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# Domestic steel market overview

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September 2011

# The Economy in a nutshell



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## Global overview

- Advanced economies GDP growth rates moderated in the second quarter of 2011; EU 27 (1.7%), Germany (2.8%), USA (1.6%), Japan (-0.9%), UK (0.7%)
- China continues to register high GDP growth rates of 9.5% in the second quarter of 2011
- Africa's economic growth rate revised to 3.7% from 5.2% in 2011
- Risks to global economic growth remains high debt levels, rising inflation and fiscal consolidation

## Domestic overview

- The South African economy's GDP growth rate in the second quarter of 2011 came in weaker at 3% year on year and 1.3% on a quarterly basis
- Negative growth rates recorded in Mining (-4.2%), Manufacturing (-7%), Agriculture (-7.8%)
- Inflation remains a threat to economic growth prospects as it surges upwards reaching 5.3% in July 2011
- Real Gross Fixed Capital Formation increased to 4.1% in the second quarter of 2011 from 3.1% in the first quarter of 2011

*Global inflation surging up, with interest rates starting to pick up to contain higher levels of inflation*

# Sub-Saharan region economies: Most economies projected to grow more than 5% into 2015



Selected African economies: Real GDP growth rate						
Country	2010	2011F	2012F	2011 F	2014F	2015F
<b>Africa</b>	<b>4.9%</b>	<b>3.7%</b>	<b>5.8%</b>	<b>5.2%</b>	<b>5.3%</b>	<b>5.4%</b>
<b>Sub-Saharan Region</b>	<b>5.0%</b>	<b>5.5%</b>	<b>6.2%</b>	<b>5.7%</b>	<b>5.7%</b>	<b>5.6%</b>
<b>Angola</b>	3.4%	7.5%	11.1%	6.5%	6.4%	6.4%
<b>DRC</b>	6.1%	6.7%	6.4%	8%	6.1%	5.9%
<b>Ghana</b>	5.9%	12%	11%	6.1%	6.2%	6.3%
<b>Kenya</b>	5.0%	5.5%	5.5%	6.8%	6.8%	6.7%
<b>Malawi</b>	6.7%	6.4%	6.0%	5.5%	5.3%	5%
<b>Mozambique</b>	8.1%	7.7%	7.9%	7.9%	7.8%	7.8%
<b>Nigeria</b>	8.1%	6.9%	6.7%	6.3%	6.3%	6%
<b>Tanzania</b>	6.8%	6.9%	7.3%	7.4%	7.5%	7.5%
<b>Uganda</b>	5.1%	5.6%	6.9%	7%	7%	7%
<b>Zambia</b>	6.4%	6.6%	6.5%	7.8%	8%	8.2%
<b>Zimbabwe</b>	8.2%	7.8%	5.4%	5.2%	5%	4.8%

Source: IMF, ArcelorMittal

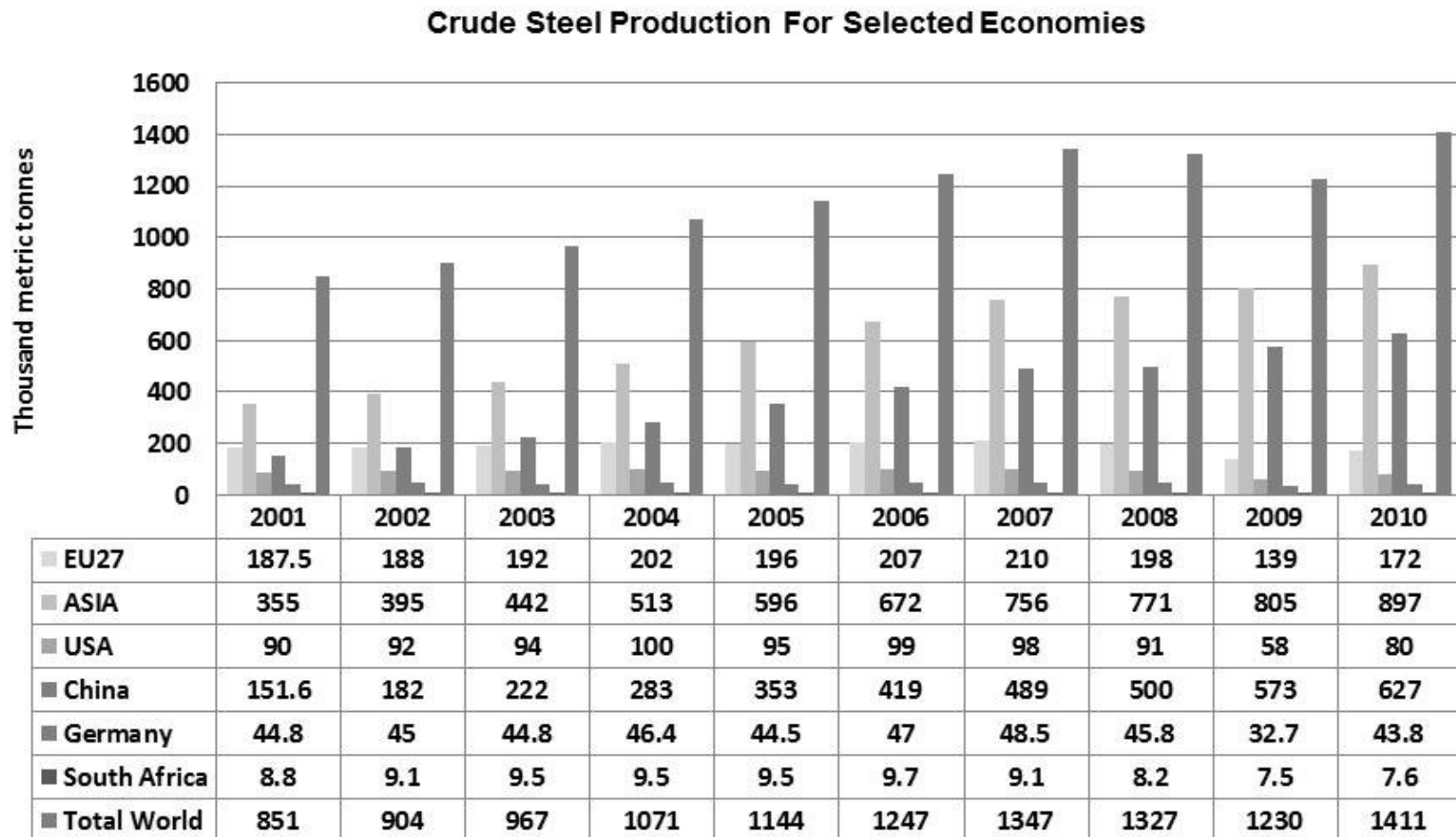


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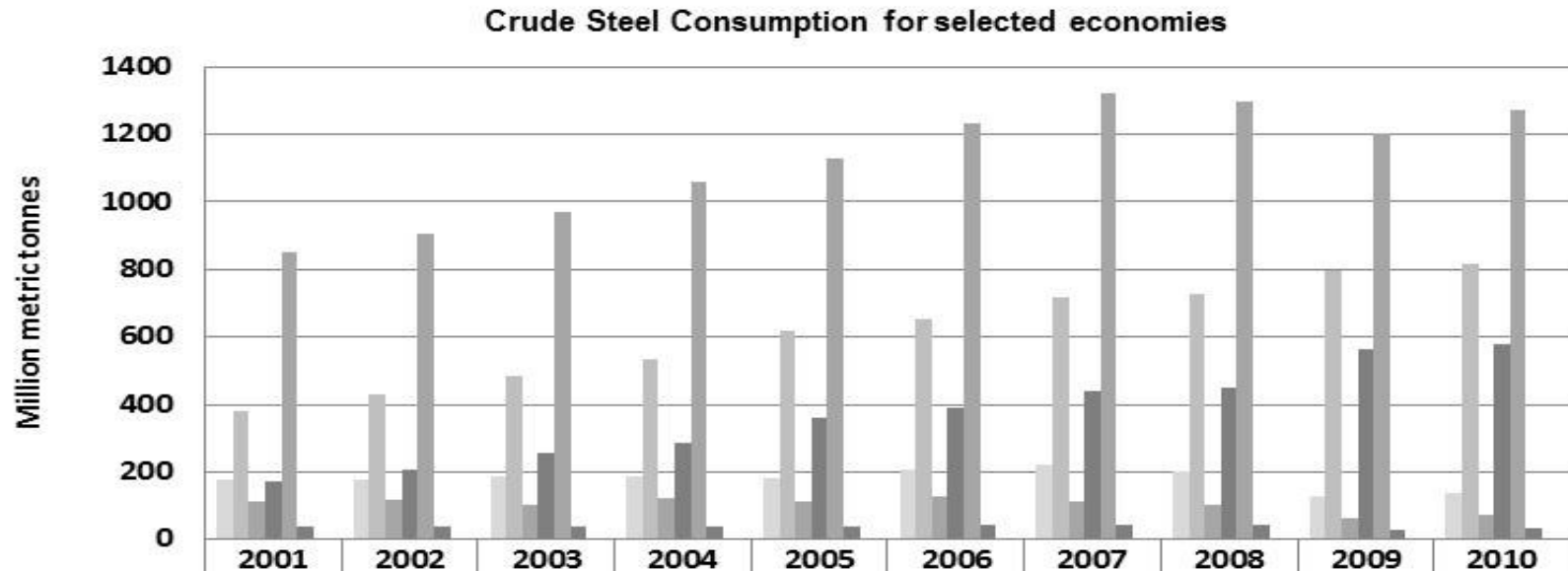
***THE PERFORMANCE OF KEY STEEL  
CONSUMING SEGMENTS WITHIN THE  
SOUTH AFRICAN ECONOMY***

