SA steel production rose by 3.6% in February to 496,000 tonnes

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South African steel production rose by 3.6% year on year (y/y) in February to 496,000 tonnes after falling by 4.2% in 2016 to an estimated 6.141-million tonnes (Mt), according to the World Steel Association (worldsteel).

This compared with a 4.1% y/y rise in global steel production in February to 136.5 Mt after a 0.8% rise in 2016 to 1.6285-billion tonnes. In 2016 crude steel production decreased in Europe, the Americas and Africa, but increased in the Russian Commonwealth, the Middle East, Asia and Oceania.

Africa's production fell by 4.7% in 2016 to 12.189 Mt, so South Africa's share of African steel production was just over half. In February 2017, Egypt overtook SA after its steel production surged by 46.8% y/y to 507,000 tonnes.

The largest producer was China, which increased its production by 1.2% in 2016 to 808.4 Mt. It raised its share of global production to 49.6% in 2016 from 49.4%. In some months of 2016 its share exceeded 50%. In February 2017 China raised its production by 4.1% y/y to 61.2 Mt.

Subdued domestic demand

South African steel production fell by 7.6% y/y in the first half 2015 to 3.2-million tonnes as the industry battled with electricity supply disruptions and subdued domestic demand, but recovered in the second half of 2016 with a 3.1% year-on-year increase in November to an estimated 498,000 tonnes after jumping by 13.8% y/y in October to 534,000 tonnes.

The poor demand in 2015 and 2016 was in part due to the government's multi-billion rand infrastructure investment plans failing to gain traction, as investment in steel-intensive railway corridors such as links to Swaziland and the Waterberg coalfields, remained plans, not projects.

The government's economic cluster said in early September 2016 that steps had been taken to accelerate implementation of the Nine-Point Plan. The cluster was at an advanced stage in preparing for the implementation of 40 high-impact investment projects.

Public sector infrastructure spending

In the February 2017 Budget, Treasury outlined plans for R947.2bn in public sector infrastructure spending over the next three fiscal years. The largest portion of R327.7bn will be invested in the steel-intensive transport and logistics sector. In the February 2013 Budget, Treasury said the government would spend R828bn in the next three fiscal years, yet it spent R59bn less at only R768bn. This is one of the reasons for the poor economic growth of the past few years.

By contrast the private sector has invested heavily in the steel-intensive, non-residential construction sector with reports of shortages of steel reinforcing bars. The real value of non-residential buildings completed more than doubled (113% y/y) in January 2017, while the centre of Sandton currently resembles one large construction site with several large buildings in the process of being built.

Measures to support and save the industry

On 17 February 2017 the departments of Trade and Industry and Economic Development announced a package of measures to support and save the industry from the immediate threat of closure and subsequent loss of capacity since the onset of the global steel crisis in 2015 which was characterised by massive global oversupply, depressed prices and increased import penetration.

These measures included an increase in the general rate of customs duty on primary steel products to 10%, as well as downstream support measures including tariff reviews on a range of downstream products and the deployment of rebates. This included an agreement on a set of principles for flat steel pricing in SA that is priced appropriately to ensure that steel-dependent industries are competitive while at the same time ensuring that the upstream steel mills remain sustainable.

The departments said that steel is by far the most important input into manufacturing and that collaboration across government and industry is therefore required to achieve and to ensure the long-term viability of the steel value chain. A competitive steel industry that can support investment, increase jobs and exports remains a key priority for these government departments.

Source: BDpro