

Weakening Demand in Real Estate & Automobile may Hit Steel Market



A year ago, India Inc was gearing up for a double-digit GDP growth, thanks to low inflation, long bull market run, low interest rates, plans for massive investments in infrastructure. Now spiraling inflation, which is hovering over 11% and its effect on the India's lending rates have put a break on growth of infrastructural progress, real estate and automobile sectors. This is evidenced from the fact that India's industrial production for the month of August plunged to 1.3% from about 10% in a year ago period.

Infrastructure projects, real estate, automobile and consumer goods are the hard core users of steel industry. With inflation rising unabated and growth slowing down, the performance industrial sectors such as steel, automobile, realty, consumer durables, and financial sectors have taken a beating.

Flash Back

Capital good sector was the main culprit. In the beginning of 2008, demand for crude oil prices rose beyond anybody's imagination and simultaneously OPEC was keeping a check on supply. A combination of these factors pushed crude oil prices to new historical heights. When the prices had started to come down natural calamities put pressure on supply. Also inland riots in Nigeria hampered the crude oil prices. All these factors pushed crude oil to touch a historical high of \$ 147 a barrel in July.

India, one of the major oil importers, was made to bear the brunt. Domestic inflation had begun to rise making all the regulators to keep check on that. RBI started

increasing bank's lending capacity putting its hand on liquidity control. The central Bank also tampered an important tool repo-rate, the rate at which the central Banks to other bank.

Current scenario of Steel Users

This let to spur interest rates and hurt country's growth. Suddenly real estate, infrastructure and automobile sectors found fund rising become a serious problem. Cost of borrowing surge as high as 22 percent making life of these sectors difficult to survive. Real estate sector is being largely affected by rising interest rates. The major real estate players DLF, Ansal, Unitech and Omaxe have reduced their construction activities. The current home loan interest rates are around 14 percent against 10 percent last year. Interest rates have forced consumers to postpone their buying activities. As a result there is a significant slow down in construction business. Construction activity in India has turned sluggish and this is likely to hit the steel market. Because construction accounts for about half of steel end-use demand, a slowdown in construction activity (housing, infrastructure) is expected to exert negative pressure on steel demand and, in turn, steel prices.

"I was an eternal optimist; now I have become a realist. Everybody has miscalculated," said Indian retail tycoon, Kishore Biyani, MD, Pantaloon Retail after seeing higher interest rates. This statement reflects the depression in construction and retail business. The

upgradation market in consumer durables sector will also see a slowdown in the coming months.

Jet Airways has put its global expansion plan on hold for a year because of high fuel prices. It had acquired a plot of land at Bandra-Kurla Complex in Mumbai where it planned to build its office tower.

The story is not different in the automobile sector. Most of four-wheeler and two-wheeler manufactures are seeing fall in sale volumes due to higher interest rates on vehicles. Raw materials such as steel and aluminum prices had increased substantially, depressing the margins of the auto companies. The industry will not only have to take care of lower operation margin but also survive in the low demand scenario.

According the published news, large numbers of four-wheeler showrooms are being closed down. The coming festival is also not seen reviving industry's future.

No wonder, steel prices in India have been dropping and continued to drop in the last few days. Hot rolled coil, cold rolled coil, rebar and galvanised steel have shed anything between 4 and 10 per cent in price. The prospects of boost to real estate, infrastructure and automobile in India are being debated. As most of the consumers are currently de-stocking, experts expect steel market correction to continue into the fourth quarter of 2008.