# Global steel market trends: Increase in global steel production being registered



Source: Worldsteel Statistical yearbook

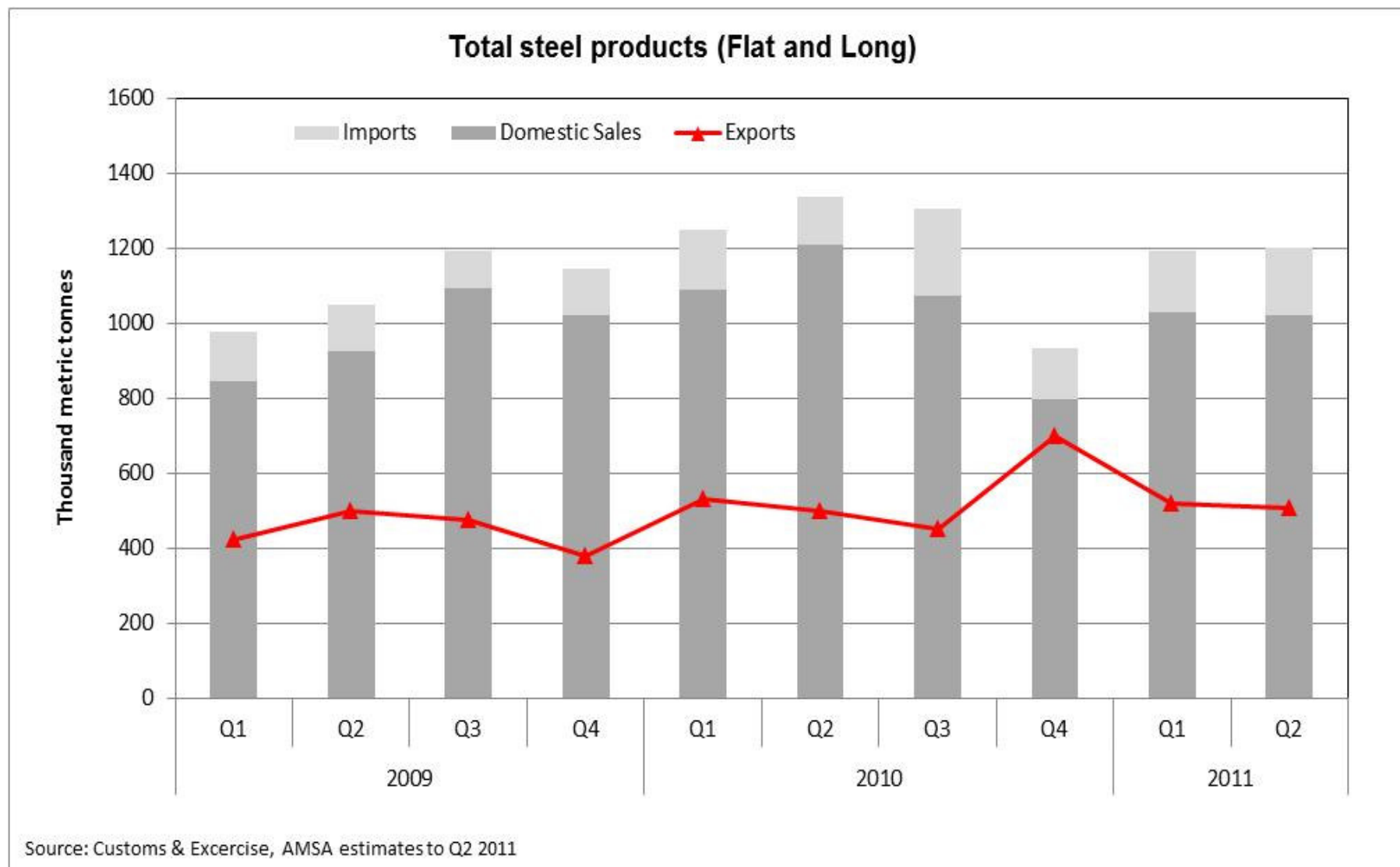
# Global steel market trends: Increase in steel consumption trend into 2010



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
■ EU27	179	177	186	190	182	206	220	204	129	139
■ ASIA	380	430	486	534	617	651	718	730	795	818
■ USA	114	118	106	124	113	129	114	102	62	73
■ China	171	206	259	287	362	393	440	452	565	578
■ Total World	853	908	969	1057	1131	1232	1320	1299	1203	1272
■ Germany	40	38	38	39	39	42	46	45	29	32.7
■ South Africa	4.67	5.4	4.55	5.47	5.18	6.68	6.63	6.78	4.59	4.9

Source: World Steel Statistical Yearbook

# Domestic steel market trends: Total domestic steel sales declining into 2011





# Domestic steel market trends in 1<sup>st</sup> half of 2011: Shipment into the domestic market by Sector



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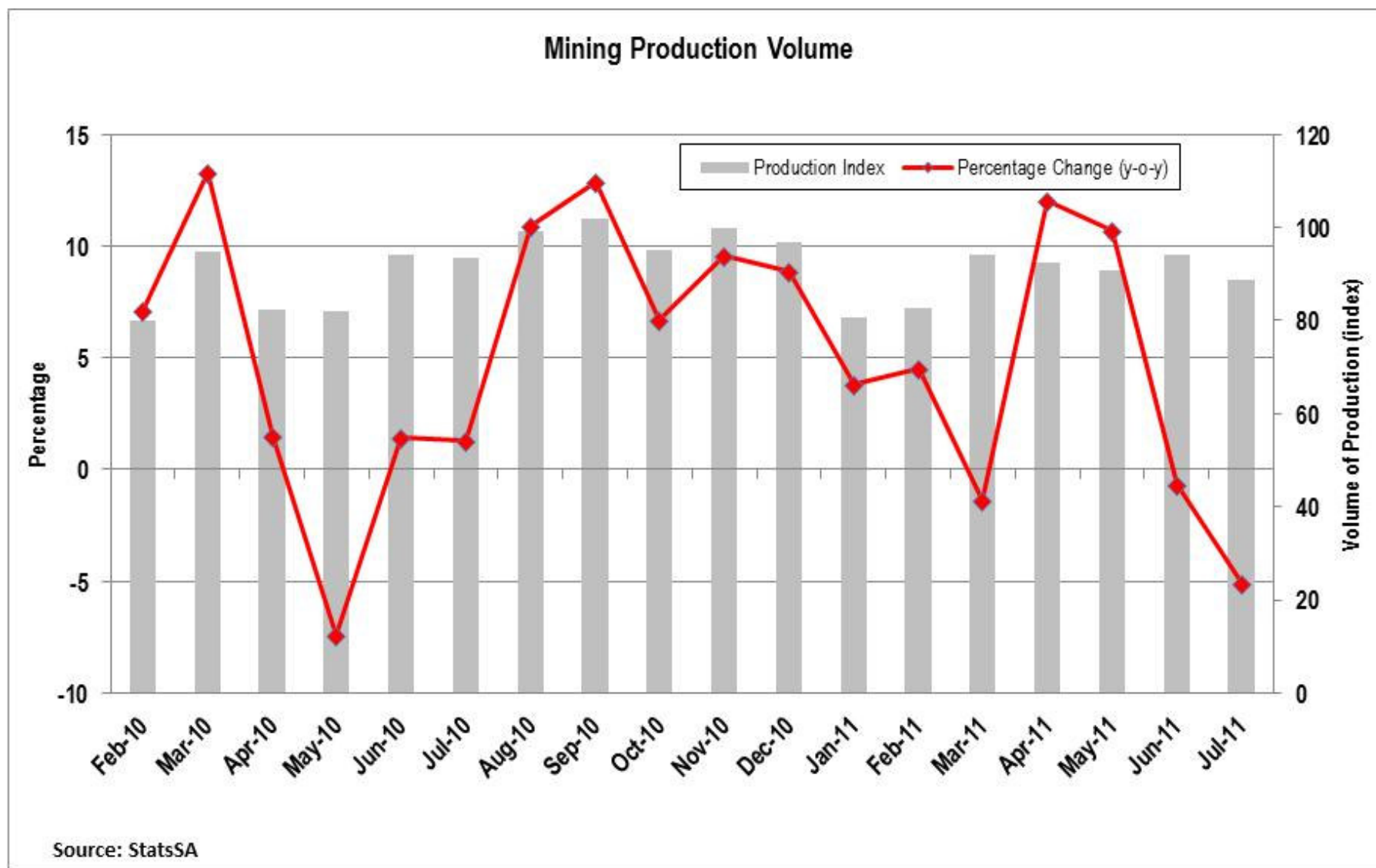
- Steel shipment to the mining sector represented 4.1% of the total domestic shipment
- The manufacturing sector consumed 54.9% of the total steel shipment domestically of almost 1.2 million metric tonnes spread as:
  - Cables, wire products and gates 23.4%
  - Government, hardware, railroad 11.7%
  - Packaging 9.1%
  - Tube and Pipe 18.4%
  - Plate and sheet metal 15.9%
  - Roofing and cold forming 1.9%
  - Agriculture machinery 1.2%
  - Automotive 13%
  - Electrical machinery 2.7%
  - Fasteners 2.3%
- The building and construction sector's shipment was 22.5% of the total domestic shipment



