ECONOMIC REPORT

Economic and steel market outlook 2020-2021

Quarter 1 2020 report
Steel data up until quarter 3, 2019

30 January 2020

EUROFER
The European Steel Association

Introduction

Apparent steel consumption fell by 3.1% year-on-year in the third quarter of 2019, a slight moderation compared to the drop recorded in the second quarter (-6.7%). The ongoing negative trend in steel demand is the result of the continued slump in EU's manufacturing sector due to weakened exports and investment that has become more pronounced during the second and third quarter of 2019. Leading indicators suggest that the downturn continued in the remainder of 2019, albeit with some signs of stabilisation. No significant rebound is forecast before the second half of 2020.

The current downturn of the manufacturing sector in the EU is not likely to bottom out in the very short-term. Major risk factors are escalating trade wars between the US and several of its main trading partners (mostly China, despite the trade agreement signed on 15 January 2020 that has eased frictions) and persistent uncertainty regarding the final Brexit deal to be agreed by the end of 2020. These factors are set to weigh on trade conditions during 2020, and may even lead to a further deterioration in business sentiment and seriously hamper investment growth. In this scenario, the EU steel sector would continue to be severely impacted, also having to cope with growing import distortions as well as persistently high import volatility as a result of the increase in the safeguard quotas and transfer mechanism of unused quarterly quota.

EU steel market overview

EU28 apparent steel consumption fell by 3.1% year-on-year in the third quarter of 2019 and amounted to 37.2 million tonnes. The stock cycle continued to be negative, which further impacted on the negative trend in final steel use. In fact, ongoing uncertainty about near-term business conditions as well as relatively high stock levels at the end of the first quarter of 2019 had triggered a steeper-than-expected stock reduction in the second quarter – contrary to the seasonal pattern - which has continued, albeit to a lower extent, in the third quarter.

The current downturn in steel demand led to a fall of 4% year-on-year in domestic deliveries in the EU in the third quarter of 2019, following a decrease of 3% in the first quarter. After the exceptional drop of 19% year-on-year experienced in the second quarter, third country imports decreased only marginally in the third quarter (by 1%), and amounted to 8.8 million tonnes, accounting for 23.8% of EU steel demand. Monthly data continued to show high volatility.

As in previous quarters, developments in total imports conceal distortions at the individual product level, which are, in essence, reflecting the flaws of the current safeguard mechanism, and which have resulted in a rush to maximise quarterly quota allowances by several key exporters to the EU such as Turkey and China.

During the third quarter of 2019, the challenges that the EU sector has had to face have become even more severe, with negative repercussions on market conditions. After recording falls over the first two quarters of 2019, the negative trend in real steel consumption accelerated and early indications for the final quarter of 2019 signal a further year-on-year reduction, resulting in a total decrease in real steel consumption by 1.1% over the whole year 2019. Real consumption levels are expected to recover in the second half of 2020 but also to stabilise around low levels in historical terms. The expected reduction of apparent steel consumption in 2019 of 3.3% year-on-year and persisting import pressure is, in essence, expected to mostly penalise EU steel producers in their business performance.

Market conditions are expected to improve slightly from the third quarter of 2020, although risks related to import distortions and continued global overcapacity are likely to continue undermining the stability of the EU steel market. In particular, global steel capacity has continued to increase and the gap between capacity and production has been widening in recent months. Apparent consumption is expected to recover in 2020 with a growth rate of 1.2%, basically as a result of a modest re-stocking rather than as a result of a rebound in demand from steel-using sectors.

EU steel-using sectors

Business conditions in the manufacturing industry have continued to deteriorate since the peak of the previous cycle, around the end of 2017. This downward trend has become steeper in the second quarter of 2019, particularly in the automotive industry, and has also continued in the third quarter, albeit to a slightly lower extent. The construction sector has continued to record growth in output and has outperformed other steel-using sectors. As a result, output growth in the steel-using sectors has been slowing down since the first quarter of 2018, culminating in a year-on-year fall of 0.4% in the second quarter of 2019, followed by a meagre recovery of 0.2% year-on-year in the third quarter.

The downturn in industrial activity does not only affect Europe, but also is manifested at the global level, reflecting growing trade frictions and uncertainty – which has increasingly hampered business investment. Although a substantial rebound is not in sight in the short-term, some recovery in EU steel-using sectors is expected over the course of 2020.

External risks are likely to continue to cast a shadow over the coming quarters. Global trade tensions have eased thanks to the US-China agreement that has been signed on 15 January, thus avoiding a negative spiral of retaliation further to the US Administration's new tariffs on goods imported from its main trading partners. However, the EU's manufacturing sector is still undergoing a serious downturn, given its large exposure to global trade. A no-deal Brexit by the end of 2020 – which is theoretically still possible - and a new escalation in protectionist trade measures, coupled with possible geopolitical tensions in the Middle East (Iran, Iraq, Libya) would further contribute to curbing business confidence and activity in steel-using industries.

Output in the EU's steel-using sectors is forecast to remain unchanged in 2019 and to grow and by 0.6% in 2020 and 1.4% in 2021

EU economic context

The outlook for the global economy has remained unchanged over the past few months with the same downside risks (global trade tensions, Brexit, manufacturing weakness in the EU). Mounting geopolitical tensions in the Middle East have not yet translated in a sharp deterioration of global economic confidence and significant oil price hikes. The slowdown in international trade that has considerably affected industrial activity continued, but has somewhat stabilised. The EU economy still appears to be particularly vulnerable as it is largely exposed to fluctuations in international trade with the largest contribution to growth during the previous cycle coming from exports. On the other hand, economic growth, albeit slowing, continued to be supported by final consumption – which has partly offset the declining contribution from exports. Services, contrary to the weakness of the industrial sectors, have proven resilient, being far less exposed to both internal and external competition. The latest leading indicators signal that the global economic cycle may have bottomed out, paving the way for more robust economic growth starting from the third quarter of 2020.

The EU economy continues to be exposed to several risk factors, such as the continued trade dispute between the US and its main trading partners, followed by a no-deal Brexit, which could still materialise before a final deal is agreed between the UK and the EU27 by 31 December 2020. Therefore, a further deterioration in business sentiment and lower investment growth cannot be ruled out in the forthcoming quarters. GDP growth has been slowing down sharply during 2019 both at the world level and in the eurozone, particularly in Germany – the eurozone's largest economy – as a result of the continued slump in manufacturing in general and the automotive industry in particular. As a result, German GDP contracted by 0.1% in the second quarter of 2019 but grew by a meagre 0.1% in the third quarter and thus avoided recession. The EU recorded its lowest year-on-year growth rate since the second half of 2013 both in the second and third quarter of 2019, but also did not experience a technical recession. Wage growth and job creation have continued steadily, providing stimulus to domestic demand. The macroeconomic outlook is likely to improve during 2020 and 2021, supported by easing uncertainty, a modest recovery in most industrial sectors, expansionary monetary (thanks to zero-interest rates and extension of the ECB's QE) and – albeit to a lesser extent – fiscal policies. EUROFER's first quarter 2020 forecast for EU GDP growth is 1.3% in 2019, 1.2% in 2020 and 1.4% in 2021.

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Eu economic outlook 2020-2021

GDP growth

In the third quarter of 2019 EU economic growth slightly gained speed compared to the second quarter. GDP increased, in real terms, by 0.3% quarter-on-quarter compared to the 0.2% registered in the preceding quarter. Real GDP growth in year-on-year terms amounted to 1.4% (same as in the second quarter).

In the eurozone, real GDP expanded by 0.2% on a quarterly basis, same rate as in the preceding quarter, and by 1.2% year-on-year.

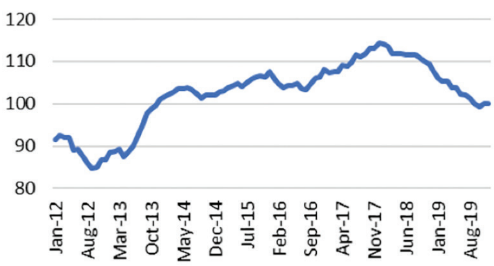
This modest GDP growth was mainly led by a quarter-on-quarter rebound in exports (+1.0%) which proved resilient despite ongoing global uncertainties and weak international trade conditions, as well as by increased private consumption (+0.4%). On the other hand, gross fixed investment provided a negative contribution for the first time since the fourth quarter of 2017 (-0.9%), reflecting gloomy business expectations and delayed investment decisions. EU construction sector investment remained flat in the third quarter, after a growth of 0.2% in the second quarter of 2019, as a result of a drop in public construction investment and an increase in residential investment. Moreover, the slowdown in the manufacturing sector continued in the third quarter, and as result the level of manufacturing production went back to the levels observed in July 2017.

