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NASS The voice of steel distribution

The December 2014 issue of Steel Sector Bulletin posed the question what has the global economy done to prepare for the inevitable slowdown in the emerging markets? Our conclusion then was very little, and current evidence would suggest that this was an accurate summary. During 2015 the failure to prepare for a slowdown has caught some economies cold and this has resulted in devaluation of currencies and pressure on markets across the globe with all sectors and industries being affected.

Closer to home the government's view is that global developments don't appear sufficient to change economic policy within the UK and with GDP growth rates of 3% as a whole in 2014 (highest in the G7) and forecast growth of 2.6% for 2015 and 2.4% for 2016 (which could also be leading figures within the G7) It can possibly be understood why this view is being taken.

Whilst UK performance is relatively strong in relation to its European counterparts it can't be ignored that this is predominantly driven by the services sector and that other parts of the economy are suffering from collateral damage as a result of the slowdown of the emerging economies.

Since its economy started to cool China's steel exports have increased by 28% to 43.5m tonnes in the first six months of 2015 despite a fall in production of 2%. In relation to the UK, Chinese imports were 2% of UK steel demand in 2011 and that figure is anticipated to rise to 8% this year. This is having a devastating effect on UK steel producers who are seeing imports rise to 60% last year in relation to 53% in 2013 and prices falling by 45% in the last 12 months.

This situation is clearly not sustainable long term and it must be anticipated that unless measures are taken to protect the UK steel Industry we will see further rationalisation of our leading producers and even further closures akin to the site at Redcar.

In the midst of this is our steel stockholding industry. We have often spoken of the resilience of this industry but such significant market uncertainties relating to price, demand and even chemical composition of certain products present this sector with some of its stiffest challenges yet.

Steel is an essential commodity used in all aspects of life and perhaps if it's not too late, it's time that the producers and stockholders were given a level playing field so that as our economy grows we have the industry at hand to support it.

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Executive Director

Aon Risk Solutions

AON

QBE

Are times about to get tougher for the UK's Steel Stockholders?

The UK economy has fared better than most in recent years. We have witnessed steady growth and a return in consumer confidence thanks to increased employment and wages combined with low interest rates and inflation. Business failures continue to fall and are at their lowest level since 2007.

However, recent data suggests that business confidence may have started to stall. In a survey undertaken by QBE, it was found that UK businesses are becoming increasingly worried about the operating environment which is perceived as being 'riskier' now than 6 months previously.

These perceptions were driven by (amongst others), competitor activity and market pricing, volatility in material prices, trade credit risk and supply chain risk. The spectre of interest rate rises remains an ever concern. The report found that nearly one in four (23%) of respondents would expect to see a tangible impact on their business if interest rates rose by as little as 0.5% and nearly one in two (47%) if they rose by 1.5%.

In addition, figures released by the ONS showed that UK manufacturing suffered an unexpected decline in July, its first since early 2013. Exports dropped £2.3bn to £22.8bn, the lowest level in almost 5 years. The decline was driven by the strength of sterling and from the fallout from slowing emerging markets. The suggestion here is that the global slowdown may be starting to have an impact the UK's buoyant economy.

For the UK's steel stockholders, it is perhaps the slowdown in these emerging markets and in particular, the slowdown in China, that continues to be of significant importance. Declining commodity markets have pushed steel prices lower and sought to offset the benefits that have been seen in the resurgent UK economy and the downstream markets that the industry services.

Looking forward, The World Steel Associations short-range outlook suggest modest price increases for steel with global demand increasing just 0.5% in 2015 and 1.4% in 2016. The EU is expected to be one of the stronger performers with steel demand forecast to grow 2.1% in 2015 and 2.8% in 2016, still 30% below its peak of 2007.

Against a backdrop of depressed prices, declining exports and volatile downstream markets it has become ever more important for steel stockholders achieve operational efficiencies and seek to strengthen margins. We hope to see a small uplift in profitability for the market in 2016 largely dependent on a modest strengthening in pricing and good demand being maintained in key downstream markets such as construction and automotive. The latter point here, and the output in key markets, is perhaps the big uncertainty if the recent data on business confidence is correct.

GRAYDON open in business

"(Keep) Fighting the good fight"

OK. Let's deal with the positives first. Generally, across our steel client base, sales are ahead in 2015 compared with 2014. Insolvencies have been relatively benign and…….well, that's about it.

Prices continue on their steady decline. Not drastically but a steady fall nonetheless, and no signs that this trend will go into reverse. Cashflow appears to be the major problem for steel clients, and much of this is down to overtrading and the ongoing lack of funding from the mainstream banks and still the alternative lenders, in most cases, remain expensive. We've seen this particularly in the Midlands.

Fraud is on the increase still with no signs of abating although, along with our clients, more and more are thankfully being spotted in time.

The biggest news of the year (so far) and a very recent happening is the on-going demise of the Thai owned "SSI" in Redcar, the former Tata owned steelworks employing around 2,000 people. There seems a certain inevitability at its impending closure, as the company has struggled from day one despite substantial investment, and this must go down to both the economic climate (opened in the middle of the worst economic crisis in living memory) and a glut of steel in the marketplace, particularly from Chinese producers, resulting in depressed prices. In saying that, it was still achieving sales of more than £1.5 Billion as at the last accounts, however losses were horrendous.

If (when?) it does ultimately fail, and this is looking more than likely, it could well have a negative impact upon companies trading with SSI, and judging by the numerous CCJ's being registered almost daily and currently galloping towards £500,000, this is already happening. This will be compounded by a general lack of credit Insurance cover. The North East is likely to bear the brunt of this and already we have seen the failure of Leven Bridge Ltd. which was subject to insolvency proceedings as recently as September and allegedly due to the problems at SSI. Others to follow? I fear that it will be the case. It's not only the 2,000 jobs at SSI which are at risk but many supporting companies in the locality and those who could possibly incur a large bad debt as well if, as expected, the company does ultimately fail.

Let me add though, this is not a sign that we (the UK) are falling back into recession (if we really ever came out of it) but more a reflection of difficult times as we struggle to emerge from the worst depression in history. It is very much a case of, two steps forward and one back.

Actually, I underplayed the positives. Of course there are more and being led by the robustness of the sector as steel and metal bashing in general continue to "fight the good fight". If ever a cliché reflected an industry "where there's a will, there's a way" is particularly apt. Other sectors, such as retail and commercial construction, could learn an awful lot from steel. It is not just a case of cutting your cloth accordingly (OK, I admit it, I have gone cliché mad) but an industry that has seen many changes over the years but continues to adapt accordingly to the market place both at home and abroad.

It will all come good in the end, so hang in there. The evidence amongst our clients and contacts is that steel is doing just that.

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The voice of steel distribution

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