# Mining Production Trends: Declining y-o-y production growth rate into July 2011



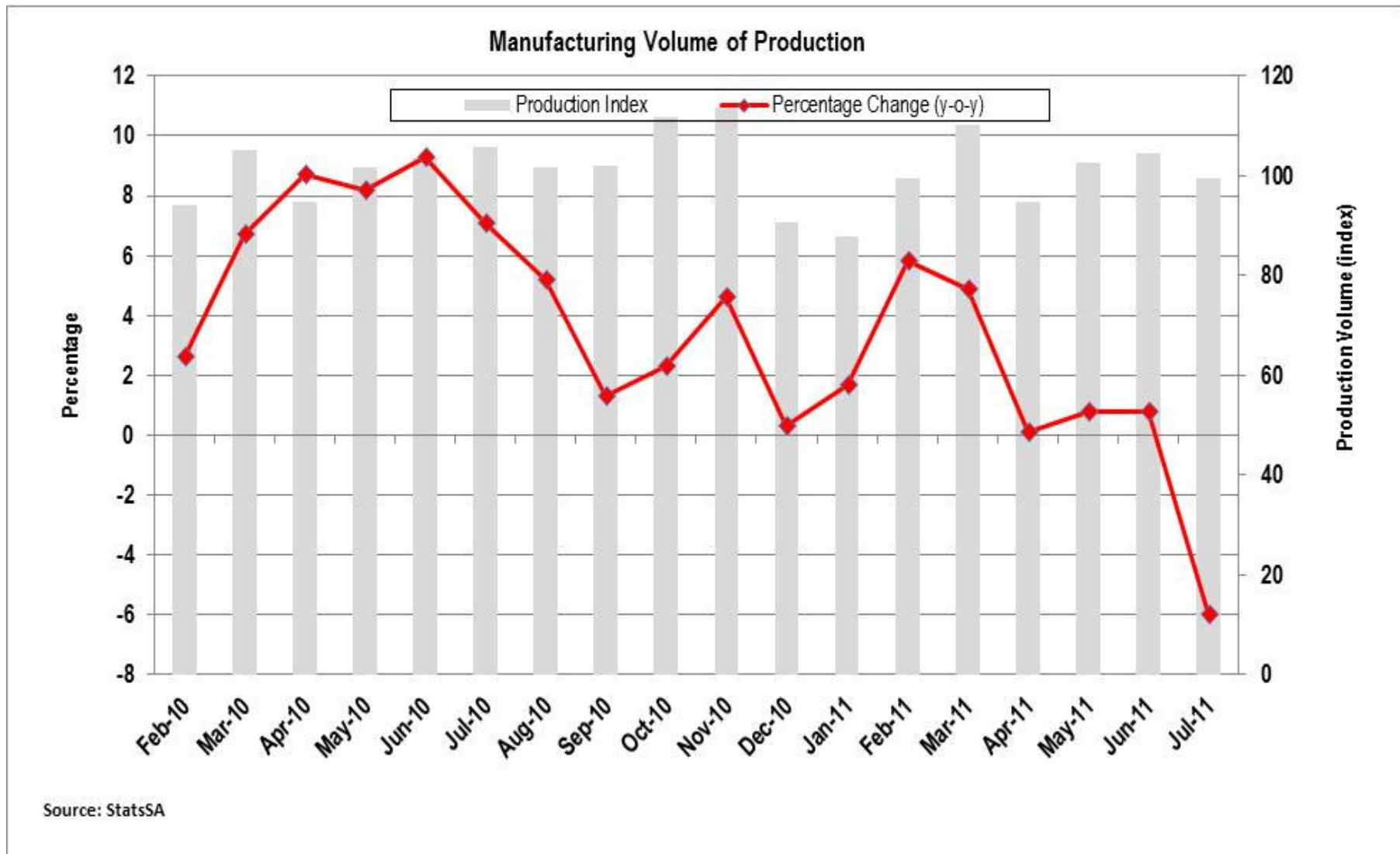
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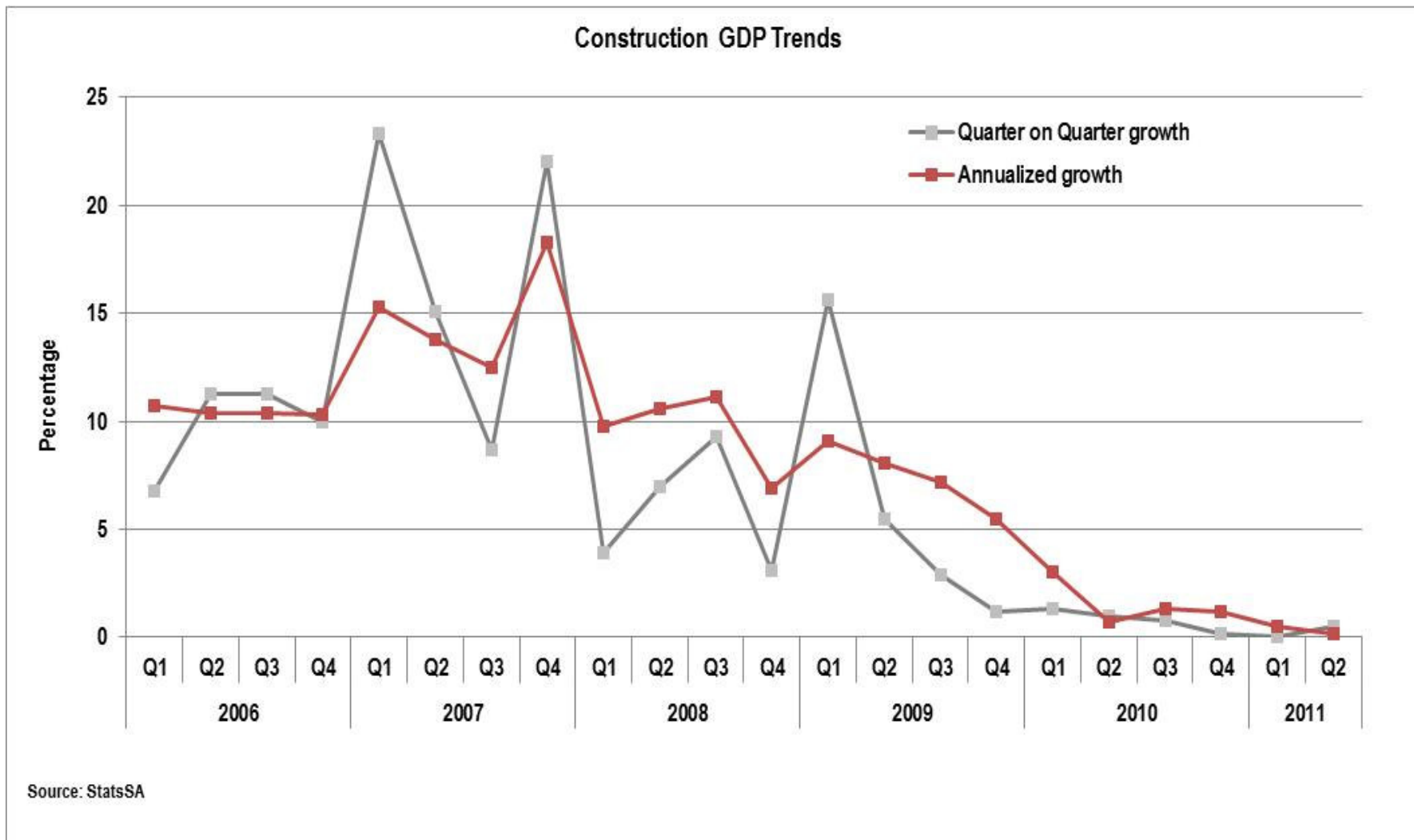
# Manufacturing production trends: Declining y-o-y production growth rate into July 2011



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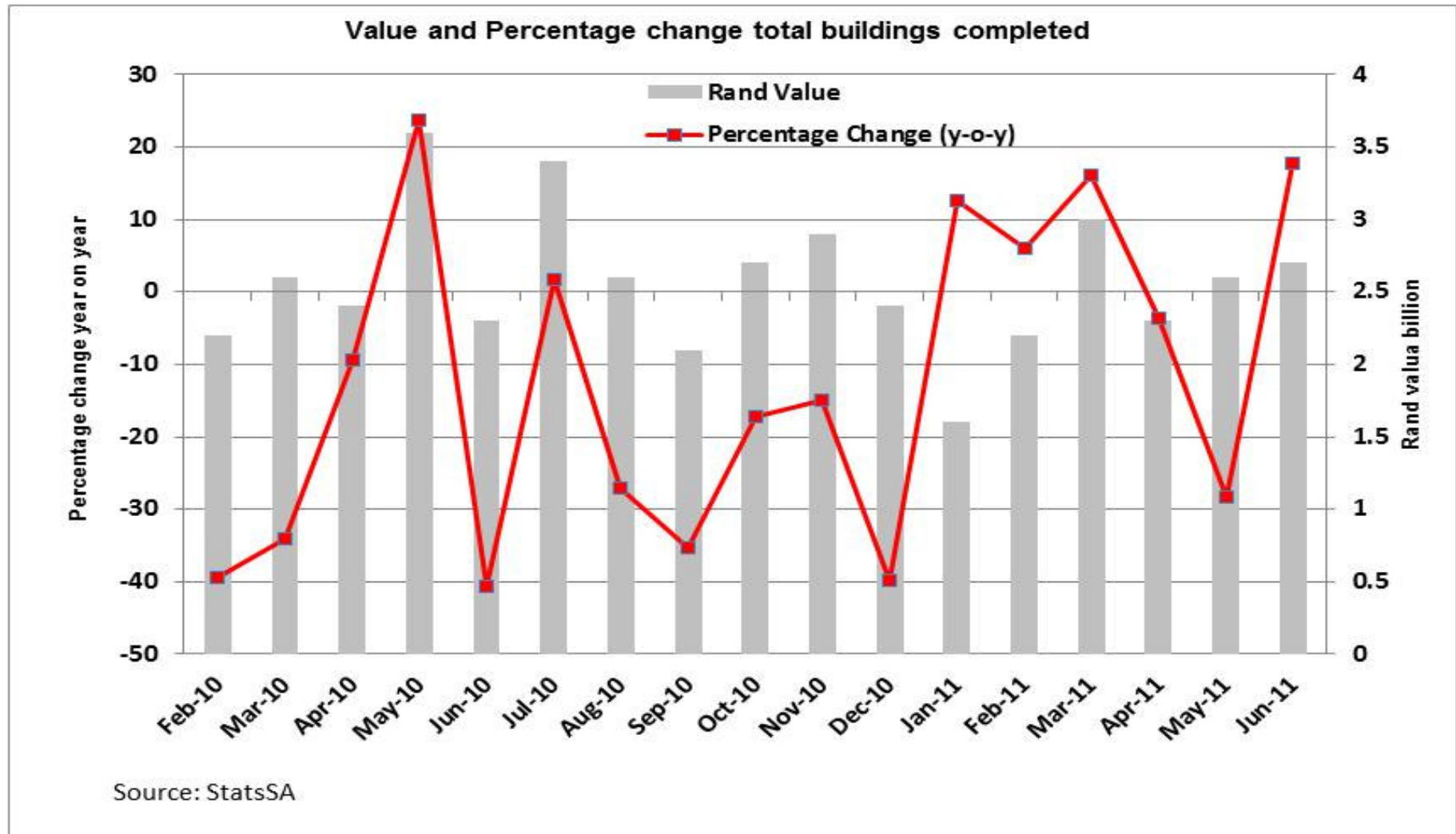
# South African economy: Declining trends in Construction Sector growth rate suppressing steel demand