Looking at individual EU countries, the German economy has avoided recession after the drop of 0.2% quarter-on-quarter in the second quarter of 2019, although real GDP growth in the third quarter was as a tiny 0.1% (0.5% year-on-year). Latest leading indicators signal some rebound in economic activity in the fourth quarter of 2019. The Spanish economy remained on a path of steady growth, at the same rate recorded in the second quarter, thereby continuing to outperform other major eurozone economies. Economic conditions in Italy showed no real improvement, as economic growth was negligible for the fourth consecutive quarter (+0.1%). By contrast, the French economy continued to grow steadily; GDP growth remained unchanged at 0.3% in the third quarter. The UK recorded a significant rebound of +0.4% (further to a small drop -0.2% in the second quarter) possibly fuelled by resilient business and consumer spending and continued stock building ahead of general elections in December due to great Brexit-related uncertainty before the elections were held.

Confidence indicators

The Economic Sentiment Indicator for the EU somewhat improved in November and December 2019 after falling to its lowest levels since 2014 over the preceding months - as a reflection of global recession fears, rising trade tensions and great uncertainty around Brexit. It is however still far below the level registered in January 2018, at the peak of the previous economic cycle. Over the past few months industrial confidence registered a sharp decrease due to gloomier expectations about production activity, new orders and stocks of finished products. By contrast, sentiment has constantly improved among consumers whereas it has proven more or less stable

EU ECONOMIC SENTIMENT
long-term average 1990-2018=100



in services, construction and in the retail sector. Germany has continued to register steep falls in industrial confidence, but latest leading indicators suggest that the German manufacturing recession probably did not deepen over the final quarter of 2019.

The IHS Markit Eurozone PMIs outline similar trends. The IHS Markit Flash Eurozone PMI Composite Output Index improved slightly in December, standing at 50.9, up from 50.6 in November but still around the lowest levels since June 2013, signalling weak economic activity.

As in previous months, weakness mostly originated from the manufacturing sector. Latest IHS Markit's Flash Eurozone Manufacturing PMI shows that manufacturing's downturn deepened during December, the index being at 46.3 in December (November: 46.9), its lowest level since October 2012. Market segment data indicate that manufacturing underperformance was centred in the intermediate and investment goods sectors. Germany was again the weakest-performing country, but the deterioration seen in Italy was the sharpest in over six-and-a-half years.

The continued decline in industrial confidence is a reflection of the ongoing weakness in industrial activity in the EU. The year-on-year decline in German industrial production deepened in the second and third quarter of 2019, plunging by around 5% year-on-year in each of these two quarters (but eased somewhat in the third quarter). Spain – and France in in the second quarter - were the only large EU countries that registered a slight increase in manufacturing output over the last two quarters.

Against this background, any substantial short-term improvement in industrial activity should not be expected as a considerable rebound is not likely to materialise before the second quarter of 2020. Lower production levels and rising stock levels in the manufacturing supply chain, persisting trade war concerns and Brexit-related uncertainty even after 31 January 2020 (due to ongoing negotiations between the EU27 and the UK during 2020) are expected to continue delaying business investment decisions.

Economic fundamentals

EU28 ECONOMIC INDICATORS
Year-on-year change in %

EUROFER Forecast	2018	2019 (f)	2020 (f)	2021 (f)
GDP	2.0	1.3	1.2	1.4
Private consumption	1.6	1.4	1.5	1.6
Government consumption	1.2	1.9	1.5	1.4
Investment	2.5	2.4	1.2	1.2
Investment in mach. equip.	3.0	1.2	1.0	1.5
Investment in construction	3.4	3.2	1.7	1.5
Exports	3.0	2.4	1.3	2.3
Imports	2.9	3.2	2.0	2.8
Unemployment rate	6.8	7.0	6.8	6.7
Inflation	1.9	1.4	1.4	1.5
Industrial production	1.5	-0.6	0.4	1.5

(f) = forecast

Persisting global trade uncertainty, coupled with uncertainty due to the final Brexit deal between the EU and the UK by 31 December 2020, and also mounting tensions in the Middle East are weighing down on global economic growth perspectives, with considerable potential repercussions on the EU.

In the third quarter of 2019 the downward trend in global trade has continued. Monthly trade volumes in August, September and October declined year-on-year in all major global trading areas. In particular, imports in October recorded their steepest drop over the last six months in Japan, Korea and the US. These latest developments reveal a further deterioration in global trade conditions in the third quarter of 2019, due to worsening trade tensions between the US and China. Further escalation in these trade tensions would seriously disrupt the global supply chain. However, these concerns have been mitigated by the US-China trade agreement that was signed on 15 January 2020.

Due to persisting uncertainty stemming from the outlook for international trade, contribution to EU economic growth is expected to mostly come from domestic demand – this has proven quite resilient and has to offset the considerable exports slowdown - during 2020 and 2021, coupled with some recovery in the manufacturing cycle from the second quarter of 2020 onwards.

The outlook for private consumption remains relatively robust. Labour market fundamentals continued to improve, albeit at a slower pace than before in most EU countries. However, job creation is increasingly affected by lower levels of production activity in industry and by persistent uncertainty on short-term business conditions. Nevertheless, the EU28 unemployment rate stood at 6.3% in November (7.5% in the eurozone), albeit slightly up from 6.2% in August that had marked a new record low. In some national labour markets, insufficient labour supply is driving a pick-up in wages, that is growing above inflation. As a result, consumers continue to benefit from real gains in disposable income, which should be supportive to private consumption growth. It remains to be seen whether the gains will fully translate into consumption; much will depend on whether consumers will perceive their rise in purchasing power as long-lasting or whether they will prefer to save in case of decreasing confidence about the economic situation. Private consumption is expected to grow by 1.4% in 2019, by 1.5% in 2020 and by 1.6% in 2021.

Prospects for investment remain gloomy, but have not worsened compared to our October 2019 outlook. The combined effect of cooling global GDP growth, increasing trade frictions, policy uncertainty and the ongoing profit squeeze in the corporate sector will curb business investment in machinery and equipment, at least until the second quarter of 2020. Although most economic forecasters have ruled out the risk of a global economic recession in late 2019 and in 2020, particularly with regard to the US and Germany (whose economy is largely export-oriented and therefore is most exposed to trade fluctuations), recession fears have not totally faded away.

Conversely, the outlook for construction investment remains rather positive, as pointed out by the increase in confidence recorded in December 2019: the IHS Markit Construction indicator for the eurozone has achieved its fastest increase in eight months, supported by a strong rise in new orders, reflecting the overall good shape of the real estate and construction sector. Coupled with very cheap financing, investment in construction will be able to offset the likely downward trend in total investment growth.

In addition, government investment and public expenditure could provide a stronger contribution to the growth of domestic demand. The role of fiscal policy as stimulator could make some progress, as 'unconventional' monetary policy (i.e. QE, negative interest rates) has already been exploited by the ECB to a large extent. Public finances have improved significantly across the EU Member States and interest rates payable on government debt are very low or even negative, leaving considerable room for an increase in government construction and public spending. It is not clear how much additional growth this public stimulus may provide, but it may play an important countercyclical role to help European economies overcome the current slowdown.

With regard to monetary policy, the ECB decided on 1 November 2019 to restart its asset purchase programme (or Quantitative Easing, QE) at a monthly pace of €20 billion, as well as to leave its key policy rate unchanged at zero and its deposit facility rates at negative levels (-0.50%). The ECB also strengthened its forward guidance by confirming that interest rates in the eurozone will remain at current levels until inflation rebounds to around the 2% inflation target.

Growth outlook for 2020-2021

The EU's growth perspectives for 2020 and 2021 remain rather positive. The EU economy is expected to continue to grow at a steady – albeit slow - pace over the 2020-2021 period.

