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Markit Economic Research

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Commodities / steel

Steel prices set to rise as demand strengthens among manufacturers

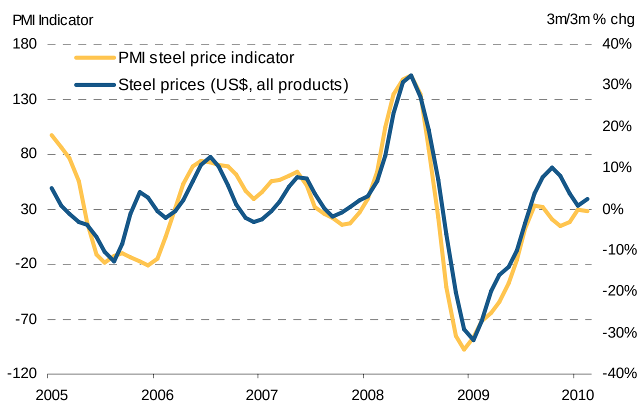
- **Recent steel price rises linked to surging demand for steel inputs.**
- **Growing likelihood of supply shortages to provide ongoing support to prices.**

PMI (Purchasing Managers' Index) survey data indicate that steel prices have strengthened in recent months amid rising activity levels at steel-using manufacturers. The data also suggest that demand and supply fundamentals are likely to drive further price increases in coming months.

Steel price rise linked to rising demand

Purchasing managers that participate in Markit's world-wide PMI surveys reported that steel products rose sharply in price on average in 2008, but fell dramatically in height of the global financial crisis. Prices have since begun to rise again as the global manufacturing recovery has gained momentum. An indicator based on the PMI surveys findings on steel prices correlates well with other data on the steel market. For example, average prices for steel products[1] have risen 20% from the low reached last May according to data provided by MEPS International.

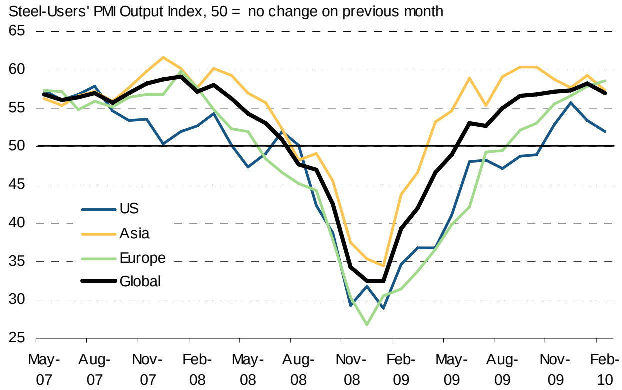
Steel prices



Sources: Markit, MEPS International Ltd[1].

The increase in steel prices since last May can be linked to rising activity at steel-using manufacturers. Analysis of survey responses provided by steel-using companies on Markit's world-wide PMI survey panels indicates that their output began to increase in June of last year, having contracted sharply over the prior ten months. The rate of expansion accelerated up to the start of this year, led by Asia, when it reached the highest since January 2008, before adverse weather looks likely to have cooled the pace of growth temporarily in February, especially in the US. However, while growth slowed in the US and to a lesser extent Asia in February, it accelerated to the fastest for just over two years in Europe.

Steel-user manufacturing output



Source: Markit.

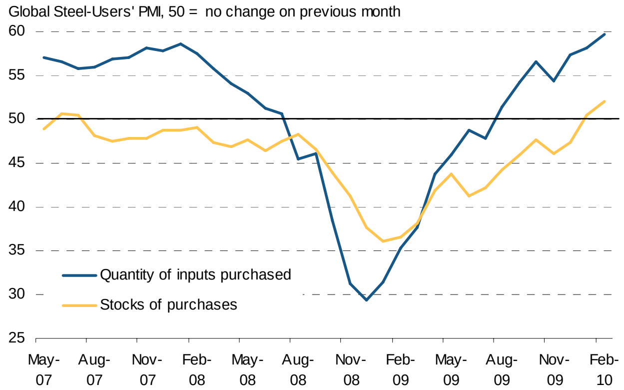
Growth of steel purchasing hits new high as firms rebuild inventories

Growth in production at steel-using manufacturers has been accompanied by an increase in their purchasing of inputs. PMI data show that this purchasing activity is now increasing globally at a faster pace than seen at the height of the expansion in 2007 as firms seek to not only satisfy current production levels but also rebuild inventories which had been run down severely during the downturn.

[1] MEPS composite prices are a weighted average of the low transaction values for all carbon steel products in the flat & long categories identified in three regions (EU, Asia, and North America), converted into US Dollars.