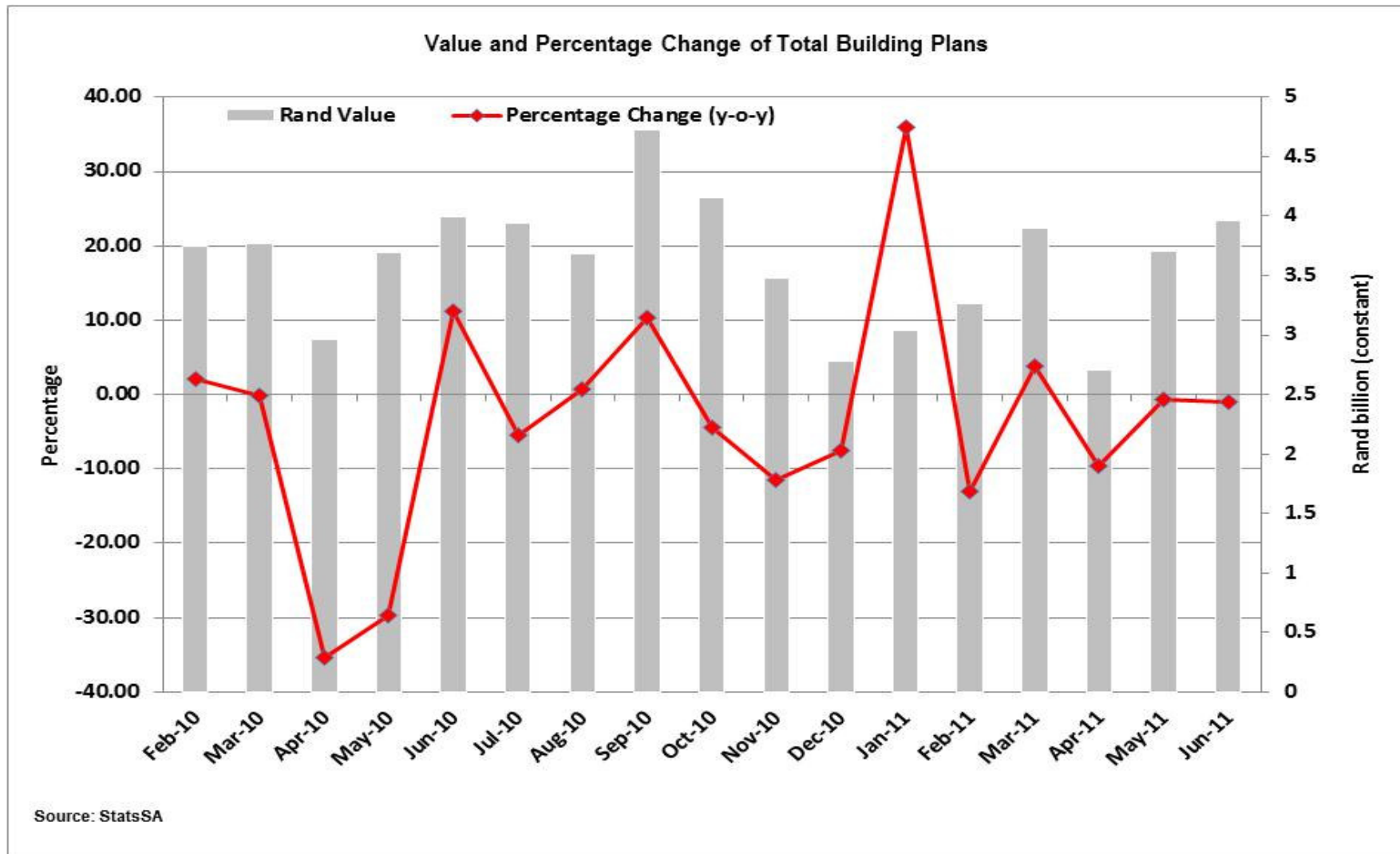
# Total Building Completed in South Africa: Improved year on year growth in value terms to June 2011, with monthly improvements as well



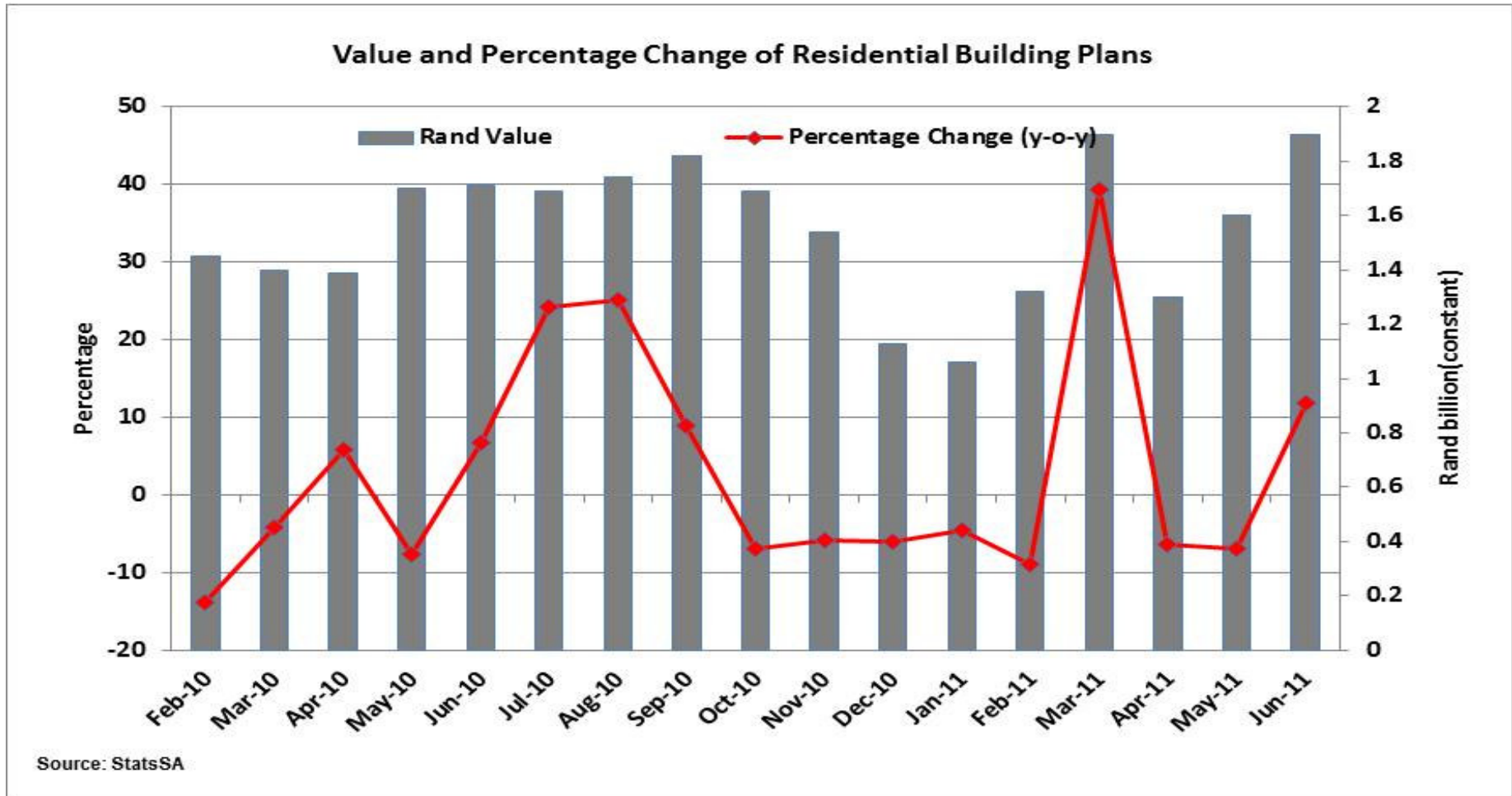
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# Total Building Activity in pipeline South Africa: Improvement into June 2011 in value terms