The export-driven economic slowdown has somewhat stabilised despite continuing economic uncertainty, with a strongly negative impact on the manufacturing sector in the EU. However, this has been offset by resilient domestic demand and consumer spending, fuelled by the good shape of the labour market and constant wage growth. EUROFER's forecast for GDP growth in the EU is 1.3% in 2019, 1.2% in 2020 and 1.4% in 2021.

Given that the primary drivers of the export-driven downturn - a slowing global economy and trade disputes – are unlikely to see any short-term improvement, the baseline economic scenario for 2020 is a stabilisation of the status quo in relation to import tariffs and trade restrictions currently being applied. However, a more negative scenario should not be completely ruled out. First, despite the large Tory victory at the last general elections, a fully-fledged deal between the UK and the EU must still be approved by 31 December 2020 and it is uncertain whether this deadline will be met, thus a "no-deal" scenario is still possible. Second, the German industrial downturn – and a general manufacturing-led recession in the EU - may even worsen in case of exacerbating trade war led by the Trump administration applying tariffs to EU automotive imports. Third, mounting geopolitical tensions in the Middle East (Iran, Libya) may lead to serious loss of global economic confidence. These factors may trigger a further deterioration in international trade conditions and undermine global growth.

The eu steel market: final use

Outlook for steel-using sectors

In the third quarter of 2019 manufacturing activity in the EU continued to be subdued. Output in the automotive sector fell on a year-on-year basis for the fifth consecutive quarter, but a lower rate than in the previous four quarters. In most other sectors output continued to fall as well. The main exception was the construction industry where growth remained steady. Major downside risks remain in place for the forthcoming quarters, but the manufacturing cycle may have bottomed out in the third quarter.

Construction industry

The momentum of the EU construction sector continued over the third quarter of 2019, albeit slightly easing in comparison with the first half of the year. The sector is set for a third consecutive year of production growth, although growth will remain below 1% in 2020 and 2021.

Construction industry output

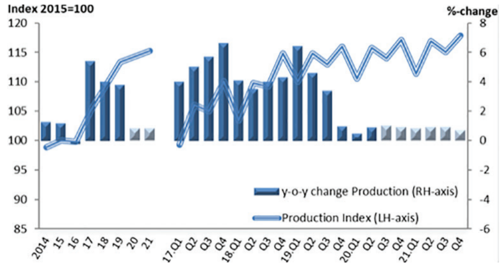
EU production activity in the construction sector rose by 3.4% year-on-year in the third quarter of 2019, lower than the 4.6% and 6.4% recorded in the second and first quarter respectively. The third quarter marked the eleventh quarter in succession of steady expansion in the EU construction sector. The sector has continued to be, over this period, the best performing major steel-using sector, and has so far experienced a very moderate cooling-off from the rather strong cycle of the previous years

Construction industry activity in the third quarter of 2019

In the third quarter of 2019, construction output increased in all reporting countries except the Czech Republic and Slovakia. Output growth continued to be particularly pronounced in Hungary, the Netherlands, Poland and Spain. Equally, construction production activity expanded, albeit at lower rates, in all other reporting countries, with Germany, Sweden, Italy and the UK recording lower growth rates compared to those reported in the first half of the year, and France and the Netherlands recording higher growth rates.

EU CONSTRUCTION SECTOR

Production Activity - forecast from Q4-2019

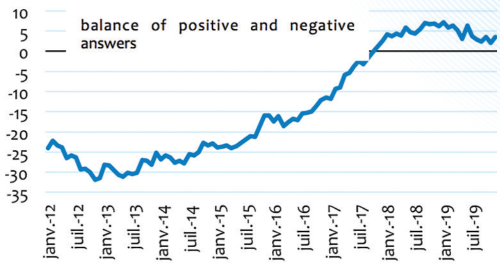


In line with actual construction production volumes, gross fixed investment in construction in the third quarter grew in real terms by 3.7% year-on-year, compared to 4% in the preceding quarter. This translated into an increase of 0.5% quarter-on-quarter, that followed flat quarterly growth in the second quarter. Looking at the performance of individual countries, as in previous quarters Eastern European countries generally recorded higher growth rates than Western ones.

Construction industry forecast 2020-2021

Prospects for the EU construction sector continue to be relatively positive, although some slowdown has been already observed over the latest quarters. The EU construction confidence indicator has remained well above its long-term average over the first half of 2019, has declined from the peak of the overall economic cycle around of mid-2018 to October 2019, and finally has shown some stabilisation in November and December. These figures signal that business players expect somewhat lower future activity levels, but the general outlook for 2020 will remain positive, although activity growth rates will decelerate. The expected slowdown in the course of 2020 is mainly due to demand-related factors such as weakening economic fundamentals and a general cooling of market dynamics after several years of strong growth. This will result in lower growth rates in construction production in most EU countries. In any case, the construction industry will continue to outperform the other steel-using sectors in relation to the expected trend in output.

EU CONSTRUCTION CONFIDENCE



The residential construction market is expected to continue to provide a positive contribution to growth of the construction sector, as in several countries demand still outweighs supply, but growth is expected to lose pace. On the one hand, in countries such as Spain housing demand has not yet recovered from the losses due to the great housing market collapse of 2009, and in many countries improving real wages – that have been growing at higher rates than the overall economy – as well as very cheap mortgage financing will continue to stimulate demand for both new housing and repair and maintenance work. On the other hand, in some other EU countries demand is expected to weaken considerably in 2020 as the residential construction cycle has already peaked in 2017 (with an annual growth of 5.4%) and it is also affected by low population growth, particularly in Western Europe. On the supply side, persisting labour shortage in the construction sector in many EU countries is putting a brake on the completion of construction projects.

Activity in the private non-residential construction sector (commercial building, offices, industrial buildings, etc.) has been expanding at lower rates than residential and civil engineering in recent years, mostly due to subdued business confidence and corporate investment as a reflection of the overall economic slowdown, despite cheaper-than-ever borrowing costs thanks to the ECB's monetary policy. The current downturn in the manufacturing industry in Europe is expected to soften during 2020 but will most likely continue to somewhat delay non-residential investment decisions. Meanwhile, the slowdown in trade – and in EU exports - will impact export-related business investment. However, the global trade downturn should also soften in the course of 2020 and this should prove supportive of business investment; on the other hand, uncertainty upon the final deal between the EU and the UK on Brexit remains, with all its potential to delay investment decisions.

By contrast, civil engineering is expected to continue to play a key-role in construction sector growth over the forecast period, as it will continue to record higher growth rates than both residential and non-residential construction. Improving investment in infrastructure projects – thanks to more room for public investment due to better budgetary conditions in many Member States, as well as lower public debt servicing - and higher efficiency in project implementation are expected to be supportive of public construction spending, particularly in Eastern European countries, where public construction will remain driven by strong and steady infrastructure demand. The use of EU-funded investment in these countries for major infrastructure projects has continued to gain speed: up to the third quarter of 2019 they have on average spent 45% of their total allocated resources under the European Commission's 'Network Infrastructure in the Transport and Energy' theme.

However, overall construction in the EU is set to decelerate in 2020, mostly due to slowing residential and non-residential investment and flattening of the very positive cycle that had started in 2017, leading to more moderate construction growth going forward.

Total EU construction output is forecast to increase by 3.8% in 2019, and by 0.8% in both 2020 and 2021.

Automotive industry

The EU automotive sector remained in the doldrums in the second half of 2019. Sluggish domestic and export demand as well as the last reverberations of the WLTP introduction in 2018 continued to undermine production growth.

EU passenger car and commercial vehicle demand

Overall in 2019, EU car sales rose by 1.2%, reaching more than 15.3 million units in total and marking the sixth consecutive year of growth. While the year started on a weak footing due to the continued impact of the introduction of the WLTP test in September 2018, rather strong growth in the last four months of 2019, and December in particular, pushed the full-year sales performance of the EU into positive territory. This result should also be seen in the context of the very weak sales performance in the second half of 2018. Germany recorded the largest increase last year (+5.0%), followed by France (+1.9%) and Italy (+0.3%). Spain (-4.8%) and the UK market (-2.4%) saw demand fall in 2019.

