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Steelmaker Presses on Despite Cooling Demand

By **Peter Marsh** October 9, 2011

John Correnti has a bleak way of describing general sentiment about putting money into the steel industry. "It's like a malaise," he says. "Due to the intense nervousness about the world economy, everyone's scared to invest."

Mr Correnti is chief executive of Steel Development, a start-up US business which for more than a year has been struggling to raise money for a series of new plants to make construction-grade steel in different parts of America.

While a previous plan to set up the first plant in Mississippi has been put on hold, Mr Correnti – one of the US's most experienced steel executives – is now diverting his attention to a new project in Badin, North Carolina.

The veteran steel manager is trying to persuade Alcoa, the US aluminium and engineering group, to contribute a share of the $150m the mill would cost.

The facility would be built adjacent to an Alcoa hydroelectric plant already on the site that was previously used to power a nearby metals smelter also run by the company, and which has been disused for several years.

Alcoa said it was talking to Steel Development about putting an undisclosed amount of money into the project but was unwilling to discuss further details.

Mr Correnti said that in spite of the difficulties he has encountered in raising money for his steel project he was determined to press ahead. "I'm still optimistic the first of the plants I have in mind [in Badin] could be in operation by the end of 2013," Mr Correnti said.

He has already lined up investment in the scheme from Anshan Iron & Steel, a big Chinese steelmaker that is due to take a 14 per cent stake, in a move that has in the past been criticised by other American steel executives on the grounds that Anshan was being helped by unfair government subsidies.

Mr Correnti's difficulties would be recognised by other steel industry managers worldwide.

In most countries, steel shipments have been starting to slow, a result of buyers of the commodity shunning placing orders.

According to projections made for the Financial Times by a group of six international steel industry experts, world steel output is this year likely to expand by just 6.6 per cent compared with 2010.

Since production in the first eight months was up 8.5 per cent relative to the equivalent period in 2010, the projections imply an increase in the final four months of 2011 of an extremely weak 3 per cent, in comparison with the same four month period last year.

Next year, according to the experts, world steel output will climb by no more than a weak 4.9 per cent, with Chinese steel shipments – accounting for almost half the global total – rising 5.8 per cent and the rest of the world just 4.2 cent.

Mike Locker, of Locker Associates, a US steel consultancy, said the concern in the industry about the world economy had "risen dramatically" in the past two-to-three weeks. "Because of the uncertainty about prices and demand, a lot of [steel] companies don't really know what to do in terms of reacting to tackle the problems." Ralph Oppenheimer, chairman of Stemcor, a large London-based steel trader, said: "Everywhere you look in the industry, there is doom and gloom."

According to John Lichtenstein, the Beijing-based head of the metals group at the Accenture consultancy, signs of weakening demand in China are a particular concern. He blamed this on "tightening in credit conditions due to the government's keenness to rein in inflation… while [Chinese] manufacturing output as a whole has been weakening due to a number of factors including less robust global demand and rising costs in China".

However some observers say that even given the mood of bleakness in the industry, the situation is not as bad as it might appear.

According to this view, the steel price weakness is being caused primarily by buyers letting inventories run down to dramatically low levels in industries such as construction and white goods.

"In an environment when the prevailing wisdom is that the fall in steel prices has further to go, it's understandable that purchasing departments [for steel] are avoiding placing orders until they really need to," said Peter Fish, of Meps, a UK steel consultancy.

Looking beyond this, Ingo Schachel of Commerzbank in Germany, says that – leaving aside inventory levels – underlying demand in steel consuming industries such as automotive and white goods is in many countries "holding up fairly well".

Mr Correnti of Steel Development – who has a reputation in the industry for generally taking an upbeat view – tends to agree. "My view is that once we get beyond this period of nervousness we will see a lot of pent-up demand for steel – it will be like the bursting of a dam."