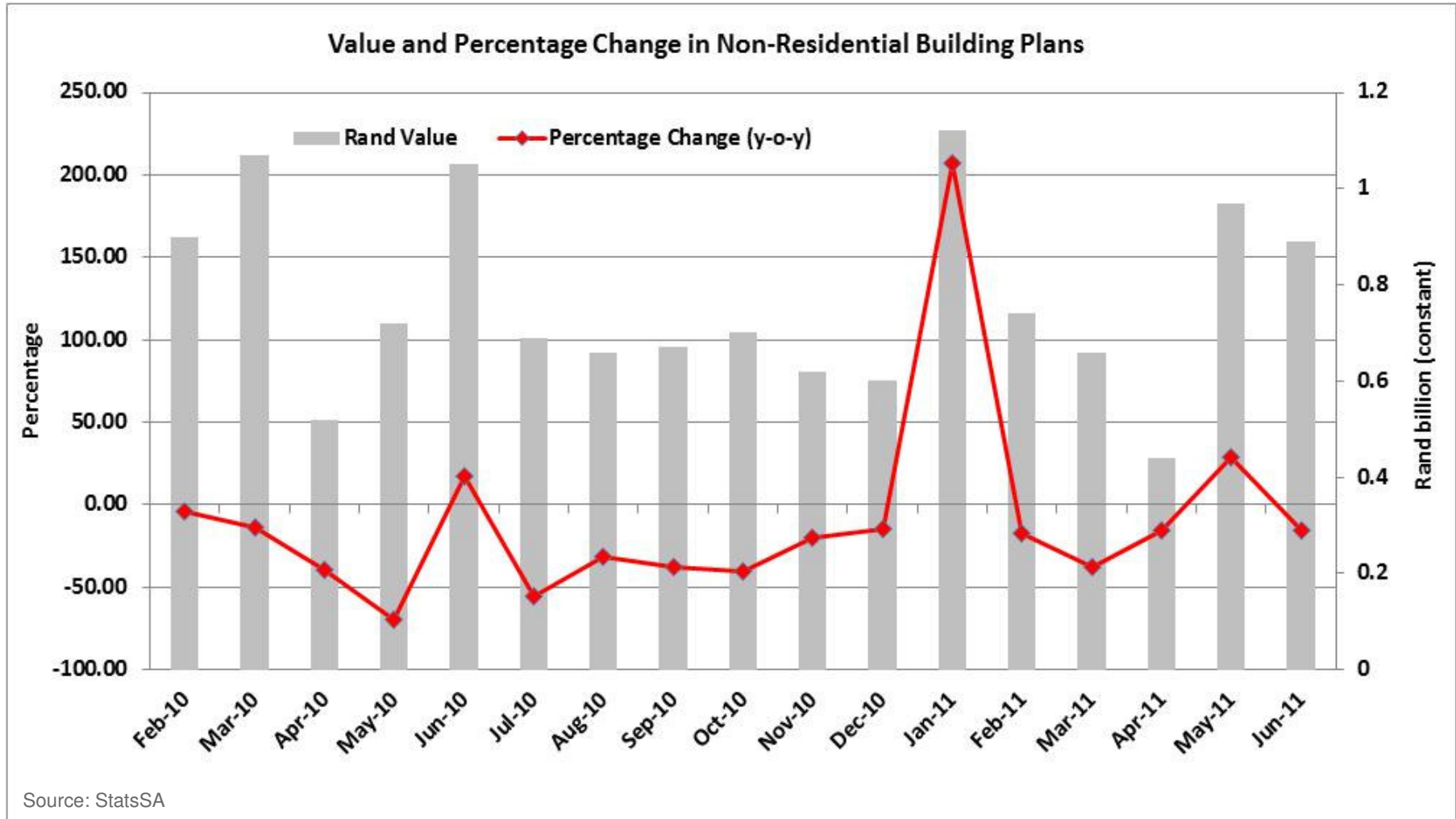


# Planned Residential Building Activity in the pipeline: Improved year on year growth in value terms to June 2011, with monthly improvements as well





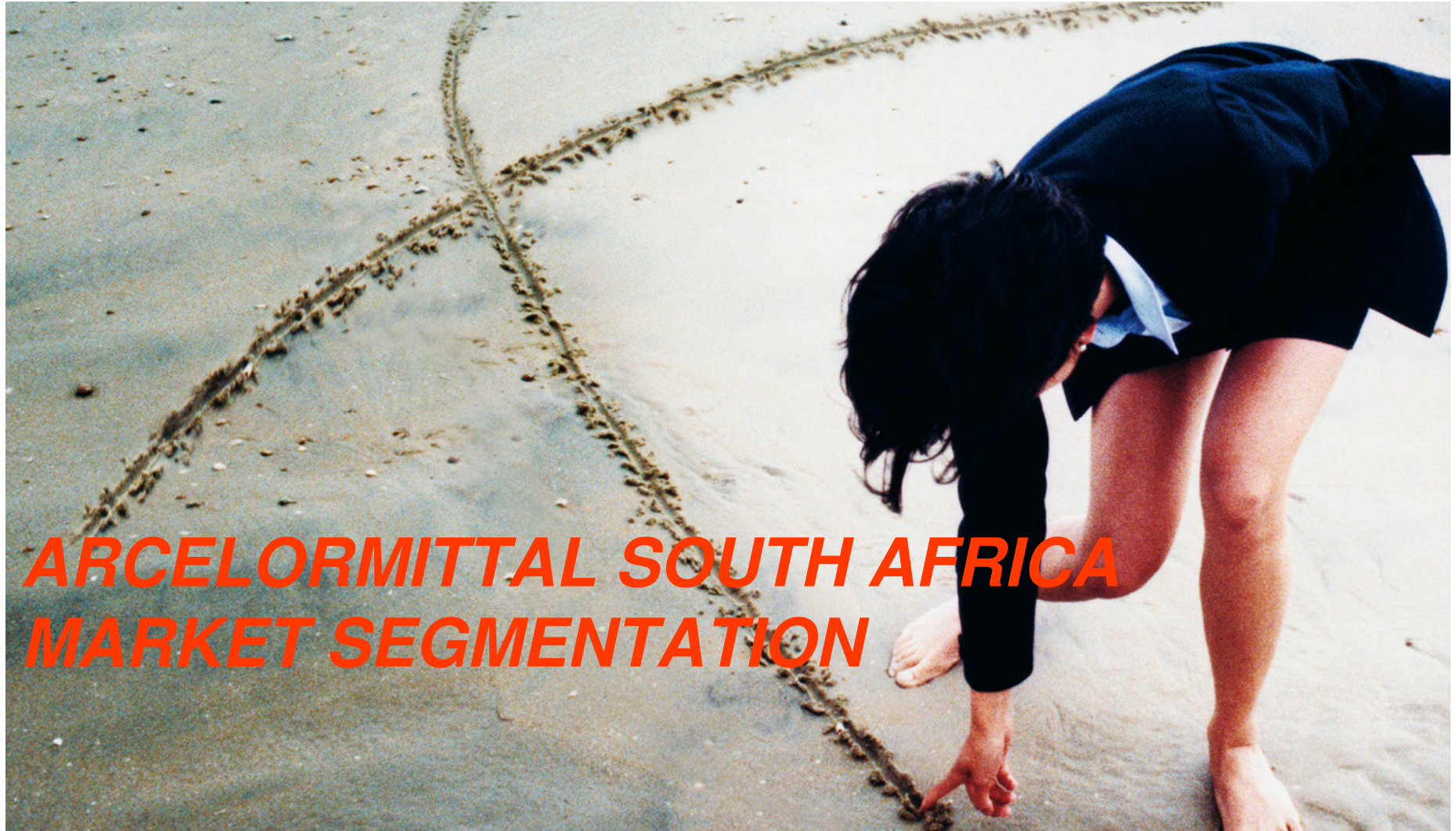
# Planned Non-Residential Building Activity in the pipeline: Declining month on month and yearly growth into June 2011







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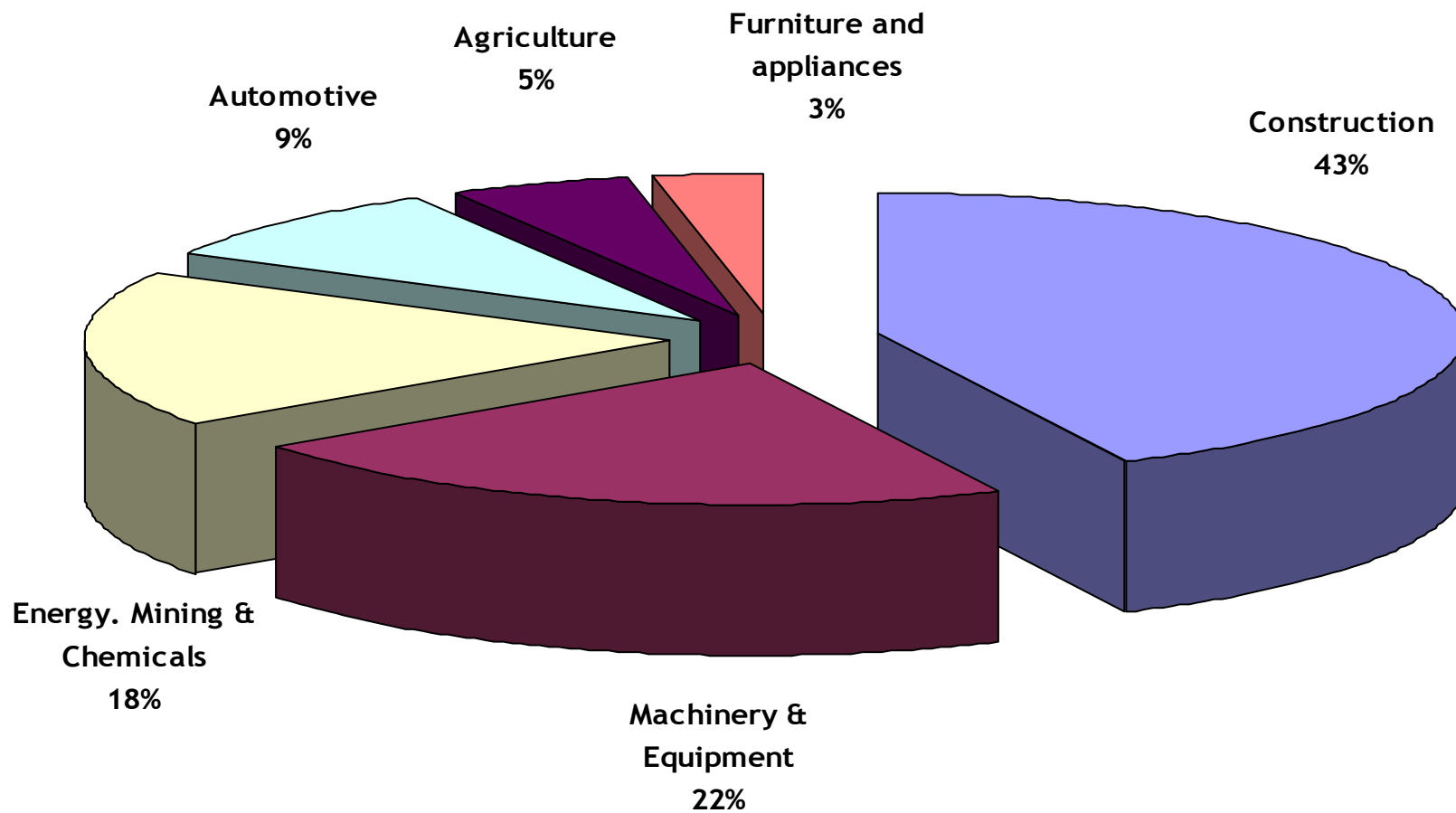
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MARKET SEGMENTATION**