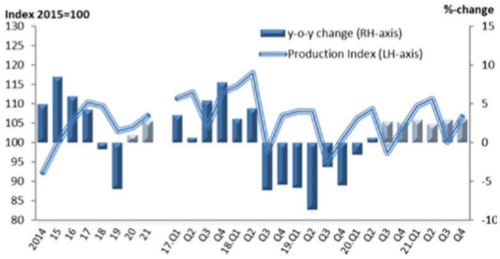
In contrast, sales of commercial vehicles registered negative growth since September last year following growth earlier in the year. Eleven months into the year, commercial vehicles registrations in the European Union remained positive (+2.2%). The five largest markets in the region have performed rather well.

Vehicle exports to third continued to register sharp year-on-year declines in the second half of 2019 due to persistently weak demand in important markets such as Turkey, the USA and China. Car export from German and UK continued to fall by double-digits over this period.

Automotive sector activity in the third quarter of 2019

Production activity in the EU automotive industry fell by 2.5% year-on-year in the third quarter of 2019. While market conditions in Europe were showing signs of stabilisation, falling demand in key export markets such as the USA, China and Turkey, combined with some manufacturers facing serious delays in gaining WLTP certification had a negative impact on production activity. Particularly production in Germany and Italy, but also in the UK, the Netherlands and Slovakia registered a further contraction. Production in the other EU countries registered an improvement compared with the low level of output in the same period of 2018.

EU AUTOMOTIVE SECTOR
Production Activity - forecast from Q4-2019



Estimates for production activity in the fourth quarter of 2019 signal a continued decline of around 5% year-on-year. On balance, total EU automotive production is expected to have decreased by 5.6% in 2019.

Automotive industry forecast 2020-2021

With the worst of the automotive slump in the EU having passed in 2019, prospects for this year and 2021 are more positive. In 2020 and 2021, Europe's electric-vehicle (EV) market looks set to register a further increase following the first signs in 2019 of car buyers' powertrain preference shifting from petrol and diesel cars to EVs and plug-in hybrids. Europe's EV market surpassed the US in 2019, thereby becoming the world's second-largest EV market. Over the next three years, the number of available EVs in Europe is expected to reach 150 models, which should lead to a surge in electric-vehicle sales. Nevertheless, with sales of conventional cars stabilising at best and the still rather limited penetration rate of EVs, total EU sales demand is not expected to gain significant strength. Private consumption fundamentals will remain supportive to vehicle demand in general.

Car exports will continue to suffer from subdued demand in key markets such as the US, China and Turkey; this will negatively impact EU car exports. Rising domestic production in the emerging economies suggests that they will not only be in the position to fulfil domestic demand and therefore will import fewer cars produced elsewhere, but also that they may start to export themselves to the international vehicle markets.

The commercial vehicle market segment is expected to remain relatively weak in 2020 and 2021 following strong growth in the recent past. A positive trend may be the electrification of the light commercial vehicle fleet in the EU as forthcoming changes in emission regulations will also impact this market segment.

On balance, automotive production is expected to register a very modest increase of only 0.8% in 2020, followed by a somewhat stronger recovery (+2.8%) in 2021.

Meanwhile, trade-related risks remain significant; US trade sanctions or a disorderly Brexit have the potential to stymie the recovery foreseen for 2020 and 2021. The threat of US tariffs on car and component exports from the EU would lead to significant disruptions to German car production.

The outlook for the EU automotive sector remains therefore rather challenging. Stricter emissions regulations could force OEMs to remove commercially successful but non-compliant models from their vehicle fleet. Meanwhile, further consolidation in the sector may lead to excess capacity being shut down to allow for increased spending on emerging technologies.

Mechanical engineering

As expected, production activity in the EU mechanical engineering sector recorded negative growth in the third quarter of 2019 (i.e. for the second consecutive quarter), mirroring escalating trade tensions, weaker macroeconomic conditions and subdued business confidence resulting in a lack of new orders.

Mechanical engineering output

Production activity in the EU mechanical engineering industry fell by 1.2% year-on-year in the third quarter of 2019, a steeper fall than in the second quarter (that has been revised to -0.5%, formerly -0.8%). The negative impact of lacklustre investment growth in the EU, weaker international trade coupled with protectionist policies, subdued global economic growth and ongoing Brexit uncertainty in the third quarter (ahead of general elections of 12 December) outweighed positive support to output growth from orders that were still in the production pipeline.

The above picture is consistent with the fall in industrial activity in the EU over a relatively short time-span that has materialised in a continued year-on-year fall in industrial production since the third quarter of 2018 (with the only exception of the first quarter of 2019). Manufacturing activity in the EU has been weighed down by many negative factors that have largely contributed to increasing global business uncertainty. In particular, the downturn in international trade due to mounting trade tensions and the significant loss in confidence in the corporate sector has resulted in a slump in manufacturing output – most pronounced for the automotive sector, particularly in Germany - and subdued business investment. The rapid deterioration of the business climate as well as pessimism on incoming orders and short-term production activity has increasingly led businesses to delay their investment decisions.

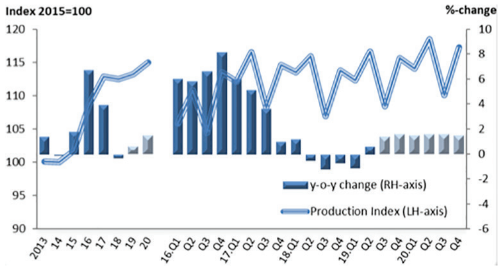
Mechanical engineering activity in the third quarter of 2019

Production activity fell by 1.2% year-on-year in the third quarter of 2019, albeit concealing diverging trends at the individual country level.

As already observed in the second quarter of 2019, growth was generally negative in western European countries, such as Germany, Netherlands, Belgium, Italy, Spain, the UK and also France (that had recorded growth in output in the second quarter).

In contrast, production activity in Central and Eastern Europe continued to grow at rather high rates, particularly in Slovakia and Hungary, which is essentially a reflection of a lower export dependency of these economies compared to those in Western Europe.

EU MECHANICAL ENGINEERING
Production Activity - forecast from Q3-2019



Mechanical engineering forecast 2020-2021

As the mechanical engineering sector in the EU is largely export-oriented, and given the ongoing uncertainty in the business climate and global trade tensions, prospects for 2020 and 2021 are not very positive. The combined effect of cooling global GDP growth, ongoing trade frictions, weakened demand in key domestic markets in the EU, policy uncertainty and the unsure business environment for the manufacturing sector in general will continue to curb investment decisions. In Germany – the largest producer of mechanical engineering goods in the EU, whose downstream client sectors are mostly export-oriented – the outlook continues to be gloomy due to the output falls in its domestic manufacturing and automotive sectors.

Trade uncertainty has somewhat improved recently, further to the US-China agreement signed on 15 January 2020, paving the way for a better trade environment and lower frictions in 2020 and 2021. However, the overall trade dispute between the US and China remains open, although the two countries have committed to working together to reach a trade agreement. Should a final agreement be reached in the short-term – which could also receive impetus from President Trump's will to reach such agreement before the 2020 presidential elections - this would have a positive impact on international trade and global demand for machinery and equipment.

Business conditions are expected to improve only slightly in 2020 and 2021, resulting in very low growth rates in output, as the manufacturing sector in the EU will recover from the considerable slump in 2019. However, it will take time before a rebound in orders will translate into a recovery in output. A final deal on Brexit to be agreed by the end of 2020 would also be a stabilising factor for business confidence and investment decisions. Cheap credit conditions in the EU will also continue to be supportive of capital investment.

Output is forecast to have decreased marginally in 2019, that is by -0.3%. It is expected recover in 2020 with a growth of 0.6%, and production growth is expected to improve to 1.5% in 2021.

Steel tube industry

Production activity in the EU steel tube industry stabilised around the level seen the year earlier in the third quarter of 2019, a rather similar to situation in the first half of the year. This again confirms that due to the lower share of large tubes in EU's product mix, output of steel tube manufacturers is now more determined by medium-sized and smaller-sized tubular products and as such have become more closely aligned with downstream sectors such as construction, automotive, the metal goods and mechanical engineering sector. Market conditions in the final quarter of 2019 are expected to remain broadly the same.

