Chinese steel giant warns of “long cold winter”

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The statement by China’s top steelmaking firm, which accounts for 7 percent of global output, that the industry faces a severe crisis, underscores the extent of the slowdown in the Chinese economy and its global significance.

Outlining the company’s half-year position on Wednesday, Hu Vangming, chair of China Baowu Steel Group, said the “winter” would be “longer, colder and more difficult than we expected.”

In comments to Bloomberg, he said in the process of resolving it, cash was more important than profit and “financial departments at all levels should pay more attention to the security of the company’s funding.”

His remarks were echoed by Hou Augui, the general manager at the state-owned firm, who said “the current situation in the steel industry is more severe that the downturns of 2008 and 2015.” All departments had to “pay close attention to the security of cash flows and develop long-term cash balance plans.” When companies announce their focus of attention is cash flow it is a sign they are in trouble.

The immediate source of the crisis is the slump in construction and property development, one of the chief sources of demand for steel.

According to an analysis by the Commonwealth Bank of Australia, reported in the *Financial Times*, new construction starts in China fell 24 percent in the first half of this year on top of declines of 21 percent and 39 percent in 2023 and 2022, respectively.

The two previous downturns in 2008 and 2015 were resolved by government stimulus measures and the consolidation of steel plants out of which Baowu itself emerged in 2016. But the Chinese government has eschewed such measures in the present situation due to concerns over rising debt levels in the property and construction sectors.

There have been calls from both within China and internationally for the government to take action but apart from minor initiatives and some easing of credit by the People’s Bank of China there has been no response. The focus of the government is on investment in “high quality productive forces” concentrated in the high-tech area.

The latest data on the Chinese economy, coming in the wake of GDP growth of 4.7 percent in the second quarter down from 5.3 percent in the first, showed no signs of an upturn.

Reporting on the latest numbers, Bloomberg said: “China’s weakening economic momentum failed to pick up as sluggish confidence weighs on consumption and investment, putting the government’s annual growth target risk.”

Fixed asset investment slowed to 3.6 percent in the first seven months of the year. Spending by state-owned enterprises rose by 6.3 percent in the first seven months of the year compared to 6.8 percent in the first half, while “that of private firms stagnated from a year ago.”

Commenting on the latest data, which showed that industrial production rose by 5.1 percent in the year to July, compared to 5.3 percent the previous month, the National Bureau of Statistics (NBS) said the economy had made “stable and steady progress” in July. However, it warned there was “an increasing negative impact from the changing external environment, while domestic demand remains insufficient. The switch from old to new growth drivers is causing temporary pains.”

A sign of those pains is that bank loans to the real economy, used for investment and productive expansion, fell for the first time in 19 years.

Reflecting the downturn in construction, the NBS said steel production volumes had fall by 4 percent year-

on-year in July and cement output was down 12.4 percent.

In an expression of widely-held views, Serena Zhou, senior China economist at the Japanese financial firm Mizzuho Securities, told Bloomberg: “We believe the economy faces a significant threat from self-fulfilling deflation expectations. The government’s top priority should be to break this downward spiral early with more assertive measures.”

Ding Shung, chief economist for Greater China and North Asia at Standard Charter, said the economy’s momentum had slowed. This “posed more challenges to the goal of achieving around 5 percent growth this year.”

Problems in the steel industry are not confined to China, reflecting the wider slowdown in the global economy.

On Wednesday, the German steel company Thyssenkrupp reported that it expected to make a loss for the year ending in September in the mid-to-high, three-digit million euro range. Previously it had reported it expected a loss in the low three-digit million euro range.

In a sign of a worsening situation, the company’s announcement was the third time this year it has increased its estimates of expected losses because of lower sales.

Thyssenkrupp said reduced momentum in the automotive, machinery and construction industries had weighed on the company, and it had had to contend with lower prices and decreased volumes.

In the third quarter of the financial year—that is the three months to the end of June—it posted a net loss of €54 million, compared with a profit of €83 million over the same period a year ago, on sales that had fallen by 6 percent.

The downturn in the steel industry, generally regarded as the backbone of the industrial economy, which is most sharply reflected in China, will have major ramifications for iron-ore exporting countries, notably Brazil and Australia.

In the past three years, global prices for iron ore, Australia’s biggest export earner have fallen from a peak of $US215 per tonne to $US97 and are expected to fall even further, to $US70 or lower. This will have a major impact on government revenues that are highly dependent on the taxes from iron ore sales.

It is estimated that for every $US10 fall in the price, Australian GDP drops by $A6.5 billion and government tax revenues by $A1.3 billion.

For the past decade and half, since the global financial crisis of 2008, the Australian economy has been sheltered to some extent by the growth in the Chinese economy, in particular the construction boom promoted by the Chinese government. That period has now ended along with the super-profits enjoyed by the iron ore companies, setting the stage for major economic shocks.

The fall in prices is not confined to iron ore. The price of nickel, a key industrial metal, has fallen by more than two thirds in the past two years, down from $US50,000 per metric to around $16,500. Prices of lithium have also collapsed in the past 12 months leading to hundreds of sackings.

The fall in the ore price along with other industrial minerals will have major political ramifications as well.

There was a small foretaste of what is coming in the Labor government’s budget papers in May. While it forecast a surplus for the current year of $9.3 billion, largely on the back of iron ore revenues, the budget was expected to fall into a deficit of $28.3 billion (around 1 percent of GDP) the following year and $42.8 billion the year after.

Those estimates could well be revised down in light of the developing crisis in the global steel industry. This means that the attacks on the working class under the Albanese Labor government, which have resulted in the biggest cuts in living standards in 50 years, will be intensified by whatever government comes to power after the federal elections scheduled to be called by next May.