# Long Steel Products AMSA Market Segmentation (tonnes): Construction sector continues to be dominant



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Percentage share of AMSA LSP sales



# Long Steel Product AMSA Market Segments:

## A mixed view on performance of market segments



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### Construction industry

- Capacity constraints remains and industry wide challenge
- The weak growth within the construction suppressing steel demand into the sector

### Bolts and Nut industry

- Industry susceptible to imports of finished products to combat imports
- Anti dumping duties in place on bolts, now imported as set screws

### Machinery equipment and fencing industry

- Market is expected to be relatively stable domestically, with potential of additional business on international front
- Fencing competing against wood for droppers and other imports of lighter sections from China

### MARKETS FOR AMSA LONG STEEL PRODUCTS – demand influenced by performance of industries

### Automotive industry

- Main competition international suppliers of final product, with most products sold as value added product on international market – biggest markets USA and Europe

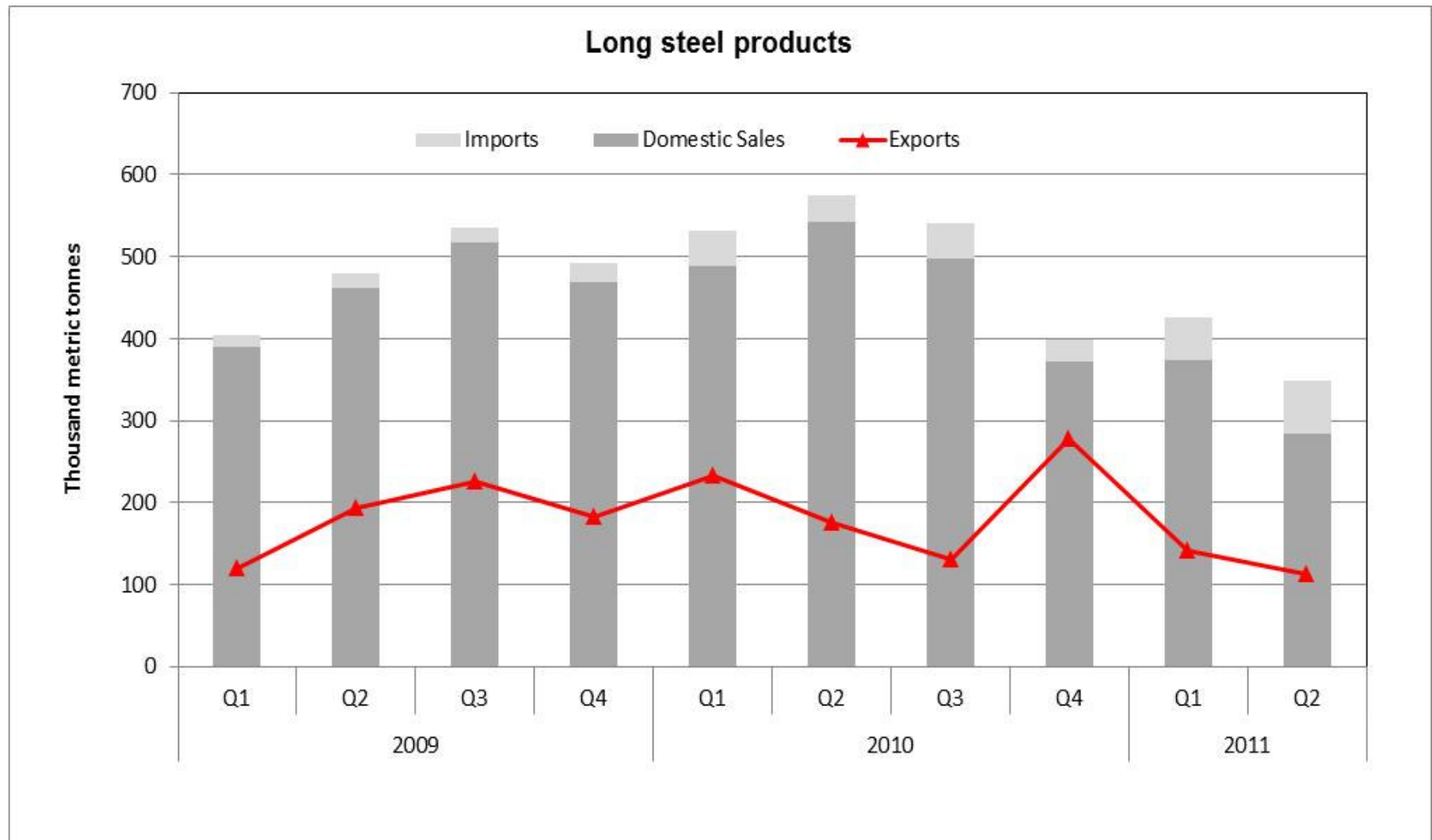
### Mining industry

- The sale of these products is largely dependent on mining activity, which in its turn is determined by commodity prices and the exchange rate.

### Wire drawing and windows industry

- Main competition from Steelmakers in Zimbabwe
- Windows market is expected to be strong over next 5 years as government need to build more houses. (Backlog  $\pm 2,9m$ )

# Long Steel Product domestic market trends: Domestic sales declining into Q2 2011

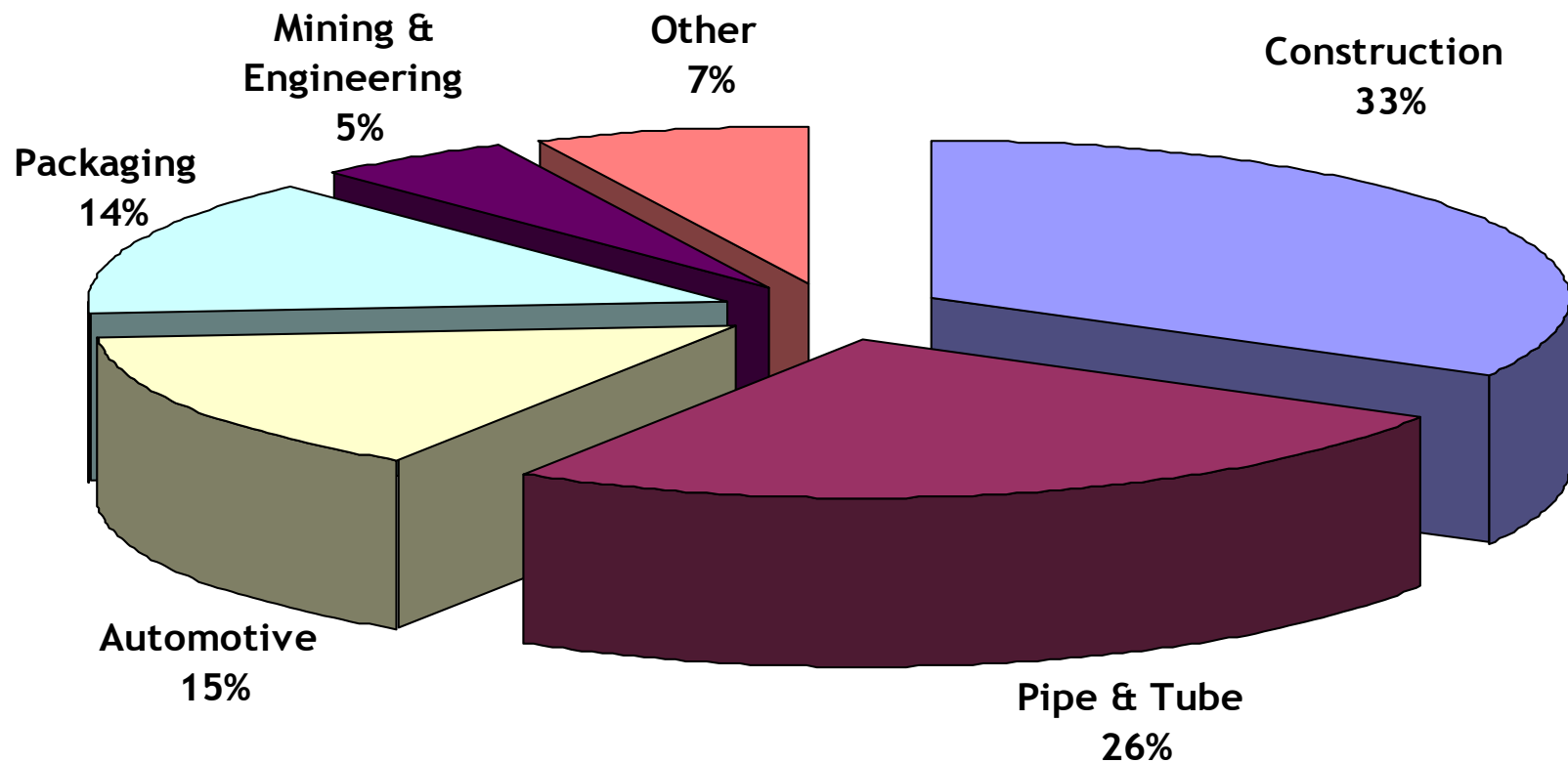




# Flat Steel Product AMSA Market Segmentation (tonnes): Construction sector dominant



Percentage share of AMSA FSP sales



# Flat Steel Product AMSA Market Segments:

## A mixed view on performance of market segments



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### Tube and Pipe Industry

- This industry is segmented into small and large bore
- Recently cheaper imports as well as other competitors coming into the market