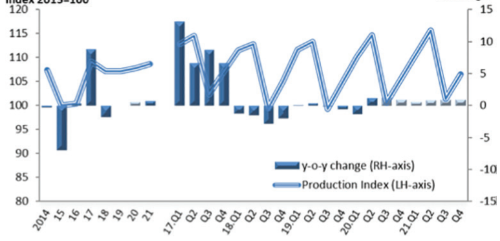
Steel tube industry output

In the third quarter of 2019, output in the EU steel tube industry registered a minor fall; compared with the same quarter of 2018 production decreased by only 0.1%. This is more or less in line with very modest growth over the first half of the year and implies that steel tube production is stabilising after the slump in 2018. At the individual country level, diverging trends in output could be observed, with Germany, France and the UK as well as some smaller EU countries registering a drop in production. Meanwhile, output in Spain and Italy grew compared with the same period of 2018.

Steel tube industry activity in the third quarter of 2019

With the EU tube market relying more on the performance of the medium-sized and smaller-sized tubular products since early 2019, ongoing growth in the construction sector in the EU had a positive impact on demand for steel tubes and hollow profiles for construction applications in the third quarter of 2019. This was supportive to the offsetting of weaker demand conditions in other key sectors such the automotive industry, mechanical engineering and the metal goods sector. Meanwhile, demand for large welded tubes for pipeline projects remained in the

EU STEEL TUBE SECTOR
Production Activity - forecast from Q4-2019



doldrums. Manufacturers active in this market segment have been focussing more on other market segments such as onshore and offshore wind energy; this has led to an increase in internal competition in the EU in an otherwise already competitive market.

Steel tube industry forecast 2020-2021

Having stabilised at the year earlier level in 2019, output in the EU steel tube industry is expected to register very modest growth in 2020 and 2021.

Demand prospects for large welded tubes from the oil and gas sector remain sluggish. In December 2019, the US authorities slapped new sanctions on the Nord Stream 2 project. The US Office of Foreign Assets Control of the Treasury ordered to 'immediately cease construction-related activity' in a 'good-faith wind-down'. The order is actually not so much against investors in Nord Stream 2, but more against the engineering companies responsible for laying the pipe. Nord Stream 2 expects regulators to decide by May this year whether the natural gas pipeline linking Germany to Russia will be able to operate as planned. The outcome of the regulator's deliberations will boil down to legal nuance, that will define 'completion' of the project. The decision could carry additional costs and cause further delay, adding to production halts caused by U.S. sanctions. Meanwhile, several smaller pipeline projects in the Baltic and the Eastern Mediterranean region may provide for some business opportunities for EU large welded tube manufacturers, without however leading to a revival of this market segment in the near term.

Demand prospects for the medium-sized and smaller-sized steel tube market segments are expected to improve very modestly over the forecast period. While growth in demand from the construction sector probably peaked in 2019 and will shift into lower gear in 2020 and 2021, business conditions in the automotive and engineering sectors is forecast to improve mildly.

As in the recent past, import pressure in steel tube markets in the EU will remain high; this is the case for the commodity segment.

Total steel tube output in the EU is expected to rise by 0.5% in 2019 and by 0.8% in 2021.

Electrical domestic appliances industry

Production activity in the electrical domestic appliances sector continued to fall in the third quarter of 2019 – having fallen over the past five quarters - but at a lower rate than in the second quarter

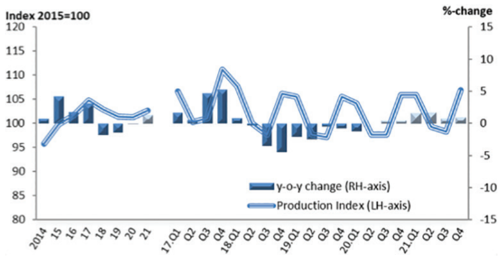
Electrical domestic appliances output

Production activity in the EU's electrical domestic appliances sector fell by 0.4% year-on-year in the third quarter of 2019. The drop recorded in the second quarter was revised (to -2.4%, formerly -3.5%) signalling that the negative trend in output that has started in the second quarter of 2018 is becoming less pronounced. However, the sector is forecast to experience an annual decrease in output of 1.4% in 2019.

Electrical domestic appliances industry activity in the third quarter of 2019

As in the previous quarter, the 0.4% year-on-year drop in output in the electrical appliances sector concealed diverging trends at the individual country level. Production continued to fall in major economies such as Germany, France, Spain, Austria and - in particular - with a very severe fall in Sweden, while it increased negligibly in Italy. By contrast, output rose at double-digit growth rate (as in the preceding quarter) in Slovakia, and it also went up in the UK, Poland and the Netherlands. The positive market conditions during the exceptional economic upturn of 2017 turned into a severe decline that led to the sector's lowest output level in the fourth quarter of 2018. After that, the negative trend has continued over the first three quarters of 2019, but has lost speed, being partly offset by resilient consumer confidence and growing wages, which have proven supportive of demand.

ELECTRICAL DOMESTIC APPLIANCES SECTOR
Production Activity - forecast from Q4-2019



Electrical domestic appliances industry forecast 2020-2021

The key factors driving the household appliances market continue to be the increase in technological advancements, growth in urbanisation rates, growth in the housing sector, rise in per capita income, improved living standards, change in consumer lifestyle as well as a growing trend in the number of smaller households. In addition, inclination of consumers toward eco-friendly and energy-efficient appliances are likely to boost market growth. Moreover, factors such as government initiatives to stimulate the use of energy-efficient appliances in several EU countries, are expected to facilitate the adoption of energy-friendly appliances over the coming years.

Demand for electrical domestic appliances in the EU continues to be largely driven by replacement demand – particularly in mature Western European markets - but within the European domestic appliances market, consumer patterns vary significantly among individual countries. This is partly a result of the fragmented retail market in the EU and the large variety of products, brands and retail channels that are available for consumers. In Central and Eastern Europe, new sales are still growing at higher rates than in Western EU economies, whereas replacement demand is only just emerging.

The overall economic background is set to remain, on balance, supportive of overall private consumption, which should stimulate demand for electric appliance products across the EU. Low inflation still below the ECB target of 2% supports consumer spending and is likely to continue around that level. Over the last three years, private consumption in the EU that has provided a strong contribution to GDP growth and is expected to continue to do so, thereby offsetting the slowdown in external demand. As a result, private consumption is expected to continue to grow at 1.5% in 2020 and 1.6% in 2021. Prospects for the real estate markets, that have a significant impact on domestic appliances demand, remain rather positive. Rising house prices continue to prevent many first-time buyers from entering the property market, despite some slowdown in price increases expected in many Members States compared to the buoyant performance of the previous years. Government supports schemes for first-home buyers remain in place, as well as cheaper-than-ever housing loans due to interest rates at record lows.

In relation to demand for individual key market segments, energy-efficient appliances are expected to experience strongest growth in the short to medium term, supported by government schemes in line with the objectives of the Green Deal. The availability of smart household appliances in European markets is also increasing, and so is demand - particularly among younger generations. National markets will also continue to see increasing international competition among brands – and among retailers – as well as pressures on prices. The negative performance of the sector in recent quarters – albeit easing – is partly explained by some producer overcapacity, to which manufacturers are reacting by increasingly trying to achieve economies of scale, i.e. minimising transport costs and locating production closer to end markets and consumers.

Production activity in the EU is forecast to have fallen by -1.4% in 2019, i.e. the second consecutive drop in output (-1.8% in 2018), and then to remain almost flat in 2020 (i.e. a tiny drop of 0.1%), while recovery is expected in 2021 with an annual growth of 1.3%.

Total steel-using sectors output

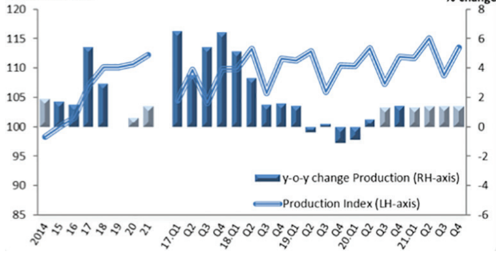
Total production activity in EU steel-using sectors marginally improved by 0.2% year-on-year in the third quarter of 2019, as a result of very diverging trends among industrial sectors. While growth in construction output remained solid, production activity in almost all other steel-using sectors continued to experience year-on-year falls in output.

Total steel-using sector activity in the third quarter of 2019

Production activity in the steel-using sectors of the EU has considerably lost ground during 2019. After a slowdown in growth in the first quarter, manufacturing output fell year-on-year for the first time since 2013 (by 0.4%) in the second quarter of 2019, but then did not enter recession as the third quarter of 2019 saw growth, albeit negligible, of

EU STEEL USING SECTORS

Production Activity - forecast from Q4-2019



0.2%. However, the year 2019 is expected to see the weakest steel-using sectors' production activity since the recession of 2013, resulting in zero growth in annual terms.

