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China steel industry body sees tougher times ahead

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Employees work at a steel factory in Dalian, Liaoning province. China's steel output is expected to fall 3.1 per cent this year to 781 million tonnes, after a 2.1 per cent decline last year. Photo: Reuters

China's steel consumption will continue to fall in years to come while failure to eliminate excess capacity prevents a swift turnaround for the troubled sector, according to an industry association head.

Zhang Guangning, chairman of China Iron and Steel Association, presented a grim outlook for the world's largest steel manufacturing industry at the industry body's first executive committee meeting.

"As our nation's economy enters a 'new normal,' the steel-intensity of our economic output will continue to fall," the online edition of state-backed China Metallurgical News quoted him as saying. "In years to come, apparent consumption will see a slow reduction trend ... resulting in severe imbalances among production capacity, output and consumption."

Crude steel apparent consumption – defined as the sum of production, net import and net decline in inventory – has fallen 5.5 per cent year on year to 645 million tonnes in last year's first 11 months, after declining 3.3 per cent in 2014.

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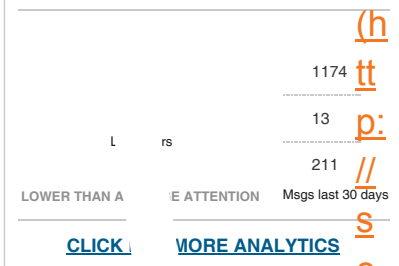
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China Metallurgical Industry Planning and Research Institute last month forecast China's steel output to fall 3.1 per cent this year to 781 million tonnes, after a 2.1 per cent decline last year.

A 28 per cent surge in net exports in last year's first 11 months has cushioned the Chinese steel industry from the full brunt of the demand decline.

Zhang noted the downturn has hit some products traditionally considered higher-value-added harder, such as hot-rolled plates, cold-rolled sheets and electroplated plates used in appliances, automobiles and ships manufacturing. They saw sharper price falls last year than plainer products used in the construction sector.

The association's 300-plus steel mill members – half of them loss-making – recorded a combined net loss of 53.1 billion yuan in last year's first 11 months as sales shrunk 19.3 per cent to 2.67 trillion yuan on the back of lower steel prices amid a glut.

The 10 worst-performing firms together registered a net loss of 49.5 billion yuan, 12 times that of the same period last year, while the top 10 best-performing companies saw their combined profit decline 46 per cent to 11 billion yuan.

A major reason for the oversupply is continued addition of new production capacity amid falling demand, as projects planned during the boom years were completed and commissioned.

Slow permanent retirement of outdated capacity is another culprit.



China's steel plant utilisation stood at around 67 per cent last year, well below the 85 per cent or above between 2000 and 2008, when the industry was on a roll. Photo: Reuters

"In the past two years, some severely loss-making mills have suspended operation for a while, of which some had wanted to permanently close shop," Zhang said. "But some local governments insisted they continue to produce for the sake of economic development and social stability."

"Some such firms' cash flows are drying up and they are becoming zombie enterprises."

He said the industry's plight can only end by curtailing capacity, output and the number of companies to avoid "overproduction and vicious competition".

Ridding outdated capacity is one of the most urgent tasks on Beijing's economic reform work for this year, according to the central economic work conference held last month.

Premier Li Keqiang has said the steel and coal industries need "extra urgency" and "hard measures" to resolve severe overcapacity.

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