### Roofing industry

- The weak developments trends in both residential and non-residential segments suppressing demand

### Machinery equipment and fencing industry

- The market is demand driven, with low production in the coming months of 2011 as projected to affect supply demand as economy is showing signs of weakening

### MARKETS FOR AMSA FLAT STEEL PRODUCTS – demand influenced by performance of industries

### Packaging industry

- The market environment faces stiff competition from substitute products such as glass, plastic, paper and even imports, and likely to impact on sales

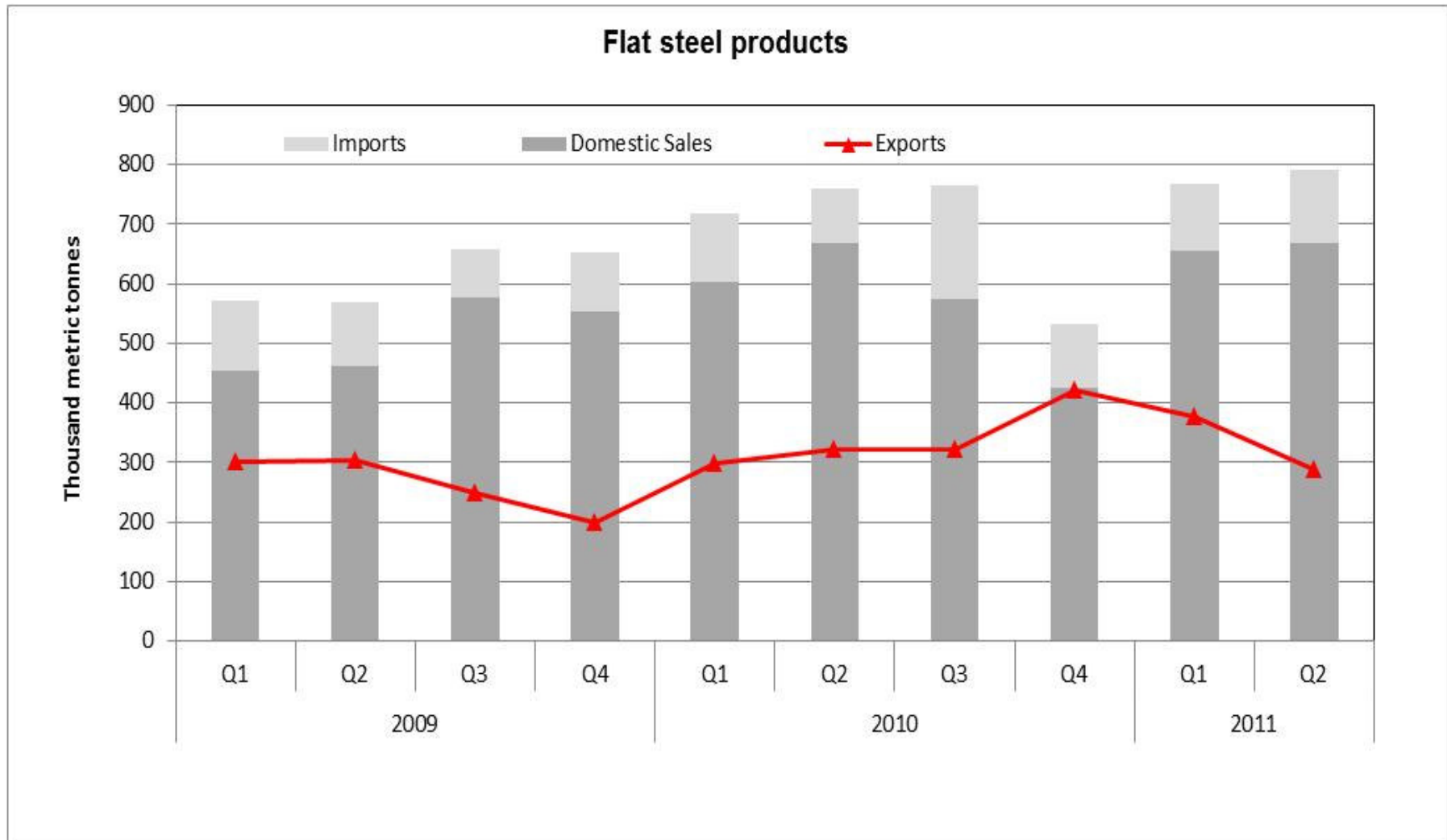
### General Engineering & Construction industry

- Mining activities on low but demand mostly from neighboring countries rising
- Slow pace of infrastructure projects from SOEs affecting demand

### Steel Service Centres industry

- Inventory levels increasing recently due to catch-up on backlogs impacted by the strike actions.
- Imports are also on the rise as we face supply challenges due to plants breakdown at Newcastle

# Flat Steel Product domestic market trends: Domestic sales showing some improvements

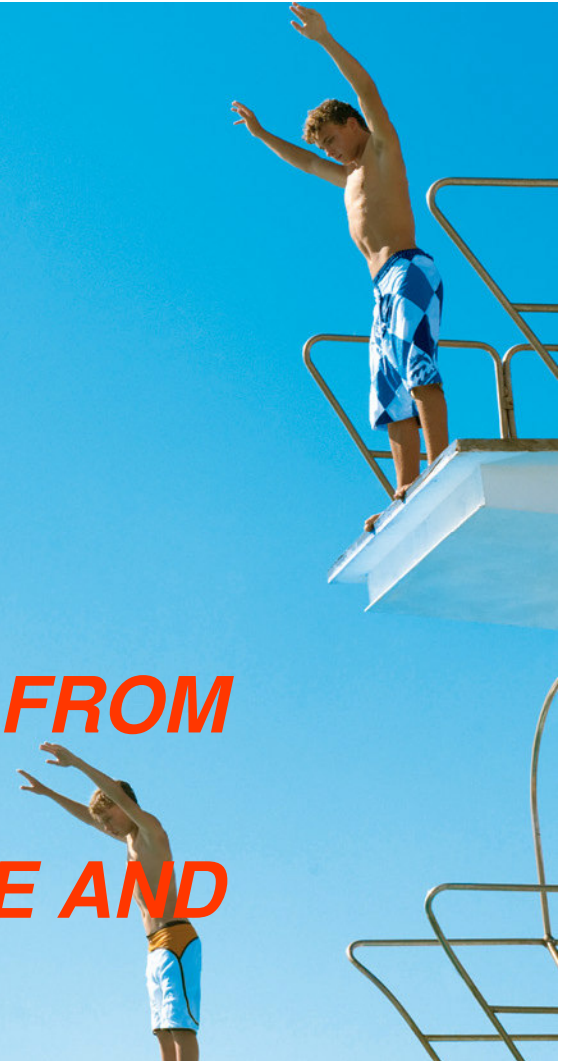






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***STEEL MARKET OPPORTUNITIES FROM  
STATE OWNED ENTERPRISES,  
GOVERNMENT INFRASTRUCTURE AND  
AUTOMOTIVE INDUSTRY***



# Government capital expenditure: Actual capital expenditure increasing moderately



## Capital expenditure by public sector institutions – new construction

Expenditure (R bn)	2009	2010	2011F	2012F	2013F
Residential building	1.2	1.1	4.1	4.2	4.5
Non-residential building	5.3	5.5	9.4	10.8	11.5
Roads, streets and bridges	5.9	6.2	7.9	10.5	10.2
Sewerage and sanitation	2.0	1.8	3.6	4.8	5.2
Electricity	2.7	3.0	6.3	5.4	5.1
Community and social works	5.8	4.1	5.8	4.3	4.9
Refuse sites	0.4	0.1	0.6	0.8	0.7
Water	5.6	5.1	7.5	7.9	8.6
Other construction works	81	90.9	56.7	71.1	67.6
<b>TOTAL EXPENDITURE</b>	<b>110</b>	<b>117.9</b>	<b>102</b>	<b>120</b>	<b>118.4</b>

Source: StatsSA

# South African National Budget 2011: The South African Government infrastructure expenditure



Public Infrastructure by sector						
Rand Billion	2010/11	2011/12	2012/13	2013/14	MTEF TOTAL	% TOTAL
NATIONAL TOTAL	260.1	252.9	269.3	286.4	808.6	100%
ECONOMIC SERVICES	228.7	216.2	219.4	228.5	664.1	82.1%
Energy	102.7	96.5	98.1	96.8	291.4	36.0%
Water and Sanitation	21.0	26.8	25.3	28.2	80.4	9.9%
Other economic services	24.4	25.4	26.8	28.0	80.2	9.9%
Transport and logistics	80.5	67.5	69.0	75.6	212.1	26.2%
SOCIAL SERVICES	26.2	29.5	34.9	44.3	108.7	13.4%
Health	8.5	10.2	15.1	20.6	46.0	5.7%
Community facilities	6.1	6.4	5.9	8.0	20.2	2.5%
Education	6.8	9.2	10.1	11.5	30.7	3.8%
Other social services	4.9	3.7	3.9	4.2	11.8	1.5%
JUSTICE AND PROTECTION SERVICES	3.1	3.3	7.0	10.2	20.6	2.5%
CENTRAL GOV. ADMIN & FINACIAL SERVICES	2.1	3.8	7.9	3.5	15.2	1.9%