Manufacturing activity has been weighed down by the continued downturn in international trade, the automotive slump and weakening business investment as a result of the significant loss in confidence in the corporate sector due to trade war worries and Brexit-related uncertainty. Against this background, total production activity in the steel-using sectors has performed somewhat better due to the resilience in the construction sector, as it is not exposed to fluctuations and negative dynamics in international trade.

Overall output in the steel-using sectors in the third quarter of 2019 registered negative growth in Germany, Italy, Austria and the UK. France and Slovakia also recorded a fall in output, contrary to what reported in the second quarter. Production growth was in positive territory in all the other reporting countries.

EU STEEL WEIGHTED INDUSTRIAL PRODUCTION (SWIP) INDEX EU28 ECONOMIC INDICATORS
Year-on-year change in %

	% Share in total Consu-mtion	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'2	Q3'21	Q4'21	Year 2021
Construction	35	3.8	0.5	0.9	1.0	0.9	0.8	0.8	0.9	0.9	0.7	0.8
Mechanical engineering	14	-0.3	-1.1	0.6	1.4	1.6	0.6	1.5	1.6	1.6	1.5	1.5
Automotive	18	-5.9	-1.6	0.6	2.7	2.6	1.0	2.9	2.4	2.9	3.0	2.8
Domestic appliances	3	-1.4	-1.2	0.0	0.4	0.4	-0.1	1.6	1.7	0.7	0.9	1.3
Other Transport	2	5.7	0.3	1.4	2.2	3.9	1.9	2.1	1.6	1.2	1.8	1.7
Tubes	13	0.0	-1.3	1.2	1.2	0.9	0.5	0.5	0.8	0.9	0.9	0.8
Metal goods	14	-1.3	-2.1	-0.3	0.9	1.1	-0.1	1.1	1.4	1.7	2.1	1.5
Miscellaneous	2	-0.8	-1.7	-0.4	0.0	1.4	-0.2	1.4	1.4	.14	0.6	1.2
TOTAL	100	0.0	-0.9	0.5	1.3	1.4	0.6	1.3	1.4	1.4	1.4	1.4

Total steel-using sectors forecast 2020-2021

Internal and external downside risks will continue to weigh on production activity in EU steel-using sectors, although trade frictions have eased recently (following the US-China agreement of 15 January 2020) and there are signs of stabilisation in the manufacturing downturn. Global economic growth and global trade growth will improve in 2020 compared to 2019, and this will certainly benefit EU exports and investment. But these will experience only modest growth due to business confidence remaining around low historical levels, whereas lacklustre investment and export growth will be offset by stronger growth in final consumption due to positive developments in labour markets and wages. Uncertainty in the EU will still be fuelled by lack of clarity concerning the evolution of US-China trade relations and the final Brexit deal between the EU and the UK, plus possible geopolitical tensions in the Middle East. Emission-reduction policies according to the Green Deal will also impact investment and financial decisions of energy-intensive industry sectors.

At a glance, the outlook for EU's manufacturing sectors rules out any major improvements in 2020, even though most sectors are expected to see a slight improvement in production activity. Prospects for those countries and sectors that are more exposed to fluctuations in international trade remain uncertain. On the other hand, the continued growth in the construction sector – albeit losing momentum during 2020 - will partly offset negative trends in other steel-using sectors.

Output in the EU's steel-using sectors is forecast to have shown flat growth in 2019 and is expected to grow by 0.6% in 2020 - the slowest growth since 2013 – and by 1.4% in 2021.

Real steel consumption

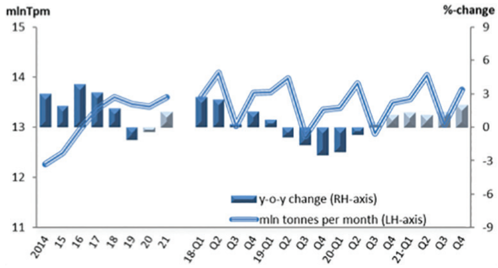
Real steel consumption fell by 1.6% year-on-year in the third quarter of 2019 and stood at 38.5 million tonnes.

Real steel consumption in the third quarter of 2019

The continued slowdown in production activity of steel-using sectors, coupled with reduced steel intensity, led to a fall of 1.6% year-on-year in real steel consumption in the third quarter of 2019, continuing along the trend already observed in the second quarter (-0.9%).

The ongoing economic slowdown and business uncertainty have continued to result in decreasing steel intensity. This implies that the ratio of steel consumption to steel-weighted production in steel using industries has continued to decrease. That is to say, during market downturns this leads to a reduction of the steel content in the final output per unit in the steel using sectors.

EU REAL STEEL CONSUMPTION
Forecast from Q4-2019



Real steel consumption forecast 2020-2021

Faltering output growth in EU steel-using sectors over the 2019-2020 period – despite some recovery over the second half of 2020 – in combination with the continued downward trend in steel intensity will result in a drop of real steel consumption of 1.1% in 2019 in annual terms. This will mark the first negative growth in EU real steel consumption since 2013, which will be followed by another drop in 2020, albeit more moderate, i.e. of 0.4%. Real consumption is expected to recover only in 2021, with a growth rate of 1.4%

Business conditions in the steel-using sectors should somewhat improve during 2020. The construction sector will prove resilient and continue to record output growth, while other steel-using sectors, automotive in particular, will continue to experience a downturn in production in early 2020, but at lower rates, followed by a modest recovery from the second quarter of 2020 onwards. The negative impact of decreasing steel intensity is also expected to soften.

As a result, real steel consumption is expected to have reached 161.5 million tonnes in 2019, 160.9 million tonnes in 2020 and 163.2 million tonnes in 2021.

FORECAST FOR REAL CONSUMPTION
% change year-on-year

Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-1.1	-2.2	-0.7	0.4	1.1	-0.4	1.3	1.1	1.4	2.0	1.4

The eu steel market: supply

The supply-side of the EU steel market analyses factors in the impact of domestic and foreign supply, as well as stock effects in the distribution chain and at end-users.

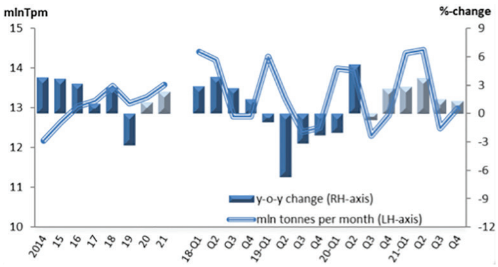
Apparent steel consumption

Apparent steel consumption concerns the supply of all steel products delivered to the EU28 market by domestic producers in the EU and by third country exporters.

Apparent steel consumption in the third quarter of 2019

EU28 apparent steel consumption fell by 3.1% year-on-year in the third quarter of 2019, and amounted to 37.2 million tonnes. The third quarter marked the third consecutive drop in apparent consumption, but this downward trend slowed down compared to the fall of 6.7% (revised, formerly 7.7%) recorded in the second quarter. Contrary to the seasonal pattern, ongoing uncertainty about near-term business conditions as well as relatively high stock levels at the end of the first quarter have triggered a stock reduction in the second quarter, which has continued also in the third quarter.

EU APPARENT STEEL CONSUMPTION
Forecast from Q4-2019



EU domestic and foreign supply

After the pronounced fall recorded in the second quarter (-19.4%) – reflecting the combined impact of the safeguard measures and the sharp drop in EU steel demand on - imports of steel products from third countries into the EU market decreased very moderately over the third quarter (-1.1%). Imports have shown great monthly volatility since the introduction of the quarterly safeguard measures, and jumped to an all-time record level of 4.2 million tonnes in July, followed by a correction to a much lower tonnage in August. Since then, imports have remained well below the July peak, i.e. around average levels. This resulted in an average monthly level of 2.8 million tonnes over the first eleven months of 2019, below the record level registered in 2018. Nevertheless, the import penetration rate remained very high in historical terms.

