

## Current financial crisis and steel sector

Mani Agrawal, Nov 20, 2008

We have witnessed in last few months, the unfolding of financial crisis starting from United States and expanding world over. The exact magnitude and extent of the crisis is fiercely debated among the financial experts. However, this real impact on economy can easily be observed across many, if not all sectors.

The steel industry has not been spared with the impacts of this financial crisis. The total market valuation of ArcelorMittal, Nippon Steel and JFE has dropped by approximately \$165 billions. The price of billet (see Figure. 1) in Dubai market has dropped from its height of \$1,250/ton in June 2008 to a recent low of \$350/ton. One of the steepest drops witnessed in recent history. The wide spread drop in demand for all types of steel required companies to cut production globally. ArcelorMittal, one of the largest steel producers, alone has recently announced more than 30% reduction in production.

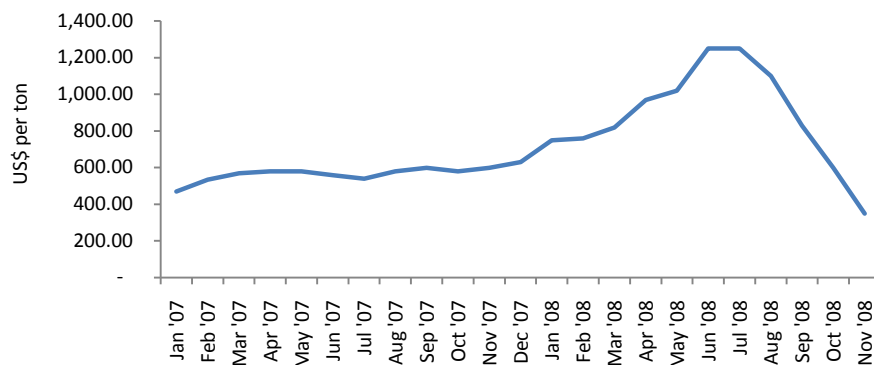


Figure 1: Billet import prices, Dubai

It is only human to be frustrated and uncertain of the future. However, over long term, do we really need to be? We explored the steel production data going back to 1900 (see Figure 2). During last 100 years the worst drop (13.52%) in steel industry occurred between 1979-82.

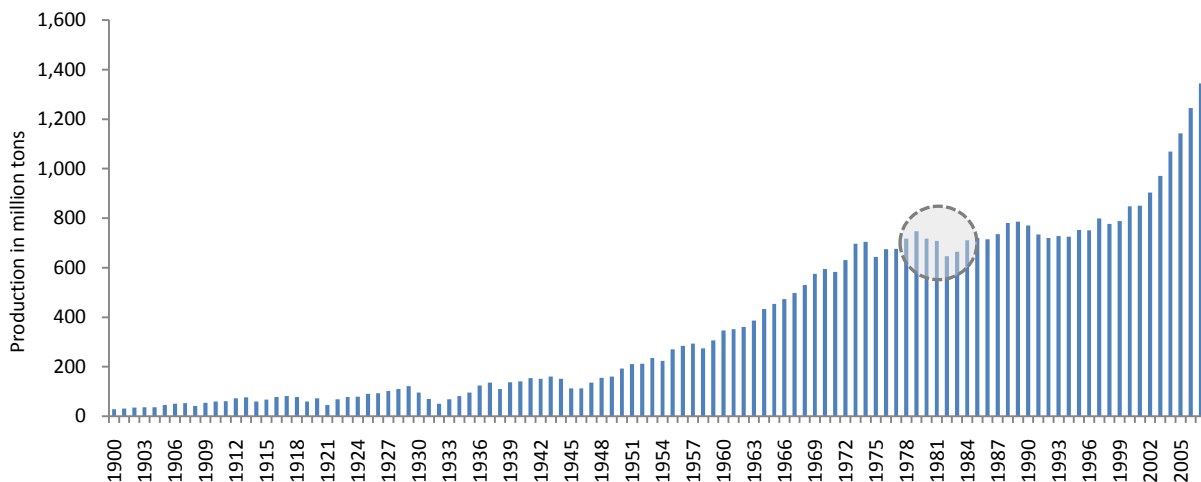


Figure 2: World Steel Production

This four-year drop in global steel production is horrendous. However, if we look at year-over-year growth changes in steel industry (see Figure 3) during a 100 year period from 1900 to 2000 a more optimistic picture emerges. There is not even one instance when industry saw a consecutive four years of negative year-over-year growth. The worst case situation is three years of declining year-over-year growth during 1930-32, 1944-46, 1980-82 and 1990-92.

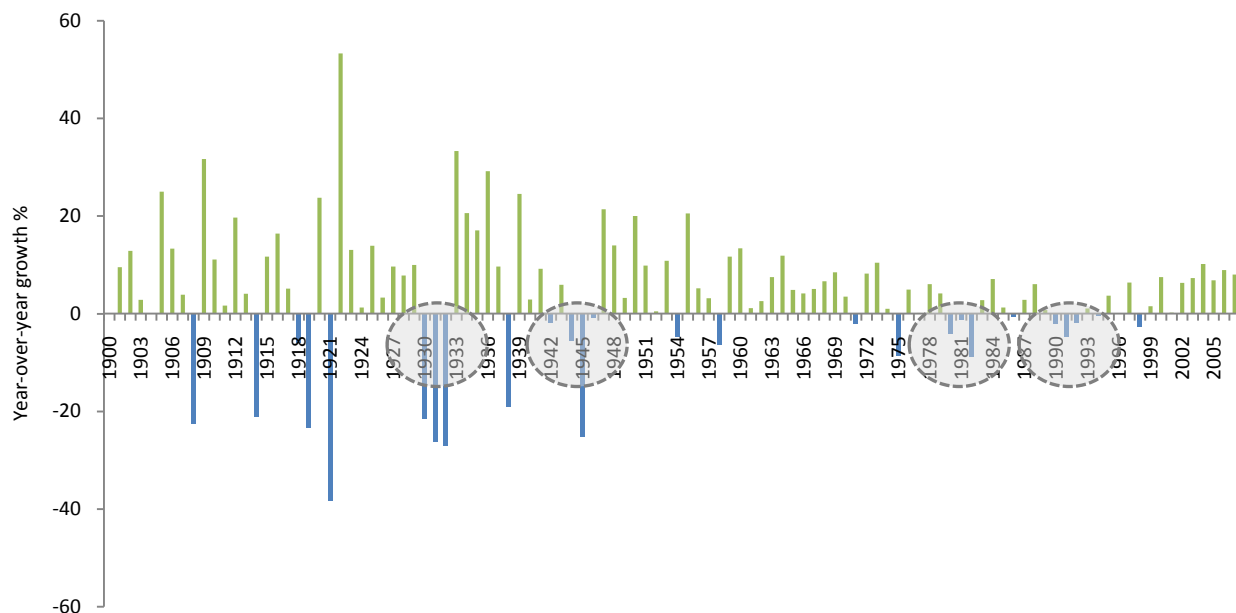


Figure 3: Year-over-year world steel production growth

Extending the past patterns of data to predict future is fraught with peril. It is none the less an important reminder to us that during a tumultuous 100 year period the steel industry has been able to successfully weather world wars, recessions and crisis of all genre. Steel is a resilient industry.

It is not to say that the current financial crisis should not be taken seriously. It should be. However, if history holds, the chances of impact of current crisis extending beyond 2009 are low. The leading steel companies should take this opportunity to improve their operational efficiency and effectiveness to better prepare themselves for impending growth in coming years.