Stocks of purchases rose for the second month running in February as a result, led by Asia. US firms have also recently reported a rise in inventories, but European manufacturers continued to see their stock levels fall in February, albeit at a reduced pace.

Steel-users' purchasing and inventories



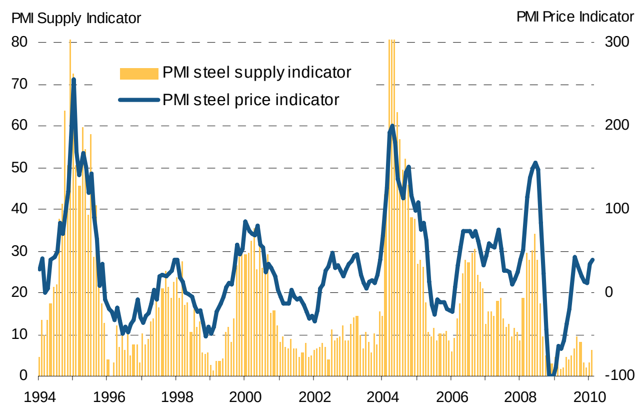
Source: Markit.

Supply shortages and prices

Despite the recent rise, steel prices remain some 42% below the peak seen in July 2008 according to MEPS. A PMI survey derived 'Supply Shortage Indicator' for steel shows that this previous price peak was driven not only by rising demand but also widespread shortages of supply (these indicators reflect the proportion of purchasing managers across Markit's world-wide PMI panels that reported a specific commodity to have been in short supply each month).

The indicator for steel also shows that previous steel price spikes in 1994, 1997-8, 2000 and 2004 were similarly linked to periods of short supply. However, the incidence of supply shortages currently remains well below that seen prior to the financial crisis, which has helped keep prices far below the peaks seen in 2008.

Steel price and supply constraints

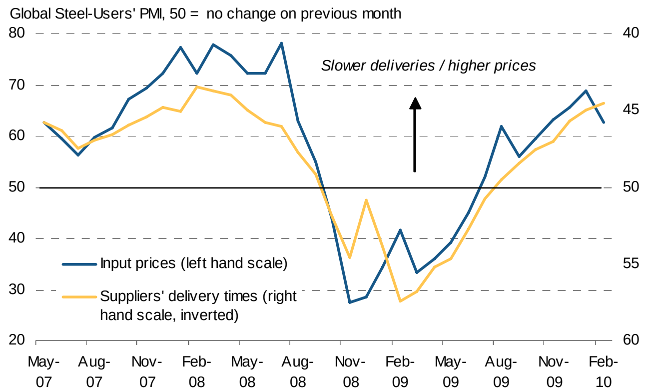


Source: Markit.

Price outlook

This situation may soon change. Steel-buying purchasing managers are now reporting a lengthening of suppliers' delivery times for their inputs in general. Growing demand for inputs and raw materials has meant suppliers have become busier, and therefore increasingly able to negotiate higher prices. The incidence of delivery delays to steel-using manufacturers in February was the highest since April 2008, and average input prices have risen alongside these supply chain delays.

Prices and delivery delays (global PMI survey of steel using manufacturers)



Source: Markit.

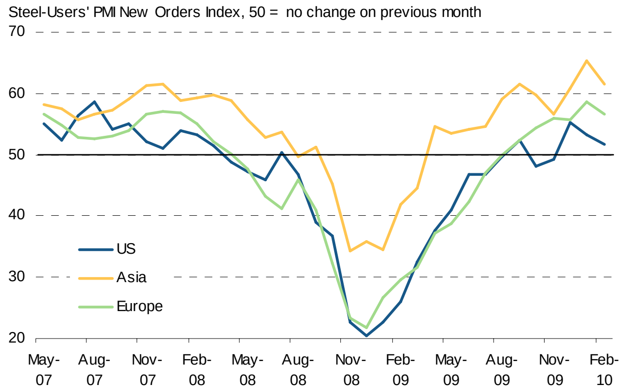
With backlogs of uncompleted work rising at steel-using manufacturers at a pace exceeding that seen even in the strong-growth period of 2007, output at steel-using companies looks set to increase further in the short-term at least, which will put further pressure on supply chains.

Therefore, while the recent rise in the price of steel products can be attributed to strengthening demand from manufacturers, prices remain well below their pre-crisis peak largely because supply availability remains generally good. But with the incidence of supply delays on the increase, and manufacturers now rebuilding inventory levels, further pressure on supply chains is likely, which will in turn help to drive a sellers' market for steel products in coming months.