Meanwhile, domestic deliveries by EU steel suppliers fell by 2.7% year-on-year in the third quarter of 2019, a slightly steeper fall compared to deliveries in the second quarter of the year (-2.3% year-on-year), mirroring business conditions in the EU steel market that have become considerably more difficult for EU steel producers. Price pressure stemming from persistently high levels of imports has intensified, coupled with high monthly imports fluctuations, falling steel demand and destocking. This has led to EU steel producers closing capacity and shedding jobs.

Apparent steel consumption forecast 2020-2021

The negative trend in steel demand is expected to continue over the coming quarters. Due to a further drop in steel demand in the final quarter of 2019, apparent steel is expected to have fallen by 3.3% in 2019. A further drop in steel demand is also expected for the first quarter of 2020, despite some restocking.

The second quarter of 2020 is expected to see continued modest restocking and should register year-on-year growth in apparent consumption, although it has to be realised that this is largely a base year effect due to the low level of demand in the same quarter of 2019. However, real steel consumption is not expected to increase before the second half of 2020. The relative improvement in apparent steel consumption is therefore basically a 'technical recovery', which does not originate from a real recovery in final steel use. Apparent consumption is expected to grow by 1.2% in 2020 and by 2.3% in 2021, supported by improving real demand and a normalisation of the stock cycle.

The combination of muted steel market fundamentals and high and increasingly volatile monthly steel imports entering the EU market will most likely continue to undermine business conditions for EU steel producers. In this respect, a key issue is that any recovery in EU steel demand in early 2020 will mainly benefit imports rather than EU steel suppliers, due to the transfer mechanism of unused quarterly quota.

Another fundamental factor which is at the root of the current challenges faced by the EU steel sector is global overcapacity. Global steel capacity continued to increase and the gap between capacity and production has been widening. Excess capacity growth is primarily being driven – without sound economic reasons - by countries such as China, Indonesia, Iran, Russia, and Turkey. Against their continuous increase in capacity, safeguard measures alone do not appear to be sufficient to counter this threat.

EU APPARENT STEEL CONSUMPTION
In million tonnes per year

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019 (f)	2020 (f)	2021 (f)
Million tonnes	158	141	141	146	152	157	158	163	157	159	163

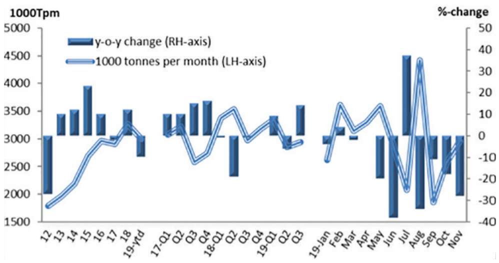
FORECAST FOR EU APPARENT STEEL CONSUMPTION
Year-on-year change in %

Period	Year 2019	Q1'20	Q2'20	Q3'20	Q4'20	Year 2020	Q1'21	Q2'21	Q3'21	Q4'21	Year 2021
% change	-3.3	-2.0	5.2	-0.7	2.6	1.2	2.8	3.7	1.5	1.3	2.3

Imports

Total imports of steel products into the EU28 – including semi-finished products – decreased by a modest 1.1% year-on-year in the third quarter of 2019, compared to the very pronounced fall observed in the second quarter (-19.4% year-on-year). Over the first eleven months of 2019, the fall in EU imports from third countries amounted to 11%. Since January 2019, monthly data have shown increasing volatility, with a peak in July when imports jumped by a spectacular 37% year-on-year, but then decreased over the following months to more usual levels.

EU TOTAL STEEL IMPORTS



Finished product imports fell by 31% year-on-year in November, due to a 27% year-on-year drop in flat product imports and a 39% reduction in long product imports.

Including SURV2 data for December, the average monthly import volume of finished products over the January to December 2019 period amounted to 2.04 million tonnes. Compared to the average level of monthly imports recorded over the same period one year earlier, total finished product imports were 14% lower. Semis imports decreased year-on-year in November by 23% and in the January to November 2019 period were 4% lower than the same period of 2018. Despite this reduction, the import penetration ratio of imports into total steel supply remained - from a historic perspective - on a high level during 2019.

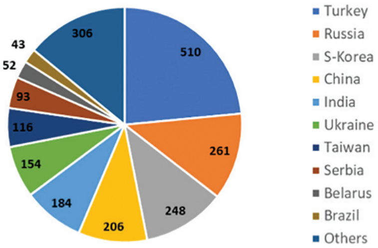
Imports by country of origin

Over the first eleven months of 2019 the main countries of origin for finished steel imports into the EU market were Turkey, Russia, South Korea, China and India. These five countries represented 65% of total finished steel imports into the EU.

Over the above period, Turkey remained the largest exporter of finished steel products to the EU, accounting for 23% of total EU finished steel imports. However, it is worth highlighting that the volume of imports from Turkey marginally decreased (i.e. by -0.7%) compared to the first eleven months of 2018; the same trend can be observed for other major countries of origin, but with steeper falls in imports, such as Brazil, India, Taiwan, and South Korea. The only exceptions were imports from Ukraine, which recorded a double-digit increase, and from Serbia, which rose only moderately.

EU FINISHED STEEL IMPORTS BY COUNTRY OF ORIGIN

Average tonnage 11M-2019 in 1000T/month

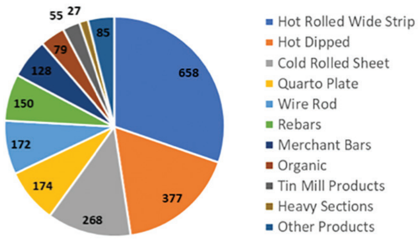


Imports by product category

According to SURV2 data for December, the decline in EU imports of finished steel products that had followed a substantial increase during 2018 continued up to December 2019, albeit slowing down.

EU FINISHED STEEL IMPORTS BY PRODUCT

Average tonnage 11M-2019 in 1000T/month

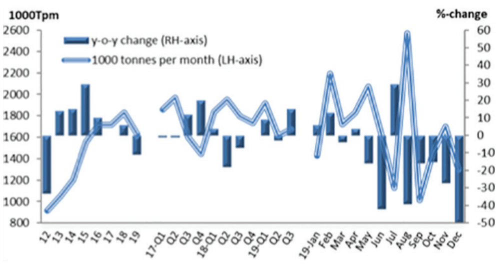


Customs data show that flat product imports dropped by 7% year-on-year over the third quarter of 2019, a lower fall than the -18% recorded in the second quarter. Total flat product imports fell by 11% over the whole year 2019. Meanwhile, long product imports rose by 28% year-on-year in the third quarter of 2019, in sharp contrast with the considerable drop in imports that was recorded in the second quarter. However, imports of long products fell over the whole of 2019 by 23%. The share of long products in total finished steel product imports rose to 29% in the third quarter of 2019 (from 22% in the second quarter).

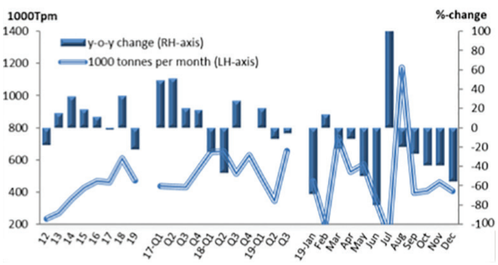
Within the flat product market segment, imports of organic coated sheet increased by 5% in 2019, while hot-rolled wide strip imports fell by 10% and also hot dipped cold rolled imports decreased by 12%, while imports of quarto plate recorded an even steeper fall (-16%).

Equally, all long product imports in 2019 were significantly lower than the import volumes registered in 2018. The sharpest fall was recorded for wire rod, i.e. -26%. Similarly, imports of merchant bars and heavy sections dropped by 23% and 25% respectively.

EU FLAT PRODUCT IMPORTS



EU LONG PRODUCT IMPORTS



Exports

Total EU exports of steel products to third countries fell by 2% year-on-year over the first eleven months of 2019. Exports had fallen by 3% year-on-year both over the first and second quarter of 2019, but this downward trend has ended in the third quarter and exports showed no variation compared to one year earlier; customs data from September to November show small monthly fluctuations.

Trends at the product group level show that exports of semis – ingots and slabs – have continued to plummet, resulting in a year-on-year drop of 24% over the first eleven months of 2019. Exports of flat products rose by 4% year-on-year whereas long product exports fell by 9% year-on-year.

