

Editor's note:

"The steel deal" is designed to help you navigate the ongoing changes of one of the industry's most-used materials. Award-winning author Phillip M. Perry's new column covers everything you need to know about steel from pricing, trends, availability, and more.

STEEL PRICES SOFTEN AMIDST RECESSION FEARS

By Phillip M. Perry



Buyers of steel in the door and access industry should continue to enjoy price relief over the coming months as the market benefits from overcapacity and a less-than-anticipated demand from a recovering Chinese economy. The per-ton price for hot-rolled steel has been running around \$900 — well below the levels of a year ago.

The Ukraine war did not reduce the exports of Russian steel to the degree people had feared — at least so far. That has had a dampening effect on steel prices. So has the commercial sector's growing recession concerns.

The fears of an economic slowdown have led to a reduction in construction projects. "With higher interest rates and the prospect of slower economic growth, including the construction sector, I anticipate an easing of demand for steel," said Larry W. Williams, executive director, Steel Framing Industry Association.

A drive toward efficiency and energy savings has brought about the increasing use of electric arc furnaces. That has helped the industry recycle old steel into new products, a practice that increases supply and thus helps keep a cap on prices.

Upward price pressures

The industry is certainly not out of the woods. "In terms of critical challenges, the macro economic landscape has a very major impact on the steel industry," said Mihir Vora of Steel and Raw Materials at Wood Mackenzie. "We are still seeing supply disruptions and uncertainty around energy availability, especially for the mature economies in the western part of the world due to the Ukraine war. These factors have been gradually softening, but not yet restored back."

Due to steel's multinational sourcing and a talent by manufacturers for increasing production in times of demand, the price of steel is driven primarily by changes in the cost of materials. Iron ore and scrap immediately come to mind, but analysts point to additional forces bubbling under the surface that will help buoy prices.

One factor is a shortage of trained personnel — an issue affecting a broad spectrum of industrial sectors, including the door and access industry. Another is the industry's drive to lower its carbon footprint, a goal which can require the installation of more expensive steel making processes.

A rise in general price levels can also serve to buoy steel prices. "While inflation hasn't affected material prices appreciably for steel production, it has had an impact on other aspects of company operations," said Williams. He points to the rising costs of energy,

labor, and capital-intensive items like trucks. "Producers just need to operate more efficiently."

Challenging times

As the market balances these conflicting forces, the question for steel buyers becomes one of degree: Will tensions in supply and demand lead to price hikes similar to those experienced in the fall of 2021? At that time, a rebounding economy spiked hot-rolled steel to an eye-popping \$1,916 per ton.

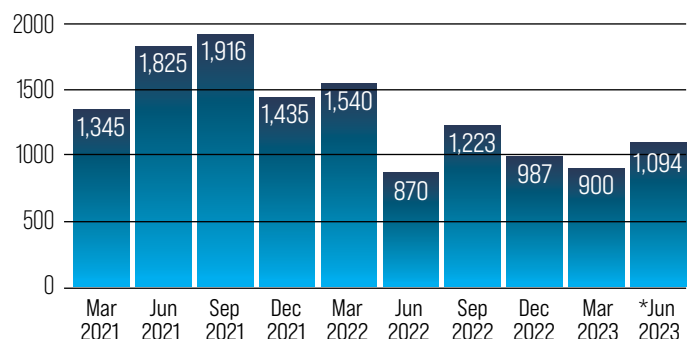
Such fears unexpectedly resurfaced in March of this year when prices suddenly bounced to \$1,310 per ton. Steel observers attributed the temporary spike to some irrational panic buying stimulated by China's reopening, and almost immediately, prices dropped to their current levels.

Williams noted that it's a challenging time to be in the steel industry, because of the potential that a sudden change in larger economic conditions could disrupt the current balance of supply and demand. Even so, he said that there is continuing use for steel in construction, manufacturing, and the automotive sectors. The steel industry should also be able to meet market demand for the foreseeable future.

"When we look at what the rest of 2023 is going to be like, it's kind of like a shrug of the shoulders," said Williams. "I don't think it's going to be up, and I don't think it's going to be down. I just think things will be staying fairly steady." ■

Hot-rolled coil steel prices

Quarterly prices from March 2021 to March 2023 (\$ per ton)



Steel prices are moderating in 2023.

Source: Marketwatch.com

* = Estimate