



## CHINA STEEL INTELLIGENCE REPORT

# Winning China's slowdown

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## Winning China's slowdown



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# WINNING CHINA'S SLOWDOWN

BY TOMAS GUTIERREZ

The development and growth of China's steel industry has been overwhelmingly driven by the demand brought about by domestic economic development, rather than exports. With the transformation of China's overall economy, the demand for steel products will see simultaneous changes in both total volume and structure. Which products are likely to outperform others?

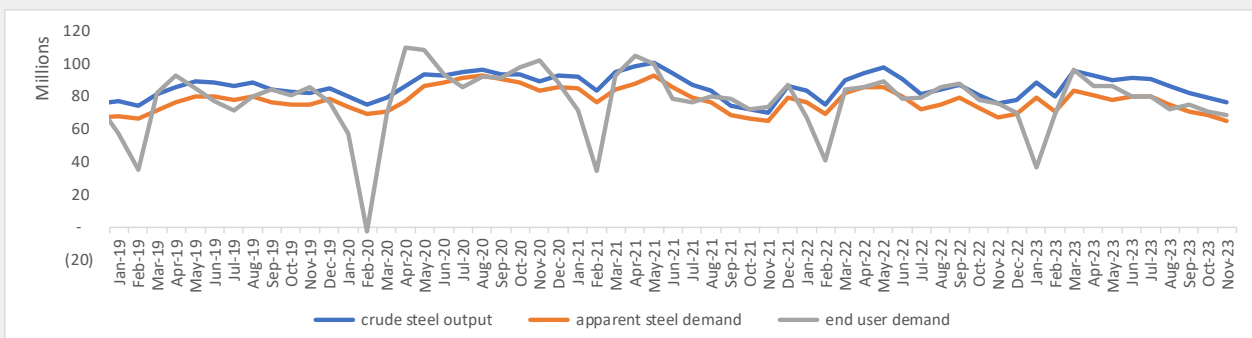
Compared with the GDP compound annual growth rate (CAGR) of 14.1% from 1978, when the People's Republic of China officially opened up to the outside world and began to focus on economic development, to 2022, the year-on-year growth has been below 10% since 2011. No matter what nice descriptive words officials use to describe this transition, China's economy has bid farewell to its previous rapid growth and posted much slower growth than before.

TABLE 1. SUPPLY AND DEMAND

	2022	Jan-Nov 2023	Y-o-y	2024 Outlook	Y-o-y
Official crude steel output	1,015	952	1.50%	1,035	0.0%
Apparent consumption	914	828	-1.93%	925	2.20%
End user demand	919	818	-3.63%	918	1.50%

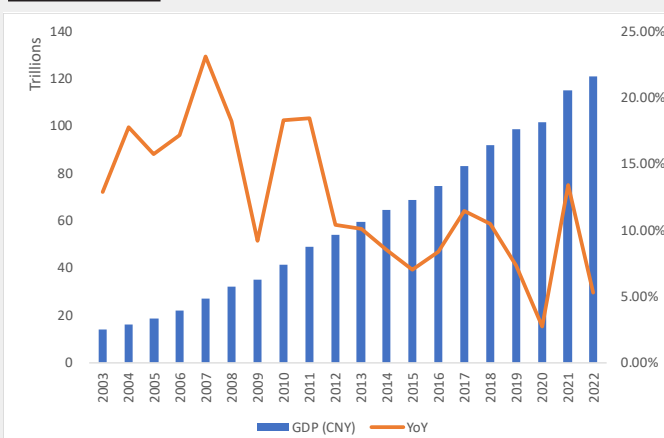
Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2023



Source: Kallanish. Million Tonnes

FIGURE 2. CHINA'S GDP AND Y-O-Y GROWTH



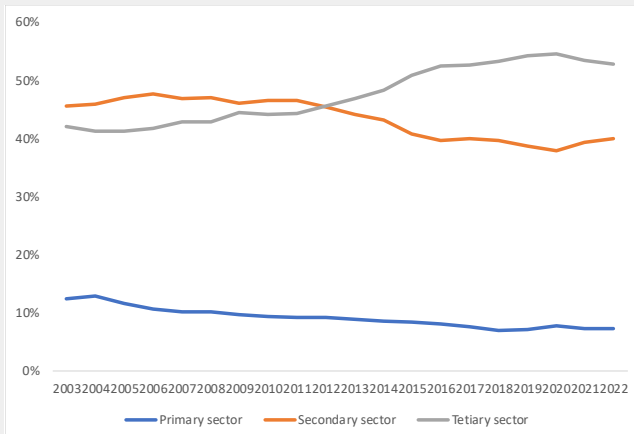
Source: NBS

For industry, this means that its peak growth period has also passed. Since 2011, the contribution of the tertiary industry to GDP has gradually increased and exceeded 50% in 2015 to reach 52.8% in 2022. The shrinkage in the share of industry has slowed in recent years. Covid-19, declining real incomes, and the weakening of real estate have dealt a serious blow to residents' consumption, thus causing the contribution of the tertiary industry to the economy to slow down. But in the long run, China's economy will rely more on consumption than on industrial output.



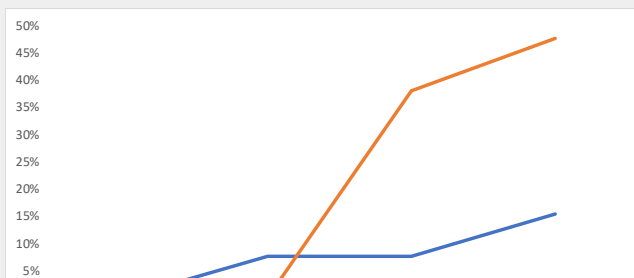


**FIGURE 3. THE TERTIARY SECTOR INCREASES CONTRIBUTION TO CHINA'S ECONOMY**



Source: NBS

**FIGURE 4. SPECIAL STEELMAKER LOSS RATIO OUTPERFORMS CARBON STEEL**



Taking into account the struggling real estate sector that has seen difficult times in the past few years and is subject to a deteriorating demographic structure, the decline in China's total steel consumption has become widely accepted. This, in turn, will drive down production.

At the same time, increasing industrial concentration is still being promoted by the government. So, for all steel companies, big or small, it is extremely important to target products with stable demand during the transition period or even growth against the overall trend. In addition to the advantages of scale, seizing such structural opportunities may be critical to the development or survival of Chinese steel companies.

### Special Steel

The stronger profitability of special steel over carbon steel, can be clearly seen in the performance of listed steel companies. Since 2021, as the steel industry as a whole cooled down 38.1% of Chinese listed steel

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