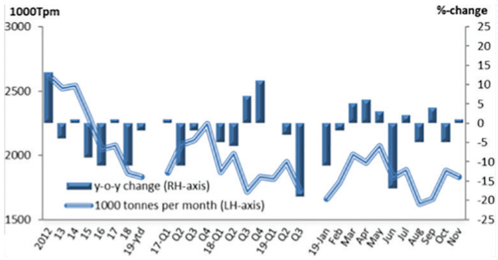
Exports by country

The main export destinations for EU steel exports over the first eleven months of 2019 were Turkey, the United States and Switzerland, followed by Algeria and Mexico, similar to the pattern in key export destinations seen in previous reports. These five countries together accounted for 51% of total EU finished product exports over this period. Exports of finished products to Algeria rose by 43% year-on-year over the first eleven months of 2019 (it is worth noting that exports to Algeria had fallen for four consecutive years up to 2018). Equally, exports to Turkey – the largest individual export market – increased by 14%, over the first eleven months of 2019. By contrast, over the same period exports to Switzerland decreased by 8% year-on-year and exports to the United States contracted by 22%.

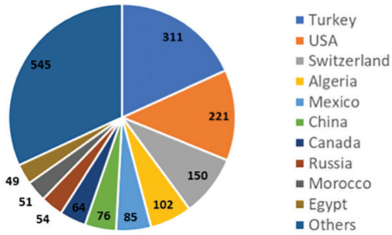
Exports by product category

The share of semi-finished steel products in total EU steel exports was almost 8% over the first eleven months of 2019. Exports of semis registered a decline of 24% year-on-year over this period.

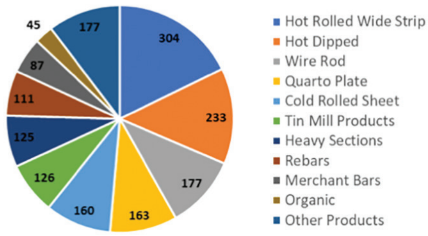
EU TOTAL STEEL EXPORTS



EU FINISHED STEEL EXPORTS BY DESTINATION
Average tonnage 11M-2019 in 1000T/month



EU FINISHED STEEL EXPORTS BY PRODUCT
Average tonnage 11M-2019 in 1000T/month



Flat product exports accounted for 63% of total exports and long product exports accounted for 30% on average over the first eleven months of 2019.

Latest data show that flat products exports have continued to perform better than exports of long products, but this could not prevent total exports from falling over the first eleven months of 2019. Within the flat product segment, exports of hot-rolled wide strip products increased considerably, while exports of tin mill, quarto plate and strip mill products all increased at moderate rates. By contrast, organic coated sheet exports were flat compared to the same period of 2018, whereas exports of cold-rolled sheet and hot-dipped metal coated sheets dropped, albeit moderately.

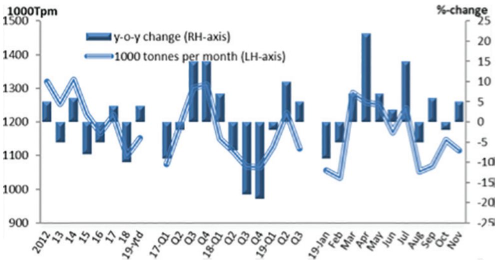
Total long product exports fell by 9% year-on-year over the first eleven months of 2019. Only rebar exports were slightly higher than in the same period of 2018, while falls were recorded in exports of wire rod, merchant bars and heavy sections.

Trade balance

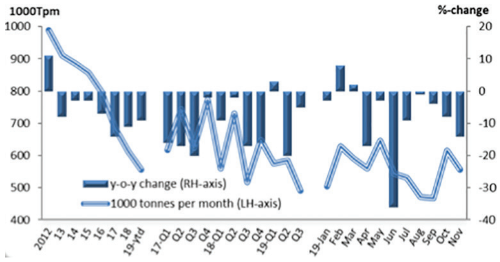
EU's trade deficit amounted to 1.1 million tonnes per month over the first eleven months of 2019 due to a deficit of 0.6 million tonnes in semis and deficit of 0.5 million tonnes in finished products. There was a small trade surplus in long products thanks to a surplus in heavy sections and railway materials.

Concerning the trade balance with individual trade partners, the largest trade deficit in finished products was with South Korea and amounted to 0.24, followed by Russia with 0.21 and Turkey with 0.20 million tonnes per month. It is worth noting that Russia, together with Ukraine, remains the only country which not only has a trade surplus with the EU in finished products, but also has a surplus in semis (that is 0.32 million tonnes for Russia and 0.24 million tonnes for Ukraine). Together they account for 88% of EU's total trade deficit in semi-finished steel products. The main destination country for EU finished steel exports with a trade surplus over the first eleven months of 2019 was the US, with 0.21 million tonnes, followed by Switzerland and Algeria.

EU FLAT PRODUCT EXPORTS



EU LONG PRODUCT EXPORTS



Glossary of terms

Sector definitions according to NACE Rev.2

Building & Civil Engineering

41 Construction of buildings

42 Civil engineering

43 Specialised construction activities

25.1 Manufacture of metal structures and part of structures

25.2 Manufacture of tanks. generators. radiators. boilers

Mechanical Engineering

28 Manufacture of machinery and equipment

27.1 Manufacture of electric motors. generators. transformers

25.3 Manufacture of steam generators. except central heating hot water boilers

Automotive

29 Manufacture of motor vehicles and trailers

Domestic Appliances

27.51 Manufacture of electric domestic appliances

Other Transport Equipment

30 Manufacture of other transport equipment

30.1 Building and repair of ships

30.2 Manufacture of railway locomotives and rolling stock

30.91 Manufacture of motorcycles

Steel Tubes

24.2 Manufacture of steel tubes

Metal Goods

25 Manufacture of fabricated metal products excluding 25.1-25.2-25.3

Other sectors

26 Manufacture of computer. electronic and optical products

27 Manufacture of electric motors. generators. transformers and electricity distribution and control apparatus excluding 27.1 and 27.5

Eu steel market definitions

SWIP: abbreviation for Steel Weighted Industrial Production index. used as a proxy for real steel consumption. Activity in the steel-using sectors is weighted with the relative share of each sector in total steel consumed by all sectors.

Real steel consumption: consumption of all steel products used by the steel-using sectors in their production processes, also referred to as "final use" of steel products.

Apparent steel consumption: also referred to as "steel demand". It concerns the supply of all steel products delivered to the EU28 market by domestic producers in the EU or third country exporters. If apparent consumption exceeds real steel consumption, the surplus is stocked in the distribution chain. If apparent consumption is less than real steel consumption, inventories are being withdrawn. In formula: total deliveries + imports from third countries – exports to third countries – steel industry receipts

Steel industry receipts: deliveries for further processing from within the steel industry itself – subtracted to avoid double-counting of steel consumption

Narrow definition: EUROFER applies the so-called "narrow definition" which excludes steel tubes and first transformation products from the product scope used for calculating steel consumption. Hence, the steel tube sector is a steel-using sector under this definition

Steel intensity: the ratio of real steel consumption to steel weighted production in the steel-using sectors. This reflects the usually slightly negative impact on consumption of innovation in steel products, inter-material substitution, improvements in process efficiency and design, etc.

About the European Steel Association (EUROFER)

The European Steel Association (EUROFER) AISBL is an international not-for-profit organisation under Belgian law, based in Brussels.

EUROFER was founded in 1976 and represents the entirety of steel production in the European Union. EUROFER members are steel companies and national steel federations throughout the EU. The major steel companies and national steel federations in Switzerland and Turkey are associate members.

EUROFER is recorded in the EU transparency register: 93038071152-83

About the european steel industry

The European steel industry is a world leader in innovation and environmental sustainability. It has a turnover of around €170 billion and directly employs around 330,000 highly-skilled people, producing on average 170 million tonnes of steel per year.

More than 500 steel production sites across 22 EU member states provide direct and indirect employment to millions more European citizens. Closely integrated with Europe's manufacturing and construction industries, steel is the backbone for development, growth and employment in Europe.

Steel is the most versatile industrial material in the world. The thousands of different grades and types of steel developed by the industry make the modern world possible. Steel is 100% recyclable and therefore is a fundamental part of the circular economy. As a basic engineering material, steel is also an essential factor in the development and deployment of innovative, CO2-mitigating technologies, improving resource efficiency and fostering sustainable development in Europe.

EUROFER
The European Steel Association

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