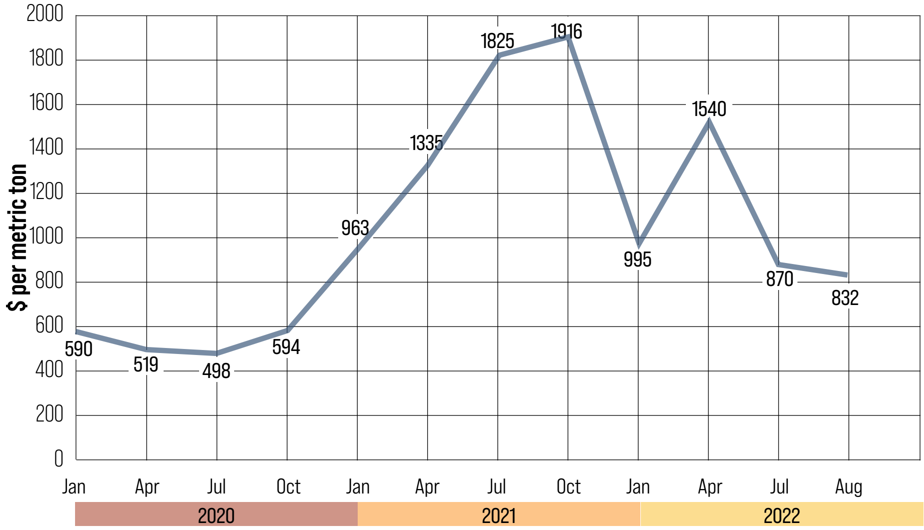
"Prices for galvanized steel have been following the same price pattern as hot rolled," said Anton. "Galvanized steel is, after all, hot or cold rolled steel coated with zinc." Zinc prices have been running very high, with increases driven primarily by strong global demand, smelter production bottlenecks, and the high energy costs required to make the metal.

In the past, mine production was able to easily keep up with demand. Over the last three or four years, however, the smelter activity that turns mine production into metal has created new challenges. The building of additional smelters in China over the past 20 years has stalled in the last five years. Since the Chinese started enforcing environmental regulations, production has effectively flatlined, and so has global production, with many smaller plants closing down.

High zinc prices have contributed to unusual spikes in the price of galvanized steel, which has been selling at $1,400 to $1,500 per metric ton. The normal price should be around $1,200 given that the usual premium for galvanized over hot rolled runs around $300 per ton.

Zinc prices are now easing. That's one reason galvanized steel should fall sharply and approach its bottom over the next six months. Anton expects prices to come in around $1,225 per metric ton by the end of 2022. Through 2023 it should range between $1,130 and $1,160. ■

### Hot rolled steel prices




Steel prices are moderating after reaching new highs in the Fall of 2021.
*Source: CNBC.*