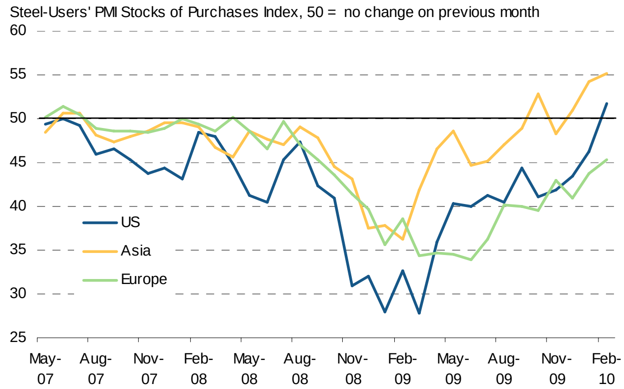
PMI survey of steel-using manufacturers

The following charts are based on PMI survey data compiled by Markit which reflect business conditions exclusively at companies that use steel as a key input to their production process.

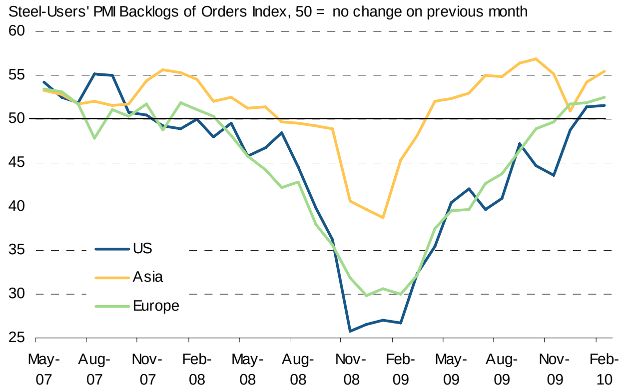
New orders at steel using manufacturers



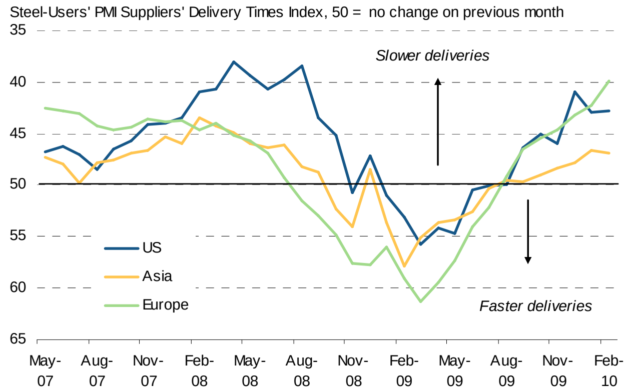
Steel users' inventories of raw materials/inputs



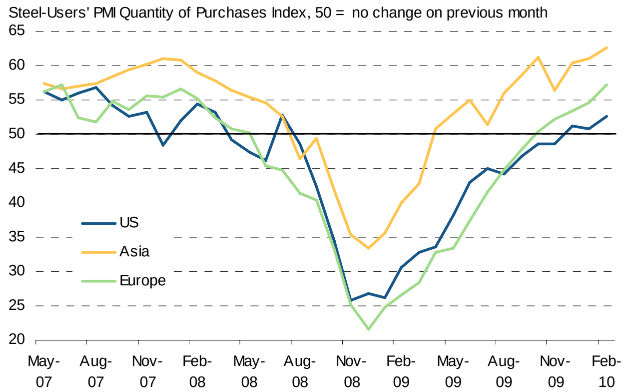
Steel users' backlogs of uncompleted orders



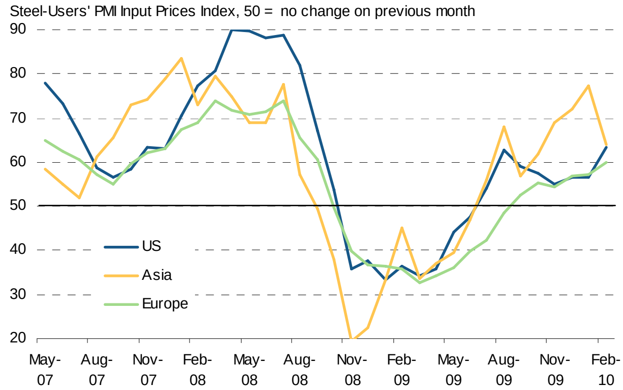
Delivery delays by region



Input purchasing by region



Steel users' average input prices (all purchases)



All data based on Markit's PMI survey respondents that use steel as an input to their company's production process. Surveys cover the US, China, UK, Germany, France, Italy, Spain, South Korea, Taiwan, Russia, Brazil, Turkey, Czech Republic, Austria, the Netherlands, Greece, Ireland. Data are weighted according to national steel consumption.

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