Source: National Budget 2011

# South African National Budget 2011: More allocation to ESKOM for energy projects



## Capital Expenditure programmes of major SOEs

	2009/10 Actual	2010/11 Budget	2010/11 Revised	2011/12	2012/13	2013/14	2014/15	Total MTEF
Capital expenditure	88.6	149.5	136.2	136.5	122.7	104.3	123.9	487.4
Of which the big six:								
Eskom	48.4	96.3	86.8	93.7	85.2	67.0	88.9	334.8
Transnet	18.4	19.4	22.8	21.9	17.1	16.2	15.2	70.4
Central Energy Fund	1.4	5.8	6.8	4.3	8.2	10.1	5.5	28.1
SANRAL	11.6	13.5	8.4	2.6	2.0	1.5	1.5	7.6
Trans-Caledon Tunnel Authority	0.4	7.1	5.0	9.0	4.8	4.8	2.9	21.5
ACSA	5.2	1.6	1.3	0.8	1.1	-	-	1.9

# Outlook for the construction sector: Slow growth expected in 2011



Construction sector : constant 2000 prices 2007 - 2014

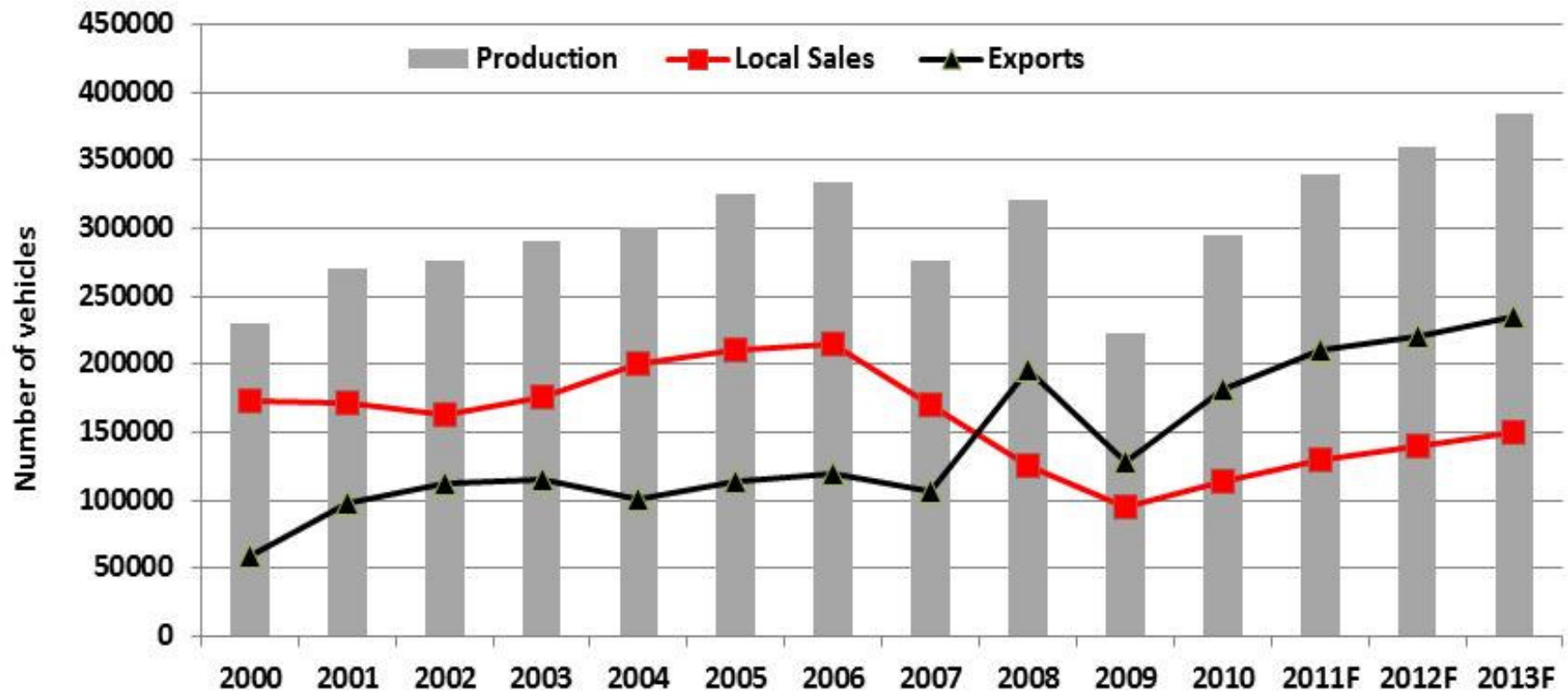
	2007	2008	2009	2010	2011	2012	2013	2014
Capex	92.9	99.2	96.8	85.4	82.1	82.8	88	92.8
Building (R bn)	69.8	70.2	70.9	69.8	66.3	66.6	69.3	72.3
Residential (R bn)	35.9	33.3	30.2	28.1	27.3	28.9	31.7	33
Non-residential (R bn)	33.9	36.9	40.8	41.6	38.9	37.6	37.6	39.3
GDP growth rate (Construction Sector)	15%	9.5%	7.4%	1.5%	0.5%	0.9%	3.8%	4.2%

Source: StatsSA, Construction report,

# Passenger vehicles: Positive trend in production and sales, brighter outlook into 2013

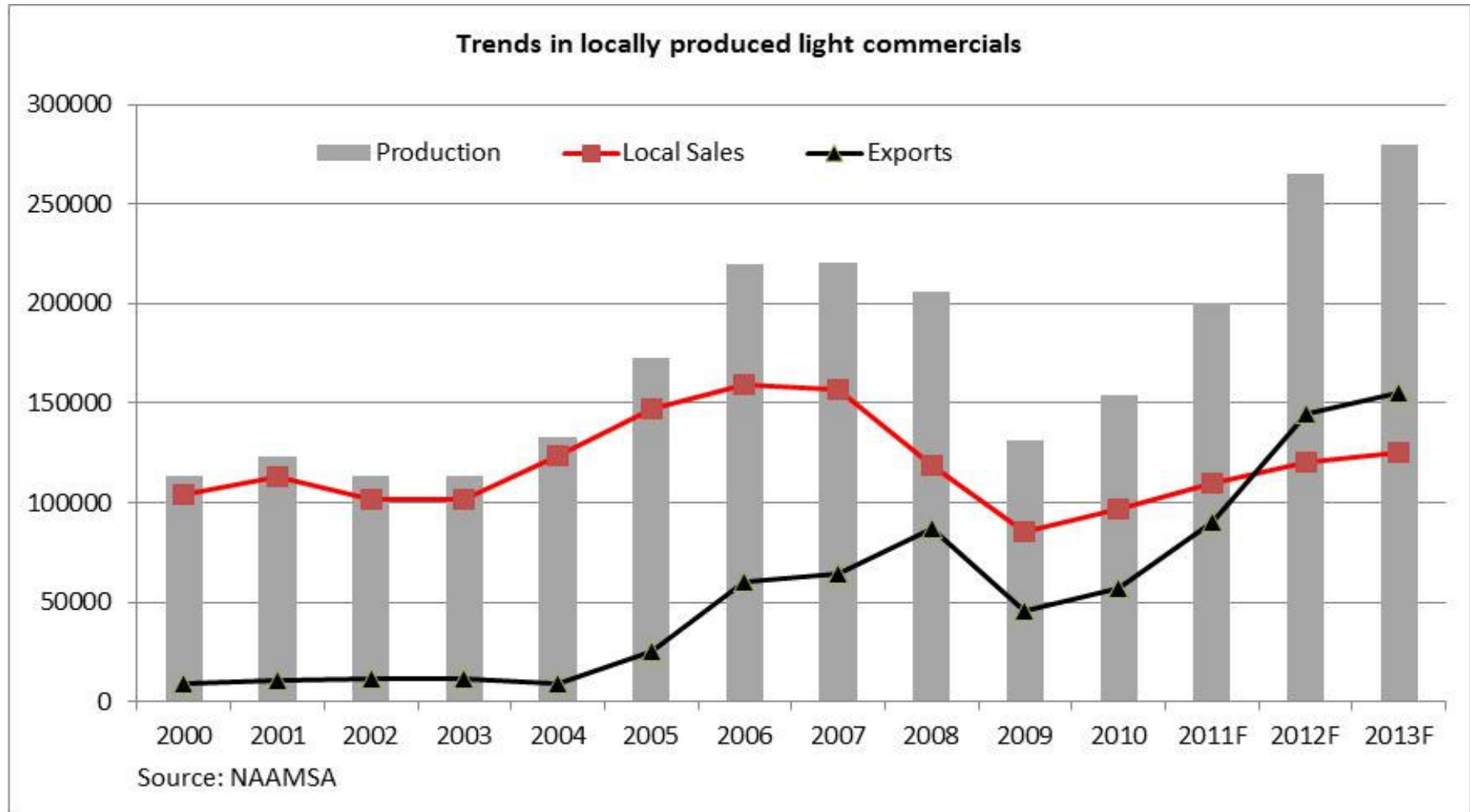


Trends in locally produced passenger vehicles



Source: NAAMSA

# Light commercial vehicles: Positive growth registered recently with a brighter outlook into 2013





## *Steel industry implications*



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- The Sub-Saharan African economic growth rates bodes well for the steel demand into the future (exports for South Africa), with consumption levels expected to continue to rise due to infrastructure development:
  - In overall, steel market opportunities will be wide spread across the Sub-Saharan Africa as most countries are expected to register positive growth rates of above 5% into 2015.
  - Increased activity expected, especially in the roads, housing, hydro-power, oil & gas, and rail network across the entire Sub-Saharan region in Africa is shifting interest of major construction groups into the region;
- South African government capital expenditure plans of R809 billion in the next three years should support steel demand in the near future
- We expect some shift with fixed investment in the manufacturing and mining sectors over the medium term improving following new capital expenditure announcements
- The strong Rand remains a concern as this drives imports of cheaper steel products and restrict export growth. However, recently the Rand is weakening against major currencies.



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**THANK YOU**

